# A Strategic Compass for Navigating Senegal's Debt Crisis

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## Executive Summary

**With public debt at around 130% of GDP, Senegal's options are limited: there are no good solutions.** This paper reviews the constraints and difficult choices the government faces in managing the debt crisis. We explore two possible paths.

**In the first approach, the government seeks to avoid restructuring at all costs.** For debt to remain sustainable, it needs to maintain extremely tight fiscal policy for an extended period and refinance existing debt at very low interest rates. We provide quantification of both efforts, and show that such a strategy could work, albeit under very narrow – and to some extent – unlikely, assumptions: the level of consolidation expected would probably deteriorate economic growth and be counterproductive, or politically unsustainable. Moreover, the level of bilateral or multilateral support would need to be substantial: only by securing partners willing to take risks at low interest rates could Senegal refinance its debt due in 2026 and 2027. It would also require large net financing from regional banks, thus transferring risks to the monetary union.

**In the second approach, the government aims to negotiate with its bilateral and private external creditors to restructure its debt under an IMF program**. We argue that this could be achieved through a less radical fiscal adjustment than in the previous scenario, where restructuring is avoided. It would seek to avoid implicating regional lenders, arguing that doing so would worsen the country's prospects and even those of its external creditors.

Such a strategy would also involve mobilizing the international community through new multilateral concessional loans, along with high-level political commitments from its main bilateral creditors, France and China, to achieve fast and comprehensive debt relief, comparable to that achieved by private creditors. It also requires strengthening fiscal and prudential oversight within the zone.

**We argue that while there are considerable pressures to repay, the economic literature teaches us that the costs of delaying a restructuring are higher.**

# Introduction

**The situation in Senegal is likely to be the next major test for the international financial system.** With public debt at around 130% of GDP, avoiding a dramatic crisis will require considerable international support. Is this time different? Can the government afford to avoid debt restructuring, supported by unprecedented austerity, substantial concessional support, and a pegged currency within a monetary union? And whether or not it can, should it, given the costs involved?

**The alternative, negotiating with creditors for debt relief, is equally unappealing.** The debt restructuring system has proven inefficient and complex, resulting in lengthy processes that largely exclude countries from international credit. While recent reforms to the Common Framework could speed up the process, they have yet to be tested.

**This note aims to assess the available options and to clarify the consequences of each chosen path.** It relies on the economic literature on debt crises, which explains that governments are often tempted to avoid requesting relief, but that delays in requesting debt restructuring can end up extremely costly for governments, the domestic financial system, and, ultimately, and more importantly, human development and the well-being of the citizens of the country.

**We also offer recommendations to the international community.** If Senegal were to choose to restructure, the IMF and international partners should offer considerable support. Bilateral creditors should provide high-level diplomatic commitments to accelerate bilateral treatment early in the process. The IMF should propose a program with limited austerity. The system as a whole should provide new funding after restructuring. The WAEMU zone should also strengthen its institutions to deal with the short-term consequences, prevent contagion, and avoid such crises from coming forward.

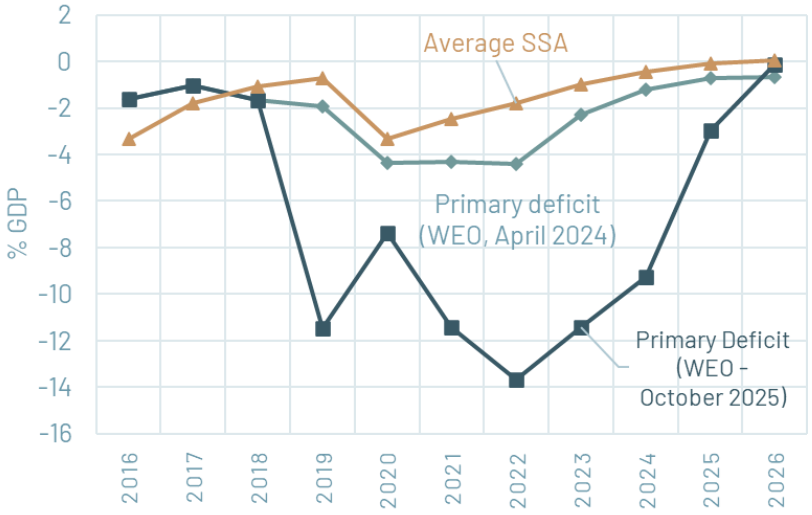
**This note contains four sections. The first section describes Senegal's public debt and financing situation as of the end of 2025.** It shows that the level of debt is unprecedented, but that the peculiar structure of Senegal's debt – mostly external and multilateral - lowers the immediate cost of debt. **The second then applies international experience and economic literature to frame the problem.** Countries with high debt tend to "gamble for redemption", but this strategy is costly in the medium run: it shifts the costs onto the domestic (and in this case, regional) financial system. This framework is then applied to Senegal: while sustainability is never set in stone, accepted criteria will be hard to meet here, making access to IMF funding challenging. **The third section outlines different scenarios and available options.** It assesses the likelihood and consequences of two possibilities: refinancing at current debt levels and restructuring external debt. **The final section provides recommendations to authorities and their international partners.**

# 1. An unexpected debt crisis

## 1.1. How the crisis came about

**In mid-2024, Dakar was jolted by an announcement from the incoming administration: fiscal deficits and public debt had been materially underreported for several years.** In February 2025, a report by the Court of Auditors[1] estimated that "hidden" deficits averaged about 5.5% of GDP between 2019 and 2023, which implies average overall deficits of about 11% of GDP, and that public debt in 2023 was about 25 percentage points of GDP higher than previously reported, at around 100% of GDP. Over the course of 2025, this number was further revised: the current official estimate of public debt at the end of 2024 was FCFA 23,667 billion, or 119% of GDP[2]. IMF estimates, which consolidate additional public-sector liabilities, including some SOE debt and domestic expenditure arrears, place total public-sector debt at about 132% of GDP at end-2024.

**Chart 1: Primary deficit in Senegal, before and after the "debt discovery"**




*Source: IMF World Economic Outlook, April 2024 and October 2025*

**Senegal's debt, previously assessed at "moderate" risk of debt distress under the IMF–World Bank framework, rapidly shifted to a higher-risk position, although it took a few months for markets and observers more broadly to start fearing a default.** Following the announcement, the IMF suspended disbursements under its program while it investigated the misreporting and assessed the implications for debt sustainability and program conditionality. This had direct implications for other multilateral lenders, with loans by the World Bank and the African Development Bank declining (Chart 2a), and net transfers becoming negative for the first time in years. On the private side, Eurobond prices fell sharply but did not indicate distress concerns until October 2025. However, Senegal effectively lost access to international capital markets and became increasingly reliant on domestic and WAEMU regional market

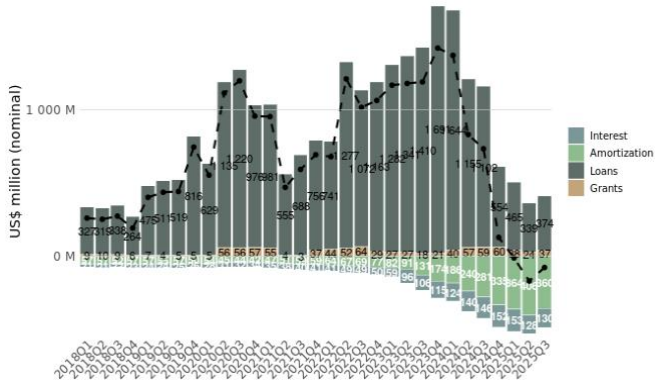
[1] Cour des Comptes, « Audit Du Rapport Sur La Situation Des Finances Publiques Gestions De 2019 Au 31 Mars 2024 », Février 2025. Available at : https://www.courdescomptes.sn/wp-content/uploads/2025/02/Rapport-de%CC%81finitif-sur-la-situation-des-finances-exercice-2019-au-31-mars-2024.pdf

[2] Stratégie de Gestion de la Dette à Moyen Terme, Octobre 2025 : https://www.finances.gouv.sn/app/uploads/RAPPORT-DE-SDMT-2026-2028.pdf

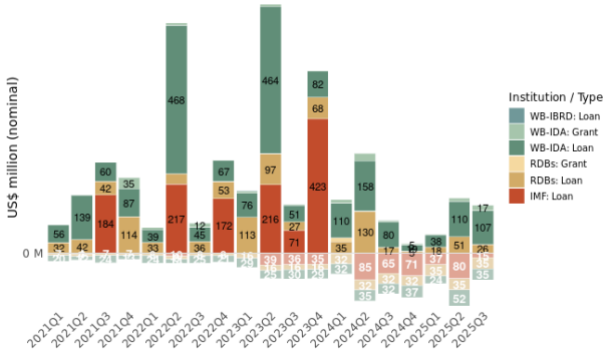
financing to cover large gross financing needs. While some international banks continued to fund the government, the terms were rather opaque and included collateralised debt.

**Chart 2: Multilateral disbursements to Senegal**

*Overall cumulated disbursements and net transfers*




*Disbursements by institution by quarter*




*Source: Finance for Development Lab, Multilateral Development Finance Tracker: https://findevlab.shinyapps.io/Multilateral_development_finance_tracker/*
*Note: Includes IMF, World Bank and AfDB. Cumulated = Sum of the last 4 quarters. Last data: 2025Q3*

**In some respects, this episode is reminiscent of the Greek crisis of 2010.** Both are currency-union members with large hidden debt, triggering fears of a sovereign crisis. Nevertheless, there are also major differences: Senegal represents 15% of WAEMU's GDP, whereas Greece accounted for only 3%. Greece entered the crisis heavily dependent on market financing, creating acute rollover risk, whereas Senegal's external debt stock remains largely concessional, with long maturities and relatively low interest rates. In the run-up to the crisis, Greece also accumulated large external imbalances and experienced a credit boom that left the private and banking sectors fragile; Senegalese banks have so far remained broadly stable, though exposures to the sovereign and the regional interbank market warrant close monitoring.

**Despite these differences, the similarities between these two cases are useful to explore.** In the initial stages of the Greek crisis, authorities strongly stated that a default was out of the question; this has also been the position of the Senegalese authorities. More generally, currency unions often display a "core–periphery" structure: reserve pooling and shared monetary policy can reduce immediate balance-of-payments pressures for a member under stress, but the union can still be destabilized by deleveraging and capital flight if sovereign risk becomes concentrated and bank–sovereign linkages tighten (e.g., De Grauwe, 2011; De Grauwe and Ji, 2013).

## 1.2. What is the cost and structure of Senegal's debt?

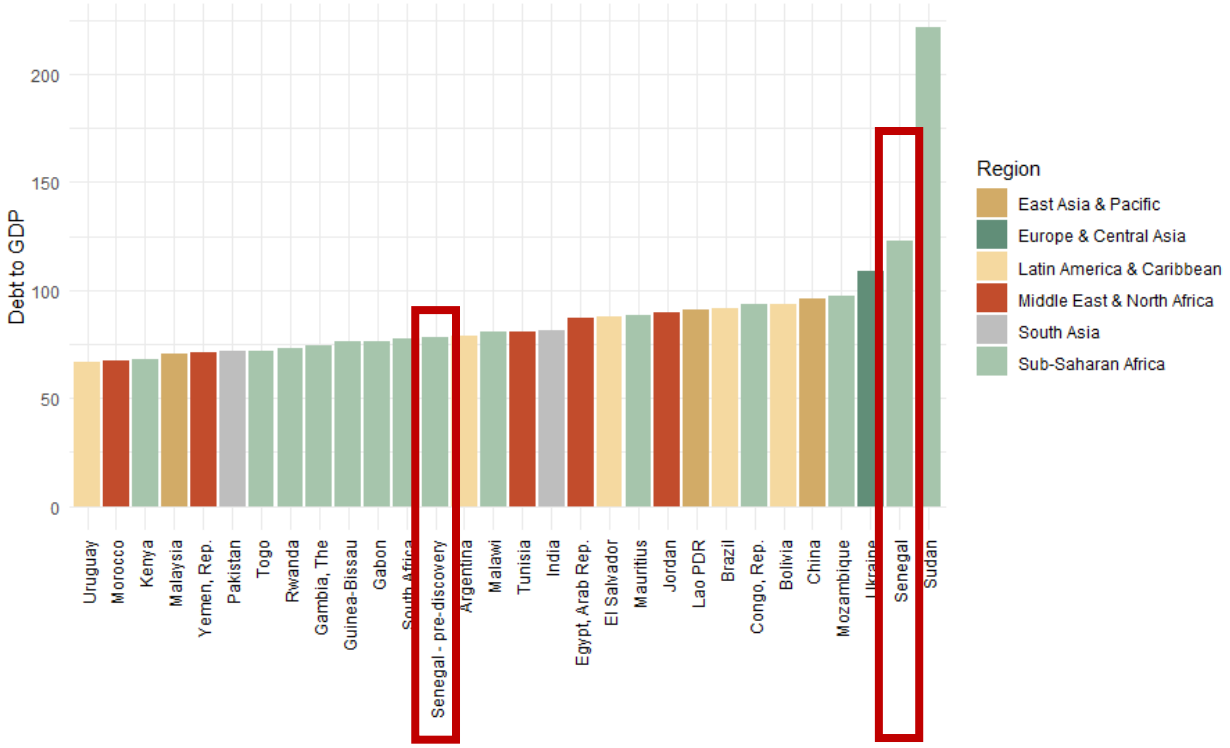
### a. High debt, but low (apparent) interest bill

**Senegal's debt-to-GDP ratio is now very high, though the precise level depends on the perimeter and vintage of the estimate.** In November 2025, the IMF issued a statement putting the debt at 132% of

GDP, against 129% indicated by the World Economic Outlook in early October, which did not include some arrears. This represents $42 billion of public debt, or FCFA 26 000 billion. Government estimates from the Medium Term Debt Management document indicate a lower number of 119% of public debt. The difference likely stems from the inclusion of SOE debt by the IMF (about 10 percentage points) and arrears[3]. For the purposes of this analysis, we use the IMF public-sector estimate as the baseline, while referring to the government's narrower concept when relevant.

**Internationally, such debt levels in developing countries are rare.** While high-income economies with large domestic markets and, in some cases, reserve asset status manage to sustain very high debt levels, developing countries are rarely able to do so. Whether due to "debt intolerance" (Reinhart, Rogoff and Savastano 2003) or inequalities inherent to the global financial architecture (Gallagher and Koczul-Wright, 2022), or both, there is a limit set on debt levels that developing countries can manage. Currently, Senegal ranks second in debt levels. Except China and Brazil, all low- and middle-income countries with debt-to-GDP ratios above 90% are in debt distress or currently undergoing restructuring.

**Chart 3: Public debt to GDP in low and middle-income countries, 2025**




*Source: IMF WEO, October 2025. We remove high-income countries and countries with populations of less than a million in 2025.*

**We have identified 36 episodes in which developing countries have had a debt ratio above 100% of GDP for several years.** All, except one of them, were resolved through a debt restructuring and/or a default: only Antigua and Barbuda, in 2001-2004, lowered its ratio thanks to fast economic growth[4] (Annex Chart A).

[3] By default, State Owned Enterprises are included if i) They carry uncompensated quasi-fiscal activities or ii) they make operating losses.
[4] Robinson 2024 for the case of Antigua, which finally did restructure after the 2008 Global Financial Crisis.

**By the end of 2024, Senegal's debt composition was more external than domestic**. 61% of the debt was external, and 39% domestic. Of external debt, about 40% is owed to multilateral development banks, primarily the World Bank. Private debt is about the same, with about $10 billion, divided about equally between bonded and non-bonded debt. Bilateral debt is around $5 billion, with China and France among the main official bilateral creditors alongside a long tail of smaller creditors.

**Table 1: Public and public external debt at the end of 2024**

| | USD Bns | FCFA 1000' Bns | En % du total | En % du PIB |
|---|---|---|---|---|
| **Dette publique** *LFI 2026* | **37,769** | **23,672** | **100%** | **119%** |
| **Dette publique** *IMF WEO, Oct 2025* | **40,849** | **25,549** | **100%** | **128%** |
| **Dette externe de long-terme (PPG)** | **25,094** | **15,728** | **61%** | **76%** |
| Officielle | 14,538 | 9,112 | 36% | 44% |
| Multilatérale, dont: | 9,505 | 5,957 | 23% | 29% |
| *World Bank - IDA* | *4,422* | *2,771* | *11%* | *13%* |
| *African Dev. Bank* | *1,812* | *1,135* | *4%* | *6%* |
| *Islamic Dev. Bank* | *1,308* | *820* | *3%* | *4%* |
| *Autres* | *1,964* | *1,231* | *5%* | *6%* |
| Bilatérale, dont: | 5,033 | 3,154 | 12% | 15% |
| *Chine* | *2,198* | *1,378* | *5%* | *7%* |
| *France* | *1,411* | *884* | *3%* | *4%* |
| *Autres* | *1,424* | *892* | *3%* | *4%* |
| Privée, dont: | 10,556 | 6,616 | 26% | 32% |
| *Bancaire* | *4,807* | *3,013* | *12%* | *15%* |
| *Obligataire* | *4,954* | *3,105* | *12%* | *15%* |
| *Autres* | *795* | *498* | *2%* | *2%* |
| **Dette domestique** | **15,755** | **9,821** | **39%** | **52%** |

*Sources: World Bank International Debt Statistics (IDS), published end of 2025; Loi de Finance Initiale 2026 (dette publique 2024) and IMF World Economic Outlook, published in October 2025*

*Notes: Those sources are not necessarily consistent with one another. The government published its estimates of public debt in October 2025, along with the initial budget law for 2026. External debt statistics are all from the World Bank International Debt Statistics (IDS), published in early December 2025. These are collected by the government and should be consistent with public debt statistics. The IMF WEO includes guarantees and debt of State-Owned Enterprises. Additional differences can also arise from valuation and exchange-rate assumptions (e.g., end-2024 vs average-2024 exchange rates).*

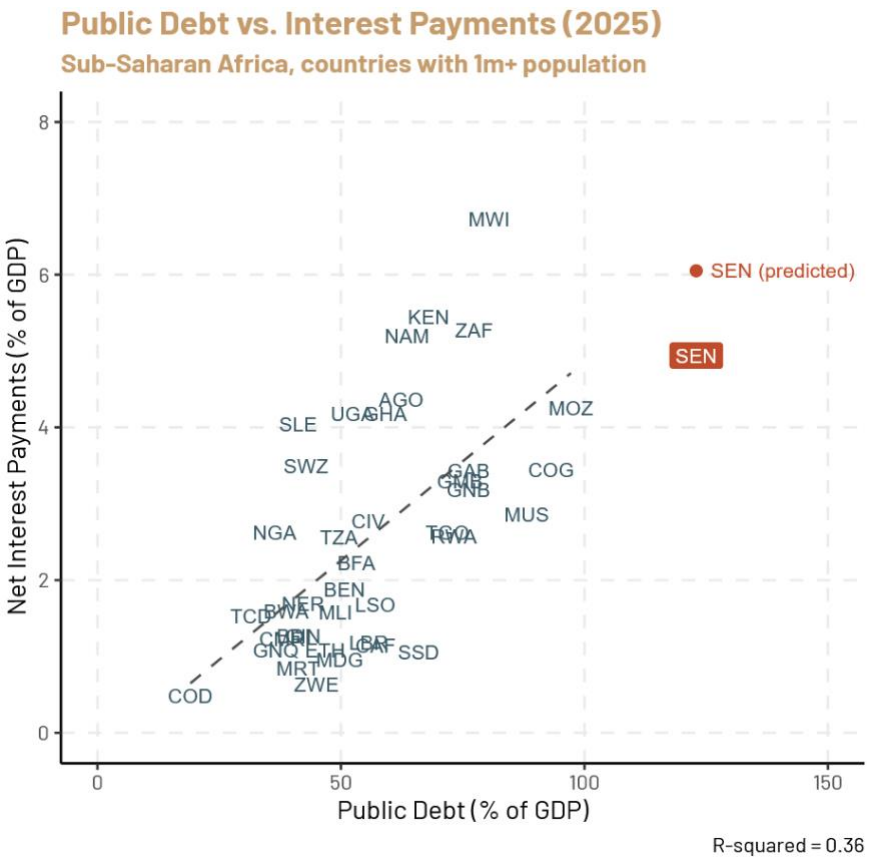
**Senegal's debt is currently relatively cheap, at least for now.** Interest costs were estimated at FCFA 1057 billion in 2025 and FCFA 1190 billion in 2026, representing 4.8% of GDP, and less than 23% of revenues[5]. In contrast, some countries, such as Egypt, Pakistan and Kenya have had to pay almost 30 to 90% of their government revenues in interest bills. Senegal's number is lower thanks to a low effective interest rate of 4.5% and high government revenues. This means that the near-term fiscal pressure from the interest bill is limited. In the government's baseline, interest-to-GDP is projected to decline to around 3.2% by 2028; in the IMF projections, it stabilizes closer to 4.5%.

**There may be some doubts about the future level of the interest bill, which appears low relative to what we know about the stock**. Among Sub-Saharan African countries in 2025, there is a broad degree

[5] Ministère des Finances et Du Budget (Octobre 2025), « Document de Programmation budgétaire et économique pluriannuelle, (DPBEP) 2026-2028 »

of variation in effective interest rates, but with high debt levels, an interest bill of 4.5% is not in line with other countries' (and historical) experience (Chart 4). **This evidence indicates that the interest bill could rise to 5.5-6% in the short to medium term.** The correlation is similar when considering all low and lower-middle-income countries. While WAEMU helps keep costs low by providing a large regional market and reducing inflation risks, it is likely that recently discovered hidden debt is classified as arrears and thus not paying interest. At some point, those liabilities will need to be refinanced, and interest costs will exceed what the IMF and the government both currently project.

**Chart 4: Public debt and interest payments to GDP**




*Source: World Economic Outlook, October 2025*

**While technical, the projection of future interest costs is key.** Simple calculations show that with 120% of debt to GDP ratio, an average interest rate of 4.5% means that the government pays 5.4% (=4.5% * 120%) of its GDP in annual interest. If the average interest rate were to rise to 6%, the government's interest bill would increase by 7.2%. The government targets a return to a fiscal deficit of 3% of GDP by 2027; therefore, a higher interest bill implies a higher primary surplus (since overall deficit = primary deficit + interest bill). The primary balance for the first option needs to be +2.5%, and for the second option, +4.2%. This additional fiscal effort would need to be in addition to an already considerable budget effort.

### b. The financing strategy in 2025 was primarily domestic

**For the time being, interest costs remain manageable; the difficulty has been to refinance debt due in 2025 in a highly constrained environment.** With a fiscal deficit close to 8% of GDP, amortizations

amounting to about 15% of GDP coming due, and 3% of GDP in arrears for refinancing, Senegal needed to raise 26% of GDP, or FCFA 5715 billion, in 2025. Expected budget support from the IMF, multilateral and bilateral development banks, of a total of about FCFA 600 billion, did not materialize this year as the program remains suspended, and other multilateral budget loans also remained frozen[6].

**Senegal, therefore, turned to the domestic market: it issued close to FCFA 2225 billion in public securities markets with a yield of about 6.3% and approximately 1800 billion in syndications.** It also used Total Return Swaps, a derivative transaction in which a loan from a foreign bank is backed by domestic bonds. Not all the amounts and costs are known. Overall, the share of domestic debt is increasing, as close to 75% of the mix is domestic in 2025. This is likely to continue in 2026, even though the government hopes that the IMF program will resume in April, mobilizing other multilateral as well as bilateral budget support totaling $1 billion for 2026[7].

### c. Resulting debt schedule – bunching of maturities in 2026-28

**As a result of this strategy, maturities start to bunch in 2026-2028.** A large share of recent issuances had short maturities: about 17% was is in one-year bills and 34% in 3-year bonds. This will create large spikes in debt service that will need to be rolled over. This debt tends to be domestic, and thus not count towards external public debt burden, which is the main indicator considered by the IMF in its Debt Sustainability Framework for Low Income Countries (LIC-DSF). Nevertheless, they can materially increase rollover risk and debt-service pressure and may strain the capacity of the WAEMU regional market to fund the sovereign without crowding out private-sector credit.

**The decision is urgent: further continuing the strategy of refinancing external obligations through domestic markets could increase risks for regional markets.** March 2026 stands as a crucial point: the first amortization payment for the EUR 1 billion Eurobond will be due then, worth EUR 333 million. Along with other maturities, there is more than FCFA 510 billion of external debt to repay that month[8].

## 2. Mechanics of a debt crisis

**This section reviews the economic literature to determine the experience in such situations.** It first describes common dynamics: avoiding default by diluting existing creditors, reducing maturities or providing a better pecking order for new creditors through collateral or collateralised-like debt. It then shows that the literature finds that such strategies can worsen outcomes: ultimately, more conflictual debt restructurings, especially post-defaults, are more costly.

### 2.1. Classic elements of a debt crisis: downgrades, pronouncements, default

[6] Rapport Economique et Financier 2026, p. 39 : https://www.finances.gouv.sn/app/uploads/REF-LFI-2026.pdf
[7] LFI 2026, p. 91
[8] Loi de Finances Initiale 2026, p.90

**The narrative to date has many elements of a classic debt crisis.** In recent years, Zambia, Ghana and Sri Lanka have defaulted on their debt, both bilateral and private, after a few months to years of protesting that they would manage to remain current on their debt.

**Chronologies differ, but the ingredients are similar:** they all underwent a rapid succession of downgrades by Credit Rating Agencies (CRAs), thereby making market access more difficult. While governments protest downgrades, they are also a reflection of a deteriorating creditworthiness. Shut out of the private markets and faced with difficult negotiations with International Financial Institutions (IFIs), countries are forced to turn to alternative sources of liquidity.

**Countries at risk of default often seek to reduce the cost of existing debt by diluting creditors: they issue more debt than optimal (Hatchondo et al. 2013).** As a result, creditors seek to be protected by obtaining de facto seniority: obtaining collateral or reducing the maturity of debt (Aguiar, Amador, Hopenhayn and Werning 2020). For instance, Sri Lanka used credit lines from India to manage imports of essential goods. In the case of Senegal, it has tapped structured credit lines, the "Total Return Swaps", which are collateralised by domestic debt issuance. Investors anticipate that local currency debt will be protected from a restructuring. In the event of an eventual restructuring, negotiations will be more complex and lengthy.

## 2.2. Debt distress is usually recognised too late, too little, can be very costly for development

**The temptation to seek a restructuring "too little and too late" has been identified for a long time: all actors in the system have an interest in avoiding a default.** The IMF (2013) takes several examples of sovereigns trying to avoid a default[9], including in the context of monetary unions, Greece being the most famous case. When they do, debt relief tends to be insufficient and lead to further treatment. The pressure on all parties to avoid a default at all costs is considerable: governments want to avoid the disruptions that accompany any default, creditors prefer to be repaid on time and in full, and the IMF (and its board) would like to avoid potential contagion (Hagan 2025). This translates into a certain degree of over-optimism on debt sustainability, especially in the context of IMF programs (IEO 2024).

**Restructuring too late is costly, and there are benefits in restructuring early.** Asonuma and Trebesch (2016) show that negotiating with creditors before a default ("pre-emptive restructuring") leads to lower haircuts, and significantly lower GDP losses. Market exclusions are also shorter: In a typical default, capital markets exclusion lasts from a few months to 5.5 years, with borrowing costs rising by about 400 basis points. Recent theories add an additional channel for "too little, too late" dynamics after a credibility shock. Coulibaly and Ndiaye (2025) analyze optimal default after hidden-debt revelations and emphasize that, once investors revise beliefs and rollover conditions tighten, the continuation value of repaying in full can deteriorate over time—strengthening the case for early, orderly debt treatment when the debt stock is revised up abruptly. Related quantitative models similarly show that hidden debt and weak disclosure can reduce debt-carrying capacity and raise default risk through worse refinancing terms (Horn et al. 2024; Guler, Önder and Taskin 2025).

**In any case, debt crises are costly, even when they do not involve a default.** Farah-Yacoub et al. (2023) estimate that countries in default lose 8.5% of GDP compared to countries that avoid a crisis, and that the gap grows over time. It also has large human development costs, raising infant mortality, reducing

[9] IMF (2013): "(…) Debt restructurings have often been too little and too late, thus failing to reestablish debt sustainability and market access in a durable way." (p. 1)

life expectancy, and education. But those are unlikely to be due to defaults directly. They also show that a longer default period translates into worse outcomes. This provides a rationale to accelerate a resolution, once the decision to restructure has been made. More generally, Gamboa Arbelaez et al. (2025) show that fiscal crises – which include loss of market confidence – as is currently faced by Senegal, have high human costs. There does not seem to be substantial benefits from repaying debt at all costs, as shown by Colombia's experience in the 1980s (Caselli et al. 2025): in the long run, the country does not seem to benefit from a better "reputation" than its counterparts.

**Governments tend to delay the decision to restructure, for economic and political reasons.** Cassimon, Essers and Presbitero (2025) provide a "real options" framework to explain why countries delay restructuring. The decision to request debt relief carries immediate costs – disruptions of the relationship with creditors, risks of sudden stop, etc., while continuing to repay avoids a reckoning and leaves open the option to restructure for later. As time advances, fiscal pressures become stronger, and the decision is only taken when those pressures become overwhelming. They provide proposals that could and should be applied to Senegal if it were to request a restructuring: debt standstill during negotiations, focus on post-treatment growth, and protection of new financing. Note that all these elements become increasingly difficult to achieve if restructuring is delayed. The politics of restructuring should not be ignored either: it can be costly for governments to make such a decision. As Mosley and Rosendorff (2022) explain, "we must look at domestic politics". In particular, whether or not domestic holders of debt might be affected can be important to the government's calculations.

**IMF frameworks, which aim to determine whether a country can expect a program or not, should be clearer.** The IMF cannot directly recommend a restructuring to a country, but its framework should more clearly indicate when it will be allowed to make a loan. This would help the potential borrower (and its prospective and existing creditors) to assess whether or not an IMF loan is forthcoming, and to accelerate the decision of the borrower to restructure if necessary. Currently, the definition of sustainability in the LIC-DSF is not precise enough, and has generated uncertainty throughout 2025. Even after the disclosure of the scale of hidden debt, the possibility of an IMF program remained on the table for a large part of 2025. Strengthening the definition of when debt is sustainable would provide clearer guidance to borrowers and creditors on whether to expect a program, rather than speculating on the possibility of IMF support[10]. As part of the reform of the Debt Sustainability Framework, the operational definition of "debt sustainability" should be clarified and made more transparent in practice**.** The IEO's findings suggest that greater clarity in decision rules can reduce incentives for optimism bias from the Fund, its members, and the creditors and improve the odds of early, orderly resolution (IEO 2024).

**All recent crises have featured some kind of gamble for redemption**. In the case of Ghana, debt levels increased from 57% of GDP in 2017 to 92% in 2020. Ghana lost international market access in 2021 and started tapping into its international reserves to finance its deficit through monetary issuance. By the end of 2022, when it defaulted on its external debt, gross international reserves covered less than one month of imports, and the financing of the monetary deficit amounted to 7.9 percent of GDP, with an estimated debt service-to-revenue ratio of 117.6% (World Bank, 2024). Similarly, Sri Lanka's debt rose from about 72–80% of GDP in the late 2010s to 114.2% of GDP in 2022. It took 18 months between the

[10] The IMF itself is not authorized to publish the DSA when not part of a program or an Article IV. This point is thus not about the particular DSA, but the Framework itself, which should give more guidance to debtors and creditors alike on what to expect on sustainability even when the DSA is not published.

loss of market access and the first missed coupon payment (IMF 2022). Its official reserves went down from US$ 7.6 billion in 2019 to less than US$ 40 million before its default in 2022. Jamaica is one of the only exceptions where committed austerity has proved successful. Governments from different parties achieved primary surpluses exceeding 7 percent of GDP for six consecutive years, enabling the debt-to-GDP ratio to fall below 100 percent in 2019, the first time since the early 2000s.

**In conclusion, the predicament of Senegalese authorities is not new.** The pattern of debt stresses and attempts to recover with austerity and growth is well-known, but it is a dangerous gamble. The main difference with recent crisis examples is that Senegal does not have its own currency: it is part of the West African Economic and Monetary Union (WAEMU), a monetary union with a single central bank and a peg to the euro.

**Such a setting is a blessing, but also potentially a curse.** There are clear advantages: belonging to a monetary union avoids the kind of currency run experienced by Ghana, Zambia, or Sri Lanka. The fact that the union is tightly integrated, with centrally managed reserves, a single central bank, and a centrally organised primary issuance market[11], also provides a deeper market in CFA Francs. Senegal's access to international savings has almost become nonexistent, but it has continued to tap the regional market with very little impact on yields. However, such membership is also a curse: with access to regional markets and pooled reserves, Senegal can secure financing, which could shift its debt stock toward the region rather than toward non-residents. The risk of delaying an adjustment is therefore even greater: one could imagine a scenario in which regional markets refinance external obligations in 2026 (and even longer), but eventually default. The next section explores these different options.

# 3. What are the options?

## 3.1. Option 1: Repay, with or without the IMF?

### a. Why the IMF is unlikely to bail out Senegal

**For an IMF program to be adopted, debt has to be deemed sustainable.** This stems from the very core of the objective of the IMF: to provide short-term support, which, along with adjustment policy, restores medium-term external viability. If the combination of financing and policy adjustment is not sufficient, the IMF will require that the country takes additional steps: i.e., finding sources of concessional financing and/or the completion of debt restructuring.

**What does it mean for debt to be sustainable?** The definition is not straightforward because it depends on future conditions and decisions. Some are controlled by the government (fiscal policy, and to a limited extent, economic growth), and others are not (interest rate offered by private creditors). Debt is deemed sustainable if there is a feasible fiscal policy path under expected conditions that generates sufficient revenue to repay public debt. However, to translate these abstract concepts into a concrete diagnostic, the IMF uses an analytical tool called the Debt Sustainability Analysis, which examines the debt burden in terms of stocks and flows. There are two major aspects: (1) Are expected future policies feasible? And (2) If yes, do they result in a public debt burden that can be managed?

[11] Through UMOA-Titres

**There are precedents of the IMF approving programs based on optimistic assumptions, which ultimately worsen the country's situation and its reputation.** In theory, the Fund's frameworks require comprehensive debt coverage, realistic macro assumptions, and credible financing assurances; they also influence whether debt problems are resolved early or prolonged through over-optimistic assumptions. The IEO evaluation of the IMF's Exceptional Access Policy underscores recurring challenges in "grey-zone" cases where debt is not "sustainable with high probability," including risks of optimism bias and delayed resolution (IEO 2024). For Senegal, an artificially improved sustainability assessment would not help: it would transfer restructurable claims (from the private and bilateral creditors) to "preferred" creditors and domestic or regional investors, thereby making an eventual resolution much more difficult.

**A first element of sustainability is the realism of the macro-fiscal framework.** This means that economic projections and proposed policies are realistic. It is always possible to make debt appear sustainable with very "generous" assumptions on growth and fiscal deficit. The IMF thus requires that policies adopted are "economically and politically feasible". If austerity could lead to a large recession, which would be self-defeating, or if the reforms are not politically realistic (for instance, unpopular reforms later in the program), this is a risk to the IMF and the borrowing country.

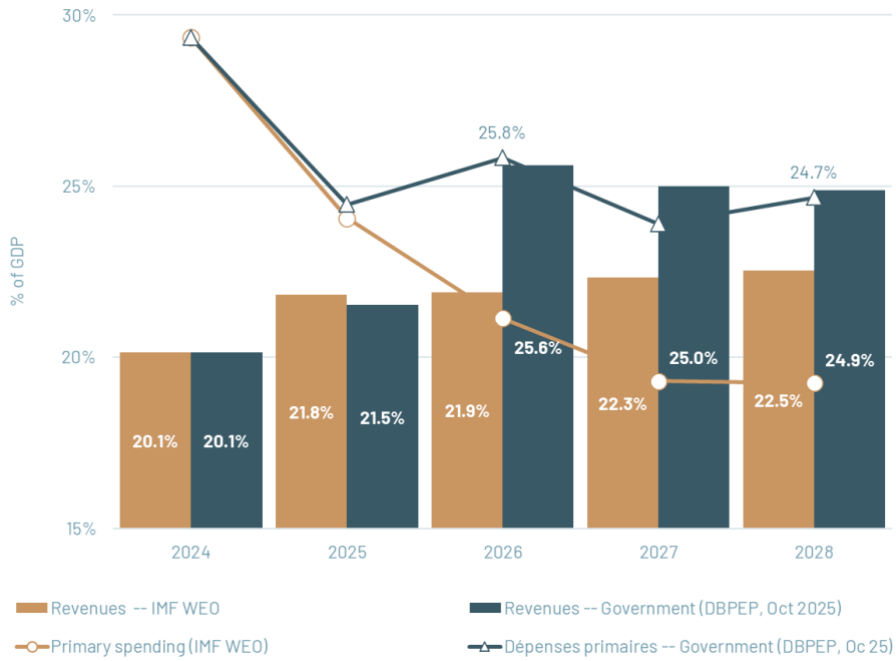
**This is the first point of contention between the IMF and the government.** The proposed adjustment part, as published in the Budget Law 2026 and the Programmation Budgétaire Multi-Annuelle relies almost exclusively on tax increases[12], which would rise from 20% of GDP in 2024 to about 25% of GDP in 2028[13]. This would bring Senegal closer to the revenue ratios of Morocco, South Africa, and other upper-middle-income African countries. In its World Economic Outlook, not a prescriptive document, but reflective of IMF predictions, the envisaged scenario runs through an expenditure-based consolidation.

**Both approaches imply a sharp adjustment, but a revenue-based path of this magnitude is particularly exposed to implementation risk.** The tax and state-capacity literature emphasizes that effective tax capacity, administration, enforcement, compliance, and information systems, typically accumulate gradually and are closely linked to institutional development, which makes large near-term jumps in the tax-to-GDP ratio historically difficult to deliver without exceptional administrative gains (Besley and Persson 2014; Dincecco and Katz 2016). Likewise, recent work on "tax productivity" frames collection efficiency as an evolving component of development rather than a policy lever that can be scaled overnight (Goyal, Jensen, Lagakos, and Ndiaye 2025); IMF evidence also finds that durable revenue gains typically require multi-year reforms to tax administration and compliance (IMF 2025; Atsebi, Gueorguiev and Nose 2025). When informality is high, tax hikes can reduce the tax base, and obtain much less revenues than expected (Pappada and Zylberberg 2025).

[12] There is a planned expenditure consolidation in the government's 2026 budget: current expenditure decline slightly in nominal terms and then stabilise, which means that they decline significantly in percent of GDP. However, this is more than compensated by a rise in planned public investment.

[13] GDP was revised in November 2025, and these estimates use "old" GDP. Nevertheless, the revision was of about 13%, which is significant, but will not qualitatively change the conclusions: revenues to GDP would be 22.2% in 2028 with the new GDP, still well above average for this income group.

**Chart 4: Two consolidation paths: revenues vs. expenditures**




*Sources: IMF WEO (October 2025), Updated DPBEP (October 2025)*

**Both this level and its rapidity contradict established experience.** Recent surveys by Balasundharam et al. (2023) at the IMF and Di Lorenzo and Lacey (2024) at the World Bank have studied large fiscal consolidations. Their findings are that they are more often based on expenditure than revenues and tend "to be less effective when implemented during a crisis, as severe shocks can compel an abrupt procyclical adjustment that depletes fiscal buffers."

**There have been only 14 cases of countries consolidating as much as Senegal intends to do, but most of these cases involved significant commodity windfalls.** We looked at sharp consolidation episodes in Emerging Market and Developing Countries, where the primary balance to GDP improves by at least 2 percentage points over 4 years, with improvement every year. We find that 104 such episodes have occurred since 1990 (Annex Chart 2). There are 14 consolidations larger than Senegal's planned policies, but all of them occur either in cases of post-conflict context (Libya 2019, South Sudan), or more generally in highly commodity-dependent countries benefitting from large price booms: Botswana (2012 and 2006), Congo (1992-6 and 2002-6), Azerbaijan (2019-2023), etc. Others are in the context of debt restructuring (Ghana 2022, Zambia 2023, Congo 2018). In other words, with tailwinds, such consolidation is possible, but it is rare. Furthermore, since we expect the interest bill to stabilise around 5% of GDP in 2031-2035, **Senegal would need to keep a primary surplus of 2% of GDP for close to a decade**. Since 2000, this has only occurred 7 times across all CFA countries.

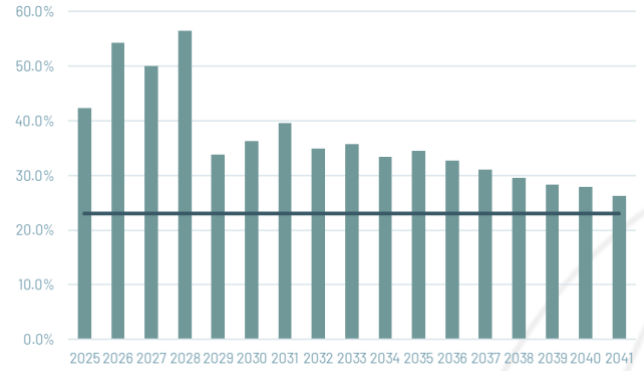
**Could Senegal's oil and gas resources be sufficient to reduce debt in the short run?** Oil production started in 2024 and reached its capacity of 100 000 barrels per day in 2025. Gas production started in 2025. Together, they led to an acceleration of GDP growth to about 8% in 2025. Fiscal revenue potential is estimated at 1% of GDP by the World Bank (Perrin 2025). Further phases of production have economic potential, but will take time to materialise. Even with this potential, Senegal's oil and gas revenues would not compare to the dependence of other countries on the list. In other words, while there is some further upside in the revenue figures suggested by IMF projections, they are limited in the medium run.

**The second criterion for sustainability is that, once a set of feasible policies is agreed upon, debt burden indicators do not deviate substantially from thresholds**. The determination of sustainability is based on 4 variables, all linked to external debt, as well as the public debt-to-GDP ratio. The definition of sustainability is vague in the current Debt Sustainability Framework for Low-Income Countries. In general, the IMF will rely on five considerations to determine that a breach can indicate unsustainability: *(i) sustained breaches, (ii) front-loaded (early in the period vs. later), (iii) a large size of the breach, (iv) rising at first before declining, and (v) whether both liquidity and solvency indicators are in breach.*

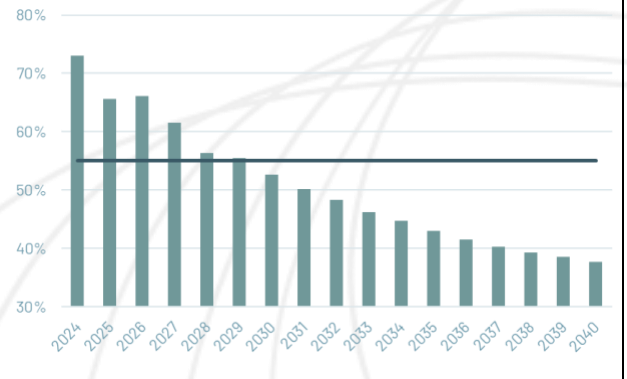
**Senegal meets all of these patterns: breaches are especially large, early in the projections, sustained over more than 10 years, both for flow and stock variables, but worse on flows.** We built a simple DSA based on a set of assumptions as close as possible to the IMF WEO. We assume that in 2025, financing is sourced domestically. Afterwards, we expect access to an IMF program with substantial financing from official sources at relatively low rates, totaling $3.7 billion in 2026 and about $2.5 billion thereafter. Those are high figures compared to the past, where official financing stood between $1 and $2.5 billion. Even with such generous official financing, we project that external debt-service-to-GDP remains above its threshold until about 2035. The present value of external debt to GDP was 73% in 2024, against a threshold of 55% in the LIC DSF[14]. It falls back below the threshold by 2030[15].

**Chart 5: Debt Sustainability indicators**

*External public debt service to revenues*




*External debt stock (present value) to GDP*




*Sources: Ministère des Finances et du Budget, IMF WEO*
*Calculs: Finance for Development Lab*
*Note: Hypotheses and details in the appendix*

**On both criterions, it seems that the debt burden indicators will remain difficult to change**. Even if the government could agree with the IMF on a consolidation path, the DSA scenarios seem to show a substantial risk of unsustainability. There are precedents were programs were adopted despite such

[14] We describe our assumptions in details in the appendix. We rely on published data, sometimes difficult to interpret, but we believe that by and large, even modifications of our assumptions would lead to broadly similar results.
[15] Note however that with the rebasing of GDP, this indicator could fall under the threshold by 2028.

risks. However, an IMF loan would create considerable risks of lending into a high debt level, a high debt service situation, raising the level of unrestructurable debt, and repaying private creditors.

**Box 1. What about the 3-pillar approach?**

**The IMF and the World Bank have formalised an approach suited for countries whose debt is sustainable but face liquidity challenges.** The three pillars rest on (i) a strong government-led strategy of structural reforms and domestic resource mobilisation, (ii) external financial support from bilateral and multilateral partners, and (iii) a reduction in the debt service burden through liability management operations, including by reducing the cost of refinancing through credit enhancement.

**Would such operations be possible in this context?** Typical liability management operations reduce debt service due in the short term, but require finding new sources of financing at affordable rates. At rates signalled by current markets, it would not be feasible. Would credit enhancements help? Debt swap deals such as Ecuador and El Salvador have been precursors (see Raih 2025 for more details), but generally occurred in clear liquidity cases or as part of a restructuring.

**But even with liability management, debt service levels would be reduced by about 10% (from ~50% of government revenues to ~45%), while long-term interest costs would balloon**. If backed by a multilateral, costs would be contained, but it would raise the share of non-restructurable debt.

**In other words, such an approach would only work conditional on finding a generous bilateral lender willing to take a high level of sovereign risks, with the risk that sustainability in the sense of the IMF would not be restored.**

### b. Can support materialize without the IMF? Lessons from Kenya and Egypt

**Could cheap sources of funding materialize? Possibly, but they should not be seen as a magic bullet, and would require some concessions.** Recent examples in Kenya, Pakistan, and Egypt have shown that new bilateral supporters can emerge and provide financing even in uncertain situations. However, it is important to look at the conditions: all loans are not equal. If Senegal were to obtain external funds to cover its needs for 2026 at high rates, it would come at costs later: interest to be paid would rise and make adjustment even more difficult in the future. The example of Kenya is interesting, as it secured US $1.5 billion from the United Arab Emirates. However, cost of such borrowing was high (8.5%) and Kenya eventually shifted to Eurobond financing. For Senegal, raising funds at an interest rate of 8.5% would not be sustainable. Kenya also reprofiled part of its Chinese debt, converting obligations from US dollars into yuan. Its IMF program went off-track and was interrupted in 2025, though there have been rumors of a new program in recent months.

**Some bilateral creditors require an IMF program to lend in situations of high risk of debt distress. This is the case of most OECD lenders, but Gulf countries and China have occasionally made available large financial support.** In the recent past, Egypt, for instance, has proven more successful in leveraging external financing thanks to large support from Gulf countries. Thanks to this strategy, Egypt raised the external financing required to meet its needs of about $45 billion in 2024-25. This was

mostly achieved through foreign direct investments by the UAE of US$ 35 billion, which enabled Egypt to consolidate its reserves. But the case of Egypt applies more to an external financing problem than to a pure fiscal problem, as is the case in Senegal. Foreign direct investment would do little to alleviate tensions on the budget, though it would help the private sector. Privatizations, however, could be another way to raise new funding: if the hidden loans were used to build assets that can be sold and bring revenues to the government, it could alleviate fiscal pressures. While politically difficult, this could be a way to mitigate a highly demanding fiscal policy.

### c. Would a reliance on regional markets, along with a tight fiscal policy, be possible?

**There are two major questions: is it feasible, and is it desirable?** On feasibility, one would need to see if the regional markets are sufficient to absorb large financing needs, especially in a scenario where multilaterals provide little net financing. The regional banking system has been the major lifeline for Senegal in 2025. Could it continue in 2026 and beyond? In such a scenario, regional markets would absorb 75% of gross issuance, or about FCFA 11 300 billion over 2026-28, in addition to the 4000 billion issued in 2025 through bonds offering and syndication. Currently, the banking system of the zone holds about FCFA 50,000 billion in net domestic assets, half of which are credit to governments of the zone[16]. Risk weights on government bonds do not add to the capital needs of banks, but other constraints could emerge: liquidity constraints or ratings could become constraining. There is still a lot of uncertainty on the appetite of regional investors, and the CFA zone has some depth, but constraints could emerge quickly.

**It would also start to strain foreign-currency reserves.** Although a remarkable export performance in 2024-25 has allowed reserves to rise rapidly to $33 billion, Senegal's debt service is about $4-5 billion per year, in addition to a current account deficit. Since it would be largely excluded from foreign borrowing, this could create tensions over access to reserves in the WAEMU zone, in attention to raising risks to the regional banking system.

**The second question is whether this would be desirable.** Transferring risks to the region could end up in creating sovereign-bank doom-loops which would become significant and overwhelm the ability of the Senegalese banking system to support the government, as well as strain the regional banking system. In addition, with the relatively inelastic credit supply and difficulties in access to finance for households and firms in Senegal and in the region more broadly, It could crowd out private borrowing (Oki and Obiara, 2023).

**It would also create liquidity tensions for other sovereigns.** Currently, such a strategy is made possible by informal risk sharing: a WAEMU Member can borrow from domestic banks if others still access international markets. They provide cover by avoiding a crowding out of regional liquidity. But it would risk breaking down if the risks in the regional markets become too concentrated. As a result, without the IMF support, the forces that allowed Senegal to obtain regional support could unravel quickly.

## 3.2. Option 2: Restructuring

[16] IMF (2025), Article 4 of the WEAMU zone, May, p. 40

**If the IMF does not consider that debt is sustainable, it does not immediately imply a default**. It is the prerogative of the sovereign to start negotiating with its creditors: the IMF, nor any other external actors, is not entitled to request a restructuring or a default. Its only power is to withhold a program. As a result, Senegal would need to find relatively inexpensive sources of funding, but if it could not, it would need to consider defaulting and restructuring its debt.

### a. Could restructuring provide some breathing room?

**Compared to the costs of repayment, what would be the costs of the other option, which is negotiating with creditors to restructure the debt?** Senegal will have to succeed in obtaining a significant reduction of both the present value of its debt and its external debt service. There are several ways to do so. The most common is to default: with debt to repay and no fresh sources of funding, a government will simply stop paying back its creditors. The upside is that unpaid debt service can then be used to fund government services. The downside is that it would create disruptions in the ability to obtain new credit. Restructuring early, through negotiations with creditors before a default, would help. The Common Framework would be the natural avenue to start those negotiations.

**The reduction in debt service would be large for external creditors, but the loss in present value would be moderate.** According to our calculations, debt service to revenues remains above the threshold of 23% in the medium run. Maintaining the baseline below 23% between 2026 and 2030 would require a reduction in debt service of approximately $2 billion per year. Since multilateral debt service, which is preferred, would capture about $800 million, remaining cash flows would be less than 30-40% of the claims. The loss in flow would thus be important, but the loss in present value could be limited.

**Typically, debt restructuring occurs with an IMF program.** In particular, in the context of the Common Framework, a program helps reassure creditors that the adjustment efforts are monitored, and thus more likely to negotiate. IMF programs in the context of restructuring typically require significant adjustments by a country, including substantial fiscal consolidation. The IMF aims "to avoid undue transfers from creditors to debtor." Nevertheless, a well-negotiated program could limit the amount of consolidation required by the government.

**There are good reasons why a restructuring deal could lead to less drastic fiscal cuts than continuing on the current path.** Senegal has already made considerable efforts to reduce its deficits in 2025, which will help. The government has frozen or stopped projects deemed non-priority. Any fiscal path negotiated with the IMF should be credible and take into account essential spending: social, climate, and security spending should be protected. As a stable democracy in a challenging neighbourhood, maintaining political stability is essential for the IMF and its shareholders. This means that social disruptions should be minimized. It should also avoid jeopardizing current growth and future resilience. With a lower consolidation effort in 2026-28, risks to economic growth would be reduced.

**The government should make the case that including domestic currency liabilities in the restructuring would create considerable disruptions, which ultimately would be worse for external creditors.** Three arguments should be key: (i) Reducing total public debt is not a mandatory metric under the LIC-DSF (as opposed to external public debt burden indicators), (ii) reducing FCFA denominated debt is not necessary to restore sustainability, and (iii) it would be inefficient.

- **First, the metrics that matter to set the envelope for a country under the Debt Sustainability Framework for Low-Income Countries all involve external debt.** In principle, this is defined by residency. In the case of UEMOA, the long-standing principle has been to take a different definition, using currency. This makes sense: the UEMOA is an integrated zone with a fully

integrated market (not only for secondary trading but also for primary issuance). This means that all CFA liabilities would be treated as domestic in the DSA, and would not affect the restructuring targets. The DSF also includes a "benchmark" on the present value of public debt to GDP, but it is generally not used as a binding threshold.

- **Second, restructuring domestic debt is not necessary to ensure fiscal sustainability**. Real interest rates remain reasonable. Domestic debt restructuring is warranted when markets have become "pathological", i.e. nominal and real interest costs are so high that primary balances required to repay them are unfeasible. In particular, the Ghanaian Domestic Debt Exchange Program (DDEP) was necessary due to very high domestic interest rates in the years prior to the default. The fiscal burden of domestic debt repayments was so high that restructuring was necessary. Re-establishing a market in government bonds has since been difficult.
- **Third, implicating CFA debt would create risks for financial stability.** This could worsen outcomes not only for Senegal's banks but for the zone more broadly, thus creating contagion risks. In the specific case of UEMOA, the stability of the zone is at risk if regional holdings were bailed in. Ultimately, the costs of bank recapitalisation could be higher than the gains, thus making everybody – including external creditors worse off. In the case of Sri Lanka, the domestic debt restructuring spared the banking sector, placing the adjustment on the shoulders of the central bank and pension funds.

**External creditors are likely to pressure the government and the IMF to implicate domestic currency debt.** This should be resisted to protect the broader financial stability of the region. However, as time passes and domestic debt replaces external debt, there is a risk that arguments against restructuring CFA debt will weaken: in particular, if fiscal sustainability cannot be restored by treating foreign currency debt alone.

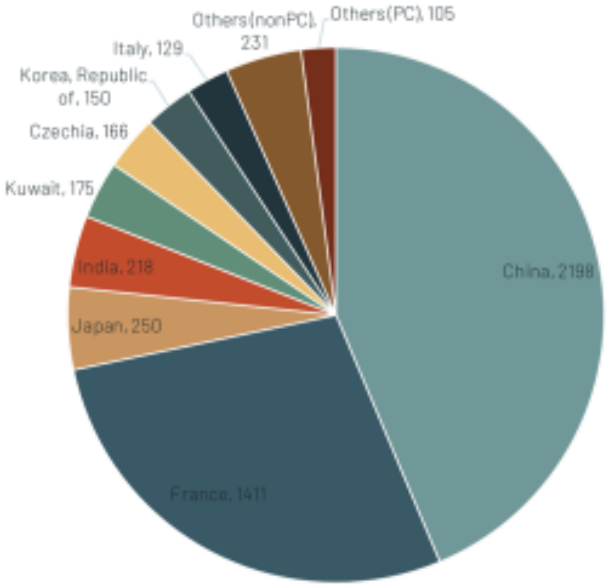
### b. Restructuring is never painless, but there should be an international consensus to go fast and efficiently

**Recent experiences of debt restructuring have been negative, but there have been improvements**. Recent restructuring experience can explain the scepticism of Senegalese authorities against engaging in such a process. Of the 4 cases that have restructured through the Common Framework (Chad, Zambia, Ghana, Ethiopia), as well as the 2 recent cases of non-Common Framework countries, including private creditors (Sri Lanka and Suriname), timelines were slow (between 2 and 4 years, IMF 2025), uncertain, and involved considerable costs to the governments and populations. However, between Zambia in 2020 and Ghana in 2022, timelines have accelerated. Ghana's restructuring has been the fastest: its discussions with bilateral creditors started in February 2023, and by May 2023, the OCC was formed, and sufficient financing assurances allowed for an agreement with the IMF. This was formalised into an agreement-in-principle in January 2024. While better than in Zambia, these timelines should progress for the next case.

**Recent reforms and procedural improvements will help if Senegal were to apply.** The Global Sovereign Debt Roundtable has established a "playbook" including indicative timelines for the restructuring process. Given existing negotiations on a program between the government and the IMF, reaching a Staff Level Agreement on a program could be relatively fast. From there, it should take 2

months to obtain financing assurances[17] (unlocking program approval and disbursements of IMF and other multilateral financing), and less than 6 months for an Agreement in Principle. The composition of bilateral creditors is relatively concentrated: China holds 43% of the stock and France 30%. A rapid, high-level political agreement should signal support for the process at the onset. If such an agreement does not hold, the landscape could be more complex with a large number of smaller, more fragmented Paris Club and non-Paris Club creditors (Chart 6). Though less realistic, the long-standing but so-far rejected proposal of a debt standstill during the negotiations could also be tested.

**Chart 6. Composition of bilateral creditors (as of end-2024)**




*Source: World Bank, International Debt Statistics, 2025*

**Negotiating with private creditors will take time, but this could be an opportunity to accelerate the process.** Hagan and Setser (2024) have proposed creating a parallel track with structured sharing of information to allow discussions to advance faster with private creditors. The GSDR has also proposed a debtor-convened meeting, early in the process, to share information with bilateral and private creditors. These innovations should be used to reduce timelines for both bilateral and private creditors.

**Nevertheless, there will be costs associated with restructuring.** Losses for private creditors are likely to be significant; with a reduction in the debt service over the next 10 years, and made complex by the large number of non-bonded private creditors (bank loans, collateralised debt, etc.). Nevertheless, lending into arrears policies allow the IMF to disburse while these negotiations are ongoing. A renewal of the London Club has been proposed (Lazard 2025, FDL 2025). At the very least, earlier provision of information would be helpful. Claims by African plurilaterals have also been a source of contention in recent cases (Ghana, Malawi, Zambia). Those are important issues that are impediments to a fast and efficient restructuring, but ultimately, the amounts involved tend to be small.

[17] In November 2024, the IMF revised its procedures to obtain "credible and specific" assurances on debt relief (IMF 2024). This has not been used in the context of new debt restructuring, but could help in accelerating processes, especially with regard to Chinese official institutions (Henning 2024, and also https://x.com/TheoMaret/status/1858989219571790319).

**An oft-quoted concern is the rating consequences of restructuring.** Senegal has been downgraded to CCC+ by S&P and Caa1 by Moody's, 4 notches above default. Restructuring debt would lead Senegal in default territory from a rating standpoint. However, rating agencies are forward-looking: once the default is cleared and bonds are exchanged, ratings will rebound, especially if the restructuring is deep enough. For instance, S&P rating for Ghana is now B-, above that of Senegal. In the case where Senegal does not restructure but remains fragile, it could stay at ratings close to default for a long time.

## 4. Lessons for fiscal fragilities in the context of currency unions

**Currency unions create macro-fiscal externalities**. When a member runs large deficits and relies on regional financing, the costs are partly socialized through the shared financial system and pooled reserves. This makes credible, enforceable fiscal frameworks and timely data-sharing essential, because the union's monetary stance and reserve position ultimately reflect the aggregate of member policies.

**The CFA/WAEMU architecture delivers stability but still lacks a fully articulated crisis-resolution framework**. Recent reforms changed important governance features (e.g., France's role in BCEAO governance in normal times and the closure of the operations account), while maintaining the euro peg and the convertibility guarantee. The Senegal episode illustrates that institutional modernization cannot substitute for operational crisis-management tools and clear burden-sharing arrangements.

**The Senegal episode is not only a national issue: it tests the resilience of WAEMU's integrated bank–sovereign system and the regional government securities market.** Even if any debt treatment ultimately seeks to spare most domestic-currency bonds, Senegal's shift toward regional financing, combined with collateralized structures, can transmit stress through banks' sovereign exposures and liquidity conditions, tightening financing across the union and spilling over to private credit[18].

**This advocates for three immediate safeguards:**

i. **System-wide diagnostics and stress testing.** Building on the WAEMU FSAP stress tests, including sovereign-stress scenarios through the sovereign–bank channel, authorities should quantify the capital and liquidity impact of (a) maturity extensions/haircuts on Senegal exposures under alternative perimeters; (b) liquidity shocks linked to collateralized financing (including total return swaps); and (c) second-round effects via higher rates, lower growth, and non-performing loans. Publishing aggregate results (without bank names) can help anchor confidence.

ii. **A layered regional safety net.** Other integrated regions complement IMF resources with formal regional backstops, e.g., the euro area's European Stability Mechanism (ESM) and Asia's Chiang Mai Initiative Multilateralization (CMIM). IMF policy work on collaboration with Regional Financing Arrangements stresses that a credible backstop requires clear conditionality, transparency, and a coherent program framework when co-financing with the Fund (IMF 2013; IMF 2017). Africa is now exploring the establishment of an African Financial Stability Mechanism hosted by the AfDB. WAEMU

[18] See IMF WAEMU FSAP and subsequent IMF surveillance on WAEMU banking risks, also Ndiaye (2025)

should assess whether an AFSM-type instrument or a WAEMU-specific facility could provide contingent, rules-based liquidity support to members facing market shutdowns, conditional on strict debt transparency and credible adjustment.

iii. **Reserve protection and confidence management**. In a tail-risk contagion scenario, preserving pooled external reserves becomes central for safeguarding the peg and financial stability. This requires credible union-wide fiscal adjustment, rapid mobilization of concessional external finance, and contingency planning for episodes of disorderly FX demand. Under the IMF's Institutional View, temporary and targeted capital flow management measures can be part of the toolkit in exceptional circumstances, provided they are transparent, time-bound, and embedded in a broader macro-financial stabilization package (IMF 2022).

**Preserving reserves to avoid contagion.** As part of the toolbox developed during the Eurozone crisis, the IMF has developed an approach to determine when conditions could apply to the union in addition to those applied to a specific country[19]. This should be used for the UEMOA region in the current crisis. This could be implemented by making international reserves an explicit union objective and treating reserve accumulation as a binding constraint on macroeconomic policy coordination. At the union level, the conditions under which an orderly, rules-based transition from a hard peg to a more flexible regime could be managed as a contingency option (rather than as a baseline) should be studied. Additional flexibility can facilitate adjustment in extreme cases by shifting part of the burden away from domestic absorption. In episodes of disorderly outflows, consider temporary, targeted capital flow management measures to limit exits. The objective would not be to defend the peg at any cost, but to preserve financial stability and contain contagion without exhausting reserves.

**Incentives and enforcement.** Senegal's crisis also underscores a classic externality in currency unions: access to pooled reserves and a shared financial market can weaken market discipline and enable "free-riding" if convergence criteria are not enforceable. The fiscal rules literature shows that numerical rules without strong institutions, independent monitoring, credible correction mechanisms, and meaningful enforcement tend to be circumvented (e.g., Eyraud et al. 2018). Recent IMF work on WAEMU emphasizes strengthening the regional fiscal framework, including enforcement and transparency mechanisms, to reduce the risk of future slippages that impose costs on the union as a whole.

**There are also specific lessons for bilateral lenders and the IMF: there is urgency of improving transparency of public debt.** The new element is that, beyond legal disclosures of contracts (e.g., the PublicDebtIsPublic initiative), particular attention needs to be paid to transactions under those contracts. Commitments were relatively well recorded in International Debt Statistics (with an exception in 2023), but disbursements had not been reported. This should create possible alarms when countries have large accumulation of committed loans which are not disbursed. Much more systematic reconciliation of loans, both at commitment and transaction levels, should be customary for external creditors. There are still considerable unknowns on large swaths of "hidden debt", especially on its domestic part, where further scrutiny is necessary.

[19] IMF (2018) : « The threshold for the Fund to make the use of its resources conditional on a policy action by a union-level institution is the same as for policies under the member's own control: the measure must be deemed critical to program success. »

## Conclusion

**Senegal enters 2026 with a soaring public debt and very limited degrees of freedom;** there are no "good" options left on the menu. The compass we paint in this note points to two broad paths. The first is to avoid restructuring and attempt to refinance at scale while sustaining an exceptionally tight fiscal stance for an extended period. The second is to pursue an IMF-supported restructuring of bilateral and private external claims to reduce near-term debt service and make the required fiscal adjustment less self-defeating, while seeking to shield regional lenders and the WAEMU financial system from destabilizing losses.

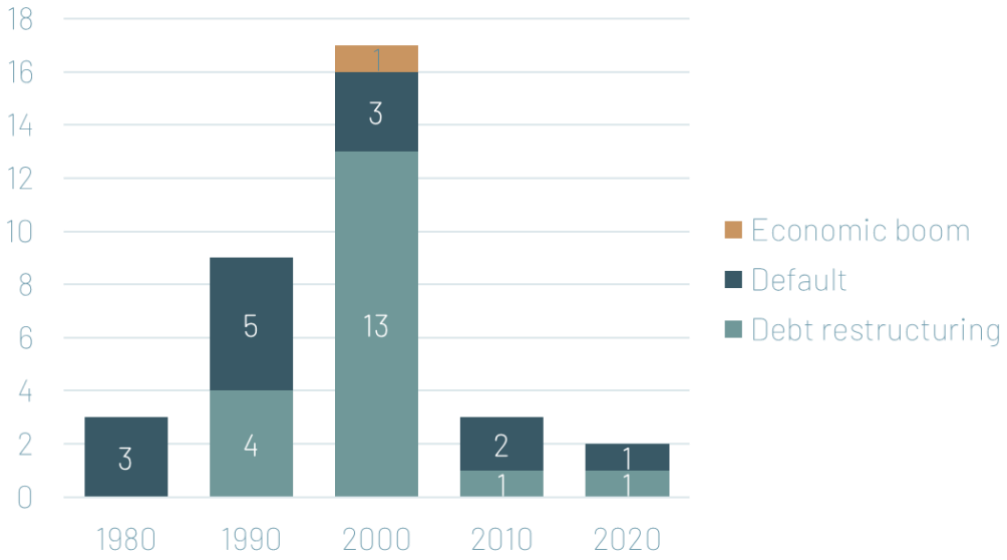
**The "no-restructuring" path should be viewed as a narrow corridor rather than a robust strategy.** Even if it can be made to work under favorable assumptions, it requires simultaneously (i) a consolidation large enough to reassure creditors without undermining growth and revenues, and (ii) sizeable refinancing at unusually low rates from partners willing to take sovereign risk at scale; conditions that may prove politically difficult to sustain. The rollover calendar also makes delays costly. External payments begin to come due in concentrated fashion; starting with the Eurobond amortization in March 2026; and continued reliance on short maturities and collateralized structures risks tightening the sovereign–bank relationship and shifting the problem onto the regional balance sheet.

**If debt treatment is pursued, the central lesson from recent crises is to aim for an early and comprehensive resolution, rather than "too little, too late."** A key strategic choice in this path is the debt restructuring perimeter: preserving domestic-currency liabilities held within WAEMU is not merely a distributional preference; it is rather a macro-financial imperative to prevent regional contagion and a broader credit crunch that would ultimately worsen outcomes for Senegal and its external creditors.

**Finally, Senegal's case sits at the intersection of domestic democratic politics and global geopolitics.** The path toward restructuring will be negotiated in an international environment where creditor coordination is politically charged and where recent debt treatments have often been slow and costly for citizens. This episode will signal whether a stable democracy in a credible monetary union can navigate a high-debt shock without sacrificing social cohesion and regional financial stability, and whether the international system can deliver a faster, fairer, and more predictable exit from sovereign debt distress.

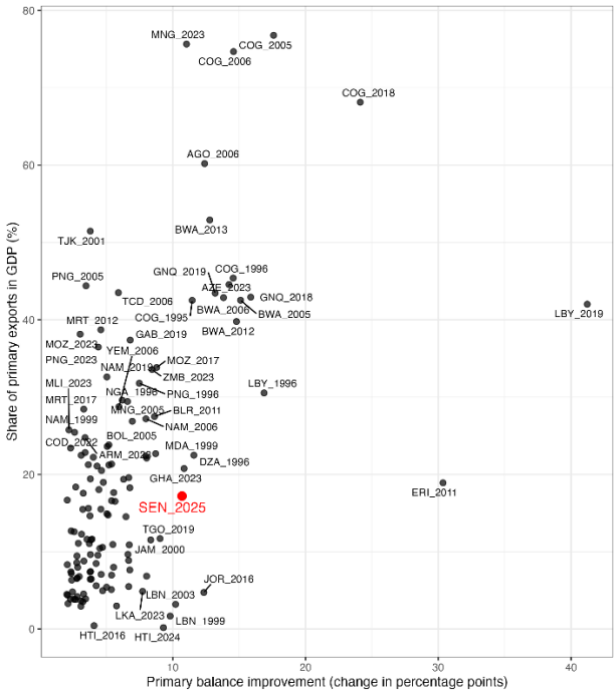
# Annexes

## Annex Chart A: Debt resolutions for countries with debt above 100% of GDP




*Sources: WEO, October 2025, Asonuma Trebesch (2016 and 2023 update), various IMF documents*

## Annex Chart B: Consolidations and commodities




*Sources: IMF WEO, UNCTAD (for commodity exports)*

*Note: A sustained consolidation episode is defined as a reduction of the primary balance over 3 years of at least 2 percentage points of GDP, in a continuous manner (no reversal in a given year). Senegal stands out as it would be one of the largest consolidation without significant access to commodities, or post-conflict recovery, or debt reduction.*

## Annex 2. Assumptions for our Debt Sustainability Analysis for Senegal, 2026-2040

We make a number of assumptions that we explicit here.

1. **Macroeconomic and fiscal variables:** we used the WEO for GDP growth (nominal and real), USD/FCFA exchange rate as well as public expenditure and revenues until 2030. After 2030, we consider that the primary balance adapts to the interest bill: the government is assumed to do whatever it takes to maintain a 3% overall deficit. Our gross financing needs are thus fixed in financing scenarios (i.e. under an interest shock, fiscal policy would adapt).
2. **Interest bill:** For public interest bill, we used LFR 2025 for 2025 and LFI 2026 for 2026, and WEO for 2027-2030. WEO does not have external public interests, so we used the DBPEP. The amortization schedule comes from DBPEP. We extend it to 2040 by linearly projecting the decline in interests for both the domestic and external debt (external at a slower pace given the existence of very long dated concessional loans).
3. **Financing assumptions:** This provides us gross financing needs for 2026-2040, for which we need to make financing assumptions. In our scenario where the IMF provides $1.5 billion in loans over 2026-2028, and other multilateral provide $1-2 billion per year (25% of financing needs in 2026, rising to 30% in 2028, then constant), at 2.5% average interest rate (2% for budget support, 3% for projects). Private and non-concessional bilateral lenders provide 15% of the financing needs in 2026, declining to 10% in 2030. We average their cost of lending at 8%, with a maturity of 8 years and 3 years of grace. The remainder (48% in 2026, rising progressively to 60% in 2030 is financed in FCFA, at various maturities and interest rates of about 6.5% on average.

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