Working with the European Bank for Reconstruction and Development (EBRD)

Solutions offered by
Local Currency and Capital Markets Development (LC2) Initiative
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1. Why Local Currency and Capital Markets Matter
Access to local currency financing allows borrowers to better manage currency mismatches between their assets and liabilities.

Affordable and sustainable local currency financing is closely linked to the development of local capital markets.

Local capital markets benefit borrowers and investors by providing alternative sources of local currency funding, as well as attractive investment opportunities.

Well-designed monetary policy, and its interaction with money markets, is essential to create government and corporate bond markets.

Local capital markets create access to long term local currency financing.
The EBRD’s Unique Collective Efforts across the Bank...
...and Holistic Approach

**Investment**
Lending in local currency, investing in corporate, and structured bonds (such as covered bonds) investing in stock exchanges, and developing a long-term institutional investor base.

**Funding & Risk Management**
Developing and advising on local currency loan features, funding and managing exposures arising from local currency assets.

**Technical Cooperation & Advisory**
Promoting sustainable local currency capital markets, a more efficient capital markets infrastructure, a stronger domestic institutional investor base and overall more liquid markets (LC2 Team).

**Policy Dialogue**
Providing assistance in adopting and/or implementing policies that create an enabling environment for transactions – resulting in better institutions, regulations and more liquid markets.
2. Local Currency Debt Investments and Capital Market Transactions

Providing a natural hedge to local borrowers and deepening local capital markets
Local Currency Loans to Our Clients

The EBRD converted an existing Euro loan to Kyrgyz brewer Bear Beer into local currency Som in 2016. Thanks to the first currency conversion for a corporate loan in the Kyrgyz Republic, Bear Beer will be able to repay the remaining €3.8 million of the loan in local currency. This conversion will help Bear Beer to mitigate foreign exchange risk from potential devaluation in future as their revenues are mostly in local currency.

Gulmaira Akim is the owner of one of the thousands of microbusiness in Mongolia that can improve their companies at zero FX risks with a loan in Tughrik, the Mongolian currency.
Romania’s major electricity distributor S.C. Electrica S.A began trading on both the Bucharest Stock Exchange and London Stock Exchange on Friday, 4 July 2014, after Romania’s largest ever initial public offering. The deal attracted a host of individual and institutional investors, including the EBRD. We invested over RON 320 million (equivalent to €75 million) for an 8.6% stake in Electrica as the firm moved towards privatisation. This transaction also contributed to the development of local capital markets, providing an important benchmark for future listings and increasing market liquidity.

The EBRD invested in a Turkish Lira denominated bond issued by Aksa Enerji in 2016, a local company engaged in the production and sale of energy, in a move to boost an independent power producer and deepen Turkish capital markets. The EBRD was an anchor investor, participating in TRY 100 million of the TRY 200 million (€60.6 million) bond.
### The EBRD’s Investments in Stock Exchanges

<table>
<thead>
<tr>
<th>Moscow Exchange</th>
<th>Bucharest Stock Exchange</th>
<th>Borsa Istanbul</th>
<th>Zagreb Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td>2012</td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>6.10%</td>
<td>6.06%</td>
<td>10.00%</td>
</tr>
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### The EBRD’s development efforts to date

- Nominated a non-executive director with significant knowledge and practical international experience
- Implemented a new corporate governance code for companies whose shares are admitted for trading on the regulated BSE market
- Appointed the Board members on Bucharest Stock Exchange and its central securities depository (CSD)
- Supporting Turkey’s comprehensive capital market reform programme
- Technical cooperation for central counterparty services of Takasbank
- Supporting the Istanbul Financial Centre project for a regional capital markets hub
- Appointed a capital markets expert as a supervisory board member
- Supporting a regional SME growth market in Croatia and Slovenia
- Linking to other foreign capital markets via SEE Link, an order routing platform
Increasing Share of Local Currency Denominated Debt Investment of the EBRD

Since the EBRD made its first local currency loan in Hungarian forint in 1994, both the volume and number of its local currency debt investments have continuously increased.

There are currently 22 local currencies outstanding in the EBRD’s loan portfolio, as of March 2017.

* Including loans and bonds (excluding equity investments in local currency)
3. Treasury

Developing and advising on local currency loan features, funding and managing exposures arising from local currency assets
The EBRD’s Treasury

On-going Policy Dialogue at All Stages

- Getting authorisation from domestic authorities to issue bonds in local currency as well as domestic bonds
- Enhancing legal reforms to be able to issue domestic bonds and operate other instruments
- Holding on-going dialogue with authorities about impact of the EBRD local currency operations on the domestic market
- Strengthening money markets and money market indices
- Supporting legal reforms for derivatives and repo transactions
Where the EBRD Issued Bonds in Local Currency

For more information, please visit:
The EBRD’s Innovative and Continuous Support for the Development of RUB Interbank Indices

- Supported the creation of MosPrime, the Russian money market reference rate in 2005 at the time of the EBRD’s inaugural rouble bond launch
- Promoted the calculation of the RUONIA index, launched by the Central Bank of Russia in September 2010, with the EBRD trading immediately thereafter the first ever rouble denominated Overnight Index Swap.
- ROISfix was launched as an index of fixed interest rates versus RUONIA in April 2011, and in the following July the EBRD concluded a loan based on this new index, also a first for the rouble market.
- The EBRD issued ROISfix indexed bonds in January 2013 and November 2013
- The EBRD traded the first ever ROISfix indexed RUB interest rate swap in July 2013

RUONIA

RUONIA is the single most accurate fixing on Rouble overnight interest rates. It is fixed on a daily basis as the weighted rate average of actual unsecured overnight transactions. It is calculated by the Bank of Russia following the procedures of the National Foreign Exchange Association. Based on actually traded levels, it is structurally less liable to be distorted than indices which reflect indicative prices.

ROISfix

ROISfix stands for fixing on Ruonia Overnight Index Swap (ROIS). It fixes 1-week to 6-month tenors based on the mid market rates. ROIS essentially are Interest Rate Swaps to the RUONIA. This allowed for a better risk management of pure interest rate risk. The EBRD has supported the ROISfix by issuing a first-ever Rouble bond, as well as an interest rate swap linked to the three-month ROISfix.
Kazakh Tenge (KZT) Inflation - linked Borrowing and Lending

*Why link to the KZT Consumer Price Index?*

- The money markets in Kazakhstan are illiquid and underdeveloped, and there is no functioning or transparent KZT interbank interest rate benchmark to which the EBRD could link instruments in its balance sheet.

- The Inflation benchmark is the best proxy of money market rates in the absence of credible alternative domestic benchmark. NBK has switched to an inflation targeting and flexible exchange rate regime. The NBK is expecting CPI to be within the NBK target range of 6-8% in 2017 and 4% by 2020.

- KZT inflation linked loans are a prudent source of funds for borrowers with KZT income linked to domestic inflation.

The EBRD issues CPI indexed KZT bonds and on-lends the proceeds to Kazakh borrowers

On November 2016, the EBRD launched a 34 billion Tenge Eurobond the first to be linked to the 3-month Consumer Price Index (CPI) calculated by the Agency of the Republic of Kazakhstan on Statistics.

The CPI-linked issue enables Kazakh institutional investors, pension funds in particular, to match their liability profile, while the EBRD’s Kazakh clients also benefit from long-term funding for their projects, linked to a transparent and credible index.
4. Policy Dialogue, Technical Cooperation and Advisory

Promoting sustainable local currency markets, a more efficient capital markets infrastructure, a stronger domestic institutional investor base and an overall more liquid domestic market.
# Country Assessment and Capital Market Development Strategy by LC2 Initiatives

## Technical Cooperation and Advisory

1. Building stable & sustainable macroeconomic policy frameworks
2. Improving the legal & regulatory environment to support capital market activity
3. Developing financial market infrastructure
4. Developing the institutional investor base
5. Promoting a more efficient transaction environment & expanding product range

## Policy Dialogue

- Strategic Capital Market Development
- Inflation targeting frameworks for Central Banks
- Creation of derivatives legal frameworks
- Capital market infrastructure development and consolidation
- Covered bond reforms
- Promoting alternative pension fund investment assets
- Feasibility studies on new instruments to markets
- Supporting securitisation
- Judicial training on financial instruments
- Capacity building programmes

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**International Coordination** with other International Financial Institutions and Multilateral Development Banks, and industry associations, such as Association for Financial Markets in Europe, International Capital Market Association, International Swaps Derivatives Association, and the European Commission.
Project Period: Jan 2015 – July 2015

Project Overview

Objective: The project assesses the feasibility of establishing a regional Central Counterparty (CCP) in one of the Bank’s Countries of Operations by optimising the use of already existing infrastructure.

Consultant: Oliver Wyman

Donor: EBRD Shareholders’ Special Fund

Conclusion and Next Steps

Central clearing is essential for realising the full economic potential of Central Eastern European (CEE) countries through capital market development.

A regional CCP can be the cornerstone of a market infrastructure in the CEE region that is aligned to EU standards and drives a significant expansion in investable capital, market liquidity and number of listings in the local markets.

Although the regional CCP will develop and expand over time, now is the opportune time to create it due to the large economic prize of higher growth.

At the same time, the process of converging towards a solution for central clearing needs to be country and market-driven.
**LC2 Technical Cooperation Project (2)**

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**Project Period:** 2014 – 2018

**Project Overview**

Client: Ministries of Finance in Croatia, Lithuania, Poland, Romania and Slovakia

Objective: The project helps build up the necessary legal and regulatory framework for covered bonds. Such reforms are often followed by the EBRD’s investment under the new law.

Donor: EBRD Shareholder’s Special Fund

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**The EBRD Welcomes Progress in New Funding Source ‘Covered Bonds’ in Central Eastern Europe**

**Poland**

The EBRD invested in 3 covered bonds issued by PKO Bank in 2016 (PLN 21.5 million, PLN 80 million and EUR 20 million) under the new covered bond legislation that entered into force on 1 January 2016 with support from the EBRD.

**Slovakia**

The EBRD invested EUR 49 million in a series of 7-year mortgage covered bonds issued by the Všeobecná úverová banka (VUB), the second largest universal bank in Slovakia (2017). The face value of the issuance was EUR 250 million, the largest so far on the Slovak market.

“The EBRD stands ready to support not only legislative reforms that enable covered bond issuance but also to invest in new covered bonds in its region of operations”

Phil Bennet, Vice President of the Bank
LC2 Technical Cooperation Project (3)

Project Period: Sep 2016 – April 2017

Project Overview
Client: Zagreb Stock Exchange (ZSE)

Objective: The project recommends the most suitable measures that can increase the access to capital market financing for companies, especially small and medium enterprises (SMEs) in Croatia and Slovenia.

Consultant: KPMG Croatia

Donor: TaiwanBusiness-EBRD Technical Cooperation fund

Establishment of SME Growth Market in Croatia and Slovenia:

1. Assessment of feasibility of a SME growth market in local and regional contexts

2. On-site knowledge sharing between Taipei Stock Exchange and ZSE

3. Defining the optimal set-up of a local and/or regional SME financing platform

4. Prepare a detailed business and implementation plan for ZSE
LC2 Technical Cooperation Project (4)

Project Period: Nov 2015 – March 2016

Project Overview

Objective: The project assesses the feasibility and market viability for the development of exchange-traded derivative markets in Mongolia, Romania and Ukraine.

Consultant: Korea Exchange
Donor: Republic of Korea

Recommendations

Mongolia
Recommendations: Promote equity market growth, consolidate market infrastructure, set up custodian banks and launch futures on unprocessed cashmere

Romania
Recommendations: Restructure Capital Market Infrastructure, alleviate regulatory restrictions on debt and equity markets, expand product range

Ukraine
Recommendations: Restore market confidence through economic reforms, strengthen equity market base, establish clear legal framework
**Project Period: Feb 2016 – Dec 2016**

**Project Overview**

Client: Jordan Securities Commission (JSC)

Objective: The project creates a 5-year roadmap for the development of capital markets in Jordan with sequenced measures and recommendations.

Donor: EBRD Shareholders’ Special Fund

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**Capital Market Development Strategy and Roadmap under “Jordan 2025 Vision and Strategy”**

7 Sets of strategic goals were identified:

1) increasing investors’ interest, 2) making the market more attractive to issuers, 3) reorienting the infrastructure institutions as private sector operations, 4) making the securities industry more competitive, 5) strengthening the Jordanian Securities Commission (JSC), 6) creating more attractive investment projects and 7) outreach and education for investors and issuers.

The Capital Market Development Strategy and Roadmap for Jordan is also available at

**Project Period: 2012 – 2018**

**Project Overview**

Client: Central banks in Armenia and Georgia; and Ministries of Finance in Morocco and Ukraine

Objective: The project supports the **derivatives legal reforms** to provide for the enforceability of derivatives transactions (including OTC deals) and introduce netting and close-out netting concepts.

Donor: EBRD Shareholder’s Special Fund

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**Legal and Regulatory Reforms in Armenia: Derivatives and Repurchase Agreements**

The Armenian parliament passed a package of laws regulating the local financial markets, and amendments to the law on the securities market, in October 2016, following close cooperation with the EBRD. This project was also coordinated with, and supported by, the International Swaps and Derivatives Association (ISDA).

The new law provides for the enforceability of derivatives transactions (including netting, close-out netting and financial collaterals) amends over 17 laws and introduces more than 15 new regulations to Armenia’s financial legislation, including settlement finality.

The legal package adopted by parliament opens the door for hedging tools, including foreign currency and interest rates, and allows banks and corporates to properly manage their risks. This is an important step to attract investors, including the EBRD.
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