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When Finance Devours The Economy

Senegal's Fiscal Trap: Structural Diagnosis, Debt Treatment, and Investment Implications

September 2026 Update to the March 2026 Benchmark Analysis

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The March 2026 analysis has been updated to reflect the latest developments in Senegal's sovereign debt situation, including the IMF staff-level agreement reached in September 2026, the launch of the debt-treatment process, subsequent rating actions and the repricing of Senegalese sovereign bonds. Several conclusions and historical comparisons in the original analysis have also been recalibrated accordingly.

Abstract

Senegal's sovereign-risk profile has shifted materially since early 2026. The combination of previously undisclosed debt, elevated debt-service requirements, constrained market access and the September 2026 S&P downgrade to CC has moved the analysis from liquidity stress toward debt treatment and solvency. This update reassesses Senegal's fiscal trajectory, the role of the FCFA framework and commodity revenues, and the significance of the new IMF programme. Rather than treating historical default rates as a mechanical probability forecast, the analysis uses them as calibration benchmarks and focuses on the factors now driving the outcome: debt sustainability, fiscal adjustment, debt treatment and the path back to market stability.

I. The Diagnostic Framework : From Liquidity to Solvency Questions

The relevant question for Senegal was never simply: Can the state meet its next payment? The more important question is: What happens to the country's economy and public finances as it tries to manage a growing debt burden? This matters because a government can keep paying its debts for some time while still losing the fiscal room needed to fund public investment, essential services, and maintain access to financial markets.

The 2023 IMF/World Bank Debt Sustainability Analysis already highlighted significant risks. Senegal was considered at moderate risk of debt distress, with limited room to absorb shocks. Debt-service pressures were already high: total public debt service was projected at 29.5% of revenues, while external debt service stood at 18.8% of public-sector revenues, close to the 23% threshold. The DSA also found Senegal particularly vulnerable to a slowdown in economic growth. This was more than a typical economic shock. The discovery of previously undisclosed liabilities changed the starting point for assessing Senegal's debt sustainability.

The IMF's subsequent reconciliation exercise revised central-government debt from 74.4% to 111.0% of GDP at the end of 2023. Revised central-government debt then reached 118.8% of GDP at the end of 2024. The IMF also estimated total public-sector debt at 132% of GDP at the end of 2024. These figures use different definitions of public debt and should not be treated as directly comparable.

The key point is that Senegal did not simply move from the 2023 DSA baseline to a worse outcome. The baseline itself changed. The undisclosed liabilities showed that Senegal started this period with much more debt than previously reported. Once recognized, these liabilities raised the debt level used to assess debt sustainability.

The deterioration therefore reflects both new fiscal and economic risks and a correction to the reported debt stock. The additional debt was not accumulated after the 2023 DSA; it already existed but was only recognized later.

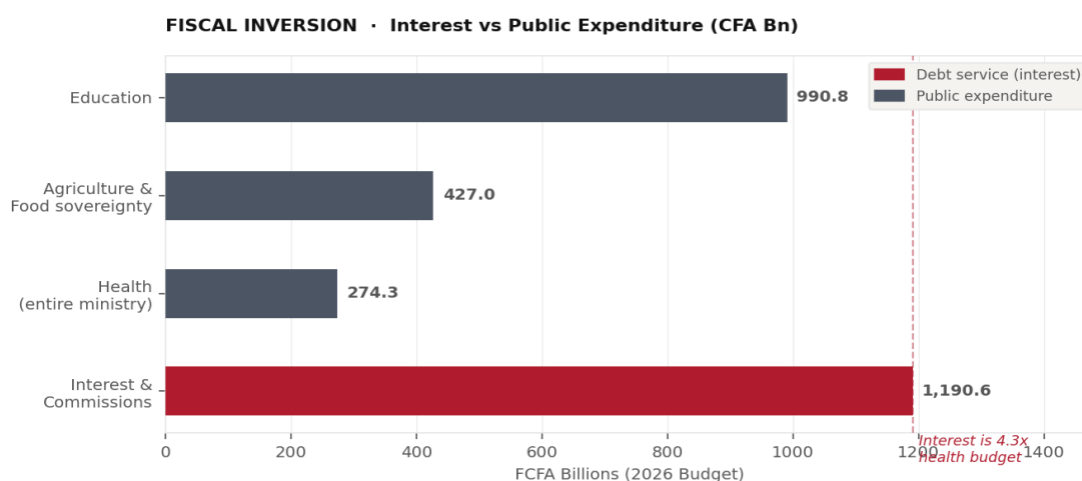
The Diagnostic

The trajectory ends in a forced correction that destroys excess claims. But the cost of that correction is also structural: every year in which debt service crowds out productive investment weakens future productive capacity, leaving effects that persist long after the fiscal adjustment itself. Together, these insights reframe sovereign debt analysis from a liquidity question to a structural one: not "can Senegal pay?" but "what is Senegal becoming while it tries?"

II. The Anatomy of a Fiscal Trap

Debt service as a claim on fiscal capacity

Senegal's 2026 budget provides perhaps the clearest single view of how the debt burden is compressing fiscal space. Total debt service is budgeted at approximately FCFA 5,519bn approximately 93% of total 2026 revenue (FCFA 5,932bn, LFI 2026), or 102% against fiscal revenue alone (FCFA 5,384.8bn). Interest and commissions alone amount to FCFA 1,190.6bn, or approximately 20.7% of internal budget revenues of FCFA 5,740bn.

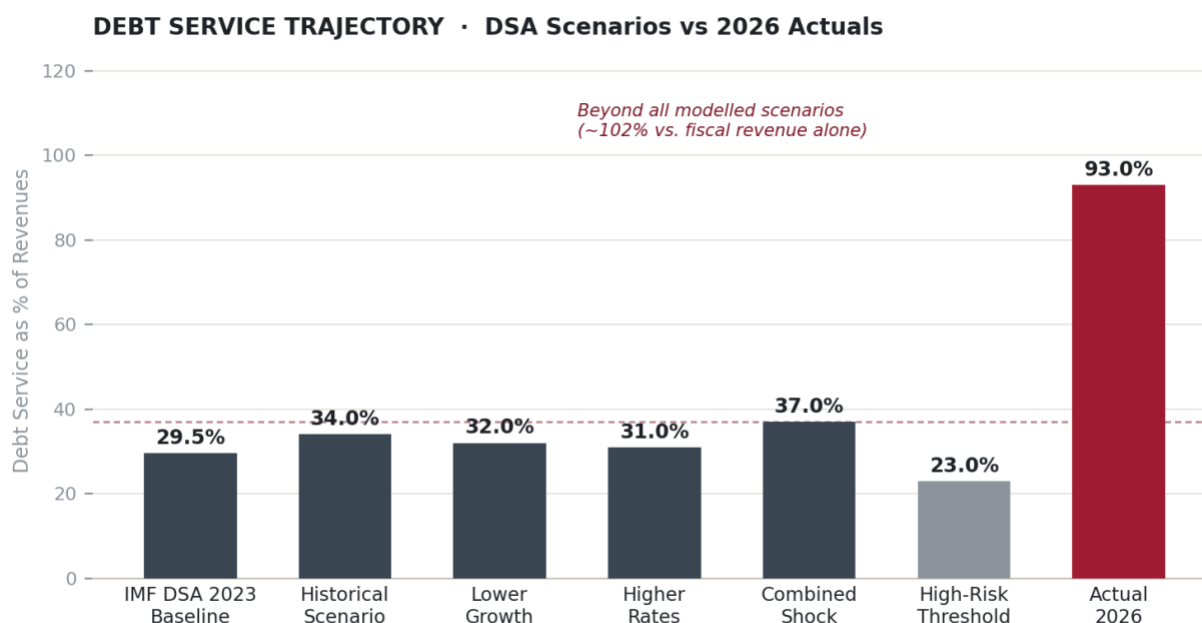


Sources: Note au Public Budget 2026; Voies et Moyens LFI 2026

Fig. 1 · Fiscal inversion: interest vs public expenditure (CFA Bn). Sources: Note au Public Budget 2026; Voies et Moyens LFI 2026.

The significance is not that debt service is literally paid before teachers are paid or roads are maintained. It is that a substantial portion of the fiscal envelope is already committed to creditors before additional resources can be allocated to productive investment, infrastructure or discretionary public services.

The fiscal trap was already visible before the hidden debt was revealed: in June 2023 the IMF and World Bank assessed Senegal at moderate risk of debt distress, with relatively adverse but plausible shocks capable of materially worsening the trajectory. The subsequent debt-stock revision from 74.4% to 118.8% of GDP at the central-government level, and to approximately 132% on the IMF's full public-sector perimeter (Section I) confirms how far the actual position had already moved beyond that 2023 baseline before the hidden debt was even known.



Sources: IMF/World Bank Joint DSA Senegal June 2023; LFI 2026.

Fig. 2 · Debt service trajectory: DSA 2023 scenarios vs 2026 actuals. Sources: IMF/World Bank Joint DSA June 2023; LFI 2026.

Revenue quality matters as much as revenue growth

Two features of the 2026 revenue profile require particular attention. First, the Voies et Moyens documentation identifies approximately FCFA 269bn of externally financed fiscal receipts classified as revenues in 2026, with no equivalent amount in 2025 or 2027.

As an analytical adjustment, removing this one-off reclassification reduces reported revenue growth from approximately 23.4% to 18% and reduces the implied fiscal-pressure ratio to approximately 20.8% of GDP.

That leaves only a narrow margin above the 20% UEMOA convergence criterion. The distinction is important because headline revenue growth can give a materially different impression of fiscal capacity from recurring domestically generated revenue.

The Revenue Quality Adjustment

Reported revenue growth $\approx$ 23.4%; adjusted growth $\approx$ 18% after removing the FCFA 269bn one-off reclassification. The resulting fiscal-pressure ratio is approximately 20.8% of GDP rather than 23.2%.

Sangomar: material buffer, not structural solution

Sangomar materially improves Senegal's fiscal position, but its effect should be separated into what is already incorporated into the budget and what represents an incremental upside scenario.

The 2026 Voies et Moyens document already incorporates approximately FCFA 57bn of state oil revenue in the fiscal plan (line 7213). At \$91/bbl, incremental oil revenue above the \$85 budget baseline is estimated at CFA 9.6–10.8 billion, derived from Finance Minister Diba's parliamentary testimony sensitivity of FCFA 1.6–1.8 billion per \$1 increase in Brent (QAG, 22 mai 2026) this revises the March 2026 estimate of approximately FCFA 456bn (8.3% of debt service), which predated that testimony and materially overstated Sangomar's fiscal effect. This covers less than 0.2% of total 2026 debt service. The Sangomar buffer is real but marginal.

Sangomar therefore acts as a marginal fiscal and refinancing buffer, not as a standalone debt-sustainability solution.

How far has the trajectory moved?

The comparison with the 2023 DSA is useful, but the indicators must remain consistent. The DSA's combined-shock scenario projected debt service at approximately 37% of revenues, already well above its 23% high-risk threshold. The 2026 budget's reported debt-service burden approximately 93% of total revenue, or 102% of fiscal revenue alone is materially higher, though the exact revenue basis used for the 2023 DSA's 37% figure has not been independently confirmed for this comparison.

The debt-stock deterioration is equally significant. The DSA's combined-shock scenario projected 85% PV debt-to-GDP, compared with approximately 119% central-government debt and 132% total public-sector debt at end-2024.

Senegal therefore did not simply move into a modelled stress scenario. The debt stock was materially understated in the information available to the 2023 DSA. By the time the full position emerged, Senegal had substantially more debt and materially less fiscal space than previously understood.

III. From Default Risk to Debt Restructuring Risk

The March 2026 benchmark analysis used a conditional default framework:

$$P(\text{Default}) = P(\text{Default} \mid \text{deal}) \times P(\text{deal}) + P(\text{Default} \mid \text{no deal}) \times P(\text{no deal})$$

At the time, this provided a consistent way to explain why a 15–25% one-year default range could be justified despite Senegal's severe fiscal deterioration. The framework distinguished the underlying sovereign credit risk from the mitigating effect of a renewed IMF programme. That framework is no longer the appropriate primary model.

By September 2026, the state of the world has changed. Senegal is no longer simply waiting for an IMF programme while markets debate whether default can be avoided. On 4 September 2026, S&P downgraded the sovereign's foreign-currency rating from CCC+ to CC and its local-currency rating from CCC+ to CCC, both on negative outlook, stating that an exchange in distressed conditions or a default on Senegal's foreign-currency commercial debt is “extremely likely.” Three days earlier, on 1 September 2026, the IMF and the authorities had reached a staff-level agreement on a new 36-month Extended Credit Facility of approximately US\$2.2 billion (IMF Press Release 26/282), subject to Executive Board approval, corrective actions and financing assurances. The authorities have also announced their intention to seek debt treatment.

The relevant probability architecture is therefore no longer:

$$\text{IMF deal} \rightarrow \text{No default} \quad / \quad \text{No Deal} \rightarrow \text{Default}$$

It is:

Fiscal stress → financing constraints → IMF-supported adjustment → debt treatment → sustainable reprofiling and recovery or disorderly restructuring and default.

The principal credit question has moved from whether Senegal reaches a restructuring event to what form the debt treatment takes, how much value creditors recover, and whether the resulting fiscal path restores market access.

What the S&P default data actually say

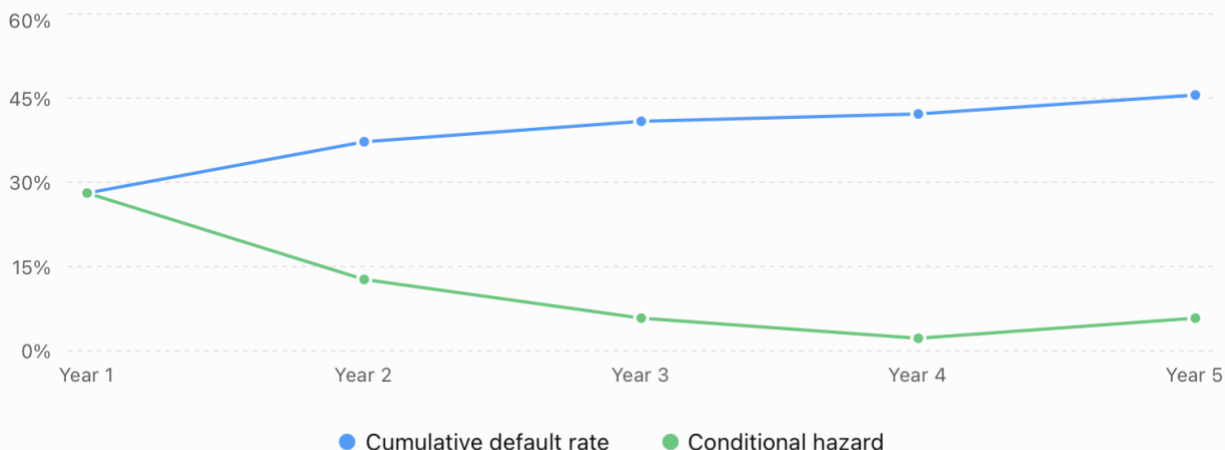
The historical S&P data remain useful, but the survival analysis must be interpreted correctly. The March 2026 analysis used the earlier 1975–2024 dataset, including a 16.10% one-year foreign-currency default rate for CCC+ sovereigns and 31.52% for the broader EM/Frontier CCC/CC category. The latest S&P sovereign study (1975–2025) reports the following cumulative foreign-currency CCC/CC default rates:

Horizon	Cumulative default rate
Year 1	28.09%
Year 2	37.22%
Year 3	40.87%
Year 4	42.18%
Year 5	45.55%
Year 10	59.29%
Year 15	64.50%

S&P reports these figures on a cumulative basis, so the year-on-year differences cannot be read directly as annual default probabilities. The 9.13pp increase from year 1 to 2, for example, is measured against the original cohort, including sovereigns that had already defaulted. The appropriate forward-looking measure is the conditional hazard rate, which divides each year's marginal increase by the share of the cohort that survived the previous year. Thus, the 9.13pp increase between years 1 and 2 corresponds to a 12.7% conditional default rate, not 9.13%.

Cumulative default rate vs. conditional hazard

FC CCC/CC sovereign default experience. Cumulative rates use the original cohort; conditional hazards are calculated relative to sovereigns surviving to each year.



Source: S&P Global Ratings. Conditional hazards calculated from reported cumulative default rates.

Annual hazard does not fall steadily after year 1: it drops sharply in years 2–4 before rising again in year 5. For Senegal, the 28.1% year-1 rate is therefore not a current one-year probability of default. Senegal entered CCC+ only in 2025 and was subsequently downgraded to CC on 4 September 2026. The historical CCC/CC rates should therefore be treated as category-level benchmarks, not a Senegal-specific forecast. They provide context for credit severity but do not determine Senegal's outcome under the current IMF and debt-treatment process.

Sangomar provides liquidity, not solvency

The original analysis materially overstated the potential contribution of higher oil prices. The relevant 2026 budget baseline is approximately \$85/bbl. At \$91/bbl, Finance Minister Cheikh Diba's parliamentary sensitivity indicates an incremental fiscal-revenue effect of approximately FCFA 1.6–1.8 billion for each \$1/bbl increase in Brent (QAG, 22 May 2026) implying, for a \$6/bbl move, approximately FCFA 9.6–10.8 billion of incremental fiscal revenue, versus the original March estimate of approximately FCFA 456bn.

Relative to approximately FCFA 5,519 billions of total 2026 debt service, this represents only approximately 0.17–0.20% of the annual debt-service burden. Sangomar provides a real but marginal liquidity buffer under higher oil prices. It cannot materially alter the sovereign's debt arithmetic and should not be assigned a meaningful standalone reduction in default probability. The oil-price upside is therefore a second-order variable relative to the IMF programme, debt-treatment terms and the structural fiscal adjustment required to restore debt sustainability.

Transparency improves the information quality, not the recovery value

The post-Cour des Comptes disclosure of previously unreported borrowing materially changed the information environment for creditors. The benefit should nevertheless be stated more narrowly than in the original analysis. Greater transparency reduces information asymmetry and gives creditors a more complete view of the sovereign's liabilities. That can facilitate creditor coordination and improve the credibility of a restructuring framework. It does not, by itself, eliminate holdout risk or guarantee a faster restructuring. The latter depends on creditor composition, legal documentation, collective-action provisions, the treatment of different creditor classes and the authorities'

negotiating strategy. Transparency is therefore best treated as a process and coordination variable, rather than as a direct percentage-point reduction in default probability.

The IMF variable has changed from probability to conditionality

The most important change since the March analysis is the IMF variable itself. In March, the question was whether a renewed programme could be secured. By September, IMF staff and Senegalese authorities have reached a staff-level agreement for a new 36-month ECF of approximately US\$2.2 billion (IMF Press Release 26/282, 1 September 2026). The agreement remains subject to Executive Board approval, corrective actions relating to the previous misreporting case and financing assurances. The authorities have also indicated their intention to seek debt treatment.

Consequently, the former assumption is no longer relevant: $P(\text{IMF programme}) = 40\%$. The relevant uncertainties are now:

1. Will the IMF programme receive final approval and become operational?
2. Will the programme provide sufficient financing and policy credibility to support debt treatment?
3. What terms will creditors accept?
4. Will the resulting debt path restore sustainability without another restructuring?

This is a fundamentally different probability tree from the March 2026 benchmark

What remains valid from the original probability framework

The original framework nevertheless identified an important principle that survives the change in state: the IMF as the key variable determining whether fiscal stress leads to a financing crisis or a managed adjustment.

What has changed is that IMF involvement is no longer hypothetical: it is now part of an observable debt-treatment process. The framework should therefore move from a binary default model to a conditional treatment framework:

Fiscal stress → IMF adjustment → debt treatment → sustainable recovery / renewed distress

The key uncertainty has moved from programme activation to programme execution and debt-treatment outcome.

From probability of default to recovery value

This change is particularly important for investors. For an investor holding Senegalese Eurobonds today, the relevant question is no longer simply “what is the probability that Senegal defaults?” The market is already pricing a high probability of a distressed debt event. The relevant questions are now:

- Which instruments are included in the treatment?
- Which creditors are excluded?
- What maturity extension is proposed?
- What happens to coupons?
- Is there principal reduction?
- What collective-action mechanism applies?
- How are domestic and regional creditors treated relative to external commercial creditors?
- What debt-service path is consistent with the IMF programme?
- What recovery value does the resulting package imply?

The analytical object therefore shifts from a probability-of-default model toward a restructuring and recovery-value model.

The original 15–25% default range should not be treated as the September 2026 forecast. It remains useful as a historical illustration of the information available before the debt-treatment process became explicit. The underlying structural observations also remain valid: the role of the FCFA framework, the importance of an IMF anchor, and the distinction between liquidity stress and structural solvency risk.

What should not be retained is the decomposition:

$$P(\text{Default}) = P(\text{Default} \mid \text{deal}) \times P(\text{deal}) + P(\text{Default} \mid \text{no deal}) \times P(\text{no deal}) = 5\% \times 40\% + 30\% \times 60\% = 20\%$$

The mathematics was correct. The problem was the economic inputs: the probabilities described a pre-debt-treatment state of the world and are no longer appropriate for a September 2026 forecast.

The same applies to the attempt to explain the difference between the 20% and 26% estimates through Sangomar and post-audit transparency. Sangomar's fiscal contribution is too small to support such a quantified probability effect, while the effect of greater transparency on default probability cannot be separately identified from the available data.

The methodological conclusion is straightforward: sovereign-risk probabilities should reflect the sovereign's current state, not assumptions formed before the credit event.

IV. Investment Implications

What the Eurobond pricing tells you

In March 2026, Senegal's 2031 and 2048 Eurobonds traded around \$73 and \$60. By early September, the 2031 bond had fallen to around 50 cents, while other international bonds were also trading below 50 cents. The sharp volatility around the IMF announcement is consistent with a market increasingly focused on debt-treatment terms and recovery value, and not on whether a credit event will occur. The market is therefore shifting from default risk to recovery risk: at these price levels, valuation depends increasingly on the terms of the debt treatment and the recovery they imply.

The relevant signal

The March 2026 framework treated the IMF programme as the key binary variable. That state has changed: an IMF staff-level agreement for a new approximately \$2.2bn ECF has been reached (IMF Press Release 26/282, 1 September 2026), subject to Board approval, corrective actions and financing assurances. The investment signal is now the quality and terms of the resulting debt treatment: creditor perimeter, maturity extension, coupon treatment, and the post-restructuring debt-service path.

The 2023 DSA had already identified 2026 as a period of elevated external debt-service pressure. The subsequent disclosure of previously unreported borrowing materially worsened the starting debt position.

What the historical default data actually tell us

S&P's historical CCC/CC data remain useful for context, but not as a mechanical forecast (see Fig. 2 and the discussion in Section III). The relevant reference point is the conditional hazard rate appropriate to Senegal's position in the survival curve – not the raw year-1 or cumulative figures – and the historical data do not support treating later-year cumulative increments as fixed annual default probabilities, nor the conclusion that Senegal had already passed its highest-risk period.

V. Conclusion

The Senegal case illustrates a broader sovereign-risk sequence: debt accumulation → fiscal compression → refinancing constraint → disclosure → multilateral anchor → debt treatment → recovery or renewed distress.

The FCFA framework, commodity revenues and greater transparency can mitigate individual risks, but none restores solvency on its own in the current market conditions. For investors, the key question is now whether the restructuring restores solvency and at what recovery value.

A broader sovereign-risk diagnostic

The Senegal case illustrates a broader pattern: rising debt service, persistent financing gaps, hidden liabilities and reliance on commodity revenues can turn liquidity stress into structural solvency risk.

The key variables are therefore debt-service capacity, fiscal adjustment, debt transparency and the credibility of the multilateral anchor. Ultimately, debt sustainability depends on whether debt service remains compatible with the economy's capacity to generate growth and fiscal revenues.

For Senegal, the outcome will ultimately depend on whether fiscal adjustment and debt treatment can restore a sustainable debt trajectory.

VI. Probability Methodology & Data

Historical default statistics are used as calibration benchmarks, not as Senegal-specific forecasts. The primary reference is S&P's Annual Sovereign Default and Rating Transition Study, covering sovereign defaults since 1975.

For September 2026, the analysis incorporates the S&P CC rating (4 September 2026 downgrade), the September 2026 IMF staff-level ECF agreement, the authorities' stated intention to seek debt treatment, and the 2023 IMF/World Bank DSA. The latter had already identified 2026 as a period of elevated debt-service pressure.

The March 2026 scenario probabilities and conditional-default decomposition are no longer used. The analytical framework has shifted from estimating the probability of default to assessing debt-treatment dynamics, debt sustainability and potential creditor recovery.

Sources:

Ratings: S&P Global Ratings, 4 September 2026 (foreign-currency rating downgraded CCC+ → CC; local-currency CCC+ → CCC; both negative outlook; S&P statement that a distressed exchange or default is “extremely likely”). S&P Global November 2025; Moody's 2024–2025.

IME: programme suspension July 2024; Communiqué November 2025; Press Release 26/282, 1 September 2026 (staff-level agreement, 36-month ECF, ~US\$2.2bn, subject to Executive Board approval, corrective actions and financing assurances).

Eurobond pricing: Reuters/Tradeweb, 31 August–1 September 2026 (2031 USD bond ~50.4 cents, 1 Sept; 2028 bond 67 cents, 31 Aug, subsequently down more than 14 cents).

S&P sovereign default data: Annual Sovereign Default and Rating Transition Study (1975–2025 vintage), FC CCC/CC cumulative default rates.

Brent prices: EIA STEO March 10, 2026. Sangomar: Woodside Energy 2025 Annual Report; Voies et Moyens LFI 2026 line 7213. Freight: LSEG via CNBC March 3, 2026. Hormuz: Kpler AIS March 2026. Fertiliser: ICIS; Fertilizer Institute; Carnegie Endowment; CSIS (all March 2026). Budget data: Note au Public Budget 2026; Voies et Moyens LFI 2026; Cour des Comptes Senegal 2024.

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