

An Introduction to WPU[®] and WPU[®] Indexation

Objective: to create a global financing instrument, WPU[®], that significantly reduces foreign currency risk for cross-border borrowers and investors that is highly liquid and convenient to use. Such an instrument would separate currency risk from the provision of capital. The instrument will be designed to meet the interests of global investors as well as borrowers and bond issuers.

The Currency Risk Challenge: Foreign currency (FX) risk has become an inescapable part of global investment and borrowing and a significant addition to investor and borrower risk. FX risk is also a major obstacle to investments in emerging markets and developing economies (EMDEs).

FX risk originates in cross-border investment and borrowing, which now has become an integral part of global financial markets and asset allocation. This reflects the importance of portfolio diversification across national markets.¹ But it also reflects the fact that geographies with high investment needs and opportunities don't correspond to existing pools of savings. As only one example, the International Energy Agency has estimated that required investments in emerging markets for the energy transition alone exceed \$1 trillion per year – well in excess of the domestic capital resources in those economies and several orders of magnitude larger than the resources of MDBs and other development agencies.²

Cross-border investment introduces the risk that exchange rate relevant to the investor and the exchange rate relevant to the obligor will change over the course of the investment, bond or loan obligation. FX risk – though often neglected – is a major component of cross-border investing and borrowing risk. An IMF staff study estimated that foreign exchange rate volatility contributed, depending on the nationality of the investor, between 16 and 40 percent of the volatility of investing in foreign stock markets between 1975 and 2009. For bond portfolios, exchange rate risk dominated overall volatility, contributing up to 95 percent of total unhedged return volatility.

FX risk is a particularly high obstacle to mobilizing private capital for long-term investment, especially in emerging markets and developing economies EMDEs.³ Global infrastructure investors regularly cite foreign currency risk as an insurmountable obstacle to infrastructure investment in EMDEs.

Existing attempts to deal with FX risk are incomplete, costly, and often unavailable. FX hedges are only available for a limited number of currencies, often for only short-term maturities. Outside of advanced economies, local currency bond markets are generally underdeveloped, supply of long-term funds is quite limited, and interest rates high. Global investors have begun to purchase local currency bonds or extend local currency loans, but only in a few countries, to a limited extent, and at high local currency interest rates. The shortcomings of existing methods to address FX risk are explained further in an Appendix below.

¹ Based on data from the IMF, the BIS, and the World Federation of Exchanges, roughly 1/3 of global equities and 1/5 of global fixed income assets were held by cross-border investors at end-2024.

² International Energy Agency, “Financing Clean Energy Transitions in Emerging and Developing Economies,” June 9, 2021

³ As stated by the current World Bank President, A.J. Banga, “FX risk is the problem. It is an outsized issue.” (in his David Morse Lecture for the Council on Foreign Relations, September 26, 2023)

Materially Reducing Foreign Currency Risk Through WPU® Indexation of Payments:

In the repeated efforts over the years to “solve” or eliminate foreign currency risk, financial system participants and policymakers have overlooked a straightforward and efficient means to significantly reduce FX currency risk through the most basic of financial market principles – diversification. The key is to index investment returns and payments obligations to a suitably chosen basket of global currencies instead of tying them to the fluctuations of a single borrowing or investment currency. The extent to which FX risk can be reduced at low cost through carefully chosen diversification is surprisingly large.

Take the example of an EMDE country borrowing in a global currency (typically the US dollar, but possibly the euro or the yen) to finance an infrastructure project and thus facing foreign currency risk. The crucial insight is that the FX risk of the borrower may be broken down into two components. The first component is the borrowing-country specific risk. This is the risk that the local currency of the borrower depreciates against global currencies generally. This component of risk has been all but impossible to diversify away.

The second component of risk is the risk that the loan obligation currency (e.g. the US dollar) appreciates against global currencies generally. Even when the domestic currency of a borrowing country is broadly stable, a sharp appreciation of the contract currency of the borrowing obligation can be a devastating blow for the project or for the borrowing country generally. This has been seen in the periods of appreciation of the US dollar or the Japanese yen.

This second component of FX risk is substantial and largely overlooked. It is typically one-quarter to one-third of the total foreign currency risk for an emerging market borrower. Unlike the first FX risk component, this second component can be diversified away by indexation of obligations to a suitably chosen basket of global currencies. But taking full advantage of the scope to reduce FX risk through diversification, while doing so at low cost and with the ability to scale, requires that this basket be carefully designed.⁴

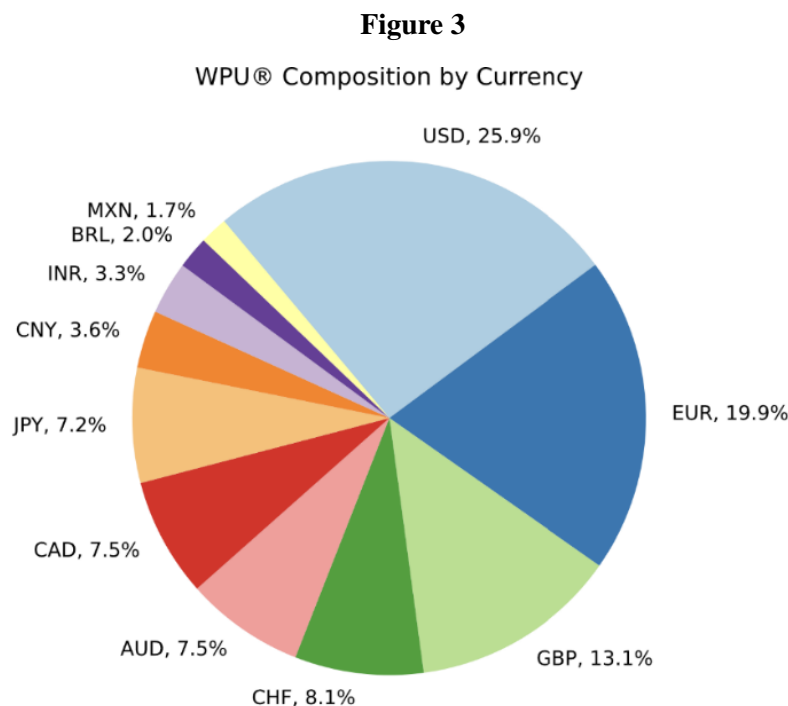
The Wealth Preservation Unit® (WPU®) Currency Basket⁵

After extensive statistical analysis and consultations with the foreign exchange departments of the major central banks, the WPU® currency basket was developed to meet the needs of global investors and borrowers in minimizing foreign currency risk. The WPU® basket consists of seven advanced economy currencies (the dollar, euro, British pound, Swiss franc, Canadian dollar, Japanese yen, and Australian dollar) and four emerging market currencies (the Chinese renminbi, Indian rupee, Brazilian real, and the Mexican peso). The currency weights are explicitly chosen to minimize the volatility of the WPU® basket.

⁴ Existing baskets such as the SDR, WGBI, or others are poorly suited for filling this role. See Box on page 11. for a discussion of why a new basket is needed.

⁵ Wealth Preservation Unit® and WPU® are registered trademarks of Mountain Pacific Institute.

In addition, the WPU[®] basket is designed to fulfill the requirements of a private institutional benchmark index for the currency asset class.⁶ WPU[®] provides a store of value, global-currency benchmark index. The composition and current weights of the WPU[®] basket are shown in Figure 3.



Source: Mountain Pacific Group, April 8, 2026

Characteristics of WPU[®] Indexation

The reduction in foreign currency risk comes from using the WPU[®] basket to index the *amounts* (in the contract currency) of payment streams. Note that WPU[®] is not a currency, and no payments or receipts are made “in WPU[®]”. Instead, lending, investing, loan servicing, and investment returns remain in the currency agreed upon by the investor and borrower – e.g. US dollars, euros, yen, etc.⁷ What is different is that the amounts paid or earned depend on the movement of the WPU[®] basket against the contract currency.⁸

⁶ The WPU[®] basket index was designed to meet the ten key characteristics to be an institutional investor benchmark index, with daily quotations, clear and transparent rules for construction and revision. Together, the eleven currencies in the basket cover 88% of all global currency trading. WPU[®] is rebalanced annually at the close on the last business day of November. Ground rules are available at www.tgps.org.

⁷ WPU[®] indexation is similar in operation to inflation-indexed government securities, such as US TIPS, where the amount that investors receive is tied to the movements of a price index. Investors receive returns in the currency in which they invested; they are not paid “in CPI”.

⁸ For example, consider a country that borrows in US dollars. If its payment obligations were indexed to the WPU[®] basket and the dollar appreciated against WPU[®] over the course of the loan, then the borrower would pay less *in dollars* than it would if it had taken out a straight dollar loan.

Benefits of WPU® Indexation

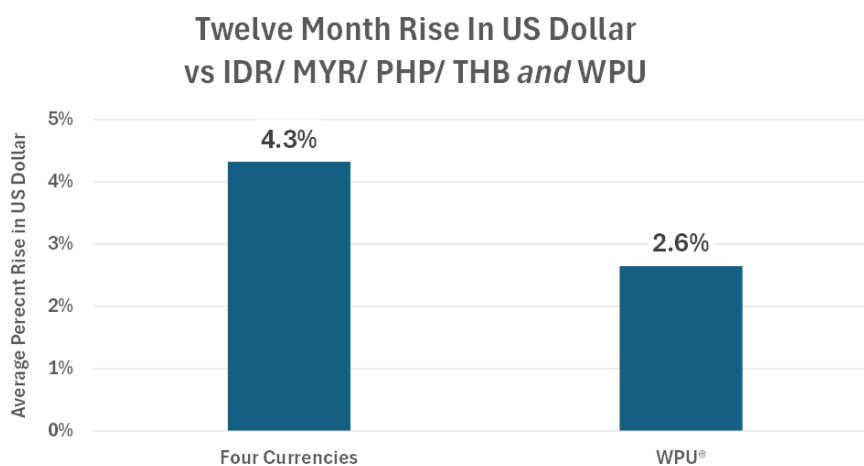
The risk reduction provided by WPU® indexation provides substantial benefits for global borrowers, investors, and for the stability of the global financial system.

Benefits for Borrowers

The benefits for borrowers, and indeed all those who raise funds cross-border, come from sharply reducing the risk that their liability currency (e.g. the US dollar) appreciates in value against global currencies generally. For emerging market and developing economy borrowers, the vast majority of their external liabilities and almost all their loans from multilateral development banks are denominated in dollars. This dollar liability concentration currently totals some \$3 trillion. Furthermore, the risk for EMDEs is asymmetric, since periods of dollar appreciation are generally associated with declining dollar liquidity and increased global investor risk aversion, tightening credit markets for EMDE borrowers.

Figure 4 below illustrates the risk reduction from WPU® indexation that would have been experienced by the four of the largest ASEAN countries (Indonesia, Malaysia, the Philippines, and Thailand) in the period from March 2016 through March 2026. In the twelve-month periods in which the US dollar appreciated against these four currencies, the average US dollar appreciation was 4.3 percent. However, during those same periods, the average appreciation of the WPU® basket against their currencies was only 2.4 percent. In these adverse periods, when their local currencies fell against the dollar, indexing the size of those dollar repayments to WPU® would have led to an average 40% smaller rise in the local currency value of their outstanding US dollar debt.

Figure 4



Average against currencies of Indonesia, Malaysia, Philippines, and Thailand, Mar 2016-Mar 2026

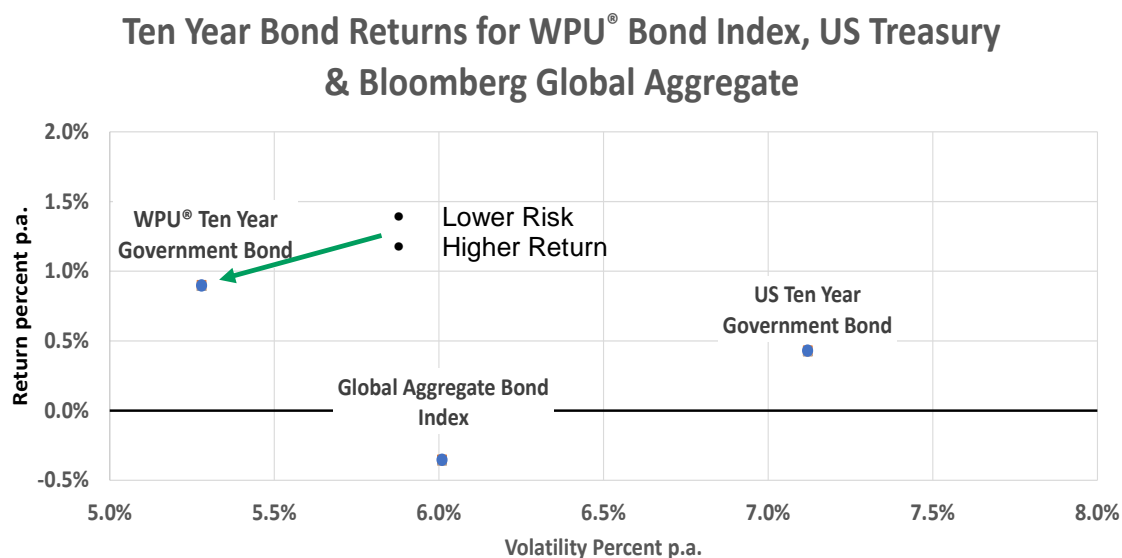
Benefits for Investors

The size of the investment needed by EMDEs can be met by tapping global private fixed interest capital, which is estimated to be over \$50 trillion.⁹ But in order to draw in private capital in the trillions of dollars needed to fund EMDE investment, the financing instrument must provide a *core fixed interest allocation* for all global institutional scale investors. Furthermore, the investment must be superior to their existing core fixed interest allocations, which are US Treasuries and global bond indexed investment.

The key is getting that capital to commit. Global investors evaluate fixed interest investments based on the return which the bonds offer, weighed against the risk of the bonds, conventionally measured as the annualized volatility of the monthly returns they receive. Historically, WPU[®] indexed dollar bonds have very powerfully dominated these two existing alternatives of US Treasuries and global bond indexed investment.

WPU[®] indexed dollar bonds have lower risk, measured as annualized volatility, *and* have offered higher returns. This is illustrated in Figure 5 for the period from 2014 to 2026.

Figure 5



Data: Ten-year monthly data from March 2014 through March 2026. The WPU[®] and Treasury are ten-year constant maturity bond returns.

⁹ There is \$37 trillion of US Treasury debt. There is \$10 trillion passively invested in global bond indices, and another \$15 trillion actively managed relative to global bond indices. US bonds are some 40% of global bond indices. So globally there is some \$52 Trillion of allocation into fixed interest.

The Special Benefits of WPU[®] Indexation for Japanese Investors

Japan has the world's second largest stock of savings after the United States, and decades of persistent current account surpluses have resulted in a very large holdings of foreign assets.¹ Some 70% of Japanese pension assets are allocated into fixed interest investments, making Japan the largest investor in global bonds by far.

WPU[®] indexed investments would be especially valuable to Japan, where concentrated US dollar currency exposure is already an acute problem. Japanese cross-border investors have a very high concentration in US-dollar fixed income assets, of which 48 percent are held in US Treasury securities alone.²

Japanese banks and insurance companies routinely hedge most of their dollar exposure back into yen. However, the recent cost of hedging US bonds back into Yen is between 3.1 and 3.6% p.a., bringing the hedged return on US Treasuries below that of JGBs.³ For Japanese investors, the monthly returns for holding WPU[®] indexed government bonds have consistently been above the returns to holding US Treasuries (see Figure 6).

Figure 6

Average Monthly Ten-Year Government Bond Returns

March 2016 – March 2026

	Un-hedged WPU [®] in Yen	US Treasuries Hedged into Yen
Return (p.a.)	0.2	-1.0

Data sources: Refinitiv and Mountain Pacific Group calculations.

Note: The US 10-year Government Bond and the WPU[®] indexed 10-year Government bond are constant maturity bonds.

WPU[®] indexed bonds provide an extremely attractive alternative to expensive hedging for Japanese investors. A blended portfolio of JGBs and *un-hedged* WPU[®] indexed government bonds provided a return well above that of JGBs with essentially the same risk (see Figure 7).

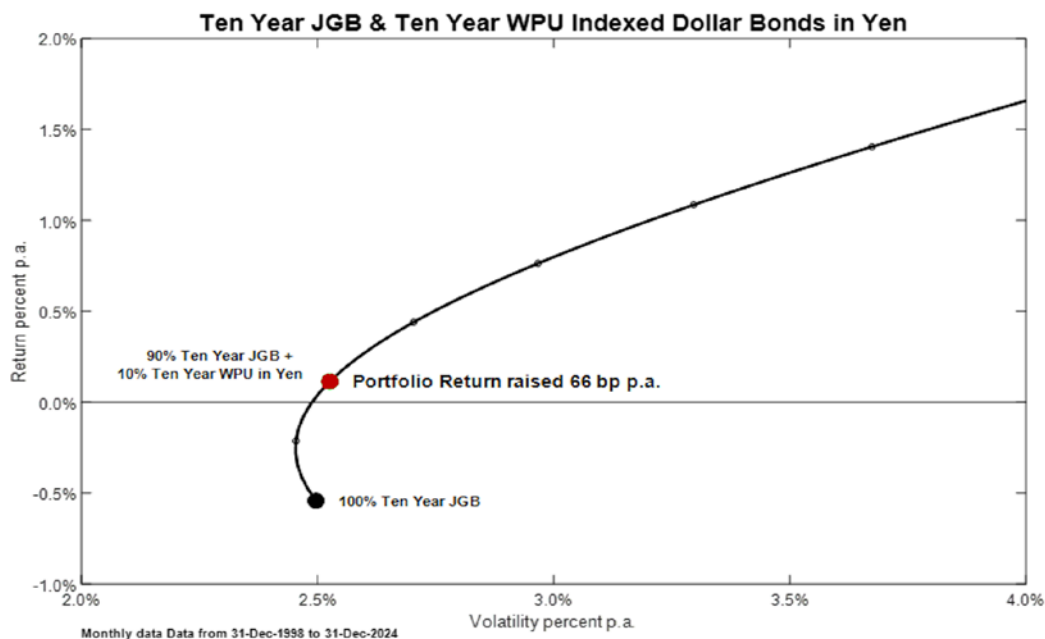
¹ Japan's Government Pension Investment Fund (GPIF) has an investment target of 50% in foreign assets. Corporate pension plans hold between 20-35% of their assets overseas, and life insurers between 20-40% of their assets.

² Reuters, "Japan's portfolio reshuffle raises red flag for US," May 22, 2025.

³ Annualized one month hedge of US Dollar into Yen as of 31/03/2026.

The Special Benefits of WPU® Indexation for Japanese Investors (continued)

Figure 7

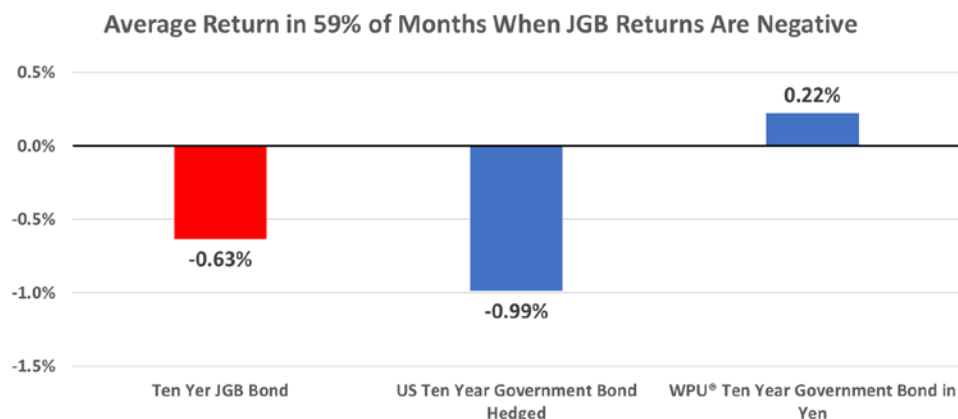


Data sources: FTSE-Russell, Refinitiv and Mountain Pacific Group calculations. Dec 31, 1998 – Dec 31, 2024

Note: The US 10-year Government Bond and the WPU® indexed 10-year Government bond are constant maturity bonds.

WPU® indexed bonds are additionally compelling for Japanese investors for their *downside protection*. Japanese investors face a severe shortage of attractive safe assets. In 59% of months over the last ten years the return on holding JGBs was negative. During those negative return months for JGBs, the average return on holding US treasuries hedged back into yen was even more negative. But in those same bad months for JGB returns, on average WPU® indexed dollar bonds *rose* in value in yen terms.

Figure 8



Data sources: Refinitiv and MPG calculations. March 2016 – March, 2026

Note: The US 10-year Government Bond and the WPU® indexed 10-year Government bond are constant maturity bonds.

Systemic Benefits

The benefits of WPU[®] indexation to individual borrowers and investors, when viewed in aggregate, will stabilize the global financial system. Reducing the current very high concentration of exchange rate exposure to the US dollar will reduce the risk of destabilizing crises caused by sharp changes in exchange rates, particularly in EMDEs. Lowering the cost of capital, and lowering the investment risk, powerfully deepens the pool of accessible global capital to EMDEs, far beyond the top ten EMDE countries. Opening these countries' access to global capital will add to global real investment, growth and poverty alleviation. When investors within EMDEs buy WPU[®] indexed bonds, their wealth is preserved in global terms. Hence, that will reduce their capital flight during stressed times.

Growth of WPU[®] indexation will provide a universal hedging instrument for all global borrowers and investors who access this market. That would make up for the fact that existing financial hedging instruments are highly limited in number, liquidity and maturity.

Why WPU[®] Indexed Bonds Are So Attractive

It may seem paradoxical that a new instrument can simultaneously benefit both the borrower *and* the lender. We usually think of the pricing of financial assets in zero-sum terms – for every winner there is loser. What isn't recognized is that this cold arithmetic does not apply to risk. *Risk is not zero-sum*. A reduction in risk benefits both sides of a transaction.

WPU[®] indexed bonds are inherently lower risk, both because an average has lower risk than its components, and because the WPU[®] currency weights are explicitly chosen to minimize volatility. There is a further, more subtle reduction of risk. Bond index investing allocates investment to the largest issuers – in other words the largest debtors and those whose budget deficits are massive and are potentially at risk.

More generally, WPU[®] indexed assets provide solutions to two of the most pressing challenges that global investors now face – the increasing concentration of US dollar assets and the increasingly scarce supply of global safe assets. Global portfolio investors' asset holdings are heavily concentrated in US dollar assets – roughly 53 percent for fixed-income assets and 71 percent for equities – reflecting the size of US capital markets.¹⁰ Although these shares largely mirror the relative dominance of the United States in global financial market, investment portfolios that reflect the global market result in very highly concentrated and often unintended exposure to US dollar risk.

Dollar concentration also reflects the increasing scarcity of global safe assets for building and pricing portfolios. A WPU[®] indexed government bond would provide a global safe asset for investors, suitable for a core portfolio allocation, with greater supply and much less foreign exchange risk.

¹⁰ Estimates for fixed income assets from BIS, Global Debt Securities. Using the MSCI index as a proxy, the US share of the global equity market was 71 percent in January 2026 (see MSCI Global Index Fact Sheet <https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-e1fc565ededb>)

The Importance of Catalytic Action

Can this be done? Can a new market instrument – WPU[®] indexation – reach the scale required by EMDE investment and other cross-border demand? We have a precedent in the development of the currency swap market from almost nothing at the beginning of the 1980s to \$172 billion in daily trading now. Prior to 1981, swaps were executed in small amounts on a private bilateral basis. What was needed was a landmark catalytic action of two highly regarded market actors. In this case it was the IBM currency swap with the World Bank in August 1981 that gave an imprimatur to currency swaps, unleashing the explosive growth of the swap market that followed. As the Sanskrit saying goes, "where the aim is great, there must be one decisive act."

Why Do We Need a New Basket? Why Not Use the SDR?

The value of indexing foreign currency obligations to a basket of global currencies is clear. But why does this require introducing a new basket? Wouldn't indexation to the SDR accomplish the same thing?

The most widely known, and officially-established, currency basket is the IMF's Special Drawing Rights (SDR) basket, which consists of five currencies – the US dollar, the euro, the British pound, the Japanese yen, and the Chinese Renminbi. If indexation to a basket reduces foreign currency risk, why not use the SDR?

Not every currency basket is the same, and the goal in designing a basket matters. The SDR was designed as an international agency, official "unit of account" for the IMF, and its weights and revision procedure make it a very poor choice for reducing foreign currency risk. There are only five currencies in the SDR basket, and the weights are heavily concentrated in the US dollar and the euro, which currently make up 74% of value of the basket. Rather than currency risk minimization, the criteria for inclusion in the basket and currency weighting are "importance in world exports" and "use in international reserves, international bank liabilities, and international debt securities."

The definition of the SDR basket – currencies included and their weights – is revised every five years, although there was a seven-year gap between 2008 and 2016 when the Renminbi was added, and six years until the last revision in 2022. The IMF also reviews the criteria for inclusion in its five-year reviews, and the criteria for inclusion and the currency weights to be assigned have been subject to negotiation, particularly when the Renminbi was added to the SDR.

In sum, the SDR makes a poor choice for use as an investor index designed to minimize foreign currency risk. It was not designed to minimize currency risk, it covers only a portion of major currencies, and it is disproportionately concentrated in two. Nor does it have the features of clear and transparent rules, predictable adjustment, and regular and timely revision. The SDR fails five of the key rules for it to be usable as a private sector currency benchmark. It was not designed for private sector wealth preservation and cannot be used for this purpose.

Development of a WPU[®] Ecosystem

To support the development and wider use of WPU[®] indexed securities, we plan to build out several components of the WPU[®] supporting infrastructure. Two immediate needs are secondary market liquidity and repurchase facilities for WPU[®] indexed bonds.

The core design principles for developing the WPU[®] ecosystem include:

- Interoperability across digital finance and traditional finance. WPU[®] indexed instruments need to work seamlessly across both digital and traditional finance.
- Non-proprietary solutions and scalability. Emphasis on single neutral standards to achieve low cost and avoid fragmentation of liquidity.
- Wide engagement with stakeholders, including central banks, financial authorities, Multilateral Development Banks, major global investors, and major borrowers.
- The WPU[®] ecosystem will be characterized by strong governance, including real time oversight by regulators, risk reporting, and KYC/AML/ATF rules. Components of the ecosystem and their operations will be transparent to regulators and authorities. State-of-the-art security measures will also be included.

WPU[®] Bond Fund:

Critical to the development of a WPU[®] ecosystem is the creation of a Global Partnership for Sustainable Investment (GPSI) WPU[®] Bond Fund. This neutral entity will transact in and provide supporting services for WPU[®] indexed financial instruments. The Fund will provide WPU[®] swaps to/from major currencies, provide a secondary market and liquidity for WPU[®] bonds, calculate the WPU[®] yield curve, and provide other secondary market support services. The Fund would be constituted with capital commitments from long-term investors. These investors will earn the WPU[®] bond index return and additionally the accreting fee income from the provision of WPU/USD swaps by the Fund. Note that this return does not arise from taking market or credit risk. It is a return for using long term capital to support risk intermediation¹¹. The Fund will obtain a counterparty rating from an internationally recognized credit rating agency.

Swap facilities are particularly important for multilateral development bank finance. Most current MDBs are US dollar-chartered institutions. Hence, bond issues in any other currency must be swapped back into dollars on their balance sheets. And the all-in cost must be lower than a straight dollar bond issue. These can both be achieved. The provision of WPU[®]/dollar swaps by the Fund will allow MDBs to issue WPU[®] indexed securities and provide WPU[®] indexed loans to its clients, while maintaining an entirely US dollar-based balance sheet. It would also allow their existing and new EMDE borrowers to swap their US dollar loans into WPU[®] indexed liabilities - thus taking advantage of the very significant reduction in their currency risk.

The Fund will provide additional services to support the WPU[®] ecosystem, including secondary liquidity for WPU[®] indexed securities holders and the calculation of a WPU[®] yield curve. In the future, as the WPU[®] ecosystem develops, WPU[®] currency and WPU[®] bond futures will develop.

¹¹ For further information see: www.tgpsi.org

WPU® Cash Fund:

A complement to the Bond Fund, and a key part of the WPU® ecosystem, is the development of WPU® indexed short-term securities through a WPU® Cash Fund. This will invest in (or synthetically create) high-quality, highly liquid short-term securities in the eleven components of the WPU® basket. The development of a WPU® Cash Fund is important to support liquidity and the growth in the repurchase market to build secondary market depth. The Cash Fund will also provide a valuable way to hold WPU®-indexed loan or bond proceeds (e.g. for a development project or other major investment) until the funds can be deployed.

Conclusion

Foreign currency risk has been a major, enduring problem for cross-border investment and a roadblock to development and infrastructure investment in emerging markets and developing economies. And, despite numerous initiatives, FX risk remains an unsolved issue, one where the multilateral development bank community has simply abdicated and left FX risk to EMDE borrowers to deal with.

In repeated attempts to “solve” or fully eliminate FX risk, some of which may be impossible to diversify away, the international financial community has overlooked a means of significantly reducing FX risk through diversification across major global currencies. WPU® indexation fills this gap, and does so at low cost and in a way that can scale to the size of the global private capital market. As Harry Markowitz once said, diversification is the only free lunch in finance. By reducing risk and providing a supplement to the current very highly stretched supply of global safe assets, WPU® indexation benefits borrowers and investors, and it strengthens the global financial system.

May 9, 2026

For additional information please contact:

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Appendix: Standard Remedies Don't Eliminate FX Risk

Numerous solutions have been proposed for dealing with foreign currency risk. These measures are in most cases inadequate or merely result in the transfer of FX risk – at substantial cost – to another party.

Hedging:

The most commonly suggested remedy is to use financial instruments, such as forward and futures contracts, to convert future receipts or required payments into the desired transaction currency. The common misperception is that hedging can fully eliminate a financial risk. Unfortunately, this is never the case: hedging only changes the *nature* of risks. For example, if short-term hedges are employed, then the price risk is replaced by cash flow risk, settlement risk, rollover risk (i.e. the market may cease to trade) and counterparty credit risk. Unfortunately, in the case of emerging currencies, financial hedging instruments are only available in a few currencies and only for shorter maturities. Using repeated short-term hedging instruments to hedge a longer-term investment exposes the investor or obligor to substantial cash flow risks at rollover periods if the underlying exchange rate has changed. Even when hedges are available at the desired maturities, they are costly. And they often still contain risk in the form of collateral calls if the underlying conditions move against the hedging party, transforming price risk into major cash flow risk. The cash calls will be largest during stressed times. During stressed times, long-dated illiquid contracts have no traded price: level 2 (Mark to model) pricing fails.

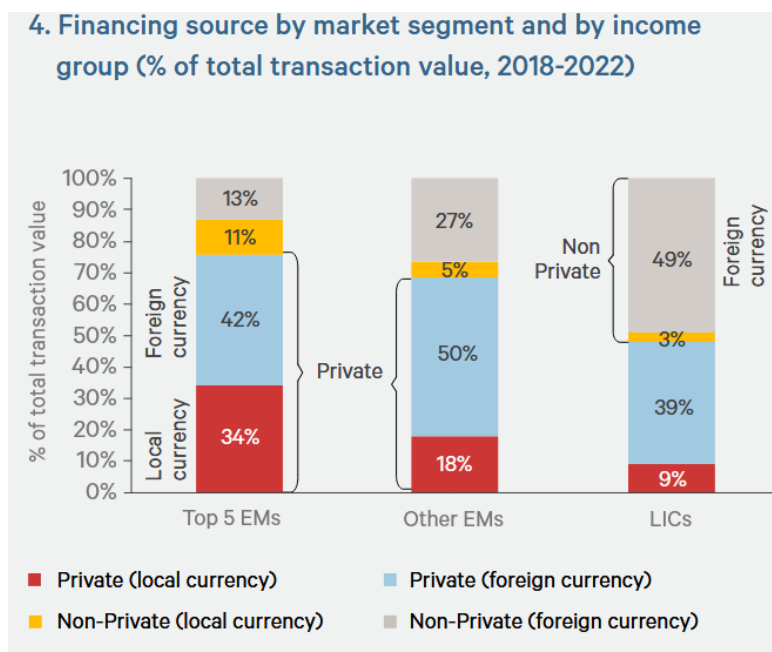
Finally, for a global portfolio investor, hedging against foreign currency risk generally eliminates the benefits of global diversification by duplicating the behavior of home country financial assets. For example, fully hedging a foreign fixed-income financial asset, by using a matching currency swap, back into dollars results in a dollar interest rate security plus the specific credit risk of the asset.

Local currency finance:

Countries able to raise investment funds in their own currency in local capital markets do not face foreign currency risk. This would seem to be a perfect solution and is sometimes viewed as a panacea for dealing with FX risk.

Unfortunately, local currency financing is only available in a few EMDE currencies. Even where local currency financing is available, it is only for short maturities, and only on a very small scale. Less than half of infrastructure investment in all EMDEs has been financed in local currencies, almost all of it in the top 5 emerging markets. The share of local currency financing outside the top 5 drops off rapidly and is only 12 percent in low-income countries.

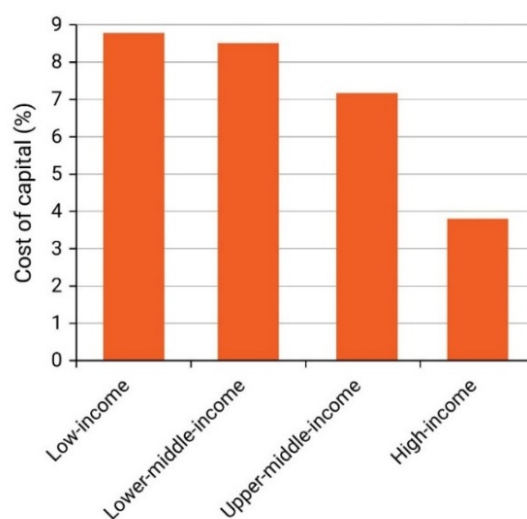
Figure 9



Source: G20, IMF, “Addressing Exchange Rate Risk in Infrastructure Projects in EMDEs” October 2024.

Even when available, borrowers pay a much higher interest rate for local currency financing, as shown in Figure 2. Even for upper-middle income countries, borrowing costs are almost twice as high as in high-income countries, and higher still in low-income countries. The higher cost of capital reflects the limited size of domestic long-term capital markets as well as the higher risks born by the lender or investor, including domestic inflation and domestic currency depreciation.

Figure 10



Source: International Renewable Energy Agency, 2023, Data are for 2021 and 2022

In recent years some multilateral development institutions and foreign private investors have begun offering local currency finance in select emerging market countries. However, foreign currency risk is not eliminated through local currency finance, it is merely transferred. And the borrowing country pays the – often high – cost of getting the foreign investor to bear FX risk.¹² Private investors’ demand for local currency assets is also very limited and has been declining in recent years¹³. Not only that, but private investors’ demand for local currency assets is very limited; over 95% of the EM currency trading is in just ten currencies.¹⁴

The obstacles to tapping private investors for long-term finance are particularly daunting. There are only about 10 EMDEs where long-term forward contracts are available. In a currency crisis, there is no long-dated forward market in any of these currencies. As a result of all of these factors, local currency assets are not a core holding in global investor portfolios and will never come close to the scale of the capital needed by EMDEs.

Domestic financial sector development:

A consistent recommendation for dealing with foreign currency risk is to pursue domestic financial sector development and greater macroeconomic stability. The recommendation is entirely justified; countries with broader and deeper domestic financial markets and greater economic and exchange rate stability can raise more capital at lower interest rates. But financial market development is a decades-long process and not a switch that policymakers can throw. After the Asian Financial Crisis at the end of the 1990s the ASEAN countries embarked on an intensive and sustained effort to develop their financial markets, in particular their domestic bond markets. Twenty-five years later these countries have made significant progress, but foreign long term financing still remains crucial to their development.

Financial market development and macro stability are goals that countries should aim for. However, investment requirements for growth and development are immediate and can’t wait for domestic financial markets to catch up. Like wars and generals, countries fund infrastructure and growth with the domestic financial markets that they have, not those they aspire to.

Summary:

After decades of recognition and recurrent efforts, foreign currency risk remains an almost entirely unresolved problem. And, for EMDE borrowers, FX risk is held almost entirely by the borrowing country. Unlike credit risk, there has been no easily available and scalable way to reduce or lay off foreign currency risk.

FX risk is an inherent and inescapable part of cross-border capital flows. Even if elimination is not possible, vehicles that significantly reduce FX risk and that would scale up to meet existent needs would have tremendous value for global investors and borrowers.

¹² In some cases, an MDB providing local currency finance hedges itself by borrowing a corresponding amount in the local currency capital market. Not only does this result in an interest rate comparable to those in the local capital market, it crowds out other domestic borrowers due to the MDB’s superior credit rating. See Asian Infrastructure Investment Bank, “Local Currency Financing” September 19, 2024.

¹³ The IMF’s October 2025 sovereign-debt chapter shows that portfolio flows to local-currency bond markets have broadly decelerated over the last 10 years. It notes that inflows to local-currency debt averaged over 1% of GDP in aggregate from 2010 to 2014 excluding China, but under 0.5% of GDP from 2015 to 2024, with inflow cycles becoming smaller and shorter.

¹⁴ Source: BIS Triennial Central Bank Survey, September 2025