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Notes from the road: Senegal's journey from setbacks to stability



POSTCARD



● Senegal

A public accounting error and disappointing progress on reforms have set back Senegal's ambitions to secure IMF funding. But my trip revealed three encouraging themes: a determination among policymakers to push through vital reforms and do right by bondholders; a highly supportive IMF; and strong demand for domestic debt from the regional market.

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1 A strong sense of political will and pride

Senegal has been this year's underachiever in emerging market (EM) fixed income. While many of its peers – low-income, high-yield 'frontier' economies – have basked in a bond market rally, negative headlines have driven significant underperformance of Senegal's debt. The discovery of undeclared spending under the previous administration (i.e., misreported debt – as we first reported [here](#)) is largely to blame. This threw into question the country's IMF programme, with a lack of progress on vital fiscal reforms amplifying the alarm bells for debt investors.

While the path ahead will be neither easy nor smooth, my meetings with the country's policymakers revealed a clear commitment to reforms and positive momentum on enacting these. Authorities are pushing ahead with ambitious fiscal consolidation measures – spanning tax reforms and capital expenditure controls – aimed at cutting the fiscal deficit to 3% by 2027 (from almost 13% in 2024). While growth is moderating to 4%–5% over the medium term, these credible reform steps are anchoring investor confidence.

In addition, several of my conversations revealed a strong sense of duty and pride among policymakers – a genuine willingness to make painful changes and take ownership of them, rather than point the finger at external actors. That's a refreshing takeaway from a trip to any country, regardless of its level of economic development. It was also clear to me that there is no appetite in Senegal for debt restructuring; this is an economy committed to honouring the payment promises it has made.

The African Renaissance Monument, a powerful symbol of Africa



Source: Ninety One.

2 Firm support from the IMF (and others)

An eventual IMF programme for Senegal could amount to as much as US\$1.8 billion, which would go a long way toward underpinning investor confidence in the country's debt. My discussions with the IMF and other multilateral institutions were encouraging, painting a picture of strong and united support for Senegal and its reform drive.

Furthermore, a key milestone appears close – the IMF has concluded its mission relating to the case of debt misreporting – resolving this issue is a prerequisite for negotiations around a new programme – and the associated waiver seems imminent. As a first step, formal negotiations are set to begin in mid-October, meaning a staff-level agreement could be reached by mid-November – unless the IMF views Senegal's fiscal adjustment as insufficient to address its debt challenges (more on that later).

3 A surprisingly strong safety net

Looking beyond external support, a big surprise for me during the trip was the scale and strength of regional demand for Senegal's debt. In this regard, Senegal stands apart from much of its low-income peer group. Its membership in the West African Economic and Monetary Union (WAEMU) provides access to a large local market at relatively low borrowing costs, since the bloc is treated as a homogeneous risk market. Banks, pension funds, and diaspora investors create a deep local bond market and liquidity risk is contained, despite the country's debt-to-GDP ratio of 120%. Moreover, with high foreign currency reserves in the region, XOF-denominated¹ financing can be converted to dollars with ease.

For context, issuance of UMOA-Titres² and APE (appel public à l'épargne) bonds has been oversubscribed. Innovative APE structures converting bilateral loans into tradable local bonds are improving transparency. The APE issuance has also resulted in a significant amount of net new financing, as participating issuers are required to provide 50% in additional funds.

This important safety net is typically overlooked by fixed income market participants but it makes Senegal more resilient than other frontier-market issuers to a 'sudden stop' in foreign investor flows, such as that seen in recent years, as we noted [here](#).

1. XOF is the West African CFA franc - the official currency of the members of the WAEMU.

2. The agency responsible for regional primary market issuance.

Key considerations for investors

Given the three takeaways outlined above, current bond market pricing suggests there's still an excess risk premium on Senegalese debt – especially in light of the rating downgrade announced by Moody's since I returned from my trip. However, careful monitoring will be vital, and ongoing qualitative analysis is key. Senegal is an example of where quant models fall short and data doesn't tell the full story, resulting in mispriced risk. For example, in July 2024, market valuations did not reflect our expectation – guided by detailed qualitative analysis – of fiscal slippage and delays to the IMF programme, which prompted us to take a more cautious stance. This year – following credit rating downgrades – we've seen risk mispriced in the opposite direction, creating a buying opportunity.

The key area to watch is the IMF's debt sustainability analysis – a vital component of any low-income economy programme. Given Senegal's elevated debt ratio, the IMF will need to see a credible path toward more sustainable levels in the medium term. Senegal's aversion to debt restructuring means the onus will be on finding a fiscal adjustment that both works domestically and satisfies the IMF. The next question is how long the public will tolerate the pain associated with spending cuts – a tolerance that has so far been helped by the incumbent government's ability to blame its predecessor for the debt misreporting issue. But as we've noted previously, local sentiment – and policy direction – can shift rapidly in emerging markets.

Despite recent setbacks, a more stable economic outlook still seems feasible for Senegal, but investors must remain vigilant.

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