Impact on financial markets

Enabling private capital mobilisation

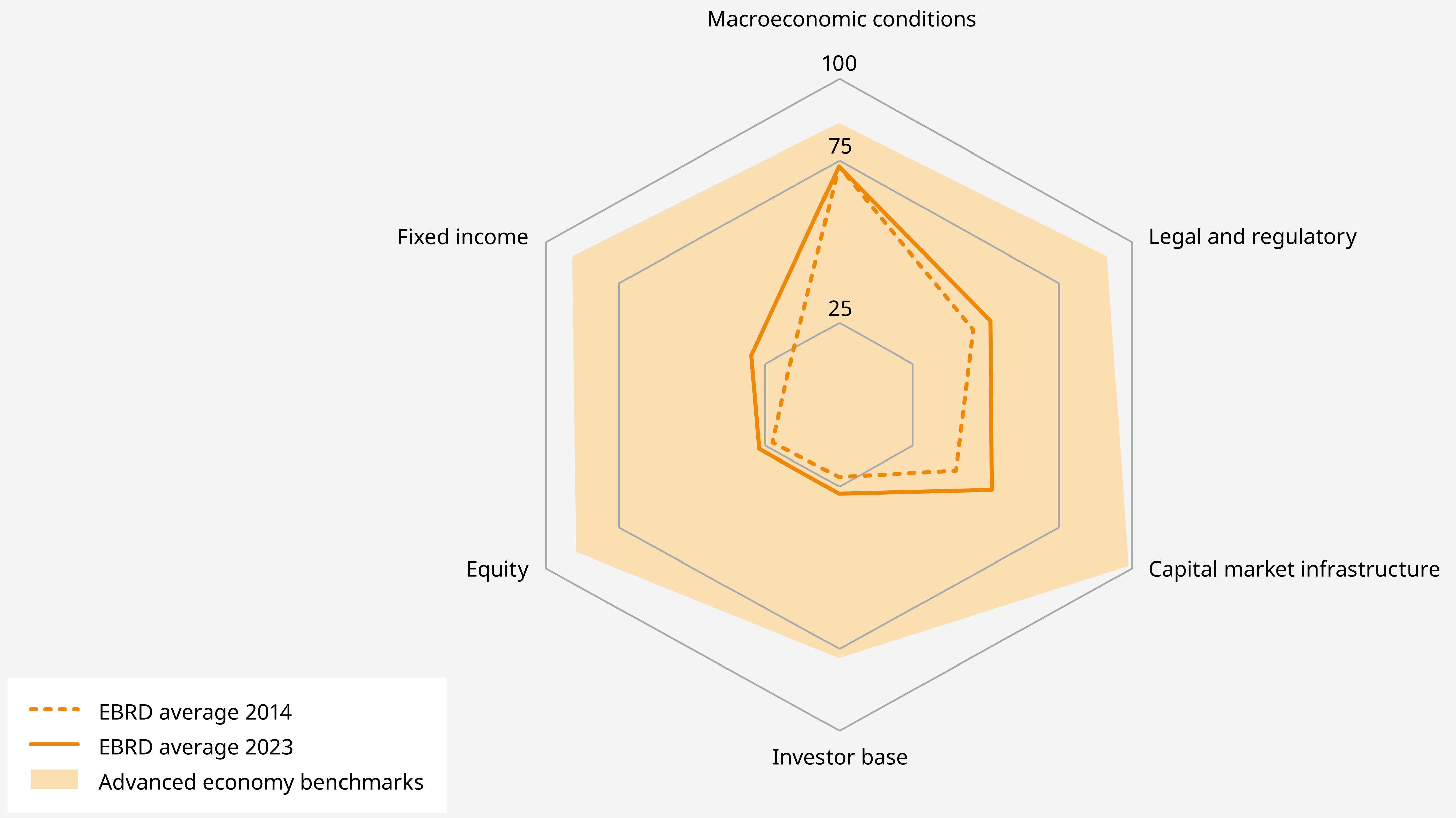
Impact on financial markets: enabling private capital mobilisation

Challenges and opportunities

A vibrant and dynamic private sector relies on effective financial markets to support economic growth. However, the financing needs of most economies far exceed the public sector's capacity to provide for them effectively, so ready flows of private capital are required. This is a challenge in the EBRD regions, where insufficiently developed financial markets and limited availability of local currency impede economic transitions. Weaknesses in monetary policy, legal and regulatory frameworks, risk-management capacity, market infrastructure and local investor bases persist in many of the countries where the EBRD works. In these countries – especially those in the relatively early stages of transition to market economies – the foundations for sustainable local market development, which are anchored in sound monetary and macroeconomic policies, require further reform, while financial systems still lack the risk-management tools to enhance their capacity. Many economies that are further advanced in their transition may have robust regulatory frameworks and infrastructure, but their institutional investor bases remain shallow, and their financial markets have not become a meaningful source of funding for borrowers. Consequently – and despite notable improvements over the past decade, especially in advanced transition countries – the overall depth, diversification and liquidity of money, derivative, debt and equity markets in the EBRD regions remains low (Figure 1).

Figure 1. Financial market development gaps in the EBRD regions and select benchmark economies

a. Financial Market Development Index (FMDI)[6] score averages for EBRD investee economies and advanced economy benchmarks, 2014 versus 2023

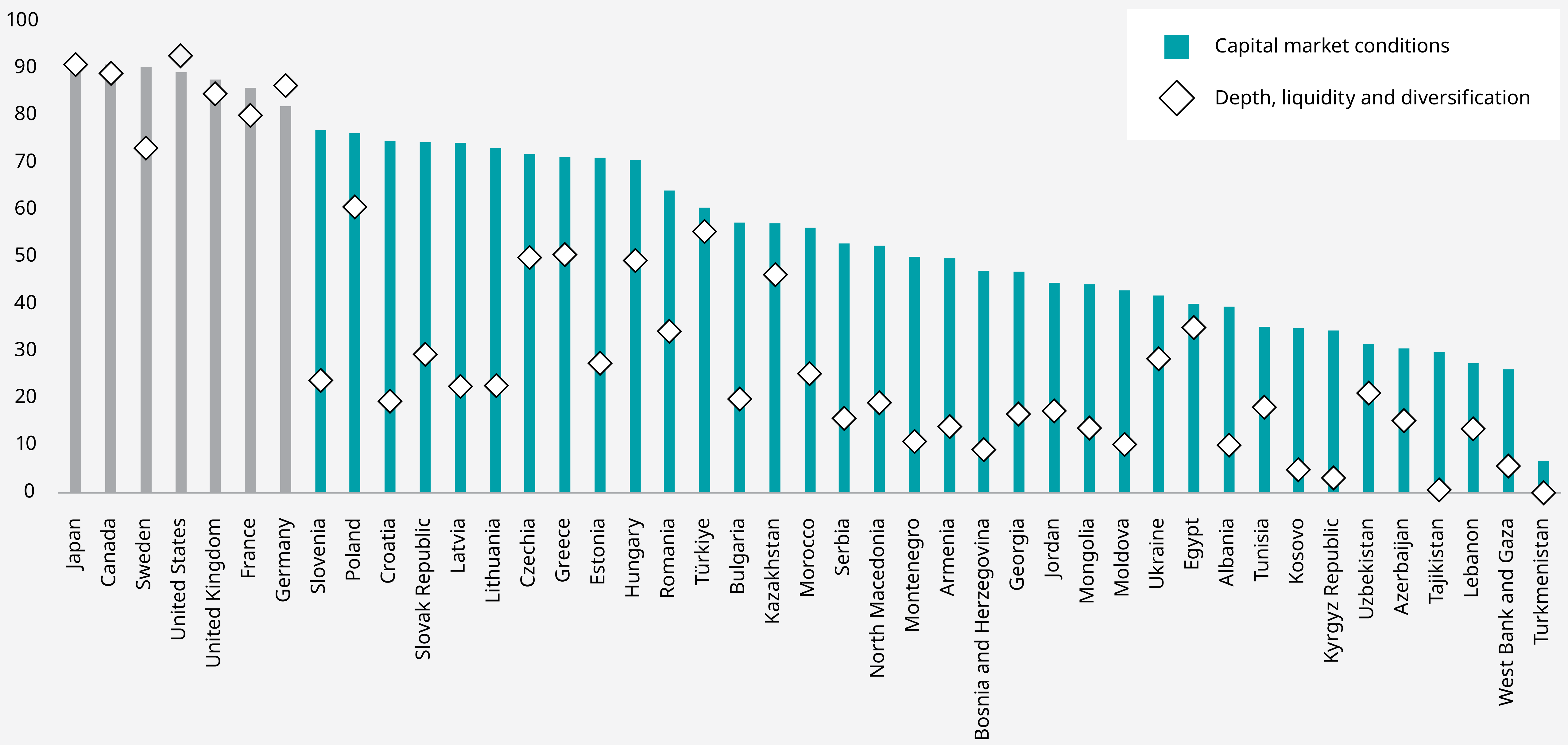


6. The EBRD launched the FMDI in 2021. It covers about 50 indicators measuring the development of financial markets in the EBRD regions. The index comprises two equally weighted subindices covering (i) the necessary conditions for sustainable market development and (ii) asset class-specific indicators reflecting the extent of market development. The first subindex covers macroeconomic conditions, legal and regulatory frameworks, capital market infrastructure and the depth of the local institutional investor base. The second subindex captures market outcomes in terms of the depth, liquidity and diversification of markets across several asset classes: fixed income, equities, money markets and derivatives. The baseline version of the index is 2014, with annual updates from 2021 onwards.

Contents

Figure 1. Financial market development gaps in the EBRD regions and select benchmark economies

b. FMDI scores for capital markets conditions and depth, liquidity and diversification (2023), disaggregated by economy



Source: EBRD (2021b).

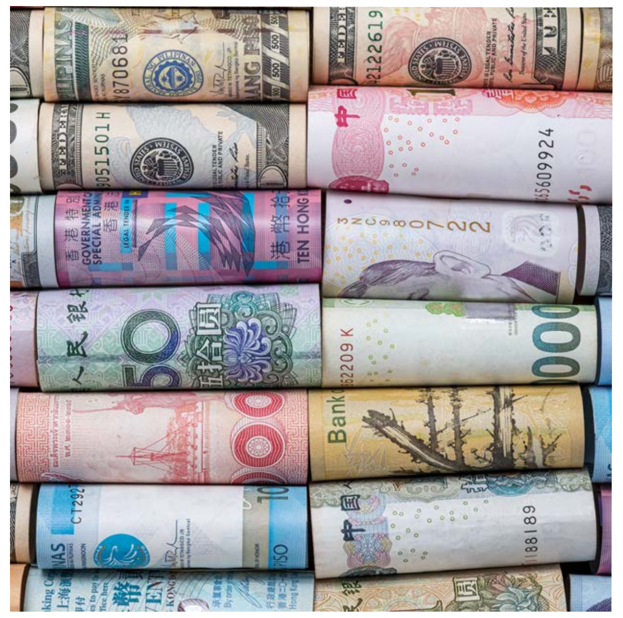
Note: Data for 2014 are presented in panel a to demonstrate the market development gaps a decade ago, before the EBRD launched most of its market development policy interventions and financial market investments. The FMDI computed in 2024 reflects 2023 market data due to the time lags of some indicators.

The EBRD seeks to develop self-sustaining financial markets that enhance the use of local currency and enable the mobilisation of private capital. The Bank applies a holistic approach that combines domestic market participation, the creation of local-currency liquidity pools, investments, policy dialogue and advisory services. These combined efforts help to enhance monetary policy and regulatory frameworks, expand the available range of financial products, enhance the risk-management capacity of the domestic financial system and reduce barriers to cross-border investment. The Bank's comprehensive approach is designed to strengthen money and derivatives markets and market infrastructure in ways that broaden participation by institutional investors and promote sustainable enhancements to both capital flows and access to finance. In turn, these outcomes foster systemic change in the EBRD regions and achieve impact by increasing the depth and liquidity of markets.

The EBRD's impact

EBRD activities have supported the development of local-currency and financial markets in all of its regions. In 2024, the Bank invested €1.45 billion in 58 capital market operations across 17 countries, leading to total issuance of more than €19 billion. Around three-quarters (approximately €1.1 billion) of these investments were bank-issued securities, such as covered and bail-in-able bonds,[7] with the remaining €360 million invested in corporate and sustainable infrastructure bonds. The EBRD's 2024 investments in labelled green, social, sustainability and sustainability-linked (GSSS) bonds amounted to about €630 million across 21 securities issued by companies and financial institutions. Since 2019,[8] the Bank has invested a total of €6 billion in 225 capital market issues. In addition, as part of its treasury operations in 2024, the EBRD conducted more than €21 billion of money-market transactions in local currencies across 19 countries, trading a notional €655 million in local derivatives and foreign exchange and issuing €750 million equivalent of bonds denominated in local currencies. These operations enabled €1.75 billion in local-currency financing by the EBRD, reflecting an annual increase of €620 million in local-currency operating assets.

Policy dialogue and advisory support also play an important role in the Bank's market development work. The EBRD ran money-market working groups in seven countries in 2024. Across the financial markets field, it launched 29 technical cooperation projects – where the EBRD works with clients and partners to prepare or implement projects, strengthen capacity or create an enabling environment for transition – bringing the total to 68 managed projects across 30 countries. Since 2019, donor funds totalling €23.1 million (of which €4.2 million was delivered in 2024) have supported 174 technical cooperation projects across 36 economies. Providers included the EU, the EBRD Shareholder Special Fund and bilateral donors. The Bank's investments and technical cooperation portfolios have also evolved, with earlier policy reforms supporting capital market investments and deepening markets in recent years. Its policy activities and investments have been critical for enhancing local-currency financing.



7. A "bail-in-able" financial instrument can legally be used in a "bail-in" process. A bail-in is a method of handling a failing bank or financial institution by ensuring that its creditors and depositors (rather than taxpayers) bear some or all of the institution's losses.
8. Results reporting in this chapter starts from 2019, in line with the start date of the Bank's latest Local Currency and Capital Markets Development Strategy.

Strengthening money and derivatives markets: Targeted working groups and derivatives training have formed part of the EBRD's money-market development activities. This has supported the design of robust local interest-rate benchmarks and linked financial products in seven investee economies since 2019 (with two instances of this in 2024). Other benefits have included reduced balance-sheet risks for local banks, which improves the availability of funding and hedging in local currency, as well as domestic resource mobilisation. Over the past five years, EBRD policy and operational activities have also helped to strengthen monetary policy operational frameworks in four investee economies, deepen local-currency interbank money markets in two economies, increase derivatives market activity among local participants in three countries and launch a local-currency overnight index swaps market in one country. The overall impact of these activities has been reflected in greater risk-management capacity among local market participants and deeper local-currency market liquidity, which have jointly facilitated the mobilisation of domestic sources of private capital and EBRD financing operations in local currencies.

Improving the enabling environment for capital markets: Legal reforms undertaken with the EBRD's technical cooperation have strengthened securities and derivatives laws in 25 countries since 2019 (with two instances of this in 2024). These have included introducing covered bond frameworks in 10 countries and aligning derivatives and repurchase agreement (repo) markets with international standards (International Swaps and Derivatives Association/Global Master Repurchase Agreement) in seven countries, improving access to risk management tools and in turn enabling the scaling up of local-currency financing. Meanwhile, Bank-supported market infrastructure reforms in five countries have strengthened market efficiency and investor access. Financial stability has been strengthened in 15 countries through the reform of bank regulation plus resolution and supervision frameworks in six countries (three in 2024), as well as by changes to investments in bail-in-able securities in nine countries. In 2024, the Bank invested in 32 such issuances across eight countries for a total of €730 million.

***Developing capacity and private capital mobilisation through increased use of capital markets*:** Increasing capital market issuance requires enhanced capacity at both financial institutions and companies. Targeted training through the EBRD's capital markets e-learning programme, its bootcamps on derivatives, initial public offerings and bond issuance, and its accelerator programmes for high-growth small and medium-sized enterprises (SMEs) have strengthened the capacity of financial institutions (about 450 staff trained in 2024, and about 1,000 since 2019) and companies in 20 economies where the Bank invests. This has fostered better understanding of financial markets and improved risk management at local financial institutions, enabling around 15 companies, including SMEs, to tap capital markets for funding in the past five years in countries such as Egypt, Georgia and the Kyrgyz Republic.

Results achieved since 2019

Robust local interest-rate benchmarks designed in **7 investee economies**

Monetary policy operational frameworks strengthened in **4 investee economies**

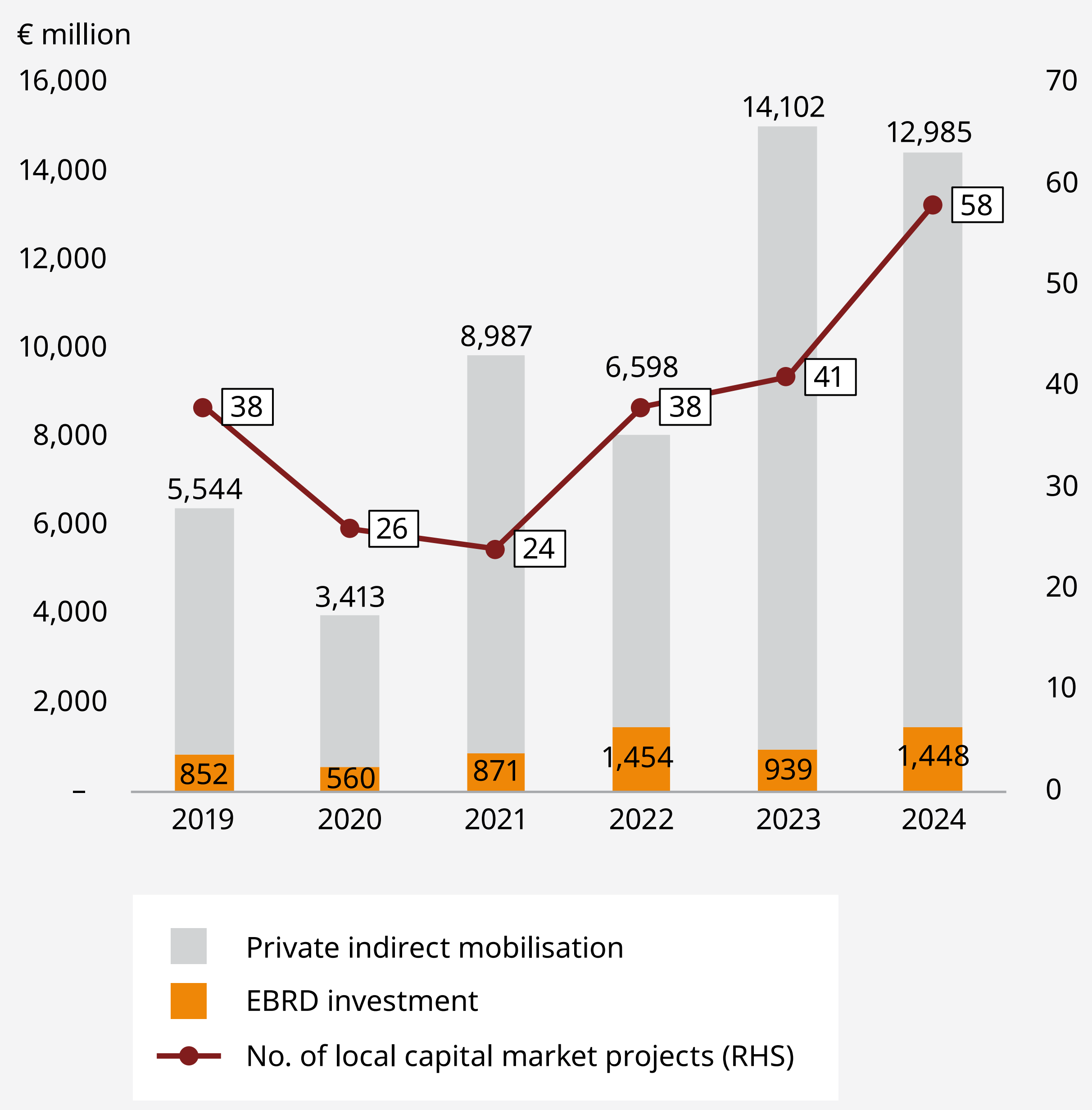
Legal reforms in **25 countries** have strengthened securities and derivatives laws

€51.6 billion in indirect private capital mobilised

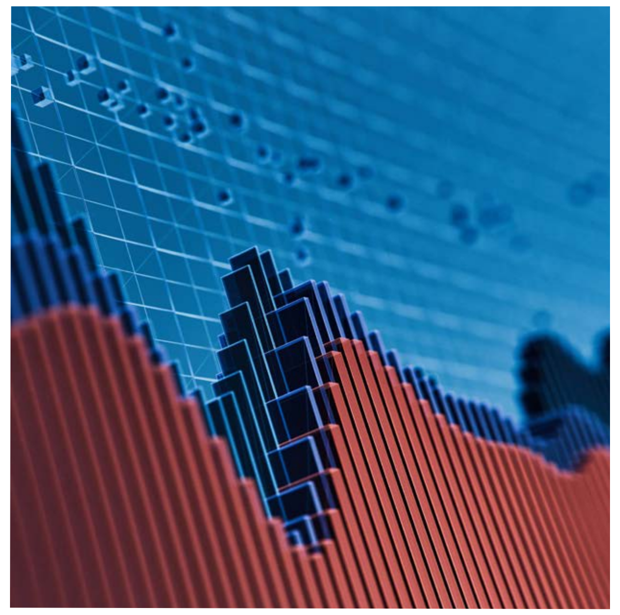
Training provided to **1,000 staff** at financial institutions across 20 economies

EBRD policy activities enabled **€9 billion** of capital markets issuance

Figure 2. Local capital market transactions – EBRD investments and indirect private capital mobilised, 2019-24



EBRD investments have supported the deepening of capital markets. Companies and financial institutions in the Bank's regions issued €19 billion of bonds in which the EBRD participated in 2024, enabling €13 billion in indirect private capital mobilisation (€51.6 billion in 2019-24) (Figure 2). Policy activities related to market development in turn enabled €3.2 billion of capital markets issuance in 2024 (€9 billion in 2019-24). Overall, the Bank's activities have helped make capital markets a meaningful source of funding for borrowers, providing more than 5 per cent of total corporate funding in seven countries in the EBRD regions by the end of 2024.



Contents

Financial markets focus area 1
Mobilising private capital through market development

The EBRD promotes policy change and facilitates technical cooperation to support financial market development. This approach creates the conditions for enhanced mobilisation of private capital and is targeted to each country's level of development. It requires long-term political commitment and sequencing to achieve impact. In the early stages of market development, the Bank's activities focus on improving trust in the local currency by supporting reform of monetary policy operational frameworks and developing money and derivatives markets, along with foundational infrastructure and legal reforms. The EBRD combines policy work with market participation to develop local-currency funding pools by borrowing and investing locally. The Bank also manages financial risks and maturity mismatches to provide flexible local-currency financing tailored to clients' needs. These activities help to strengthen domestic financial markets and enable the provision of more flexible local-currency financing to domestic borrowers. As markets mature, the Bank's activities focus on diversifying the product range and deepening markets and liquidity through legal and regulatory reform, targeted capacity building and issuance incentive programmes. As many countries' capital markets lack scale due to the small size of their economies, the EBRD also supports the regional integration of market infrastructure to build larger pools of capital and increase liquidity.

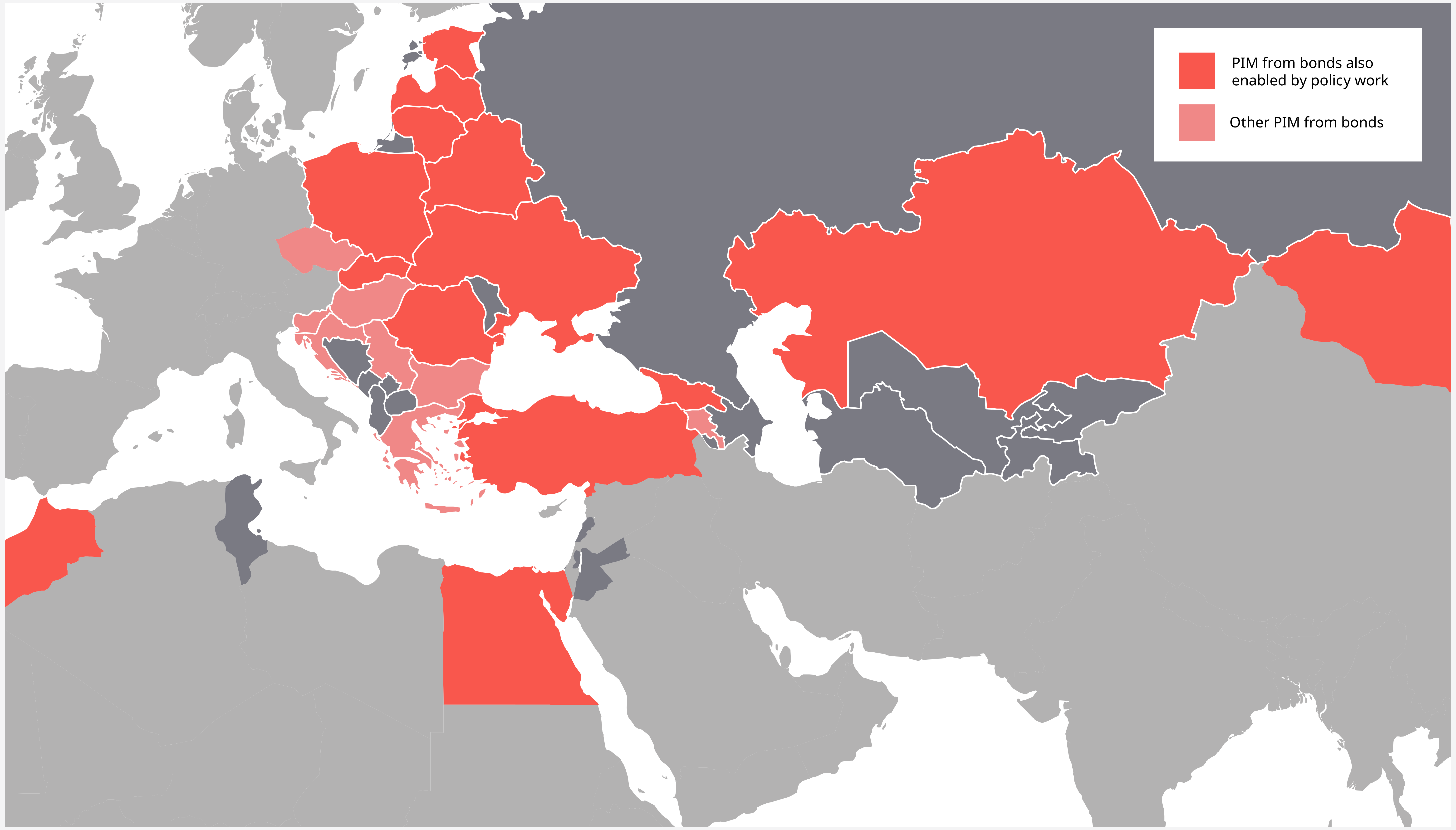
EBRD capital market investments and policy activities contribute to private capital mobilisation, enabling significant participation by other investors. The Bank's capital markets operations in 2024 played a direct role in enabling about €300 million of financing for EBRD clients by third parties – technically known as direct annual mobilised investments. A further €13 billion from third parties accompanied the Bank's investments through private indirect mobilisation (PIM),[9] where the Bank was instrumental in the transaction but did not play a direct role in enabling the additional financing.[10] Cumulatively, the EBRD estimates that in 2019-24, its capital markets policy activities contributed to over €9 billion in PIM (about 18 per cent of PIM from bond issuance over the period), of which about €3.5 billion was in labelled sustainable securities (Figure 3). The EBRD's policy activities to advance capital markets include:

- legal and regulatory reforms to launch covered bond markets
- the development of sustainable finance strategies and incentives to support green capital markets
- green bond frameworks and ESG guidelines to support the issuance and listing of sustainable securities.

In addition to regulatory reforms and strengthening liquidity and standards in local markets, the Bank supports the development of labelled GSSS securities by providing advisory services and training to build domestic ecosystem capacity, including among the issuer community. The Bank's 2024 GSSS bond investments supported a total labelled bond issuance volume of €7.7 billion, enabling €7 billion of indirect private capital mobilisation in the EBRD regions. In 2019-24, the EBRD invested €3 billion in 89 GSSS labelled bonds, enabling indirect private capital mobilisation of about €22.5 billion, resulting in total issue size of €25.4 billion.

9. Financing from a private entity provided in connection with a specific activity for which the EBRD provided financing, in which it is not playing an active or direct role that leads to the commitment of the private entity's finance.
10. This number refers to private co-investments in bond issues for which the EBRD has also provided financing.

Figure 3. Private capital mobilised through the EBRD’s capital markets policy work and investments



€4.8 billion
Private indirect mobilisation (PIM) from covered bonds in 2019-24

€3.5 billion
PIM from green and sustainability-linked bonds in 2019-24

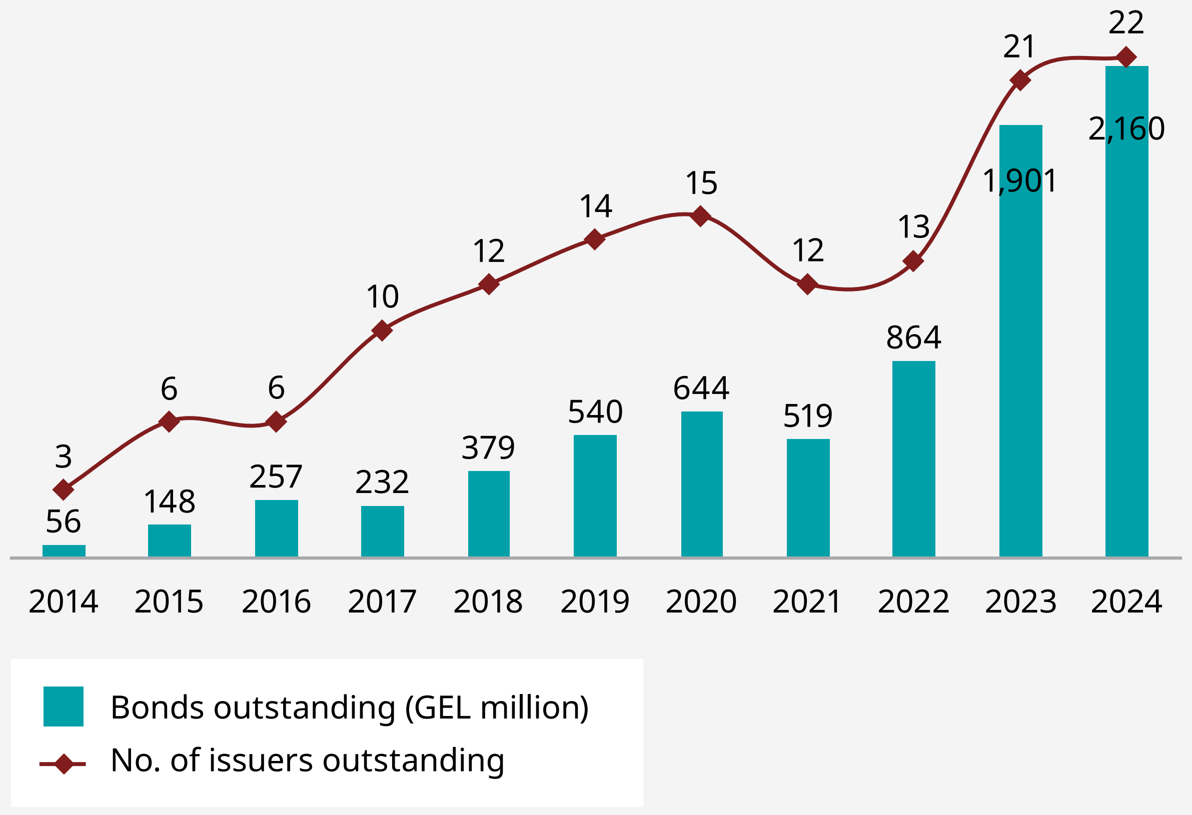
€21 billion
Covered bond issuance in 2019-24 in markets created following EBRD reform assistance, without Bank investment

Case study
Accelerating financial market development in Georgia

EBRD support has contributed to the steady development of Georgia's financial markets. Since 2012, the EBRD has helped to strengthen the National Bank of Georgia's economic forecasting capacity for the conduct of monetary policy and worked with market participants to develop money markets, including via money-market working groups. The Bank has supported legal reforms to derivative and repo markets, as well as the introduction of a robust benchmark interest-rate index that is now embedded in multiple financial products. The EBRD has also supported market development through the implementation of regulatory frameworks for covered bonds, securitisation and green/sustainable securities aligned with international standards and best practices. This work has enhanced the development of local currency markets and financing in Georgia.[11]

The Bank's activities have contributed to the continued expansion of Georgia's corporate securities markets. A capital markets support programme has facilitated the launch of new financial instruments, including the country's first local social and green bonds, as well as the issuance of local currency bonds by SMEs. EBRD investment also anchored the country's inaugural green bond transaction, the largest issue on the domestic market at the time. As a result, the corporate securities market has continued to expand (with the Bank investing in another green bond by a local utility for the equivalent of €290 million in 2024), totalling GEL 2.2 billion (around €715 million), or 2.4 per cent of 2024 Georgian GDP (Figure 4). With a growing number of capital market issuers across nine sectors, the country's debt capital markets are becoming an important source of financing for local companies. At the end of 2024, bond issuance accounted for 9 per cent of non-financial corporations' financing needs. Although bank finance still dominates, the share of Georgia's public capital markets issuance in total non-financial corporate funding is now similar to that of many advanced markets.[12] Following the success of the Georgian capital markets development programme, the EBRD launched a similar project in Armenia in 2024 with EU support.

Figure 4. Georgian public corporate bond market



Sources: National Bank of Georgia, Georgia Stock Exchange.
Note: Data show all outstanding public corporate bonds issued on the Georgian capital market.

11. See EBRD (n.d.e).
12. The share of public bond issuance in total credit to non-financial corporations (NFCs) in Georgia measured 9 per cent at the end of 2023 (EBRD calculations based on data from Bloomberg and the National Bank of Georgia), compared with 10 per cent in Spain and Luxembourg, 9 per cent in Austria and the Netherlands, 7 per cent in Belgium and Switzerland and 6 per cent in Germany (see OECD 2023).

Case study

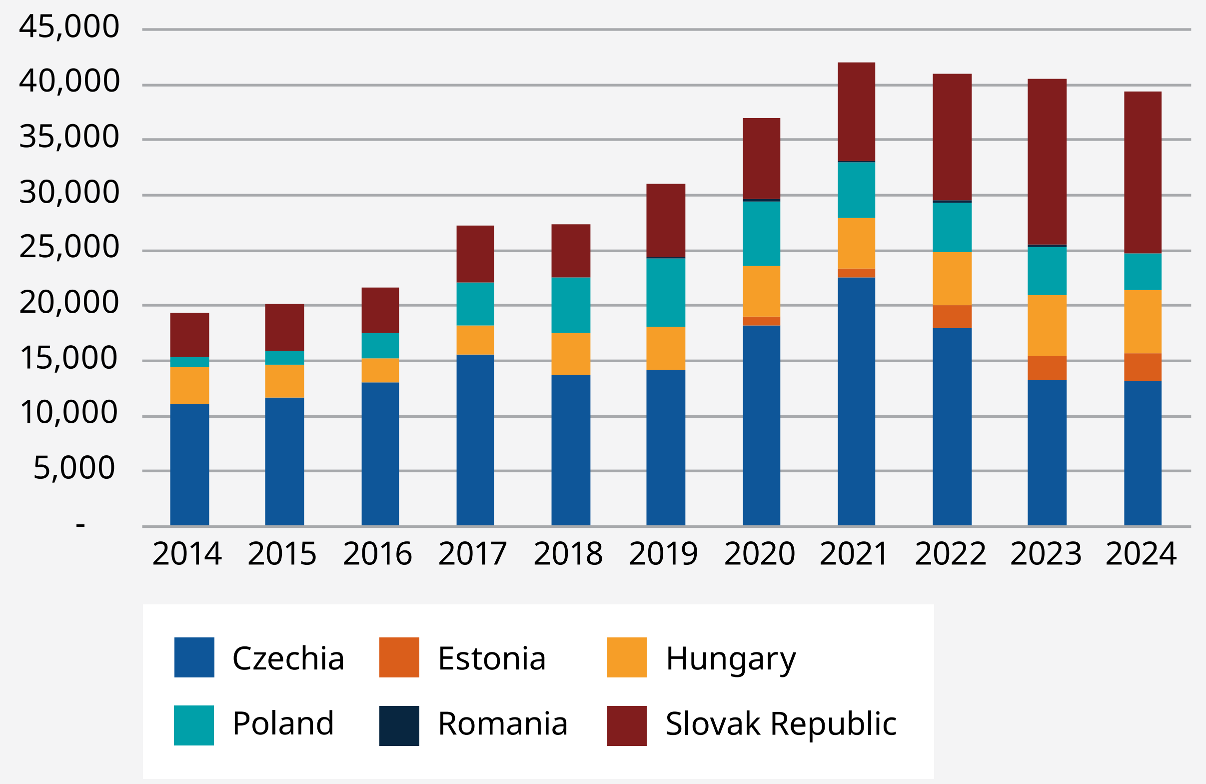
Developing covered bond markets in the Slovak Republic and the wider EBRD regions

The EBRD has supported the covered bond market in the Slovak Republic through policy dialogue and technical cooperation, underpinned by investment. In 2016-17, the Bank assisted the Slovak authorities in reforming the country's mortgage bond law to align it with EU standards. The law came into force on 1 January 2018 and the framework was subsequently updated through the Covered Bonds Act 454/2021, which became effective in July 2022. The EBRD also supported market development with investments in the debut issues of several banks. In October 2018, the Bank invested in the first ever triple A-rated security issued in its regions, a covered bond by Slovenská Sporiteľňa. In 2019, the EBRD launched a €385 million covered bonds framework to support additional investments in this growing asset class, attracting some €1.6 billion of private-sector investments to Slovak covered bonds. In 2024, the Bank invested in a benchmark-sized covered bond issue by Tatra Banka, listed on the Bratislava Stock Exchange, through which it indirectly mobilised €489 million of private capital.

The Slovak Republic was the largest covered bond market across the EBRD's central Europe and the Baltic states and south-eastern Europe regions in 2023 and 2024. This followed sustained market expansion in recent years (see Figure 5). The ratio of covered bonds to GDP doubled in five years, from less than 6 per cent in 2017 (before the EBRD-supported legal reform was finalised) to 12 per cent of GDP at the end of 2024. There are now six local issuers, with the market adding more than €12 billion in new issuances in the past five years, reaching a total outstanding volume of more than €15 billion. Covered bonds now finance 38 per cent of residential mortgages in the Slovak Republic, compared with 37 per cent in Hungary, 20 per cent in Czechia, 20 per cent in Estonia and 4 per cent in Poland.

The EBRD has supported covered bond reforms and market development in several other countries. This has reinforced financial stability by reducing asset-liability mismatches on bank balance sheets. The EBRD has assisted in the development of legal frameworks for covered bonds in Bulgaria, Croatia, Estonia, Georgia, Latvia, Lithuania, Morocco,

Figure 5. Outstanding covered bond issues in the EBRD's central Europe and the Baltic states and south-eastern Europe regions (€ million)



Poland and Romania, with work ongoing in Ukraine. The Bank also supported the development of a pan-Baltic covered bond framework, which increased the potential size of the market by pooling mortgage portfolios from Estonia, Latvia and Lithuania.[13] To date, the EBRD has invested more than €1 billion in covered bonds across its regions, including over €185 million in nine covered bonds from five countries in 2024. The EBRD's activities have enabled almost €5 billion of private capital investments in covered bonds to date, with a further €20 billion in issuance in markets where the Bank supported legal and regulatory reforms but did not invest.

The Bank works actively on developing financial markets in emerging economies. The development of money, derivative and government bond markets is a key priority for these economies due to their role in price-setting and the functioning of the wider financial sector. The Bank facilitates this by working to improve the implementation of monetary policy and operational frameworks, and by developing tools for local banks to enhance their risk-management capacities and provide long-term local-currency financing to the real economy. It also provides support for important regulatory reforms and to develop capital markets infrastructure, including in Tajikistan and Egypt (Box 1).

Capital market conditions have improved in the EBRD regions. The direct connection to EBRD activities is hard to prove, as capital market development is a gradual process, with multiple contributing factors. However, capital market conditions in these regions have improved and it is plausible that the Bank's sustained contributions over the past decade have contributed to this development (Box 2).

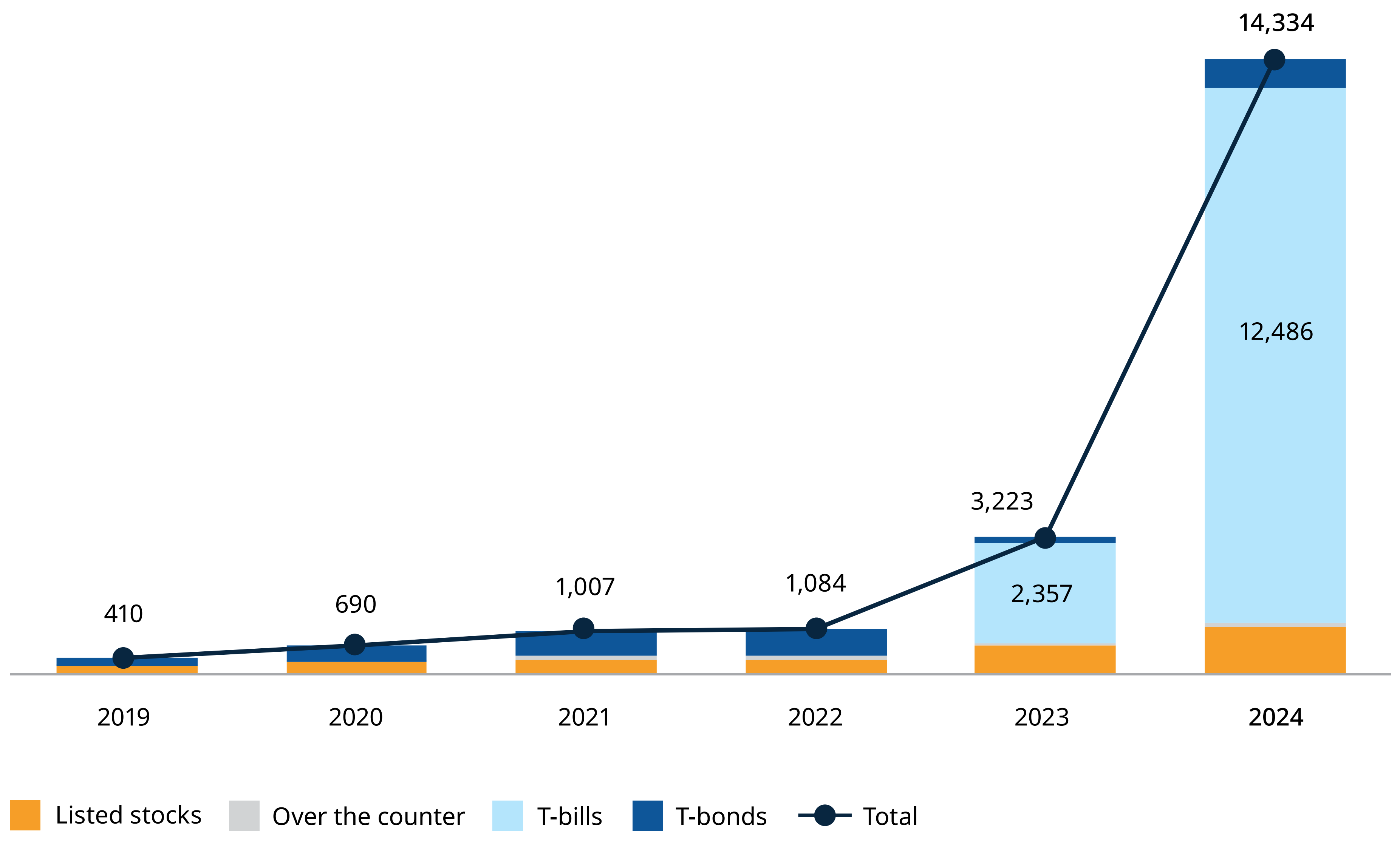
13. Following the adoption of relevant laws, Estonia's Luminor issued the first-ever pan-Baltic covered bond, with an issue size of €500 million, using mortgage collateral originated by its subsidiaries in all three Baltic states and with 20 per cent invested by the EBRD.

Box 1
Systemic change in emerging markets: enabling foundational legal and infrastructural reforms

A robust regulatory framework is essential for market operations and to attract investment. The EBRD assists national authorities in implementing legislation to govern financial transactions, promote investor protection and create transparent and efficient markets that attract private capital. This includes launching new financial instruments (such as derivatives) and providing legal certainty over financial collateral. In 2019, the EBRD supported the Ministry of Finance of Tajikistan in drafting government bond regulations to enable market-based issuance for the first time. Through policy dialogue, adverse elements in the regulations were revised in 2024, with regular issuance on market-based terms since then (TJS 500 million (€44 million) in 2024). Once sovereign bond markets become established, the EBRD's policy work transitions into developing repo markets and yield curves, which provide pricing reference points for corporate securities issuance and are instrumental in developing corporate bond markets in emerging markets.[14] In 2024, sovereign bond yield curves were developed and published with the Bank's assistance in Georgia and Uzbekistan, while a corporate bond yield curve was also developed for the first time in Georgia.

Robust capital market infrastructure provides access to market participants and creates trust. The EBRD's activities focus on modernising payment systems, central securities depositories (CSDs) and trading platforms to support market functioning, reduce transaction costs, enhance efficiency and improve transparency. The regional integration of capital market infrastructure is a key priority in developing larger pools of capital. In Egypt, the EBRD helped reform the depository and registry legal framework and supported the creation of the Egyptian CSD (ECSD). The project led to the consolidation of government securities activity on the Egyptian Exchange (EGX)/ECSD, with a significant expansion of trading volume and liquidity (Figure 6). Additional support was provided to restructure the SME growth market in alignment with international best practices. The Bank partnered with EGX to cover up to 75 per cent of SME listing costs, which resulted in eight new equity offerings by high-growth SMEs on the new Nile Stock Exchange platform, several of which have since been upgraded to EGX's main market.

Figure 6. Trading volume on EGX/ECSD (EGP billion)



Source: EBRD calculations based on EGX data, including from the 2024 Annual Report (see The Egyptian Exchange 2024).

14. See Dos Santos (2024), who provides evidence of how the issuance of government debt in emerging markets supports the development of domestic corporate bond markets, including via the development of yield curves, which can be used to price bonds issued by private corporates. As a result, firms can borrow and then invest more in the long term.

Contents

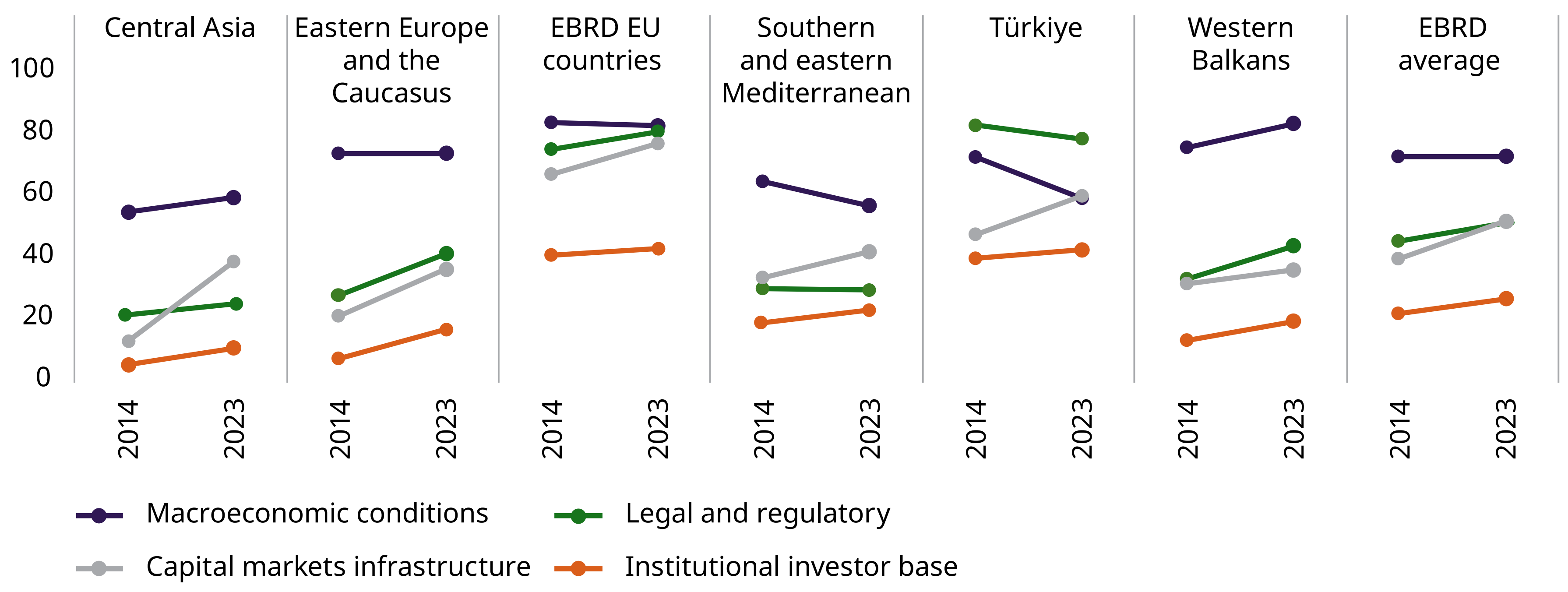
Box 2
Progress in developing capital markets associated with EBRD policy interventions

Capital markets take time to develop following policy interventions. Political-economy issues, market conditions and the capacity of market participants to adjust to reforms are all factors. Lasting reforms require long-term political commitment, and the impacts seen in 2024 stem from years of cumulative policy delivery and investments. The EBRD has delivered policy advice on local financial market development through money-market working groups in 10 countries where it operates. This has in turn supported the development of robust local interest-rate benchmarks and financial instruments indexed to these benchmarks in seven countries. Over the past five years, the Bank has launched or completed more than 170 technical assistance assignments, two-thirds of which have focused on reforming the policy and legal and regulatory frameworks for capital markets in the Bank’s regions.

Progress in developing capital markets is evident across all EBRD regions. Directly attributing transition impacts to the Bank’s policy activities is complex and challenging due to external factors. Still, several examples highlight systemic market changes across the EBRD regions over the medium term. Financial Market Development Index scores suggest that EBRD activities supporting policy reform are contributing to these changes. Although macroeconomic conditions have been volatile, capital markets infrastructure, legal and regulatory standards, and institutional and investor bases have generally improved (Figure 7, panel a). It is likely that these developments would not have been achieved without the Bank’s sustained contribution over the past decade to market infrastructure reforms, the alignment of legal systems with international standards and the promotion of greater depth, liquidity and diversification in equity and fixed-income markets, as well as increased local-currency use in domestic financial sectors. Economies with better financial ecosystems tend to have greater depth (Figure 7, panel b), but those that are still early in their transition and smaller countries that are more advanced in their transition can suffer from lower liquidity due to the limited size of their economies – a challenge the Bank is working to address through initiatives on regional market integration.

Figure 7. Evolution of capital markets development in the EBRD regions

a. Evolution of market conditions in EBRD regions, 2014-23



Source: EBRD Financial Market Development Index, 2014-23.

b. Relationship between market conditions and market depth, FMDI 2023

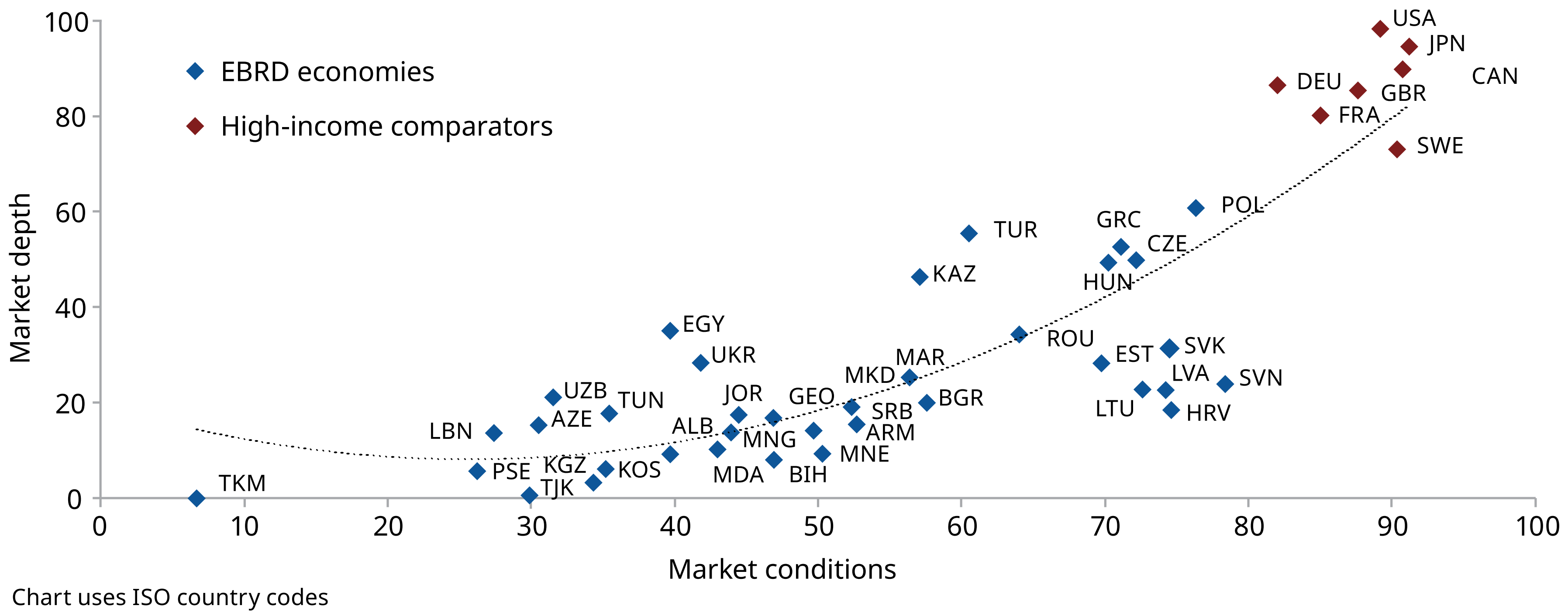


Chart uses ISO country codes