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When Finance Devours the Economy

Senegal's Fiscal Trap: Structural Diagnosis, Probability Architecture, and Investment Implications

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Abstract

Senegal is rated CCC+ by S&P Global Ratings, one notch above selective default. Its programme with the International Monetary Fund has been suspended since July 2024. Its 2031 Eurobonds trade at $73 and its 2048 paper at $60. Ghana's bonds were trading below 40 cents before its 2022 default. Zambia's were at comparable distressed levels before its 2020 restructuring. At equivalent fiscal stress, the market is assigning Senegal materially higher prices than it assigned those peers.

That gap is not an anomaly. It reflects a clear structural assumption underlying Senegal's bond prices, one that can be derived precisely, and one whose validity depends on a single observable due this quarter.

I. The Diagnostic Framework

Senegal's situation is not isolated. IMF Working Paper 2023/079 notes that approximately 60% of low-income countries are stressed: 12 are in external debt distress and 28 are at high risk. The paper warns that the symptoms characterising the mid-1990s debt crisis are beginning to resurface, and raises the prospect of a second-generation HIPC-type solution. Senegal is the most analytically tractable case within this broader pattern: its fiscal structure is transparent enough, its monetary framework distinctive enough, and its data verified enough to make the probability architecture precise. Two principles explain both how it arrived here and how the broader pattern unfolds.

The first: when debt creation decouples from wealth creation, financial claims accumulate faster than the productive capacity required to service them. The correction, when forced, destroys excess claims; it does not create new wealth. For Senegal, approximately 3,983 billion FCFA in external loans were contracted between 2019 and 2023 without formal declaration. The official debt-to-GDP ratio of 74% at end-2023 concealed a true ratio of 99%, confirmed by the Cour des Comptes forensic audit. The corrective signals market repricing, IMF conditionality, legislative scrutiny were disabled precisely when they should have operated. By the time the pyramid became visible, the structure was already past the point of painless correction.

The second: wealth is created through productive specialisation and voluntary exchange. Finance is legitimate when it bridges productive capacity to market access. It becomes destructive when it substitutes for productive activity. The diagnostic test is simple: look at the budget. When a state's interest bill exceeds its entire health budget by a factor of 4.3, the state has ceased to be an engine of productive specialisation and become an instrument of financial extraction.

> **The Diagnostic Unit**
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> Principle 1 tells you where the trajectory ends: a forced correction that destroys excess claims. Principle 2 tells you what the correction costs: every year of debt service crowding out productive investment is a year of foregone comparative advantage that takes a decade to rebuild.
>
> Applied together, they 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

Senegal's 2026 budget is the most efficient single document for understanding what the first principle looks like in practice. Total debt service is 5,519 billion FCFA, representing 52% of state revenues and 3.7 times the IMF's 14% high-risk threshold. Interest and commissions alone are 1,190.6 billion FCFA, representing 20.7% of internal budget revenues of 5,740 billion FCFA. Before a single teacher is paid or a single road is maintained, one fifth of all domestically-generated revenue has been irreversibly transferred to creditors.

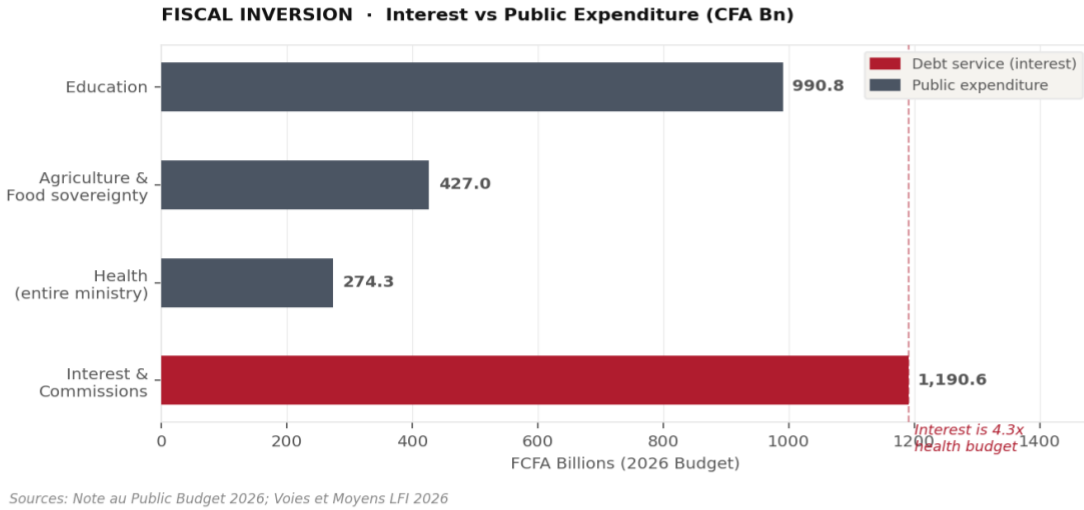

Fig. 1 · Fiscal inversion: interest vs public expenditure (CFA Bn). Sources: Note au Public Budget 2026; Voies et Moyens LFI 2026.

Expenditure	Mds FCFA	Share of spending	Against debt interest
Interest & commissions	1,190.6	16.6%	Baseline: 20.7% of internal revenues
Health (entire ministry)	274.3	3.8%	Interest is 4.3x the health budget
Agriculture & food sovereignty	427.0	5.9%	Interest is 2.8x the agriculture budget
Education	990.8	13.8%	Interest is 1.2x the education budget
Total rigid pre-committed	~2,723	~38%	Before one discretionary franc is spent

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

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, but with a critical caveat: the realisation of the median observed shock not a tail event, but the median was expected to result in a downgrade to high risk.

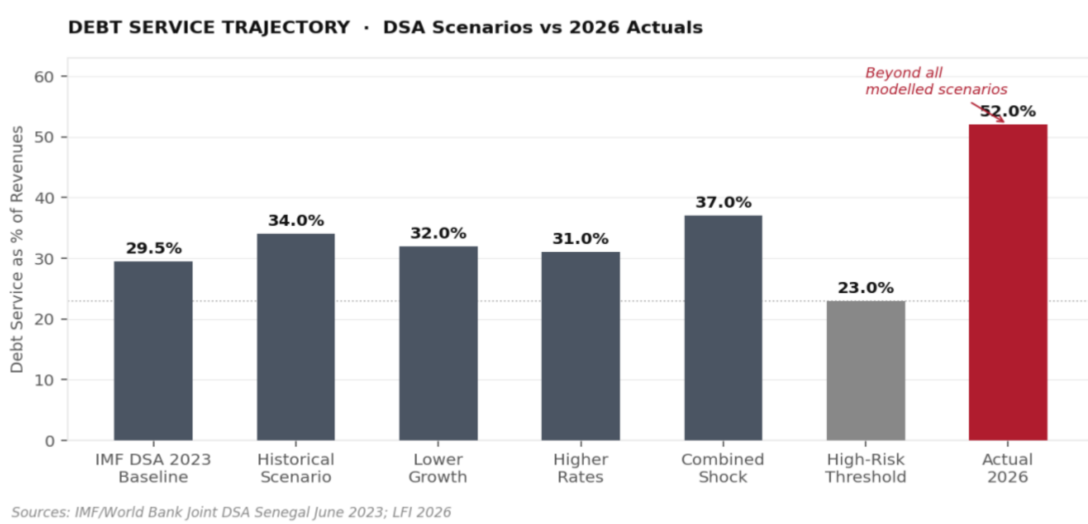

Fig. 2 · Debt service trajectory: DSA 2023 scenarios vs 2026 actuals. Sources: IMF/World Bank Joint DSA June 2023; LFI 2026.

How far the trajectory has moved

In June 2023, the IMF and World Bank projected Senegal's debt service at 29.5% of revenues under the baseline, already above their 23% high-risk threshold. The sensitivity table showed: historical scenario 34%, lower growth 32%, higher rates 31%, combined shock 37%.

The 2026 budget shows 52%: 15 percentage points worse than the combined shock scenario. On the debt stock measure, the combined shock scenario produced PV debt to GDP of 85%. The actual 2024 figure is 119-132%, between 34 and 47 percentage points above the IMF's most adverse scenario.

Senegal did not suffer a modelled shock. It suffered a baseline correction that placed the actual trajectory beyond what any DSA scenario contemplated.

Revenue quality adjustments

Two revenue quality issues compound the picture. The Voies et Moyens document (line 7199) shows 269 billion FCFA of externally-financed fiscal receipts reclassified as revenues in 2026, zero in 2025 and zero again in 2027. Strip it out and underlying revenue growth falls from 23.4% to approximately 18%, putting the fiscal pressure rate at 20.8% of GDP, barely above the UEMOA 20% threshold.

The Revenue Quality Adjustment

Headline: revenues +23.4%, fiscal pressure 23.2% of GDP.

Adjusted (removing 269Mds one-time reclassification, line 7199 Voies et Moyens): revenues +18%, fiscal pressure approximately 20.8%, a margin of 0.8pp above the UEMOA convergence ceiling, not 3.2pp.

The difference matters for any IMF programme conditionality discussion anchoring targets to fiscal pressure ratios.

The Sangomar factor

Sangomar, the supposed transformative asset, generates approximately 57 billion FCFA in budgeted state oil revenue already incorporated into the fiscal plan. At $91/bbl (March 2026 benchmark), the analysis calculates approximately 456 billion FCFA in incremental fiscal receipts above what was planned. This covers 8.3% of total 2026 debt service beyond what was already expected. It is real and welcome at the margin of near-term refinancing needs. It does not alter the structural arithmetic.

III. The Probability Architecture

The scenario probabilities (Reform 35-45%, Impasse 35-45%, Default 15-25%) are not arbitrary. The one-year default probability range of 15-25% is broadly consistent with S&P primary source data: the FC CCC+ specific empirical rate of 16.10% (1975-2024) and the EM/FM CCC/CC rate of 31.52% for Senegal's regional peer group. The conditional decomposition explains why the number is not 50-60%, the level implied by Ghana, Zambia, and Congo-Brazzaville at equivalent fiscal stress.

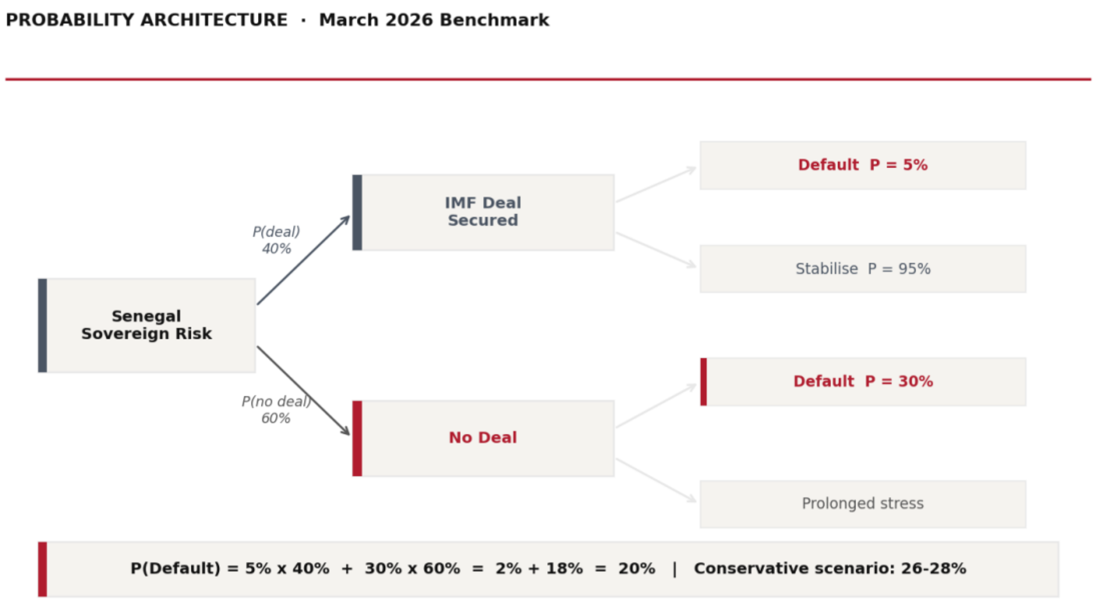

Fig. 3 · Probability architecture: conditional decomposition. P(Default) = 5% x 40% + 30% x 60% = 20%. Sources: S&P 2024; IMF/WB DSA June 2023.

The Algebra: What Is Exact and What Is Estimated

P(Default) = P(Default | deal) x P(deal) + P(Default | no deal) x P(no deal) = 5% x 40% + 30% x 60% = 2% + 18% = 20%.

The algebra is not a model. It is a mathematical identity: given the three inputs, 20% follows with certainty.

P(Default|no deal) = 30% is the most robustly grounded, sitting between the S&P FC CCC+ rate (16.1%) and the EM/FM rate (31.5%). P(deal) = 40% is consistent with SSA historical reinstatement rates. P(Default|deal) = 5% is grounded in the Kenya 2024 precedent and the post-2000 institutional record. It is a defensible analytical judgment, not a measured frequency.

Three structural factors keep Senegal at CCC+, not lower

First, FCFA monetary union membership eliminates the foreign exchange reserve depletion dynamic that accelerated defaults elsewhere. S&P's transition matrices confirm this: LC CCC+ sovereigns default at 6.29% annually versus 16.10% for FC, a measured gap of 9.81 percentage points derived from 50 years of primary source data. Ghana's cedi depreciated 30% in 2022; Zambia's kwacha fell 25% before default. Senegal cannot experience this dynamic.

Second, the approximately 456 billion FCFA Sangomar unbudgeted windfall at $91/bbl provides real liquidity at the margin of near-term refinancing needs, even if it cannot close the structural gap.

Third, the post-Cour des Comptes transparency regime changes the creditor dynamic: unlike Zambia, where Chinese bilateral exposure was opaque for years, Senegal's creditors now operate with accurate information, reducing the holdout risk that extended Zambia's resolution timeline.

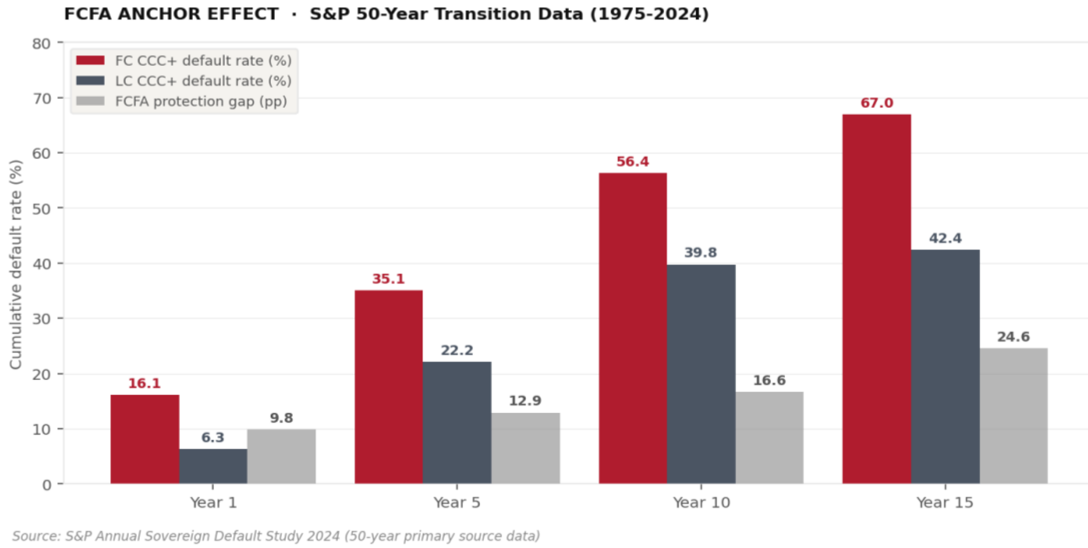

Fig. 4 · FCFA anchor effect: S&P 50-year transition data (1975-2024). FC vs LC CCC+ cumulative default rates and FCFA protection gap.

The Reform Scenario Is the Empirical Modal Outcome

S&P's original-to-last transition matrix shows that of 16 sovereigns ever first rated CCC+: 43.75% ultimately recovered to a higher rating. 37.50% ultimately defaulted. Recovery is more probable than default as the terminal outcome.

For LC CCC+ sovereigns, Senegal's structural equivalent, upgrade is the single most likely 3-year outcome (53.24% upgrade, 14.32% default). The Reform and Stabilisation scenario is not the optimistic case. It is what the data says happens most often.

Regional default rate context

Region	Year-1 CCC/CC	Year-5 CCC/CC	Year-15 CCC/CC	Relevance to Senegal
EM/FM (primary)	31.52%	54.09%	81.37%	Senegal's peer group: primary benchmark
Global	29.71%	48.21%	67.57%	Secondary reference: understates EM risk
Latin America	35.69%	72.02%	97.15%	Tail risk context: NML Capital and HIPC parallel

Source: S&P 2024 regional cumulative default rate tables. EM/FM is the correct primary benchmark for all Senegal comparisons.

Under a conservative scenario applying only the FCFA protection and rejecting the Sangomar and transparency factors, the estimate rises to approximately 26%, the disclosure ceiling. The difference between 20% and 26% is the quantified value of the Sangomar buffer and post-audit transparency effect, two factors whose existence is not disputed but whose precise magnitude is uncertain.

IV. Investment Implications

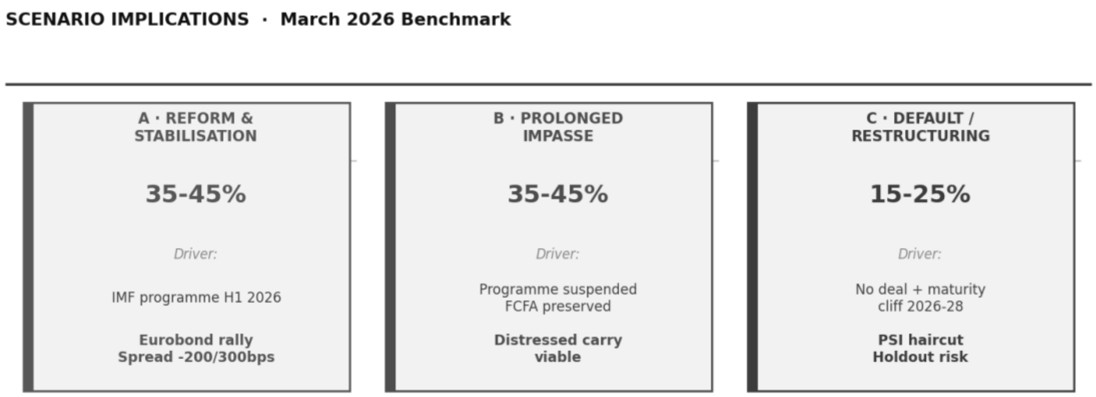

Fig. 5 · Scenario implications by investor profile. Source: benchmark analysis March 2026. Empirical anchors: S&P Sovereign Default Study 2024.

What the Eurobond pricing tells you

Senegal's 2031 Eurobonds at $73 and 2048 paper at $60 are consistent with a prolonged impasse as the modal outcome: not default, not orderly resolution, but a sustained period of punitive refinancing spreads and constrained market access. For a distressed EM credit investor, the carry at these levels is material if the FCFA anchor holds and the maturity cliff is navigated without a formal default event. For a long-only EM sovereign fund, the CCC+ rating and IMF suspension are categorical exclusions regardless of price.

The single near-term signal

Everything in the probability structure depends on one observable: the T1 2026 revenue target, collecting 25% of annual internal revenues in the first quarter as a fiscal credibility signal to the IMF. If the target is met and negotiations advance toward a programme in H1 2026, the 5% conditional dominates and Eurobonds reprice significantly. If the target is missed or the political divergence prevents a unified IMF stance, the 30% conditional applies to an increasingly compressed timeline as 2026-28 Eurobond maturities approach.

> **Senegal Has Already Survived the Highest-Risk Year**
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> The 2024 CCC/CC static pool comprised 8 sovereigns. One defaulted (12.50%). Senegal survived. The S&P survival curve is front-loaded: 29.71% of FC CCC/CC defaults occur in year 1, the highest single-year rate.
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> Having cleared that threshold, the incremental default risk over the 2026-28 maturity cliff (years 2 through 4) is approximately 13-18% additional, not the full first-year rate. An IMF programme in 2026 does not need to eliminate default risk entirely. It needs to navigate Senegal past the acute year-1 rate and into the sharply lower marginal rates of years 2-5.
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> That is the precise empirical weight of the T1 revenue target.

The oil shock: net marginally negative

The March 2026 oil shock (Brent $71 pre-shock, intraday peak $119.50, stabilised at $103) is net marginally negative for this probability structure. The positive channel, approximately 456 billion FCFA in unbudgeted Sangomar surplus at $91/bbl, covers only 8.3% of debt service. The negative channels are larger: Hormuz transit collapsed 90-92% (Kpler AIS), VLCC freight rates hit an all-time record of $423,736 per day, fertiliser prices rose 25-35% threatening the 2026/27 harvest, and EM sovereign spreads widened sharply. More consequentially, the conflict increases the urgency of an IMF deal while potentially delaying it, as IEA and G7 response frameworks absorb multilateral bandwidth. The oil shock does not change the scenario probabilities materially. It sharpens the binary.

Structural complications in the default scenario

The Default / Restructuring scenario carries two structural complications absent from prior LIC debt cycles. First, IMF Working Paper 2023/079 identifies coordination challenges from non-Paris Club creditors, private creditors, and complex debt instruments as the primary obstacle to efficient debt treatment. For Senegal, whose Eurobonds are governed by English and New York law and dispersed among many institutional holders, this creates holdout creditor risk: a creditor who refuses a restructuring and pursues full repayment in court, on the model of the Argentina precedent, where one creditor spent 13 years litigating against the sovereign rather than accepting the restructured terms. Second, the paper raises the prospect of a second-generation HIPC-type initiative for the broader LIC debt cohort, a process that, if it materialises, would extend resolution timelines significantly and alter the creditor negotiating environment for all sovereigns in the distressed category simultaneously.

V. The Reusable Framework

The diagnostic power of these two principles extends well beyond Senegal. Any sovereign where debt service has decoupled from productive investment, where the budget has become a map of extraction rather than an enabling instrument, is replicating this structural trajectory. The indicators to watch:

- Debt service/internal revenues above 20% (interest only)
- A financing gap in the 10-15% of GDP range
- A hidden debt revelation that resets the political economy
- A commodity revenue narrative that papers over structural fiscal deterioration

When all four are present, the only variable that matters is whether a multilateral anchor is in place. Without one, the conditional default probability is not 15-25%. It is 30%, structurally derived, and rising as each maturity approaches without resolution.

The measure of a financial system is not the volume of claims it produces, but the productive capacity it enables. When a state's interest bill exceeds its health budget by a factor of four, the issue is no longer simply fiscal; the state has ceased to perform its primary economic function. Correcting this inversion, in Senegal and across other emerging markets that have followed the same trajectory, is not a technical adjustment. It requires a structural reconstitution of the relationship between finance and the real economy, restoring finance to its proper role as a sustainer rather than a predator.

A final structural observation: CCC+ is not a stable state. S&P's data shows that no sovereign has remained at CCC+ after 15 years. Every CCC+ sovereign in the historical record resolved its situation within a decade, either through recovery or default. The 2026-28 window is therefore not merely a liquidity test. It is the empirically defined period within which the trajectory is decided.

VI. Probability Methodology & Data

Scenario probabilities

S&P Annual Sovereign Default and Rating Transition Study 2024 (coverage 1975-2024 FC; 1993-2024 LC): FC CCC+ 1-yr empirical rate 16.10%; LC CCC+ 1-yr rate 6.29%; LC CCC+ 1-yr survival rate 5.76%; EM/FM CCC/CC 1-yr rate 31.52%; CCC+ lifetime default 37.50%, lifetime recovery 43.75% (original-to-last matrix, n=16); FCFA gap at year 1: 9.81pp.

Conditional decomposition

P(deal) = 40% (Scenario A midpoint, March 2026 benchmark; conservative relative to SSA historical reinstatement rates of 50-67%, adjusted for political divergence). P(Default | deal) = 5% (Kenya 2024 SBA precedent and post-2000 institutional record; analytical estimate, not primary-table verified). P(Default | no deal) = 30% (between FC CCC+ rate 16.1% and EM/FM rate 31.5%, reflecting FCFA insulation). Conservative scenario: 26-28%.

Primary data sources

IMF/World Bank Joint DSA Senegal June 2023 · IMF Working Paper WP/2023/079 · Note au Public Budget 2026 · Voies et Moyens LFI 2026 · Cour des Comptes Senegal 2024 · S&P Global Ratings November 2025 · Moody's 2024-2025 · IMF programme suspension July 2024; Communique November 2025 · EIA STEO March 10 2026 · Woodside Energy 2025 Annual Report · LSEG via CNBC March 3 2026 · Kpler AIS March 2026

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