

Large fiscal and current account deficits



General Information

GDP	USD14.3bn (World ranking 119, World Bank 2011)
Population	12.77 million (World ranking 70, World Bank 2011)
Form of state	Republic
Head of government	Macky SALL
Next elections	2019, presidential



Strengths

- Vulnerability to climatic effects on agricultural output and to changes in internationally-determined commodity prices.
- Relatively good regional and international relations.
- Membership of the West African Monetary Union (WAMU) and the CFA franc zone provides relative monetary stability, a common currency and access to a regional central bank. Low exchange rate and transfer risk.
- Considerable debt relief under the HIPC initiative in 2006.

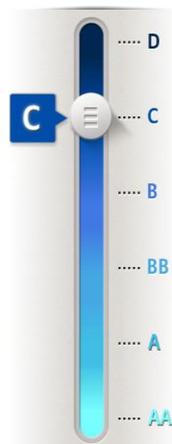
Weaknesses

- Uncertain regional influences include a border with Mali.
- Low income country that remains dependent on foreign aid.
- Domestic economy and exports remain dependent on the primary sector.
- Large fiscal deficits.
- Large annual current account deficits (-8.5% of GDP in 2012).
- Slow implementation of structural reforms.
- Weak business environment, with a high level of government intervention, a bureaucratic regulatory environment and an inefficient judiciary.

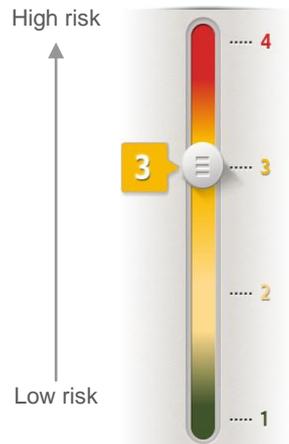
Country Rating

C3

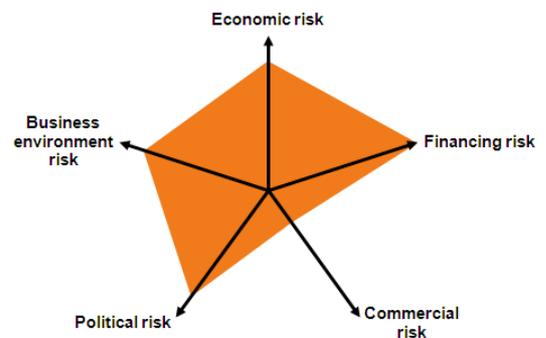
Country Grade



Country Risk Level



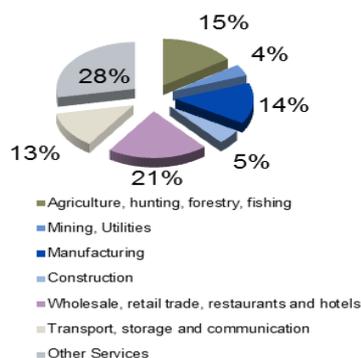
Risk Dimensions



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Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports	Rank		Imports
Mali	24%	1	France
India	15%	2	United Kingdom
France	5%	3	China
Italy	5%	4	Netherlands
Spain	4%	5	Nigeria

By product

Exports	Rank		Imports
Petroleum, petroleum products and related materials	21%	1	Petroleum, petroleum products and related materials
Fish, crustaceans, molluscs and preparations thereof	15%	2	Cereals and cereal preparations
Inorganic chemicals	12%	3	Road vehicles

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	4.1	2.2	4.3	2.1	3.2	4.0	4.5
Inflation (% end-year)	2.5	-3.4	4.3	2.7	1.0	0.0	1.7
Fiscal balance (% of GDP)	-2.6	-4.9	-5.2	-6.3	-6.8	-4.9	-4.5
Public debt (% of GDP)	47.7	34.2	35.7	40.0	40.0	36.4	34.5
Current account (% of GDP)	-8.4	-7.1	-5.9	-7.0	-8.5	-9.0	-8.1
External debt (% of GDP)	50.8	30.6	31.3	31.4	34.4	34.8	36.0

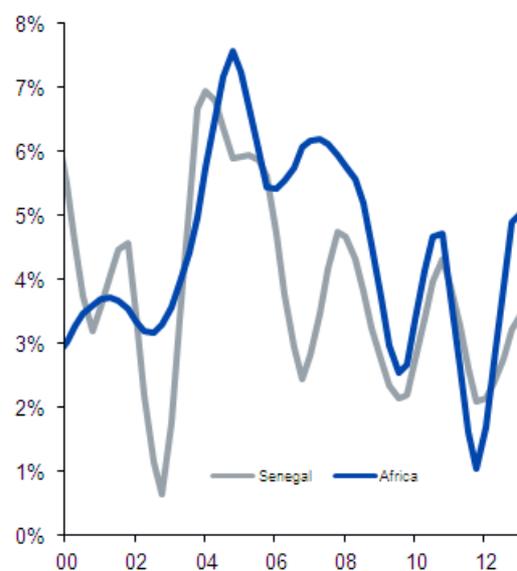
Source: IHS Global Insight, National sources, Euler Hermes

Economic Overview

GDP growth improved in 2012 (+3.2%), relative to the preceding year (+2.1%), although expansion in the primary sector (agriculture accounts for 15% of GDP and mining a further 4%) was lacklustre. Structural impediments (including weak infrastructure and inefficient power and energy supplies) continue to constrain growth at rates below potential. Moreover, further action is required to diversify the economy and improve the business regulatory environment. Nevertheless, the growth outlook is moderately positive, with government-support initiatives boosting agricultural output. The tourism sector, however, will continue to be adversely affected by weakness in European markets. Overall, EH expects GDP growth of +4% in 2013 and +4.5% in 2014, compared with a ten-year annual average of +4%.

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 EUR at a rate of XOF655.96:1EUR. Membership of the CFA franc zone provides for low exchange rate and transfer risk. For many years, it has also served to keep inflationary pressures fairly low, even though food accounts for around 40% of the consumer price index. Average inflation in 2012 was 1.4% and the rate of price increases dropped to just 1% by the end of last year. EH expects an uptick in inflation in 2013 but an average rate of 1.9% suggests that strong price pressures will be avoided.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Some of the structural impediments also feed through into competitive deficiencies in key export industries and Senegal's external accounts are generally weak. Moreover, this weakness is exacerbated at times of downturn in the global economy, with associated reduced demand for commodities. At such times, however, import growth is not necessarily correspondingly reduced as inflows of capital goods are required for construction and infrastructure development, so trade deficits become larger. In the period 2000-08 the average annual current account deficit was equivalent to -8.4% of GDP. Since then deficits have remained high and EH expects the current account deficit in 2013 to reach -9% of GDP, with only a slight correction in 2014 (-8.1%). Deficits of this magnitude are clearly not sustainable and Senegal will remain reliant on external support from both donors and concessionary lenders to finance its external accounts.

FX reserves at the end of 2012 were USD2.1 billion and provided an import cover of 3.8 months, although that figure should be assessed in relation to the above comments relating to the external accounts in general.

Despite significant foreign debt relief, including write-offs, principally through the HIPC initiative in 2006, external obligations and their repayment schedules are a significant redirection of limited financial resources away from more productive uses. In the period 2000-08, the external debt/GDP ratio averaged an annual 50.8% and even at a current 34% is high for an economy such as Senegal's. Annual debt servicing is now down to around 5% of export earnings but still represents a repayment burden for a country with volatile and limited foreign exchange earning capacity.

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