



European Bank
for Reconstruction and Development

Approach to Financial Market Development

Executive summary

Financial markets are an essential component of well-functioning market economies. They mobilise, price and allocate funding to the productive businesses that innovate and create jobs. By underpinning effective monetary policy transmission, financial institutions' risk management and access to long-term financing, their development improves financial intermediation and contributes to both economic growth and stability.

Under the EBRD's Strategic and Capital Framework (SCF) 2026–30, deepening financial markets is critical to advancing the EBRD's transition objectives, notably by strengthening economic governance. Despite progress, structural gaps persist. In many countries, markets remain shallow, market infrastructure is fragmented, and participant trust and activity are constrained. These factors limit liquidity, diversification and, ultimately, economic resilience across the EBRD regions.

The EBRD supports financial market development through three strategic pillars that guide its work:

1. developing local currency markets to create the conditions for local savings pools to grow and ensure that banks have the tools to transform them into financing for the real economy
2. improving financial sector policy to support resilient and efficient institutions and lay the foundations for the further development of financial markets
3. building deep and dynamic capital markets with a diverse range of products to mobilise long-term finance and diversify funding sources.

In each of these areas, the EBRD addresses constraints by maintaining focus on longer-term reform agendas and deploying an integrated approach that combines policy dialogue, technical cooperation, investments and balance-sheet operations. Policy activities help to grow markets and create a positive feedback loop that both enables and benefits from greater investments and balance-sheet operations. This approach catalyses market development and supports local financial ecosystems capable of financing sustainable growth.

One of the EBRD's success factors is its ability to leverage the expertise that comes from its combination of policy work, banking and treasury operations. The Bank has organised its financial market development activities in a collaborative manner around dedicated teams in its Treasury and Client Services Group. Treasury focuses on the development of money and derivative markets, while the Capital and Financial Market Development and Green Financial Systems teams in the Client Services Group drive and support capital markets and financial sector reforms in the EBRD's countries of operation.

Strategic partnerships with other international financial institutions (IFIs), donors, local authorities and private stakeholders are key to enhancing impact and delivering on financial market development objectives. To assess delivery, the EBRD has created a robust impact measurement framework that links policy reforms to tangible market outcomes and ensures transparency and accountability.

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Approach to Financial Market Development

The financial market development imperative in the EBRD regions

1. The financial market development imperative in the EBRD regions

Since its creation in 1991, the EBRD has championed the development of financial markets as a core component of its mandate to foster the transition to open and market-oriented economies. Well-functioning financial markets are essential to economic development, as they enable the efficient allocation of savings to the most productive enterprises and help mobilise capital to address the significant financing gaps faced by emerging economies. To develop, these markets require quality economic institutions and sound governance across the economy. In turn, deep local financial markets, underpinned by strong institutions, help to balance an overreliance on foreign-currency capital inflows. This helps to reduce economic volatility and mitigate the transmission of global economic shocks, both of which were particularly apparent during the global financial crisis of 2008-09. Following the crisis, the EBRD scaled up its financial market development activities, with a renewed focus on strengthening local currency markets and activating financial markets to fund economic development. This experience has shaped an approach that emphasises both the deepening and resilience of financial markets.

1.1 Economic rationale for financial market development

In the EBRD regions, financial systems are dominated by commercial banks, which remain central to the accumulation and distribution of savings for productive uses. To varying degrees, they are complemented by different financial market segments, each of which fulfils a variety of functions in an economy. Capital markets support the efficient allocation of capital and help mobilise a wide variety of private investors. Money and derivatives markets play a key role in risk management and lay the foundations for capital market development. Foreign-exchange markets help simplify the cross-border exchange of goods and services. Together, financial markets support the role of banks in transforming savings into investments and provide new channels of financial intermediation.

Financial market development is closely linked to strong economic governance, which is a strategic priority for the EBRD and included as such in the Bank's Strategic and Capital Framework (SCF) 2026-30.¹ Sound economic governance supports efficient financial markets, as their development relies on robust legal foundations and effective economic institutions. In turn, financial market development also promotes sound corporate governance at issuer level, notably through the transparency and governance obligations that reduce information asymmetries and help improve business practices. The increased scrutiny of investors, regulators and market analysts – especially in equity markets – establishes a market-imposed discipline that ensures capital is channelled to productive investments. This effect is compounded by the more cost-efficient and responsive reallocation of capital that can take place in capital markets.

By providing an alternative source of funding to traditional financial institutions, capital markets help mobilise capital from a wider range of local and international investors. With the availability of public funding to support development priorities becoming more limited, the objective of private capital mobilisation has become a greater priority of multilateral development banks (MDBs), including the EBRD. Capital market issuance, most notably bonds and public equity, can crowd in a range of investors alongside the Bank's own

¹ See EBRD (2025a).

investments to support economic development. Thematic products also help channel investments to objectives that are central to the EBRD's mandate, such as the climate transition and financial inclusion.

To support the development of financial markets, national authorities must focus on promoting financial stability and strengthening confidence in their local currency. In most countries with independent currencies, developing local money markets is a key priority, as they are central to the effective transmission of monetary policy to the financial system and to the real economy. They link the monetary policy rate to the short end of the yield curve and to the pricing of longer tenors. It is this transmission mechanism that enables central banks to steer the cost of credit and control inflation. In the absence of functioning money markets, the reduced pass-through of policy rates requires more aggressive adjustments, with knock-on effects on asset prices or exchange-rate volatility. In turn, greater confidence in the local currency, supported by well-functioning markets, promotes domestic capital mobilisation by creating larger savings pools over time. This occurs through a higher savings rate, the increased formalisation of savings within the banking system, a shift away from non-financial asset investment, and a greater willingness to invest domestically.

Financial markets further contribute to financial stability and capital mobilisation through their key role in the management of risks within the financial system. Money markets allow banks to respond to fluctuating liquidity needs and manage their liquidity risks cost-effectively. Derivatives markets provide crucial instruments for the management of interest-rate or currency mismatches. They are used by banks, in particular, to manage such financial risks embedded in their balance sheets. By equipping institutions with instruments to manage these exposures, financial markets support the safe use of leverage without undermining financial stability.

Together, the availability of risk management tools and a more stable macroeconomic environment help to mobilise local-currency financing, including from foreign investors. The EBRD also aims to promote local-currency financing whenever possible, as it helps to reduce currency mismatches for its clients. To do so in the most efficient manner and to offer flexible loan features that meet borrowers' needs, the EBRD must manage dynamically its exposure to interest-rate and liquidity mismatches using cash instruments and derivatives, which in turn depend on the existence of functioning domestic money and derivatives markets. The development of financial markets helps to avoid a reliance on hard-currency lending that significantly increases debt sustainability concerns by ensuring that firms and governments can borrow in their own currency. This will be crucial to closing the financing gap in emerging economies.

1.2 Financial market development challenges in EBRD countries of operation

Developing financial markets is a complex and long-term process, as it aims to create an efficient and cost-effective environment in which participants can transact based on trust. Effective markets depend on national authorities establishing supportive monetary policy, legal and institutional frameworks, and stable local currencies. They also rely on well-functioning banks and other financial intermediaries. As a result, while the EBRD and other IFIs can provide reform support to national and local authorities, progress is subject to sector-wide financial sophistication and to changes in political commitment and priorities.

When successful, interventions contributing to financial market development can create momentum, with higher levels of activity and market liquidity attracting more issuers and investors. Countries usually share developmental patterns and face common challenges, though idiosyncrasies in market development may result from the adoption of different public policies or market practices, and from structural characteristics. To support the process of financial market development, IFIs such as the EBRD can play a unique role because of their singular status as both a local market participant and development partner.

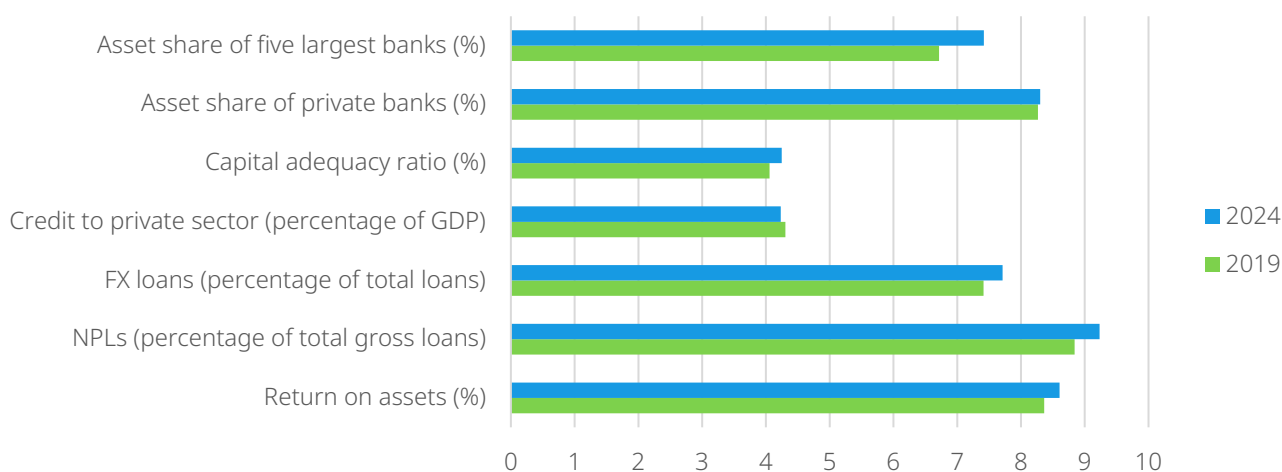
1.2.1 The state of financial market development

Across the EBRD regions, the banking sector remains the cornerstone of financial intermediation, providing the primary channel for transforming savings into the financing of economic activity. Banks continue to dominate credit provision, especially in early transition economies and smaller markets where alternative channels remain underdeveloped. Non-bank finance is gradually increasing, but from a low base. Microfinance institutions and non-bank credit providers remain essential in expanding access to finance for underserved groups, particularly women, micro-entrepreneurs and rural clients, while also piloting innovative lending models, including digital microloans and alternative scoring systems.

Insurance penetration, investment funds and private pensions remain modest, particularly outside EBRD European Union (EU) member states, limiting the depth of domestic institutional investor bases for local capital markets. In many economies, pension reforms remain incomplete, and insurance markets are fragmented with low product uptake, reducing the availability of long-term savings. Strengthening the role of non-bank financial institutions and their integration with capital markets would complement the role of banks and support the development of more resilient and inclusive financial ecosystems.

Despite the ongoing need for diversification, financial sectors have become more resilient in recent years, supported by stronger bank balance sheets and increased competition. Between 2019 and 2024, banking sector concentration decreased markedly, driven in part by the rise of digital banks and new entrants to challenge large incumbents, including in early transition countries. Asset quality, capital adequacy and profitability have all improved, aided by conservative provisioning, enhanced supervision and gradual economic recovery. However, in many countries, private sector credit-to-gross domestic product (GDP) ratios have declined, reflecting more prudent risk-taking by banks and, in some cases, subdued credit demand, underscoring the importance of complementary measures to expand financial inclusion and small and medium-sized enterprise (SME) access to finance. Leasing and factoring have gained importance as alternative channels for SME financing, especially in contexts where collateral is scarce, though their scale remains modest in most economies. Innovative supply-chain financing solutions, such as reverse factoring or deep-tier supply-chain finance, are still at an early stage of adoption, with limited awareness among companies and regulatory bodies, which often lag in terms of best practice.

Figure 1. Evolution of selected assessment of transition quality (ATQ) indicators, EBRD average, 2019-24

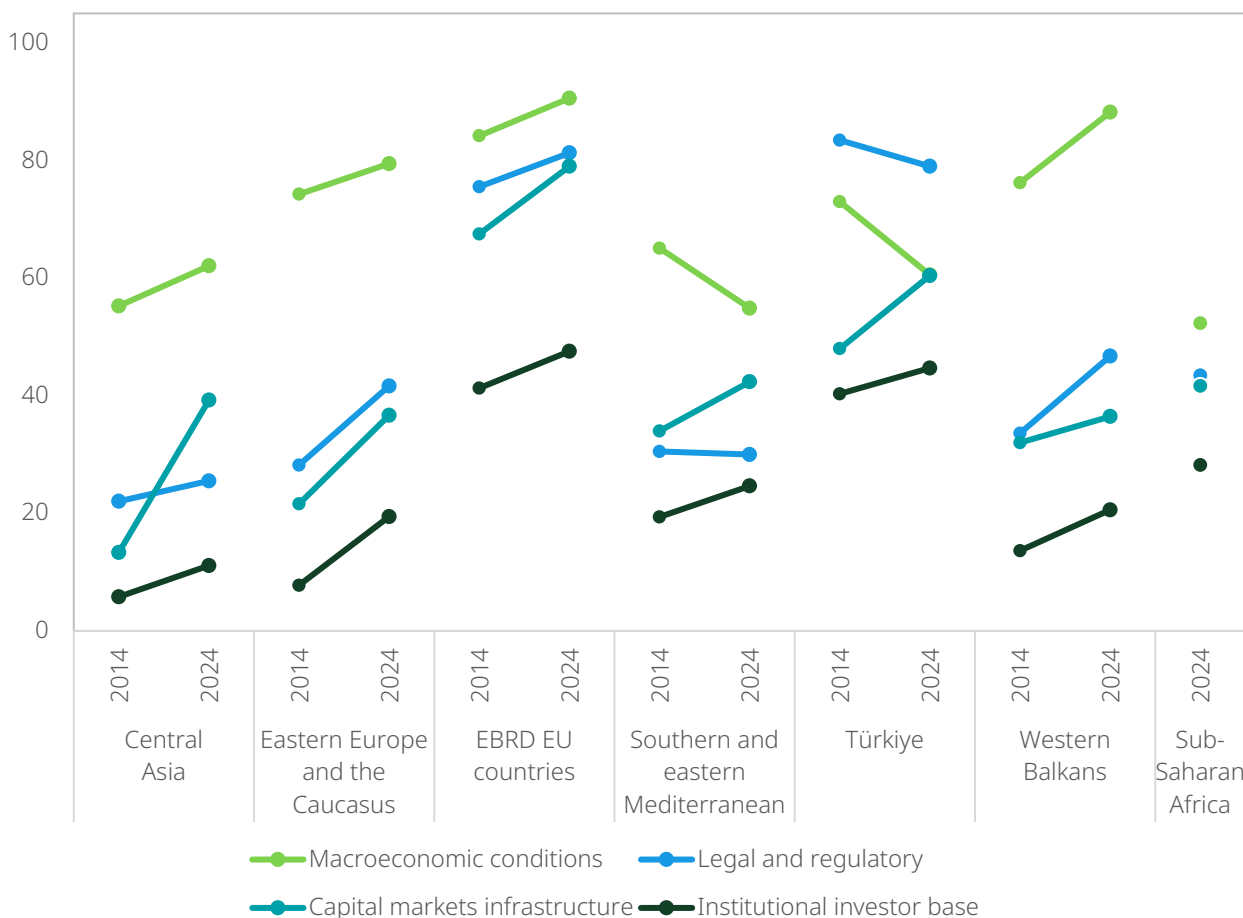


Note: For each ATQ indicator, raw data are rescaled from 1 to 10, following a min-max normalisation. Higher scores indicate better performance and may invert the direction of the original indicator. For further details on the ATQ indicator methodology, see EBRD (2024).

Since the global financial crisis of 2008-09, the EBRD has been focusing on developing financial markets beyond the more traditional financial sector segments. To assess the evolution of financial markets across its regions and to help target its interventions better, in 2020, the Bank developed the Financial Market Development Index (FMDI).² Comprising around 50 indicators, the index is structured into two equally weighted subindices. The first captures the enabling conditions for sustainable market development, such as the degree of macroeconomic stability, the quality of legal and regulatory frameworks and capital market infrastructure, as well as the depth of the local investor base. The second sub-index focuses on market outcomes, measuring the depth, liquidity and diversification of financial markets in key asset classes: equities, fixed income, money markets and derivatives. FMDI tracking has revealed a landscape of uneven yet meaningful progress in those areas where the EBRD operates.

Enabling conditions have generally strengthened over time across the EBRD regions, including with the support of international institutions. Capital markets infrastructure, legal and regulatory standards, and institutional and investor bases have improved, although macroeconomic conditions have been volatile. Improvements in legal frameworks and infrastructure have been notable, with several countries advancing in areas such as securities’ clearing systems and alignment with international standards in areas including securities and derivatives legislation. However, the depth of local investor bases remains a key constraint, including in EBRD EU countries (see Box 3). Overall, though, Central Asia, eastern Europe and the Caucasus, and the EBRD EU countries have registered significant improvement in their enabling conditions.

Figure 2. Evolution of market conditions in EBRD regions, 2014-24



Note: For each FMDI indicator, raw data are rescaled from 0 to 100 and aggregated following a min-max normalisation. Higher scores indicate better performance.

² For further details on the FMDI, see EBRD (2021).

Box 1. Investor bases in EBRD countries of operation

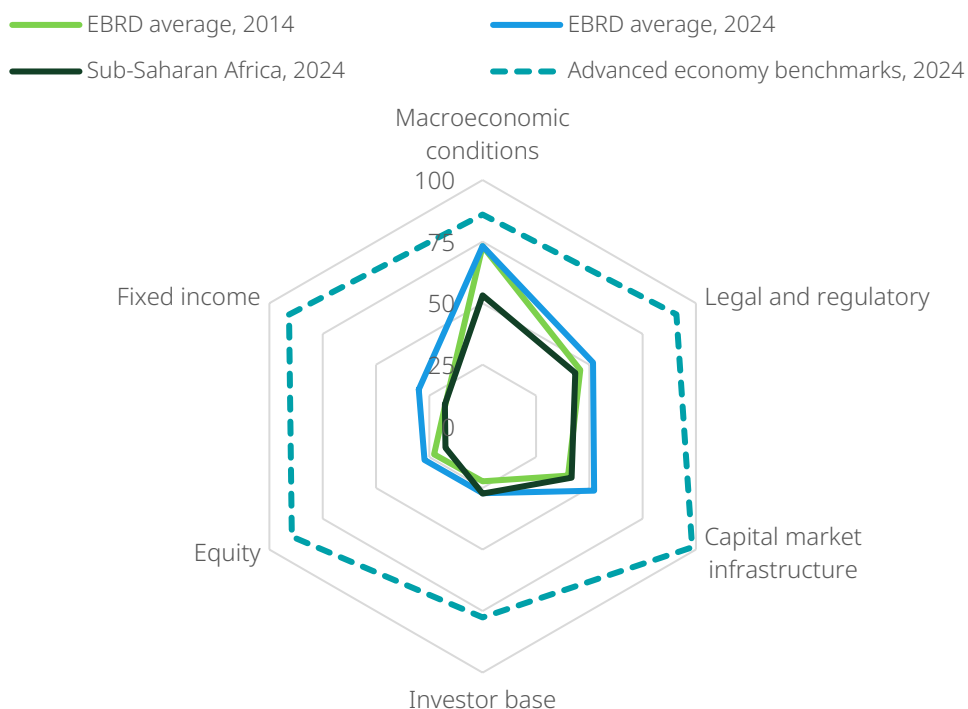
A persistent binding constraint for capital market development across EBRD countries is the limited absorption capacity of the domestic investor base. Even in more developed economies, including in central and south-eastern Europe, local savings are often limited and frequently held in bank deposits or invested abroad rather than channelled into long-term domestic instruments, reducing market depth and liquidity.

At the same time, the pool of institutional investors, such as pension funds, insurers and asset managers, is narrow, and recent private pension reform reversals in several countries have further weakened the prospects for sustained domestic capital accumulation. Across the EBRD regions, assets in funded and private pension plans averaged 5.8 percent of GDP in 2024 – including 11.5 percent in the EU countries of the EBRD – compared with 75.4 percent in the advanced economy comparators used for the FMDI. The life-insurance segment, another key long-term investor in capital markets, was similarly underdeveloped, with gross written premiums averaging 0.37 percent of GDP versus 5.04 percent in advanced economies. The limited scale of traditional money managers has critical implications for the viability of alternative investment channels, such as private equity and venture capital, which usually constitute a small subset of investment portfolios.

Regional integration is key to improving the depth of capital markets, but foreign investors cannot substitute for a robust domestic investor base. Foreign portfolio investors require liquid, predictable markets and tend to retreat quickly in periods of stress. These structural constraints underscore the need for institutions such as the EBRD to act as committed, long-term investors, helping to provide stable demand and crowd in private capital.

At the same time, market outcomes remain uneven. Fixed-income markets continue to be dominated by sovereign issuance, though there has been a gradual increase in corporate and green bond activity. Equity markets show volatility, with liquidity remaining thin on many exchanges. Money and derivatives markets are still underdeveloped, constrained by the limited sophistication of local financial sectors. While some progress has been made on establishing local interest-rate benchmarks and expanding product offerings, these markets must still develop to become significant avenues for liquidity or risk management.

Figure 3. The state of financial market development – EBRD countries of operation vs advanced market benchmarks, 2014 vs 2024

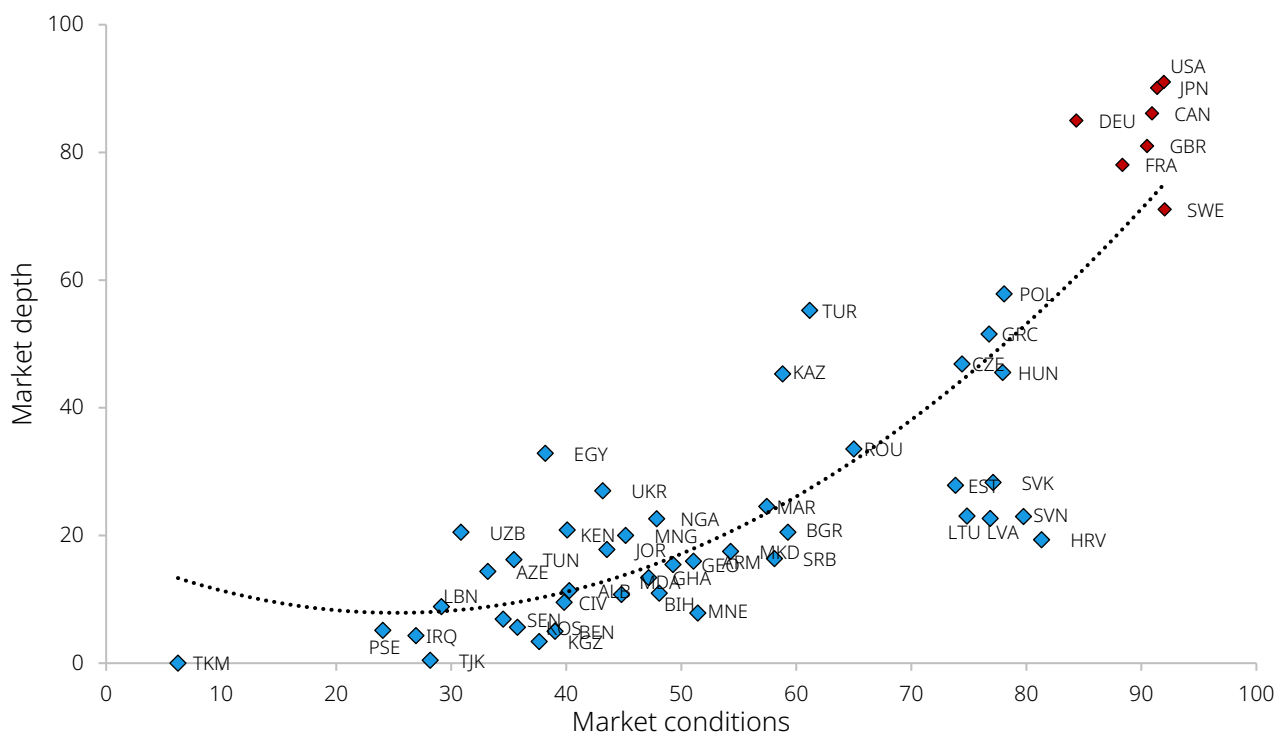


Recent analysis highlights a divergence between the pace of institutional development and market deepening. While many countries, especially EU member states, have made substantial progress on strengthening the institutional foundations of their financial markets, this has not yet generally translated into equally strong market functioning or liquidity. Smaller economies in central and eastern Europe often score relatively well on enabling conditions for financial markets but fall short on market outcomes due to their small scale and fragmentation. This is particularly true for countries such as Croatia, Estonia, Latvia, Lithuania and Slovenia. In these countries, a focus on greater integration, especially within the framework of the EU's Savings and Investment Union, will be key to deepening markets.

Conversely, some larger economies with wider gaps in their institutional conditions, such as Egypt or Kazakhstan, can exhibit relatively deeper markets, often due to large-scale sovereign or quasi-sovereign issuance. In these larger economies, reforms of legal and institutional frameworks, although they may take time, remain key to unlocking these markets' full potential. Nevertheless, even the EBRD countries with the largest market potential must cooperate regionally to reach the depth necessary to compete globally.

Smaller countries with large institutional gaps face the highest barriers to the development of financial markets. In these contexts, market development efforts are often deprioritised while the government and national champions focus primarily on foreign issuance. Nevertheless, with sustained commitment, some smaller countries (such as Georgia or Azerbaijan) have been successful in developing key areas of their financial markets, starting with money markets that are central to the efficient functioning of any financial system.

Figure 4. Relationship between market conditions and market depth, FMDI 2024



Overall, while financial markets across the EBRD regions have made notable strides over the past decade, significant structural challenges remain. Persistent gaps in monetary policy frameworks, legal and regulatory systems, market infrastructure and the depth of the local investor base continue to constrain many countries' potential for greater private capital mobilisation. Early transition economies still require foundational reforms to establish resilient financial ecosystems, while more advanced markets must focus on expanding institutional investor participation and enhancing market liquidity. Continued efforts on policy reform, capacity building and regional integration will be essential to mobilise private capital and make financial markets a meaningful source of funding for economic growth.

1.2.2 Market development considerations

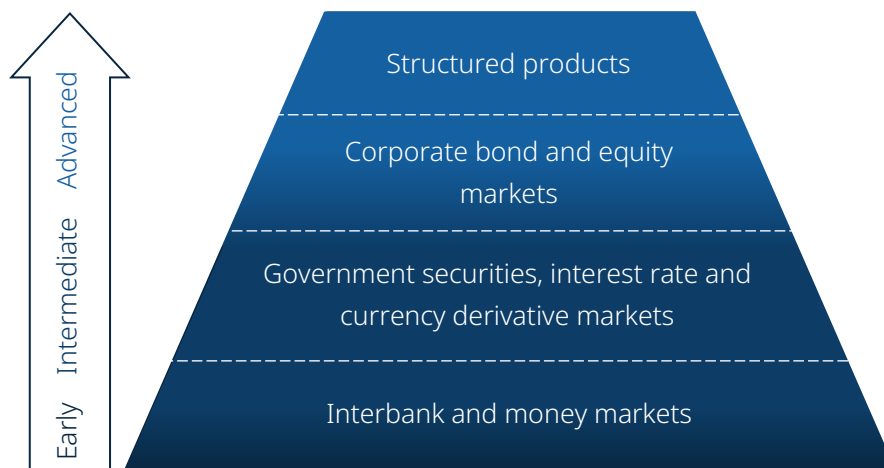
As with broader economic development, creating local financial markets faces myriad political, economic or structural challenges. These range from weak rule of law and limited regulatory capacity to political or macroeconomic instability. However, there is also a distinct set of considerations that are specific or particularly relevant to financial, and especially capital market, development.

a. Reform sequencing

While many countries aim to accelerate financial market development, it is necessary to recognise that the effective calibration and sequencing of reforms is critical and that results may take time to materialise. Reform agendas should be aligned with a country's specific stage of development, ensuring that each step builds on solid foundations. Gradual progression towards international standards is key, but in some areas, premature adoption of overly complex regulations or sophisticated market structures can inadvertently stifle market development. As with broader economic development, trade-offs may also arise between promoting growth and safeguarding stability, though with careful calibration, these should be mutually reinforcing objectives.

Within financial markets, prioritising the development of certain segments is also key due to their foundational role in the wider financial system. Money, derivative and government bond markets should be developed early to provide reliable pricing benchmarks, improve the operations of banks as the key financial actors in any domestic system and facilitate the participation of foreign investors.

Figure 5. Sequencing of financial market development



While general patterns in market development can be outlined, it is important to adapt interventions to each market, sequenced across segments and within themes. To this end, country assessments help identify idiosyncrasies and local system requirements. Tailored country examples of how the EBRD has adapted its toolkit to different countries are prepared regularly, including as part of the EBRD's impact reporting (see the Bank's *Impact Reports* for 2024 and 2025).³

b. A lack of trust

A lack of trust is a pervasive challenge in emerging financial markets, often cited as a major barrier to development. It tends to reflect the underdevelopment of market fundamentals – including weaknesses in legal and judicial systems, regulatory standards, market infrastructure and the capacity of intermediaries or counterparts – and can, for example, prompt international banks to impose over-restrictive risk limits on their local subsidiaries. Compliance issues also often hinder financial intermediaries' trust in and capacity to transact with each other. Building trust is closely linked to strengthening corporate governance, by way of greater transparency, accountability and predictability. These efforts require commitment from public authorities and market participants, particularly banks, given their dominant role in the early stages of development.

In public markets, where instruments are freely transferable and bilateral engagement with issuers is limited, investors rely on robust regulatory standards, established market practices and reliable infrastructure. In countries without a history of such markets, it takes time for participants to trust this ecosystem and accept its risks compared with familiar bilateral contracts. Consequently, many common norms and mechanisms exist to reinforce trust in the market. This can range from the use of pricing benchmarks that create trust in the accurate pricing of risks to the development of investor compensation schemes to instil trust in market intermediaries, or norms that have emerged due to the history of particular instruments, such as collateral eligibility restrictions for covered bonds. It has also led to the use of instruments designed to segregate and mitigate risks, notably derivatives.

³ See EBRD (2025b and 2026a).

Creating trust in a market, therefore, relies on the gradual implementation of international norms and standards, appropriately calibrated to local conditions, and on the availability of certain instruments to manage financial risks.

c. The tyranny of size

As higher levels of activity and market liquidity attract more market participants across instruments, financial markets operate in a self-reinforcing cycle, which presents unique difficulties for smaller countries with lower market size potential. This dynamic also poses difficulties for the convergence of development trajectories and the ability of underdeveloped markets to reach the depth and liquidity of larger, more established markets. However, small countries can still be successful in developing key segments of their financial markets with the right approach and the sustained commitment of national authorities, as evidenced in some EBRD countries of operation. For example, Georgia has worked successfully to deepen money markets over the past decade, which has also supported the recent growth of its capital markets.

In addition, for smaller economies, regional consolidation offers an important avenue to overcoming scale limitations. However, it should be grounded in local development and sustainable integration rather than a complete reliance on international markets, which can weaken financial stability in times of crisis and constrain long-term economic development. Priorities should include regulatory harmonisation, interconnected market infrastructure and the creation of regional centres of excellence.

d. Prevailing financial system structures

In the early stages of development, local banks typically dominate financial systems. This provides opportunities to engage banks as partners for financial market development by focusing on improving their own operations and participation in financial markets. However, it can also pose challenges to the emergence of capital markets, particularly in the case of corporate segments.

Banks may perceive capital markets as direct competition to their lending operations, especially when they have not yet internalised a shift from interest income to fee income by developing investment banking activities. In such cases, bank dominance may hinder the development of capital markets, as institutions work to maintain their collective monopoly on the provision of capital and savings products. Ensuring that banks develop the understanding and capacity to benefit from capital markets is key to resolving potential tensions surrounding the priorities of financial development.

e. Offshore local currency and capital markets

Offshore markets are an important complement to domestic markets, but it should also be recognised that overreliance carries certain risks. International capital markets can play a critical role when domestic markets lack sufficient scale, when issuers seek specific pools of global investors or when borrowers aim to enhance their international profile. In addition, large issuers, commonly banks, can outgrow local markets and must seek funding abroad when local investors become overexposed and can no longer absorb their funding needs. Nevertheless, the global financial crisis highlighted the heightened refinancing and sell-off risks associated with non-resident investors compared with domestic investors in periods of market stress. This is often accentuated by the commonplace currency mismatches of international issues. Consequently, if key local financial market participants do not contribute to domestic market development, excessive reliance on international markets can increase financial stability risks during downturns.

This is particularly the case for local currency markets. When local currencies depreciate, the pricing of offshore hedging instruments tends to overshoot domestic interest rates, and the liquidity of those

instruments tends to dry up. In the absence of local solutions, however, offshore markets can provide a ready supply of instruments for investors to hedge their currency or interest-rate risks, enabling local investments. As a result, their use and development should aim to complement rather than replace the emergence of resilient, well-functioning domestic markets, capable of serving as a stable source of funding and risk management for local financial institutions. Similarly, proposals for offshore facilities or blended solutions to currency risk mitigation must be examined critically, with the understanding that local financial market development – however challenging a process – is the only long-term and sustainable solution.

1.3 The role of the EBRD

The distinct expertise that stems from the combination of policy dialogue and bank operations – namely, investments, funding and the active management of local-currency balance sheets – is MDBs' unique offering when it comes to local financial market development. Bringing those together in an optimal way is the main institutional objective of the EBRD's financial market development efforts. The Bank positions itself as a long-term policy advice partner, with a vested interest in achieving its market development objective to enhance its lending operations.

As an institutional investor, the EBRD ensures that investments contribute to financial market development, notably by promoting clients' use of capital market products and helping to mobilise other investors. It is particularly important to act as an anchor investor for novel instruments and nascent markets, although its investments are also additional for new categories of issuer, be it by sector or size, and riskier instruments. For example, the Bank plays a pivotal role in supporting the development of green capital markets in its countries of operation. Repeat investments are critical for issuers to establish their presence in capital markets across a range of instruments and to attract the solid investor bases that remain a key weakness of financial markets in the EBRD's investee economies. To mobilise other investors, the Bank limits its participation, accepting scale-downs when the issuance is over-subscribed. The Bank also supports clients throughout the issuance process by providing advice and technical assistance, while learnings from it can be used in policy dialogue with national authorities.

As a development partner, the EBRD supports national authorities and market participants with policy advice and technical assistance, leveraging both its own expertise and that of external consultants. The Bank engages in its own internal process of diagnostics, policy prioritisation and project implementation, though wherever possible, it works to ensure that a similar process is followed at national level. It thereby helps to retain focus on financial market development, despite shifting government priorities, while also helping to mobilise donor resources in support of these objectives.

As an active participant in local money and derivatives markets, the Bank can leverage its experience to provide more credible and tailored policy advice. It can enhance its policy offering and capacity-building efforts by showcasing how new instruments or practices benefit local financial market participants. In turn, this creates trust and provides the EBRD Treasury with better and more reliable access to local-currency instruments with domestic market participants.

As a local issuer, the Bank provides AAA exposure in local currency that can help attract new investors to the market, while providing credit diversification to domestic investors. It can also seek to introduce new practices, such as floating-rate bonds using risk-free-rate benchmarks.

Approach to Financial Market Development

Financial market development: high-level objectives

2. Financial market development: high-level objectives

As noted in Section 1.2.2, financial market development requires careful sequencing, starting with the establishment of key foundational segments. This includes money and derivatives markets, which can be grouped as local currency markets, given their close links with the implementation of monetary policy and their role in strengthening the use of local currencies and improving the functioning of domestic financial systems. Over time, this has meant that the EBRD's efforts to broaden financial market development have been structured around two interrelated areas: local currency markets and capital markets. This division reflects both the dynamics of market development and the alignment of actions with specialised expertise that allows for more effective policy engagement.

What is more, the development of financial markets cannot be considered in isolation, as it is deeply intertwined with the development of the traditional financial sector. Markets can both enhance and complement the role of banks and traditional financial institutions, while robust traditional financial institutions are also a prerequisite for the emergence of financial markets. Functioning markets enable banks to improve their operations, most obviously in the case of interbank segments. Conversely, developing financial markets requires a strong and efficient banking sector, as banks are often the primary, sometimes only, market participants, especially in the initial stages of development.

As a result, the three strategic pillars that guide the EBRD's financial market development work are:

1. developing local currency markets to create the conditions for local savings pool to grow and ensure that banks have the tools to transform them into financing for the real economy
2. improving financial sector policy to support resilient and efficient traditional financial institutions and lay the foundations for the further development of financial markets
3. building deep and dynamic capital markets with a diverse range of products to mobilise long-term finance and diversify funding sources.

2.1 Local currency markets

The EBRD's approach to developing local currency markets focuses on creating the conditions for local-currency savings pools to grow, while ensuring that banks, which dominate financial systems in emerging markets, have the tools and capacity to better transform local savings into financing for the real economy.

2.1.1 Improving monetary policy implementation frameworks

Credible, transparent and effective monetary policy is the foundation of macroeconomic stability and of a functional local currency market. It helps to create trust in the local currency and increases its use as a medium of exchange, unit of account and, most importantly, store of value – leading to a growing domestic currency deposit base. When conditions are appropriate, it is key to supporting the gradual transition to inflation-targeting regimes and building central banks' capacity to deliver on this mandate.

The EBRD assists central banks in improving their function and the transmission of the policy rate to market rates. This includes enhancing central banks' analytical capabilities, their market communication, their interaction with the commercial banking system to set and steer short-term interest rates, and their liquidity management policies and operations.

2.1.2 Money-market development

The development of money markets relies on central banks' ability to implement a conducive monetary policy framework and banks' ability to participate in these markets. Appropriate liquidity management policies should ensure that banks are incentivised to face each other in the interbank market, with limited reliance on central bank facilities and instruments. In addition, banks should learn to optimise their liquidity management, avoiding costly liquidity hoarding practices while participating in the interbank market to smooth out short-term needs.

Furthermore, money markets require efficient trading infrastructure, including post-trade infrastructure and payment systems. They also rely on the adoption of fundamental legal concepts, such as payment and settlement finality, that enable the use of standardised contractual documentation. For repo markets, adoption of the Global Master Repurchase Agreement (GMRA) is widely accepted and has annexes to deal with local issues. The EBRD supports the process of money-market development by providing advice and capacity-building to banks and central banks, as well as by assisting with necessary legal or infrastructural reforms (see also sections 2.3.2 and 2.3.3).

2.1.3 Reform of money-market benchmarks

Most developing markets lack a reliable money-market benchmark. Without one, banks cannot price their financial assets and liabilities in a transparent way for customers. Consequently, borrowers are likely to choose a fixed interest rate to protect themselves against changes in floating interest rates that are not independently verifiable. This often also implies shorter-tenor loans, as fixed-rate financing is either not available or too expensive for longer tenors, because banks cannot manage the risks associated with longer-dated fixed-rate loans.

Money-market benchmark reform requires discussions with all market participants, highlighting all of the potential issues hindering the market from functioning. The EBRD supports this process by engaging in these discussions and providing technical assistance on the design and calibration of the benchmark.

A robust money-market benchmark is also critical for the broader financial ecosystem, as it serves as a reference rate in derivatives markets and other capital market cash products. Derivatives, such as interest-rate swaps and futures, rely on accurate and credible benchmarks to function effectively, enabling market participants to hedge risks and manage exposure. In addition, benchmarks are vital for the pricing of bonds, structured products and other instruments, fostering liquidity, efficiency and transparency across capital markets.

Box 2. Benchmark reforms

In line with global efforts to reform interbank overnight rates, the EBRD has supported the design of robust local risk-free interest-rate benchmarks in eight countries of operation since 2018: Azerbaijan, Egypt, Georgia, Kazakhstan, Morocco, Türkiye, Ukraine and Uzbekistan. This requires determining the eligible transactions used to calculate the benchmark, as well as the methodology for its calculation and its calibration to avoid potential distortions and undesirable volatility. These rates and accompanying methodologies are then published by respective central banks for use by local market participants. Compounded rates can also be published, usually for 30-, 90- and 180-day reference periods. Once these benchmarks are published, work continues to build activity in the underlying interbank segments to guarantee the benchmark's credibility.

2.1.4 Derivative market development

Once a credible and transparent interest-rate benchmark, firmly anchored in monetary policy, is established, markets can begin to develop instruments linked to it. With a benchmark in place, banks are able to manage both market and liquidity risks on their balance sheets more effectively and offer longer-term products that better reflect client needs. This includes long-term floating-rate loans, but also fixed-rate loans, for which interest-rate risk can be managed through interest-rate derivatives.

Managing interest-rate risk using derivatives is much more flexible and efficient, as the development of a derivatives market enables the mobilisation of domestic financial resources by matching the natural hedging needs of local market participants. For instance, local banks, which often need to pay fixed rates on interest-rate swaps, can be matched with pension funds that have a structural need to receive fixed rates due to their long-term liabilities. This enhances overall financial stability, increases market depth and supports the efficient allocation of capital within the economy.

However, developing a vibrant derivatives market requires more than the existence of a benchmark; it often entails a broader set of reforms, including updates to the legal and regulatory framework, alignment of accounting and reporting standards, upgrades to trading, clearing and settlement infrastructure, and, crucially, capacity building among both market participants and regulators. The EBRD supports this process by helping countries design and implement reforms, strengthen financial market infrastructure, and build the knowledge and technical expertise necessary for sound market development.

2.1.5 Effective risk management of financial institutions

The maturity transformation function of banks is essential to support the real economy. A resilient banking system is essential to transform short-term deposits into long-term credit for the real economy. However, many banks in EBRD economies operate under fixed-rate, short-tenor lending models, reflecting their limited risk-management capabilities.

The EBRD works with financial institutions to adopt robust asset-liability management practices; enhance their understanding of risk management tools, such as interest-rate derivatives, to adequately manage their balance sheets; and build their capacity to engage in money and derivatives markets. These improvements are closely linked to the development of money markets and derivative instruments, which provide the benchmarks and hedging tools necessary for effective risk management.

2.2 Financial sector policy

The EBRD also works to promote international best practices and sound sector-level governance of traditional financial institutions. As a core area of banking operations – usually accounting for well over a third of annual investments – its engagement with financial institutions is anchored in its Financial Sector Strategy, which is reviewed and updated on a five-year cycle.⁴ Investments are supplemented by technical assistance and policy engagements to support resilient and efficient institutions. Key areas of EBRD engagement in the promotion of sound financial sector policy include:

2.2.1 Strengthening regulatory and supervisory frameworks

Following the global financial crisis, the introduction of new Basel standards laid the ground for stronger and more resilient banking sectors. The EBRD has worked alongside other IFIs to support national authorities in gradually aligning with international standards, as appropriate, and adapting those standards to local requirements. This includes work to introduce risk-based supervisory frameworks, improve market surveillance tools, and strengthen regulators through capacity-building and cross-border cooperation, such as through the Vienna Initiative.⁵

In many EBRD countries of operation, the EU's policy frameworks also act as an anchor for reform. For countries with EU accession aspirations or where EU bank subsidiaries have a strong presence, alignment with EU standards has been a focus of EBRD engagement. Pursuing equivalence of status under EU law is key to strengthening local frameworks, but also to ensuring a level playing field for EU bank subsidiaries in non-EU countries in terms of capital consumption. The equivalence assessment covers a wide range of topics, including supervisory framework, own funds, credit risk requirements, market risk, operational risk, liquidity, capital buffers and macroprudential tools, as well as other regulatory requirements. EBRD support includes technical assessments, facilitating dialogue with EU authorities and advising on reforms to close regulatory gaps. These efforts help build resilient banking systems, sustain cross-border banking and support ongoing EU integration.

2.2.2 Establishing effective safety nets, crisis preparedness and resolution mechanisms

Efforts to strengthen financial safety nets focus on aligning bank recovery and resolution frameworks, as well as deposit insurance schemes, with the EU acquis and international standards, such as the Financial Stability Board's Key Attributes and International Association of Deposit Insurers' Core Principles. Comprehensive gap analyses help identify regulatory and operational weaknesses and develop actionable reform roadmaps. EBRD support also includes drafting primary and secondary legislation, preparing technical guidelines and templates, and facilitating inter-agency coordination through memoranda of understanding.

In the area of deposit insurance, technical assistance covers work to define optimal coverage levels, close funding gaps and introduce risk-adjusted premium systems that incentivise sound banking practices. Building institutional capacity through training and crisis-simulation exercises also helps to ensure readiness in times of stress. These reforms enhance the credibility, efficiency and responsiveness of financial sector safety mechanisms, ultimately protecting depositors, preserving systemic stability and reinforcing confidence in the financial system.

⁴ See EBRD (2026b).

⁵ Find out more about the Vienna Initiative at: <https://www.vienna-initiative.com/>.

2.2.3 Supporting transparent and accountable governance of financial institutions

The EBRD supports the adoption of prudent risk management frameworks and promotes high standards of transparency and governance across financial institutions, working particularly closely with client banks and engaging with state-owned banks as part of pre-privatisation efforts. By encouraging the implementation of robust internal controls, business continuity and contingency planning, institutions are better able to anticipate and withstand crisis scenarios while safeguarding systemic stability. The Bank also provides credit-rating advisory services to unrated financial institutions, increasing transparency in the local banking sector.

In parallel, the EBRD works to enhance system-wide requirements, such as advocating for enhanced financial disclosures and corporate governance practices to strengthen market discipline and investor confidence. Engagements can include capacity building to both banks and regulators, as well as supporting the adoption of International Financial Reporting Standards or equivalent frameworks to ensure transparency, accuracy and comparability of financial information critical to effective supervision and market confidence. This work also supports alignment with international standards on anti-money laundering and countering the financing of terrorism, as well as sanctions compliance, reinforcing financial-system integrity.

2.2.4 Encouraging greater financial inclusion and innovation

Promoting diversified financial systems and leveraging financial technology is key to reducing economic vulnerability and ensuring that individuals and businesses, regardless of size or location, can access essential financial services. The EBRD aims to help develop a wide range of market participants, including commercial banks, microfinance institutions and insurance providers, to extend financial services to underserved regions and excluded groups. Supporting new market entrants and players deploying new technologies often requires collaboration with national authorities to encourage supportive regulatory frameworks.

These engagements are complemented by efforts to introduce new products, such as factoring, deep-tier supply-chain finance or mobile banking. To deploy these services, it is necessary to support legal reforms and identify counterparts that can engage in trial or initial transactions. It is also crucial to support the adoption of the necessary technologies to ensure internal systems are able to process and manage these transactions, notably through information technology (IT) advisory and feasibility assessments.

2.2.5 Supporting the greening of the financial sector

Greening the financial sector is essential in order to ensure that financial systems provide the standards, incentives and risk-management practices needed for an orderly climate transition. The EBRD supports central banks, supervisors and ministries of finance in integrating climate- and nature-related risks into prudential, supervisory and fiscal frameworks, working both bilaterally and through international coalitions, such as the Network for Greening the Financial System and the Coalition of Finance Ministers for Climate Action. This engagement strengthens analytical capabilities, climate-risk supervision, scenario analysis and broader policy coordination around sustainable finance.

At an institutional level, the EBRD helps banks and other financial intermediaries develop transition plans, improve climate-related data and disclosures, and build internal capacity to scale up green lending. These efforts are complemented by support for alignment with international sustainable-finance standards, including the EU sustainable finance framework and the International Capital Market Association's principles for green, social, sustainability and sustainability-linked bonds, which enhance market integrity and accelerate the development of credible sustainable finance across the Bank's regions.

2.3 Capital markets

Well-functioning capital markets are important in order to mobilise long-term finance, diversify funding sources and support sustainable economic growth. While their development relies on strong foundations in terms of traditional financial institutions and local currency markets, they also require targeted policies aimed specifically at the development of local capital markets. The EBRD supports its countries of operation by investing in local capital markets, in inaugural and repeat transactions that create the depth necessary to attract other investors and by engaging in policy reforms and activities. Its activities focus on upgrading national policy frameworks, enhancing the legal environment and market infrastructure as the foundations for market transactions, and fostering a broader investor base and product-range expansion.

2.3.1 Upgrading capital market policy frameworks

It is important for national authorities to specifically target the development of capital markets, as they require a supportive policy environment and will not necessarily develop by themselves. The existence of committed authorities with long-term and carefully calibrated strategies is the most important factor in developing capital markets. This includes cross-country coordination to ensure that regional development and integration supports issuers' access to capital markets. Clear policies, effective institutions and robust supervisory frameworks will instil confidence among issuers and investors, and encourage them to participate in capital markets.

To establish a robust policy framework for capital markets, the EBRD assists national authorities in assessing local barriers to their development and designing national strategies that aim to address these barriers and gradually implement international best practice tailored to local contexts. It is also crucial to support the capacity of regulators and governments, and ensure that they prioritise capital market development, cooperate regionally and have the capacity to efficiently and adequately supervise market participants. This includes leveraging digital supervisory solutions to address shortages of skilled personnel.

a. National assessments and strategies

Conducting comprehensive market diagnostics and enhancing the collection and publication of data and statistics are key to improving regulators' understanding of gaps in their markets and accurately identifying barriers to their development. Policy benchmarking complements this by evaluating national policies against international standards and best practices, with a focus on gradual implementation tailored to the local context. The EBRD also supports data-driven assessments of policies after their implementation, to ensure that they have been adequately calibrated. Building on these insights, national strategies set a clear direction and define actionable steps for market development, ensuring coordination among stakeholders and establishing mechanisms to monitor progress and implementation.

b. Institutional capacity

Establishing a credible and efficient regulator is key to supporting market development, and regulatory responsibility for capital markets should be assigned on the basis of a clear legal framework, strong governance arrangements and coherent integration with the regulation of other financial services. In addition, the regulatory framework should include a mandate for market development and ensure that regulators have the resources to pursue development initiatives. The EBRD advises governments on institutional arrangements and focuses on building capacity within regulatory bodies, in addition to helping them design and implement development initiatives. This can help to address challenges of limited fiscal space and shortages of skilled personnel, which are key constraints on institutional capacity.

c. Sustainable finance

Sustainable finance is now a central pillar of capital market development in many of the EBRD's countries of operation, requiring regulators and market participants to align frameworks, instruments and practices with emerging climate and sustainability objectives. Embedding sustainable finance within national strategies is essential to provide clear direction for market development and ensure consistency for issuers and investors. This includes preparing national sustainable finance roadmaps, establishing clear disclosure expectations and supporting the development of labelled bond frameworks that align with international standards, such as the International Capital Market Association's Green, Social, Sustainability and Sustainability-Linked Bond Principles. Progressively integrating international norms – such as the EU Taxonomy, Sustainable Finance Disclosure Regulation and Corporate Sustainability Reporting Directive, as well as the Internal Sustainability Standards Board's disclosure standards – while strengthening supervisory capacity is critical to ensure transparency and safeguard market integrity. In turn, clear, well-designed frameworks help reduce greenwashing risks, improve comparability for investors and facilitate integration with global capital flows. By building credible and coherent policy foundations, national authorities can catalyse deeper demand for sustainable instruments, mobilise long-term private capital and strengthen the role of capital markets in financing the green and resilient transition.

2.3.2 Enhancing legal and regulatory environments

Effective legal and regulatory reforms establish the foundation for vibrant financial markets. By creating clear, enforceable rules and gradually aligning them with international standards, the EBRD works to enhance investor confidence and attract a wide array of issuers and investors, both domestic and international, to local markets.

Legal and regulatory reforms encompass the full range of frameworks and standards that underpin financial markets. This includes introducing and enhancing frameworks on regulatory oversight and the conduct of financial institutions to promote resilient financial systems. It also covers the operation and governance of financial market infrastructure, such as payment, clearing and settlement systems, which are vital for market integrity and systemic resilience. Reforms address the legal foundations of securities markets and investment services, enhancing transparency, market access and investor protection. The framework extends to the regulation of financial market products, including sustainable finance instruments that support climate goals and social inclusion.

In parallel, it is necessary to help national legal systems adapt to the rise of digital finance, ensuring that innovation in areas such as electronic payments, digital assets and fintech is underpinned by robust regulation, cybersecurity standards and data protection. This work also includes targeted capacity building to strengthen institutional effectiveness and ensure the sustainable implementation of reforms.

a. Legal foundations

Investor confidence in capital markets relies on a robust legal foundation that protects rights and ensures remedies in the event of violations. This includes both private enforcement, where investors seek redress through legal channels, such as civil lawsuits, and public enforcement, carried out by the securities regulator to uphold market integrity. Core elements of these legal foundations include clear frameworks that provide legal certainty in the event of default, notably with regard to close-out netting and financial collateral.

Box 3. Netting reforms

The EBRD supports reform with regard to the enforceability of close-out netting and financial collateral. These legal arrangements provide certainty to parties in financial transactions that collateral and netting arrangements will be enforced upon the default of a counterparty, helping to reduce counterparty credit risk in derivatives and repo markets, and alleviating capital charges for hedging. The EBRD has spearheaded netting reforms in several jurisdictions, including Armenia, Bulgaria, Croatia, Georgia, Kazakhstan, Latvia, Serbia and Tunisia. Reform efforts are currently underway in Albania, Azerbaijan, Egypt, Estonia, Morocco, North Macedonia, Ukraine and Uzbekistan. The ultimate objective is to secure formal recognition from the International Swaps and Derivatives Association as a netting-friendly jurisdiction. This serves as a key indicator of legal certainty for close-out netting, often regarded as a critical “green light” by international investors seeking to hedge currency and counterparty risk.

b. Securities markets frameworks

Effective regulation of securities markets and investment services is vital to ensure market integrity, protect investors and foster capital market development. In many EBRD countries of operation, gradual alignment with the EU *acquis* is key, including the Markets in Financial Instruments Directive (MiFID II), the Market Abuse Regulation or the Prospectus Regulation, and frameworks governing collective investment vehicles, such as Undertakings for Collective Investment in Transferable Securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD). These reforms help create efficient, accessible, and well-functioning securities markets that attract domestic and international investment.

c. Financial product frameworks

The EBRD supports the development of legal and regulatory frameworks that enable a diverse and well-functioning market for financial instruments. Examples include frameworks for commercial paper, IFI bonds (including bonds issued by the EBRD), corporate bonds, securitisation, derivatives, repos, covered bonds and other instruments commonly used in more mature markets. These reforms clarify rules on issuance, disclosure, investor eligibility and risk management to improve market access and protect investors.

d. Fintech and digital innovation

Digital innovation in the financial system can help improve market efficiency, increase access to finance and broaden the range of products and services. Realising these benefits requires the creation of clear and supportive rules, for example, for digital onboarding, e-signatures or electronic prospectuses. The transformative impact of fintech platforms, in particular, should be supported while ensuring equivalent risk outcomes, strong consumer protection and robust cybersecurity standards. Where appropriate, this should include the use of regulatory tools, such as sandboxes, which allow new technologies to be tested safely in local markets.

In parallel, the rapid growth of crypto-assets and stablecoins demonstrate the wide-ranging potential of tokenisation and distributed ledger technology. Yet, these new asset classes can also pose risks with regard to financial stability, market integrity, consumer protection and illicit finance. Monitoring adoption and associated risks while contributing to a globally coherent regulatory framework is key to the responsible deployment of these technologies.

2.3.3 Improving capital market infrastructure

Capital market infrastructure constitutes the systems and environment through which market participants meet each other and transact; its purpose is simply to enable transactions in the most cost-effective and efficient way for market participants. It should provide access to the largest potential pool of capital for companies and issuers and to the widest possible range of products for investors; support companies in issuing and marketing their instruments to investors; provide liquidity for investors to manage their investments actively; and provide visibility and transparency for issuers to attract investors on a continuous basis.

At their core, market infrastructures are technology-driven systems that must continually adopt innovations to enhance efficiency and deliver cost-effective services. Emerging technologies, such as tokenisation, have the potential to transform the entire trading and post-trading value chain, requiring infrastructure to adapt proactively. The interconnected system of institutions and technologies that facilitate transactions, both locally and across borders, includes trading venues, post-trading infrastructures, market-data providers, payment systems, and the technology providers and data-processing systems behind them. Equally important is the broader intermediary ecosystem, which plays a critical role in facilitating transactions.

a. Trading venues

Stock exchanges are the central institutions of the capital markets. Their core function is to facilitate trading that requires a robust and scalable technical infrastructure, supportive listing environment and accessible membership structure to concentrate the widest range of tradable products and trading participants in one platform. However, in emerging and developing markets, the role of stock exchanges is also inevitable in overall capital market development, including widening the investor base, building the issuer pipeline, developing new products, and improving the corporate financial culture and financial literacy. The main challenge for these entities in all EBRD regions is to reach critical market size in order to provide all of the above functions in a sustainable way.

Strengthening trading venues requires a holistic approach that combines strategic management, technological advancement, product innovation, market design, transparency and governance. Establishing sound business models and long-term roadmaps is essential for financial sustainability, while the adoption of modern technologies ensures seamless connectivity with payment systems, post-trading services and other platforms. Diversifying products and services not only enhances the value proposition of trading venues, but also underpins more resilient business models. At the same time, well-calibrated market design, supported by market-making, fosters liquidity and efficiency. These efforts are reinforced by greater transparency through the development of reliable data products, pricing benchmarks and indices, which build trust and support informed decision-making. Underpinning all of this is effective governance, with stock exchanges playing a self-regulatory role and advancing standards, such as corporate governance codes and environmental, social and governance guidelines, thereby aligning market practices with international norms while addressing local needs.

b. Post-trade infrastructure

Post-trade processes comprise a complex set of services that are performed subsequent to the execution of the trades, including clearing, settlement, custody and asset servicing, and other related activities, such as collateralisation. As post-trading makes it possible to move capital and financial assets between market participants and from one market to another, it is particularly important for infrastructure operators to apply global standards and best practices, and to be connected to the global capital market ecosystem. To support

these efforts, strong management must build the foundations, with clear strategic roadmaps and sustainable business models that ensure long-term financial viability.

c. Intermediaries

Investment service providers (investment banks and brokerage houses) have a critical role to play in supporting issuers during the issuance process, marketing products to investors and in widening the investor base through investment management and advisory services. Moreover, they can also provide critical services to complement traditional institutions, such as custodian services. On the secondary market, they provide liquidity through market making and visibility through research coverage, and maintain the link between issuers and investors on an ongoing basis. There should be free and fair competition among market players to promote the use of capital markets and provide transactional services, alongside a wide range of ancillary services, such as financial advisory or market analysis.

Consequently, their development depends on a supportive environment and a well-designed regulatory framework that enables intermediaries to remain competitive while fostering innovation in services and products. Building on this foundation, intermediaries can expand their service offerings to better meet the needs of issuers and investors, for example, through initial public offering advisory, market making or research, thereby enhancing overall market depth and sophistication. At the same time, strengthening their financial capacity with measures that reinforce capital structures and provide access to dedicated financial products ensures that intermediaries are resilient and well positioned to support sustainable market growth.

Box 4. A new market-making framework for EGX

The EBRD undertook a technical assistance project to create the framework for a market-making system for the Egyptian Exchange (EGX) and its trading members, and to support its launch. Based on a comprehensive assessment of the market, a new framework was designed to enable market-making operations and make the service commercially viable. This included legal and regulatory changes adopted by the Financial Regulatory Authority on rules for market makers and regulations on short selling and securities lending. The project also delivered business plans for both EGX and participants to develop market-making services. The introduction of a market-making system in the country will increase liquidity on the local exchange, reducing transaction costs and ensuring resilience in times of volatility. The project was funded with the support of the EBRD's Shareholder Special Fund.

d. Cross-regional integration

International experience proves that size matters when it comes to capital markets. A patchwork of small, standalone markets raises costs for companies, investors and intermediaries, especially those engaging in cross-border transactions. It reduces potential issuers' interest in individual markets and damps liquidity, acting as a drag on growth in capital markets activity and the wider economy. Meanwhile the more integrated the capital market infrastructure, the larger the pool of capital accessible to the economy. The integration at stock-exchange level in Europe over the past 20 years shows that trading venues incorporated into bigger groups support deeper markets and perform better than standalone stock exchanges when it comes to attracting new companies. At the same time, while encouraging cross-border integration, initiatives should also focus on strengthening local ecosystems to serve the widest possible range of companies, from micro and small firms to mid-sized and large companies, and to adequately serve all investors, including local retail, as well as domestic and international institutional accounts.

Box 5. The integration of the Baltic markets

Over the past decade, the EBRD has provided support to the governments of Lithuania, Latvia and Estonia to harmonise capital market regulations, dismantle cross-border investment barriers and create a pan-Baltic capital market to strengthen the region's economies, stimulate investment and create jobs. The integration of the three local capital market infrastructures was the essential element in the concept of creating a single central securities depository and moving to the same trading platform. As a result, MSCI recognised the three countries as a single market and launched a dedicated index for the region. Building on this achievement and recognising the efficient investor access offered by the pan-Baltic exchange, the market was recently upgraded to the new MSCI Advanced Frontier classification. The single market is now a candidate for obtaining emerging-market status, something that would have been unachievable for the three countries individually.

2.3.4 Broadening the investor base

A deep and diversified investor base is critical to the development and resilience of capital markets. It provides issuers with more competitive pricing and a wider range of instruments to meet investors' varying risk-return profiles. Different types of investor also react differently to external shocks, which can prevent sudden stops in activity or sell-offs, especially where there is an overreliance on foreign capital. EBRD-backed reforms aim to remove barriers to the establishment and deepening of activity by investors – domestic and international, institutional and retail – to build diverse investor bases across its regions.

Investor-base reforms aim to encourage the build-up of domestic pools of capital through the creation of frameworks for pension and investment funds, and by encouraging the participation of traditional financial institutions, such as banks and insurance companies, in capital markets. The activation of domestic retail investors relies on efforts to improve financial literacy and education, while awareness-raising and the promotion of domestic markets internationally is also key to succeeding in the global competition for capital.

a. Domestic pool of capital

The development of capital markets relies on the accumulation of long-term local savings, which also helps to attract foreign investors who take into account local activity before entering new markets. Building this savings base requires frameworks and reforms that support the growth of institutional investors, while broad-based retail participation remains fundamental, as institutional investment ultimately depends on local savings. Over time, a diversified ecosystem, including mutual funds, pension funds and insurance companies, seeking a range of debt and equity instruments will contribute to a mature and resilient market.

Box 6. Alternative asset managers

Alternative asset classes have seen significant growth since the global financial crisis, in part due to stricter banking sector regulations that further constrained the banks' ability to meet the financing needs of high-growth companies. Governments have also become increasingly aware of the need for strong venture capital and private equity ecosystems to support innovative companies throughout their lifecycle, until they reach sufficient maturity to access public capital markets. The EBRD supports the growth of alternative asset managers through its investments and recommendations for policy reforms and dedicated frameworks, including legal frameworks. It also supports initiatives focused on creating a strong pipeline of attractive investment targets, such as accelerator programmes. Ultimately, the development of the alternative investment industry also relies on large domestic pools of capital that target primarily traditional assets, as allocations to private equity and venture capital funds are traditionally scaled to a fixed proportion of institutional investors' portfolios. Consequently, growing the domestic pool of capital is a key step in creating a strong local venture capital and private equity ecosystem.

Key to these efforts is growing the institutional investor base by creating private pension and investment funds, underpinned by sound legal frameworks, and expanding the uptake of insurance products, particularly life insurance. The reform of pension systems beyond their core political economy implications should also be considered from the perspective of domestic capital accumulation and the financing of economic growth. Banks also have a critical role to play in fostering the development and independence of their investment banking and asset management arms, to ensure that they take up a supportive role in capital market development. At the retail level, investor participation can be mobilised through robust compensation schemes that provide protection against risks such as investment-firm insolvency or fraud, which helps build trust in the system. Complementing these measures, financial literacy campaigns and targeted capacity-building programmes increase awareness and understanding of capital markets, empowering retail investors to participate more confidently and effectively.

b. Accessibility and visibility

Each local capital market competes on the global stage for investment flows, with investment decisions largely dependent on market visibility, transparency and accessibility. Investors, both domestic and international, are more likely to participate when entry processes are seamless, information is readily available and opportunities are clearly communicated. Beyond improving the capital market infrastructure, a focus on digital tools to reduce administrative barriers, as well as proactive outreach to connect issuers with potential investors, is essential. Equally, transparent and timely disclosure fosters trust, enabling informed decision-making and encouraging sustained engagement with the market.

c. Investment incentives

Targeted investment incentives play a critical role in developing capital markets by improving the risk–return profile of investments and removing unnecessary barriers to participation. There is a wide range of policy levers available to national authorities to stimulate investor appetite for capital market instruments, including tax treatment, investment mandate regulations and collateral frameworks. In most cases, these incentives interact with wider fiscal and monetary considerations, which should be carefully balanced with market development objectives to stimulate long-term growth without creating distortions.

A well-calibrated tax framework is critical. Withholding taxes aligned with those of peer markets and targeted incentives, such as tax-efficient individual investment accounts, encourage greater participation. It is also critical to promote capital openness by reviewing and limiting capital controls to ensure they are proportionate, transparent and predictable, and do not act as a major disincentive to foreign investment. Institutional investors can be further encouraged through the careful liberalisation of investment mandates, allowing insurance companies and pension funds to allocate more to equities and corporate bonds within a robust regulatory framework. At the same time, reviewing repo eligibility criteria and haircuts can incentivise banks to invest in highly rated corporate securities, by making them eligible for central bank operations.

2.3.5 Expanding the product range

A developed capital market provides a diverse range of financial instruments tailored to the evolving needs of both issuers and investors. This workstream focuses on enhancing product diversity in EBRD countries of operation by introducing and supporting the use of new or innovative financial instruments. It targets both supply- and demand-side barriers to product development, combining policy dialogue, technical assistance and capacity building to promote broader market participation.

a. Product innovation

The EBRD supports the design and introduction of new financial instruments that address specific market gaps, be it in terms of maturity, risk profile, investor base or sector coverage. These may include structured products, capital market solutions for growth companies and infrastructure projects, or other products found in established markets but missing from EBRD countries of operation. Product innovation is driven by local needs and developed in consultation with regulators, exchanges and market participants to ensure relevance and uptake. Most often, work to introduce new products will require extensive policy dialogue to enable legal reforms, followed by targeted issuer and transactional support.

b. Issuer and transactional support

Beyond new instruments, expanding a market's product range requires a broader set of issuers to access capital markets. The EBRD's tailored technical cooperation supports both first-time and repeat issuers throughout the issuance process, covering market entry requirements, regulatory compliance, investor communication and transaction feasibility. This includes advisory on credit ratings to help issuers engage effectively with ratings agencies and strengthen their credit profiles. It also involves working closely with clients to launch sustainable securities aligned with the Green, Social, Sustainability and Sustainability-linked (GSS+) framework. By lowering barriers and providing hands-on guidance, the Bank's assistance can help foster a more diverse issuer base.

Box 7. Issuer access to capital markets

Developing financial markets requires a sustained effort to strengthen the corporate governance of prospective issuers. Governance improvements are especially needed in the corporate sector, with gaps particularly acute in state-owned banks and companies. Meeting the expectations of public markets requires high standards of transparency, disclosure, internal controls and risk management that many firms initially lack. Targeted support, such as advisory work and capacity building, helps issuers adopt these practices early by improving the quality of their financial reporting, clarifying decision-making structures and building the discipline required by investors and exchanges. The EBRD has worked with individual issuers before, during and after the issuance process to support their access to capital markets. This work includes, for instance, preparing corporate governance action plans, ensuring a high quality of transaction documentation or strengthening investor relations functions. These activities contribute to both financial market development and to delivering on the objectives of the EBRD's Economic Governance Strategy 2026–30,⁶ which focuses on long-term systemic change to foster competitive, private-sector-led economies by improving transparency, rule of law, and corporate governance.

c. Issuance incentives

Incentivising capital market issuance requires targeted interventions that address the practical challenges faced by issuers in each market. Reducing issuance costs by lowering listing fees for first-time issuers and offering tax incentives, such as the deductibility of underwriting and advisory fees, can make capital raising more accessible. To complement this, capital market support programmes that combine donor funding with capacity-building can provide important assistance, particularly for first-time or thematic issuers. In addition, simplifying issuance procedures and equipping companies with practical tools, such as template prospectuses, further lowers entry barriers. Dedicated listing segments, especially for SMEs, can enhance

⁶ See EBRD (2026c).

visibility and encourage participation from companies that may otherwise be excluded. Lastly, gradually raising corporate disclosure requirements across the wider market reduces disparities with listed issuers, lowering barriers to issuance while reinforcing transparency and investor confidence.

Approach to Financial Market Development

How the EBRD delivers

How the EBRD delivers

The EBRD's expertise in local financial market development arises from its unique combination of policy work, banking and treasury operations. Bringing these offerings together in an optimal way is the main objective of the Bank's current delivery model. Internally, the EBRD has allocated primary responsibility for these efforts to different teams in the Treasury and policy departments.

Treasury is responsible for the development of local currency markets and, in turn, local-currency financing operations. In parallel, the Capital and Financial Markets Development team of the policy department works to develop all other financial segments, in cooperation with the Green Financial Systems team, which deploys its expertise in sustainable finance and green capital markets. This division reflects Treasury's active participation in local money and derivatives markets to manage the Bank's balance sheet, helping to provide targeted policy advice and strengthen relationships with local stakeholders. Treasury and the policy department work closely together, as well as with Banking and other teams across the EBRD, to deliver a joint approach to financial market development.

3.1 Local currency markets: combining policy work and balance-sheet management

The strength of the EBRD model in laying the foundations for local currency market development is in combining active market participation with policy work. The Bank aims to create local-currency liquidity pools in each country by borrowing and investing locally and managing the associated risks within the guardrails of its risk management policies.

Liquidity pools allow the Bank to perform maturity transformation, offer long-term financing, and manage cash-flow and interest-rate mismatches between loans and the instruments funding or hedging them. This approach helps shift away from the traditional "back-to-back" model that matches loan terms directly with funding or hedges and constrains the loan features the Bank can offer its clients. This is particularly the case in less developed markets, where hedges are rarely available for long tenors, large volumes or on a deliverable basis. In addition, back-to-back financing is often more expensive for end borrowers, as it requires hedging at the time of disbursement, leaving no flexibility to optimise the timing of execution.

To manage liquidity pools, the Bank needs to manage dynamically its exposure to interest-rate and liquidity mismatches using cash instruments and derivatives. Consequently, the effective management of local-currency liquidity pools depends on the existence of functioning domestic financial markets, notably money and derivatives markets. This allows the EBRD to provide local-currency loans with the terms and conditions clients need, when they need them. At the same time, the Bank's local market participation enables it to have a continuous dialogue with local market participants, develop a true understanding of bottlenecks and local attitudes to the market, and build trust with domestic market participants and authorities. This allows the Bank to deepen its ability and credibility when engaging in market development work with local stakeholders. This approach is also conducive to providing hands-on capacity building when the EBRD trades new instruments with domestic market players.

As a starting point for its policy work in a given country, the Bank uses its Money Market Diagnostic Framework (MMDF), which looks in detail at the functioning of all facets of the money market and sets a high-level agenda for further development work. The MMDF covers money-market development, central bank activity, environment and resources. It produces detailed recommendations as to what elements need improvement. These are discussed bilaterally with the central bank in question and can lead to technical cooperation projects to improve monetary policy and its implementation. Cooperation takes place in areas such as liquidity forecasting, liquidity management, monetary policy implementation and communication, among other things.

Separately, the EBRD sets up a formal working group, the Money Market Working Group, in the country, consisting of representatives of the local central bank, the major banks in the system and the EBRD as adviser. This working group meets several times a year, which ensures that money and derivatives market development, as well as improving banks' financial risk management, remains a priority. The meetings are designed to keep all market participants involved and informed at each stage of the development agenda.

Capacity building is key for market development and the needs are large. Every layer and participant in the market, working in different functions, needs to be trained at different stages of market development. The EBRD organises targeted capacity building in different formats for different stages of development and provides exercises to ensure that market participants are well prepared for the new instruments and the market structures being built.

Box 8. Expansion to new countries

Because the EBRD's countries of operation are at widely varying stages of market development, the Bank has consistently adopted a flexible and creative approach to ensuring that its actions are suited to local circumstances. The MMDF has been developed and refined over several years to ensure that it is well suited to different country and regional contexts. Its versatility has enabled its adoption by external organisations that have already deployed it in markets beyond the EBRD's remit, including in sub-Saharan Africa. Similarly, the FMDI was designed with a global perspective in mind, drawing on a wide range of comparator economies from different regions to enhance the robustness and relevance of its methodology. This has allowed the index to serve as a credible benchmark not only within the Bank's countries of operation, but also in informing international comparisons and assessments.

What is more, the Bank has established incentives aimed at encouraging the active engagement of authorities in new countries of operation on financial market development. Among these is the SME Local Currency Programme, which provides access to concessional lending in local currency, contingent on participation in the MMDF, and is expected to expand to new countries. In this way, it aims to respond to immediate financing needs while tackling the underlying factors that can make local-currency lending unaffordable for SMEs.

3.2 The financial sector and capital markets: combining upstream policy work and investments

Combining investments and policy efforts is key to building local financial markets. Policy reforms on their own are unlikely to succeed without active market participation, while investments have limited impact if they are not deployed alongside policy efforts. The EBRD's approach, therefore, combines targeted engagements with its own investments, creating a mutually reinforcing cycle whereby reforms unlock opportunities for market activity and investments demonstrate the practical viability of new products, infrastructure solutions or standards.

At a policy level, the EBRD engages in reform support and policy dialogue, advising governments and key market stakeholders by deploying technical cooperation projects, complemented by in-house expertise. These engagements build on in-house diagnostic assessments and tools, such as the FMDI, which help to define policy priorities. In turn, upstream policy engagements lay the groundwork for future investments.

By addressing regulatory or institutional bottlenecks early, these reforms enable the Bank to deploy capital and catalyse market development through concrete transactions. The EBRD deploys its own investments in new products to deepen markets, test new solutions and crowd in private capital. For example, by supporting inaugural bond issues or piloting green finance instruments, it creates a market demonstration effect that can accelerate replication by domestic players. In turn, these investments help to reveal operational challenges and highlight areas where policy frameworks require further refinement. Through this integrated approach, the Bank not only supports the development of market foundations, but also helps to activate them through real transactions. This blend of policy and investment strengthens the EBRD's credibility and expertise, and ultimately serves to accelerate the development of financial markets.

Once key market foundations are established and inaugural transactions have taken place, the EBRD's presence in repeat transactions remains critical for issuers to establish stable access to capital markets across a range of instruments and build the track record of issuance necessary to attract a wide range of investors. It also remains particularly additional for new categories of instrument or issuer, whether by sector or size, as well as for issuance under adverse market conditions. A long-term commitment to supporting local issuers is, therefore, central to mobilising private investors alongside the Bank's own investments, which is also a key objective of its efforts to develop capital markets.

By design, capital market issuances can crowd in a wide range of investors, and the EBRD's participation as an anchor can help increase demand and tighten pricing. To fulfil this mobilising role, it is important for the Bank to limit its share of investment and accept scale-downs if the issuance is oversubscribed. As a result, the EBRD's internal guidelines aim to maximise this multiplier effect and effectively leverage its own investments to mobilise private capital through financial markets.

Box 9. Reforms and investments in covered bonds

The EBRD's efforts to develop covered bond markets demonstrate the complementarity between upstream policy reforms and a long-term presence as a key anchor institutional investor. The Bank has assisted in the development of legal frameworks for covered bonds in Bulgaria, Croatia, Estonia, Georgia, Latvia, Lithuania, Morocco, Poland, Romania and the Slovak Republic, with work ongoing in Ukraine. It has also supported the development of a pan-Baltic covered bond framework, increasing the potential size of the market by pooling mortgage portfolios from Estonia, Latvia and Lithuania. By subsequently investing more than €1 billion in covered bonds across its regions, the EBRD has been promoting the growth of self-sustaining markets, while supporting them under adverse market conditions or when demand is more muted. These legal reforms and investments have mobilised almost €5 billion of private capital, while also enabling a further €20 billion of issuance in which the Bank did not need to invest.

The EBRD regularly reviews its investment and policy priorities at country level through the Country Strategy process, informed by its SCF. For 2026-30, a central objective will be the systematic integration of the economic governance dimension across the Bank's activities, ensuring that it meaningfully informs both investment design and policy engagement. Delivering on this ambition will require the ongoing prioritisation of the Bank's work programme, with regular adjustments to reflect operational capacity, and evolving country and sector needs. The scale and pace of implementation will depend critically on the availability of adequate

resources, including both internal budget allocations and external donor funding, and on their alignment with the Bank's broader Strategy Implementation Plans.⁷

3.3 Partnerships

To amplify the impact of its work, the EBRD partners with other IFIs, donors and the wider development community to deliver on financial market development priorities.

Access to donor funds is key to the Bank's policy activities and technical cooperation projects that help build strong financial markets, enable the deployment of its own investments and mobilise private capital. To fit with donor priorities, the EBRD strategically manages and allocates projects with its partners, while also deploying its own net income funds. In more developed markets, client contributions help leverage the use of donor resources, which are subject to a thorough prioritisation process.

With the drive to make MDBs work as a system, collaboration on financial market development has increased through policy coordination, knowledge sharing and joint projects. Policy coordination remains the central tool for collaboration, while national policy coordination exercises targeting financial market development continue to be initiated by both IFIs and governments in EBRD countries of operation. This often leads to joint technical assistance work and the inclusion of agreed priorities in other MDBs' policy-based loans.

Collaboration with the International Monetary Fund (IMF) also helps to ensure that EBRD interventions align with IMF country programmes and that technical assistance projects are complementary. Particularly for financial market development, regular consultations with the IMF's Monetary and Capital Markets Department support policy dialogue efforts and the delivery of key reforms.

Following the establishment of the Local Currency and Foreign-Exchange (FX) Hedging Workstream under the Heads of MDBs umbrella – with the EBRD, Inter-American Development Bank and International Finance Corporation forming the permanent secretariat – a number of proposed internal reforms have been identified to strengthen MDBs' ability to expand local-currency lending and foster financial market development. This includes calls for MDBs to allow a greater level of market risk to be taken in their treasury functions and to increase dedicated resources, both to facilitate local-currency activities. Another recommendation was the creation of the Local Currency Policy Forum – separate from the existing local currency Senior Forum, which brings together senior MDB treasury professionals twice a year – which has met since 2024 on the sidelines of the IMF/World Bank meetings and serves as a platform for sharing policy activities and experiences both at country level and on thematic areas relevant to multiple countries.

MDB teams at different levels also engage in regular exchanges between Senior Forum meetings on how to operate in local currency, in particular, to promote the EBRD's approach to facilitating local-currency lending by combining the development of onshore liquidity pools with policy work. Regular consultations, either as part of institutional processes, such as country strategies, or ad hoc during fora or country visits, help improve the coordination of interventions.

On sustainable finance, the EBRD also partners with global initiatives such as the Network for Greening the Financial System and the Coalition of Finance Ministers for Climate Action, to strengthen climate-related supervisory capacity. Engagement with standard-setting bodies, such as the International Capital Market Association, also helps to ensure consistent market practices for labelled bonds. These partnerships

⁷ See EBRD (2026d).

enhance knowledge transfer, promote alignment with international norms and reinforce the Bank's efforts to develop credible and investable sustainable finance markets across its regions.

3.4 Impact measurement and reporting

The EBRD's impact management system centres on the impact of transactions, while policy initiatives are assessed insofar as they contribute to the impact of transactions. The Bank has also developed tools to track financial market development in its countries of operation and to help conduct tailored assessments of its impact in this area. More detail can be found in the EBRD's annual *Impact Report*.⁸

At the transaction level, the EBRD Transition Objectives Measurement System (TOMS) provides a compendium of indicators that link into the Bank's overall theory of change and follows the output, outcome, systemic change and high-level objectives impact sequence. The Bank's transition impact methodology recognises the contribution of policy activities associated with transactions and provides the indicators to monitor their impact.

Accordingly, the project-level impact of policy activities is assessed on a transaction-by-transaction basis for each investment that has been enabled or supported by such engagements. This assessment is particularly pertinent to local-currency and capital market investments, where policy activities can materially enhance the overall impact of the transaction. Where a local-currency or capital market investment has not been supported directly by policy activities, impact assessments may still recognise the transaction's contribution to financial market development on its own merits if it is a key feature of the project's impact narrative.

In addition to project-level assessments, the impact of policy efforts to develop financial markets can also be assessed through their contribution to the Bank's wider strategic objectives, notably the advancement of stronger economic governance. Under the theory of change of the Economic Governance Strategy 2026-30,⁹ activities that help develop financial markets support the four systemic change triggers identified: novel practices introduced and replicated, market composition and structures strengthened, institutions and regulations that enable transition, and skills and know-how developed. Through these triggers, they ultimately support the theory of change's impact objective of creating dynamic, well-governed and open-market structures that stimulate competition, entrepreneurship, investment and productivity growth.

To monitor aggregate evidence of systemic change to end beneficiaries and market players, the Bank utilises the FMDI to track the development of financial markets in its countries of operation. The index provides a structured and comparable framework that captures multiple dimensions of market development, including the macroeconomic environment, regulatory quality, market infrastructure and product diversification.¹⁰ By consistently applying this index over time, the Bank can observe trends, benchmark progress and identify areas where interventions may have had a catalytic effect.

Attributing overall market progress solely to the Bank's activities, however, remains a complex task due to the presence of various exogenous factors, such as macroeconomic conditions, political developments and global financial market dynamics. Recognising this challenge, the Bank places emphasis on assessing individual interventions through a chain of indicators that link specific project outputs to intermediate and longer-term market outcomes. This approach enables the Bank to distinguish its contribution to systemic change from broader market forces, thereby providing a more nuanced understanding of impact. Recent

⁸ See EBRD (2025b and 2026a).

⁹ See EBRD (2026c).

¹⁰ For further details on the Bank's FMDI methodology, see EBRD (2021).

assessments of the Bank's financial market development efforts have combined the macro-level perspective offered by the FMDI with individual case studies to construct a more holistic narrative of systemic change (see the EBRD *Impact Reports* for 2024 and 2025).¹¹

Building on the Bank's unique delivery model, which combines investments, market participation and policy efforts, reporting on financial market development activities also monitors evidence of impact through increased investments related to policy implementation. To this end, the Bank utilises the following table of portfolio indicators, appropriately disaggregated by region, country or currency:

Table 1. Portfolio indicators disaggregated by region, country or currency

Local-currency investments	Local capital market investments	Private capital mobilisation
1. Total local-currency operating assets	3. Total local capital market Annual Bank Investment (bonds, listed equity)	5. Annual mobilised investment of capital market products
2. Local-currency projects as a share of total number of debt projects	4. Number of local capital market projects (bonds, listed equity)	6. Private indirect mobilisation of capital market products

Note: Indicators 3 to 6 also capture investments and mobilisation in green products.

¹¹ See EBRD (2025b and 2026a).



Approach to Financial Market Development

Conclusion

Conclusion

Financial market development is central to creating stable, transparent and efficient economies in the EBRD regions. It enables local-currency financing, mobilises private capital and supports the wider transition objectives of the Bank's countries of operation.

The EBRD will continue to combine policy engagement, technical cooperation and market participation to address market gaps and strengthen the foundations for long-term growth. The Bank will work directly with national authorities, financial institutions, investee companies and other stakeholders to design and implement practical reforms, improve market practices and introduce new products.

Partnerships are essential to achieving these goals. The EBRD welcomes collaboration with public and private partners to scale up investment, build local capacity and foster financial markets that are better able to serve businesses, investors and people in the EBRD regions.

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Abbreviations and acronyms

AIFMD	Alternative Investment Fund Managers Directive
ATQ	assessment of transition qualities
EU	European Union
FMDI	Financial Market Development Index
GDP	gross domestic product
GMRA	Global Master Repurchase Agreement
GSS+	Green, Social, Sustainability and Sustainability-Linked (framework)
IFI	international financial institution
IMF	International Monetary Fund
MDB	multilateral development bank
MIFID II	Markets in Financial Instruments Directive II
MMDF	Money Market Diagnostic Framework
SCF	Strategic and Capital Framework
SME	small and medium-sized enterprise
TOMS	Transition Objectives Measurement System
UCITS	Undertakings for Collective Investment in Transferable Securities

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