The last sovereign debt question of 2026

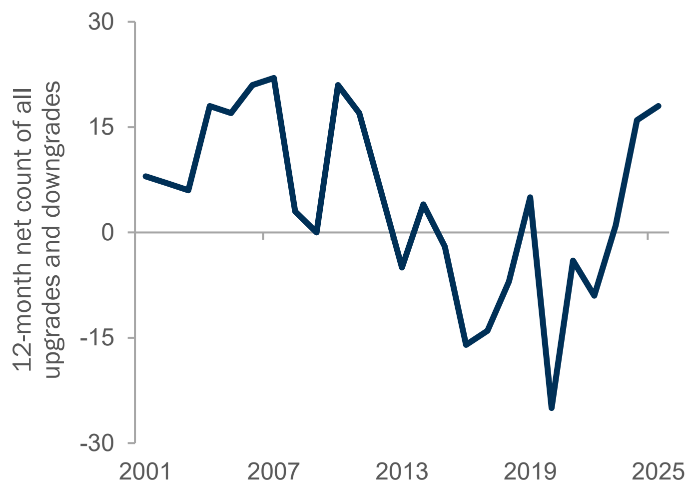
From Emerging Market Debt

As many former sovereign crisis credits transition into recovery stories, one question is attracting growing attention among investors: could Senegal emerge as the next significant sovereign debt test case?

For emerging market debt investors, the mood today is very different from just a few years ago. The cluster of sovereign crisis between 2020 and 2023 triggered by the pandemic is largely behind us. Zambia, Ghana and Sri Lanka have all successfully restructured. Across emerging markets, fiscal deficits are narrowing, inflation is moderating and investors are increasingly discussing upgrades and recovery stories rather than defaults.

It is important to acknowledge that sovereign defaults are rare events. Historically, annual sovereign default rates have averaged well below 1%.[1] Yet investors are paid to remain vigilant. Today, the more interesting question for investors is no longer where the next wave of defaults will come from. It is where potential exception may arise. And if there is one sovereign credit that increasingly stands out as a potential exception to the broader improving trend, it is Senegal.

Figure 1: EM sovereign net rating actions



Data as of July 15, 2026
Source: : JP Morgan

A market favorite that lost credibility

Senegal was never supposed to be the next sovereign debt story.

For years, it was one of Africa's market favourites, combining political stability, strong growth and an ambitious development agenda. More recently, the start of offshore oil and gas production appeared to strengthen an already compelling investment case.

1. Source: J.P. Morgan

In many respects, that story remains intact. Growth prospects remain attractive, export capacity is improving and future hydrocarbon revenues should support the economy for years to come. (see Figure 2)

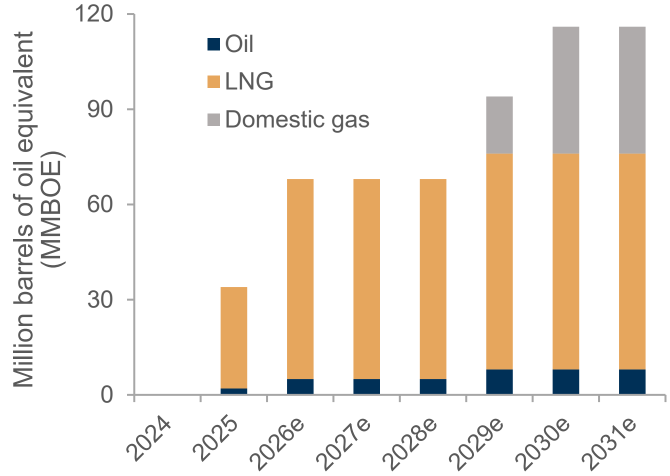
What changed was not the economy. What changed was the balance sheet.

Following a review by the new administration, public debt estimates were revised sharply higher. Debt previously reported at roughly 75% of GDP at the end of 2023 was subsequently revised above 110%, while broader public-sector debt is now estimated at around 130% of GDP by the IMF.[2]

The increase in debt was significant. The loss of credibility was even more damaging. Investors can live with high debt. What they struggle with is uncertainty over the numbers. Once confidence in fiscal reporting is undermined, every forecast becomes harder to trust.

That leaves Senegal in an unusual, and arguably more challenging position than many of the sovereigns that underwent debt distress in the post-pandemic period. While its growth outlook is improving, confidence in its public finances has been weakened. The key question for investors is no longer whether Senegal can grow. It is whether that growth can outpace a debt burden that turned out to be far larger than anyone expected.

Figure 2: GTA phase 1 production profile



Source: Kosmos Energy, Greater Tortue Ahmeyim (GTA project) straddling the maritime border between Senegal and Mauritania, Pareto Securities, July 2026

Why Senegal could become the next sovereign test case

What makes Senegal particularly important is not simply the possibility of restructuring. It is the possibility that Senegal becomes the first major sovereign test case for a changing IMF framework.

Historically, IMF debt sustainability assessments focused primarily on external obligations. The central question was whether a country could generate enough foreign currency to service its international debts and regain market access.

Today the framework is becoming broader. Increasingly, the IMF is placing greater emphasis on total public debt, domestic debt and gross financing needs, or the amount of debt that must be refinanced each year.

This distinction matters enormously for Senegal. International investors naturally focus on the country's Eurobonds. Yet a substantial portion of Senegal's debt sits within the domestic and regional financial system. Domestic debt is estimated at roughly 50% of GDP, while domestic refinancing requirements account for a large share of annual financing needs.[3]

Under the older IMF framework, a restructuring could largely focus on external creditors. Under the newer framework, the IMF may place much greater emphasis on the sustainability of the entire sovereign balance sheet, including domestic debt and refinancing risks. Therefore, Senegal may not simply be another restructuring story. It may be the first restructuring designed around a much broader definition of debt sustainability.

Senegal's previous $1.8 billion programme with the IMF was suspended after the discovery of debt discrepancies, and discussions regarding a new programme are now central to investor thinking. Ultimately, the IMF must answer a difficult question: Can a country with debt around 130% of GDP and improving growth prospects gradually stabilise its debt burden through reform, fiscal adjustment and stronger revenues? Or does debt sustainability require some form of creditor contribution? Current market pricing suggests investors increasingly believe some debt treatment may eventually be required.

Conclusion

For the past couple of years, the broader story in emerging market debt has been recovery, resilience and reflows. The sovereign default cycle has receded. Many former crisis credits are becoming recovery stories with net positive ratings action across the universe. Economic fundamentals of the asset class continue to improve.

While emerging markets are moving beyond the sovereign debt crisis era, Senegal may ultimately become the exception that proves the rule. It remains one of the few countries where improving fundamentals and rising restructuring risk are unfolding simultaneously, making it one of the most closely watched sovereign stories in emerging markets today.

2. Source: Pareto Securities, July 2026
3. Source: IMF

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