

The evolution of local currency markets

How TCX helps shape local currency market development
through FX hedging in emerging and frontier markets

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About TCX

TCX is a global development finance initiative supported by a shareholder base that includes FMO, IFC, EBRD, EIB, KfW, AfDB as well as the European Commission and Dutch, Swiss, British, French and German governments and other DFIs and Microfinance Vehicles. TCX protects borrowers in emerging and frontier markets from currency risk by facilitating currency hedges that transfer the risk to TCX's balance sheet. TCX offers derivative instruments — cross-currency swaps and FX forwards — in currencies not or insufficiently covered by commercial parties. TCX started operations in 2007 and has since then hedged a total volume of over USD 21 billion in development loans in over 70 currencies and hedged the currency risk for over USD 3 billion in emerging market local currency denominated bonds.

THE MARKET DEVELOPMENT CHALLENGE

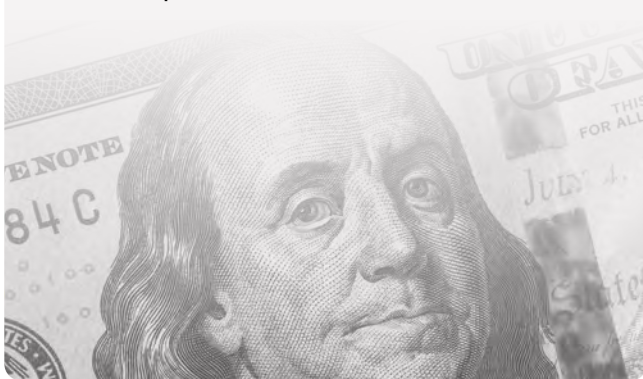
The cost of currency risk

Over the past two decades, Emerging Market and Developing Economies (EMDE) have borrowed on an unprecedented scale, much of it in foreign currency. According to the OECD's Global Debt Report 2025, outstanding EMDE bond debt reached nearly USD 12 trillion in 2024, up from USD 4 trillion in 2007.

12

TRILLION

EMDE bond debt outstanding in 2024, up from **USD 4 trillion** in 2007.



That growth expanded access to capital and deepened domestic markets, but it also concentrated currency risk: excluding China and India, foreign currency-denominated debt accounts for around 20% of total EMDE debt, against 6% for the OECD average, and roughly 40% for smaller economies.

The cost of that exposure has become increasingly visible over time. High-risk countries saw their currencies fall by nearly 80% against the US dollar between 2000 and 2024, so that for a 20-year USD bond issued in the early 2000s, redeeming the principal in 2024 cost five times more in local currency terms than at issuance. Once depreciation is factored in, the median FX-adjusted yield to maturity on USD-denominated debt exceeded 15% for high-risk countries during the recent tightening cycle, a heavy and often underappreciated addition to the real cost of debt.

5x

INCREASE

in local currency repayment cost for some high-risk borrowers.

4.5

TRILLION

EMDE bond debt maturing between 2025 and 2027 — nearly **40%** of total outstanding.

That cost is now compounded by a wave of refinancing. Between 2025 and 2027, almost USD 4.5 trillion in EMDE bond debt will mature, nearly 40% of the total outstanding, and low-income and high-risk countries are the most exposed, with more

than half of their debt coming due in this window and over 20% in 2025 alone¹. The strain is already visible in rising distress: according to the IMF's Global Debt Monitor 2025, 13 countries are in or nearly in default, the highest number in 24 years, with another 13 at significant risk.

1. OECD (2025), Global Debt Report 2025: Financing Growth in a Challenging Debt Market Environment, OECD Publishing, Paris. [VISIT](#).

THE MARKET DEVELOPMENT CHALLENGE

Why FX markets matter for market development

The picture so far describes sovereign borrowing, where currency risk is most visible. But the same constraint binds below the sovereign level, often hardest on the borrowers least able to manage it. Banks, microfinance institutions, and corporates borrow in hard currency because local currency funding is scarce or unavailable, yet they earn their revenues in local currency, leaving them exposed when that currency weakens against the dollar they owe. And meeting the wider investment needs of these economies takes more than public resources and official development flows can provide. It depends on private capital — and unmanaged currency risk is one of the main things that holds that capital back, both by worsening the economics of individual projects and by eroding the fiscal stability that investors look for.

The durable answer is for these economies to develop local currency markets deep enough to finance themselves in their own currency. That can take years, is often non-linear, and depends on reforms and institutions outside any single actor's control. But it also depends on building the market itself, and this is where FX hedging matters. In many frontier currencies, there is no established price for the risk and limited willingness among investors to hold it. Each hedge establishes a price, lets finance reach borrowers while the market is still developing, and adds to the track record that helps investors become willing to hold the currency directly over time.

This paper traces that development — how FX hedging supports it, and the part TCX plays across markets at different stages.

“Currency risk has real consequences for people’s lives. By driving up borrowing costs, it squeezes out essential public spending, weakens fiscal stability and economic resilience, and undermines development progress. The solution is proven and sustainable: strengthen local currency markets so countries can finance development in their own currencies and on their own terms.”

— **Dan Peters** Interim Director, Development Policy & Finance, Gates Foundation

THE MARKET DEVELOPMENT SPECTRUM

TCX across different types of markets

TCX operates across a spectrum of market development, from currencies with no offshore hedging availability to those with active commercial markets. TCX's role differs fundamentally depending on where a currency sits on this spectrum. Where a currency sits along this spectrum is a function of its offshore hedging market — whether a price for the risk exists, whether commercial counterparties will hold it, how deep the local capital market is — not of the country's income level or economic development.

The investor base also evolves along this spectrum. At the frontier stage, DFIs and MDBs are typically the only participants, as private investors have limited mechanisms to take currency exposure. As markets develop, private capital enters through intermediated structures, then directly as commercial hedging options emerge. The goal is deeper local capital markets, markets with the liquidity, financial instruments, and investor diversity that allow local currency finance to function at scale.

The spectrum is a function of the hedging market, not a country's income level or economic development.

How TCX transfers risk to private investors

Central to TCX's market development role is transferring currency risk from its balance sheet to private investors. It does this through two channels.

DIRECT RISK TRANSFER

TCX on-sells currency exposure to commercial counterparties, typically through non-deliverable forwards with international banks or synthetic notes placed with investors.

SHAREHOLDER BOND PROGRAM

TCX hedges local currency-indexed bonds issued by AAA-rated shareholders such as FMO, IFC, and AfDB and structured offshore, giving offshore investors frontier-currency exposure through a familiar instrument.

Since inception:

USD 8.8bn

currency risk on-sold to commercial counterparties

USD 3bn+

in local currency-indexed bonds across 35 currencies

277 local currency-indexed bonds hedged

Both channels recycle TCX's capacity for new transactions and build the private investor base that local currency markets need. How they operate differs at each stage of market development.

The market development spectrum



How markets progress

Movement along this spectrum is neither automatic nor inevitable. It requires enabling policy reforms, macroeconomic stability, investor appetite, and sustained engagement over years. TCX can contribute to conditions for markets to progress, but the outcome depends on the broader ecosystem.

THE MARKET DEVELOPMENT SPECTRUM

Frontier markets

1



In frontier markets, local capital markets are nascent or non-existent. There are no observable offshore prices, no liquid onshore instruments, and no commercial hedging alternatives. Domestic institutional investors are undeveloped. Sovereign bond prices, which provide a benchmark for pricing other financial products (typically the risk free rate), may not exist or are confined to very short tenors.

And even where local instruments do exist, offshore investors generally cannot access them, because the market infrastructure, capital-account openness, and legal frameworks needed to hold them are not yet in place.

TCX frequently serves as the only provider of offshore hedging at this stage, building pricing from macroeconomic fundamentals and local data as available, executing transactions where no market previously existed. Every transaction generates new information about achievable pricing, operational feasibility, and market dynamics. The pricing TCX establishes can become a reference point for how that currency's risk is priced in later offshore transactions. As a result of this nascency, TCX warehouses the vast majority of this risk on its own balance sheet, with limited ability to transfer it until a pricing history and track record begin to attract other hedging providers.

EXAMPLE CURRENCIES

Ethiopian birr	ETB
Fijian dollar	FJD
North Macedonian denar	MKD
Bhutanese ngultrum	BTN
Papua New Guinean kina	PGK

All currencies added in 2025, except the recently reintroduced PGK.

ON-SELLING

At the frontier stage, on-selling options are limited. Commercial counterparties rarely have appetite for currencies with no track record. While commercial appetite for frontier currencies is limited, TCX has pioneered risk transfer in several of these markets, becoming the first to introduce the currency as an investable exposure to commercial hedging providers. These early transactions build the track record that makes broader market participation possible over time.

LOCAL CURRENCY-INDEXED BONDS

Shareholder bond issuance requires sufficient transaction volume to justify the operational costs. At the frontier stage, this volume often doesn't exist yet. TCX is building the foundation for future issuances.

LOCAL MARKET DEEPENING

At this stage, the focus is establishing that the currency can be hedged at all. Domestic market development is a longer-term prospect, dependent on policy reforms, macroeconomic stability, and institution building.

THE MARKET DEVELOPMENT SPECTRUM

Developing markets

2



In developing markets, local capital markets are emerging but remain shallow. Some hedging activity exists, but coverage is incomplete across tenors and counterparties. Sovereign yield curves are relatively short-dated. International investors have limited familiarity with the currency. Without reliable hedging options, private investor participation in these markets remains limited. TCX's role in providing and catalyzing that coverage helps make broader private capital mobilization possible. In some cases offshore investors can begin to access local instruments directly, as market infrastructure is built out, capital controls are eased, and legal frameworks mature, though this access is still partial.

EXAMPLE CURRENCIES

Tanzanian shilling	TZS
Kenyan shilling	KES
Georgian lari	GEL
Vietnamese dong	VND

ON-SELLING

TCX on-sells currency exposure directly to commercial counterparties through derivative transactions. This crowds private capital into the market and recycles TCX's capacity for new transactions.

LOCAL CURRENCY-INDEXED BONDS

TCX hedges local currency-indexed bonds issued by its AAA-rated shareholders. These are structured offshore, listed on international exchanges such as London or Luxembourg and settled in hard currency through international clearing systems, not on local exchanges. This lets offshore investors gain frontier-currency exposure without local accounts or domestic market access, building the familiarity that can pave the way for direct participation.

LOCAL MARKET DEEPENING

As offshore activity accumulates, it creates conditions for onshore development. Domestic pension funds and insurers begin matching local currency liabilities with local currency assets. Sovereigns establish benchmark issuances. Offshore investors start accessing onshore instruments directly. This deepening, driven largely by domestic actors and policy choices, is what ultimately reduces dependence on offshore solutions.

THE MARKET DEVELOPMENT SPECTRUM

Emerging markets

3



In emerging markets, local capital markets have developed meaningful depth. Commercial hedging providers are active, domestic institutional investors participate, and sovereign yield curves extend across multiple tenors. International investors access both offshore and onshore instruments, though domestic hedging options may not extend to longer tenors. At this stage offshore investors can buy and sell local instruments freely, with the market infrastructure, an open capital account, and the legal framework all in place.

TCX's role is more limited at this stage. Commercial providers cover most needs, so TCX focuses on what they don't: longer-dated hedges, smaller borrowers who lack access to commercial banks, and maintaining availability when markets tighten and commercial providers step back.

EXAMPLE CURRENCIES

Colombian peso	COP
Indian rupee	INR
Mexican peso	MXN
South African rand	ZAR

ON-SELLING

Commercial counterparties actively seek exposure to these currencies. TCX can transfer risk easily but often faces competition from commercial alternatives.

LOCAL CURRENCY-INDEXED BONDS

Shareholder bonds face strong investor demand. But the market increasingly functions without them, sovereigns and corporates issue local currency bonds directly to offshore investors.

LOCAL MARKET DEEPENING

The market operates largely on its own. Private investors participate directly, buying local currency bonds, trading with commercial hedging providers, including the currency in their portfolios. The market has become investable without TCX intermediation. This is the end goal of market development, and the point at which TCX's role may appropriately decrease.

THE MARKET DEVELOPMENT SPECTRUM

From offshore to onshore

Local currency market development typically progresses from offshore to onshore activity. This is a common pattern, not a fixed rule. In some markets substantial onshore infrastructure develops first, as in Tanzania, discussed later in this paper.

Why start offshore?

For currencies with capital controls, settlement risk, or limited convertibility, offshore structures are often the only option. They allow offshore investors to gain currency exposure without navigating unfamiliar domestic systems or taking on settlement risk. They create pricing benchmarks and track records that domestic markets can eventually reference.

How does the transition happen?

As offshore activity accumulates, it creates conditions for onshore development. Investors who bought offshore bonds develop analytical frameworks applicable to domestic instruments. Eventually, the domestic market develops enough depth that offshore solutions become less necessary.

Where does TCX fit?

TCX's role is concentrated at the offshore end of this transition. By building a track record and establishing pricing where none existed, it creates references and investor familiarity that onshore markets can later draw on. The Uzbekistan case study later in this paper shows how this full arc can play out, including how TCX's role recedes as commercial providers take over.

WHAT IS OFFSHORE?

Offshore activity happens outside a country's domestic financial system. Loans are funded in hard currency but indexed to local currency performance. Hedges settle in USD or EUR rather than the local currency itself. Bonds are issued in international markets under foreign law. None of this requires domestic market infrastructure, it can proceed even where local capital markets barely exist.

WHAT IS ONSHORE?

Onshore activity happens within a country's domestic financial system. International investors buy domestic government bonds directly. They transact with local banks. They participate in primary auctions. Domestic pension funds and insurers match local currency liabilities with local currency assets. Domestic savings get recycled into domestic investment.

"The goal is deep local capital markets that let these economies finance themselves in their own currencies. Reform and domestic actors drive the deeper development — building the institutions, infrastructure, and local participation a market needs. Offshore tools play an important role along the way, protecting borrowers from currency risk and opening access to finance that would not otherwise be available."

— **Frederique Dahan** Director, Development and Public Finance, ODI Global

RECENT CURRENCY ADDITIONS

Deepening local currency market development

Since the beginning of 2025, TCX has expanded its coverage to include several currencies, each representing a distinct geography and development context. What these currencies share is that they all required TCX to build pricing capability from the ground up, creating hedging availability where none existed offshore. Each represents the beginning of a potential market development journey, entering at the frontier stage of the spectrum.

“When we add a new currency, we are often the only market actor that can absorb that risk. When we’re able to sell a portion of that risk, it is evidence that a commercial market is beginning to take shape. In the countries that have advanced further through market development, we are able to transfer the large majority of that risk. However, we’ve been very pleased to find commercial banks willing to buy a small portion of our books in places like Malawi, Sierra Leone, and the Democratic Republic of Congo – an early sign of market development.”

— **Xander Goudriaan**,
Head of Trading, TCX



Ethiopian birr

ETHIOPIA

1

MARKET DEVELOPMENT STAGE	LENDER
Frontier	IFC
TERMS OF HEDGE	TRANSACTION DATE
USD 500,000 / 6.5 years	March 2025
TRANSACTION SUMMARY	
Cross-currency swap supporting IFC investment in Ethiopia's telecommunications sector.	

Ethiopia is Africa's second most populous country and one of its fastest-growing economies, with the IMF's program review projecting GDP growth of around 9% for the 2025/26 fiscal year. For decades, the National Bank of Ethiopia managed the exchange rate, which kept the birr artificially strong and produced foreign currency shortages and a parallel market where the birr traded at more than twice its official rate. In July 2024, as part of broader economic reforms, Ethiopia moved to a more market-determined exchange rate. The birr immediately depreciated by 30% and has continued to weaken, but the shift also unlocked a USD 3.4 billion IMF program and over USD 1.5 billion in immediate World Bank financing.

TCX's entry into the birr provides the possibility for structuring development finance in local currency terms in Ethiopia, where no other commercial hedging solutions are available. TCX's first hedge in the birr supported an IFC investment in Ethiopia's telecommunications sector, part of a broader effort to modernize and digitize the Ethiopian economy. With no observable offshore market references and limited onshore references, pricing required models built entirely from macroeconomic fundamentals, a defining characteristic of frontier-stage currencies. Offshore financing (with FX risk mitigation tools) is still challenging, but recent FX regulation developments suggest the market may significantly open up in the coming years.

RECENT CURRENCY ADDITIONS

FJD

Fijian dollar

FIJI

2

MKD

N. Macedonian denar

NORTH MACEDONIA

3

MARKET DEVELOPMENT STAGE

Frontier

LENDER

ADB

TERMS OF HEDGE

USD 2 million / 2 years

TRANSACTION DATE

April 2025

TRANSACTION SUMMARY

Cross-currency swap supporting ADB's first local currency loan in Fiji, on-lending to women-owned SMEs.

Fiji faces the existential challenge of climate vulnerability. In 2016, Tropical Cyclone Winston, the most intense tropical cyclone in the Southern Hemisphere on record, caused economic losses amounting to over 20% of GDP. Average asset losses from tropical cyclones and floods exceed FJD 500 million per year, representing more than 5% of GDP.

Fiji has been a pioneer in climate finance for developing countries. In November 2017, it became the first developing country to issue a sovereign green bond, raising FJD 100 million (approximately USD 50 million). The bond was listed on the London Stock Exchange in April 2018. In November 2023, Fiji issued its first sovereign blue bond to fund ocean conservation and coastal protection. In late 2025, Fiji launched its Green Finance Taxonomy and Sustainable Finance Roadmap, frameworks developed with IFC and the Climate Bonds Initiative to guide green investments.

TCX's first FJD transaction provided a hedge for the Asian Development Bank's first local currency loan in Fiji, supporting a local financial institution's lending to women-owned SMEs. TCX's hedge is an initial step in supporting the development of Fiji's local currency market, allowing investments that generate local currency returns to be financed without currency mismatch, which will be critical in achieving the country's climate agenda.

MARKET DEVELOPMENT STAGE

Frontier

LENDER

Commercial Bank

TERMS OF HEDGE

USD 14 million / 1.25 years
(Avg. across 4 deals)

TRANSACTION DATE

December 2025

TRANSACTION SUMMARY

Four FX forwards totaling USD 56 million to hedge balance-sheet exposure for a bank operating in the Balkans.

North Macedonia is an EU candidate country in Southeast Europe. The denar has been pegged to the euro for over two decades, providing exchange rate stability. However, 75% of government debt remains denominated in foreign currency, and the economy faces significant refinancing needs with a EUR 700 million Eurobond maturing in 2026.

Despite the peg, domestic borrowers generating revenues in denar face currency mismatch if their liabilities are denominated in euros, and peg arrangements can come under pressure during stress. Central bank interventions in the currency market are sizeable, and the IMF highlights the risk of large capital outflows straining the currency peg.

TCX's entry into the denar provides the possibility for structuring development finance in local currency terms in North Macedonia, where no other commercial hedging solutions are available. The fund helped a commercial bank with operations in the Balkans to hedge its balance sheet exposure.

RECENT CURRENCY ADDITIONS

BTN

Bhutanese ngultrum

BHUTAN

MARKET DEVELOPMENT STAGE

Frontier

LENDER

IFC

TERMS OF HEDGE

USD 8 million / 14.8 years

TRANSACTION DATE

September 2025

TRANSACTION SUMMARY

Cross-currency swap hedging an IFC ngultrum-linked loan to Bhutan Power Corporation for grid modernization.

Bhutan is a small Himalayan kingdom with an economy centered on hydropower exports to India, tourism, and agriculture. It is one of the world's few carbon-negative nations and graduated from the UN's Least Developed Country category in December 2023. Growth is projected at 7.4% in FY2025/26, among the fastest in South Asia, driven by new hydropower projects coming online.

The ngultrum has been pegged 1:1 to the Indian rupee since 1974, and the rupee is also legal tender throughout Bhutan. Around 70% of imports come from India, and inflation tends to follow Indian trends. Hydropower projects generate revenues in both ngultrum (domestic sales) and rupees (exports to India), creating complex currency dynamics.

In September 2025, IFC announced its first infrastructure investment in Bhutan: a USD 20 million ngultrum-linked loan to Bhutan Power Corporation for grid modernization. TCX provided the hedge, marking the first offshore hedging transaction in the ngultrum. The deal followed Bhutan's revision of its External Commercial Borrowing Guidelines in May 2025, which allowed local entities to borrow from foreign lenders in local currency terms for the first time.

PGK

P. New Guinean kina

PAPUA NEW GUINEA

MARKET DEVELOPMENT STAGE

Frontier

LENDER

IFC

TERMS OF HEDGE

USD 315,000 / 9.5 years

TRANSACTION DATE

January 2026

TRANSACTION SUMMARY

Cross-currency swap providing offshore hedging for infrastructure and SME financing.

Papua New Guinea is a resource-rich Pacific nation that has faced chronic foreign exchange shortages since 2015 and is now working to restore full convertibility under an IMF-supported reform program launched in 2023. The IMF estimates PNG's economy would be USD 3 billion larger had currency rationing not been introduced. Despite current account surpluses from mineral and petroleum exports, foreign exchange remains scarce domestically because project development agreements allow export earnings to stay offshore.

Access to foreign exchange has improved under the program, but shortages persist. Businesses still face delays of several weeks to access foreign currency, constraining imports and investment. The kina has gradually weakened as the central bank moves toward full convertibility.

TCX's re-entry into the kina provides an offshore hedging solution for a market where onshore currency access remains constrained. For infrastructure and SME financing, borrowers cannot hedge through commercial channels and cannot prudently bear unhedged currency risk. TCX offers a bridge while PNG's forex reforms proceed.

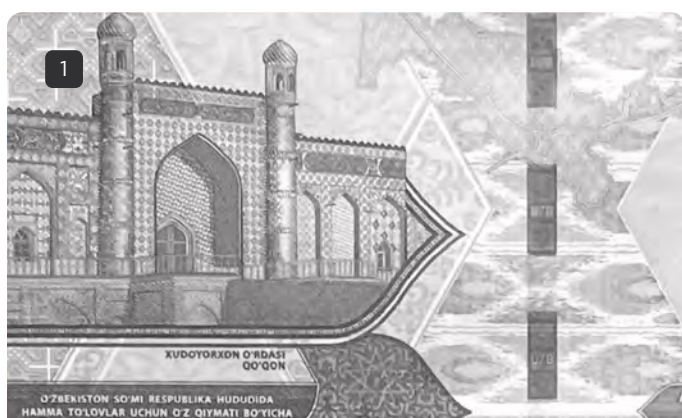
MARKET DEVELOPMENT IN PRACTICE

Two markets, two trajectories

NĂM TRĂM
NGHÌN ĐỒNG

Two currencies in TCX's portfolio illustrate what progression along the market development spectrum looks like in practice.

Together, they illustrate that market development is not a single event but a sequence of conditions, reforms, and transactions that build on each other over time.



UZS

Uzbek som

UZBEKISTAN

Uzbekistan's som moved from a closed market to commercial pricing in seven years, showing the full arc.



TZS

Tanzanian shilling

TANZANIA

Tanzania's shilling, where domestic foundations are solid and offshore hedging is well established but the transition to emerging is still underway, shows a process along the same journey.

In the pages that follow →

A closer look at each currency's journey.

Uzbekistan

UZBEK SOM

From closed market
to commercial pricing

Starting point

Prior to 2017, Uzbekistan was effectively closed to international capital markets. The country maintained capital controls, operated dual exchange rates with massive distortions between them, and required exporters to convert a portion of their foreign currency earnings to som at unfavorable rates. There was no offshore hedging availability and no international investor base. Development finance flowed exclusively in hard currency, with all exchange rate risk borne by local borrowers who had no tools to manage it.

Reform environment

In 2017, Uzbekistan's new president launched sweeping economic reforms. Capital controls were removed and the exchange rate unified. The government abolished the conversion requirement and allowed companies to receive international payments in som without restrictions. Structural reforms followed, including price and trade liberalization, banking sector modernization, and steps toward international financial integration. Fitch upgraded Uzbekistan to BB- in 2018.

In 2019, Uzbekistan issued its first Eurobond, a USD 1 billion offering in two USD 500 million tranches, signaling commitment to international capital markets. The adoption of a Capital Markets Development Strategy in 2021 and introduction of inflation targeting further demonstrated dedication to financial market development.

TCX's role

TCX began offering hedging solutions in the Uzbek som in 2018, immediately following the reform breakthrough. For several years, TCX was the sole provider of offshore hedging. Demand originated with private-sector borrowers such as local banks, microfinance institutions, and corporates seeking international financing in local currency terms. They sought those terms from their lenders, and TCX faced those lenders, hedging the som exposure the loans created. These transactions created pricing references where none had existed.

As TCX built som exposure, it transferred that exposure to offshore investors through bonds issued by its shareholders, AAA-rated institutions such as FMO and IFC. FMO has been the largest issuer of som-linked bonds in this program. In June 2020 it issued a USD 50 million som-linked note, at the time the largest offshore note ever in a frontier currency and the largest Uzbek som private placement on record, arranged by Citi and listed in Luxembourg. The proceeds supported FMO's local currency lending to Uzbek financial institutions, while the note gave offshore investors a route into som exposure through a familiar, highly rated issuer. Because these bonds were publicly listed, their pricing also provided reference points for subsequent activity.

Uzbekistan

In November 2020, the Ministry of Finance issued Uzbekistan's landmark Eurobond, including both a USD portion (USD 555 million, 10 years, 3.7%) and a portion denominated in local currency (UZS 2 trillion, approximately USD 200 million, 3 years, 14.5%). Over 20 offshore investors placed orders, and the local currency portion was 2.5x oversubscribed. The successful issuance reflected multiple factors: the government's reform track record, the rating upgrade, growing investor comfort with Uzbekistan, and the familiarity some investors had built through shareholder bond exposure.

In February 2022, Uzbekistan executed its first sovereign currency hedge, a USD 20 million transaction converting foreign currency borrowing into local currency terms. Carried out with EBRD and TCX, it was paired with capacity building for the Debt Management Office, helping build the government's own ability to manage currency risk.

“The som is one of several frontier currencies where FMO is active as part of our strategy to build local currency markets and meet investors’ growing interest in this risk. Since the landmark som issuance in 2020, that interest has continued to grow, an encouraging sign that puts Uzbekistan’s financial sector in a stronger position, less exposed to the dollar and less vulnerable to currency fluctuations.”

— **Marc Otto** Director, Treasury, FMO

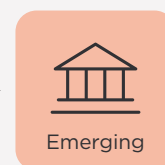
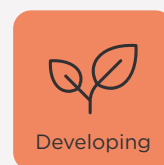
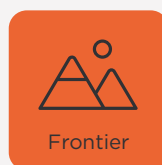
Where things stand

By 2024, the som market had developed substantially. Where TCX was once the sole provider of offshore hedging, there are now numerous commercial institutions offering som pricing. Offshore pricing reflected this maturation. TCX's own offshore derivative pricing for the som trended down over the period, and Uzbekistan's successive offshore local currency Eurobond issuances priced at progressively lower yields, both signs of growing investor comfort with the currency. Since 2019, the government has issued six international bonds including local currency portions. Domestic debt share rose from 11% at end-2022 to 17% by June 2024. The ADB issued its inaugural som-denominated bond in August 2025.

TCX's role has evolved accordingly. No longer the sole provider, TCX now fills gaps where commercial providers don't reach, which is the intended outcome.



The Uzbek som has moved from the Frontier stage to the Emerging stage of the market development spectrum.



Tanzania

TANZANIAN SHILLING

Building the foundations

Starting point

Tanzania has never been a closed market in the way Uzbekistan was. The Bank of Tanzania established the Inter-bank Foreign Exchange Market in 1994, and the government has steadily extended its domestic treasury bond program, reaching a 25-year maturity in 2021. What Tanzania lacked was not domestic market infrastructure but an offshore hedging market: international lenders financing projects there had limited options for managing shilling exposure, so most development finance continued to flow in hard currency. TCX executed its first shilling hedge in 2008, within a year of beginning operations.

Reform environment

Tanzania's reform trajectory has been more gradual than Uzbekistan's dramatic 2017 opening. Macroeconomic stability has been the constant: GDP growth averaged over 5% for the past decade, inflation has remained below 4%, and the Bank of Tanzania has maintained a broadly stable monetary framework noting the 2024 shift from reserve money targeting to an interest rate framework. The country's transition to lower-middle-income status, while a marker of progress, means that access to concessional finance is gradually decreasing and makes market-based financing more important.

Since 2021, the authorities have signaled a more investment-oriented approach. The IMF approved an Extended Credit Facility of about USD 1 billion in 2022, supporting reforms to fiscal management, revenue mobilization, the monetary policy framework, and financial sector development. A joint IMF-World Bank mission in 2024 produced a diagnostic of Tanzania's domestic bond market, assessing it across the building blocks of market development. It found a solid macroeconomic foundation and set out priorities for deepening the market further,

including strengthening foreign exchange market liquidity, building larger benchmark bonds, and broadening the investor base.

These priorities align with Tanzania's National Development Vision 2050, which took effect in 2026 and sets out a private-sector-led growth model, with domestic resource mobilization and deeper capital markets central to the country's long-term transformation.

The domestic market has also seen innovative issuance. In 2024, the Tanga Water Infrastructure Green Bond became Tanzania's first subnational green bond and one of the first in Sub-Saharan Africa, raising capital for water infrastructure expansion with 103% oversubscription, including 65% from domestic institutional investors. Separately, NMB Bank established a TZS 1 trillion multicurrency sustainability bond program, the largest thematic corporate bond program in Sub-Saharan Africa, with IFC investment supported by the IDA Private Sector Window.

"A bond market is not built on sovereign issuance alone. Once a bank like ours can price and hedge the currency risk, international investors will hold local currency exposure they would otherwise avoid, and what began as a single bond becomes a repeat program with a broader investor base each time. Issuing in shillings keeps our funding matched to the businesses we serve and allows us to reach underserved borrowers, including microfinance clients and women-owned and women-led businesses."

— **Aziz Chacha** Treasurer, NMB Bank Plc

TCX's role

Since that first transaction in 2008, the Tanzanian shilling has grown into one of TCX's most active currencies and is now consistently among the top five by hedging volume and the top in Sub-Saharan Africa each of the past four years. Activity accelerated sharply in recent years: since 2020, TCX has executed over 90 shilling transactions across more than 20 counterparties, with annual deal volumes roughly doubling between 2022 and 2025.

The counterparty base reflects the breadth of development finance flowing into Tanzania in local currency terms. These hedges have supported lending by FMO, IFC, EIB, AFD, BIO, and Oikocredit, alongside microfinance and impact vehicles such as MFX and the African Local Currency Bond Fund (ALCB Fund). Sectors have diversified beyond microfinance into SME finance, renewable energy, and water infrastructure.

TCX has also on-sold shilling exposure through two routes: to commercial banks that take TZS risk directly, mainly via non-deliverable forwards (NDFs), and to offshore investors through bond issuances, totaling USD 57 million in 2025. Over the last couple of years, the tenors and sizes banks can transact in NDFs have steadily expanded, while offshore investor appetite for TZS risk has increased. The shilling is also included in TCX's Frontier Index, which tracks shilling-linked Eurobonds issued by AAA-rated shareholders such as FMO, IFC, and AfDB.

Where things stand

The foundations are solid with a functional domestic bond market, a growing institutional investor base, stable macroeconomic conditions, and an active offshore hedging market with commercial counterparties already taking exposure. GDP growth reached about 6% in 2025, and the current account deficit narrowed to 2.4% of GDP in the year ending September 2025, supported by strong gold, tourism, and agricultural exports.

Recent regulatory changes have reinforced the role of the shilling in the domestic economy. The Foreign Currency Usage Regulations, 2025 (Government Notice No. 198 of 2025), require goods and services within Tanzania to be priced and settled in shillings, with limited exceptions, and require existing foreign currency contracts to convert within a set period. By narrowing the everyday use of foreign currency, including for larger and internationally linked corporates, the regulations increase the importance of local currency funding and hedging for borrowers operating in Tanzania.

The next phase of development will depend on broadening the investor base (currently, foreign participation in government securities is limited to East African Community and Southern African Development Community residents) and continuing to deepen secondary market liquidity and foreign exchange market functioning, areas the IMF-World Bank diagnostic identified as priorities. A debut Eurobond, which has been discussed at various points over the last decade, could mark another significant step in establishing an international sovereign benchmark and broadening visibility of the shilling among global investors.



The Tanzanian shilling has moved from the Frontier stage to the Developing stage of the market development spectrum.



WHAT MARKET DEVELOPMENT REQUIRES

No single actor builds a market

Across 70+ currencies and nearly two decades, TCX has seen markets progress, stall, and occasionally regress. That experience points to several conditions that matter.

1 REFORMS COME FIRST



Legal and regulatory barriers, including capital controls, that fragment markets or distort prices create barriers that no hedging capability can overcome. The enabling environment must exist before market development tools can be effective.

2 PRICE DISCOVERY IS FOUNDATIONAL



Markets can't function without reference points. Before investors can participate, they need to understand what the risk is worth, what yield compensates for currency exposure, how the currency behaves, and what terms are achievable. Early transactions establish these benchmarks. Without visible pricing, there's no basis for others to follow.

3 COORDINATION MATTERS



No single actor develops a market alone. Governments drive reforms. DFIs and MDBs provide lending. Technical assistance builds institutional capacity. Rating agencies provide validation. Investors gradually build familiarity. Market development requires these pieces to work together.

4 INVESTORS NEED ON-RAMPS



Private capital doesn't leap into frontier currencies. It needs intermediate steps, familiar instruments, observable pricing, track records. Each creates comfort that eventually enables direct participation.

5 SUCCESS BUILDS ON SUCCESS



Demonstration effects matter. Successful transactions attract attention. Visible pricing creates benchmarks. Investor familiarity compounds. Each step builds credibility for the next step.

6 THE GOAL IS GRADUATION



The ultimate measure of success is whether the market functions on its own: with commercial providers, domestic institutions, and private capital active in local currency. Even then, TCX may still be active from time to time in these markets, at longer tenors, for smaller borrowers, and when commercial providers pull back.

"Capital markets develop in a sequence. The sovereign builds the yield curve, then usually the banks come, followed by the corporates and Non-bank financial institutions (NBFIs). The question in any African frontier market is where it sits in that evolution, and what it takes to reach the next stage."

— **Brock Hoback** Managing Director, Cygnum Capital

CONCLUSION

Building markets, one currency at a time

PALACIO DE LOS LÓPEZ

Local currency market development is measured in *years*, not *transactions*.

Its objective is straightforward: enabling private capital to flow in local currency to borrowers who need it. For governments, businesses, and households across emerging and frontier markets, that capability is the difference between resilience and vulnerability, and often whether a project succeeds or not.

TCX started with a single product, a hedge that let development finance investors transfer currency risk. That remains its core function, the bulk of it supporting non-sovereign borrowers, banks, microfinance institutions, and corporates that earn in local currency. Over nearly two decades the work has broadened: on-selling risk to commercial counterparties, hedging shareholder bonds that build investor familiarity, and more recently engaging with sovereigns on debt management. Across all of it, TCX's role is to enable a market development process it does not drive on its own.

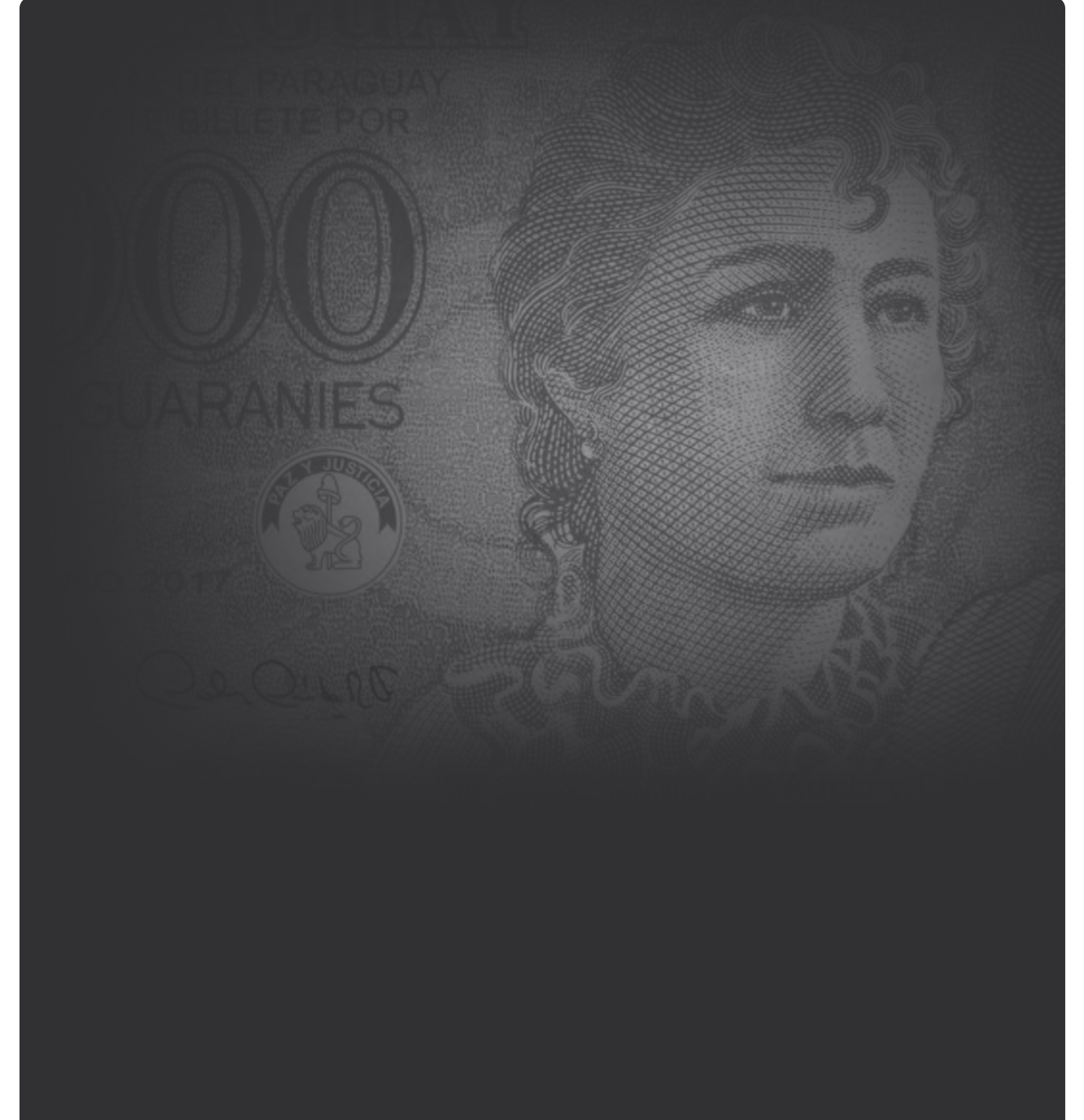
Uzbekistan shows what is possible: seven years from capital controls to commercial providers and oversubscribed local currency bonds, with private investors now participating directly.

Tanzania shows the middle of the journey, strong domestic foundations, active offshore hedging, and a steady reform trajectory.

Similar arcs have unfolded in Jamaica, Paraguay, and others, each shaped by deliberate choices to deepen local capital markets.

The currencies TCX has recently added sit at the earliest stage of that arc. Whether they move along the spectrum is not for TCX to determine; it will depend on domestic reforms, macroeconomic conditions, and investor appetite over the years ahead.

— **A first hedge is part of that journey.**



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