Characteristics of Wholesale Funding Markets in Emerging Markets Today —

Risks, Rewards, and Drivers

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Wholesale funding markets in emerging markets have evolved from being narrow, relationship-based channels into more hybrid funding ecosystems that combine interbank placements, institutional deposits, repo, certificates of deposit, commercial paper, bilateral lines, offshore borrowing, and, in some jurisdictions, sukuk and local-currency bond issuance. While these markets remain shallower than those in advanced economies, they are increasingly important for banks seeking to diversify beyond retail deposits, manage maturity transformation, and fund rapid asset growth.

In today's environment, however, wholesale funding in emerging markets is shaped by a more demanding set of realities: tighter global financial conditions, episodic dollar scarcity, sovereign-bank linkages, geopolitical fragmentation, uneven domestic capital market depth, and growing sensitivity to sanctions, cyber risk, and cross-border investor sentiment. These features make wholesale funding both a strategic funding tool and a source of heightened fragility.

2. Key Characteristics of Wholesale Funding Markets in Emerging Markets

a. Greater dependence on a narrow investor and counterparty base

Emerging-market wholesale funding markets are typically less deep and less diversified than those in advanced economies. Banks often rely on a relatively concentrated set of domestic institutions, sovereign-related entities, money market participants, and a limited number of international lenders or investors. This concentration increases rollover risk and amplifies contagion when sentiment turns.

b. Strong sovereign-bank nexus

In many emerging markets, the health of wholesale funding markets is closely tied to sovereign risk. Banks may depend directly or indirectly on public-sector deposits, government-linked institutions, or sovereign debt market stability. A sovereign downgrade, fiscal shock, or political event can therefore spill rapidly into bank funding spreads, collateral values, and rollover appetite.

c. Higher foreign-currency sensitivity

A defining feature of many emerging-market funding structures is dependence on foreign-currency wholesale funding, especially in US dollars. This creates vulnerability to exchange-rate depreciation, global dollar tightening, hedging cost spikes, and disruptions in cross-border market access. Where domestic capital markets are underdeveloped, banks may have limited alternatives.

d. Shallower secondary markets and weaker market-making
Even when instruments such as CDs, CP, bonds, or repo exist, trading depth is often thinner. Bid-ask spreads can widen abruptly in stress, and market-making capacity may disappear quickly. As a result, market access in emerging markets is often discontinuous rather than smoothly repriced.

e. Greater policy and institutional dependence
Central bank liquidity operations, public liquidity backstops, reserve requirements, collateral eligibility rules, and moral suasion often play a larger role in sustaining confidence than in more mature markets. Wholesale funding resilience therefore depends not only on bank fundamentals but also on the credibility and operational readiness of the domestic policy framework.

f. Faster transmission of external shocks
Emerging-market wholesale funding markets are highly exposed to imported shocks from US rates, commodity prices, geopolitical events, sanctions regimes, and global risk-off episodes. Because market depth is lower, these shocks can cause disproportionate funding stress relative to the originating event.

3. Rewards of Wholesale Funding in Emerging Markets

Balance-sheet flexibility. Wholesale funding allows banks to respond quickly to lending opportunities, treasury needs, and seasonal liquidity swings.

Diversification beyond retail deposits. For fast-growing banks or banking systems with concentrated deposit bases, wholesale markets provide an additional funding channel.

Potential maturity extension. Bond issuance, covered bonds, repo term structures, and institutional placements can lengthen liability tenor when available.

Price discovery and market discipline. Access to wholesale markets can improve balance-sheet pricing, strengthen treasury discipline, and create incentives for better disclosure and risk governance.

Strategic currency access. Foreign-currency wholesale funding can support trade finance, cross-border banking, and hard-currency lending where prudently managed.

Catalyst for market development. Repeated bank issuance can deepen local debt and money markets over time, broaden investor bases, and improve overall financial market infrastructure.

4. Risks of Wholesale Funding in Emerging Markets

Rollover risk. The central risk is sudden non-renewal at maturity, especially where tenors are short and counterparties are concentrated.

Currency mismatch risk. Foreign-currency liabilities funding local-currency assets create acute vulnerability during depreciation or market closure episodes.

Confidence and contagion risk. Because wholesale funders are sophisticated and uninsured, they react rapidly to public signals such as downgrades, sanctions, losses, political instability, or peer distress.

Sovereign spillover risk. A deterioration in public finances, sovereign ratings, or government liquidity can quickly weaken bank funding access.

Collateral and haircut risk. In secured markets, falling collateral values and rising haircuts can intensify liquidity pressure precisely when banks need funding most.

Geopolitical and sanctions risk. Cross-border lines can be disrupted by sanctions, compliance de-risking, or fragmentation of payment and correspondent banking networks.

Market depth risk. In shallow domestic markets, even modest stress can lead to large price gaps and near-complete market closure.

Operational and cyber risk. Payment system disruption, collateral-management failures, or cyber incidents can immobilise liquidity even when nominal buffers exist.

5. Main Drivers of Wholesale Funding Conditions in Emerging Markets

The current behaviour of wholesale funding markets in emerging markets is driven by a combination of domestic and external factors:

- **Global interest rates**, especially US monetary conditions and dollar liquidity
- **Sovereign rating trajectory** and fiscal credibility
- **Exchange-rate stability** and FX reserve adequacy
- **Domestic inflation and policy credibility**
- **Depth of local bond and money markets**
- **Structure and concentration of the domestic banking system**
- **Availability of central bank facilities and collateral frameworks**
- **Oil and commodity price cycles** in commodity-linked economies
- **Geopolitical alignment, sanctions exposure, and trade fragmentation**
- **Digitalisation of banking and payment systems**, which accelerates outflow velocity

6. Supervisory Implications

For supervisors, wholesale funding analysis in emerging markets cannot rely only on Basel minimum ratios. It should also assess:

- concentration by counterparty, instrument, currency, and jurisdiction;
- dependence on sovereign-linked or public-sector liquidity;
- share of short-dated funding maturing within 5, 30, and 90 days;
- feasibility of replacing foreign-currency funding under market stress;
- collateral usability and central bank pre-positioning;
- operational readiness under cyber or payment disruptions; and

- interaction between geopolitical shocks, sovereign stress, and funding market closure.

7. Bottom Line

In emerging markets, wholesale funding is both an enabler of growth and a channel of fragility. Its rewards are real: flexibility, diversification, tenor extension, and market development. But its risk profile is sharper than in advanced markets because funding depth is thinner, sovereign spillovers are stronger, foreign-currency dependence is often greater, and geopolitical fragmentation now plays a larger role in market access. In the current environment, the resilience of wholesale funding in emerging markets depends less on static compliance ratios alone and more on diversification, maturity structure, operational preparedness, policy credibility, and the capacity to survive a sudden stop.