RESEARCH REPORT

MACROECONOMY

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SENEGAL : FY 2023 FINANCE ACT

A taste of the new oil era

Attijari Global Research

EXECUTIVE SUMMARY

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Senegal has accustomed us to posting very high growth rates which find origin in a diversified economy. In a crisis period, Senegal has shown strong resilience, and is one of the few economies to maintain a positive growth rate. With the advent of the start of energy production planned for Q4-2023, GDP growth is regaining new vivacity and should record a growth of almost 10%. The oil impact should still be effective in 2024, when the mentioned growth rate would be maintained.

While the start of oil production should have a significant impact on 2023E growth, its effect on public revenue would be less pronounced. At any rate, the Treasury forecasts a net increase in expenses to the benefit of social sectors, in particular employment and subsidies. In return, the State intends to slow down the pace of public investment and plans to gradually hand over to private operators who can capitalize on previous public achievements as well as on the improvement of the business environment.

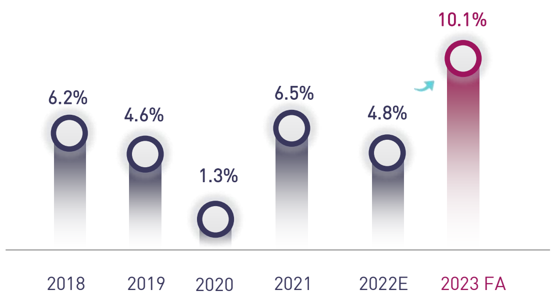
The result of this budgetary structure would be a stable budget balance, and accordingly a fiscal deficit (in % of GDP) diluted by a double effect of strong growth and high inflation. Finally, it is certain that public indebtedness in Senegal is growing, without this giving rise to any real concern. The advantages of this economy take precedence over risk apprehensions related to "emerging" countries debt. In this context, external financing could be combined with the regional debt market which is gaining depth.

2023 GROWTH: AN OIL BOOST… COMBINED WITH A LOW RISK PROFILE (1/2)

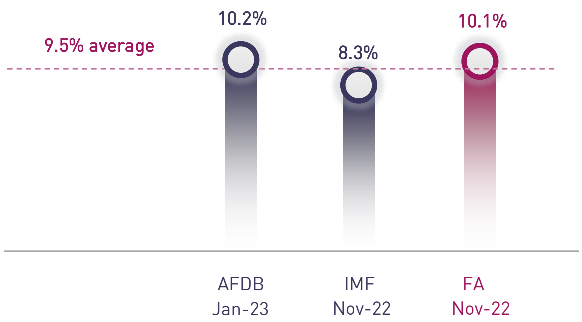
Strong structural growth...and resilient in the face of crisis

In terms of growth, Senegal is preserving very solid fundamentals with, in particular, a demographic growth of 2.5%, a population where youth under 18 represent a share of 50% and a tradition of significant public investment which represents nearly 30% of GDP. With a predominance of services, this sector contributes to 61% to GDP, far ahead of the secondary sector which weighs 23% of GDP. The crop sector, subject to climatic uncertainties, generates almost 16% of the country's annual wealth.
Senegal has demonstrated a resilient character in the Covid crisis. Where an overwhelming majority of economies showed a recession, the Senegalese economy grew by 1.3% in 2020. The rebound was there with respective growth rates of 6.1% and 4.8% in 2021 and 2022E. To achieve this, the State injected FCFA 1,000 Bn as part of the Economic and Social Resilience Program (PRES) based on four pillars, namely health, social resilience, macroeconomic framework and securing supply chains.

GDP GROWTH 2018-2023E



GROWTH RATES COMPARISON 2023E



An exceptional performance in 2023 ... supported by oil production launch

For the current year 2023, the Finance Act (FA) provides for a marked growth acceleration up to +10.1%. A very positive performance to be compared with +7.0% in WAEMU zone and "barely" +3.8% in Sub-Saharan Africa. This exceptional achievement deserves to be detailed :

⇒ With the start of oil production expected in Q4-23, the secondary sector is expected to jump 22.4% thus contributing 520 BPS to overall GDP growth. In fact, after the discoveries made during the 2014-2016 period, Senegal claims to be able to launch production for the Sangomar oil and GTA gas projects . According to estimates, the effect on growth would extend to year 2024 with a further performance around +10%;

⇒ The post-Covid recovery of the trade, transport, accommodation and catering sectors would led to a 6.7% increase in the tertiary sector;

⇒ Displaying a 4.9% growth driven by agriculture and livestock activities, the primary sector would thus see its contribution to overall GDP fall to 15% in 2023.

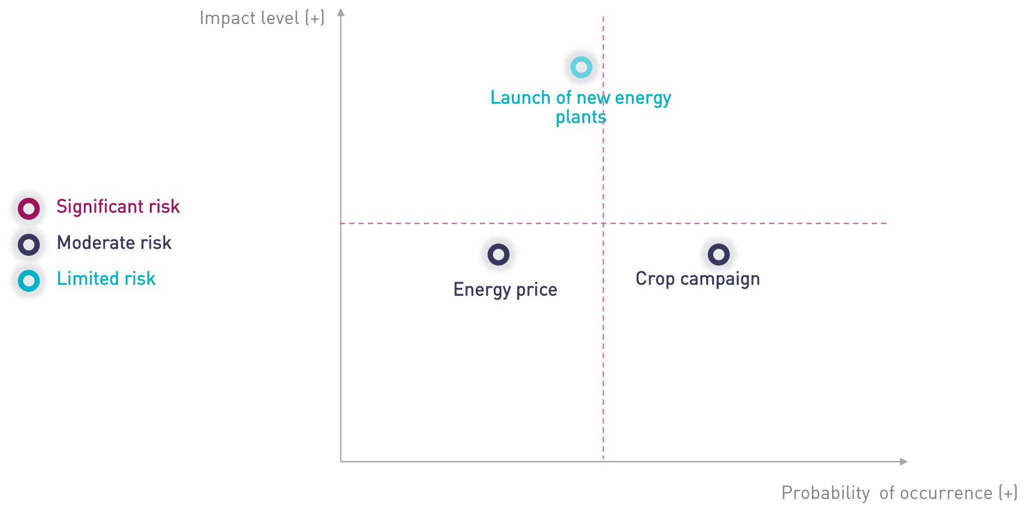
For its part, the IMF remains a little more conservative with a 8.1% forecast for 2023. This gap is mainly explained by the sche-duled date for the oil production start, where the authorities announce Q4-23 while that IMF staff are planning a launch in 2024. On a medium-term horizon, the latter foresees a normative growth rate close to 6% supported by the broadening base of the active population and the impact of CAPEX accumulation.

Sources: Ministry of Finance and Budget , ANSD, AGR computations

2023 GROWTH: AN OIL BOOST… COMBINED WITH A LOW RISK PROFILE (2/2)

We believe that these growth forecasts bear an overall moderate risk level. Pending an increase in energy production, the rise in the oil price actually represents a downside risk for GDP growth in Senegal. The climate also represents a random factor in the pattern of growth construction.

RISK MATRIX RELATING TO THE MATERIALIZATION OF THE GROWTH FORECAST



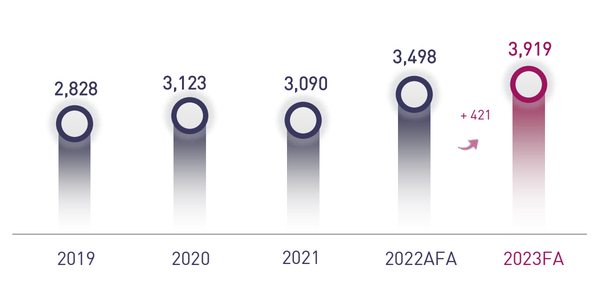
Source: AGR

AN OBVIOUS EXPANDING BUDGET... TO THE BENEFIT OF SOCIAL SECTORS

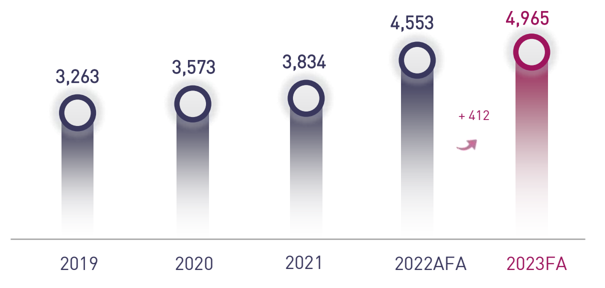
A significant increase in revenues... awaiting for oil lever

While the start of oil production should have a significant impact on 2023E growth, its effect on public revenue would be less pronounced. This does not seem to slow down the General Budget revenues evolution, which are expected up 12% compared to the 2022 Amending Finance Act (AFA) to FCFA 3,919 Bn. Thus, this FCFA 421 Bn increase would be explained by the FCFA 435 Bn increase in tax revenue and which would find origin in the raise in the wage bill as well as the improvement in the general economic context. Whereas oil revenues forecast for this start-up year would not exceed FCFA 34 Bn.

GENERAL BUDGET REVENUES EVOLUTION (FCFA BN)



GENERAL BUDGET EXPENSES EVOLUTION (FCFA BN)

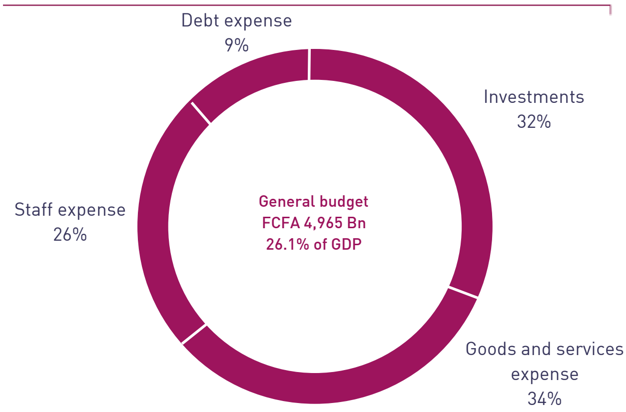


An obvious evolution of social sectors budget ... at the expense of investments

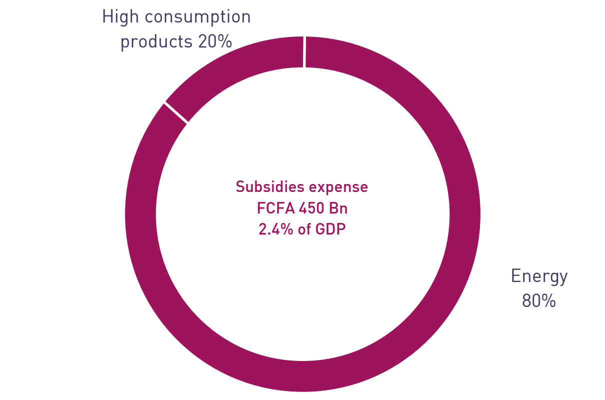
As a reminder, the social unrest that has taken place in 2021 gave rise to a new enrollments wave which brought up the number of civil servants to more than 170k against 91k in 2011. Taking into account a salary increase of FCFA 120 Bn, the first since 2012, staff expense would amount to FCFA 1,273 Bn, i.e. 7% of GDP against respective levels of 11% and 16% for Morocco and Tunisia.

The second budget item which draws our attention concerns Treasury investments. In 2023, these would fall by 9.4%. In fact, after considerable investments made in the sectors of oil and infrastructure, the State is slowing down its CAPEX rate. The aim is that the relay should be passed on to the private sector, which could capitalize on the infrastructure development and the improvement of the business climate. In this context, investments scheduled for 2023 concern the health sector with the construction of a vaccine production unit and other hospital infrastructure. The agriculture and transport sectors should also be major beneficiaries of the 2023 CAPEX.

GENERAL BUDGET EXPENSES BREAKDOWN



SUBSIDIES EXPENSE BREAKDOWN



For FY 2023, the subsidies expense would amount to FCFA 450 Bn broken down as follows:

⇒ An 80% share or FCFA 350 Bn would be dedicated to energy. These expenditures will be used both for tariff compensation intended for Senelec and concessionaires in rural areas to preserve inter-regional tariff harmony, as well as support for stabilizing prices at the gas stations ;

⇒ A balance of 20% or FCFA 100 Bn intended to support consumer products including wheat, oil, rice and corn.

In this context, the IMF calls on the country to take the path of dismantling subsidies such as Moroccan experience in the field and to target the most deprived populations through direct aid.

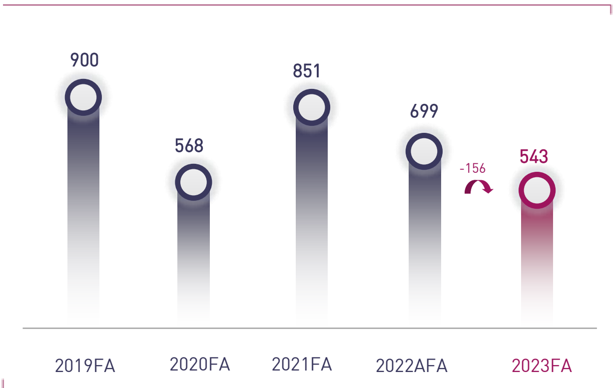
Sources: Ministry of finance and Budget, AGR computations

IN TERMS OF BUDGET BALANCE...THE TREASURY PRESERVES FUNDAMENTALS

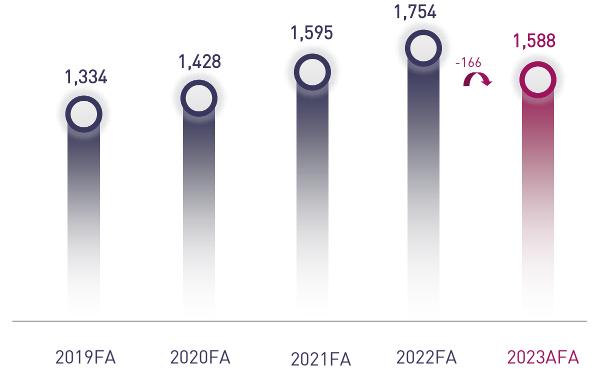
A rigourous fiscal management

The appearance of the budgetary structure of this 2023 FA demonstrates a spirit of discipline in budgetary management. In fact, the amount of Treasury investments was reduced in the same proportions of the decline in the ordinary balance, maintaining de facto the budget balance at a virtually stable level around FCFA 1.046 Bn.

ORDINARY BALANCE EVOLUTION (FCFA BN)

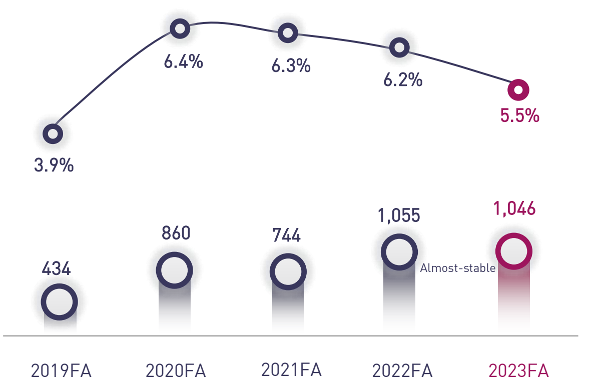


TREASURY INVESTMENT EVOLUTION (FCFA BN)

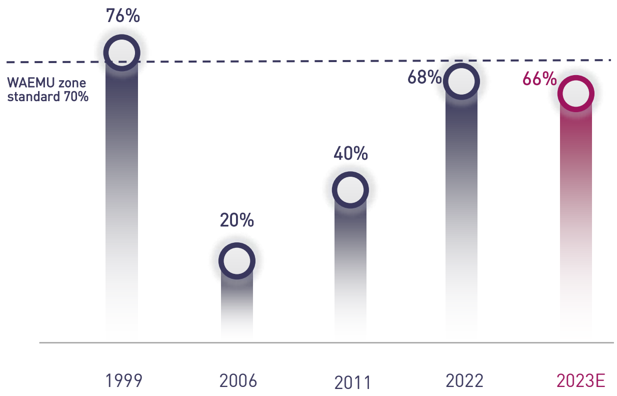


Thanks to a double dilutive effect of inflation and economic growth, the fiscal deficit to GDP ratio would be reduced from 6.2% in 2022 to 5.5% in 2023E. This level could be considered substantial in reference to the community standard which sets a limit of 3%. Nevertheless, this assessment should take into consideration Senegal's structural growth profile as much as its indebtedness level of presented below.

FISCAL DEFICIT EVOLUTION (FCFA BN - GDP %)



INDEBTNESS LONG TERM EVOLUTION (GDP %)



Debt is on the rise... still without causing serious concern

A relevant analysis of Senegal indebtness level deserves a step back: Towards the end of 1999, Senegal's debt peaked at FCFA 2,416 Bn or 76.3% of GDP. A situation which had become unsustainable and which required several countries to resort to debt cancellation initiatives (HIPC & MDRI) which made it possible to cancel FCFA 1,113 Bn of debt. Following this action, the latter was limited to 20% of GDP in 2006. Since then, outstandings have grown significantly with an AAGR of 22%, bringing the rate to 40% in 2011. Since then, annual growth has been more moderate with an AAGR of 14%, still with a greater base effect which would bring debt to 68% in 2022. According to our estimates, this indebtedness level should drop slightly to 66% in 2023E with a view to maintaining compliance with the WAEMU community standard of 70%.

Overall, Senegal is classified as a "moderate risk" country according to the IMF. Senegal would not experience any particular difficulty in financing itself if necessary. Moreover, during the Covid-19 crisis, Senegal received a disbursement of $442 Mn from the IMF as part of a fast credit facility while also benefiting from the G20 debt suspension initiative.

Sources: Ministry of Finance and Budget, IMF, AGR computations

MAIN TAX PROVISIONS*

Main provisions

Scope	New provision	Comments
Interest paid on savings accounts	Exemption from income tax applied to interest on savings accounts for individuals is now capped. Beyond a threshold, this income is subject to income tax.	Broadening of the tax base.
Non-Performing Loans of financial institutions	Deductibility from C.T. of NPLs not recovered at the end of the 5th financial year, excluding loans to the State and Public institutions.	Harmonization of tax legislation with banking regulations.
Insurance agreements	Increase in the rates of the special tax on insurance agreements, in particular: - 6% for maritime and air insurance - 8% for multirisk home insurance - 5% for group insurance - 7% for life annuity contracts - 0.25% for export credit insurance - 14% for all other insurances	Alignment with sub-region pricing tier.
Deduction from insurance premiums	-Exclusion of Reinsurance companies from the fields of application of direct debit - Reduction of the rate from 1.0% to 0.5% for Life Insurance premiums	Avoid double taxation Encourage the development of the non-life business.

These provisions are not exhaustive and are presented for information purposes, these are not of a contractual nature. The publication of the 'application circular' would allow a better interpretation of the new measures. In addition, the new provisions include a chapter reserved for the tax treatment of petroleum products on the occasion of the imminent start of production from new energy fields in Senegal.

Sources: Ministry of Finances and Budget

APPENDIX 1: 2023 FA DASHBOARD

GDP growth 10.1% +530 BPS	Ordinary Balance FCFA 543 Bn -FCFA 156 BN	Budget FCFA 4,965 Bn + FCFA 411 Bn	Ordinary revenues FCFA 3,919 Bn + FCFA 422 Bn
Inflation 8.7% in 2022 2.2% in 2021	Treasury investment FCFA 1,588 Bn -FCFA 166 Bn	Staff expense FCFA 1,273 Bn + FCFA 236 Bn	Fiscal revenues FCFA 3,487 Bn + FCFA 435 Bn
Nominal GDP FCFA 19,009 Bn FCFA 16,922 Bn in 2022	Fiscal deficit -FCFA 1,046 Bn + FCFA 10 Bn	Subsidies expense FCFA 450 Bn Out of which FCFA 350 Bn to energy	Non fiscal revenues FCFA 154 Bn - FCFA 26 Bn

Sources: Ministère des Finances et du Budget, Calculs AGR

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