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## COUNTRY REPORT

# Senegal

### At a glance: 2000-01

#### OVERVIEW

After four months in office, President Abdoulaye Wade and the coalition government led by the prime minister, Moustapha Niasse, have confirmed that a constitutional referendum will take place in November 2000. An early legislative election will follow, thus cutting short the mandate of the current Assemblée nationale (parliament), where the ruling Parti socialiste still has a majority. The economy should grow by 5.3% in 2000 and by 6% in 2001, fuelled by continued inflows of aid and foreign direct investment in industrial and infrastructure projects. Average inflation will remain moderately positive. The current-account deficit will remain below 2.5% of GDP in 2000-01.

#### Key changes from last month

##### Political forecast

- A referendum will now take place in November. The drafting of a new constitution—and the coming legislative election—may widen rifts in the coalition government. Mr Wade will continue to try to patch up relations with neighbouring countries, particularly Guinea-Bissau.

##### Economic policy outlook

- Mr Niasse's policy statement in July has confirmed the government's commitment to poverty alleviation, job creation and transparency.

##### Economic forecast

- In line with the euro, to which the CFA franc is pegged, the EIU now forecasts the currency to strengthen against the dollar at a faster pace, averaging CFAfr677:US\$1 this year.
- Our external debt forecast has been revised downwards to account for the World Bank interim debt relief, which is to start this year under the heavily indebted poor countries initiative. Senegal's external debt stock will decrease slightly, from US\$4.1bn by end-1999 to US\$4bn by end-2001.

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"n/a" means not available; "-" means not applicable

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*August 14th 2000* Outlook for 2000-01

## Political forecast

**Domestic politics** The election to the presidency of Abdoulaye Wade, and his establishment of a broad coalition government the following month, has begun a period of unsettling political change and uncertainty that may well last for a couple of years. Even if an initial stage of cohabitation with the Parti socialiste (PS; the ruling party since independence) is ended after an early legislative election, none of the parties appears to be in a position to win a parliamentary majority, and this may lead to complicated and time-consuming political manoeuvring. In the meantime, peace in the troubled region of Casamance will remain elusive.

It seems increasingly likely that a constitutional referendum will be held in November 2000, although no definite date has been announced. In the interim Mr Wade will need to compromise with the still-powerful PS, which controls not only the Assemblée nationale (parliament) but also many local governments and parts of the state administration. The government encompasses a broad opposition alliance, so Mr Wade will also need to manage simultaneously the sometimes conflicting aspirations of his allies. This will be especially important as they begin manoeuvring for political advantage in anticipation of the legislative election. Differences are also likely to arise with the drafting of a new constitution, particularly over the relative powers of the president, prime minister and parliament. In his State of the Nation address in July, the prime minister, Moustapha Niassé, nevertheless removed some uncertainties—most notably he confirmed the dissolution of the advisory Senate, the controversial upper chamber of parliament established in 1998 by the PS majority. He has also announced that the dissolution of the Assemblée Nationale and the early legislative election are now expected to take place in the first half of 2001.

Renewed sporadic fighting in the southern region of Casamance, causing the deaths of more Senegalese soldiers, has shown once again that the insurgency in this region will not simply go away, and that the authorities must move urgently to keep the peace process in Casamance on track. How Mr Wade's government intends to pursue talks with the rebel Mouvement des forces démocratiques de Casamance (MFDC) is currently in doubt, despite his insistence that peace in Casamance remains a high priority. Some of his statements and actions seem to question the agreed negotiation process established in the Banjul accords between the PS government and the MFDC in December 1999, which Mr Wade had initially said he would support. His failure even to contact the MFDC leaders since taking office has also raised suspicion among the rebels about the new president's motives. Mr Wade's public request to France for significant new armaments has also raised the spectre of a return to a military option by the authorities in Dakar, despite denials to the contrary.

**Election watch** The next legislative election, which is likely to be held in early 2001, will be a major test of the relative strengths of the parties in Mr Wade's coalition.

Although they joined forces against the PS in the presidential election, most of the parties are likely to go their separate ways in the general election. This is partly because unity is no longer seen as essential to inflicting further defeat on the PS, and partly because the parties' current relative positions within the coalition are based on old voting patterns that may well have been overtaken by the dynamic new political situation. The most important contest will be between Mr Wade's Parti démocratique sénégalais (PDS) and the Alliance des forces du progrès (AFP), led by Mr Niasse. The PDS would, of course, like to gain a parliamentary majority, which would obviate the sheer necessity of a coalition government. However, the AFP also expects to improve its position, building on Mr Niasse's surprisingly strong showing in the first round of the presidential election.

Plagued by internal rifts and continued defections to former opposition parties, the PS is likely to lose its majority in parliament, even if it joins forces with Djibo Kâ's Union pour le renouveau démocratique. Other parties now represented in the government—including the And-jëf/Parti africain pour la démocratie et le socialisme, the Ligue démocratique-Mouvement pour le parti du travail, and the Parti de l'indépendance et du travail—will either field common candidates or join forces with the PDS in the general election.

**International relations** Patching up relations with Senegal's immediate neighbours has become a priority, after a series of provocative statements made by Senegalese officials in May and June contributed to a rise in tension. Both Guinea-Bissau and The Gambia were explicitly accused of directly aiding the MFDC—which was partly true—and even of sending mercenaries across the border into Casamance. Relations with Mauritania have also deteriorated since steps toward reviving a controversial water project on the Senegal River led the Mauritanian government to order the expulsion of all Senegalese from that country in June. The order was rescinded following Mr Wade's pledge to abandon the project.

In contrast, Mr Wade's broader foreign policy has made some progress. Relations between Mr Wade and the French authorities had previously been cool because the latter had openly supported the former president, Abdou Diouf. However, relations improved considerably during Mr Wade's visit to France in May, his first visit outside Africa as president.

## Economic policy outlook

**Policy trends** Supported by the IMF's recent disbursement of credit under the 1998-2001 poverty reduction and growth facility (PRGF), the Senegalese government may now accelerate its programme of economic reform. In completing its first review of the US\$142m PRGF it approved in April 1998, the IMF noted that Senegal's overall performance was satisfactory but that continued progress was needed in implementing reforms in the areas of fiscal consolidation and transparency, privatisation and poverty alleviation.

Prime Minister Niasse's address to parliament in July has confirmed that the new administration will place job creation, poverty reduction and social-sector concerns at the heart of its development programme. This is in line with the

interim draft of the IMF-sponsored poverty reduction strategy paper (PRGF), which needs to be completed by 2001 for Senegal to become eligible to benefit from a US\$800m debt-relief package under the heavily indebted poor countries (HIPC) initiative.

The auditing of state-owned public companies, projects and institutions is well under way, and the prime minister has promised to publish the results in due time. Ten public enterprises that were slated for privatisation under the previous administration are to be opened to private participation by early 2001. They include several of the larger parastatals, such as the groundnut marketing and processing enterprise, Société nationale de commercialisation des oléagineux (Sonacos) and the state cotton company, Société de développement des fibres de textiles (Sodefitex). However, both Sonacos and Sodefitex are in a poor financial state, making it difficult for the new authorities to find a strategic partner.

**Fiscal policy** The government's fiscal policy will aim to maintain a positive primary balance, to keep salary outlays within the levels agreed with other members of the regional Union économique et monétaire ouest-africaine (UEMOA), and to broaden the tax base, partly to compensate for the loss of tariff revenues resulting from the sharp reduction of tariffs among the UEMOA states. Simultaneously, the prime minister has vowed, the government will try to ease the tax burden on the poorest Senegalese.

**Monetary policy** The regional central bank, Banque centrale des Etats de l'Afrique de l'ouest (BCEAO), will continue to pursue a sound monetary policy throughout the zone. In June the regional bank raised its discount and repurchase agreement rates by 0.75 percentage points, to 6.5% and 6% respectively, to help contain any inflationary pressures within the zone. With the regional currency, the CFA franc, pegged to the euro, this partly reflects the recent decision of the European Central Bank to raise its interest rates. In addition, according to the BCEAO, credit within the zone has risen despite the general slowdown in economic activity, adding to the risk of inflationary pressures. The central bank has thus also stopped the auction of loans to commercial banks on the monetary market. The cost of borrowing remains relatively high in Senegal, hovering between 10% and 14%, because of high risk margins.

## Economic forecast

**International assumptions** The EIU now forecasts that in 2000 world GDP will grow by an average of 4.7% in PPP terms, the fastest rate of expansion since 1988. Every region of the world will see an improvement in its rate of growth on 1999. Growth in the euro zone will peak at 3.4% in 2000, before decelerating slightly to 3% in 2001. France, a major trading partner of Senegal, is expected to post a growth rate of 3.2% in 2001, down from 4% this year.

Export prices for fish products, Senegal's main export, are expected to rise, reflecting a tight global supply coupled with buoyant consumer demand in the subregion, the EU and in Asia. In contrast, world prices for groundnut

products, Senegal's traditional commodity export, will remain weak, reflecting ample supplies of competing oilseeds. World prices for oil—which accounts for roughly 12% of Senegal's import bill—will remain high over the forecast period. The benchmark Brent crude is forecast to rise to US\$27.1/barrel from US\$17.9/b in 1999, falling back US\$22/b in 2001 as both OPEC and non-OPEC member countries step up their production. Rice, which Senegal imports in large quantities every year, will be in oversupply on global markets, with prices (Thai white 100% 2nd grade fob Bangkok) declining to US\$233/tonne in 2000.

#### International assumptions summary

(% unless otherwise indicated)

	1998	1999	2000	2001
GDP growth				
US	4.3	4.2	4.9	2.9
EU	2.6	2.2	3.4	3.0
France	3.2	2.9	4.0	3.2
Exchange rates (av)				
US\$ effective (1990=100)	119.3	116.4	117.3	112.9
CFAfr:US\$	590.0	615.7	676.8	630.7
CFAfr:¥100	450.7	540.5	638.4	606.5
Financial indicators				
US\$ 3-month Libor	5.59	5.42	6.75	6.78
Euro 3-month interbank rate (DM before 1999)	3.53	2.97	4.28	4.80
Commodity prices				
Oil (Brent; US\$/barrel)	12.8	17.9	27.1	22.0
Groundnut meal (US\$/tonne)	116.2	102.7	123.5	132.3
Rice (US\$/tonne)	313.8	254.0	233.0	265.0

**Economic growth** Real GDP growth is forecast to rise by 5.7% in 2000 and by 6% in 2001. Activity in the industrial sector will remain buoyant—electricity supply should improve as new capacity comes on line, and manufacturing output should register a good recovery this year (4.9% growth is forecast) with the pace broadly maintained next year. A particularly good performance is forecast for construction, stimulated by ongoing projects in the transport sector—although some of Abdoulaye Wade's grand projects, such as the construction of a new airport in Keur Massar and a new wholesale market in Diamniado, will take time to materialise. Mining should also do well in 2000 and in 2001, as production at the new phosphate mine in Tobène picks up. According to the August report from the FAO/Global Information and Early Warning System on Food and Agriculture, current climatic conditions remain favourable in the Sahel. Abundant rains in late July and early August benefited crop development in Senegal, but caused floods in the Senegal River valley. Assuming continued good weather conditions for the 2000/2001 agricultural season, we continue to forecast 5.2% real GDP growth in the agriculture and livestock sector.

**Inflation** Tight monetary and fiscal policy will help to keep inflation at around 2% over the forecast period. There have been significant reductions in prices over the past few months, ranging from rice and groundnut oil prices to the cost of international telephone calls. According to estimates from the Union

économique et monétaire ouest-africaine (UEMOA), Senegal's consumer prices had declined slightly—by 0.4%—in May, driven mostly by lower prices in cereals (including rice). Year-on-year inflation was 1.4%, against a UEMOA average of 2%. Fuel prices remain fixed by the government, despite the cost involved at a time of high world oil prices.

**Exchange rate** Because it is pegged to the euro at a rate of CFAfr656:€1, fluctuations in the CFA franc primarily reflect the growth differential between the euro area and other major industrialised economies. As the economic prospects for the euro area are forecast to improve and the markets are now ready to believe that the US economy will slow, we expect a gradual strengthening of the euro during this year and into 2001. From an average of US\$0.97:€1 this year, the new currency is set to average US\$1.04:€1 in 2001. As a result of the automatic link, the CFA franc will also strengthen from an average of CFAfr677:US\$1 in 2000 to CFAfr631:US\$1 next year.

#### Forecast summary

(% unless otherwise indicated)

	1998 <sup>a</sup>	1999 <sup>b</sup>	2000 <sup>c</sup>	2001 <sup>c</sup>
Real GDP growth	5.7	5.0	5.3	6.0
Gross agricultural growth	-1.7	6.8	5.2	5.5
Consumer price inflation (av)	1.1	0.8	1.5	2.0
Short-term interbank rate	4.8	5.0	5.3	5.5
Government balance (% of GDP)	0.4	0.2	0.3	0.5
Exports of goods fob (US\$ bn)	1.0	1.0	1.0	1.1
Imports of goods fob (US\$ bn)	-1.2	-1.3	-1.3	-1.3
Current-account balance (US\$ bn)	-0.1	-0.2	-0.1	-0.1
% of GDP	-3.1	-4.0	-2.3	-1.5
External debt (year-end; US\$ bn)	3.9	4.1	4.0	4.0
Exchange rates (av)				
CFAfr:US\$	589.95	615.70 <sup>a</sup>	676.84	630.73
CFAfr:¥100	450.68	540.53 <sup>a</sup>	629.53	605.01
CFAfr:SDR	800.43	841.94 <sup>a</sup>	888.67	849.39

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts.

**External sector** The current-account balance will remain in modest deficit, equivalent to about 1-2% of GDP through the outlook period. The stronger growth in construction, mining and manufacturing will push up imports by 6% this year and by 5% next year, in US dollar terms. Growth in export earnings will be constrained by weak world prices for traditional exports (fish products and groundnuts), but increased phosphate sales will ensure a modest increase in both years, keeping the merchandise trade gap at US\$241m in 2000 and US\$220m in 2001. Inflows of transfers, buoyed up by aid, will broadly offset this deficit.

Assuming the Senegalese government fulfils the conditions attached to the heavily indebted poor countries initiative by end-2001, debt relief is expected to start in 2002 after negotiations with bilateral creditors. The World Bank's International Development Association (IDA) will provide interim debt relief by July 2000. In total, IDA will provide US\$149m of debt relief, while relief

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from all creditors will amount to around US\$800m, which is equivalent to about US\$450m in net present value.

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