Republic of Senegal Ministry of Economy and Finance

Political Economy Unit (UPE)

A diagnosis of Senegal's public external debt

Provisional report

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I. Introduction: background and the debt/development issue

Since the early 1980s, Senegal's economy has seen a constant series of reforms, with the international community – particularly the Bretton Woods institutions – promoting stabilization and structural adjustment programmes. The positive effects of these reforms took were not immediately apparent; only from the mid-1990s did the country see any acceleration in growth rates, with the trend rising from about 3 per cent to approximately 5 per cent. The dual deficits in public-sector finances and the balance of payments have been considerably reduced, with notable progress in the area of public finance management. Despite improvements in the macroeconomic framework, the Senegalese economy has created few jobs in recent years. Youth unemployment is reaching alarming levels, and poverty has worsened among a considerable proportion of the population. Some 58 per cent of households, almost two thirds of the population, are living below the poverty line. This is why the fight against poverty is now one of the highest priorities for the country's authorities and its development partners.

Attaining the goal of significantly reduced poverty requires economic growth which is stronger and of improved quality. This in turn entails the removal of various obstacles to economic growth, including the unsustainable burden of external debt which has led to Senegal's qualification for the new programme entitled the Highly Indebted Poor Countries (HIPC) Initiative.

The external debt problem involves a paradox: the country's debt, which is supposed to act as a catalyst for growth, is now holding it back. "We have moved from a situation where we were supposed to borrow in order to grow to a situation where we have to stop growing in order to pay our debts."

Any young nation which has not yet established a strong, efficient financial system, together with relatively well-developed capital markets, is bound to depend on external borrowing in order to fund its development programmes. Indeed, debt-cycle theorists argue that a country has to go through certain stages on the way from the status of debtor at the beginning of its development process to that of creditor and capital exporter. In the meantime, it will have gone through "adult debtor" and "young creditor" stages. Unfortunately, most developing countries have not followed that route. The external debt problems which now face those countries appeared in the early 1980s. The developing countries' external debt is due to a number of phenomena, and both external and domestic factors are involved. The internal factors include inappropriate policy decisions, such as inefficient collection and allocation of resources, public-sector atrophy and imbalance in public finances, weak development of domestic capital markets, and exchange-rate overvaluation. The external factors include unfavourable developments in the terms of trade, abrupt increases in international interest rates, excessive supply of lending funds boosted by the recycling of petrodollars, and lack of observance of prudential standards by international private banks.

The international community has made a number of attempts to resolve the Third World debt problem, such as the Baker and Brady plans, the Toronto and Naples agreements, and debt rescheduling through the Paris and London Clubs. Yet these different approaches to the debt problem have proved ineffective for the African States. As a result, there have been calls for cancellation of the poor countries' debts. During their visits in 2000, personalities as diverse as show-business stars, Pope John Paul II, the American economist Jeffrey Sachs and the Dalai Lama responded to appeals from civil society by supporting the campaign for debt cancellation.

The International Monetary Fund and the World Bank have taken the initiative again by proposing the Highly Indebted Poor Countries (HIPC) Initiative, which provides for debt cancellations subject to conditionalities which involve the elaboration and implementation of poverty reduction strategies. While the adoption of this new system is a step in the right direction, its characteristics are such that it will probably never put an end to the debt problem. The amount of the debts cancelled is determined by the resources of international bodies, rather than by countries' needs. Debt cancellations involve resource reallocations rather than a straightforward reduction of debt stocks; and the time frame required in order to benefit from the programme is relatively long.

In the particular case of Senegal, the signature of 13 debt restructuring agreements (rescheduling, debt cancellation, etc.) with Paris Club creditors between 1981 and 2000 reflects the acuteness and persistence of the external debt problem. Despite an improvement in the country's debt profile in recent years, the weakness of domestic savings and of the development of domestic capital markets suggest that external borrowing will constitute one of the major sources of funding for development programmes in the coming years. An analysis of public external debt is therefore of great importance, since it will give a clear picture of the debt situation and make it possible to adopt a strategy to make better use of this type of economic development funding.

In the following chapters, we propose to evaluate the external debt information and management system (II) and then to analyse the debt from a macroeconomic viewpoint (III). The results obtained will be complemented by a microeconomic analysis of the external debt (IV). In light of the conclusions to be drawn from the various results obtained, we will then derive the recommendations of this study (V).