JUNE 2026 · SENEGAL SOVEREIGN RISK

When Finance Devours the Economy

Adjustment Before Settlement

Author	Lamine Gueye
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Firm	AlterFinance Partners
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ABSTRACT

The March 2026 analysis asked: not whether Senegal can pay, but at what cost. The June update asks the parallel question: not whether Senegal can negotiate a programme, but whether it can reach an adjustment agreement before circumstances force a debt settlement.

Two developments since March tighten the options. Brent rose sharply following the Iran conflict, activating a 12:1 subsidy-to-revenue asymmetry. Finance Minister Diba's May testimony confirmed an energy-subsidy exposure of CFA 774 billion at $85 Brent, rendering the 2026 budget baseline structurally inadequate at current prices.

As of 1 June 2026, Senegal is in the delay regime. Four signals confirm it: PRES at 57.1% of quarterly target; Sonko's parliamentary commitment against subsidy pass-through; the 2031 Eurobond at 51 cents; and consecutive UEMOA auctions above 8%. The June-July window requires 790 billion FCFA in domestic issuance at the moment confidence in both financing channels is at its weakest.

The paper's illustrative probability framework remains consistent with elevated default risk over the 2026-28 decision window, but the principal finding is structural rather than probabilistic: the binding constraint is increasingly political economy rather than fiscal arithmetic alone. The binding variable is not instrument selection but regime availability: whether a social compact can be negotiated that makes subsidy pass-through politically legitimable.

KEY THEMES Sovereign Risk · UEMOA/FCFA Framework · IMF Programme Dynamics · Political Economy of Adjustment · Energy Subsidy Arithmetic · Eurobond Pricing · Adjustment Regime Resolution

I. The Diagnostic Framework

Principle 1: Disabled Corrective Signals. When debt creation decouples from wealth creation, the corrective mechanisms intended to constrain excessive borrowing market repricing, legislative scrutiny, and multilateral conditionality are often weakened precisely when they are most needed. Between 2019 and 2023, approximately CFA 3,983 billion of external liabilities were accumulated without formal declaration. The official debt ratio of 74% at end-2023 concealed a true ratio of 99%, confirmed by the Cour des Comptes audit (February 2025). By end-2024, the full public sector perimeter had reached 132% of GDP. By the time the discrepancy became visible, correction without significant economic cost was no longer possible.

Principle 2: Fiscal Claimant Dominance. Finance performs a productive function when it connects investment opportunities to productive capacity. A useful diagnostic is therefore not the absolute level of debt, but the relative claims debt service exerts on public resources. When a state's interest bill exceeds its health budget by a factor of 5.5x, debt service has become the dominant fiscal claimant. The question is no longer simply whether obligations can be serviced, but what expenditure priorities are displaced in the process.

The Diagnostic Unit

Applied together, these principles reframe sovereign debt analysis from a liquidity question to a structural one. The relevant question is not simply whether Senegal can pay, but whether a politically sustainable adjustment regime can emerge before the financing constraint forces a more disruptive resolution.

II. Anatomy of the Fiscal Trap

Senegal's 2026 fiscal position is best understood not as a liquidity event but as the cumulative outcome of a structural imbalance. The hidden-debt revelation changed the measured debt stock. The 2025 fiscal execution and 2026 budget reveal what that revised debt stock means in practice for the allocation of public resources.

Total 2026 debt service is budgeted at 5,499 billion FCFA, equivalent to 88.8% of projected total revenues and approximately 102% of fiscal revenues alone. Before a single teacher is paid, a road maintained, or a hospital supplied, more than one-fifth of all fiscal revenues are committed to servicing existing obligations.

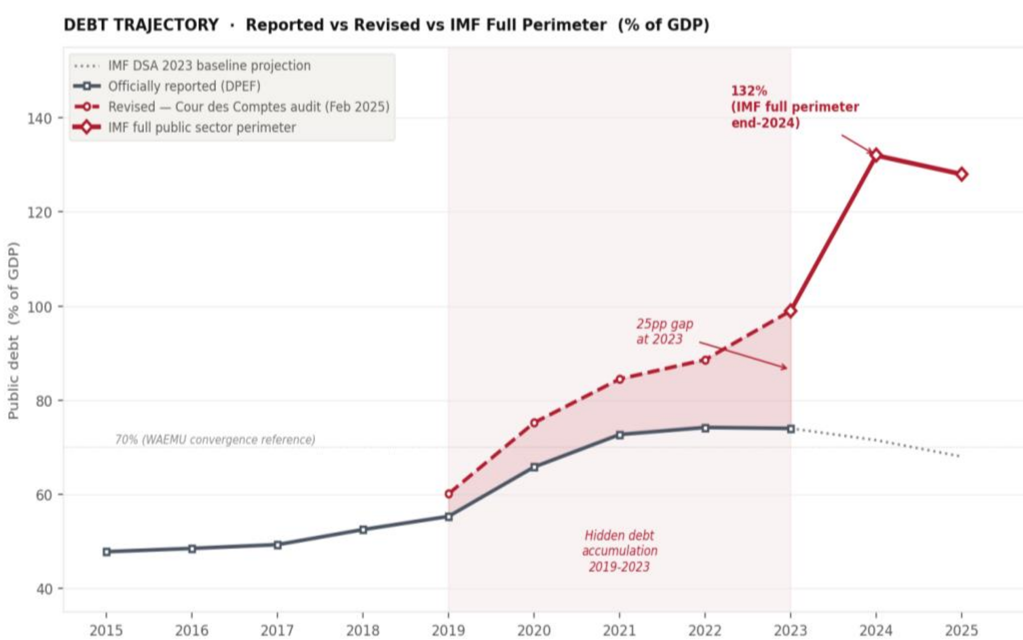

Fig. 1 · Debt trajectory: officially reported vs Cour des Comptes revised vs IMF full public sector perimeter (% of GDP). Sources: DPEF budget documents; Cour des Comptes Senegal February 2025; IMF communique 6 November 2025; IMF/World Bank Joint DSA June 2023.

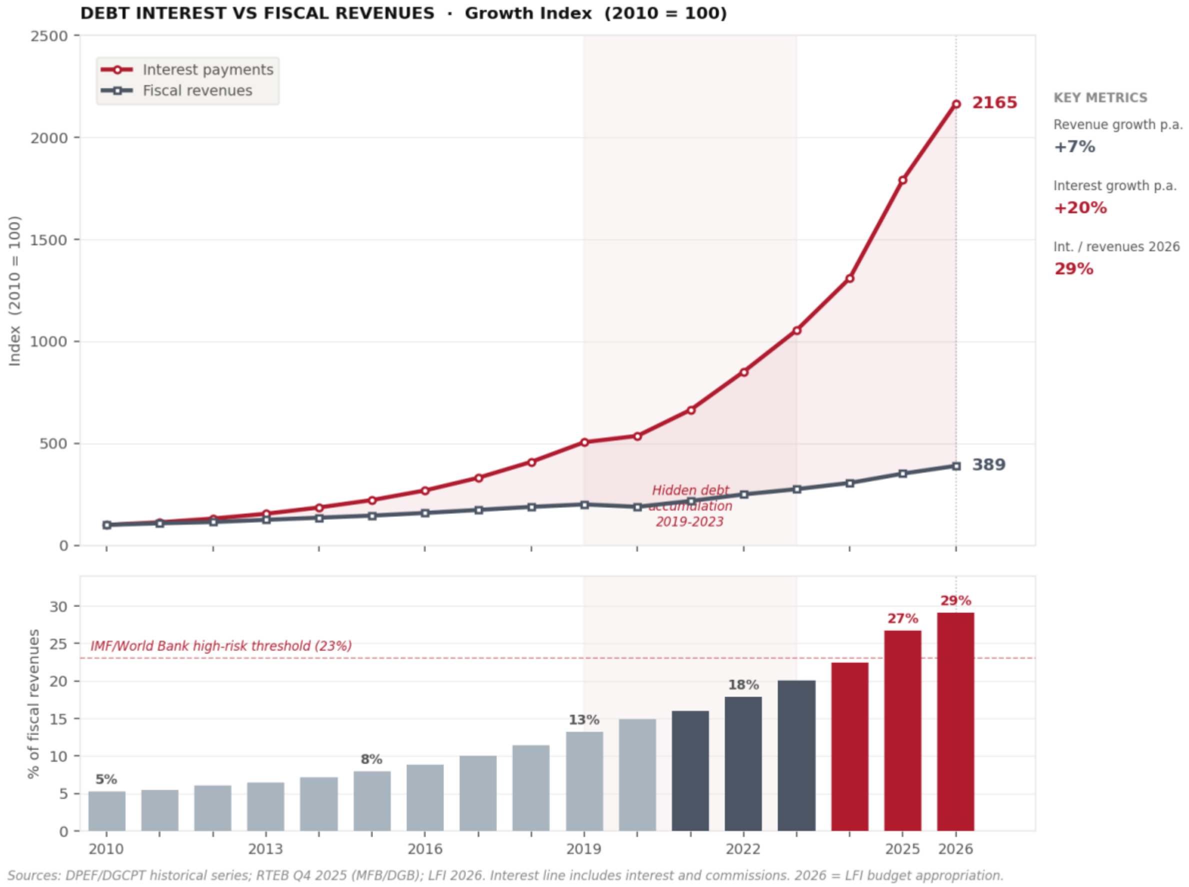

Fig. 2 · Debt interest vs fiscal revenues: growth index 2010-2026 (2010=100) and interest as % of fiscal revenues. Sources: DPEF/DGCPT historical series; RTEB Q4 2025; LFI 2026.

How far the trajectory has moved

The IMF and World Bank DSA of June 2023 projected debt service at 29.5% of revenues under the baseline, already above the 23% high-risk threshold. Under the combined-shock scenario the ratio reached approximately 37%. The 2026 budget records debt service equivalent to 88.8% of projected revenues. Senegal did not experience a modelled shock. It experienced a correction of the baseline itself.

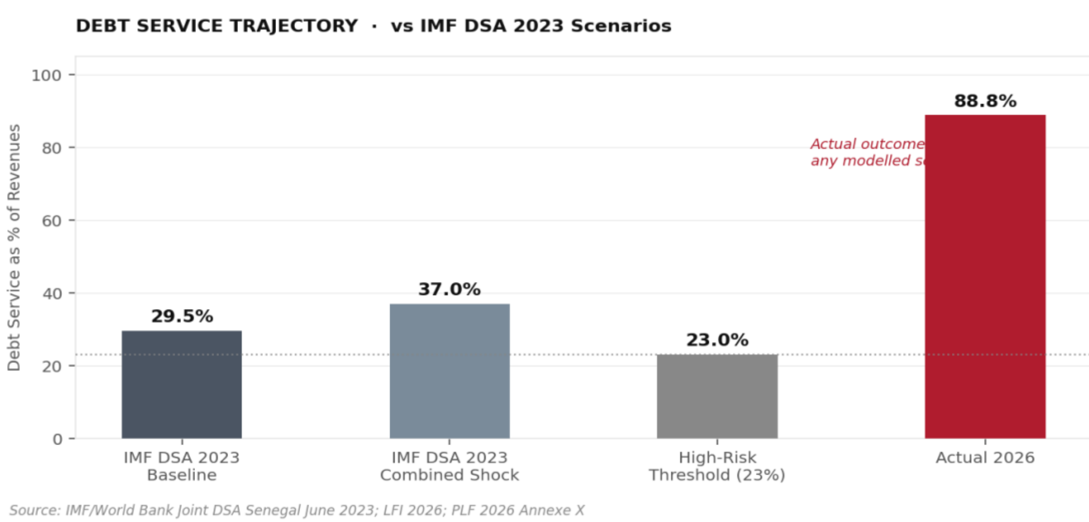

Fig. 3 · Debt service as % of revenues: IMF DSA 2023 scenarios vs 2026 actuals. Source: IMF/World Bank Joint DSA June 2023; LFI 2026.

The 2025 execution: correction is visible

The fiscal execution data for 2025 show genuine adjustment. The fiscal deficit reached 6.44% of GDP against a target of 7.82%. Total tax revenues reached 4,087.4 billion FCFA, 99.6% of target and 10.7% above the prior year. The debt-to-GDP ratio declined from 121.3% to 116.2%, principally a denominator effect as Sangomar production entered the national accounts for the first full year.

Note on Debt Perimeters

Three distinct figures apply to Senegal's debt position, each reflecting a different perimeter.

Central government only (RTEB/DPPD): 116.2% of GDP at end-2025. This is the figure used in government budget documentation.

Full public sector (IMF communique, 6 November 2025): 132% of GDP at end-2024, incorporating SOE liabilities and domestic expenditure arrears of approximately 4% of GDP pending the Inspectorate General of Finance audit.

IMF programme conditionality applies the broader 132% perimeter. The 16-point gap between the two figures represents contingent liabilities and arrears that are real obligations of the public sector even when excluded from the central government balance sheet.

Revenue quality and the PRES challenge

Headline 2026 budget figures project revenue growth of 23.4% and a fiscal-pressure ratio of 23.2% of GDP. Part of this increase reflects a reclassification: approximately 269 billion FCFA of externally financed capital receipts are classified as revenues in 2026, absent in both 2025 and 2027. Removing these lowers underlying revenue growth to approximately 18% and the fiscal-pressure ratio to roughly 20.8%, only modestly above the UEMOA convergence target of 20%.

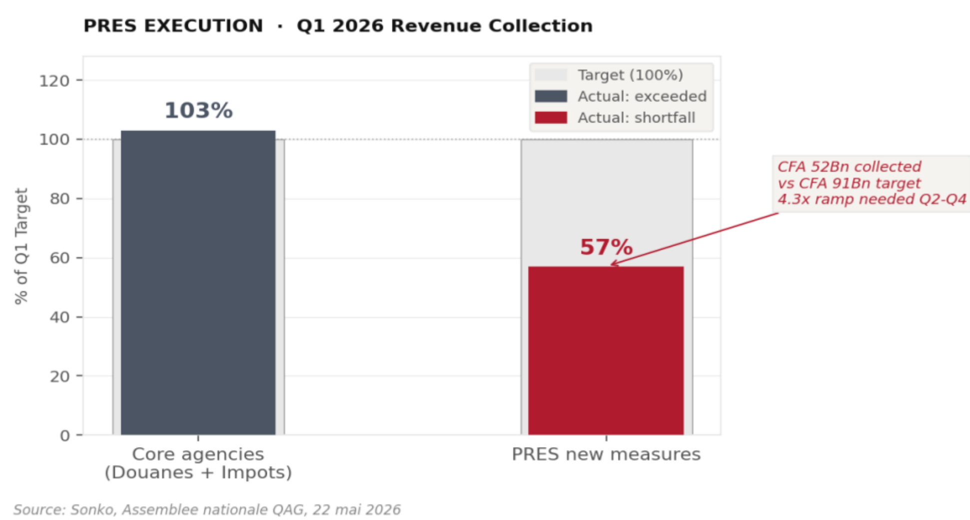

Fig. 4 · Q1 2026 revenue collection: core agencies vs PRES new measures. Source: Sonko, Assemblee nationale QAG, 22 mai 2026.

PRES generated approximately 52 billion FCFA against a quarterly target of 91 billion, equivalent to 57.1% execution. The 2026 budget incorporates 703.6 billion FCFA of PRES revenues (13% of the annual tax target), requiring a 4.3x ramp over Q2-Q4. Many PRES measures target economic activity historically outside the formal tax net; collection depends on registration, enumeration, and enforcement systems still under development. Q1 underperformance does not mechanically imply annual failure. Revenue collection in Senegal is seasonally uneven, with Q1 typically the weakest quarter. The analytical significance of the Q1 outcome is not the shortfall itself but the scale of acceleration required over the remaining three quarters a ramp that has no historical precedent in Senegalese tax administration.

III. The Political Economy of Adjustment

The fiscal adjustment required under any credible IMF programme is no longer a purely technical exercise. The constraint is not the availability of policy instruments but the distributional structure of those instruments across the economy.

The distributional structure of adjustment

In Senegal's case the adjustment burden falls disproportionately on three channels: new taxation of the informal sector, compression of the public wage bill, and reduction or pass-through of energy subsidies. Each intersects directly with the country's dominant political constituencies.

- PRES measures rely heavily on formalisation of economic activity historically outside the tax net, segments structurally sensitive to liquidity constraints and enforcement intensity.
- Wage bill compression affects a central constituency of state employment, where fiscal adjustment translates directly into household income effects.
- Energy subsidy reform transmits global price dynamics directly into domestic cost-of-living conditions.

The required measures are identifiable. The uncertainty is whether a political coalition can sustain them.

Primary-source confirmation: the subsidy pass-through blockage

In the same parliamentary session where Finance Minister Diba revealed the CFA 774 billion subsidy cost at $85 Brent, ex-Prime Minister Sonko stated: "We will do everything possible to avoid passing on price increases to the people" (Assemblee nationale QAG, 22 mai 2026).

This statement highlights the political sensitivity of subsidy reform. Egypt, Ghana, Nigeria, and Jordan all had governments publicly oppose subsidy reform before implementing it under IMF programme conditions. The relevant distinction for Senegal is that the resistance is structural, not positional: even a change in government personnel would not dissolve the underlying social demand that the statement expresses.

Sequencing risk

PRES measures, wage restraint, and subsidy reform do not have equivalent implementation speeds or political costs. Consolidation front-loaded on politically sensitive measures increases execution risk; back-loaded consolidation increases financing risk. This tension narrows the adjustment corridor: both delay and acceleration carry increasing costs.

IV. The Energy Arithmetic

The energy balance is the single most nonlinear component of Senegal's fiscal framework. Marginal changes in Brent prices have opposite effects on fiscal revenues and subsidy expenditures. This asymmetry has become the central transmission channel through which external shocks affect the budget.

The Brent pass-through asymmetry

Senegal is simultaneously a crude oil producer through Sangomar and a net importer of refined petroleum products. Finance Minister Diba's parliamentary testimony (QAG, 22 mai 2026) provides direct calibration:

- Revenue side: +CFA 1.6-1.8 billion per $1 increase in Brent
- Subsidy side: +CFA 20-21 billion per $1 increase in Brent

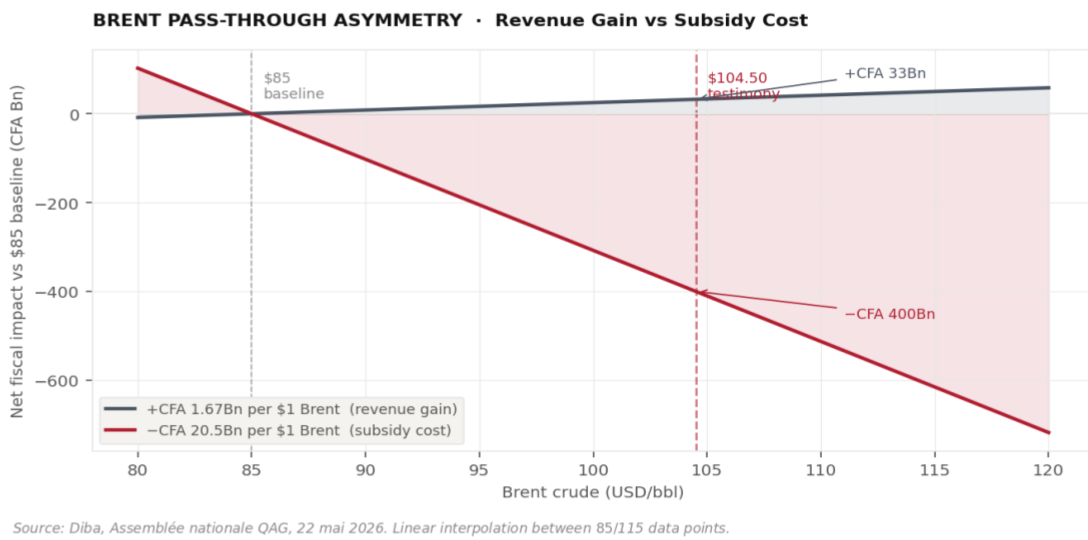

Fig. 5 · Brent pass-through asymmetry: revenue gain vs subsidy cost relative to $85 baseline. Source: Diba, Assemblee nationale QAG, 22 mai 2026.

This order-of-magnitude asymmetry (12:1 in net fiscal terms) is structural, running in opposite directions on the two sides of the same balance sheet. At Brent $104.50, the net fiscal deterioration above budget baseline was CFA 219-431 billion. The calibration relies on Minister Diba's parliamentary testimony and should be treated as an indicative estimate rather than a structural coefficient; if the underlying methodology is revised, the specific ratio may change while the directional asymmetry remains.

Active Monitoring Priority : The SENELEC forward risk

At Brent $104.50 and with subsidy costs running approximately CFA 386 billion above budget at current prices, the forward question is whether SENELEC is currently accumulating new arrears faster than the government is disbursing the subsidy line.

This is the mechanism by which the 2019-2023 hidden debt was generated. It cannot be confirmed from public sources. It is flagged here as an active monitoring priority, not an assertion.

Energy sector arrears were 99.7% cleared in 2025. GTA gas-to-power domestic offtake (targeted 2027, approx. CFA 140Bn annual savings) addresses the electricity component but not the petroleum products component, which is larger, more volatile, and scales directly with Brent.

The Yakaar-Teranga field (Kosmos, approx. 90% stake; targeted 2026-27) is the more tractable near-term domestic supply lever. Its progress is an observable for the energy cost reduction timeline.

A stabilisation fund designed to decouple hydrocarbon revenues from the budget cycle is in design but not operational. Its absence means Sangomar revenues enter the general budget and Brent price risk passes through to the subsidy line with no structural buffer.

V. The Regime Question

The central question is not which instrument Senegal will negotiate, but which constraint becomes dominant first, as this will determine both the adjustment path and the set of instruments that can credibly support it. As of 1 June 2026, Senegal is in the delay regime. No Staff-Level Agreement has been confirmed. No instrument has been selected. The June 8 IMF visit is not a negotiation about instrument preference. It is the first observable that indicates whether the system is moving toward Egypt-type resolution or remaining in the delay and Nigeria-type equilibrium.

Not all adjustment regimes are structurally available to Senegal in its current configuration. In practice, three regimes are theoretically possible.

ADJUSTMENT REGIME AVAILABILITY · Senegal · June 2026

REGIME	CONDITION OF ACCESS	SENEGAL STATUS	AVAILABILITY
External Anchor *(Egypt 2016, Kenya 2024)*	Executive legitimacy not predicated on protecting populations from the primary adjustment measures required. Assembly majority aligned.	Executive seeks programme. Assembly majority controlled by coalition whose mandate was built against this path. Ratification of LFR required.	**PARTIALLY ACCESSIBLE**
Social Compact *(Morocco 2012-14, Ghana 2022)* *(adjustment costs paired with compensatory measures)*	Subsidy reform paired with visible, named transfers. Population can see what is lost and what is received in return.	Best precedent: regime first, instrument second. Full executive authority enabled implementation. Condition not yet met.	**CONDITIONALLY ACCESSIBLE**
Sovereigntist *(Nigeria, various periods)*	Sufficient domestic mass, hydrocarbon self-financing, and refinancing capacity without IMF signal.	Not available. Too small, too exposed, insufficient domestic refinancing capacity without IMF credibility signal.	**NOT AVAILABLE**

SENEGAL · 1 June 2026 · Social compact condition not yet met · Sovereigntist path closed · External anchor partially accessible

Fig. 5.1 · Adjustment regime availability and Senegal's position as of June 2026.

External anchor regime: the executive uses an IMF programme as political cover to implement measures it cannot credibly pass alone. This requires a form of executive legitimacy based on security credibility or economic performance, rather than an explicit anti-austerity mandate.

Social compact regime: adjustment is implemented through a negotiated social floor — visible and targeted transfers that make the cost of reform politically and socially sustainable for affected groups. Morocco (2012–2014) is the closest analogue: gradual subsidy reform over several years, supported by an IMF Precautionary and Liquidity Line rather than a full programme, and anchored in explicit compensatory mechanisms preserving the social contract. The sequencing mattered: the adjustment regime was politically stabilised before the instrument was fully deployed.

Sovereignist regime: the state attempts to define and implement adjustment without a full external anchor. This is not structurally available to Senegal, given its financing constraints, exposure to external markets, and limited capacity to sustain refinancing without an IMF signalling effect.

In all cases, the instrument (PCI, ECF, SLA, restructuring) is endogenous to the regime. The relevant prior question is therefore not instrument choice, but which adjustment regime is politically and socially feasible in the first place.

THE INSTRUMENT QUESTION · Regime-Conditional Mapping

CONSTRAINT TYPE	DOMINANT REGIME	IMF INSTRUMENT	PAIN PROFILE	SENEGAL RELEVANCE
Subsidy reform politically sensitive but unavoidable	**EGYPT-TYPE** *Sequenced adjustment*	**ECF** Extended Credit Facility	**Distributed** over reviews *Gradient*	**Possible upside:** political system absorbs pass-through under IMF pressure
Debt trajectory requires credibility reset	**GHANA-TYPE** *Post-rupture anchor*	**ECF after** restructuring	**Front-loaded** step function *Market-forced*	**Tail scenario:** June-July cliff triggers market clearing failure
Full conditionality absorption blocked politically	**NIGERIA-TYPE** *Non-clearing delay*	**PCI** or partial	**Deferred** convex escalation *Highest PV cost*	**Active risk:** PRES at 57%, Sonko statement, Eurobond at 51c
External donors fill fiscal gaps domestically	**JORDAN-TYPE** *External stabilisation*	**ECF with** donor stack	**Externalised** low domestic *visibility*	**Does not apply:** no Gulf patron, no strategic external buffer

SENEGAL · 1 June 2026 · No instrument selected · Regime unresolved · Constraint ordering still endogenous · Which constraint becomes dominant first determines the instrument

Note: independent fiscal consolidation without IMF anchor is theoretically available but excluded by the 40-day financing cliff — the window does not allow the time that unilateral consolidation requires.

Fig. 6 · The instrument question: regime-conditional mapping. The instrument reveals the regime; it does not determine it. Note: independent fiscal consolidation without an IMF anchor is theoretically available but excluded by the 40-day financing cliff.

The Nigeria-type risk is already visible

The delay regime and the PCI regime are superficially similar: no direct financing, low immediate political pain. But they are structurally distinct. PCI is a chosen non-financing engagement with IMF monitoring and signalling credibility. The delay regime is the absence of any regime resolution. Senegal on 1 June 2026 is in the delay regime. It has not chosen PCI. It has not chosen anything.

Four observable signals confirm this as the current state, not a risk scenario.

First, PRES executing at 57.1% of quarterly target, requiring a 4.3x ramp over Q2-Q4 that has no historical precedent in Senegalese tax administration. This is Nigeria-type fiscal non-clearing: the adjustment instrument exists on paper; the execution capacity does not yet exist in practice.

Second, the Sonko public's to blocking the primary conditionality instrument the ECF would require, subsidy pass-through, stated on the record in a parliamentary session where the Finance Minister simultaneously confirmed the subsidy exposure. The political constraint and the fiscal constraint were quantified in the same sitting. Their incompatibility was not addressed.

Third, the market has already priced the regime. The 2031 Eurobond at 51 cents, a 30-point decline from the March benchmark, is not a liquidity discount. It is a regime discount. At 16–18% YTM, the market appears to be pricing a Nigeria-type delay regime as the central case, with a meaningful probability of a Ghana-type restructuring outcome.

Fourth, the domestic financing channel is beginning to price the same regime signal. In April and May 2026, the UEMOA regional market showed consecutive signs of stress: three OAT auctions priced above 8% on 3-year paper and subscription rates deteriorated. When both the international Eurobond market and the domestic regional market price deteriorating terms simultaneously, the financing window compresses faster than either channel alone implies. Senegal enters the June-July period needing to raise 790 billion FCFA on the regional market; 395 billion per month against a 5-month average of 291 billion at precisely the moment investor confidence in both channels is at its weakest.

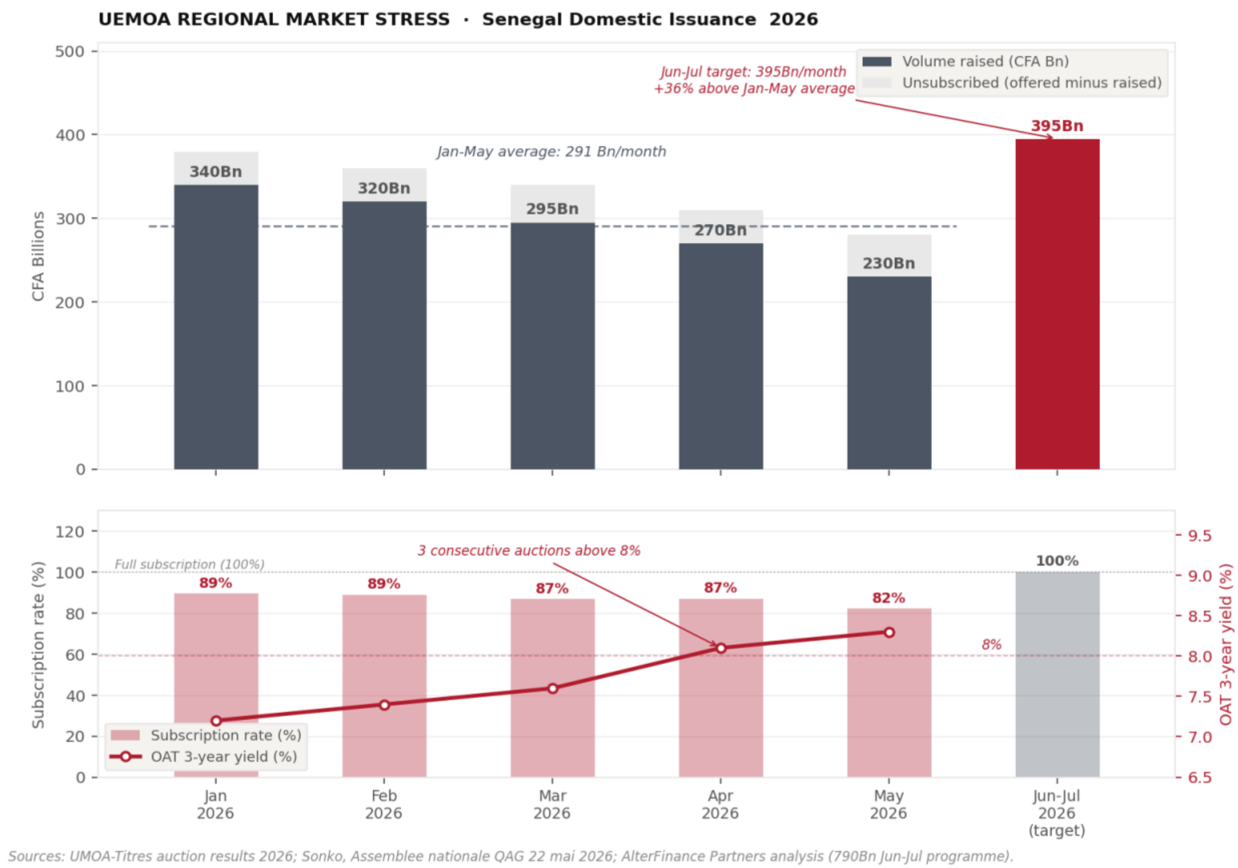

Fig. 7 · UEMOA regional market stress: Senegal domestic issuance 2026. Sources: UMOA-Titres auction results 2026; Sonko, Assemblee nationale QAG 22 mai 2026; AlterFinance Partners analysis.

These four signals are not independent. PRES underperformance tightens the fiscal constraint, the Sonko statement narrows the conditionality space, the Eurobond repricing raises the cost of the delay regime, and the UEMOA market stress closes the last available financing channel that does not require IMF programme credibility. They are mutually reinforcing indicators of a system that is, as of today, in the delay regime and moving not yet irreversibly, but directionally away from the Egypt-type convergence path.

The Ghana outcome is the endpoint of a process, not just a tail scenario

Ghana's market clearing failure did not arrive as a sudden event. It arrived as the endpoint of a delay regime that accumulated convex costs until rollover became impossible. The sequence: delay, Nigeria-type friction, Ghana-type rupture is a plausible path for Senegal if June 8 produces no SLA signal and Brent remains above the budget baseline through Q3.

The IMF institutional incentive

The IMF's incentive to engage reflect not only reputational considerations after missing 20% of GDP in hidden liabilities across four reviews. It is specifically pressure to resolve Senegal's indeterminate regime status before it tips from Egypt-type toward Ghana-type convergence. A Ghana-type outcome would represent a second consecutive surveillance failure on the same sovereign. The IMF's institutional interest in Egypt-type resolution is therefore structural, not incidental.

VI. Creditor Structure and Resolution Paths

Senegal's debt structure combines multilateral exposure, syndicated private arrangements, Eurobond instruments, and domestic financial system holdings. Each layer responds differently under stress, with no single restructuring perimeter cleanly capturing the system.

Creditor class	Approx. size	Status	Restructuring treatment
Multilaterals (IMF, World Bank, AfDB)	Not sized	Preferred creditor	Excluded from perimeter by convention
TRS counterparties (AFC + FAB)	~$1Bn equiv.	Senior to Eurobonds; legal title to collateral	Outside CAC mechanics; FAB trigger live at Caa1/CCC+
Paris Club bilaterals	Not sized	Comparable treatment required	Grace-period stretching before formal arrears
Chinese bilaterals (China Exim, ICBC)	Unquantified	Outside Paris Club; World Bank IDS recommended	Maturity extension at full principal; no established SSA restructuring precedent
Gulf bilaterals (SFD, ADFD)	Unquantified	Outside Paris Club; informal engagement	No established precedent; payment deferral typically bilateral and quiet
Eurobonds (2031, 2033, 2048)	~$3Bn equiv.	CAC-governed; subordinate to TRS	PSI haircut. BofA $40 recovery estimate overstated: ~$1Bn TRS obligations rank senior to Eurobonds. True recovery lower; not quantifiable from public sources.
UEMOA domestic CFA debt	Not sized	Ring-fence recommended	Exclusion to prevent regional contagion; requires WAEMU Council and BCEAO concurrence

The AFC Dual Role

The Africa Finance Corporation appears in two analytically distinct roles. As a TRS counterparty with preferred-creditor status, AFC creates seniority risk for Eurobond holders through legal title to collateral outside CAC mechanics.

As a preferred development finance partner, AFC is the recommended vehicle for the GTA gas-to-power transition that represents the structural solution to the energy subsidy problem. Whether the TRS collateral agreement constrains AFC's ability to deploy fresh capital into Senegalese energy infrastructure is not publicly known. The same institution is simultaneously a structural risk and a structural solution.

Tail risk: if Senegal misses a TRS payment and counterparties pursue litigation in London or New York courts, asset attachment orders could disrupt Sangomar crude oil liftings, directly reducing the revenue side of the energy arithmetic. Flagged as outside the probability model.

The Restructuring Framework: Not an Alternative Path, but a Constraint Identity

The case for pre-emptive restructuring (Ndiaye and Kessler, Boussole Strategique, Jeune Afrique, May 2026) argues for G20 Common Framework treatment, 30-40% NPV reduction on commercial and bilateral external debt, ring-fencing UEMOA bank holdings, and approximately $2 billion annual fiscal space freed. It is also, on the constraint identity, not an alternative to adjustment. It is a transformation of adjustment's distribution.

A further structural constraint applies to the restructuring path proposed by Ndiaye and Kessler that is not always made explicit: Common Framework restructuring is not an alternative to an IMF programme, but cannot proceed without one. Zambia's experience established the precedent. Under the Common Framework, restructuring negotiations proceeded in parallel with an IMF ECF and required several years to reach creditor agreement. The Ndiaye/Kessler pathway and the IMF adjustment pathway are therefore not alternative tracks between which Senegal can choose. They are sequential components of a single managed restructuring regime, in which the IMF programme functions as a necessary anchor rather than a substitute.

The Constraint Identity

Let B = debt burden, A = required fiscal adjustment, R = restructuring relief (haircut, maturity extension, coupon reduction).

A = f(B minus R), with A > 0

Restructuring reduces the debt burden. It does not eliminate the need for adjustment. What changes is its distribution: lower debt service reduces interest costs and financing needs, while creditors absorb part of the correction through losses or maturity extensions. The required fiscal adjustment becomes smaller, but not zero. The distinction is between stock and flow. Restructuring addresses the debt stock problem; fiscal adjustment addresses the fiscal flow problem. The two are complements, not substitutes.

Applied to Senegal, the Ndiaye/Kessler restructuring path and the IMF adjustment path are not alternative ways of avoiding adjustment. They are alternative ways of allocating it. The central question is not whether adjustment occurs, but how it is distributed between creditors and domestic taxpayers, consumers, and public-sector constituencies.

What the four regime analogues confirm

Egypt sequenced subsidy reform across IMF reviews: adjustment amortised gradually, distributed across time with the IMF as sequencing coordinator. The present value of the adjustment burden did not fall; its temporal profile was smoothed.

Ghana restructured: adjustment compressed into a front-loaded step function, distributed across external creditors first then domestic fiscal tightening. Three years of market exclusion were the cost of that compression. The same fiscal adjustment was ultimately required on exit.

Nigeria deferred: adjustment neither amortised nor compressed but allowed to accumulate. The delay regime is the highest total cost path in present value terms. Political visibility is lowest; economic cost is highest.

Jordan stabilised through external subsidy: adjustment burden partially transferred to external donors and strategic partners. Not a replicable path for Senegal. The pattern is identical across all four: the constraint identity holds. What differs is the distribution function.

Executability

Restructuring as proposed would reduce Senegal's external debt stock, lower the interest burden, and potentially restore market access faster than the delay regime allows. These are real benefits. But restructuring concentrates political pain at the moment of announcement and negotiation. The timing of that pain concentration, relative to the current political configuration, is a matter of record: the Sonko statement on subsidy pass-through was made on 22 May 2026; the Eurobond repricing to 51 cents occurred in the same week; PRES Q1 execution stood at 57.1% of target. These are the observable coordinates of the political system at the moment restructuring would need to be initiated.

The constraint identity does not adjudicate between the ECF path and the restructuring path. It establishes that both carry the same total adjustment burden, distributed differently across time, creditors, and domestic actors. The executability question is therefore not whether restructuring reduces the burden; it does not; but whether the current political configuration can absorb front-loaded restructuring pain better than gradually sequenced ECF conditionality. A restructuring path that concentrates its maximum political pain at the moment of initiation is being proposed into a political system that has not yet demonstrated the capacity to absorb the lighter of the two adjustment profiles: PRES executing at 57.1% of target, subsidy pass-through publicly blocked, and the Eurobond market repriced to 51 cents are the observable coordinates of that capacity as of June 2026.

VII. An Illustrative Probability Framework

The Central Question

The term "deal" risks overstating the importance of a formal IMF agreement. Senegal's challenge is not negotiating a programme, but establishing a politically sustainable adjustment framework capable of restoring external financing and avoiding sovereign default during the 2026–28 window.

An IMF agreement may be part of that framework, but it is not identical to it. The key question is whether an adjustment regime can emerge with sufficient political support to implement the measures required for fiscal and external stabilisation.

Across all plausible paths ECF, PCI, restructuring, Paris Club, or hybrids the same fiscal arithmetic applies. None removes the need for adjustment. The uncertainty is therefore political: whether adjustment costs can be sustained in a way that is both economically credible and politically feasible.

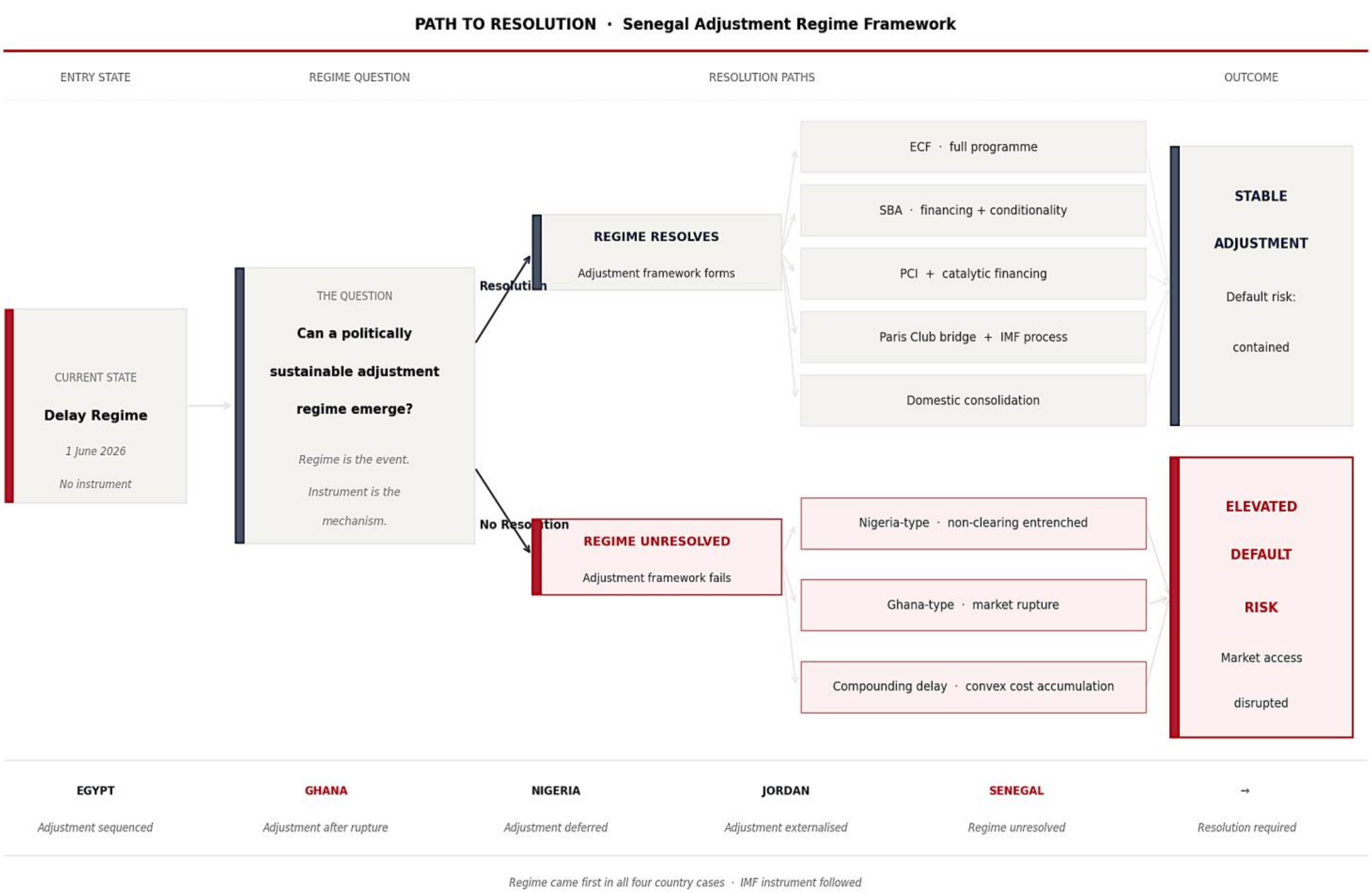

Fig. 8 · Path to resolution: Senegal adjustment regime framework. The instrument is the mechanism; the regime is the event.

What the illustrative probability represents

P(Resolution), the probability of successful adjustment regime formation by H2 2026, is presented as a structural judgment rather than a calibrated model output. Senegal appears roughly half Ghana-type and one-third Nigeria-type in its observable adjustment dynamics, with a residual Egypt-type upside and a weak Jordan-type element. The key question is not the implied number, but whether the underlying distribution is correctly specified, based on the evidence in Sections III to V.

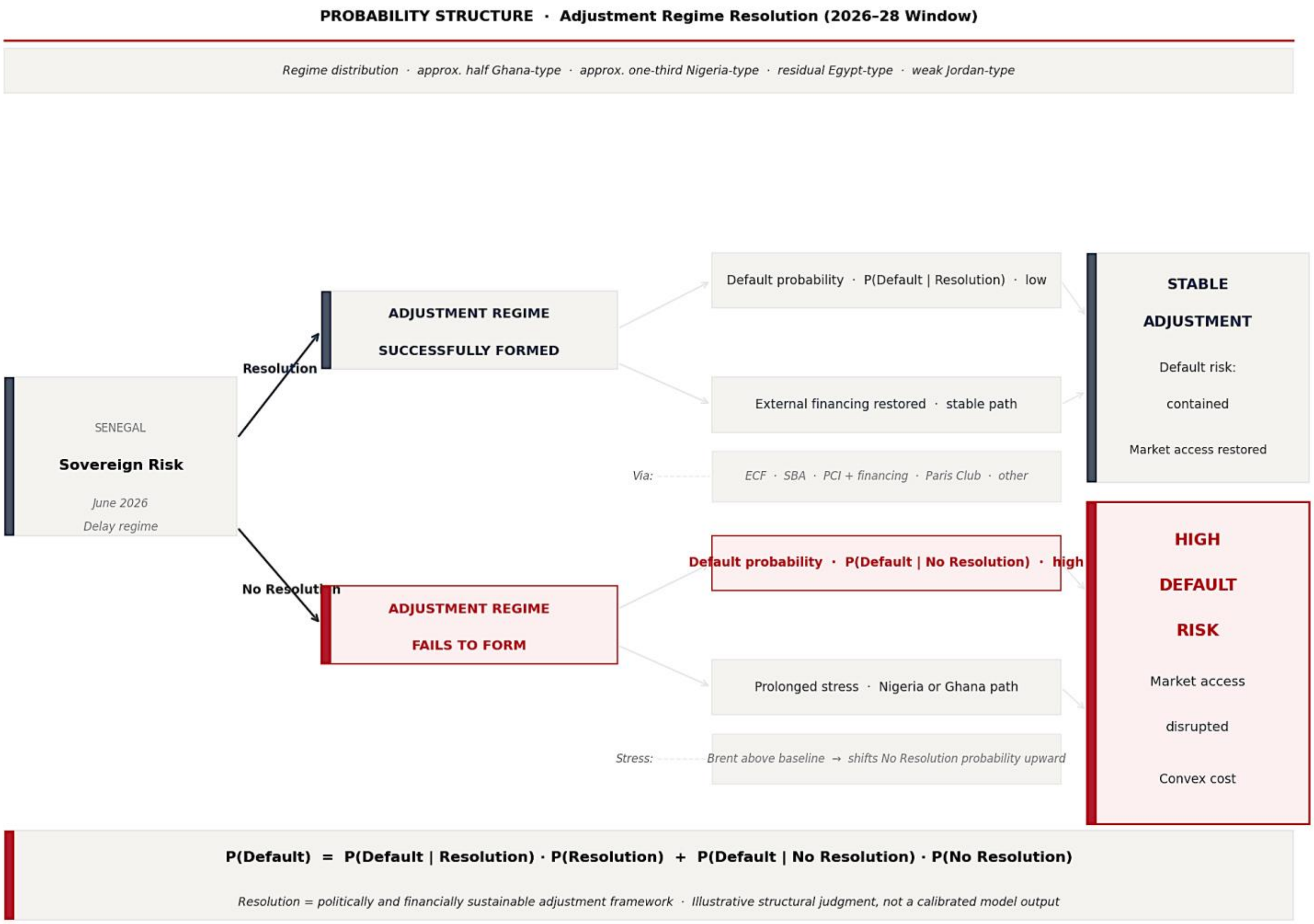

Fig. 9 · Probability structure: adjustment regime resolution (2026-28 window). Illustrative structural judgment, not a calibrated model output.

The CCC+ static pool context

Terminal Distribution: CCC+ Is Not a Stable State

S&P Annual Sovereign Default Study 2024 (n=16, original-to-last matrix): 43.75% ultimately recovered to a higher rating; 37.50% ultimately defaulted; 18.75% downgraded or unresolved at study cutoff. Recovery is more probable than default as the terminal outcome.

Senegal entered the CCC/CC static pool on 29 October 2024. Year 1 ended October 2025: survived. The front-loaded default risk is concentrated in year 1 (29.71% of FC CCC/CC defaults occur then). That threshold has been cleared. Incremental default risk over 2026-28 is approximately 13-18% additional.

The FCFA anchor reduces the LC-FC CCC+ gap by 9.81-24.61pp (derived from S&P 50-year transition data). This is the single most important structural protective factor in the investment case.

The Correlated Risks

The probability structure assumes statistical independence between P(Resolution) and P(Default | No Resolution), treating political blockage and the energy price shock as uncorrelated. They are not. Both share a common root in the original debt trap.

Higher Brent simultaneously lowers P(Resolution) by intensifying the subsidy pass-through conflict, and raises P(Default | No Resolution) by widening the no-resolution deficit trajectory. These drivers move together. Under the regime framework this correlation is structural: both P(Resolution) declining and P(Default | No Resolution) rising are expressions of the same underlying shift in regime probability.

The stated range should be read as a lower bound on the true uncertainty envelope, not a symmetric confidence interval.

VIII. Investment Implications

Senegal is not a traditional credit where price reflects steady-state probability of repayment. It is a transition economy in credit space, where value is a function of coordination speed, liquidity sequencing, and policy credibility timing. Positioning is fundamentally a view on regime resolution, not terminal solvency.

Eurobond price trajectory

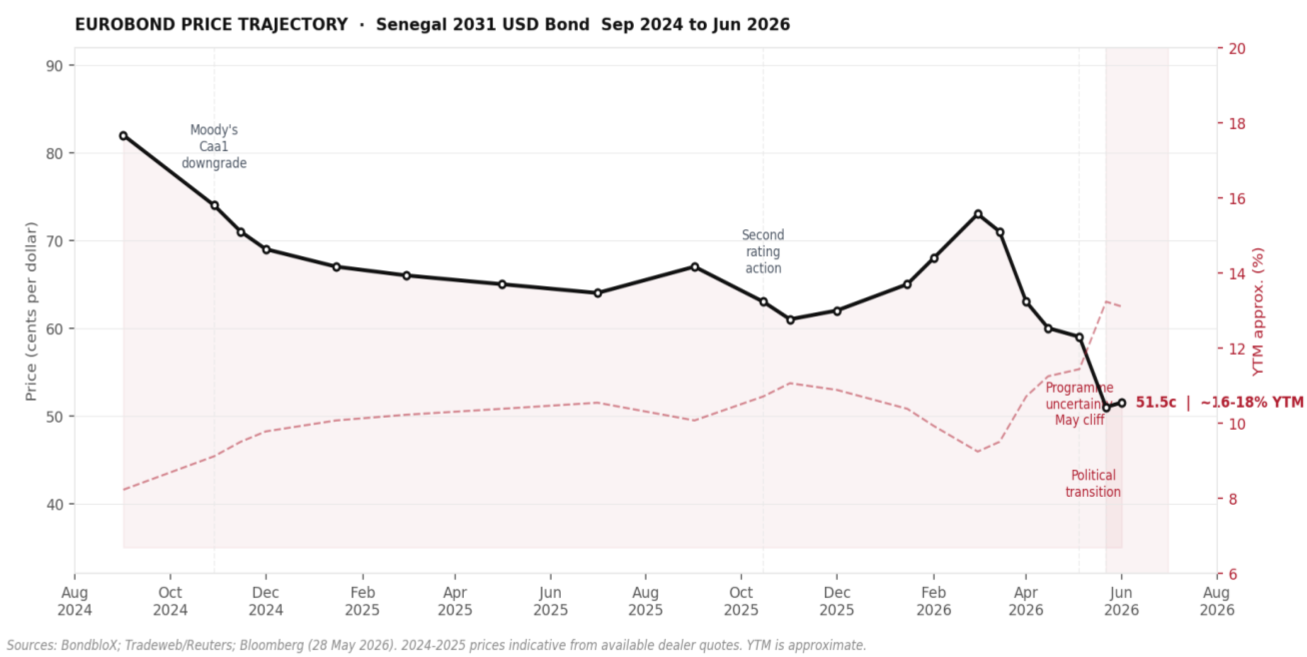

Fig. 10 · Eurobond price trajectory: Senegal 2031 USD bond, Sep 2024 to Jun 2026. Four external drivers annotated. Sources: BondbloX; Tradeweb/Reuters; Bloomberg (28 May 2026). 2024-2025 prices indicative from available dealer quotes.

The full repricing episodes from September 2024 to June 2026 tells the structural story in a single visual. The first Moody's downgrade to Caa1 (October 2024) triggered the initial repricing from 82 cents to 74. A brief stabilisation through 2025 was interrupted by the second rating action (October 2025). A mild recovery through Q1 2026 reversed sharply on programme uncertainty and the May maturity cliff, then accelerated on the political transition from 25 May. At 51 cents and 16-18% YTM, the market is not pricing a bad negotiation outcome. It is pricing the probability that no regime resolution occurs before the financing constraint becomes binding.

Financing cliff

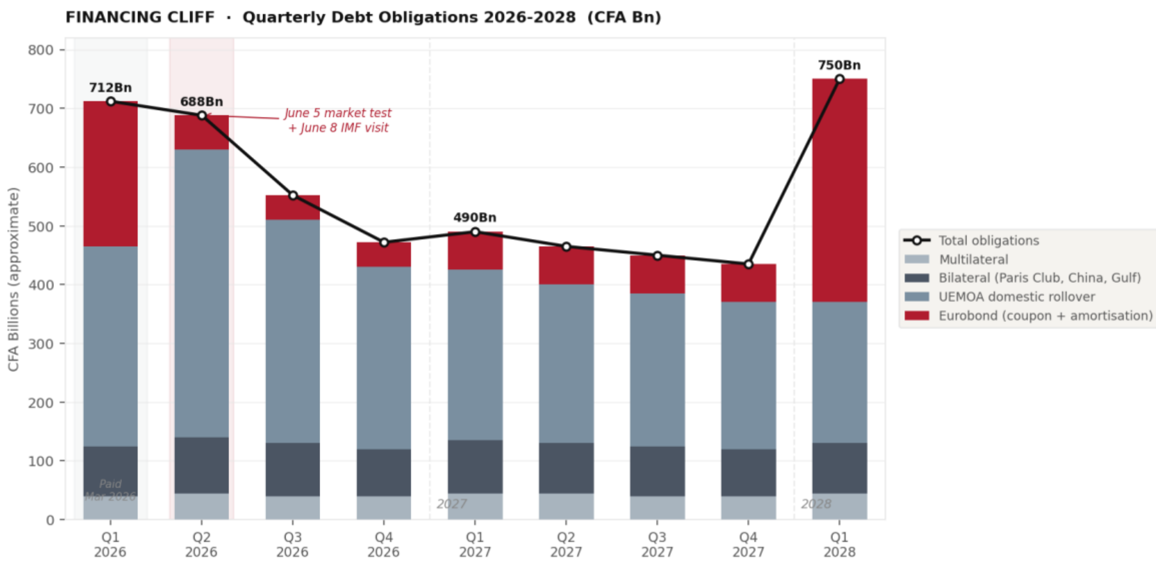

Fig. 11 · Financing cliff: quarterly debt obligations 2026-2028 (CFA Bn approximate). Sources: PLF 2026 Annexe X; Bloomberg coupon schedule; UMOA-Titres programme June 2026; AlterFinance Partners estimates. Bilateral figures indicative; Chinese/Gulf debt not fully quantified.

The financing cliff chart shows what the delay regime costs in structural terms. Q1 2026 Eurobond obligations were met (confirmed paid, Bloomberg March 2026). Q2 2026 is the critical window: the UEMOA domestic rollover dominates at 490 billion FCFA, with June coupons adding approximately 58 billion Eurobond exposure. The total quarterly obligation stack peaks in Q2 2026 and again in Q1 2028 when the next Eurobond amortisation arrives. Every quarter of delay in regime resolution adds to the rollover burden at deteriorating terms.

The observable hierarchy

- Most immediate: June 5 domestic market test. Senegal is scheduled to seek 60 billion FCFA on the UMOA-Titres market on 5 June, of which 40 billion in 3 and 5-year OAT. Three consecutive prior auctions priced above 8% on 3-year paper. The subscription rate and clearing yield on June 5 is the first observable data point on whether domestic investors are pricing the delay regime at further deteriorating terms. It lands before the June 8 IMF visit and before any SLA signal. A failed or heavily discounted auction on June 5 materially worsens the financing position going into the IMF visit.
- Primary: IMF Staff-Level Agreement confirmed before 30 June. A confirmed SLA is the first observable that the system is moving toward resolution. Eurobond component of the June-July cliff: EUR 53.75M coupon on 2037 euro bonds on 8 June; $38.75M on 2031 dollar bonds shortly after (Bloomberg, 28 May 2026).
- Secondary: Full Q1 2026 fiscal data (DPEE quarterly conjuncture note, June 2026). Q1 at 21.2% of tax target, 3.8pp below the 25% threshold. Q2-Q4 PRES execution pace is the calibration signal for whether Nigeria-type non-clearing is becoming entrenched.
- Tertiary: Bilateral creditor engagement across the full creditor universe, Paris Club grace-period management alongside Chinese bilateral debt service discussions (China Exim Bank, ICBC) and Gulf bilateral accommodation (Saudi Fund for Development, Abu Dhabi Fund for Development) before formal arrears accumulate across any creditor class.

Investor Perspectives

The carry-risk profile differs materially by investor type. For a long-only fund operating under investment-grade or BB-floor mandates, current pricing is outside the investable universe regardless of the analytical view. For a distressed or special situations investor, returns are driven primarily by regime resolution rather than by carry alone and regime resolution is a political economy question before it is a financial one.

IX. Reusable Framework

The March 2026 benchmark established two diagnostic principles: first, that corrective signals are often weakened precisely when they are most needed; and second, that the relevant question is not whether debt can be serviced, but what is displaced in the process. Applied to Senegal, those principles reframed a solvency question as a structural one. The June 2026 update extends the framework across four dimensions that generalise beyond Senegal's specific circumstances.

First: the regime-resolution framework. The central question is not which IMF instrument is selected, but which constraint becomes dominant first. Different adjustment regimes tend to be associated with different instruments: Egypt-type systems with sequenced ECF arrangements, Ghana-type systems with post-restructuring stabilisation, Nigeria-type systems with prolonged non-financing engagement, and Jordan-type systems with externally supported adjustment. The instrument reflects the underlying regime more than it determines it. This framework applies to frontier sovereigns facing simultaneous fiscal rigidity, liquidity concentration, and politically constrained adjustment capacity.

Second: the constraint identity. Restructuring and adjustment are complements, not substitutes. The underlying adjustment requirement remains broadly invariant across resolution paths. Restructuring addresses the debt stock; fiscal adjustment addresses the fiscal flow. What differs is the distribution of the burden across time, creditors, and domestic actors. The question is not whether adjustment occurs, but how it is allocated and whether that allocation is politically executable.

Third: structural versus positional political resistance. Political resistance to adjustment is not always reducible to the preferences of individual leaders. Where adjustment measures directly affect household living costs, opposition may reflect broader political constraints that persist across changes in personnel. This distinction helps determine whether a delay regime is transitional or self-reinforcing, particularly where subsidy reform is a central component of adjustment.

Fourth: political executability. Fiscal rigidity, liquidity timing, and external coordination capacity remain the core determinants of sovereign outcomes. The Senegal case suggests a fourth diagnostic variable: whether the costs of adjustment can be politically sustained before financing constraints become binding. A programme that lacks sufficient political support may be economically coherent yet difficult to implement in practice.

Across frontier sovereigns, solvency metrics explain direction, liquidity explains timing, and regime formation explains the form of resolution. The delay regime is often the highest-cost path because its costs accumulate before they are recognised. That insight is not unique to Senegal. It is a broader feature of sovereign adjustment dynamics.

X. Methodology and Sources

Probability framework

The probability estimates in this analysis are structured expert judgments, not model-derived probabilities. They draw on empirical evidence from S&P's sovereign default transition data (1975–2024) and the regime-weight assessment developed in Section VII. Event horizon: all default probabilities refer to the cumulative probability of a sovereign payment default or distressed debt exchange during the 2026–28 decision window, corresponding to years 2–4 of the CCC+ static pool entered in October 2024.

Model scope limitations

- FCFA exit risk is excluded from the probability framework.
- Chinese and Gulf bilateral debt remain incompletely quantified; total public-sector liabilities may therefore be understated.
- Residual disclosure risk remains following the 2019–23 hidden-debt audit. This is treated as a 2–4 percentage point upward overlay to the stated default probability range.
- Default probabilities are not disaggregated by resolution path; P(Default | Resolution) is treated as uniform across ECF, PCI, restructuring, and hybrid scenarios.
- Conditional independence between political and energy-related non-resolution drivers is a modelling simplification. In practice, these factors are likely correlated, implying a wider uncertainty range than stated.

Debt perimeters

Central government (RTEB/DPPD): 116.2% of GDP (end-2025). Full public sector (IMF communiqué, 6 November 2025): 132% of GDP (end-2024), including SOE liabilities and domestic expenditure arrears. IMF programme conditionality uses the broader perimeter. Debt service (LFI 2026): 5,499bn CFA = 88.8% of total revenues / 102% of fiscal revenues. Interest payments: 1,191bn CFA = 22.1% of fiscal revenues. Health Ministry allocation: 217bn CFA; interest-to-health ratio: 5.5x.

Primary sources

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Analytical literature

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Benchmark: Lamine Gueye, 'When Finance Devours the Economy,' March 2026. Conflicts disclosure: the author held no position in Senegalese sovereign instruments at the time of publication.

Note on diagnostic language: *This analysis uses framing developed in the March 2026 benchmark. The terms used describe structural relationships and analytical findings, not policy prescriptions. A sovereign default would not reallocate interest payments toward health expenditure; it would instead result in financial dislocation and a contraction in both fiscal space and social spending capacity.*

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