

TCX Spotlight | April 10 Update

The Iran War, Debt Sustainability, and the Case for Action – An update ahead of the World Bank/IMF Spring Meetings

On March 11, TCX published an initial assessment of the Iran war's impact on emerging and frontier market currencies. In the weeks since, the situation remains highly fluid. Oil price has surged past levels not seen since 2022, with Brent crude rising roughly 65% in March alone. The status of the Strait of Hormuz remains uncertain and even under favorable conditions the resumption of normal commercial shipping will be gradual. For the low- and middle-income countries (LMICs) where TCX operates, the economic consequences are compounding by the day, and will take longer to recalibrate. The upcoming Spring Meetings represent a critical moment for the international community to act together.

What We Have Seen

The oil shock has deepened since our first note. At its peak in late March, Brent crude was trading USD 115, with March recording the steepest monthly price rise in the benchmark's history. The IEA's record release of 400 million barrels from emergency reserves – the largest in the agency's 50-year history – provided only temporary relief. The ceasefire announced on 7 April brought immediate price relief, but the structural damages on energy infrastructure runs deeper.

The currency impact across TCX's markets has been broad, and in several cases, severe. India's central bank introduced limits on banks' FX positions to curb speculation as the rupee fell past INR 94/USD, hitting a record low. Turkey's lira fell to a record TRY 44.3/USD, with the central bank forced to sell over USD 8 bln to stabilize markets. Pakistan's stock market recorded its largest ever single-day decline. Across Sub-Saharan Africa, the Zambian kwacha, Ghanaian cedi, and Ugandan shilling are under renewed pressure.

Capital flight from emerging markets reached alarming levels. Indonesia saw its biggest single-day foreign equity outflow since 2005, with net selling of USD 1.2 bln. Foreign outflows from Asian equity and debt markets exceeded USD 50 billion in March, on track for the worst month since 2008. Multiple central banks that were cutting rates – Kenya, Ghana, Zambia, Nigeria, South Africa – have paused their easing cycles.

Beyond the direct impact of the war, **the uncertainty itself carries costs.** When the range of possible outcomes spans from a durable ceasefire to renewed escalation and prolonged supply disruption, investment decisions are delayed, risk premia widen, and capital tends to stay on the sidelines. For energy-importing economies with significant hard currency debt, this uncertainty adds a further layer of pressure.

The Debt Sustainability Challenge

The crisis does not arrive in isolation. It lands on top of record debt service burdens accumulated through the COVID19 pandemic and the fallout from Russia's invasion of Ukraine. As TCX's recent

Insights paper documents, 13 countries are currently in or near default – the highest number in 24 years – representing a combined population of nearly 400 million people¹.

The Iran War compounds an already precarious debt environment through a cascade of reinforcing pressures. Higher oil import bills widen current account deficits and increase dollar demand, putting direct pressure on currencies. As currencies weaken, the local currency costs of servicing hard currency debts rise. The recent OECD Global Debt Report 2025 highlights that high-risk countries' currencies fell nearly 80% against the dollar from 2000 to 2024, meaning the cost of redeeming a 20-year USD bond principal is now five times higher in local currency terms. As currency stress mounts, investors pull capital out of these markets, driving up borrowing costs at the very moment fiscal space is the most needed.

Concrete and implementable initiatives are urgently needed to help sovereigns proactively manage heavy debt service burdens and return to investment and growth. The institutional response is gaining momentum: on 1 April, the IEA, IMF and World Bank announced a joint coordination group to maximize their response to the significant economic and energy impacts of the war. The Spring Meetings offer the opportunity to translate these preparations into coordinated action at the scale the crisis demands.

Building Fiscal Resilience

While global crises will undoubtedly create economic shocks, there are tools available to LMICs to build greater long-term resilience that helps mitigate the severity of the impact created by these events. To highlight a few:

1. Maintain stable macroeconomic policies and transparent debt management.

The countries entering crises with credible monetary frameworks, transparent fiscal accounts, and manageable debt profiles have more space to absorb the risk. Ghana peaked above 54% inflation in late 2022 amid sovereign default and a 60%+ cedi depreciation, then clawed back to 3.3% through 14 consecutive months of disinflation, IMF-supported fiscal consolidation, and a domestic debt exchange. Zambia defaulted in 2020 and spent years in G20 Common Framework restructuring before getting inflation below its central bank target for the first time since 2017. South Africa maintained careful monetary discipline to reach 3.0%. Years of disciplined policy give their central banks room to hold or ease. The lesson learnt is that emergency instruments, as necessary as they are, must be paired with longer-term support for the institutional capacity that makes countries resilient in the first place.

2. Protect against exchange rate volatility through systematic currency risk management.

When currencies depreciate 10-15% in weeks – as they have for Egypt, Turkey, and India – borrowers with unhedged hard currency exposure face immediate increases in debt service that can be catastrophic. TCX's swap book absorbs these losses so borrowers do not have to. But hedging alone is not enough – countries need deeper local currency markets, and the development finance ecosystem needs to systematically embed currency risk management into

¹ TCX Insights Working Paper, "The Evolution of Local Currency Markets".

how it lends. More than 80% of international lending to low-income countries is still in hard currency. The upcoming IMD Debt Sustainability Framework for Low-Income Countries presents a timely opportunity to recognize currency risk management – including local currency indexation through financial instruments like cross currency swaps – as a factor in assessing fiscal resilience.

3. Reduce dependency on fossil fuel imports through accelerated renewable energy development.

The contrast between countries that invested in renewable energy and those that did not is now increasingly visible. Pakistan is experiencing a solar energy boom, with doubled solar capacity from 8 GW to 17 GW since 2023. More than 70% of new car sales in Nepal are electric, thanks to its hydropower capacity. They are significantly less exposed to LNG disruption as a result². Bangladesh, which imports 95% of its energy and invested far less in renewables, is facing blackouts, fuel rationing, and university closures. The UN Climate Chief called continued dependence on fossil fuels “delusional” in light of the war. Africa is the fastest-growing solar market globally, with 23.4 GW operational capacity. However, much of Africa’s renewable capacity is financed in hard currency with dollar-denominated power purchase agreements, meaning the currency mismatch that makes oil imports so dangerous is being replicated in the clean energy transition itself³.

What This Moment Requires

The situation in the Middle East remains fluid, and the economic outlook for the countries TCX serves will continue to shift as events unfold. What will not change is the underlying vulnerability that this crisis has exposed: the structural dependence on hard currency borrowing that could turn geopolitical shocks into a fiscal emergency for the vulnerable economies. TCX will continue to monitor developments across its markets and share what it observes.

The tools to address these vulnerabilities exist: cross-currency swaps, local currency indexation, scalable hedging facilities, and blended finance structures all exist and are proven. What has been missing is the institutional commitment to embed these tools into how development finance is structured by default. The Spring Meetings are an opportunity to begin that shift through concrete changes in how multilateral and bilateral lenders price, structure, and deliver finance to the countries that need it most.

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² Texas Public Radio / AP, “Oil and gas prices are soaring. Some countries are ready with solar panels and EVs,” 16 March 2026; The Diplomat, “South Asia’s LNG Strategy Was Built for the Last Crisis – Not This One,” March 2026.

³ TCX Perspectives, “The case for local currency PPAs in Africa”.