

Background Analysis 1.4.

Frontier External Debt: Beyond Bond

Overview

- **Frontier market debt ratios have broadly stabilized, although lower-rated sovereigns continue to accumulate debt.** The sovereigns still adding debt have debt-to-GDP ratios significantly higher than their higher-rated peers.
- **Frontier sovereigns with the largest increase in external debt have financed it mainly outside bond markets.** From 2018 to 2024, eurobonds financed about one-fifth of the increase in external debt among sovereigns rated B– or higher but none of the debt increase in sovereigns rated CCC+ or below. Official creditors accounted for most of the external debt increase among the lower-rated borrowers.
- **The forms of external financing other than bonds and official creditors are harder to observe.** Bilateral debt can be less visible, whereas collateralized and resource-backed loans are often not publicly disclosed. Total return swaps may be recorded only to the extent that they generate cash.
- **When underreported debt surfaced, it has done so abruptly and on a large scale.** This calls for broadening debt transparency beyond conventional debt instruments, explicitly incorporating contingent collateral obligations into debt sustainability assessments, and conducting surveillance on financing compositions more closely to complement surveillance on sovereign spreads.

Introduction

The composition of frontier sovereign external financing has changed in recent years. Alongside traditional sources of financing such as bond markets, official lending, and bilateral credit, some sovereigns have increasingly relied on collateralized and structured financing arrangements. These financing sources differ in their transparency, cost, and seniority, raising important questions about which creditors are repaid first and how sovereign debt restructurings can be resolved. Some of these financing instruments are also less well captured by sovereign debt statistics.¹

This analysis examines how frontier sovereign financing has evolved in recent years, how the financing mix differs across rating groups, and what these shifts imply for the measurement of frontier market debt. Three patterns stand out. First, bond finance accounts for a minority of frontier external sovereign debt, with the largest external debt buildups during 2018–24 mainly financed outside bond markets. Second, bilateral credit, which includes loans from governments (including the Paris Club) and their agencies, as well as direct loans from official export credit agencies, accounts for a sizeable share of external debt among lower-rated sovereigns. Third, some collateralized and structured financing arrangements are captured incompletely or not at all in reported debt statistics.

The authors of this analysis are Andrew Ferrante, Xiang-Li Lim, and Esti Kemp.

¹ The analysis is based on 53 frontier sovereigns; external debt is public and publicly guaranteed external debt, including IMF credit. Creditor composition is from World Bank International Debt Statistics, which reproduce Table 1.1 of the International Debt Report 2025 for 2014–24 and end in 2024. For a discussion of broader shifts in external financing conditions and financing composition among low-income countries, see IMF (2026).

Financial Stability Implications

Bond Market Access Has Reopened for Frontier Sovereigns

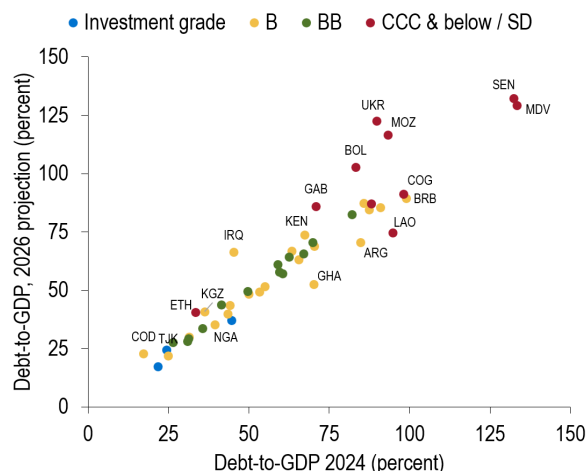
Primary debt markets remain open and have extended to lower-rated frontier sovereigns. Frontier sovereigns issued about \$26 billion of eurobonds in the first half of 2026—the strongest first-half issuance since 2018. Several lower-rated borrowers and first-time issuers have been able to access international capital markets. However, redemptions have absorbed roughly half of gross issuance, leaving a roughly 10 percent increase in outstanding eurobonds since end-2024.

Debt ratios have broadly stabilized since 2024, but debt accumulation has continued among lower-rated frontier sovereigns. Median total public debt is projected around 62 percent of GDP in 2026, little changed from 2024, with roughly two-thirds of sovereigns on a declining debt path (Figure 1.4.1). Among stronger-rated sovereigns, the improvement reflects fiscal adjustment and economic growth. Among weaker sovereigns, it reflects debt restructuring and write-downs. This stabilization follows a buildup in debt between 2018 and 2024, when median debt rose by roughly 5 percentage points of GDP.² Sovereigns rated CCC or below have accounted for most of the largest increases in debt ratios since 2024.

Figure 1.4.1. Frontier Sovereign Debt Paths, by Rating

Debt ratios have fallen for most frontiers, with the exceptions concentrated in the weaker credits.

1. Gross general government debt (Percentage of GDP)



Sources: Bloomberg Finance L.P.; IMF, *World Economic Outlook*, July 2026; and IMF staff calculations.

Note: Sovereigns above the dashed line are still adding debt; the 2026 axis is a projection, not an outturn. Rating buckets reflect the latest rating. Ecuador, Lebanon, Sri Lanka, and Zambia are excluded from the figure given that their 2026 *World Economic Outlook* projections are not available. Data labels in the figure use International Organization for Standardization (ISO) country codes.

The Share of Bond Finance in External Debt Has Levelled Off over the Past Decade

Bond finance is a minor share of frontier external debt. Among sovereigns that have not gone through debt restructuring, or “performing” sovereigns, bonds have accounted for about one-fifth of external public debt consistently since 2018. Bilateral credit accounts for a similar share as bonds, while official lending from multilateral institutions and the IMF hold the largest share of external debt (Figure 1.4.2, panel 1). Among sovereigns that underwent debt restructuring or faced debt distress, bond financing declined from being the largest component of external debt in 2017 to a smaller share than official lending by 2024, as a wave of restructuring events in the early 2020s effectively closed access to international bond markets (Figure 1.4.2, panel 2).³ A distinguishing feature for this group of sovereigns was their heavier reliance on hard-currency bond markets before losing market access. Meanwhile, the share of bilateral lending changed little, and official lending rose to more than half of external debt.⁴

² Median frontier sovereign debt rose from 58 percent of GDP in 2018 to 63 percent in 2024, with 36 of 53 sovereigns on a rising path. Grouped by end-2019 composite rating, the median increase during 2019–20 was about 18 percentage points of GDP for sovereigns then rated CCC and below, 11 in the single-B bucket, and 9 among the strongest.

³ The restructured sample includes 13 sovereigns: Argentina, Barbados, Belize, Ecuador, Ethiopia, Ghana, Lebanon, Mozambique, Sri Lanka, Suriname, Ukraine, Venezuela, and Zambia. Barbados and Venezuela are absent from International Debt Statistics, so the figures cover 11. Restructuring status follows recorded bond or Paris Club default and restructuring events (Horn, Reinhart, and Trebesch 2022).

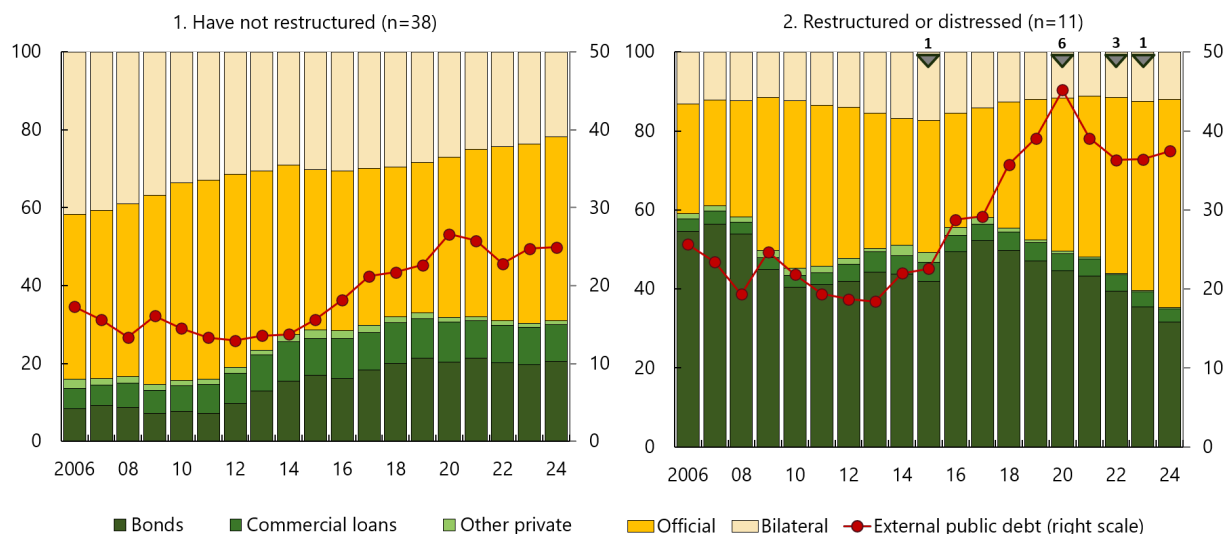
⁴ Argentina and Ukraine are about 55 percent of this group’s external debt in 2024. Excluding them, the official share rises from 27 to 42 percent of external debt over 2018–24, against 32 to 53 percent for the group as a whole; it rises in all 11 sovereigns individually.

Figure 1.4.2. External Creditor Composition of Nonrestructured versus Restructured Frontiers

Bond finance is a minor share of frontier external debt, and that share has changed little since 2018.

1. Creditor composition of non-restructured vs. restructured Frontiers, percent of external public debt

(Percent of external public debt, left scale; external public debt as percent of group GDP, right scale)



Sources: World Bank, International Debt Statistics; IMF, *World Economic Outlook*, April 2026; and IMF staff calculations.

Note: External debt is public and publicly guaranteed external debt; "Official" comprises multilateral creditors and the IMF. Bars show group aggregates, computed as the sum of each group's debt in a category over the sum of its external debt; the line is the sum of external debt over the sum of nominal GDP in US dollars. Group ratios therefore reflect movements in US dollar GDP as well as in debt, so a ratio can fall while the dollar stock rises. Restructuring status follows recorded bond or Paris Club credit events, so sovereigns that have rescheduled with official bilateral creditors without a recorded event are classified as not restructured. Markers on panel 2 denote the onset year of each credit event and the number of sovereigns involved; onset precedes completion of an exchange, so write-downs largely follow the marked years. Of the 53 frontier sovereigns, 49 report to International Debt Statistics. Data end in 2024.

Bilateral Lending Plays a More Important Role for Lower-Rated Sovereigns but Is Less Visible

Across performing sovereigns, lower-rated ones tend to have more bilateral debt. Bilateral debt share of GDP rises from the highest to the lowest rating group, whereas eurobond exposure as a share of total public debt declines across ratings (Figure 1.4.3, panel 1). This likely reflects that access to eurobond markets is itself closely linked to creditworthiness. Bilateral loans can help sovereigns maintain access to external funding when bond markets are constrained, but their terms are often less transparent than those of bond financing, making debt costs, creditor exposures, and restructuring risks more difficult to assess.

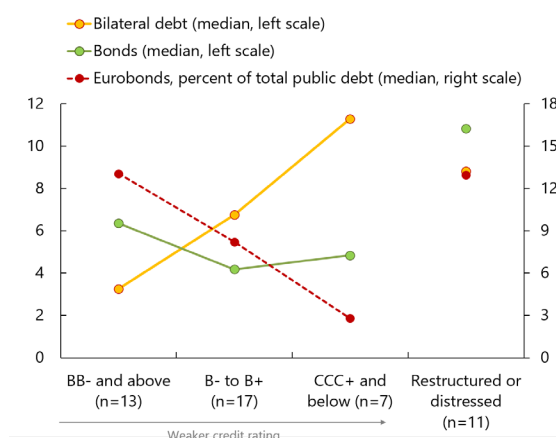
Among sovereigns in which external debt rose by more than 5 percentage points of GDP between 2018 and 2024, bonds accounted for only a small share of the rise. For the 10 high-debt-growth sovereigns rated B– or above, external debt growth increased by close to 23 percentage points of GDP between 2018 and 2024, of which bonds accounted for about 5 percentage points and bilateral lending about 3. By contrast, for the seven sovereigns rated CCC+ or below, external debt rose by about 17 percentage points of GDP while bond exposure fell slightly (Figure 1.4.3, panel 2), with the increase financed overwhelmingly by official creditors. Since end-2024, eurobond stocks have changed little among the high-debt-growth sovereigns in either rating group. Elsewhere, several lower-rated sovereigns have regained market access—including returning and first-time issuers—while others have reduced their outstanding stocks.

Figure 1.4.3. External Creditor Composition by Rating Category and the Type of Debt

Bilateral debt rises with weaker ratings; Eurobond exposure declines.

1. Creditor Composition across the Rating Spectrum, 2024

(Percent of GDP, left scale; eurobond share in percent of total public debt, right scale)



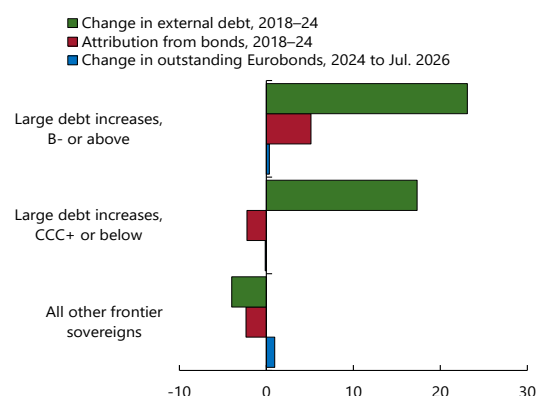
Sources: Bloomberg Finance L.P.; World Bank, International Debt Statistics; and IMF staff calculations.

Note: Medians of country ratios within each group. Bilateral and bond debt are external public and publicly guaranteed debt, in percent of GDP (left scale). Eurobonds are outstanding general government international bonds. Rating groups use a composite of three agencies' 2024 ratings.

Bonds helped finance the external debt buildup of stronger frontier markets, but not the weakest ones.

2. External Debt Changes and the Contribution of Bonds

(Change, Percentage points of group GDP)



Sources: Bloomberg Finance L.P.; World Bank, International Debt Statistics; IMF, *World Economic Outlook*, April 2026; and IMF staff calculations.

Note: Group aggregates in percent of group GDP. External public debt is public and publicly guaranteed external debt including IMF credit, ending in 2024. Large debt increases are increases above 10 percentage points of GDP during 2018–24. Eurobond data covers end-2024 to July 31, 2026, and is drawn from Bloomberg; it is therefore not continuous with the bond series above it. Lebanon meets this threshold but is grouped with all other frontier sovereigns, as its ratios are dominated by the contraction in nominal GDP. Excluding Ukraine, the group rated CCC+ or below comprises six sovereigns with an external debt increase of roughly 10 percentage points. Rating groups use a composite of three agencies' 2024 ratings and include restructured and distressed debt.

A Share of External Debt in Frontiers Is Incompletely Reflected in Debt Statistics or Not at All

Some financing arrangements for frontier sovereigns are difficult to capture in standard debt statistics. Bilateral lending may be underreported, while collateralized and resource-backed loans are often not publicly disclosed. Structured instruments such as total return swaps may also be recorded only to the extent of the cash they generate (Box 1.4.1).

The case of Angola illustrates the issue. In December 2024, the sovereign entered a \$1 billion total return swap, collateralized by \$1.9 billion of newly issued sovereign bonds that raised no cash. The bonds are documented as ordinary senior unsecured eurobonds and amount to about one-tenth of Angola's outstanding international bonds. While they are treated as external debt in the IMF Sovereign Risk and Debt Sustainability Framework, the statistical treatment—relying on the authorities' reporting—records only the financing amount as external debt, treating the collateral bonds as contingent liabilities. Statistical data therefore capture the cash raised but not the full exposure, and the terms that determine when it crystallizes are not public.

The case of Senegal offers a cautionary example of the effect of debt recognition long after the act of borrowing. Following an audit in 2024, central government debt for 2023 was restated from about 74 to 100 percent of GDP. Successive vintages of the same debt statistics subsequently added roughly \$2 billion of previously unreported bilateral disbursements, the largest component of the initially unrecorded external obligations, on project commitments that had already been disclosed—alongside off-budget bank borrowing and arrears. Senegal's spreads changed little around either disclosure, but repricing occurred later, as successive

downgrades moved Senegal out of the single-B rating category (Figure 1.4.4). The Senegal case illustrates the challenges a sovereign could eventually face through higher interest rates when material exposures are identified only with a delay.

Conclusion and Policy Recommendations

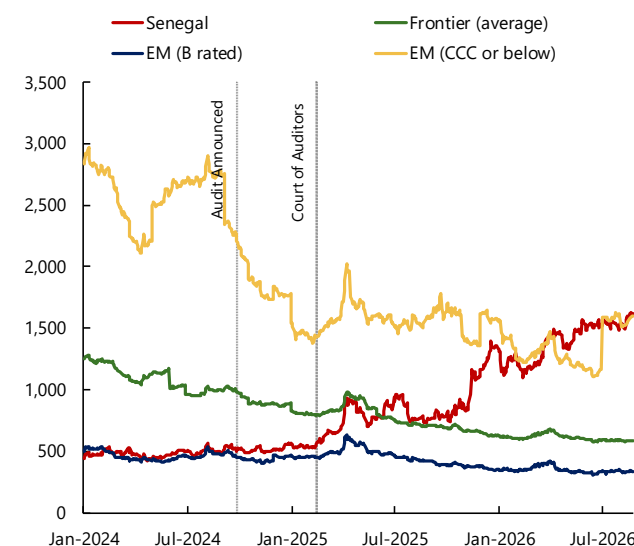
The largest frontier sovereign external debt buildups between 2018 and 2024 were financed predominantly outside bond markets, mostly by official creditors. Beyond bonds and official credit, the remaining layers of external financing are those that data capture the least, including bilateral lending, total return swaps, private placements, and most collateralized lending, and cannot capture liabilities held outside fiscal accounts. When exposures are not reported, the absence of a market response cannot be distinguished from the absence of information. Analysis in this context supports three recommendations:

- **Broaden disclosure of sovereign financing.** Public debt reporting by authorities should cover collateralized debt, derivatives-linked borrowing, guarantees, and contractual risk triggers; for structured instruments, disclosure should extend beyond headline amounts to collateral composition, over-collateralization, margin triggers, and early-termination provisions—the terms that determine when a claim crystallizes and in what order it is repaid.
- **Treat contingent collateral exposures explicitly in debt sustainability analysis.** Over-collateralized structures generate claims that crystallize precisely when a sovereign is least able to meet them. Treating such financing as equivalent to unsecured borrowing understates both liquidity and solvency risk.
- **Focus surveillance on the composition of financing in addition to sovereign spreads.** Compressed spreads can reverse rapidly when financing conditions tighten. Detailed analysis of financing composition can also reveal vulnerabilities that may not be apparent from spreads alone, particularly when structured, collateralized, or off-budget exposures are not fully captured in standard debt statistics.

Figure 1.4.4. Senegal's Spread Repriced after Debt Disclosure

Senegal's spread was little changed through the audit and the Court of Auditors report, then repriced to the distressed cohort over 2025.

1. Senegal Spreads versus Other Frontier Sovereigns (Basis points)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: Spreads are JPMorgan indices. Dotted lines mark the announcement of the debt audit (September 26, 2024) and the Court of Auditors report (February 12, 2025). Bucket membership changes as sovereigns are up- and downgraded, and the CCC-or-below series falls partly on a constituent change at end-2024.

Box 1.4.1. Financing Flexibility and Hidden Market Risks in Sovereign Total Return Swaps

A total return swap (TRS) is a derivative contract in which one party transfers the total economic return of an asset, typically price changes and income payments, to another party in exchange for a financing rate or other agreed payment. In standard market use, TRSs allow investors to gain or hedge exposure to an asset without owning it outright. In recent sovereign cases, however, TRS have been used differently: although legally structured as derivatives, they can economically resemble collateralized funding, with the sovereign receiving hard-currency financing from a bank counterparty against posted collateral, often including its own bonds.

Public reporting of sovereign TRS remains concentrated in a limited number of emerging market and frontier economies, but disclosed cases point to growing use of these instruments for external financing and liability management. Reported cases include Angola, Colombia, Nigeria, and Senegal, though motivations and structures differ. Angola used TRS initially when market access was constrained and later as part of broader liquidity and refinancing management. Nigeria approved a \$5 billion TRS program in April 2026, with subsequent market reporting indicating that about \$1.5 billion had been drawn. Senegal reportedly executed several TRS transactions in 2025 amid financing pressures and rising borrowing costs. Colombia is a distinct case, as its TRS supported a bond buyback and liability-management operation rather than straightforward new financing.

A common feature in TRS is substantial over-collateralization. In the transactions shown in Figure 1.4.1.1, collateral-to-financing ratios are around 1.3 to 1.6, though estimates vary depending on transaction dates, collateral valuation, and definitions. Across reported cases, collateral has included eurobonds and local-currency government bonds in Angola; naira-denominated government bonds in Nigeria; domestic government bonds and cash in Senegal; and global bonds, domestic treasury bonds and bills, and US Treasuries in Colombia.

TRS can provide hard-currency liquidity in difficult market conditions, broaden the financing mix, reduce reliance on eurobond issuance, and in some cases lower headline borrowing costs. This can be valuable for sovereigns with constrained market access, large near-term refinancing needs, or a desire to avoid pressuring already stretched bond markets. However, headline financing costs may not capture the full economic cost, including fees, encumbered collateral, margin-call exposure, and early-termination risk.

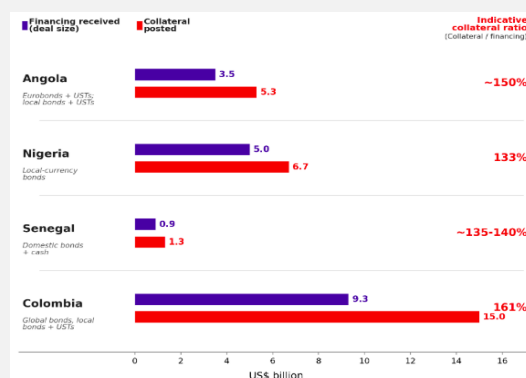
Three financial stability concerns dominate:

- **Disclosure is often incomplete.** Headline financing amounts and broad collateral types may be known, but pricing, fees, collateral valuation thresholds, margin triggers, early termination clauses, and collateral rights are generally not public. This limits the ability of investors, legislatures, and official-sector creditors to assess the true scale, cost, and risk profile of sovereign borrowing. It also underscores the gap between recorded debt and underlying economic risk.
- **TRS can create wrong-way liquidity risk.** When collateral comprises the sovereign's own bonds, its value is directly linked to the sovereign's credit standing. A downgrade, a rise in yields, currency depreciation, or broader risk-off can reduce collateral value and trigger margin calls or early termination, precisely when liquidity buffers are most strained. Angola's December 2024 \$1 billion TRS, collateralized by approximately \$1.9 billion of sovereign bonds, reportedly required approximately \$200 million of additional collateral in April 2025 when bond prices fell.
- **TRS can complicate sovereign debt restructurings.** There is no established precedent for how TRS would be treated in a sovereign debt restructuring. Depending on contractual terms and timing, TRS counterparties may have stronger incentives and mechanisms to recover through collateral enforcement, pre-restructuring repayment, or margin accounts than to participate alongside unsecured bondholders. This can create de facto seniority and shift the burden of debt relief onto other creditors. Such risks rise with scale: larger TRS exposures could materially reduce recoveries for conventional creditors, particularly if collateralized creditors are repaid or enforce collateral outside the restructuring perimeter.

Figure 1.4.1.1 Total Return Swaps

Collateral posted exceeds financing received by a wide margin in reported transactions.

1. Financing Received and Collateral Posted (Billions of dollars; percent)



Sources: Bloomberg Finance L.P.; Fitch Ratings 2026; Moody's; and IMF staff calculations.

Note: Amounts and ratios are indicative and may reflect different transaction dates, valuation bases, and public reporting definitions.

References

- Fitch Ratings. 2026. “Emerging Market Sovereigns” Use of Total Return Swaps Raises Risks.” Special Report,. Fitch Ratings, New York. <https://www.fitchratings.com/research/sovereigns/emerging-market-sovereigns-use-of-total-return-swaps-raises-risks-19-06-2026>
- Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. 2022. “Hidden Defaults.” Kiel Working Paper 2208, Kiel Institute for the World Economy, Kiel, Germany.
- International Monetary Fund (IMF). 2026. *Macroeconomic Developments and Prospects in Low-Income Countries—2026*. IMF Policy Paper 2026/005, Washington, DC. <https://doi.org/10.5089/9798229043229.007>