EBRD's Strategic Theme:
Local Currency & Capital Markets Development (LC2)

European Bank for Reconstruction and Development

31 December 2019

The financial crisis exposed many of the intertwined systemic risks associated with reliance on foreign currency borrowing and overdependence on foreign capital inflows. The EBRD's Local Currency and Capital Markets (LC2) department was established to address these risks.

LC2 Ratio: 37.5%

LC2 share in total EBRD investments in the year 2019

Overview

The strategic objective of EBRD's LC2 department is to achieve more efficient and self-sustaining financial markets through:

- the development of local capital markets (LCM)
- promoting the broader use of local currency (LCY)

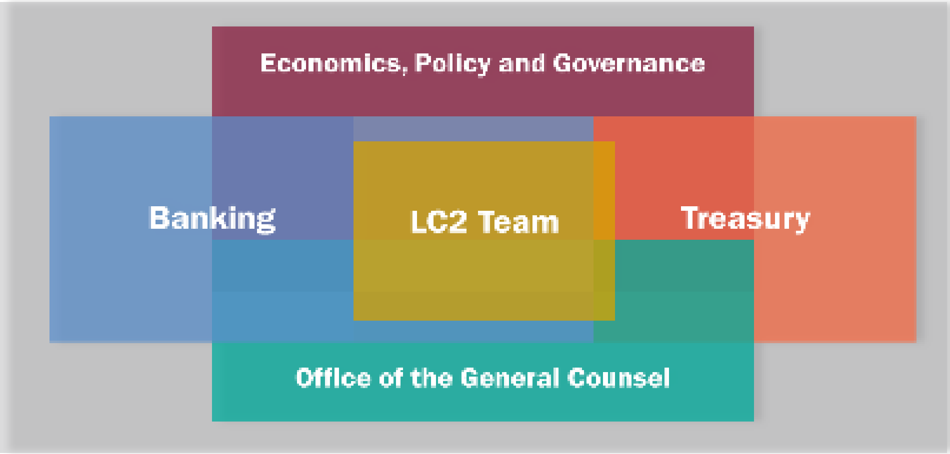
Thereby, LC2 contributes to economic growth and fostering economies that are more resilient.

The LC2 department concentrates efforts to increase the share of EBRD investments in local currencies and to identify and support sequenced reforms in local capital markets across four interrelated areas of focus:

- improving the capital market policy framework and building capacity
- enhancing the legal and regulatory environment
- strengthening capital market infrastructure
- expanding the financial product range and developing the institutional investor base

Activities of the LC2 Team

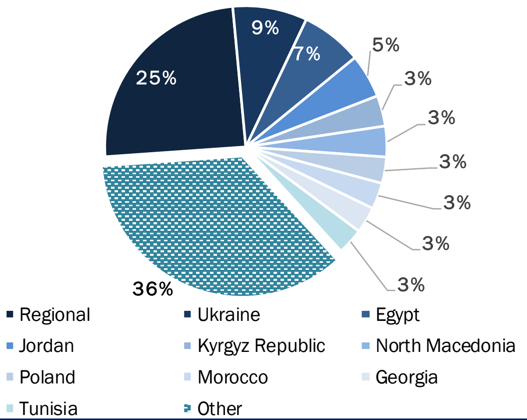
The LC2 Team supports and coordinates LC2-related activities of various EBRD departments, engages in analytical and advisory work, provides technical assistance (TA) and structuring support for EBRD capital market investments, and tailored capacity building.



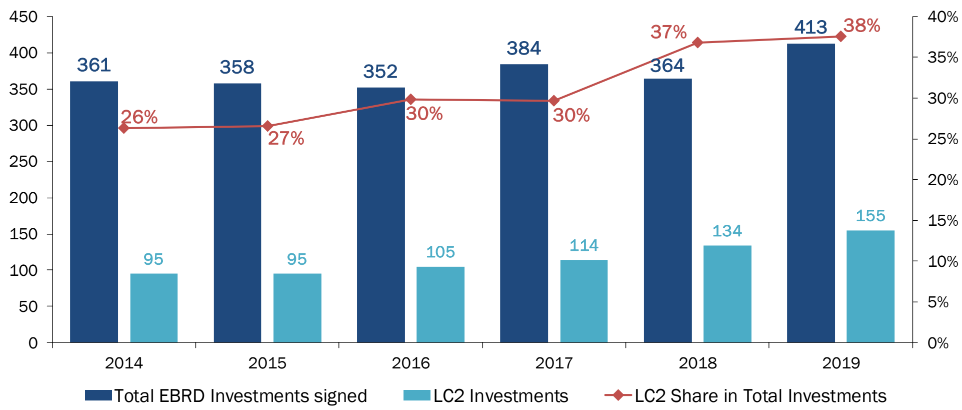
Latest Highlights

- MoUs in place in 15 countries to develop local capital markets through coordinated actions with government and regulators, to increase the usage of LCY and facilitate financing to SMEs;
- Preparing capital market development strategies (incl. in Jordan, Mongolia, Poland, and Uzbekistan);
- Introducing yield curves for local currency-denominated sovereign debt in Eqypt, Morocco and Tunisia and benchmark rates in Egypt (CONIA), Morocco (MONIA) and Kazakhstan (TONIA);
- Connecting post-trade infrastructure in selected CEE/SEE countries;
- Establishing a new financial instrument, the Short Term Debt Instrument, in Egypt to allow corporate borrowers to tap capital markets for working capital financing;
- Promoting covered bond legislation reform and issuance in CEE and the Baltics;
- Providing capacity building on modelling and forecasting, communication, and policy analysis to central banks, in particular in Central Asia and EE;
- Increasing the research coverage of listed SMEs (in Bulgaria, Croatia, Northern Macedonia, Romania, Serbia and Slovenia);
- Implementation of a pre-listing support programme for companies in Greece, Jordan, Serbia and Slovenia;
- Resolution of inactive securities accounts from mass privatisation programmes.

Country Composition of LC2 TA Projects



Development of LC2 Share in EBRD Investments



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Case Studies

Albania

Strengthening Bank of Albania's Monetary Policy Analysis and Communication

Context: In 2018, the EBRD together with the Bank of Albania (BoA) and the Ministry of Finance of Albania signed a Memorandum of Understanding as part of the SME Local Currency Programme to promote the use of local currency and develop local capital markets. Within this context, the LC2 department aims to strengthen BoA functions and operations through technical cooperation projects and capacity building, in line with EBRD's objective to increase the resilience and development of Albania's capital markets.

Objective: The purpose of the project is to strengthen and update BoA's monetary, economic modelling and forecasting framework along with its analytical capacities. In particular, the project strengthens the monetary policy decision-making process.

Estonia

Opening the Estonian Legal and Regulatory Framework for FinTech

Context: Supported by the EC Structural Reform Support Programme, the LC2 department aims to build a regulatory sandbox, the term used to describe a virtual environment used to test and examine new innovative processes, business models and technologies in financial services in isolation, for FinTech.

Objective: The overall objective of the project is to aid the implementation of innovative technological solutions into the Estonian financial and capital markets. It aims at (i) creating a live testing environment or so called Sandbox to test the FinTech companies against regulation and risk conduct standards, and (ii) providing recommendations for legislative reform on national level and improvements to risk conduct guidelines.

Hungary

Providing Consultancy Services to Build Direct Links to Central Securities Depositories (CSD)

Context: The provision of post-trading services is highly fragmented along national lines, especially in Central, Eastern and South Eastern Europe. As such, the Hungarian authorities, including the Ministry of Finance, have requested support to address the situation and improve regional cross-border trading, clearing and settlement.

Objective: The overall objective of the project is to provide consultancy services to support the Hungarian CSD KELER with the integration of the post-trade environment of the regional markets through the establishment of CSD links with selected European Union member states, namely Austria, Czech Republic, Romania and Bulgaria.

Tunisia

Developing a Yield Curve Pricing Model

Context: Under the Memorandum of Understanding, which was signed between the Ministry of Finance of Tunisia and the EBRD as part of the SME Local Currency Programme, all parties fully acknowledge the importance of developing local currency sources of funding and capital markets in Tunisia. As a specific measure the development of a Yield Curve Pricing Model for local currency-denominated government securities was identified to act as a reference for pricing every financial instrument denominated in Tunisia Dinar.

Objective: The creation of a reliable benchmark yield curve that (i) is published regularly on an official platform, and (ii) constitute the reference benchmark government yield curve in local currency promotes the development of wider capital markets in Tunisia and facilitates the introduction of new financial instruments.

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