Dakar's (Hidden) Debt Dilemma: the Domestic and Regional Political Roots of Restructuring Decisions

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Executive Summary

Senegal's hidden debt crisis highlights two broader lessons about sovereign borrowing and debt distress. First, governments can "get away" with hidden debt when both borrowers and lenders have incentives to keep parts of public borrowing opaque: complex financial instruments, confidential lending arrangements, weak domestic oversight, and overly optimistic external surveillance can all make it easier for liabilities to accumulate outside the public eye. Second, Senegal's resistance to restructuring is not simply an economic calculation about what is cheapest or most feasible. It is also a political choice about who bears the costs of adjustment and how the government presents itself to domestic and regional audiences.

This brief examines the roots of Senegal's hidden debt crisis. We analyze both the external economic considerations and domestic political factors shaping Senegal's decision to eschew restructuring and instead opt for a tax-first approach. We then discuss the regional dimension of Senegal's debt dilemma.

Background

Senegal recently has become synonymous with "hidden debt." In 2024, allegations emerged that the previous government, led by President Macky Sall, had concealed approximately $7 billion in debt between 2019 and 2024. A new government – led by President Bassirou Diomaye Faye, a former tax inspector, and Prime Minister, Ousmane Sonko, Faye's political mentor -- took office in September 2024. Faye came to power on an anti-corruption platform and after being previously imprisoned by Sall's government.

The new government's audit of public finances revealed off-balance sheet debt, described by the current prime minister as an act of "high treason" by his predecessor's government. The revision dramatically altered assessments of Senegal's debt burden. Once previously undisclosed liabilities and arrears were incorporated, the IMF estimated total public sector debt at 132% of GDP by the end of 2024 — far above earlier official figures. The revised numbers

raised serious questions about whether Senegal could realistically keep servicing its obligations without some form of debt treatment.

Since these allegations emerged, the major credit ratings agencies have downgraded Senegal, and the International Monetary Fund (IMF) has suspended $1.8 billion in funding. Senegal thus far has resisted creditors' calls for restructuring its debt. The government has suggested that restructuring would be a "national disgrace", even as markets appeared to react negatively to such statements. In mid-November 2025, Senegal's 2031 Eurobond fell to a record low 64 cents on the dollar, and S&P cut Senegal deeper into junk status, to CCC+, citing debt-data uncertainty and financing risks. The government has insisted that, via painful domestic adjustment, it will repay its creditors in full, while also relying heavily on the regional market to meet financing needs.

In 2009, Greece similarly revealed large hidden debts, coupled initially with an intense resistance to restructuring. After prolonged negotiations as well as domestic political turmoil, Greece agreed to a restructuring in 2012. Debt crisis, delayed adjustment and reform had major long-term economic consequences for Greece. Can Senegal avoid some of the same consequences?

It remains unclear whether Faye and Sonko's gamble will pay off. Over the next several months, the critical question is whether they can pair credible transparency reforms with revenue measures strong enough to stabilize debt servicing capacity without triggering destabilizing backlash both domestically and regionally. If they fail, their tax-first stance and regional financing strategy may collapse into the very outcome they sought to avoid: a formal, IMF-endorsed restructuring on terms they no longer control. If Senegal's leaders instead succeed, they would become an influential template for other outsider governments trying to square economic anti-corruption nationalism and regional sovereignty with the hard constraints of the IMF and international capital markets.

Hidden Debt: Who and Why?

The current administration attributes hidden debt problems to the previous government's corruption, while the IMF has hinted that a lack of debt management capacity is to blame. What do we know about the general conditions under which governments disclose accurate and complete information about their debt?

Debt transparency reflects capacity to record and report, as well as the willingness to do so. Both borrowers and lenders vary in their willingness to report the existence as well as the terms of debt. Some creditors are less likely to disclose loan amounts as well as loan terms. For instance, a recent analysis of loan agreements from China shows that financial contracts from China, especially those from China Development Bank (CDB), sometimes include clauses that require the borrower to keep all terms strictly confidential. Others impose confidentiality obligations on the lenders. A few agreements from Agence Française de Développement (AFD), the French public development bank, also adopt similar clauses. The use of confidentiality

clauses by CDB and AFD is consistent with the fact that China and France stand out as the top bilateral official creditors for previously undisclosed debt in Senegal.

More generally, commercial bank lending to sovereigns often is not disclosed publicly, nor are loans from commodity-based firms such as Glencore and Trafigura. Indeed, since 2018, the G-20 has urged commercial creditors to voluntarily disclose their loans to sovereigns. This initiative, however, has produced few tangible results, despite similar calls for transparency from the IMF and the World Bank. The emergence and growth of more complex financial instruments, such as total return swaps, threatens to make this problem even worse. In hopes of addressing gaps in debt reporting, the World Bank called last year for "radical debt transparency."

Debt disclosure also reflects a borrowing government's concerns with political survival. To the extent that governments want to hide (from citizens or from external audiences) information about their finances, they might be drawn to more opaque financing instruments. For instance, borrowing governments with less transparent economic practices are, all else equal, more likely to receive sovereign loans from Chinese entities.

International financial institutions also can shift governments' incentives. While simple encouragement of legal reform may be insufficient to sway government practices, the presence of more direct IMF scrutiny can prevent the hiding of debts and loan transactions from the World Bank can pressure democratic governments to increase economic transparency. That said, regular surveillance from the IMF via the Article IV process does not seem to have prevented Senegal's hidden debt problems.

This may represent a more general issue of unwarranted optimism in the IMF and World Bank's assessments of debt sustainability. Debt Sustainability Analyses (DSAs), part of regular IMF surveillance, evaluate a government's debt carrying capacity based on a somewhat mechanical analysis of economic growth and debt stock. DSAs are conducted by staff from the IMF and World Bank on field missions, with inputs from local authorities. Staff have autonomy to adjust the ratings from these models, perhaps in response to real or perceived pressures from powerful member states. Recent studies of DSAs show systematic optimism in predicting debt-

to-GDP ratios and fiscal revenues across countries. The predictions and assessments may be more optimistic for countries that are US allies and more pessimistic for China's allies; Senegal historically has had close relations with the US, but has recently deepened its ties with China.

Civil society groups and mass publics also can press governments for fiscal and debt transparency. Grass-roots pressure requires accurate information, as well as a willingness to direct attention and resources to fiscal policy issues. Access to information has been a challenge not only for Senegalese but for citizens across sub-Saharan Africa. According to Afrobarometer Round 9 results, only 32.5% of respondents in Senegal report that they are likely to obtain information about development plans and budgets. The shares are 31.4% and 26.8% when it comes to public school budgets and government funded contracts respectively. The pattern is similar across other African countries.

While public finance education is severely lacking in many parts of Africa, fiscal transparency and open dialogue from governments does matter for public support of less popular policies such as increased taxation on things like consumption goods. On a hopeful note, Senegal passed the Access to Information Law on August 25, 2025, guaranteeing the right to access information held by public institutions and private bodies performing public functions. The legislation promises citizens access to information on government budget, expenditure and financial reports. Although there may be a long way from law enactment to implementation, *de jure* transparency is a good starting point.

To Restructure or to Tax?

Even before any looming principal repayment "cliff," markets are already pricing Senegal debt like that of a distressed borrower. For Senegal, this means that "avoiding restructuring" does not mean avoiding pain. Rather, it shifts where the adjustment happens: instead of sharing losses with external creditors, the government commits to keep servicing debt in full while trying to rebuild credibility after the debt-stock revision. The choice between restructuring and domestic taxation and austerity is a distributional one: it determines whether more of the burden falls on creditors—most of them external—or on domestic taxpayers, consumers, and beneficiaries of public spending.

Even though Prime Minister Sonko has called on the nation to make "sacrifices" instead of restructuring its debt, the near-term austerity arithmetic is very stark. Senegal's projected debt service for 2026 jumped to CFA 5.49 trillion (vs 3.24 trillion the year before) after the hidden-debt revision. Mechanically, this reduces fiscal space for investment and social priorities unless revenues rise sharply or spending is cut hard. The IMF has been clear that the adjustment plan hinges on major revenue mobilization and rationalizing energy subsidies, while also warning that achieving a very "high tax yield" from proposed measures is a significant risk—i.e., if tax collections disappoint, the consolidation would have to come from deeper cuts or new borrowing at punitive rates.

The larger political problem facing Senegal is that subsidy reform, tighter spending controls, or steep tax hikes, especially in light of rising food and fuel prices, are precisely where African

governments have faced the fiercest, fastest political backlash—so the Faye administration's proposal of full repayment through austerity instead of restructuring risks becoming a rolling internal negotiation over who bears the burden, month after month, under market scrutiny.

Restructuring, meanwhile, is not one decision but a protracted process—and Senegal's process would be complicated by its creditor diversity and recent revelations of debt misreporting. Recent analysis using World Bank International Debt Statistics reveals that multilateral creditors hold roughly 40% of Senegal's external public and publicly guaranteed debt, while private debt (bonds and commercial non-bonded debt) constitutes another 40%. The remaining debt, to bilateral official creditors (20%), is highly fragmented, which makes coordination and burden-sharing politically and technically harder and raises classic free-rider problems. Protracted negotiations over burden-sharing among diverse creditors can themselves deepen crises, particularly for borrowers that lack close alignment with major IMF-shareholder states (Ferry and Zeitz, 2024). This is precisely why the Senegalese government is so keen to avoid a formal restructuring: it would almost certainly pull Dakar into an IMF-led process over financing and conditionality, with no guarantee of a quick resolution.

A separate World Bank study finds that when hidden debt surfaces, restructurings tend to be longer and creditor losses ("haircuts") larger, because investors price the risk that there is "more bad news" still to come and hidden debt dilutes the recovery value of market investors. In that sense, the government may be resisting not only the economic consequences of restructuring, but also the political exposure and uncertainty of a drawn-out IMF-linked process.

When Zambia defaulted on its debt in 2020, for instance, its highly fragmented debt to both Western bilateral and multilateral creditors and to Chinese state-owned banks led to a messy and protracted negotiation and restructuring under the G20 Common Framework, which took nearly three and a half years to conclude (Grigorian and Bhayana, 2024). Like Zambia, Senegal's largest bilateral creditor is also China, with 43% of its bilateral official claims.

There are debates in the sovereign finance literature about whether credit markets "forgive and forget" a restructuring episode, with some research arguing that it takes on average about five years after restructuring for the defaulting country to re-access international markets, while others view the costs are shorter-lived and more temporary. Senegal, however, is already effectively locked out of international bond markets, with its eurobonds trading at distressed levels and its credit rating deep in junk territory. A restructuring would not so much cause market exclusion as formalize what is already the case — and could, by clearing the debt overhang, shorten the path back to market access.

The government's resistance, then, is better understood as political rather than financial. Accepting a restructuring now would bring stigma, external scrutiny, and likely IMF oversight, while forcing a visible confrontation with its creditors over who bears losses. Continuing to service steep debt instead shifts more of the burden onto domestic taxpayers, consumers, and beneficiaries of public spending, while buying the government time. The risk, however, is that this shorter-run political strategy could worsen Senegal's longer-run position by delaying the

restoration of debt transparency, a credible fiscal path, and sustainable access to international capital markets, in addition to uncertainty whether domestic audiences will fall behind the government's anti-restructuring posturing.

The Domestic Politics of Restructuring Decisions

The decision to restructure or continue to service expensive debt through austerity is an inherently distributional one, driven by domestic political concerns. Research on the politics of sovereign finance suggests that government ideology, the electoral cycle, and concerns about satisfying important constituencies shape not only how governments borrow (Cormier, 2024; Zeitz, 2024; Ballard-Rosa et al. 2022; Bunte, 2019), but also whether they choose to default in the first place. Governments may be willing to break commitments to foreign creditors when repayment would require cutting spending that protects their core supporters (Ballard-Rosa, 2020). For Sonko and Faye's ruling party (the African Patriots of Senegal for Work, Ethics and Fraternity or just Patriots of Senegal, or PASTEF), the calculus runs in reverse: the political costs of a restructuring — stigma, external oversight, and damage to a sovereignty narrative — currently outweigh the costs of imposing domestic austerity.

For a party that won on an anti-corruption, "system change" mandate, refusing restructuring can be politically legible even when it's economically difficult. Many observers doubt the feasibility of avoiding an IMF-backed restructuring altogether—yet the government continues to insist on trying. What these observers miss is that what might matter to the Senegalese government is less the question of market credibility than how their debt-related choices map to their coalition's interests, identity, and claims to domestic political legitimacy.

For PASTEF, a restructuring risks blurring the line between the previous administration's mismanagement and the new government's promise to restore integrity. In a legal sense, a restructuring is not with a particular government but with the state itself — and submitting to one would signal that Senegal as a sovereign cannot meet its obligations, regardless of which administration incurred them. That framing undercuts PASTEF's anti-corruption narrative meant to distinguish itself from the graft of the previous administration.

It is small wonder then why Sonko has both framed restructuring in moral terms—warning that it would be a "national disgrace"—and cast expedited repayment plus domestic revenue mobilization as the only path forward. At least for now, PASTEF appears intent on avoiding an IMF-centered restructuring process, both because the Fund is politically unpopular in parts of its coalition and because delay gives the government time to test the willingness of various constituencies to bear the pain of domestic adjustment, preserve room to blame the previous administration, and exploit a relatively long electoral horizon before the next major national contest.

That logic is reinforced by Senegal's place in a wider wave of decolonial monetary politics in West Africa and the Sahel. During the campaign, Faye argued that "there's no sovereignty if there is no monetary sovereignty," linking his political credibility to control over the country's—and sub-region's—currency, the West African CFA Franc. Alongside Benin, Burkina Faso, Côte

d'Ivoire, Guinea-Bissau, Mali, Niger, and Togo, Senegal belongs to the West African Economic and Monetary Union (WAEMU), a currency and monetary union that dates back to 1994. Faye and Sonko have repeatedly signaled that CFA reform is part of a broader project to renegotiate Senegal's position in the postcolonial financial order.

This matters both economically and politically. Senegal's eurobonds are denominated in USD and euros, while its regional debt is issued in CFA franc, a currency whose peg to the euro is managed by the Central Bank of West African States under arrangements that date back to French colonial rule. The CFA has become a charged symbol across the Sahel: the populist military regimes in Mali, Burkina Faso, and Niger have openly voiced support for breaking with the CFA and building a new monetary union. Against that backdrop, accepting a creditor-driven restructuring—especially under intense pressure from ratings agencies and a Western-led IMF—risks clashing with PASTEF's sovereignty narrative in a way that a simple "we will pay, but on our terms" austerity pitch does not. PASTEF has therefore made its debt stance as part of a broader sovereignty claim operating on two levels: resisting an IMF-led restructuring process perceived as externally imposed, and pushing for greater monetary autonomy through CFA reform.

The Regional Dimension of (Non)Restructuring Decisions

The decision to restructure or to continue servicing expensive debt also has regional implications. Apart from domestic taxation, Senegal is increasingly raising money by borrowing from the WAEMU and wider African market as it is currently shut out from international bond markets and IMF funding. By the end of 2025, the country accounted for nearly one-third of net issuances in the total WAEMU market—a 12% increase from 2024 (S&P, 2025).There are at least three issues at play with this regional turn in financing to fund public expenditure and meet external payment deadlines.

The first is the role of African Multilateral Financial Institutions (AMFIs) in helping Senegal to avoid a default that triggers a liquidity shock to the WAEMU banking system. With no restructuring (for now) and less financing from Western creditors, AAMFI may be providing a lifeline to Senegal. In May 2025, Senegal used a total return swap, a more opaque form of financing increasingly popular with highly-indebted governments, to borrow €350 million (about CFA 230 billion) from the Nigeria-based African Finance Corporation (AFC), which primarily focuses on financing infrastructure. These swap deals have helped Senegal to meet some of its payments to avoid a default. They offer lower interest rates than international bond markets (about 4-5 percentage points less), with newly-issued local currency bonds used as collateral. As a condition for the swaps, Senegal has agreed to give AFC debt repayment priority over its existing creditors—though the legality of this commitment remains uncertain.

Reports also suggest that some of Senegal's bonds are being taken up by Togo-based investors, which potentially includes the West African Development Bank (Banque Ouest Africaine de Développement, BOAD). Over the first six months of 2025, BOAD's portfolio of Senegalese debt increased by 65% in terms of treasury bonds and 50% in treasury bills. The West African institution has since justified its bond investments as part of an optimization strategy for

treasury management. If BOAD is indeed buying Senegalese debt, then like AFC, it is likely doing so with the assumption that its preferred creditor status (PCS) would shield it from any restructuring. But the privileged status of African regional development banks are likely to complicate dynamics for any future restructuring efforts—should the PASTEF government change its mind—especially as AMFIs come under increased scrutiny, with some African multilaterals pursuing legal means to recoup their funds from sovereign defaulters, like Zambia, which opted to abandon its commitment to PCS. Unsurprisingly, to secure AFC funds, Senegal had to "formally acknowledge the development lender as a preferred creditor" (Cotterill 2026).

The second is the potential for moral hazard, as Mitu Gulati and Mark Weidemaier have suggested. There are incentives to protect the WAEMU market, not just because of PASTEF's sovereignty narrative, but also to reduce negative spillovers for other WAEMU countries, some of which have offered political support to Senegal. Ivorian President Alasanne Ouattara, for example, has been quietly lobbying to avoid a restructuring effort that could have negative economic effects on an already politically vulnerable WAEMU. If local banks, whether in Cote d'Ivoire or elsewhere in WAEMU, continue to hold most of Senegal's debt and foreign investors reasonably assume that such debt would not be restructured, they would be incentivized to continue purchasing domestic/WAEMU debt, despite market uncertainties. Foreign investors typically must work indirectly through local banks to tap into the WAEMU market, with Ivorian banks being the intermediary of choice for Senegalese debt. Investors in Cote d'Ivoire already hold 42% of this debt, which is the equivalent to 7% of the assets in the Ivorian banking sector.

This suggests a potential third issue: the risk of crowding out. If Senegal continues to issue debt on regional capital markets, it will increase liquidity pressures in other WEAMU countries, crowding out bank credit for firms in the private sector, including small and medium-sized enterprises that account for 90% of the WAEMU economy. Senegal's continued issuances on the WAEMU market also may force other WAEMU governments—perhaps to limit the pressure on the liquidity of local banking systems—-to turn to foreign creditors, including through Eurobonds and secured commercial bank loans (S&P, 2025). This strategy may not prove sustainable over the longer term.

A decision to not restructure also would leave Senegal without the IMF's stamp of approval. This reputational hit could be extended towards neighboring countries. Existing research on the political economy of sovereign debt suggests that investors evaluate governments' creditworthiness, in part, based on their perceptions of similar or "peer" countries (Brooks, Cunha, and Mosley, 2015). Grouped with a WAEMU member (Senegal) that now faces higher premiums, other WAEMU members may find themselves in bad company.

Senegal's leadership may continue to preserve an anti-corruption and sovereignty-based political narrative by avoiding an IMF-centered restructuring, even if doing so shifts the immediate burden onto citizens through taxes and austerity, and to neighboring countries and African financial institutions, through borrowing on regional markets. The country's resistance to restructuring is best understood as a political wager: that the costs of domestic austerity will prove more manageable than the stigma and loss of control from an IMF-led process.