GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Sovereign Market Financing Conditions in EMDEs Amid the Middle East War

WEDNESDAY, APRIL 15, 2026

EXECUTIVE SUMMARY

This note summarizes the impact of the Middle East war on sovereign market financing conditions and debt management responses in emerging markets and developing economies (EMDEs) during March 2026.

- The war has resulted in one of the largest global energy shocks in history, associated with significant disruptions to maritime traffic and supply chains, damage to regional infrastructure, and loss of life.
- Hard-currency issuance slowed sharply in March after front-loaded issuance earlier in 2026, while domestic yields repriced more forcefully amid higher policy-rate expectations and exchange rate pressures.
- Foreign portfolio outflows from local-currency bond markets have been concentrated in economies with high non-resident holdings, though domestic institutional demand has helped cushion market functioning.
- Debt managers broadly maintained domestic market access supported by pre-funding and more selective issuance strategies—scaling back auctions, shortening maturities and exercising greater pricing discipline.
- Despite the ongoing ceasefire agreement, elevated levels of energy prices will persist until shipments normalize through Hormuz, and is likely to result in a temporary rise in borrowing costs for sovereigns, especially for net energy importers.
- A prolonged scenario of disruption to the global energy supply increases the risks of heightened sovereign stress, particularly for lower-rated and externally-constrained sovereigns, underscoring the importance of prudent debt management and policy coordination.

PRE-CONLICT BORROWING ENVIRONMENT

Financing conditions for sovereigns entering March 2026 were at their most favorable in over a decade. EMBI spreads had compressed to 240 bps (tightest in 13 years) and the high yield (HY) spread had narrowed to 421 bps from a high of 700 basis points in March 2025. Monetary easing cycles were well underway and positive risk sentiment enabled a broadening of market access across the credit spectrum at comparatively favorable terms. International bond issuance reached ~USD 70 billion in January 2026, a single-month record. By February ~65 percent of projected net issuance for 2026 was completed, with several larger EMDEs front-loading substantial portions of their annual financing programs.

Domestic local currency bond markets staged a notable recovery through 2024–25. Lower policy rates compressed local yield curves in emerging markets (EMs), while renewed non-resident inflows, driven by investor interest in "carry trades" and index-driven passive flows underpinned demand. However, foreign participation remained concentrated in some cases, leaving markets exposed to a shift in global risk sentiment. In frontier economies, higher financing needs have accelerated a shift toward domestic financing in shorter maturities, resulting in greater sovereign-bank-central bank nexus. This has increased rollover and financial stability risks, particularly in countries with limited fiscal buffers and with less diversified domestic financial system.[1]

IMPACT OF THE WAR IN THE MIDDLE EAST ON THE GLOBAL ECONOMY

The war in the Middle East has resulted in one of the largest global energy shocks in history. Brent oil prices jumped from US$72 per barrel on the eve of hostilities to a peak of US$120 and remains around US$100 on April 13, 2026. The war is resulting in a significant disruption to maritime traffic and supply chains, damage to regional

[1] By 2025, around 40 percent of new domestic debt in LICs was issued at short maturities.

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infrastructure and loss of life in the Middle East. Global economic impact has been asymmetric, with the brunt of the impact borne by oil exporting economies in the region and a vast number of energy importer economies from outside the region, particularly those with limited policy space. Even if the new peace is durable and builds on the ongoing ceasefire agreement, global growth is now projected to be lower. Supply chain disruptions will continue to generate ripple effects, including oil refinery outages, refined product shortages, and food insecurity, with consequences for inflation, fiscal pressure, widening external imbalances and currency movements.

INTERNATIONAL DEBT MARKETS: MUTED SPREAD WIDENING

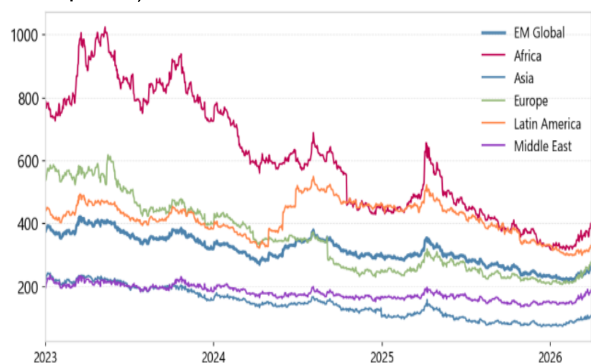
Credit spreads on hard currency bonds repriced modestly in EMDEs so far. EMBI spreads widened by about 14 basis points between March 1 - April 1, 2026, muted relative to the more than 100 basis points widening observed in the first month following the 2022 war in Ukraine (Figure 1). Overall yields, however, increased by a higher amount, reflecting a rise in sovereign bond yields in core developed markets. Credit differentiation has nonetheless increased. Widening of spreads was concentrated on Middle Eastern and Central Asian sovereigns and other already-stressed lower-rated credits. Sovereign spreads of oil exporters outperformed importers, reflecting terms-of-trade dynamics.

Primary market activity, however, contracted sharply in March, with only 5 EMDEs tapping markets. Investor demand remains present but is increasingly price sensitive. In secondary markets, fund flows show clear rotation toward safe assets, with outflows extending from hard- and local-currency EM bond funds. Lower issuance is partly due to sovereigns from Gulf Cooperation Countries (GCC) exercising voluntary market withdrawal, given cost considerations, low refinancing needs and ample liquidity buffers.

Figure 1. International Debt Markets Development

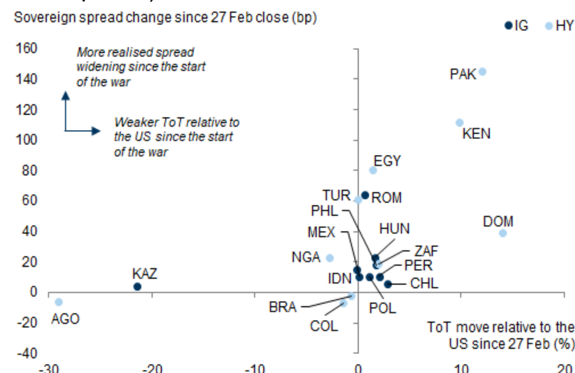
EM sovereign spreads remain contained and well below past peaks, with only modest recent widening.

Figure 1.1 USD EMBIG Sovereign Spread by Region
(in basis points)



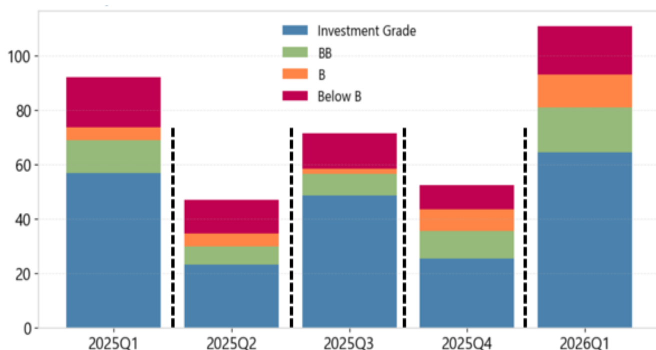
EM sovereign credit markets have priced the shock primarily through terms-of-trade channels.

Figure 1.2 Sovereign Spread Change Since Feb.27
(in basis points)



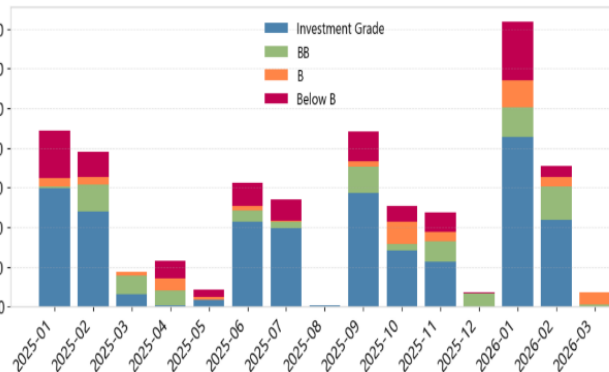
EM international bond issuance surged to record levels in early 2026, following a strong rebound in 2025.

Figure 1.3 International Bond Issuance by Rating
(Quarterly, USD billions)



Issuance was broad-based across ratings but stalled sharply in March as market conditions tightened.

Figure 1.4 International Bond Issuance by Rating
(Monthly, USD billions)



Sources: Bloomberg LLP; BondRadar; Goldman Sachs; and IMF staff calculations.

DOMESTIC BOND MARKETS, FX AND PORTFOLIO FLOWS

Domestic yields repricing has exceeded external markets, reflecting transmission through monetary policy expectations and FX, rather than credit risk. Index-level EM local yields rose ~46 bps, with adjustment concentrated at the front-end due to upward revision of market expectations of year-end policy rates by 80 bps on average (Figure 2). This has resulted in curve flattening in several larger Latin American economies (Brazil, Mexico, Chile) while steepening has been observed in Africa and the Middle East regions.

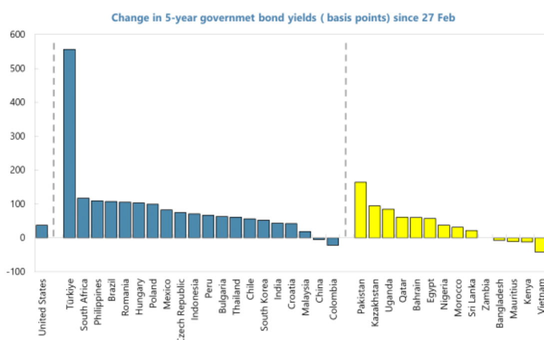
The war has triggered a reversal of foreign portfolio flows in local currency bond markets concentrated in economies with structurally high non-resident participation (NRH).[2] Outflows reflected in negative total returns have been driven primarily by FX depreciation. Domestic investors have stepped in to cushion outflows. Notably, yield increases do not appear strongly influenced by the level of NRH presence, suggesting repricing is currently driven by country-specific fundamentals.

Exchange rate depreciation has direct fiscal implications for sovereigns with high share of FX-denominated debt as it mechanically increases debt service costs. The largest effects in additional debt service for 2026 are concentrated in Egypt and several African frontier economies, ranging between 0.2–0.6 percent of GDP. Absent adjustment in the primary balance or additional external financing, this dynamic could exert further pressure on domestic bond markets.

Figure 2. Local Currency Bond Market Developments

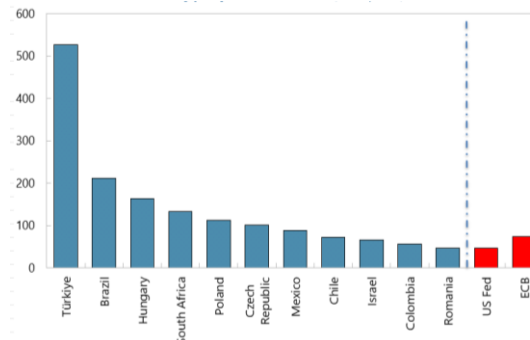
Five-year government bond yields have risen sharply across EMDEs since late February.

Figure 2.1 Change in 5-year Government Bond Yields since Feb.27
(in basis points)



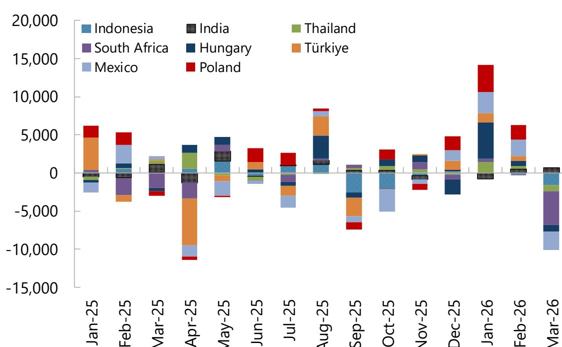
Market expectations for year-end policy rates are generally higher across the board.

Figure 2.2 Change in Market Expectations for Year-end Monetary Policy Rates since Feb.27
(in basis points)



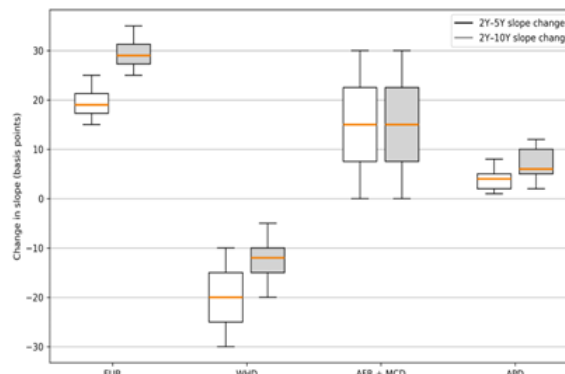
Recent net outflows reflect foreign investors pulling back from some local debt markets.

Figure 2.3 Non-Resident Debt Flows
(USD millions)



Yield curves have generally steepened, but with clear regional divergence, indicating different transmission.

Figure 2.4 Yield Curve Change since Feb.27
(in basis points)



Sources: Bloomberg LLP; IIF; and IMF staff calculations.

[2] For example, South Africa (USD 2.45 billion sold in the first week of March, the largest weekly outflow since 2019), Egypt (~USD 8–9 billion exited, roughly one-quarter of peak positioning).

DEBT MANAGEMENT RESPONSES: ADAPTATION RATHER THAN DISRUPTION

Most DMOs have continued to execute domestic funding programs, supported by earlier pre-funding in hard currencies and adequate local liquidity. For well-funded sovereigns, issuance has become increasingly discretionary, with some deferring supply or rejecting bids at yields viewed as inconsistent with fundamentals, reflecting tighter pricing discipline rather than access constraints. Among larger EMs, debt management responses have combined discretionary issuance, active liability management, and coordination with central banks; evident in Brazil's large-scale buybacks, India and Indonesia's bond market interventions, and Türkiye's liquidity measures.

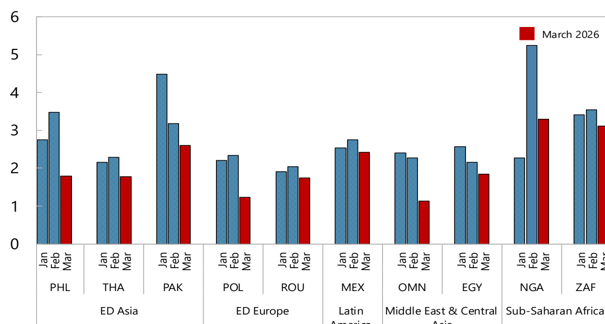
Auction outcomes have become increasingly uneven across regions and tenors. Demand has remained relatively strong in several frontier and Asian markets, reflecting ample banking system liquidity. In Sub-Saharan Africa, short-end demand has remained resilient (Kenya, Nigeria, Tanzania, and Zambia), but recent auctions point to emerging duration constraints, with weaker coverage in longer maturities. By contrast, some markets in Central and Eastern Europe have experienced repeated cancellations or undersubscribed auctions. Structural limitations persist, as many frontier markets are constrained by shallow financial systems or already high sovereign exposure in bank balance sheets, limiting scope to scale up domestic financing without increasing concentration and financial stability risks.

Issuance strategies in many EMs have adjusted in line with standard practice under volatile conditions. Many DMOs have scaled back auction sizes, shortened maturities, and aligned issuance more closely with observed demand to contain yield volatility. Few have introduced new instruments to broaden the investor base, while those with pre-funded buffers have exercised flexibility to delay issuance. In some EMs, market stress has been managed through partial allocations with bid rejection at yields deemed inconsistent or cancelled auctions, notably in parts of Central and Eastern Europe and Central Asia. While greater reliance on relatively shorter maturity bonds reduces near-term execution risk, this may increase rollover pressures over the medium term.

Figure 3. Auction Outcomes in selected EMDEs

A moderation in demand appears limited to a few EMDEs.

Figure 3.1 Bid-to-Cover Ratio
(Average)



Non-allocated and cancelled auctions signaled softer participation and strategic issuance behavior.

Figure 3.2 Allocated vs. Non-Allocated Auctions
(Number of Auctions)

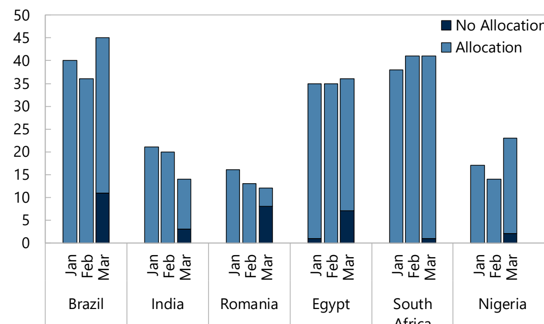


Figure 3.1. Note: Bid-to-cover ratio averages are calculated across bills and bonds unless otherwise specified. For the Philippines and Romania, only bond auctions. For Pakistan, Sukuk instruments are excluded. For Mexico, floating-rate bonds and CETES with maturities of 91 days or less are excluded.
Figure 3.2 Note: Bills and bonds auctions are included. Dark bars indicate number of auctions with no allocations and/or reported as canceled; light bars indicate auctions with full or partial allocations.
Sources: Bloomberg Government Auctions Monitor (27th March), Thai Bonds Market Association and IMF staff calculations.

OUTLOOK, RISKS AND POLICY IMPLICATIONS

Under a short-lived uncertainty around energy prices, borrowing costs for sovereigns would only rise temporarily. Following the recent ceasefire agreement, market expectations point to elevated levels of energy prices until shipments normalize though Hormuz. However, under a prolonged scenario of disruption to the global energy supply, policy tightening would broaden, rating actions would follow, and high-yield market access would narrow. Sovereigns with weaker debt portfolio composition and those facing high gross financing requirements for the year will

face greater sovereign stress, including from future currency depreciation. For sovereigns recovering from restructuring, the momentum of restoring debt sustainability and market re-access could be delayed.[3]

Three channels could generate further domestic bond market pressure: (i) de-anchoring of inflation expectations pushing long-end yields higher; (ii) delayed exchange rate adjustment spilling into bond yields where reserves are inadequate; and (iii) continued NRH flow reversal toward safe assets, particularly acute in economies with less diversified domestic institutional bases to absorb outflows.

Deferred international issuance leaves sovereigns exposed to weaker market conditions in late 2026. For oil-importing economies which rely on external market financing (such as Egypt and Pakistan), the resulting deterioration in external balances can raise sovereign risk premia and weaken investor confidence, especially where buffers are limited. Global funding conditions may remain less supportive, with higher term premia and more selective risk appetite. The risks are more acute for lower-rated sovereigns with negative net external financing positions. Sovereigns unable to access external markets will shift to domestic financing at a time of weaker demand, risking crowding out in shallow financial systems.

In an uncertain global environment, debt management frameworks in EMDEs need to remain agile, flexible and preemptive:

- **Coordination:** DMOs should proactively coordinate with fiscal managers and central banks based on scenario planning, providing early feedback on any necessary adjustment in primary balances to remain fully funded under deteriorating conditions.
- **Prudent borrowing:** Debt managers should avoid the “lure” of complex and risky financing options through repo financing and total return swap arrangements to guard against risk escalation from movement in market prices.
- **Central bank engagement:** For sovereigns with sustained local bond pressure, bond purchase support—preferably from the secondary market— or other liquidity measures, may be required, while ensuring consistency with the monetary policy stance.
- **Communication and contingency:** DMOs should provide transparent signals on issuance strategy, pricing tolerance, and funding plans. Contingency planning should include readiness to shift between markets, deploy cash buffers, and adjust auction strategies. DMOs with pre-funded buffers retain flexibility; those with near-term financing needs face tighter trade-offs across pricing, maturity, and financing sources.

[3] As a positive development, after a gap of three years of its domestic debt restructuring, Ghana successfully restored its local market access in April 2026 following the issuance of a 7-year local currency bond through book building process.

Annex 1: Domestic Bond Market: Adaptions in Issuance Strategy and Interventions in Selected Countries (1 March – 1 April 2026)

Measures	Country	Domestic Debt: Authorities' Responses and Interventions
Issuance reductions, auction cancellations and deferrals	Czech Republic	The Finance Ministry reduced its planned auction amount on 09 March from CZK 9bn to CZK 5bn in response to global market turmoil caused by the Middle East war.
	Hungary	AKK reduced the amounts offered at the 12 March bond auction to HUF10bn, vs. HUF 20bn per bond at the 05 March auction (3 bonds in total).
	Poland	The Finance Ministry cancelled a bond switch tender on 9 March, citing volatility, while noting a PLN 160 billion cash buffer. The state-run Polish Development Bank (BGK) cancelled its 12 March bond auction.
	Romania	The Ministry of Finance (MinFin) reduced planned issuance sizes for 3 ROMGBs auction.
	Philippines	Philippines reduced Q2 2026 borrowing volume.
	Thailand	Thailand signaled flexibility on its full-year issuance plan.
	Singapore	Singapore reduced issuance of long-tenor bonds.
Partial allocations and bid-rejections	Romania	MinFin cancelled seven successive domestic debt auctions and rejected all bids for the three maintained auctions despite reduced size. On March 16th MinFin announced that it would refrain from borrowing until the market stabilizes.
	Kazakhstan	Kazakhstan cancelled auctions owing to insufficient bids.
	Egypt	The Ministry of Finance has restricted allocations. At the March 27 T-bill auctions accepted only around 40 percent of bids while rejecting high yield demands of up to 29 percent, resulting in issuance 45 percent below the EGP 70bn target. The Ministry also cancelled a five-year EGP 10bn Treasury bond auction after primary dealers requested yields reaching 30%.
Debt buybacks and early redemptions	Brazil	Brazil's Treasury cancelled regular auctions of inflation-linked and fixed-rate bonds and conducted extraordinary buyback operations totaling approximately BRL 49 billion (USD 9.4 billion) in three days. The measures aimed to support market liquidity and stabilize trading amid spillovers from the surge in global crude oil prices. This marked the first buyback intervention since December 2024.
	South Korea	The government announced an emergency market-stabilization package, including a 5 trillion won sovereign bond buyback conducted on March 27th and April 1st, to contain volatility linked to the Middle East war. It also announced its first early redemption of outstanding debt since 2021, financed by surplus tax revenues through a supplementary budget.
	Colombia	Colombia reduced market DV01 risk through buybacks; also, on the back of the ongoing unwind of a total return swap (TRS).
Central Bank Intervention: Bond Market Operations and Liquidity Interventions	Türkiye	The Central Bank (CBRT) has been more active in its OMO bond purchase operations to help stabilize the TURKGB market. The CBRT suspended one-week repo auctions and introduced Turkish Lira-settled FX forward selling transactions to stabilize liquidity and prevent volatility at the beginning of the war.
	India	The RBI announced bond purchases via open market operations worth 1 trillion rupees (≈ USD 10.9bn) in two tranches to inject liquidity and cap rising yields.

Measures	Country	Domestic Debt: Authorities' Responses and Interventions
	Indonesia	The Bank of Indonesia has signaled continued and consistent interventions in offshore and onshore NDFs, spot and government bonds to support the currency. The central interventions in the bond market are not new, since 2020 it has boosted the proportion of government bonds from 10 to around 25 percent of the total amount outstanding. Indonesia is an exception in increasing its conventional bond auction target, supported by its state bank demand.
New issuance instruments	Egypt	Egypt will issue a retail bond for individual investors.
	Algeria	Algeria is planning its maiden Sukuk issuance in April 2026.