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POLICY BRIEF

BEYOND THE 'HIDDEN DEBTS' NARRATIVE: A ONE-COUNTRY REFORM TO ELIMINATE SENEGAL'S PATHOLOGICAL DEBT BURDEN*

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Key Takeaways

- Senegal's financial predicament, characterized by "hidden debts" and an unsustainable external debt trajectory, is more serious than is commonly recognized. The current international payments regime obliges countries facing external deficits to pay their external debt twice. This structural constraint cannot be addressed by austerity policies which only exacerbate the situation.
- As an alternative to austerity, this policy brief suggests a reform that will allow Senegal, in full sovereignty, to avoid the duplication of its external debt and to capture substantial public revenues - amounting to the equivalent of billions of US dollars annually - that can be used to finance its economic development.

Introduction

Senegal is currently facing an unprecedented debt crisis that threatens to jeopardize its economic prospects for decades to come if appropriate solutions are not implemented. This note is written within that context. First, we argue that Senegal's financial predicament cannot be reduced to a story of "hidden debts", which should be seen as an aggravating factor rather than a structural one. The root cause of the country's heavy debt burden lies in the pathological regime of international payments, which penalizes deficit countries. Second, we demonstrate that Senegal's financial crisis is more severe than one can imagine. Under the current international payments regime, deficit countries pay twice their external debt. Finally, we propose reforms that will enable Senegal, in full sovereignty, to avoid the duplication of its external debt and to capture substantial public revenues that can be mobilized to finance its development.

1. "Hidden Debts" as an aggravating factor

In a report dated February 2025, Senegal's Court of Auditors revealed the existence of "hidden debts" - liabilities that go undisclosed to the Senegalese parliament and international financial institutions - amounting to 5,004 billion CFA francs, or 8.7 billion dollars, at the current exchange rate.[1] This revelation led to downgrades in the Senegalese government's credit rating, higher borrowing costs, and a loss of access to international financial markets.

As reprehensible as the accounting and institutional practices that allowed these "hidden debts" to accumulate may be, they are not the root and decisive cause of Senegal's financial predicament. Debt crises in the Global South do not primarily result from idiosyncratic factors such as mismanagement, fiscal laxity, etc. They have a structural character linked to the pathologies of the current international payments regime. In this regard, it would be more accurate to consider that these "hidden debts", which consist mainly of loans contracted from the West African Monetary Union (WAMU) banking system. These loans have exacerbated an external debt situation that was already on an unsustainable trajectory.

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* The views expressed here are those of the author(s) and do not necessarily reflect the views of IDAN.

[1] Cour des Comptes (2025) Audit sur la situation des finances publiques. Gestions de 2019 au 31 mars 2024. Rapport définitif, République du Sénégal, February 2025, p.44, https://www.courdescomptes.sn/publications/rapports/rapports-particuliers/

Indeed, according to the World Bank, between 2012 and 2024, Senegal's external debt (public and private) stock rose from 7.1 to 47.1 billion US dollars. Since this rapid debt accumulation was not accompanied by a proportional increase in export revenues, the country's external solvency deteriorated. Over the same period, the ratio of external debt stock to exports rose from 168.8% to 573.3%.[2] Under such conditions, where the ability to service the external debt through export revenues significantly diminished, the slightest shift in "sentiment" on the part of external creditors can plunge the country into a severe financial crisis. Such was the effect of the revelation of "hidden debts", thereby complicating and exacerbating an already unsustainable external debt situation.

However, these "hidden debts" and the unsustainable trajectory of Senegal's external debt are only two elements of a larger puzzle that must be pieced together to identify lasting solutions that benefit the country's economic development.

2. Why the Present Situation is So Serious

The current international payments regime revolves around key currencies such as the US dollar and the euro, which countries like Senegal must obtain in order to pay for imports and service debts owed abroad. As Senegal does not issue an internationally accepted settlement currency, it can organize payments domestically in CFA francs but must still settle externally in dollars or euros. The country's debt problem is therefore not only the result of domestic policy choices, but is also rooted in an asymmetrical international monetary order that penalizes countries in deficit.

Money is a means of payment, not the final object of payment. What ultimately settles international transactions are real goods and services, or financial claims on future production. Yet the current system treats certain national currencies as if they were final settlement assets for the rest of the world. For countries such as Senegal, this creates a structural dependence on foreign exchange, transforming external deficits into a heavier financial burden than the real imbalance alone would imply.[3]

To understand why the situation is so serious, one must distinguish between two dimensions of an external deficit. The first is real: If imports exceed exports, Senegal receives more goods and services from abroad than it currently delivers in return, and that gap must eventually be compensated through financial claims on future output. The second is monetary. Foreign suppliers must be paid in foreign currency, which means that Senegal's banking system must secure dollars or euros to complete settlement abroad. These are two distinct obligations, but under the present regime they are superimposed on one another.

In 2023, Senegal recorded an external deficit of 3.7 trillion CFA francs (or 5.6 billion euros). Excluding trade in goods with the other WAMU countries, the deficit stood at 4.5 trillion CFA francs (or 6.9 billion euros). On the goods side excluding WAMU trade, imports were about 6 trillion CFA francs and exports about 2 trillion. Those figures show the mechanism directly. Imports exceeded exports by about 4 trillion CFA francs, yet the payment system turned that gap into both a transfer of financial claims on future output and a simultaneous loss of domestic income.

[2] Data obtained through the World Bank International Debt Statistics database, visited on March 30 2026, https://databank.worldbank.org/source/international-debt-statistics

[3] See, e.g., Carrera, A. and Cencini, A. (2024) National and International Monetary Payments. From Smith to Keynes and Schmitt. London: Palgrave Macmillan. See also Bradley, X., Carrera, A., Cencini, A., Gnos, C., and Rossi, S. (2025) 'In memory of Bernard Schmitt. A survey of his quantum monetary approach to macroeconomics', Review of Political Economy. https://doi.org/10.1080/09538259.2025.2479742

Table 1: Senegal's Goods and Current Account Balances (in billion CFA francs)

	Debit	Credit	Balance
Goods	6,575.8	3,348.5	- 3,227.3
Goods trade in WAMU	283.8	1,100	816.2
Goods trade (excluding WAMU goods trade)	6,292	2,248.5	- 4,043.5
Current Account	10,515.4	6,832.4	- 3,683
Current Account (excluding WAMU goods trade)	10,231.6	5,732.4	- 4,499,2

Source: BCEAO (2024)[4]

Let us first address Senegal's imports.[5] Senegalese importers bought foreign goods worth 6 trillion CFA francs and their domestic bank accounts were debited by that exact amount. At the microeconomic level, they have paid what they owe. However, that payment does not free Senegal from the obligation of paying foreign creditors in dollars (or euros).

A CFA franc payment can reduce a liability within the domestic banking system; it cannot directly settle the obligation owed to a foreign supplier in dollars or euros. A second operation is therefore required. The banks of Senegalese importers must instruct their correspondent banks abroad to debit their foreign-currency accounts for an amount equal to the value of the imports. After 6 trillion CFA francs have already been withdrawn from domestic deposits, the Senegalese banking system must still provide the foreign-currency equivalent of 6 trillion CFA francs so that foreign suppliers can be paid in full. The domestic act of payment and the international act of settlement are separate operations, and this separation is the source of the pathology.

Exports reveal the reverse side of the same mechanism. Foreign buyers paid the hard-currency equivalent of 2 trillion CFA francs for Senegalese exports (outside WAMU). Those dollars and euros entered the external accounts of the Central Bank of West African States (BCEAO), while the BCEAO paid Senegalese exporters by creating 2 trillion CFA francs. Again, there are two linked operations where foreign buyers pay in hard currency, and exporters in Senegal are paid in domestic currency.

When the import and export transactions are added together, the duplication becomes visible. Importers' deposits fell by 6 trillion CFA francs, while exporters received 2 trillion CFA francs. Net of those two operations, the deposits of importers and exporters in Senegal's banking system declined by 4 trillion CFA francs. Yet on the foreign-currency side, the banking system had only 2 trillion CFA francs equivalent coming from exports while it needed 6 trillion to pay suppliers abroad. It therefore had to incur a foreign currency debt of 4 trillion CFA francs to bridge the gap.

This is the core of the argument that deficit countries pay twice. The first burden is real and unavoidable: By importing more than it exports, Senegal transfers financial claims on part of its future production to creditors. The second burden is monetary and institutional: Because settlement must be made in hard currency, the banking system must borrow foreign exchange simply to execute the payment abroad. The domestic economy loses 4 trillion CFA francs at the same time that it takes on 4 trillion CFA francs of foreign currency debt.

[4] BCEAO (2024) Balance des Paiements et Position Extérieure Globale au titre de l'année 2023, Dakar, BCEAO, December.

[5] We assume that the export and import data are truthful (for example, no misreporting or illicit financial flows).

The accounting interpretation matters. Exports of goods, services, and financial assets are always equal to imports of goods, services, and financial assets. A country with an external deficit is therefore one that has sold financial assets to the rest of the world in order to finance net imports. In Senegal's case, a deficit of 4.5 trillion CFA francs means that the country sold financial claims on future production. That is the normal real counterpart of the deficit. The abnormality appears only when that real counterpart is combined with the domestic monetary loss described above.

The duplication does not mean that individual importers are personally billed twice for the same shipment. Rather, the country as a whole bears dual burdens where only one real burden should exist. Under a sound international payments system, the foreign-currency loan needed to bridge the settlement gap would allow foreign suppliers to be paid in full without depriving Senegal of the domestic-currency counterpart. Under the present regime, by contrast, the country loses additionally part of its national income. This diagnosis helps explain why the revelation of "hidden debts" was so damaging without being the ultimate source of the problem. Once a country is repeatedly subjected to the duplication mechanism described above, any shock to creditor confidence can rapidly trigger a crisis.

This is also why the persistent current account deficits shown in Figure 1 are a matter of concern. Senegal, like its WAMU partners, has not faced a one-off imbalance but a repeated pattern of deficits over decades. Under the present key-currency regime, each deficit can translate into a fresh combination of lost domestic income and additional external indebtedness. The longer such a pattern persists, the more likely the economy is to fall into a cycle of structural fragility, fiscal compression, and developmental underperformance.

Figure 1: Evolution of the Current Account Balance of Senegal and the West African Monetary Union between 1985 and 2025 (% of GDP)

Source: Authors' elaboration based on IMF, World Economic Outlook, October 2025 update; visited on March 30, 2025; Guinea-Bissau joined the WAMU in 1997.

For policymakers seeking an alternative to austerity measures, the crucial question is therefore not merely how much Senegal has borrowed, but why the current payments regime obliges the country to duplicate the burden of its external deficit. The answer is concrete: a gap in the order of 4 to 4.5 trillion CFA francs had to be financed externally, while the domestic economy simultaneously lost an equivalent amount of liquidity. One payment is real and unavoidable; the other is institutionally imposed. This diagnosis points directly to the need for a one-country reform capable of preserving the domestic-currency counterpart of the deficit while allowing Senegal to meet all of its international obligations in full.

Seen in this light, the debt crisis is not just a financing problem. It is also a problem of institutional design. As long as Senegal continues to participate in a settlement mechanism that forces non-key-currency countries to obtain externally what residents have already paid internally, each external deficit becomes harder to absorb than it should be. Put differently, the country is squeezed from both sides: today's domestic liquidity is reduced when deposits are debited, and tomorrow's national income is pledged when foreign-currency debt is contracted. That is why chronic deficits under the present regime weaken not only external solvency but also economic capacity, growth, social cohesion, and policy autonomy over time.

3. Beyond the Specter of Austerity: The One-Country Reform

The one-country reform[6] begins from a simple observation: Senegal must pay for what it receives from abroad, but it should not be compelled to bear a second debt burden merely because external settlement must be performed in dollars or euros.

The reform does not seek to suspend payment, repudiate debts, or impose losses on foreign suppliers and creditors. They continue to be paid in full and in the proper foreign currency. The aim is to ensure that the CFA franc counterpart of Senegal's net imports is preserved within the national economy instead of vanishing when the banking system borrows abroad to complete settlement. In this way, the reform separates the unavoidable real cost of the deficit from the avoidable monetary duplication created by the current regime. The reform separates these two layers and keeps the monetary instrument needed for settlement from becoming a second permanent burden within the country itself.

To achieve this, the proposal creates a National Bureau with two distinct arms: an internal department and an external department. The internal department manages all domestic-currency payments linked to external transactions. The external department manages all foreign currency payments linked to the same operations. The purpose is to reconnect, in a coherent public mechanism, the domestic act of payment and the external act of settlement.

Under the internal department, Senegalese importers would pay the Bureau in CFA francs for the goods and services they buy from abroad, while Senegalese exporters would be paid by the Bureau in CFA francs for what they sell abroad. In 2023 figures, the internal department would receive 6 trillion CFA francs from importers and pay 2 trillion CFA francs to exporters. The result is a net domestic-currency surplus of 4 trillion CFA francs. Under the reform, that surplus is retained and transferred to the Treasury instead of disappearing from the national economy.

[6] Schmitt, B. (2014) 'The formation of sovereign debt: diagnosis and remedy', Social Science Research Network, September. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2513679. See also Schmitt, B. (2017) 'A one-country reform: The solution to the sovereign debt problem', in J.-L. Bailly, A. Cencini, & S. Rossi (Eds.), Quantum Macroeconomics. London and New York: Routledge, pp. 158-172.

This point gives numerical content to the argument that the reform captures revenues for development. Today, Senegal loses that 4 trillion CFA franc counterpart while also taking on foreign debt of the same amount. Under the reform, foreign suppliers are still paid in full, but the 4 trillion CFA francs remain available domestically. On the broader BCEAO measure, the captured amount is on the order of 4.5 trillion CFA francs.

The external department would handle the foreign currency side. It would receive the dollars and euros generated by export earnings and, when exports are insufficient, mobilize reserves or foreign borrowing to complete payment abroad. Export receipts provide foreign currency equivalent to 2 trillion CFA francs, but 6 trillion is needed to pay foreign suppliers. The external department would therefore secure the additional 4 trillion in equivalent hard currency required to settle the full import bill.

The innovative element is the counter-loan.[7] When Senegal must obtain 4 trillion CFA francs equivalent in foreign currency to bridge the settlement gap, the external department simultaneously grants an equivalent counter-loan to the rest of the world. This operation neutralizes the purely monetary dimension of the borrowing. It recognizes that the foreign currency loan is a vehicular operation required by the existing system, not an additional financial claim that should permanently weigh on Senegal over and above the real cost of its deficit. Moreover, the counter-loan guarantees the real payment of Senegal's net imports, which will be settled by transferring to foreign creditors the ownership over an equivalent part of Senegal's current production.

The reform therefore changes the meaning of the foreign currency loan. Under the current regime, a loan of 4 trillion CFA francs equivalent both pays foreign suppliers and drains 4 trillion CFA francs from the domestic economy, so the country ends up with an external debt increase and no matching internal resource. Under the reform, the same hard-currency amount is used to settle abroad, but the domestic counterpart is retained by the Treasury. The foreign loan continues to play its vehicular role, yet the internal economy is no longer stripped of the equivalent amount in CFA francs.

The first-period arithmetic can therefore be stated simply. Importers pay 6 trillion CFA francs into the internal department. Exporters receive 2 trillion CFA francs from it. The Treasury retains the 4 trillion CFA franc surplus. On the external side, foreign buyers provide 2 trillion CFA francs equivalent in hard currency through export receipts, and the Bureau secures another 4 trillion CFA francs equivalent in hard currency to pay foreign suppliers in full. Senegal has therefore honored its international obligations, but unlike under the current regime it has not destroyed the domestic-currency counterpart of the deficit. Moreover, thanks to the Bureau's counter-loan, Senegal's external debt no longer increases.

If Senegal remains a net importer in subsequent periods, the same logic will continue to apply. Each year, the domestic currency counterpart of the deficit is captured rather than lost, while the counter-loan mechanism prevents the foreign currency debt associated with settlement from snowballing mechanically. Applied to a deficit of around 4 to 4.5 trillion CFA francs, this is the scale of annual fiscal room the reform could open. Bureau's net domestic currency receipts will be substantially increased by the service on previously accumulated debts, i.e. the payment in domestic currency of interest on previous external debts increases the

[7] For further details, see, e.g., Cencini, A. (2023) 'The one-country solution to the sovereign debt problem', in A. Cencini 'Bernard Schmitt's Quantum Macroeconomic Analysis, London and New York: Routledge, pp. 411-432. See also Cencini, A. (2026) 'A reform to protect a group of countries or a single country from the pathological consequences of the present non-system of international payments', No. 07/2026, International Development Economics Associates (IDEAs).

Bureau's inflow. That gain gain must, however, be invested productively in infrastructure, productive capacity, export potential, and social development. Used in that way, the reform offers a coherent alternative to austerity: Senegal pays foreign partners in full, prevents the duplication of its external debt, preserves several trillion CFA francs a year for national use, and use that retained monetary space for development. In practical policy terms, this means that a deficit on the order of 4 to 4.5 trillion CFA francs would cease to translate automatically into an equal domestic monetary loss and an increase in Senegal's external debt. Instead, that amount would appear as potential fiscal space, provided it was managed through the Bureau and used for productive purposes. Over several years, the difference is substantial: rather than compounding a pattern of external fragility and adjustment, the reform would convert the domestic counterpart of repeated deficits into a stream of public resources that could be *invested* to support industrial upgrading, energy investment, transport, health and education.

The economic benefits of the one-country reform are huge. The 4 to 4.5 trillion CFA francs that Senegal could have captured in 2023, with this reform, are of the same order of magnitude as its domestic currency fiscal income in 2025. As Senegal is a member of WAMU, it can implement the one-country solution if it opts for monetary sovereignty. However, were Senegal able to convince WAMU of the necessity of such a payments system reform, the Union would need to be transformed into a Clearing Integrated Monetary Area, or CIMA[8]: a real-time gross settlement area with stable intra-area exchange rates, serving as the common system for both intra-area and extra-area payments. By functioning as an integrated monetary area, CIMA would also shield WAMU members from the build-up of external debt associated with extra-area payments.

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[8] Carrera, A. and Cencini, A. (2024) National and International Monetary Payments, op.cit.