



# LC2 Strategy 2019 - 2024

## Local Currency and Capital Markets Development (LC2)

As approved by the Board of Directors on 28 November 2018



**European Bank**  
for Reconstruction and Development

PUBLIC

**Capital markets are the engine rooms of modern economies. They help to mobilise and price capital, as well as mitigate risks.**

The EBRD is well placed to deliver on its mandated commitment “to stimulate and encourage the development of capital markets” through supporting the **creation of an efficient ecosystem for local currency and capital markets (LC2)** through a combination of policy engagement and investment. The absence of fully developed local capital markets, the resulting overreliance on foreign funding and foreign currency lending, and the severity of cross-border deleveraging has impeded economic growth and financial stability in many EBRD countries. The financial crisis also focused attention on the systemic implications of transferring exchange rate risks to unhedged borrowers. It also triggered a change in the macroeconomic and regulatory environment and created a framework where the development of domestic capital markets and local currency financing is no longer a luxury, but a necessity.

The overall objective of the EBRD LC2 Initiative is to promote more efficient and self-sustaining financial markets through the **development of local capital markets and broader use of local currency**, thereby contributing to economic progress and fostering a more stable financial environment. In fact, LC2 contributes to each of EBRD’s six transition qualities - making economies more resilient, increasing competition through broader and more inclusive access to capital, helping to improve governance through rules and disclosure of regulated markets, integrating the financial systems in EBRD countries to regional and global capital markets, and promoting capital market instruments for green finance.

The **LC2 Strategy for 2019-2024** is based on the lessons learned from the implementation of the previous strategy, LC2 capital market assessments and the findings of the EvD study. It sets out how the Bank will support local currency and capital markets development in its countries of operations. Additionally, LC2 concentrates efforts to increase the local currency share of EBRD investments and development of capital market instruments and their related infrastructure. The Strategy will be implemented with a tailored approach to respond to specific transition challenges as set out in the respective Country Diagnostics, Country Strategy documents and Priority Policy Objectives of the EBRD.

## LC2 Strategy 2019 - 2024

- The new LC2 Strategy sets out how the Bank will support local currency and capital markets development in its countries of operation. It is based on the lessons learned from the implementation of the previous strategy, LC2 capital market assessments and the findings of the EvD study.
- **The overall objective of the strategy is to promote more efficient and self-sustaining financial markets through the development of local capital markets (LCM) and broader use of local currency (LCY).**
  - ✓ LC2 will facilitate the transition from policy dialogue to investments by the Bank to support the LCM/LCY development process.
  - ✓ The LC2 Strategy will concentrate its efforts to increase the share of EBRD investments in LCY and to identify and support sequenced reforms in LCM based on defined priority areas.
- **The new LC2 Strategy consists of four interrelated priority areas which will be tailored to individual country needs:**

Upgrading Capital Markets  
Policy Framework

Enhancing Legal &  
Regulatory Environment

Improving Capital Market  
Infrastructure

Expanding Product Range  
and Investor Base

- Country specific actions will be calibrated based on LC2 assessments, country strategies and policy priority objectives. Government commitment is important to ensure successful implementation of the proposed reforms and take-up by the market participants and especially by the private sector.
- The Bank will use a variety of tools to achieve its LC2 objectives based on the identified market gaps. The LC2 tool box for the implementation of the strategy consists of policy dialogue, technical cooperation, funding & risk management and investments.
- Important for the implementation of the new strategy is the availability of donor funds and the co-operation with other IFIs and industry associations.

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# Scope and structure of the LC2 strategy

The LC2 Strategy covers the Bank-wide activities in two areas:

- the broader use of local currency (LCY), and
- the development of local capital markets

The strategy covers all of the Bank's countries of operation (COO), taking into account their specific transition gaps.

The strategy interfaces with other strategies, approaches and policies, including:

- Country diagnostics;
- Country strategies (which include results frameworks covering the sectors);
- Sector strategies, including financial institutions, equity, transport, municipal and environmental infrastructure, agribusiness, property and tourism;
- Other thematic strategies and approaches, such as the Small Business Initiative strategy, Green Economy Transition approach, Sustainable Energy Initiative; Strategy for the Promotion of Gender Equality and Economic Inclusion Strategy; and
- LC2 country assessments.



# 1. Implementation of the previous strategy

## 1.1. Overview of the previous strategy

### LC2 Strategic Objectives

- The **overall objective of LC2** is to achieve more efficient and self-sustaining financial intermediation through the **broader use of LCY and the development of local capital markets (LCM)**, thereby contributing to economic progress and fostering a more stable financial environment.
- The **specific objective of the LC2 team**, which was established as an organisational unit in 2013, is to **identify, coordinate, lead and support sequenced reforms and policies** that contribute to the development of efficient and self-sustaining LCM, including the increased use of LCY.

### The previous LC2 strategy focussed on five interrelated themes:

Theme 1	Theme 2	Theme 3	Theme 4	Theme 5
<ul style="list-style-type: none"><li>• Building stable and sustainable macroeconomic policy frameworks</li></ul>	<ul style="list-style-type: none"><li>• Improving the legal and regulatory environment to support capital market activity</li></ul>	<ul style="list-style-type: none"><li>• Developing financial market infrastructure including clearing and settlement</li></ul>	<ul style="list-style-type: none"><li>• Developing the institutional investor base</li></ul>	<ul style="list-style-type: none"><li>• Promoting a more efficient transaction environment and expanding the product range</li></ul>

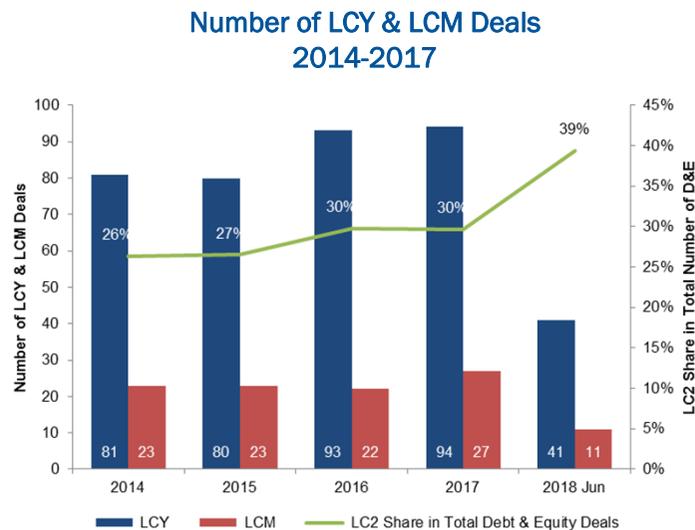
# 1. Implementation of previous strategy

## 1.2. Snapshot of activities and achievements during the previous strategy period

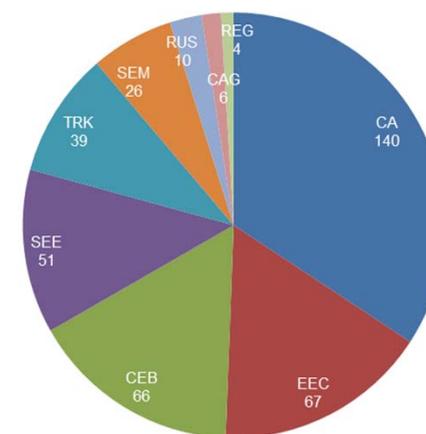
### Key Figures

409	€ 7.33 bn
# LC2 deals 2014-2017	Cumulative LC2 ABI 2014-2017
29.7%	70.39
% LCY/LCM deals 2017	Average PTI 2017 LCY/LCM
13	21
# SME LCY MoUs	Local currencies in loan book
98	20
# TCs 2014-2017	# LC2 Country Assessments
4	8
# Investments in Exchanges	Awards for EBRD

### Activities under the previous strategy (2014-2017)



### LCM/LCY transactions by region 2014-2017



### LC2 Snapshot January to June 2018

- **39.7% LC2 share** in the total number of debt and equity operations
- **39.0% local currency (LCY)** share in the total number of debt operations
- **21 local currencies** in EBRD's loan books

# 1. Implementation of previous strategy

## 1.3. Operational highlights and achievements

Outcomes	Key Results Highlights
<b>LCM/LCY support increased since establishment of a dedicated LC2 team</b>	<ul style="list-style-type: none"> <li>• Scope and diversity of policy dialogue increased after the LC2 team took leadership of the Initiative.<sup>1</sup></li> <li>• The Bank invested more in corporate bonds and listed equities, and there are various examples of legislative and regulatory improvements.<sup>1</sup></li> <li>• In total 13 MOU were signed in which authorities committed to capital market reforms and LCY intermediation. ETC SME LCY programme was extended to 11 non-ETC countries.</li> </ul>
<b>Legal and regulatory reforms - adoption of best legal practice in EBRD COOs</b>	<ul style="list-style-type: none"> <li>• Legal reform support by LC2 has been efficiently implemented in several cases, but the range in terms of EBRD banking transactions is limited and they do not always directly target country priorities. The implementation of these reforms, however, has promoted hedging and created a platform for financial market intermediaries, including the EBRD, to offer an expanded range of LCY products.<sup>1</sup></li> <li>• Improved covered bonds regulation in Poland, Romania, Slovakia; creation of derivatives framework in Armenia; laws finalised in Georgia, Ukraine &amp; Morocco; new listing regulations adopted by two exchanges; enhancement of judicial capacity in Russia and Romania; the Bank invested EUR 618m in covered bonds (status: 05/2018).</li> </ul>
<b>Bank's investments attracted additional investors</b>	<ul style="list-style-type: none"> <li>• In almost all LCM projects the Bank played the role of an anchor investor, attracting other investors rather than maximising its own investments. EvD reviewed a sample of the LCM investments and concluded that the Bank played this role relatively well. Interviewees indicated that the signalling effect of Bank investment attracted other investors.<sup>1</sup></li> </ul>
<b>Investments in Stock Exchanges positively impacted LCM development</b>	<ul style="list-style-type: none"> <li>• The investments into stock exchanges were highly relevant as such exchanges are at the heart of each country's LCM. By acquiring shareholdings in four stock exchanges (Croatia, Romania, the Russian Federation and Turkey), the Bank was able to nominate candidates for election to the boards of directors and influence improvements in the corporate governance of the exchanges, as well as setting standards for the companies listed on them, increasing the impact of each investment.<sup>1</sup></li> </ul>
<b>Increased opportunities for SMEs to access capital market financing</b>	<ul style="list-style-type: none"> <li>• The LC2 team supported the launch of a equity crowdfunding platform for start-up companies and a SME growth market in Croatia, which followed the bank's investment in Zagreb Stock Exchange. Within nine months four companies were successfully financed through the new platform. Additionally, an IPO Go programme was developed to support listings in various jurisdictions.</li> </ul>
<b>Innovative funding solutions and creating relevant benchmarks</b>	<ul style="list-style-type: none"> <li>• Treasury and OGC Finance made innovative and pioneering issues and supported legislative changes important for developing small markets such as Armenia, Georgia, Serbia and others. Treasury also promoted LCMs through pioneering derivative transactions and capacity-building.<sup>1</sup></li> <li>• The LC2 team supported yield curve modelling in Egypt, Georgia and Tunisia and disseminated a framework paper for developing Money Markets in Frontier and Emerging Market Economies under the leadership of Treasury. Additionally, capacity building for Central Banks in seven ETC countries to reinforce their forecasting, modelling and communication.</li> <li>• LTT was instrumental in supporting the drafting of specific regulations pertaining to crowdfunding (i.e. Turkey, Kazakhstan, Morocco).</li> </ul>
<b>Cooperation with IFIs and industry associations</b>	<ul style="list-style-type: none"> <li>• The Bank played an active role in setting up the DFI Senior Forum for LCY/LCM development.<sup>1</sup></li> <li>• The Bank is working closely with various industry associations as listed in Section 4.</li> </ul>
<b>International recognition of EBRD's LCY/LCM work</b>	<ul style="list-style-type: none"> <li>• As recognition of the EBRD's work in LCY/LCM development the Bank has received eight international and national awards, such as the Global Capital's The Cover Editor's Award 2017, Capital Markets Awards in Poland and Croatia, the Institutional Investor and Market Development Agent Award in Romania, and the ICMA Award of Excellence for covered bonds regulatory reforms and investment.</li> </ul>

<sup>1</sup> Source: EvD Special Study: Bank support for Local Capital Markets Development, July 2017

Note: The access to grant resources is instrumental in facilitating core functions and activities of the LC2 Team and for achieving the LC2 objectives.

# 1. Implementation of previous strategy

## 1.4. Key lessons from implementation

*The new strategy is informed by lesson learned from activities during the previous strategy period.*

### Challenges

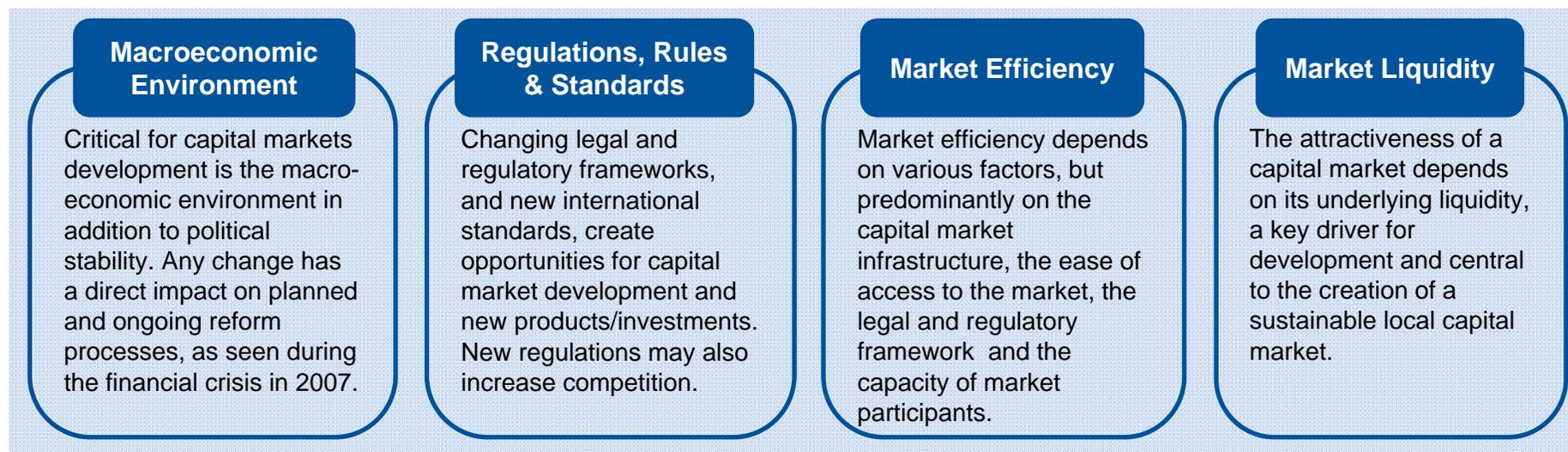
- Global developments and changes to local market environment delay reforms
- Money market development
- Difficult LCY access, at high interest rates
- Legal and regulatory change
- Illiquidity in both regulated and OTC markets undermines investor confidence
- Limited supply and diversity of capital market instruments
- Inconsistency in LCY debt pricing
- Still prevalent unhedged FCY usage
- Capital Market Infrastructure (CMI) is underdeveloped or fragmented, which leads to market deficiencies
- SME access to capital market finance
- Utilisation of Fintech/crowdfunding
- Lack of institutional investor base
- Low liquidity levels
- Small scale & free float of listed companies
- Time of involvement of LC2 team in LCM/LCY transaction design
- Access to grant resources

### Key Lessons

- Macroeconomic and financial stability are essential to facilitate efficient LCY operations and the development of LCM.
- Government commitment is critical to the reform process.
- A developed money market supports LCY use by facilitating liquidity management.
- A supportive and credible Central bank is key to grow financial intermediation in LCY.
- Legal and regulatory reform support is an important focus area to create reliable, transparent and well-organised markets. Proposed reforms have to consider country- specifics and the stage of development of the relevant jurisdiction.
- Important for investors to know that they can enter and exit the markets when they wish
- Regular pipeline of initial public offerings (IPO)/new listings and repeat bond issuance is essential to retain investor interest. Additionally, single innovative transactions are good but a pool of instruments is better as replication is key to creating asset classes .
- Data-based sovereign curves as well money market indices are instrumental.
- Key skill sets in risk pricing and management should be brought in line with international best practices.
- CMI development is required to ensure a sustainable capital market ecosystem which attracts issuers as well as investors. A well-developed CMI will enable cost efficient market access, decrease costs and ease the launch of products & services.
- Investments in CMI can support development and regional consolidation/cooperation.
- Crowdfunding, SME market segments and special products as well as targeted awareness/support programmes increase SME access to capital markets finance.
- Absence of pillar II pension system and lack of a strong local institutional as well as retail investor base is symptomatic for markets with less developed capital markets and/or low secondary market liquidity.
- Equity markets in the Bank's COOs are characterized by the small scale and low free float levels of listed companies. IPOs and the liquidity of listed companies are in many cases too small to attract institutional investors, especially foreign ones.
- Early involvement of the LC2 team in planned LCM/LCY transaction design helped to improve success rates and transition impact.
- The timely and sufficient access to grant resources/donor funding is key for achieving the LC2 objectives

## 2. Sector context and transition challenges

### 2.1. Key drivers, associated challenges and opportunities



### Challenges and Opportunities

- International studies such as the OECD Report to G20 Finance Ministers and Central Bank Governors (2015), the EU Capital Market's Union Action Plan (2015), and the Report of the Vienna Initiative Working Group on Capital Markets (2018) clearly highlight the importance of local capital market development and the opportunities that well-functioning markets offer to support private sector financing and investments, ultimately leading to economic growth and job creation
- One of EBRD's mandated commitments is "to stimulate and encourage the development of capital markets"<sup>1</sup> and to pursue sustained transition through its position as an investor focused on the private sector.
- Even though improvements in the capital markets of certain COOs are evident, the Bank is aware that a number of transition challenges exist when it comes to local currency and capital markets development.<sup>2</sup> The Bank also recognizes the benefits and opportunities the broader use of local currency and developed capital markets bring to local economies.

<sup>1</sup> Article 2.1(v) of the Agreement Establishing the European Bank for Reconstructing and Development

<sup>2</sup> based on the conducted market assessments, the country diagnostics and strategies.

## 2. Sector context and transition challenges

### 2.2. Local currency usage and money markets development in EBRD's countries of operation

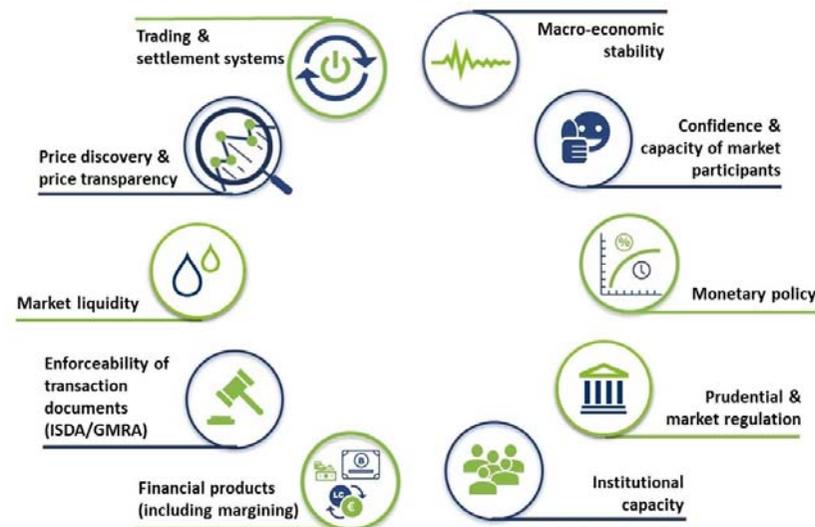
#### Money Market development

- Money markets show limited activity, and often focus on the central bank
- Transactions to become **secured transactions** relying on financial collateral, swaps, repos
- **Floating exchange rate regimes** are increasingly being adopted<sup>1</sup> – since 2013: Egypt, Georgia, Kazakhstan, Russia, Tunisia, Ukraine.
- As of April 2018, excluding EUR countries, 17 COOs<sup>1</sup> use floating or managed arrangements.
- A **diagnostic tool for money market assessment** is required to ensure a standardised development approach by all IFIs.

#### Use of LCY

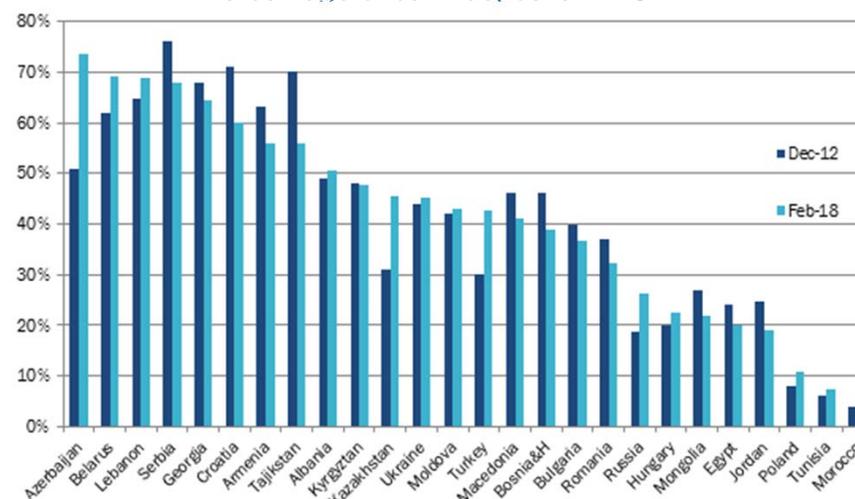
- On average across COOs, the **percentage of bank deposits in FCY has remained broadly constant** at 42% between Dec. 2012 and Feb. 2018.
- FCY use has risen in Albania, Armenia, Azerbaijan, Belarus, Kyrgyzstan, Lebanon, Tajikistan, while it decreased (or remained broadly constant) in other countries.
- The **adoption of sound risk management practices remains fragmented**.
- Increasing involvement of international investors strengthens **demand for LCY** access and LCY risk solutions.

#### Ten building blocks of money market development



Source: Frontclear

#### Percentage of bank deposits in FCY



Source: CEIC Data, IMF, Moody's – Data not available for Turkmenistan and Uzbekistan

<sup>1</sup> Source: IMF Annual Report on Exchange Arrangements and Exchange Restrictions, April 2018

## 2. Sector context and transition challenges

### 2.3. Transition challenges for legal/regulatory reforms in our countries of operation

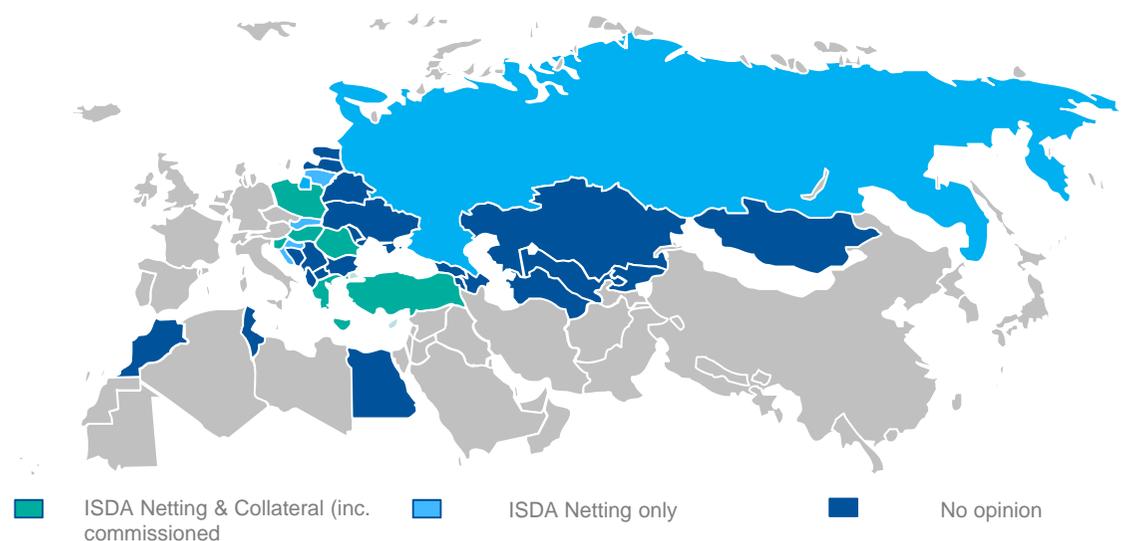
#### Legal and Regulatory Reforms

- After 25 years of transition, the development of the legal regime in many of the EBRD's countries of operations remains a **work in progress**.

#### *The main challenges faced in the COOs:*

- Outdated legal frameworks (including, in particular, insolvency) **impede the use of money market instruments** such as repurchase transactions, and also derivatives, as they do not provide the necessary **legal mechanics for netting and close out netting**.
- Advancements in international best practice for **covered bonds and asset backed solutions** have led to additional reform requirements to facilitate issuance.
- Changing principles for **financial market infrastructures** as well as new European directives are requiring rapid response measures from COOs to remain competitive.
- International uncertainty and lack of **best practice surrounding innovation and FinTech** has created a challenging environment for legislators and regulatory authorities.
- Many COOs do not provide an appropriate legal environment to **stimulate institutional and retail investment** in local capital markets.
- A mixture of practitioner knowledge and legal expertise has proven effective in drafting legislation leading to LCM transactions. The TCs were funded by SSF/donor funds.

#### ISDA opinions in EBRD COO



EBRD is member of ISDA and supports the use of ISDA agreements across the countries of operation. ISDA has more than 900 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers.

## 2. Sector context and transition challenges



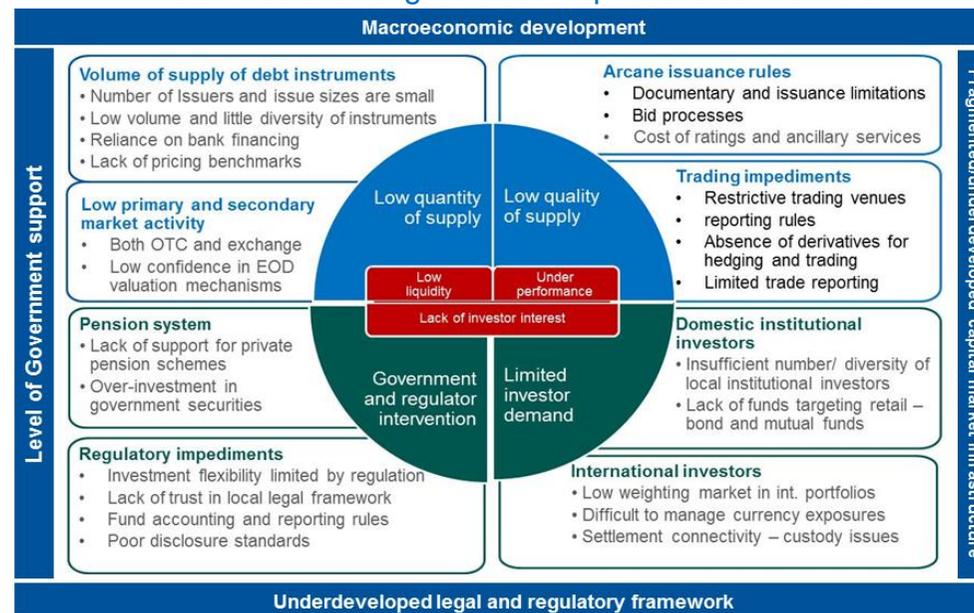
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### 2.4. Transition challenges for debt capital markets development in EBRD's countries of operation

#### Debt Capital Markets (DCM)

- **Expanded issuance of LCY and senior unsecured, municipal, covered and subordinated bonds in EBRD COOs.**
- Still limited diversity and supply of both LCY and FCY government and corporate debt instruments.
- **Low levels of secondary market liquidity** remains a major concern as it leads to a lack of a reliable government **bond benchmark yield curve** and reduces confidence in end of day valuations.
- **Limited depth of LCY money markets** makes funding costs uncertain.
- Investor base **dominated by buy-and-hold** investors with little active investment in markets.
- Inclusion of several corporate Eurobonds from EBRD COO into **leading emerging market indices** raises the region's profile among international investors.
- Cross border settlement of LCY debt instruments remains burdensome in some COO.
- **Untapped investor demand** for Green, Social Impact and Project bonds constrained by lack of commercially "bankable" projects.
- **Absence of active interest rate swap and FX derivative markets** makes it difficult for foreign participants to enter the market and to hedge exposures.

#### Identified challenges to develop local debt markets



#### Landmark DCM Transactions

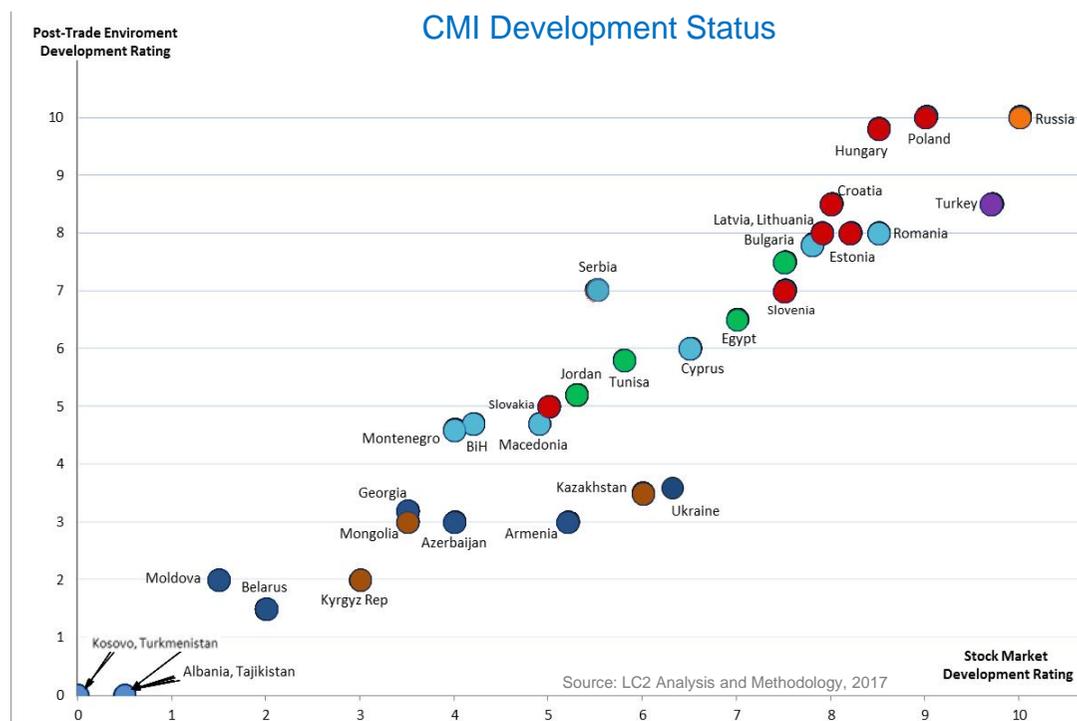
Asset Type	Issuer	Country	Key Features
Covered Bond	Všeobecná úverová Banka (VUB)	Slovakia	Key covered bond issued in Slovakia – after LC2 extensive advisory support for developing the local legal & regulatory framework for covered bonds
CPI-Linked Bond	Enerjisa Enerji	Turkey	Creation of a new pricing reference rate -first investment in an inflation-linked bond while its 5y tenor
Eurobond	Globalworth	Romania	First Eurobond of benchmark size issued by a Romanian corporate- dual-listed on the Irish and Bucharest Stock Exchanges.
Green Bonds	Lietuvos Energija	Lithuania	First investment in an ICMA eligible green bond with trading rights passported to Nasdaq Vilnius from Luxembourg Stock Exchange.
Infrastructure Bond	Mersin International Port	Turkey	First infrastructure bond out of Turkey - listed on the Irish Stock Exchange.
Municipal Bond	City of Bucharest	Romania	Helped create a LCY yield curve for local municipal debt – with enhanced settlement and repo eligibility to raise investor demand
REIT	Griffin Premium	Poland	The first company operating under the REIT business model on the Polish market.
Securitization	Alpha Bank	Greece	The first SME loan securitization in Greece with i) senior; ii) mezzanine; and iii) junior tranches.
Subordinated Debt	PKO Bank Polski	Poland	The largest subordinated bond out of Poland - Tier II (MREL) eligible capital and CRD IV / CRR (Basel III) compliant.

## 2. Sector context and transition challenges

### 2.5. Transition challenges for Capital Market Infrastructure in our countries of operation

#### Capital Markets Infrastructure (CMI)

- A well-developed and efficient CMI, in conjunction with a well developed legal and regulatory framework, is the base **requirement for LCY and LCM development**. But in many of the Bank's COOs the **CMI is still underdeveloped** or highly fragmented, which leads to **market deficiencies**.
- In the COOs there are 45 stock exchanges (SEs), 36 Central Securities Depositories (CSDs), 14 Multilateral Trading Facilities (MTFs), 4 Central Counterparties (CCPs) and hundreds of commodities exchanges.
- **CMI consolidation is required** to ensure a sustainable capital market ecosystem which attracts issuers as well as investors.
- **Cross-border cooperation, regional solutions or linkages** between CMI operators rarely exist. Intensified efforts are needed to drive regional cooperation and consolidation, and to harmonize the capital markets in the region. Certain inroads have been made, such as supporting the establishment of a cross-border trading link and **investments in stock exchanges to support development/consolidation**.
- International standards and legal/regulatory changes (i.e. PMFI, EMIR, MiFID2, CSDR) are increasing **cross-border competition**.
- A developed CMI will **enable cost efficient access to the market**, decrease operating costs and ease the launch of new products and services. It will also offer connectivity to remote trading members and shorten trade/clearing processing cycles.
- **Crowdfunding, FinTech solutions, and distributed ledger technology** are disrupting traditional registry, trading, clearing and settlement models. LC2 is actively involved in these developments to ensure a proper application in the COOs.



## 2. Sector context and transition challenges



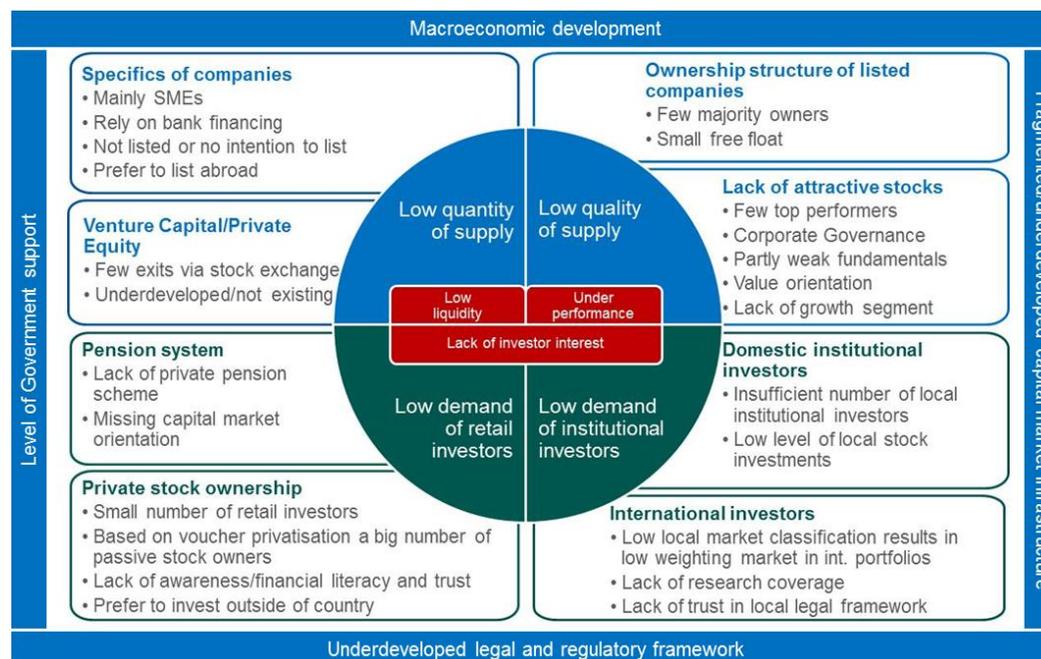
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### 2.6. Transition challenges for equity capital markets development in EBRD's countries of operation

#### Equity Capital Markets (ECM)

- The ECMs in the COOs are still characterized by a **limited number of actively traded listed companies**, a small number of blue chip companies, a **lack of initial public offerings**, low market liquidity, poor corporate governance, **low free float** of listed companies and a lack of institutional investors.
- Limited depth and breadth** of ECMs in almost all COOs. The largest ECMs in the COOs are in Russia, Turkey, and Poland. But even in Turkey and Poland **improvements are still required**, i.e. liquidity provision, corporate governance, range of listed products and investor base.
- SMEs access to capital market finance is still in a nascent stage**, but LC2's efforts i.e. helped to establish a cross-border SME growth market covering Croatia and Slovenia.
- Conversion of exchanges into company financing hubs** covering the whole financing life cycle of a company, from start-up to blue chips.
- Utilisation of crowdfunding and Fintech solutions** forms an important component to **develop future ECMs** and DCMs.
- Country classification** by MSCI, FTSE, etc. is important to attract international investors.
- Index inclusion and structured products** support enhancement of the ECM liquidity pool.

#### Identified challenges to develop local equity markets



#### Market Capitalisation per country (USD billion)

Central Asia	USD bn	CEB	USD bn	EEC	USD bn	Russia Turkey	USD bn	SEE	USD bn	SEMED	USD bn
KAZ	45.4	HRV	22.2	ARM	0.3	RUS	612.1	ALB	n/a	EGY	44.2
KGZ	0.3	EST	2.9	AZE	1.9	TUR	219.9	BIH (BLBERZA)	1.9	JOR	24.8
MNG	0.9	HUN	30.3	BLR	1.0			BIH (SASE)	3.0	LBN	11.3
TJK	0.5	LVA	1.1	GEO	0.8			BGR	6.7	MAR	79.7
TKM	n/a	LTU	4.5	MDA	n/a			CYP	3.9	TUN	8.5
UZB	3.2	POL	174.1	UKR	6.6			MKD	2.2	WBG	3.8
		SLO	6.0					GRC	60.9		
		SVK	5.2					MNE	3.7		
								ROM	22.6		
								SRB	5.3		

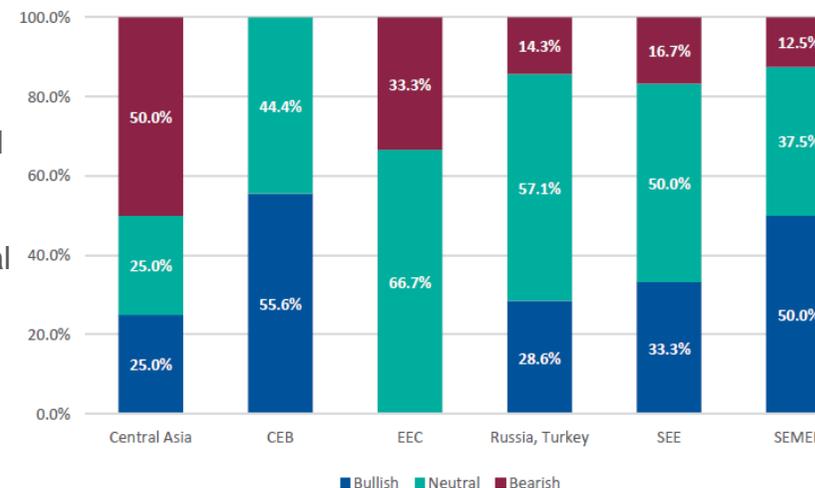
## 2. Sector context and transition challenges

### 2.7. Transition challenges for the investor base in our countries of operation<sup>1</sup>

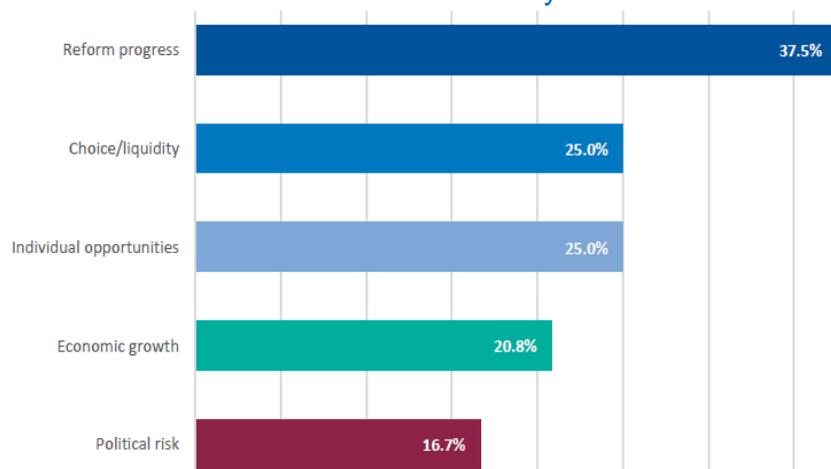
#### Investor Base

- The institutional and retail investor base in the EBRD COOs is **limited** and entrance of international institutional investors is highly dependent on the country classification by MSCI or FTSE.
- **Decisive factors for investment decisions**, in addition to the expected returns, are the observed progress of reforms, the level of market liquidity, individual investment opportunities, economic growth and political risk.
- Challenges for international investors, as well as local institutional investors, include **small transaction sizes, low free float** levels and, in many cases, a lack of OTC/exchange traded financial instruments.
- In many COOs pension funds are the main investors in the market, but based on the **restructuring of the private pension system** in some of the countries decreasing market liquidity is observed.

Investors' three-year outlook as of Q3 2017



Investment Catalysts



Top 10 international firms investing in EBRD region, with a total of at least US\$ 1.0 billion invested (Q2 2017)

Firm	Investor location	Investment (USD bn)
BlackRock Fund Advisors	USA	6.7
Norges Bank Investment Management (NOR)	Norway	5.6
APG Asset Management N.V.	Netherlands	3.0
Schroder Investment Management, Ltd	UK	2.8
BlackRock Investment Management (UK), Ltd	UK	2.6
Fidelity Management & Research Company	USA	2.3
Harding Loevner, L.P.	USA	1.2
Swedbank Robur Fonder AB	Sweden	1.2
Baring Asset Management, LTD (UK)	UK	1.2
Grantham Mayo Van Otterloo & Co., LLC	USA	1.1

<sup>1</sup> Source: EBRD-IPREO Study: The Investor Base of Securities Markets in the EBRD region, March 2018

## 2. Sector context and transition challenges

### 2.8. Key transition challenges<sup>1</sup>

Resilient	<p><b>Regulatory and legal framework:</b> The alignment of the legal regimes with international standards and best practices in many of the COOs remains a work in progress. But regulatory reforms are required to create confidence, attract issuers and investors, and to enable the issuance of new financial instruments.</p> <p><b>Money market development and LCY usage:</b> Money markets in some of the COOs show limited activity and the use of FCY often remains high. A widely accepted diagnostic tool for money market assessments is required to ensure a standardised development approach by IFIs.</p> <p><b>Capital market infrastructure:</b> The backbone of every developed LCM is a reliable and efficient capital market infrastructure covering trading, clearing and settlement of financial instruments, operating in accordance with international standards and best practices.</p> <p><b>Financial instruments:</b> To build up a resilient and liquid LCM it is important to expand the financial product range and encourage companies to access capital market financing.</p> <p><b>Market liquidity:</b> Low capital market liquidity is still one of the main shortcomings in the COOs and represents one of the main development challenges. Market liquidity is impacted by various factors such as the availability of a strong institutional investor base and an efficient transaction environment.</p> <p><b>Government support:</b> One of the key factors of successful LCMs is government support based on a clearly defined capital markets strategy.</p>
Competitive	<p><b>Access to finance:</b> In many cases governments and some stakeholders do not see local capital markets as a viable source of finance. Access to capital markets, however, is indispensable when a company operating in a credit-oriented financing culture reaches its growth limits. Under the competitive conditions of globalisation, a growing number of companies are now compelled to pursue strategic growth strategies that can only be achieved through access to equity and debt capital markets. The same applies to technology companies that need to take advantage of small windows of innovation and market opportunities that exist only for a limited period of time.</p> <p><b>SME financing:</b> Changes in the legal and regulatory framework in some countries will foster access to capital markets financing for SMEs through specially designed SME Growth Markets or alternative capital raising platforms in the form of equity and/or debt crowdfunding solutions.</p>
Integrated	<p><b>Cross-border cooperation, market harmonisation and consolidation:</b> A lack of integrated capital markets is an impediment for investors and issuers as most of the LCMs in the EBRD COOs are limited. Regional cooperation is needed to reach the critical mass required to create sustainable and sizeable markets. Consolidation of the CMI along the value chain, or regionally, would increase transaction efficiency, as well as investor access and interest.</p>
Well-Governed	<p><b>Corporate governance:</b> Poor corporate-level governance is a major impediment to the competitiveness of companies, private sector investment, and to the credibility of Central Banks. Corporate governance improvements in line with international best practice increase transparency and unlock revenue generation potential. The commercialisation of SOEs, in particular where these account for a large share of economic activity, may have a significant impact on capital market development if listed on the local stock exchange.</p>
Inclusive	<p><b>Economic inclusion of (young) entrepreneurs:</b> Changes in regulations and the emergence of new financial technology has started to disrupt the traditional financial system. These developments create an opportunity to widen the access of companies, especially SMEs, to capital market financing, to offer new investment opportunities to retail investors, and to provide opportunities for the economic inclusion of young entrepreneurs.</p> <p><b>Financial inclusion:</b> The lack of trust in the domestic financial system means domestic savings may be stored outside in FCY.</p>
Green	<p><b>Imbalance of investor demand for green instruments over current supply:</b> Growing requirement by investors for certification and adherence to standards such as the ICMA Green Bond Principles. Need to develop a pipeline of eligible Green projects in EBRD COOs that are acceptable to impact investors.</p> <p><b>Potential for impact investors to fund some of the region's significant infrastructure and local currency financing needs:</b> Green municipal projects could address identified financing shortfalls while LCY denominated Green Instruments would also help to develop the nascent domestic Green Investor Base.</p>

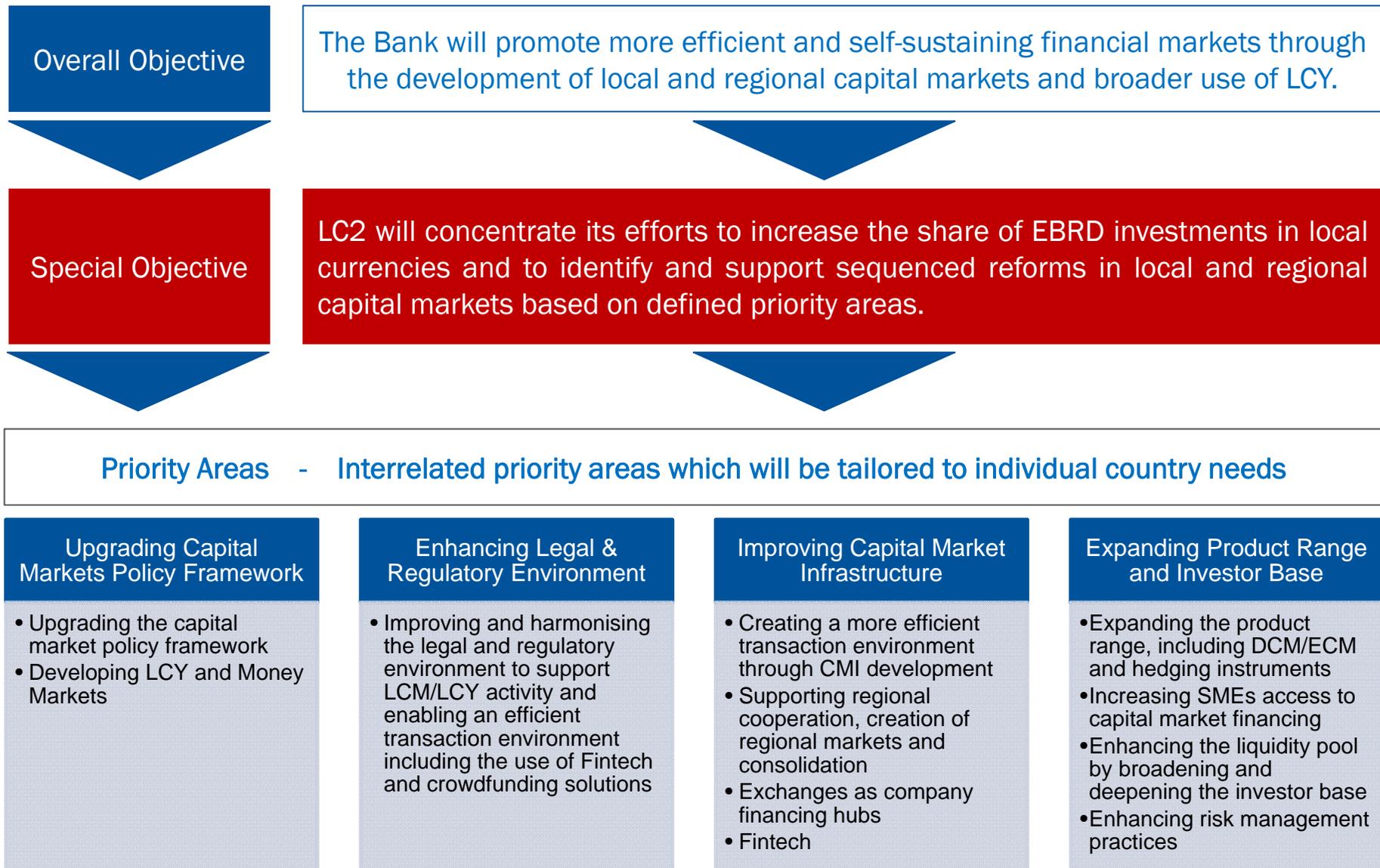
Note: Depending on subsector and project context, a specific challenge or intervention may be attributable to different qualities

<sup>1</sup> For further details on transition qualities please visit : <http://www.ebrd.com/our-values/transition.html>

PUBLIC

# 3. Strategic directions - focus areas

## 3.1. Facilitating the transition to more efficient and self-sustaining financial markets



The four priority areas cover a comprehensive list of strategic support measures and are based on the lessons learned from the previous strategy period. The support measures to be applied on COO-level are depending on the LC2 country assessments, country diagnostic **Public** as strategies. Additionally, specific activities may be considered for COOs on an ad-hoc basis based on their strategic importance or identified reform opportunities to ensure flexibility of the development process.

# 3. Strategic directions - focus areas

## 3.2. Comparison of the strategic themes

Priority Areas – LC2 Strategy 2019 - 2024			
Theme 1	Theme 2	Theme 3	Theme 4
<ul style="list-style-type: none"> <li>• Upgrading Capital Markets Policy Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing Legal &amp; Regulatory Environment</li> </ul>	<ul style="list-style-type: none"> <li>• Improving Capital Market Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Expanding Product Range and Investor Base</li> </ul>

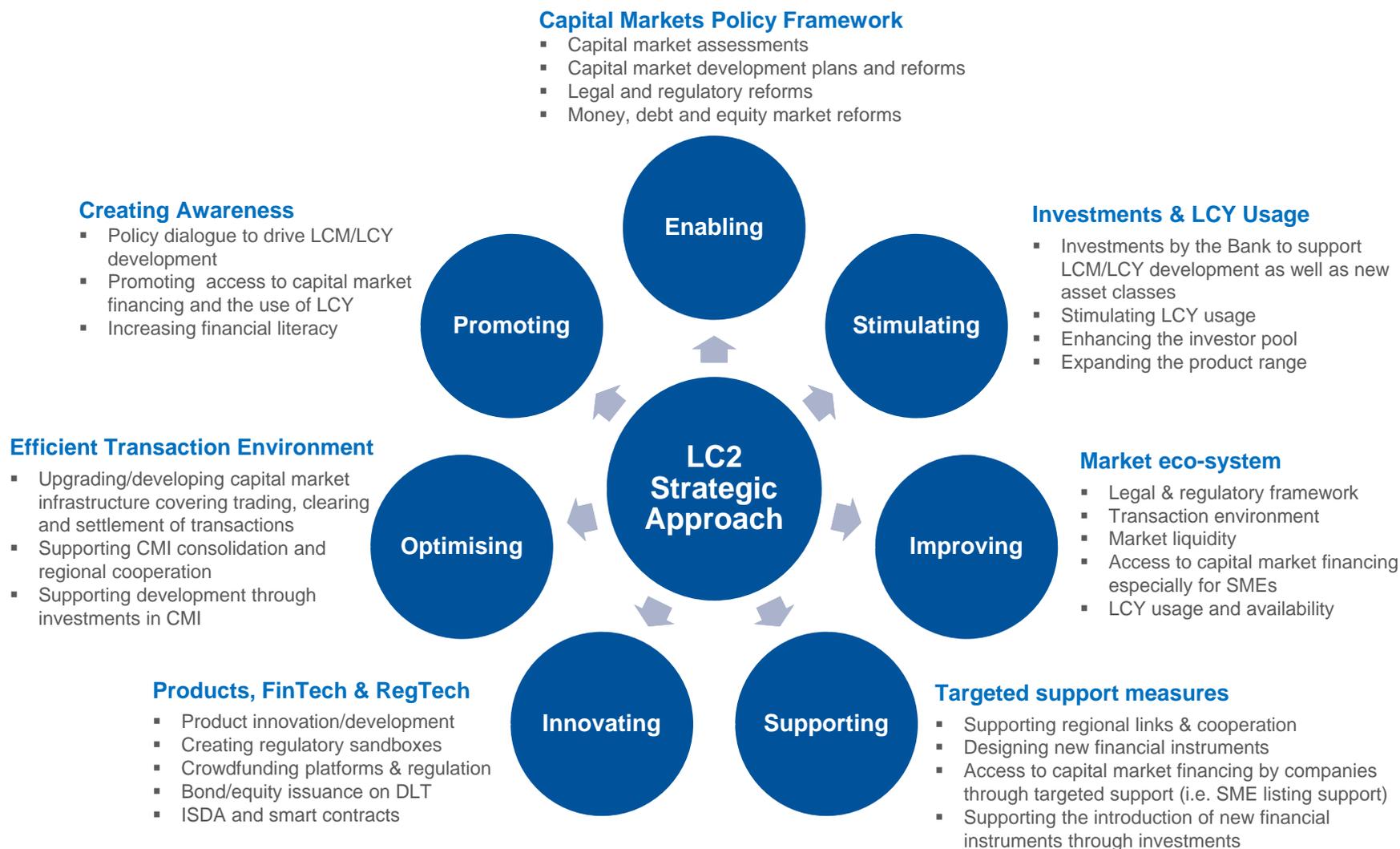
Key Differentiators

- In general, the new strategy builds on the work done in the previous strategy period, the lessons learned, country assessments and the findings of the EvD study.
- Theme 1: Clearer focus on the upgrade of the capital markets policy framework through the use of MoUs, action plans and targeted TCs instead of the previously included wider focus of LC2 on building a stable and sustainable macroeconomic framework.
- Theme 2: No changes were made in the legal and regulatory area as the requirements are still the same.
- Theme 3: In the CMI area the focus was aligned to the current development stage of the infrastructure and to international standards, like the Principles for Financial Infrastructures. An additional focus will be on the efficiency of the transaction environment, increasing SMEs access to capital market financing as well as regional approaches and solutions where possible in a given capital markets policy framework.
- Theme 4: As there is a strong link between products (supply) and investors (demand) the two topics were combined in one theme to ensure a stringent development approach.

Previous Priority Areas - LC2 Strategy 2013 -2018				
Theme 1	Theme 2	Theme 3	Theme 4	Theme 5
<ul style="list-style-type: none"> <li>• Building stable and sustainable macroeconomic policy frameworks</li> </ul>	<ul style="list-style-type: none"> <li>• Improving the legal and regulatory environment to support capital market activity</li> </ul>	<ul style="list-style-type: none"> <li>• Developing financial market infrastructure including clearing and settlement</li> </ul>	<ul style="list-style-type: none"> <li>• Developing the institutional investor base</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting a more efficient transaction environment and expanding the product range</li> </ul>

# 3. Strategic directions - focus areas

## 3.3. Overall LC2 strategic approach



### 3. Strategic directions - focus areas

#### 3.4. Focus area 1: Upgrading Capital Markets Policy Framework

Focus area 1: Upgrading the Capital Markets Policy Framework					
<p><b>Strengthening policy framework and capacity building for capital market development</b></p> <table border="1" data-bbox="212 582 577 678"> <tr> <td>Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td></td> <td>Well-Governed</td> </tr> </table>	Primary TI targeted	Resilient		Well-Governed	<ul style="list-style-type: none"> <li>▪ <b>Conduct Capital Market Assessments</b> based on a systematic approach in assessing capital market and LCY gaps across COOs by quantifying these gaps and measure reform progress based on selected indicators as defined by the LC2 team. The findings of the assessments will inform country diagnostics and country strategies, which may lead to priority policy objectives.</li> <li>▪ <b>Support the preparation and implementation of National Capital Market Development Plans</b> with technical assistance and policy dialogue that will allow sequencing of reforms, leading to more efficient and self-sustaining financial markets.</li> <li>▪ <b>Support EU-based COOs in deepening and further integrating their capital markets</b> in accordance with the Capital Markets Union’s Action Plan through policy dialogue, technical assistance and investments with the aim of mobilising capital and investments benefitting the private sector.</li> <li>▪ <b>Provide capacity building for policy makers and regulators</b> to highlight the benefits of well-developed capital markets, their impact on economic growth, employment and the private sector.</li> </ul>
Primary TI targeted	Resilient				
	Well-Governed				
<p><b>Supporting LCY and money market development</b></p> <table border="1" data-bbox="212 981 577 1077"> <tr> <td>Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td></td> <td>Well-Governed</td> </tr> </table>	Primary TI targeted	Resilient		Well-Governed	<ul style="list-style-type: none"> <li>▪ <b>Develop a diagnostic tool for money market assessments</b> and <b>coordinate efforts with other IFIs</b> to agree on a joint standardised approach on money market assessments and developments.</li> <li>▪ <b>Reinforce the credibility of the central bank</b> with technical assistance and policy dialogue that will contribute towards adoption of an adequate and enabling monetary policy framework and exchange rate regime, an effective operational framework, dependable data, modelling and forecasting, appropriate governance, and a consistent communication strategy.</li> <li>▪ <b>Encourage effective regulation and concerted market place coordination</b> through policy dialogue, technical assistance and capacity building that will facilitate easy access to and conversion of LCY, liquid FX, repos, and interest rate markets in LCY, and adequate macro-prudential measures supportive of the use of LCY.</li> <li>▪ <b>Strengthen and diversify the local savings pool in LCY</b>, through investments, technical assistance and policy dialogue that will contribute towards creating a healthy banking sector, proactive asset managers, well recognised pension funds, and a developed insurance/life insurance sector.</li> <li>▪ <b>Support the adoption of fair pricing and reliable benchmarks for LCY</b> through capacity building and technical assistance that will contribute to building the sovereign yield curve on a range of maturities, well designed and accepted money market indices, fair credit pricing and cash flow based credit analysis across market participants, and effective credit risk mitigation including through enforceable security taking.</li> </ul>
Primary TI targeted	Resilient				
	Well-Governed				

### 3. Strategic directions - focus areas

#### 3.5. Focus area 2: Enhancing the legal and regulatory environment

Focus area 2: Enhancing the Legal and Regulatory Environment					
<p>Support overall LCM/LCY activity by improving the legal and regulatory environment</p> <table border="1"> <tr> <td>Primary TI targeted</td> <td>Well-Governed</td> </tr> <tr> <td></td> <td>Competitive/resilient</td> </tr> </table>	Primary TI targeted	Well-Governed		Competitive/resilient	<ul style="list-style-type: none"> <li>Implement and create capital markets legal and regulatory standards that are appropriate for the state of development of the capital markets in the COOs, including engaging with international organisations and associations on regulations, best practices and standard setting.</li> <li>Provide technical assistance to develop appropriate, sound and transparent legal frameworks and regulations governing issuance, origination and trading of money market and financial products such as covered (mortgage) bonds, infrastructure/revenue bonds, and asset-based securities.</li> <li>Focus on EU Capital Market Union and other international legislative initiatives that impact capital markets in EBRD COOs by ensuring these are appropriately implemented.</li> <li>Build the capacity of legislative bodies in the area of capital market legislation, regulation and enforcement</li> </ul>
Primary TI targeted	Well-Governed				
	Competitive/resilient				
<p>Enable an efficient transaction environment by improving the legal and regulatory environment</p> <table border="1"> <tr> <td>Primary TI targeted</td> <td>Well-Governed</td> </tr> <tr> <td></td> <td>Competitive</td> </tr> </table>	Primary TI targeted	Well-Governed		Competitive	<ul style="list-style-type: none"> <li>Support legal and regulatory reforms efforts and policy dialogue to enable EBRD sourcing LCY, including through issuance of EBRD bonds.</li> <li>Support capital markets transactions that require legal and regulatory amendments, changes or support through technical assistance and policy dialogue to support reforms.</li> <li>Support legal and regulatory reforms to recognise and enforce derivatives and repo transactions (including netting and close-out netting), financial collateral and other risk-management tools. The work is carried out in close collaboration with ISDA and other industry associations.</li> <li>Support the implementation of legal and regulatory reforms for stock exchanges and post trade infrastructure, with a focus on those targeting broader objectives such as consolidation.</li> </ul>
Primary TI targeted	Well-Governed				
	Competitive				
<p>Creating the legal and regulatory framework for innovation</p> <table border="1"> <tr> <td>Primary TI targeted</td> <td>Competitive</td> </tr> <tr> <td></td> <td>Green</td> </tr> </table>	Primary TI targeted	Competitive		Green	<ul style="list-style-type: none"> <li>Mobilise the use of FinTech &amp; RegTech through regulatory reform and policy dialogue to; a) establish regulatory sandboxes; b) regulate technology enabled operations and financing (i.e. crowdfunding, DLT); c) foster cooperation among market associations and regulators to foster innovation such as the ISDA Smart Contracts WG.</li> <li>Engage with ICMA to promote and establish the use and issuance of green, impact and sustainable bonds in COOs through legal reform.</li> </ul>
Primary TI targeted	Competitive				
	Green				

# 3. Strategic directions - focus areas

## 3.6. Focus area 3: Improving the Capital Markets Infrastructure

Focus area 3: Improving Capital Markets Infrastructure				
<p>Creating a more efficient operational environment through CMI development</p> <table border="1"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td>Competitive</td> </tr> </table>	Primary TI targeted	Resilient	Competitive	<ul style="list-style-type: none"> <li>Support the development of capital market infrastructures through policy dialogue, TC projects and potential strategic investments to increase the operational efficiency, profitability, functionality and services of CMIs.</li> <li>Support the creation of exchange groups to optimize the institutional set-up and increase market efficiency.</li> </ul>
Primary TI targeted		Resilient		
	Competitive			
<p>Supporting regional cooperation &amp; consolidation</p> <table border="1"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Competitive</td> </tr> <tr> <td>Integrated</td> </tr> </table>	Primary TI targeted	Competitive	Integrated	<ul style="list-style-type: none"> <li>Initiate and support regional cooperation through policy dialogue and TC projects to enable cross-border links covering trading, clearing and settlement of financial instruments and commodities.</li> <li>Enable the consolidation of local CMI along the value chain through policy dialogue, legal and regulatory reform and/or potential strategic investments supported by TC projects when required.</li> <li>Support regional consolidation (i.e. SEE Link) by creating an enabling environment through extensive policy dialogue, TC projects and/or potential strategic investments.</li> <li>Identify and support regional solutions to increase the access to local markets, encourage cross-border investments and/or reduce the cost base of the local CMI.</li> </ul>
Primary TI targeted		Competitive		
	Integrated			
<p>Expanding range of services and market segments by exchanges</p> <table border="1"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Competitive</td> </tr> <tr> <td>Resilient</td> </tr> </table>	Primary TI targeted	Competitive	Resilient	<ul style="list-style-type: none"> <li>Support exchanges in their efforts to establish markets segments and services, which enable them to cover the financing life cycle of companies from start-ups and SMEs to blue chip companies and to act as company financing hub, The support may consist of policy dialogue, legal and regulatory reforms and TC projects.</li> <li>Support the creation of market segments which will benefit financial inclusion, in furtherance of the Bank's Financial Inclusion Strategy.</li> </ul>
Primary TI targeted		Competitive		
	Resilient			
<p>Facilitating Fintech solutions</p> <table border="1"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Competitive</td> </tr> <tr> <td>Resilient</td> </tr> </table>	Primary TI targeted	Competitive	Resilient	<ul style="list-style-type: none"> <li>Identify and support the application of FinTech solution to increase capital market efficiency.</li> <li>Support the implementation of equity/debt crowdfunding platforms to enable easier access to capital markets financing.</li> </ul>
Primary TI targeted		Competitive		
	Resilient			

### 3. Strategic directions - focus areas

#### 3.7. Focus area 4: Expanding product range and investor base

Focus area 4: Expanding Product Range and the Investor Base				
<p>Expanding the product range including hedging instruments</p> <table border="1" data-bbox="232 496 591 592"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td>Competitive</td> </tr> </table>	Primary TI targeted	Resilient	Competitive	<ul style="list-style-type: none"> <li>▪ Ongoing EBRD investment support of capital market transactions in debt and equity markets to increase the impact of the Bank’s investments on LCM and LCY development.</li> <li>▪ Encourage banking groups to raise finance in local public markets – senior/subordinated offerings</li> <li>▪ Undertake legal and regulatory TC projects to encourage the issuance of new instruments such as covered bonds, simple transparent securitizations, social impact instruments.</li> <li>▪ Expansion of equity, debt and structured instruments to include e.g. ETF, REITS, Infrastructure, project and convertible bonds, as well as Green and Social Impact Bonds in both LCY and FCY.</li> <li>▪ Increase the range of issuers with supporting TC projects developing listing support programs.</li> <li>▪ Policy dialogue to encourage local regulators to review investment guidelines for local pension funds to reduce reliance on government debt markets</li> <li>▪ Actively support market development of hedging instruments such as FX and interest rate swaps</li> <li>▪ Encourage market development of funding instruments such as stock borrowing/lending and repo in order to provide reliable funding for investors in both debt and equity markets.</li> </ul>
Primary TI targeted		Resilient		
	Competitive			
<p>Increasing SMEs access to capital market financing</p> <table border="1" data-bbox="232 951 591 1046"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td>Competitive</td> </tr> </table>	Primary TI targeted	Resilient	Competitive	<ul style="list-style-type: none"> <li>▪ Increase range of SMEs accessing capital market financing, especially on equity crowdfunding platforms and SME Growth Markets, with supporting TCs and investments contributing to listing support and research coverage programs, and (listed) SME financing vehicles.</li> <li>• Explore the creation and implementation of new market segments covering various short-term financing instruments for SMEs such as receivables and warehouse receipts.</li> </ul>
Primary TI targeted		Resilient		
	Competitive			
<p>Increasing market liquidity by enhancing the investor base</p> <table border="1" data-bbox="232 1238 591 1334"> <tr> <td rowspan="2">Primary TI targeted</td> <td>Resilient</td> </tr> <tr> <td>Competitive</td> </tr> </table>	Primary TI targeted	Resilient	Competitive	<ul style="list-style-type: none"> <li>▪ Support the access of international institutional investors and capital market participants to the local capital markets through policy dialogue and TCs.</li> <li>▪ Strengthen the local institutional investor base, such as pension funds, mutual funds and general and life insurance companies, through TCs and investments.</li> <li>▪ Enhance the liquidity pool by supporting measures to reach a country classification upgrade or index inclusion, by e.g. MSCI or FTSE, through targeted TCs and policy dialogue.</li> <li>▪ Support the creation of local capital markets development funds through TCs and co-financing.</li> <li>▪ Explore and support the establishment of liquidity provision systems (e.g. primary dealers, market makers, proprietary trading firms) to raise investor confidence.</li> </ul>
Primary TI targeted		Resilient		
	Competitive			

### 3. Strategic directions - focus areas

#### 3.8. LC2 Tool Box to support LCM and LCY development

The Bank uses a variety of tools to achieve its LC2 objectives based on the country assessments, the priorities set in the country strategies, the priority policy objectives and the identified market gaps.



**Support measures will be defined and tailored based on country strategies and assessments.**

**Policy Dialogue, Funding & Risk Management and TC & Advisory are in many cases strongly depending on the availability of donor and SSF funds.**

# 3. Donor Co-Financing

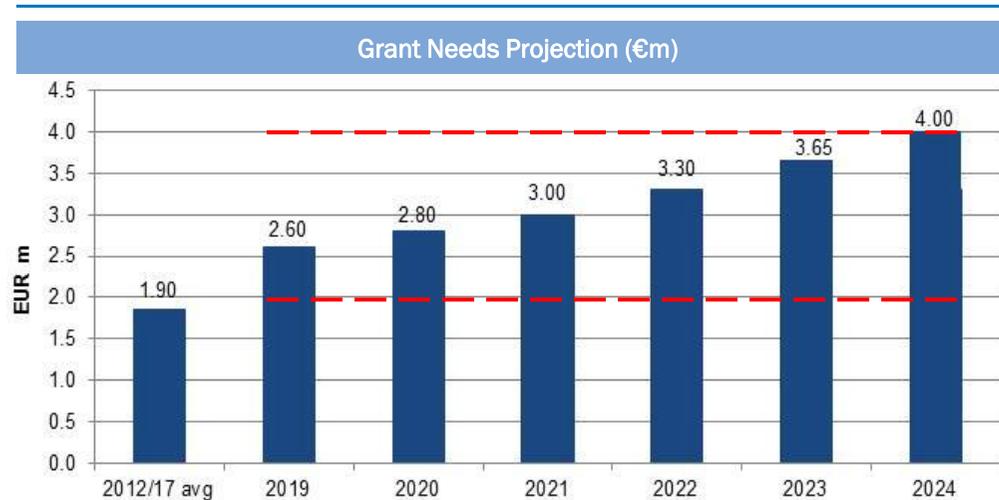
## 3.9. Grant needs assessment and projections for strategy period

The access to donor and net income funds is one of the key enablers for achieving the LC2 objectives

### Grant Needs Analysis by Donor 2014-2017



### Grant Needs Projections for the New LC2 Strategy Period



### Potential Sources for Grant Funds

- Shareholder Special Fund;
- Japan-EBRD Cooperation Fund;
- Taiwan Business – EBRD TC Fund;
- Korean TA and Cooperation Fund;
- MENA – EBRD-Middle East and North Africa Transition Fund;
- UKMD – Ukraine Multi-Donor Account;
- SEMED Cooperation Funds;
- Kazakh-TC Fund;
- Turkey donor Fund Account;
- European Union; and
- European Commission via the Structural Reform Support Service.

Donor's support is instrumental in facilitating core functions and activities of the LC2 Team, which broadly fall into following categories:

- Policy dialogue;
- Transaction design and support;
- Money markets development;
- Upgrading the capital market infrastructure;
- Expanding the products range and investor base;
- Capacity building, and a
- Rapid response mechanism.

# 4. EBRD position vis-à-vis other IFIs and partners

## 4.1. EBRD's position vis-à-vis other IFIs and areas of co-operation

		Geography						
		Central Europe & Baltics	South Eastern Europe	Eastern Europe, Caucasus & Russia	Central Asia	Southern & Eastern Mediterranean	Turkey	Greece & Cyprus
IFIs/MDAs/NDAs	ADB			€	€		€	
	AiIB				€	€	€	
	AfDB					€		
	World Bank	P	€	€	P	P	P	€
	IFC	€	€	€	€	€	€	€
	EIB	€	€			€	€	€
	IMF	P	P	€	€	€	P	€
	IDB & ICB				€	€	€	
	EBRD	€	€	€	€	€	€	€

€ Area of significant investments    P Area of significant policy dialogue    ● Focus mostly on public sector    ○ Focus mostly on private sector

### The EBRD leadership in LCY and LCM development derives from:

- EBRD's mandated commitment "to stimulate and encourage the development of capital markets"<sup>1</sup> and to pursue sustained transition through its position as an investor focused on the private sector.
- Close working relationship with governments and ability to achieve policy outcomes.
- Longstanding experience in developing LCY and LCM through sequenced reforms based on Government commitment, LC2 assessments, country strategies, policy priority objectives and key stakeholder involvement in the development process.
- Application of the LC2 tool box based on identified market gaps, consisting of policy dialogue, investments, funding and risk management and technical cooperation.
- Vast knowledge and long-term experience along the capital markets value chain including investments in capital market infrastructure such as stock exchanges.
- Proven ability to scale-up effectively to support LCM/LCY in new regions, demonstrated most recently in the SEMED region.
- Strong linkage between transition impact and investments.
- The high share of LC2 transactions (i.e. 2017: 29.7%) in the total number of EBRD's debt and equity operations

### Examples of IFI cooperation and joint investments

- Strengthening cooperation with **ADB, AiIB, JICA and World Bank** on supporting regional infrastructure, promoting integration and sector reform. Leveraging on AiIB co-financing.
- **Deauville Partnership**: supporting external financing via IMF and encouraging reform assistance through the **AfDB, EBRD, EIB and World Bank**, among others.
- In Ukraine, the EBRD has coordinated its LCM development and reform efforts with **international development partners** (i.e. IMF).
- The Bank supports, in cooperation with **the MENA Transition Fund and the AfDB**, the implementation of a Central Securities Depository for Government securities in Egypt.
- Joint pre-privatization outreach with **IFC** for a leading state bank in SEMED.
- Coordination with **IMF** on providing assistance to a SEMED-based Central Bank for creating a Deposit Guarantee Fund.
- Acted as an anchor investor along **IFC** in Turkey's first infrastructure Eurobond issued by Mersin International Port (MIP) in 2013.
- Enhanced cooperation on joint investment in green bonds via investment in the **IFC Amundi Green Bond Fund**.
- Strengthening cooperation with the World Bank and IFC via their **JCap initiative**.

\*IFI activity mapping based on publicly available information.

<sup>1</sup> Article 2.1(v) of the Agreement Establishing the European Bank for Reconstructing and Development

# 4. EBRD position vis-à-vis other IFIs and partners

## 4.2. Co-operation with international standard setters and industry associations

		Geography						
		Central Europe & Baltics	South Eastern Europe	Eastern Europe, Caucasus & Russia	Central Asia	Southern & Eastern Mediterranean	Turkey	Greece & Cyprus
IFI	EBRD	€	€	€	€	€	€	€
Int. Standards	EC	P	P					P
	BIS	P	P	P	P	P	P	P
	IOSCO	P	P	P	P	P	P	P
	ICMA/ISDA	P	P	P	P	P	P	P
Associations	AFE					P	P	
	FEAS				P	P		P
	FESE	P	P					
	WFE	P	P	P	P	P	P	P

€ Area of significant investments    P Area of significant policy dialogue    ● Focus mostly on public sector    ○ Focus mostly on private sector

### Co-operations and external partnerships leverage the LC2 development efforts.

- EBRD was involved in various working groups on EU-level, such as the SME's access to capital market financing working group. This is especially important as EU Directives and Regulations have an impact not only on EU-based COOs but also increasingly on neighboring countries which intend to approximate their legislation to the EU acquis.
- In industry associations like the Federation of Euro-Asian Stock Exchanges (FEAS) or the Arab Federation of Exchanges (AFE) the Bank supports the implementation of international best practices, highlights the need for cross-border collaboration and support capacity building efforts through our engagement in conferences, workshops & seminars.
- Through the work with ICMA and ISDA the Bank contributes to the development of international standards which will lead to a more transparent and efficient transaction environment in the COOs.
- The Bank bases its LCM and LCY development activities and reform proposals on international standards like the "Principles for Financial Market Infrastructures (PFMI)" issued by the BIS Committee on Payments and Market Infrastructure (CPMI) and the International Organization of Securities Commissions (IOSCO), The reform proposals are tailored to the development stage of the LCM and country specifics are taken into consideration to allow for a sequenced reform process.

### Examples of cooperation with international standard setters and industry associations

- Enhanced cooperation with the EU via EC SRSS funding in line with the Capital Markets Union (CMU) and Vienna Initiative strategic guidelines. The EC awarded the implementation of 14 LCM related projects to the Bank which are implemented in cooperation with the national authorities in seven COOs.
- The Bank is coordinating its policy efforts with international standard setters like ISDA, facilitates ISDA netting opinions in various EBRD COOs and supports legal and regulatory reforms in this area.
- The Bank is represented in the Board of the Federation of Euro-Asian Stock Exchanges (FEAS) which includes 14 stock exchanges and/or CSDs in the EBRD's region. The Bank also participates in FEAS working committees and provides technical expertise.
- EBRD contributed to the Green Bond Principles<sup>1</sup> which were published by the International Capital Market Association (ICMA) (update: 6/2018). The Green Bond Principles promote integrity in the Green Bond market through voluntary guidelines that recommend transparency, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such "green" projects.
- EBRD is an observer of the Global Blockchain Business Council /Post-trade Distributed Ledger (PTDL) working group. PTDL is a group of nearly 40 financial institutions and prominent market infrastructure players from all regions of the globe who have a shared vision of the use of distributed ledger technology in capital markets. PTDL connects practitioners, regulators and central banks.

Please note that the international standard setter and associations listed in the table are only a small selection.

<sup>1</sup> More details on the Green Bond Principles can be found here: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

# 5. Performance Monitoring Framework

1. Upgrading the capital market policy framework (RESILIENT, WELL-GOVERNED)			
Specific objectives	Activities	Tracking indicators	
		Outputs	Outcome (for relevant countries tracked in Country Strategies)
<ul style="list-style-type: none"> <li>Strengthening policy framework and capacity building for capital market development</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Policy engagement</li> <li>Capacity-building</li> <li>TC</li> <li>External partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Number/Volume of investments supporting the upgrade of the capital market policy framework (e.g. deepening and integrating capital market investments in accordance with the EU's Capital Market Union's Action Plan; insurance/pension funds LCY lending)</li> <li>Number of policy engagements and capacity building activities supporting the capital market policy framework (e.g. analytical assessments/diagnostics; National Capital Market Development Plans; regulator capacity building strengthened; support for LCY development)</li> </ul>	<ul style="list-style-type: none"> <li>Number and/or qualitative account of improvements of the money markets efficiency</li> <li>Legal/ regulatory/ institutional frameworks for capital market policy frameworks improved (e.g. competitive procurement schemes and network integration; enshrinement of international best practice guidelines; improved issuance, origination and trading environment)</li> <li>Number and/or qualitative account of clients with improved standards (e.g. improved governance of MM institutions; adoption of fair pricing and reliable benchmarks)</li> <li>Number or Volume of LCY loans supported by EBRD</li> </ul>
<ul style="list-style-type: none"> <li>Supporting LCY and money market development</li> </ul>			
2. Enhancing the Legal and Regulatory Environment (WELL-GOVERNED, GREEN)			
<ul style="list-style-type: none"> <li>Supporting overall LCM/LCY activity by improving the legal and regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Policy engagement</li> <li>Capacity-building</li> <li>TC</li> <li>External partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Number/Volume of investments supporting the enhancement of the legal and regulatory environment (e.g. covered (green) bonds, asset-based securities)</li> <li>Number of policy engagements and capacity building activities in support of LCM/LCY and efficiency of the transactions (e.g. issuance, origination and trading of money market and financial products; strengthening regulatory reforms for innovation, for instance via technology enabling financing, ISDA and other industry associations; building the capacity of legislative bodies in the area of capital market legislations, regulation and enforcement)"</li> </ul>	<ul style="list-style-type: none"> <li>Number/Volume of covered (green) bonds/asset-based securities</li> <li>Legal/ regulatory/ institutional frameworks improved (e.g. issuance, origination and trading of money market and financial products; strengthening regulatory reforms for innovation, for instance via technology enabling financing, ISDA and other industry associations; building the capacity of legislative bodies in the area of capital market legislations, regulation and enforcement; effective use and issuance of green, impact and sustainable bonds)</li> </ul>
<ul style="list-style-type: none"> <li>Enabling an efficient transaction environment by improving the legal and regulatory environment</li> </ul>			
<ul style="list-style-type: none"> <li>Creating the legal and regulatory framework for innovation</li> </ul>			

Note: (i) The Performance Monitoring Framework has been designed to align with the Bank's approach to results measurement. Outcomes tracked across all activity types and aggregated at country level where relevant based on Country Strategy Results Framework under a relevant quality.

# 5. Performance Monitoring Framework

3. Improving the Capital Markets Infrastructure (COMPETITIVE, RESILIENT, INTEGRATED)			
<ul style="list-style-type: none"> <li>Creating a more efficient operational environment through CMI development</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Policy engagement</li> <li>Capacity-building</li> <li>TC</li> <li>External partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Number/Volume of investments supporting the capital markets infrastructure (e.g. exchanges, central securities depositories, registries and custodians; support for equity/debt crowdfunding platforms; regional consolidation of CMIs; financing of start-up and SME through CMI; FinTech solutions)</li> <li>Number of policy engagements, TCs and capacity building activities supporting the capital markets infrastructure (e.g. supporting neighbouring COOs in promoting regional integration; assessments / diagnostic studies on consolidation; MOUs/LOIs signed by COOs for regional integration)</li> </ul>	<ul style="list-style-type: none"> <li>Number and/or qualitative account of clients with improved operational practices / enhanced operational efficiency and potentially lower transaction costs, incl. fin tech solutions</li> <li>Legal/ regulatory/ institutional frameworks improved (e.g. completed consolidation of CMI, such as a consolidation of exchanges in Ukraine)</li> <li>Improved regional/ cross-border capital market infrastructure capacity through Bank-assisted projects via improved standards, quality of products (e.g. : greater diversity of financing options for companies in COOs; identification of regional solutions across EBRD COO)</li> </ul>
<ul style="list-style-type: none"> <li>Supporting regional cooperation &amp; consolidation</li> </ul>			
<ul style="list-style-type: none"> <li>Converting exchanges into company financing hubs</li> </ul>			
<ul style="list-style-type: none"> <li>Facilitating Fintech solutions</li> </ul>			
4. Expanding product range and investor base (COMPETITIVE, RESILIENT)			
<ul style="list-style-type: none"> <li>Expanding the product range including hedging instruments</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Policy engagement</li> <li>Capacity-building</li> <li>TC</li> <li>External partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Number/Volume of investments supporting the expansion of the product range and investor base (e.g. equity, debt and structured investments, ETF, REITS, Green and Social Impact Bonds in both LCY and FCY)</li> <li>Number of policy engagements, TCs and capacity building activities supporting the expansion of the product range and investor base (e.g. SME Listing support programmes; support to the access of international institutional investors and capital market participants; strengthening the local institutional investor base)</li> </ul>	<ul style="list-style-type: none"> <li>Number and/or qualitative account of increased range of products and hedging instruments (e.g. equity, debt and structured instruments; FX and interest rate swaps)</li> <li>Number/Volume of investments supporting liquid investor base/market liquidity (e.g. pension funds, life insurance)</li> <li>Qualitative account of improved environment for issuance of new instruments and market liquidity(e.g. evidence of enhanced investor treatment)</li> <li>Qualitative account of stimulated investment environment due to availability of affordable hedging instruments</li> <li>Total volume of SMEs capital market financing (examples: equity crowdfunding platforms and SME Growth Markets)</li> <li>Number and/or qualitative account of greater diversity of funding options (e.g. stock borrowing/lending and repo)</li> </ul>
<ul style="list-style-type: none"> <li>Increasing SMEs access to capital market financing</li> </ul>			
<ul style="list-style-type: none"> <li>Increasing market liquidity by enhancing the investor base</li> </ul>			
Impact Indicators			
<ul style="list-style-type: none"> <li>CMI development indicator based on LC2 methodology</li> <li>Percentage of LCY deposits in the banking system</li> <li>Investments by institutional investors</li> <li>Level of approximation of legal systems to international standards (i.e. EU acquis communautaire, PFMI, ESMA accreditation, ISDA netting opinion)</li> <li>Market depth indicators (equity turnover ratio, market concentration, stock traded to GDP, number of listings, outstanding corporate bonds to GDP)</li> <li>Level of product diversification and availability</li> </ul>			

Note: (i) The Performance Monitoring Framework has been designed to align with the Bank’s approach to results measurement. Outcomes tracked across all activity types and aggregated at country level where relevant based on Country Strategy Results Framework under a relevant quality.

Annex A: Abbreviations

Annex B: Impact of reliable and efficient capital markets

Annex C: Lessons learned from the LC2 Strategy 2013 – 2018

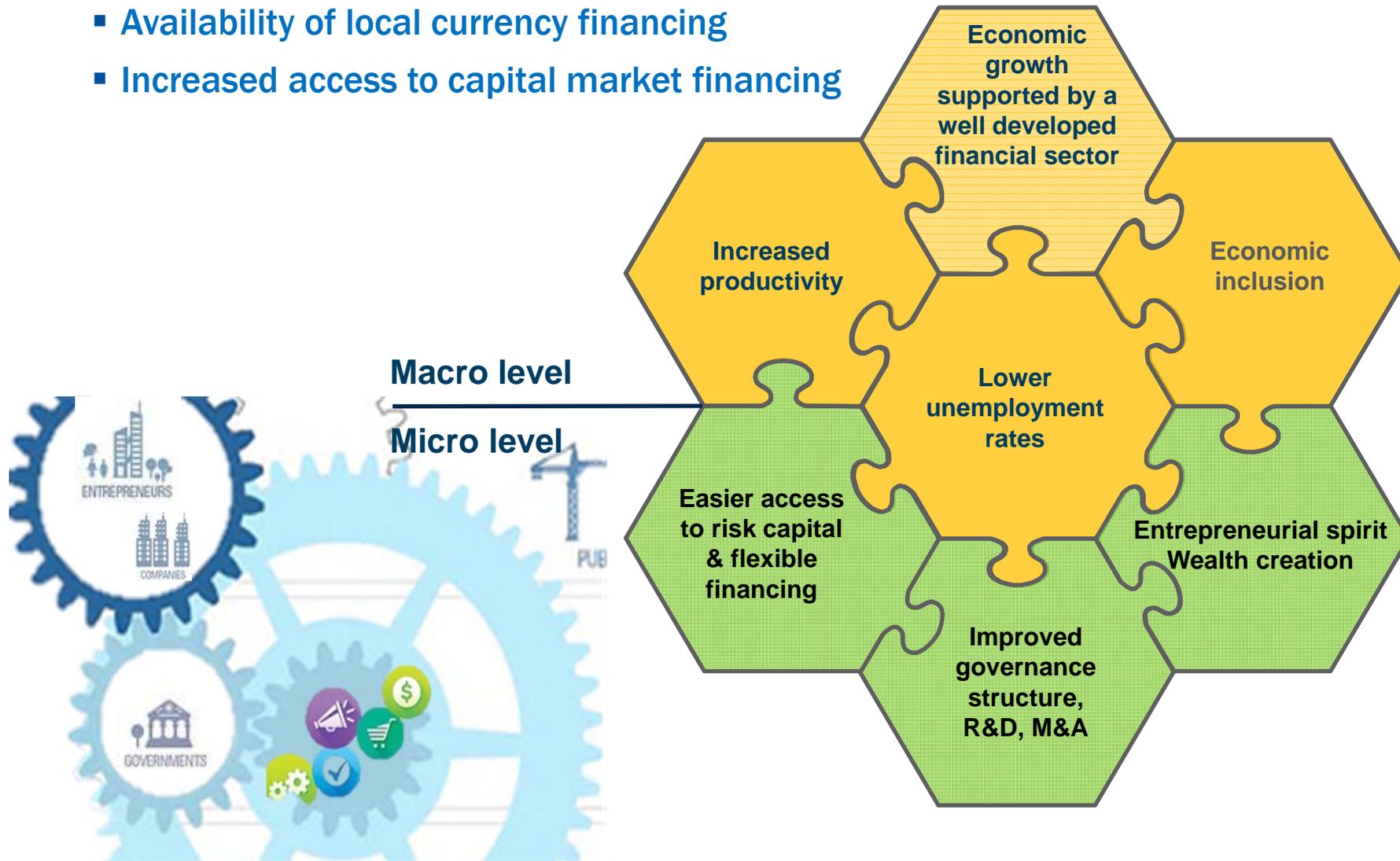
Annex D: Context indicators

# Annex A: Abbreviations

1. ABI – Annual Business Investment
2. ADB – Asian Development Bank
3. AfDB – African Development Bank
4. AFE – Arab Federation of Exchanges
5. BIS – Bank for International Settlements
6. CA – Central Asia
7. CCP – Central Counterparty
8. CEB – Central Europe and the Baltic states
9. CMI – Capital Market Infrastructure
10. CMPI - Committee on Payments and Market Infrastructure
11. COO – Country of Operation
12. CSD – Central Securities Depository
13. CSEE – Central- and South-eastern Europe
14. DCM – Debt Capital Markets
15. DFI – Development Financial Institutions
16. DLT – Distributed Ledger Technology
17. EBRD – European Bank for Reconstruction and Development
18. ECM – Equity Capital Markets
19. EEC – Eastern Europe and Caucasus
20. EIB – European Investment Bank
21. ETI – Expected Transition Impact
22. EU – European Union
23. EUR – Euro currency
24. EvD – Evaluation Department
25. FCY – Foreign Currency
26. FEAS – Federation of Euro-Asian Stock Exchange
27. FESE – Federation of European Stock Exchanges
28. FI – EBRD’s Financial Institution team
29. FX – Foreign Exchange
30. GBBC – Global Blockchain Business Council
31. ICMA - International Capital Market Association
32. IDB – Islamic Development Bank
33. IFC – International Finance Corporation
34. IFI – International Financial Institution
35. IFRS – International Financial Reporting Standards
36. IOSCO - International Organization of Securities Commissions
37. ISDA - International Swaps & Derivatives Association
38. LC2 – Local currency and capital markets development
39. LCY – Local Currency
40. LCM – Local Capital Markets
41. MTF – Multilateral Trading Facility
42. OECD - Organisation for Economic Co-operation and Development
43. OGC – Office of the General Counsel
44. PTDL – Post-trade Distributed Ledger Association
45. PTI – Portfolio Transition Impact
46. RO – resident Office
47. SE – Stock Exchange
48. SEE – South Eastern Europe
49. SEMED – Southern and Eastern Mediterranean
50. SME – Small and medium sized enterprises
51. SOE – State owned enterprise
52. TC – Technical Cooperation
53. TCX – The Currency Exchange Fund
54. TI – Transition Impact
55. USD – United States Dollar
56. WFE – World Federation of Exchanges

# Annex B: Impact of reliable and efficient capital markets

- Availability of local currency financing
- Increased access to capital market financing



# Annex C: Lessons learnt from LC2 Strategy 2013-2018

EvD recommendations - 2013-18 Strategy	2018 Strategy response
<p>Prepare a new LC2 Strategy giving substantially greater focus to local capital market development. The Strategy should clearly articulate the Bank’s strategic objectives and its envisaged role and operations. It should also incorporate alignment with the new Transition concept</p>	<p>The Strategy is being prepared as per this document and fully supports this recommendation – utilised current Bank performance monitoring metrics and incorporating the new Transition concept.</p> <ul style="list-style-type: none"> <li>• Focus areas have been adapted based on lessons learnt during the 2013-18 Strategy period and the new Strategy is cover both local currency and capital market development as these areas cannot be meaningfully segregated without compromising the impact of policy work and transaction effectiveness.</li> <li>• In addition to the formalised strategy paper, product development and sector approaches continue to be developed or updated as applicable (i.e. similar to the Capital Markets Infrastructure Development Approach mentioned in the EvD study).</li> <li>• Priority Policy Objectives at the country levels reflect LC2 identified focus areas.</li> <li>• In further reflecting the evolutionary approach to capital market development, the LC2 Team, in consultation with other departments of the Bank, will further develop and enhance a series of “sector approaches” for Capital Market Infrastructure, Equity and several new types of Debt Instruments as well as address systemic issues such as supporting institutional investors base development in line with the four priority areas identified in the Strategy 2019-2024.</li> </ul>
<p>A full resource and organisation plan to execute the new strategy should be prepared including an enhanced organisational structure for decision-making, staff resources in HQ and ROs, and funding needs and sources to support TC and policy dialogue, including rapid response interventions.</p>	<p>The Strategy is already based on the budget which was made available for extra staff resources in 2018.</p> <ul style="list-style-type: none"> <li>• Resource plans are dependent on SIP allocations</li> <li>• To improve the organisation and policy response the LC2 team has been broken down into three practice groups headed by the existing Associate Directors in the LC2 Team, consisting of following units: (a) Debt, Derivatives and TC, (b) Equity and Capital Market Infrastructure including FinTech, and (c) Local Currency.</li> <li>• LC2 Team geographical responsibilities are also overlaid in a matrix with current practice groups so that RO have a trusted point of contact and coverage is ensured.</li> <li>• Funding needs have been determined and are presented in the strategy.</li> </ul>

# Annex C: Lessons learnt from LC2 Strategy 2013-2018

EvD recommendations - 2013-18 Strategy	2018 Strategy response
<p>Identify LCM priorities in upcoming country strategies. New country strategies should identify whether LCM will be a priority for operational work and if so include specific treatment of LCM development needs and gaps.</p>	<p>The strategy emphasises the link between LC2 capital markets assessments, country diagnostics, country strategies, and policy priority objectives and country specific support measures will be based on them. The Bank may consider additional support measures based on country requests in a flexible way if a clear capital market impact is given.</p> <ul style="list-style-type: none"> <li>• LC2 is actively involved in Country Strategy process and undertakes its own specialist capital market assessments to identify gaps and align with the current country strategy timetable.</li> <li>• Seven capital market assessments and updates are being undertaken over the next 9 months to support alignment.</li> <li>• LC2 will also assign higher work priorities based on the specialist assessments if political circumstances necessitate a review of capital market priorities within the life of the country strategy and communicate these changes in a timely manner to country strategy teams for updates</li> </ul>
<p>Consider leading a cross-IFI initiative for improved cooperation. EBRD should actively consider leading a cross-IFI initiative to encourage greater cooperation in its areas of operation, through existing platforms and new means, on diagnostic work, policy dialogue, tackling procedural obstacles to collaboration, and targeting joint operations.</p>	<p>Section 4 of the Strategy highlights EBRD’s position via other IFIs and also provides background on our collaboration with industry associations and especially standard setters.</p> <ul style="list-style-type: none"> <li>• EBRD LC2 Team structure supporting LCY/LCM development is recognised as effective with the IFC/WB J –Cap established following the same broad principles.</li> <li>• Increased IFI cooperation in highly systemic transactions manifested through joint investment in the IFC Amundi Cornerstone Green Bond Fund and several Subordinated LCY Bank Bond issues in EBRD CoO.</li> <li>• IFIs have agreed to undertake apportioned and mutually reinforcing technical co-operation project work based on relative expertise in several CoO including Romania, Albania and the Ukraine.</li> <li>• Cooperation at the policy level in the area of capital market development is high with participation in the DFI Senior Forum, WB LCY Bond Markets Group, G20 groups on Global Capital Market Infrastructure, and the G20 Infrastructure Working Group.</li> <li>• EBRD is in early discussions with other IFI to develop joint policy papers on highly systemic policy areas such as Pensions and SME Finance. This would fall under the priority area 1: Upgrading Capital Markets Policy Framework</li> </ul>

## Context Indicators

# Annex D: General Country Indicators (1)

General country indicators are provided as background information as they impact LCY & LCM development



European Bank  
for Reconstruction and Development

	Country/Territory	Political stability and absence of violence		Government effectiveness		Regulatory quality		Rule of law		Control of corruption	
		2013	2016	2013	2016	2013	2016	2013	2016	2013	2016
		Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Central Europe and the Baltic States	Estonia	68	69	79	83	91	93	86	87	83	89
	Croatia	66	68	71	70	67	66	61	66	62	63
	Hungary	71	67	71	69	78	72	68	40	66	61
	Lithuania	81	74	74	81	85	85	74	82	68	75
	Latvia	65	62	76	79	81	84	73	80	67	67
	Poland	82	63	73	74	81	80	74	74	71	76
	Slovak Republic	89	71	74	77	79	79	65	75	61	63
	Slovenia	74	83	80	84	73	73	81	83	74	77
	Albania	49	58	45	52	58	61	39	42	27	41
Southern Europe	Bosnia and Herzegovina	34	31	40	39	52	49	51	46	50	37
	Bulgaria	53	49	60	65	68	74	52	52	49	51
	Cyprus	65	66	88	78	78	83	82	75	85	78
	Greece	40	41	68	63	73	59	64	58	58	55
	Kosovo	18	36	44	38	53	48	35	40	30	40
	Macedonia, FYR	33	33	53	57	62	68	49	44	57	47
	Montenegro	64	56	60	58	54	63	55	54	50	54
	Romania	54	56	52	48	72	71	57	64	53	57
	Serbia	43	50	51	56	52	55	46	48	47	45
Eastern Europe and Caucasus	Armenia	50	22	57	49	59	63	45	50	36	33
	Azerbaijan	34	19	38	48	36	44	28	32	17	19
	Belarus	46	51	20	36	15	16	20	26	40	49
	Georgia	31	34	70	71	74	82	54	65	70	74
	Moldova	46	35	42	30	50	50	43	33	23	15
	Ukraine	21	7	31	32	30	36	24	25	11	21
	Kazakhstan	35	48	36	51	38	52	31	36	19	20
	Kyrgyz Republic	18	23	31	18	42	40	13	14	10	13
	Mongolia	64	73	35	50	42	52	44	46	38	37
Central Asia	Tajikistan	13	20	15	14	15	12	9	11	7	12
	Turkmenistan	56	39	9	12	1	2	5	6	3	4
	Uzbekistan	27	36	19	31	3	4	10	12	8	11
	Egypt, Arab Rep.	7	9	21	28	29	18	33	33	32	31
	Southern and Eastern Mediterranean	Jordan	26	27	54	59	57	54	63	61	60
Lebanon		7	8	43	35	49	41	26	19	19	14
Morocco		29	34	54	50	48	45	47	49	44	54
Tunisia		19	11	52	44	41	33	49	55	57	53
West Bank and Gaza		5	5	27	29	56	55	43	41	49	53
Russian Federation		22	15	44	45	40	37	25	22	16	20
Turkey		11	5	64	55	65	61	56	47	61	50

<sup>1</sup> Source: World Bank, "The Worldwide Governance Indicators"

# Annex D: General Country Indicators (2)

General country indicators are provided as background information as they impact LCY & LCM development



European Bank  
for Reconstruction and Development

	Country/Territory	Population (million)		GDP per capita (current USD)		GDP growth rate (%)		Adjusted net savings (%GNI)		Current account balance (%GDP)		General government gross debt (%GDP)	
		2013	2016	2013	2016	2013	2016	2013	2016	2013	2016	2013	2016
Central Europe and the Baltic States	Croatia	4.3	4.2	13,649	12,299	-0.6	3.2	5.1	6.1	1.0	2.7	81.7	82.7
	Estonia	1.3	1.3	19,072	17,737	1.9	2.1	12.1	10.5	0.5	1.9	10.2	9.4
	Hungary	9.9	9.8	13,668	12,820	2.1	2.2	6.9	6.7	3.8	6.0	76.3	73.3
	Latvia	2.0	2.0	15,032	14,070	2.4	2.2	-2.2	-1.4	-2.7	1.4	35.8	37.4
	Lithuania	3.0	2.9	15,694	14,913	3.5	2.3	7.2	3.1	0.8	-1.1	38.8	40.2
	Poland	38.0	38.0	13,781	12,415	1.4	2.9	6.6	8.2	-1.3	-0.3	55.7	54.1
	Slovak Republic	5.4	5.4	18,192	16,530	1.5	3.3	1.6	2.3	1.8	-1.4	54.7	51.8
	Slovenia	2.1	2.1	23,358	21,650	-1.1	3.1	1.4	4.1	4.4	5.2	70.4	78.4
	Albania	2.9	2.9	4,413	4,132	1.0	3.4	7.2	6.9	-9.3	-7.6	70.4	73.3
	Bosnia and Herzegovina	3.6	3.5	5,043	4,809	2.3	3.1	-0.3	0.9	-5.3	-4.9	44.5	44.0
Southern Europe	Bulgaria	7.3	7.1	7,675	7,469	0.9	3.9	11.0	12.1	1.2	2.3	17.2	27.4
	Cyprus	1.1	1.2	27,942	23,541	-5.9	3.4	-5.0	-3.0	-5.0	-4.8	102.1	107.1
	Greece	11.0	10.8	21,875	17,882	-3.2	-0.2	-9.7	-10.5	-2.1	-1.0	34.0	39.5
	Kosovo	1.8	1.8	3,878	3,698	3.4	4.1	13.3	7.6	-3.4	-7.9	177.9	183.5
	Macedonia, FYR	2.1	2.1	5,211	5,163	2.9	2.9	9.4	13.1	-1.6	-2.8	16.2	19.6
	Montenegro	0.6	0.6	7,186	7,029	3.5	2.9	-5.9	-3.7	-14.5	-18.0	58.7	66.4
	Romania	20.0	19.7	9,585	9,532	3.5	4.8	6.1	4.2	-1.1	-2.1	38.9	39.1
	Serbia	7.2	7.1	6,354	5,426	2.6	2.8	-3.7	-0.7	-6.1	-3.1	61.1	73.1
	Armenia	2.9	2.9	3,844	3,606	3.3	0.2	3.1	2.3	-7.3	-2.3	36.2	51.7
	Azerbaijan	9.4	9.8	7,876	3,881	5.8	-3.1	38.5	15.5	16.5	-3.6	12.6	50.7
Eastern Europe and Caucasus	Belarus	9.5	9.5	7,979	5,023	1.0	-2.5	21.4	13.7	-10.0	-3.5	36.9	53.5
	Georgia	3.8	3.7	4,274	3,866	3.4	2.8	8.7	10.0	-5.9	-12.9	34.7	44.6
	Moldova	3.6	3.6	2,244	1,913	9.4	4.5	10.8	10.3	-6.1	-4.2	29.6	42.1
	Ukraine	45.5	45.0	4,030	2,186	0.0	2.3	-4.5	5.0	-9.0	-1.4	40.5	81.2
	Kazakhstan	17.0	17.8	13,891	7,715	6.0	1.1	14.7	9.1	0.5	-6.5	12.6	21.0
	Kyrgyz Republic	5.7	6.1	1,282	1,121	10.9	4.3	-5.0	6.4	-13.8	-11.6	46.2	58.1
	Mongolia	2.9	3.0	4,385	3,694	11.6	1.2	21.2	22.0	-37.6	-6.3	-	-
	Tajikistan	8.2	8.7	1,040	796	7.4	6.9	-7.9	-	-7.7	-5.2	29.1	41.8
	Turkmenistan	5.4	5.7	7,304	6,389	10.2	6.2	-	-	-	-	20.0	24.1
	Uzbekistan	30.2	31.8	1,908	2,106	8.0	7.8	-	-	-	-	11.2	10.5
Southern and Eastern Mediterranean	Egypt, Arab Rep.	89.8	95.7	3,213	3,479	2.2	4.3	8.4	3.5	-1.2	-6.0	84.0	96.8
	Jordan	8.4	9.5	3,993	4,088	2.8	2.0	-	-	-10.4	-9.5	86.7	95.1
	Lebanon	5.3	6.0	8,721	8,257	2.6	2.0	-13.7	-11.1	-26.0	-21.3	138.0	150.9
	Morocco	33.8	35.3	3,112	2,893	4.5	1.2	16.4	18.3	-7.3	-4.4	61.7	64.7
	Tunisia	11.0	11.4	4,199	3,689	2.9	1.1	-2.7	-10.1	-8.4	-8.8	46.8	61.2
	West Bank and Gaza	4.2	4.6	2,992	2,950	2.2	4.7	-6.3	-1.0	-19.1	-14.5	-	-
	Russian Federation	143.5	144.3	16,007	8,748	1.8	-0.2	14.6	13.5	1.5	1.9	12.7	15.7
	Turkey	75.8	79.5	12,543	10,863	8.5	3.2	9.2	9.2	-6.7	-3.8	31.4	28.3
	EU-28	506.6	511.2	35,588	32,260	0.3	2.0	3.6	5.0	-	-	87.3	85.5
	OECD	1,264.8	1,290.0	38,236	36,863	1.4	1.7	4.2	4.5	-	-	-	-

<sup>1</sup> Source: World Bank "World Development Indicators" and IMF "DataMapper"

# Annex D: General Country Indicators (2)

General country indicators are provided as background information as they impact LCY & LCM development



European Bank  
for Reconstruction and Development

Country/Territory	Inflation, consumer prices (annual %)		Official exchange rate LCU per USD (period average)		Foreign Direct Investment, net inflows (%GDP)		Remittances received (%GDP)		Trade (%GDP)		Exports of goods and services (%GDP)		
	2013	2016	2013	2016	2013	2016	2013	2016	2013	2016	2013	2016	
Central Europe and the Baltic States	Croatia	2.2	-1.1	5.7	6.8	1.6	3.6	3.7	4.3	85	95	42.8	49.0
	Estonia	2.8	0.1	-	-	4.4	3.2	2.3	2.1	166	154	84.3	79.0
	Hungary	1.7	0.4	223.7	281.5	-2.8	55.5	3.4	3.7	164	169	85.7	89.5
	Latvia	0.0	0.1	0.5	-	3.3	0.9	5.3	4.4	124	119	60.3	60.0
	Lithuania	1.0	0.9	2.6	-	1.5	2.2	4.4	3.0	167	148	84.1	74.5
	Poland	1.0	-0.6	3.2	3.9	0.2	3.6	1.4	1.4	91	100	46.3	52.3
	Slovak Republic	1.4	-0.5	-	-	1.0	4.0	2.1	2.4	183	186	93.8	94.6
Southern Europe	Slovenia	1.8	-0.1	-	-	0.2	3.3	0.6	0.8	143	146	74.5	77.7
	Albania	1.9	1.3	105.7	124.1	9.8	8.8	10.0	11.0	76	75	28.9	28.9
	Bosnia and Herzegovina	-0.1	-1.3	1.5	1.8	1.7	1.6	10.8	10.9	88	88	33.7	35.4
	Bulgaria	0.9	-0.8	1.5	1.8	3.6	3.1	3.0	3.1	130	124	64.7	64.0
	Cyprus	-0.4	-1.4	-	-	-25.0	12.9	1.6	1.6	115	130	58.6	64.7
	Greece	-0.9	-0.8	-	-	1.2	1.6	0.3	0.2	64	62	30.4	30.5
	Kosovo	1.8	0.3	0.8	0.9	5.3	3.6	15.0	14.7	71	74	21.9	23.3
	Macedonia, FYR	2.8	-0.2	46.4	55.7	3.7	5.1	3.5	2.7	105	115	43.4	50.0
	Montenegro	2.2	-0.3	0.8	0.9	10.0	5.2	9.5	9.1	103	103	41.3	40.5
	Romania	4.0	-1.5	3.3	4.1	2.0	3.3	1.8	1.9	80	84	39.7	41.3
Eastern Europe and Caucasus	Serbia	7.7	1.1	85.2	111.3	4.5	6.1	8.8	8.4	93	107	41.2	50.0
	Armenia	5.8	-1.3	409.6	480.5	3.1	3.2	19.7	13.1	77	76	28.4	33.1
	Azerbaijan	2.4	4.2	0.8	1.6	3.5	11.9	2.3	1.7	75	90	48.3	46.4
	Belarus	18.3	11.8	0.9	2.0	3.0	2.6	1.6	2.0	120	125	58.3	62.5
	Georgia	-0.5	2.1	1.7	2.4	6.4	11.2	12.1	10.6	102	103	44.7	43.6
	Moldova	4.6	6.4	12.6	19.9	3.0	1.3	27.4	21.5	124	115	43.3	43.3
	Ukraine	-0.3	13.9	8.0	25.6	2.5	3.7	5.3	10.2	95	105	43.0	49.3
	Kazakhstan	5.8	14.5	152.1	342.2	4.2	12.2	0.1	0.2	65	60	38.6	31.8
	Kyrgyz Republic	6.6	0.4	48.4	69.9	8.3	9.1	31.1	29.3	134	106	42.3	35.8
	Mongolia	8.6	0.6	1523.9	2140.3	16.4	-37.2	2.0	2.3	100	96	38.9	50.2
Central Asia	Tajikistan	5.0	6.0	4.8	7.8	1.5	3.5	43.5	26.9	73	56	11.3	13.3
	Turkmenistan	-	-	-	-	9.5	12.5	0.1	0.0	-	-	-	-
	Uzbekistan	-	-	-	-	1.1	0.1	11.6	3.7	57	40	26.6	18.9
	Egypt, Arab Rep.	9.4	13.8	6.9	10.0	1.5	2.4	6.2	5.6	40	30	17.0	10.3
Southern and Eastern Mediterranean	Jordan	4.8	-0.8	0.7	0.7	5.8	4.0	15.9	11.3	114	91	42.4	35.1
	Lebanon	5.5	-0.8	1507.5	1507.5	5.8	5.3	16.4	15.3	90	73	31.8	25.5
	Morocco	1.9	1.6	8.4	9.8	3.1	2.2	6.4	6.8	80	80	32.8	35.1
	Tunisia	5.8	3.7	1.6	2.1	2.3	1.7	5.0	4.3	105	91	47.7	40.4
	West Bank and Gaza	1.7	-0.2	-	-	1.5	2.2	12.0	15.6	71	75	16.6	17.7
	Russian Federation	6.7	7.0	31.8	67.1	3.0	2.5	0.3	0.5	46	46	25.8	25.7
	Turkey	7.5	7.8	1.9	3.0	1.4	1.5	0.2	0.1	50	47	22.3	22.0
EU-28	1.4	0.2	-	-	3.4	5.2	0.6	0.7	82	83	42.4	43.2	
OECD	1.4	0.4	-	-	2.3	3.3	0.3	0.3	57	55	28.5	27.9	

<sup>1</sup> Source: World Bank "World Development Indicators" and IMF "DataMapper"

# Annex D: Context Indicators: LCY Development

	Country/Territory	EU membership 2018	Currency 2018	Monetary policy framework		Sovereign PD <sup>2</sup> 2018	
				Exchange Rate Regime, De Facto <sup>1</sup>			Monetary aggregate target (MA) or Inflation-targeting framework
				2013	2018		2018
Central Europe and the Baltic States	Croatia	EU member	HRK	Crawl-like arrangement	Stabilised arrangement	Exchange rate anchor	4.7
	Estonia	EU member	Eurozone	-	-	-	2.7
	Hungary	EU member	HUF	Floating	Floating	IT	4.3
	Latvia	EU member	Eurozone	-	-	-	3.3
	Lithuania	EU member	Eurozone	-	-	-	3.3
	Poland	EU member	PLN	Free floating	Free floating	IT	3.3
	Slovak Republic	EU member	Eurozone	-	-	-	2.7
	Slovenia	EU member	Eurozone	-	-	-	3.3
Southern Europe	Albania	-	LEK	Floating	Floating	IT	5.3
	Bosnia and Herzegovina	-	BAM	Currency board	Currency board	Exchange rate anchor	6.3
	Bulgaria	EU member	BGN	Currency board	Currency board	Exchange rate anchor	4.0
	Cyprus	EU member	Eurozone	-	-	-	4.7
	Greece	EU member	Eurozone	-	-	-	5.7
	Kosovo	-	Unilateral EUR adoption	-	-	-	5.3
	Macedonia, FYR	-	MKD	Stabilised arrangement	Stabilised arrangement	Exchange rate anchor	5.0
	Montenegro	EU accession negotiations	Unilateral EUR adoption	-	-	-	5.7
Eastern Europe and Caucasus	Romania	EU member	RON	Floating	Floating	IT	4.3
	Serbia	EU accession negotiations	RSD	Floating	Stabilised arrangement	IT	5.0
	Armenia	-	AMD	Floating	Floating	IT	6.0
	Azerbaijan	-	AZN	Stabilised arrangement	Other managed arrangement	Other	4.7
	Belarus	-	BYR	Other managed arrangement	Other managed arrangement	MA	6.3
	Georgia	-	GEL	Stabilised arrangement	Floating	IT	5.3
	Moldova	-	MDL	Floating	Floating	IT	6.3
	Ukraine	-	UAH	Stabilised arrangement	Floating	IT	6.3
Central Asia	Kazakhstan	-	KZT	Crawl-like arrangement	Floating	IT	4.3
	Kyrgyz Republic	-	KGS	Other managed arrangement	Other managed arrangement	Other	6.0
	Mongolia	-	MNT	Floating	Floating	Other <sup>4</sup>	6.3
	Tajikistan	-	TJS	Stabilised arrangement	Stabilised arrangement	MA	6.7
	Turkmenistan	-	TMT	Conventional peg	Conventional peg	Exchange rate anchor	7.0
Southern and Eastern Mediterranean	Uzbekistan	-	UZS	Crawl-like arrangement	Crawl-like arrangement	MA	6.0
	Egypt, Arab Rep.	-	EGP	Crawl-like arrangement	Floating	Other	6.0
	Jordan	-	JOD	Conventional peg	Conventional peg	Exchange rate anchor	5.3
	Lebanon	-	LBP	Stabilised arrangement	Stabilised arrangement	Exchange rate anchor	6.3
	Morocco	-	MAD	Composite peg	Composite peg	Exchange rate anchor	4.3
	Tunisia	-	TND	Crawl-like arrangement	Floating	Other <sup>4</sup>	5.7
	West Bank and Gaza	-	EUR, ILS, JOD, USD	-	-	-	7.3
	Russian Federation	-	RUB	Other managed arrangement	Free floating	IT	4.3
Turkey	EU accession negotiations	TRY	Floating	Floating	IT	5.7	

<sup>1</sup> Source: IMF, "Annual Report on Exchange Arrangements and Exchange Restrictions"; <sup>2</sup> Source: EBRD Board Online Information; <sup>3</sup> Banking Industry Country Risk Assessment, Source: Standard and Poor's, EBRD estimate; <sup>4</sup> The central bank has taken preliminary steps towards inflation targeting

# Annex D: Context Indicators – DCM (1)

	Country	Government bonds outstanding (\$ bn)	Government bonds outstanding/GDP (%)	NFC & FI bonds outstanding (\$ bn)	NFC & FI bonds outstanding/GDP (%)
		2016	2016	2016	2016
Central Europe and the Baltic States	Croatia	33.7	61%	2.5	5%
	Estonia	0.2	1%	2.1	8%
	Hungary	107.3	77%	11.4	8%
	Latvia	9.4	31%	1.4	5%
	Lithuania	17.3	37%	0.4	1%
	Poland	256.6	49%	85.1	16%
	Slovak Republic	44.5	46%	14.6	15%
	Slovenia	33.7	69%	1.7	3%
	Albania	0.8	6%	0	0%
South-eastern Europe	Bosnia and Herzegovina	0	0%	0	0%
	Bulgaria	13.7	24%	3	5%
	FYR Macedonia	1.5	13%	0	0%
	Kosovo	N/A	N/A	N/A	N/A
	Montenegro	1.3	27%	0	0%
	Romania	27.6	13%	1.8	1%
	Serbia	4.8	12%	0	0%
	Turkey	207.8	24%	68.6	8%
	Greece	78.4	39%	68.6	8%
	Cyprus	8.5	39%	13.4	62%

## Annex D: Context Indicators – DCM (2)

	Country	Government bonds outstanding (\$ bn)	Government bonds outstanding/GDP (%)	NFC & FI bonds outstanding (\$ bn)	NFC & FI bonds outstanding/GDP (%)
		2016	2016	2016	2016
Eastern Europe and Caucasus	Armenia	1.2	10%	0	0%
	Azerbaijan	1.3	3%	6.7	16%
	Belarus	3.4	6%	0.4	1%
	Georgia	0.5	3%	1.8	12%
	Moldova	0	0%	0	0%
	Ukraine	6.8	6%	6.9	6%
Central Asia	Kazakhstan	9.4	6%	18.2	11%
	Kyrgyzstan	N/A	N/A	N/A	N/A
	Mongolia	6	52%	0.9	8%
	Tajikistan	0.5	7%	0	0%
	Turkmenistan	N/A	N/A	N/A	N/A
	Uzbekistan	N/A	N/A	N/A	N/A
Southern and Eastern Mediterranean	Egypt	10.7	5%	0	0%
	Jordan	7.4	18%	0	0%
	Lebanon	85.4	165%	0	0%
	Morocco	4.2	4%	3	3%
	Tunisia	1.5	4%	5.1	13%
	Russian Federation	166.6	11%	324	21%

# Annex D: Context Indicators – ECM & CMI (1)

	Country	No. of listed companies		No. of IPOs	Market capitalization (mil EUR)		Trading turnover (mil EUR)		Trade velocity	Investor base(2016)			
		2013	2016	2016	2013	2016	2013	2016	2016	Institutional	Strategic	Retail	Insiders
Central Europe and the Baltic States	Croatia	192	147	2	15,564	19,005	400	371	2%	8.5%	66.6%	19.9%	5.0%
	Estonia	16	16	1	1,866	2,290	187	161	7%	18.0%	46.5%	14.8%	20.7%
	Hungary	54	42	0	15,072	21,299	7,819	7,377	35%	59.2%	36.1%	2.1%	2.7%
	Latvia	30	26	0	943	812	22	161	20%	12.4%	54.5%	9.7%	23.4%
	Lithuania	32	27	0	2,891	3,534	92	87	2%	4.2%	74.9%	10.6%	10.3%
	Poland	895	893	28	148,476	132,428	62,551	48,090	36%	36.8%	37.7%	15.3%	10.2%
	Slovak Republic	13	14	0	1,889	2,188	79	9	0.4%	1.0%	69.3%	28.0%	1.6%
	Slovenia	55	38	0	5,179	5,001	299	339	7%	16.0%	83.7%	-	0.3%
South-eastern Europe	Albania	-	-	-	-	-	-	-	-	-	-	-	-
	Bosnia & Herzegovina	41	34	0	1,115	1,145	28	24	2%	2.0%	97.8%	-	0.1%
	Bulgaria	381	354	1	3,700	4,973	779	411	8%	10.7%	63.7%	-	25.6%
	FYR Macedonia	116	109	0	1,578	1,838	40	30	2%	0.1%	65.3%	29.6%	5.0%
	Kosovo	-	-	-	-	-	-	-	-	-	-	-	-
	Montenegro	109	57	1	1,193	1,880	18	115	6%	-	100.0%	-	-
	Romania	86	86	1	29,932	16,996	3,640	2,035	12%	19.1%	63.9%	15.0%	2.0%
	Serbia	8	8	0	1,772	1,827	58	61	3%	2.8%	75.6%	18.3%	3.3%
	Turkey	236	381	3	165,727	163,235	272,006	315,338	193%	20.4%	51.8%	16.1%	11.7%
Greece	260	218	2	33,714	35,317	33,879	15,688	44%	44.2%	39.5%	-	16.2%	
Cyprus	105	84	0	1,523	2,386	32	102	4%	49.9%	30.5%	-	19.6%	
<b>EU-28</b>	<b>8,979</b>	<b>10,909</b>	<b>256</b>	<b>5,780,746</b>	<b>10,600,000</b>	<b>4,951,361</b>	<b>7,800,000</b>	<b>74%</b>					
<b>OECD</b>	<b>25,001</b>	<b>2,325</b>	<b>642</b>	<b>32,183,038</b>	<b>43,561,032</b>	<b>38,251,218</b>	<b>48,899,074</b>	<b>112%</b>					

Source: "Capital Market Infrastructure-CMI Facts & Figures", "The Investor Base of Securities Markets in the EBED Region", Annual report of each stock exchange

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## Annex D: Context Indicators – ECM & CMI (2)

	Country	No. of listed companies		No. of IPOs 2016	Market capitalization (mil EUR)		Trading turnover (mil EUR)		Trade velocity 2016	Investor base (2016)			
		2013	2016		2013	2016	2013	2016		2016	Institutional	Strategic	Retail
Eastern Europe and Caucasus	Armenia	7	12	1	110	263	3	13	5%	-	-	-	-
	Azerbaijan	1	1	0	19	25	0.07	-	-	-	-	-	-
	Belarus	67	55	0	2,527	1,177	46	21	2%	-	-	-	-
	Georgia	3	10	-	690	685	0.23	8	1%	69.4%	21.1%	-	9.6%
	Moldova	9	32	-	913	-	46	1	-	-	-	-	-
	Ukraine	175	123	0	12,204	4,253	467	73	2%	8.3%	78.4%	-	13.3%
Central Asia	Kazakhstan	54	98	0	15,072	38,167	226	700	2%	4.6%	82.1%	-	13.3%
	Kyrgyzstan	16	26	3	133	250	18	3	1%	-	44.9%	-	55.1%
	Mongolia	351	228	0	751	565	43	19	3%	22.6%	63.1%	-	14.2%
	Tajikistan	-	-	-	-	-	-	-	-	-	-	-	-
	Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	-
	Uzbekistan	138	165	-	2,178	5,607	19	-	-	-	-	-	-
Southern and Eastern Mediterranean	Egypt	236	254	6	45,007	31,668	12,341	17,581	56%	18.5%	59.4%	13.3%	8.7%
	Jordan	240	224	0	44,604	23,354	3,105	3,133	13%	19.5%	39.1%	29.9%	11.4%
	Lebanon	10	10	0	6,678	11,312	272	924	8%	2.9%	30.2%	-	66.9%
	Morocco	76	75	1	39,075	54,720	4,315	4,929	9%	17.9%	74.2%	-	7.9%
	Tunisia	71	79	1	6,206	7,974	642	1,142	14%	5.5%	58.9%	-	35.6%
	West Bank and Gaza	45	48	0	2,357	3,222	238	424	13%	53.1%	10.9%	27.2%	8.7%
	Russian Federation	262	245	3	559,414	591,161	192,630	130,312	22%	9.8%	79.2%	-	11.0%
	<b>EU-28</b>	8,979	10,909	256	5,780,746	10,600,000	4,951,361	7,800,000	74%				
	<b>OECD</b>	25,001	2,325	642	32,183,038	43,561,032	38,251,218	48,899,074	112%				

Source: EBRD Research, "IPREO-EBRD Report: The Investor Base of Securities Markets in the EBRD Region", Annual reports of stock exchanges

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# Annex D: Overview of CMI

	Country	Stock Exchange	MTF	CSD	CCP
Central Europe and the Baltic States	Croatia	1	1	1	Registered
	Estonia	1	1	Joint CSD	-
	Hungary	1	1	1	1
	Latvia	1	1	1	-
	Lithuania	1	1	Joint CSD	-
	Poland	1	3	1	1
	Slovak Republic	1	1	1	-
	Slovenia	1	1	2	-
	Albania	1	-	-	-
	South-eastern Europe	Bosnia & Herzegovina	2	-	2
Bulgaria		1	-	1	-
FYR Macedonia		1	-	1	-
Kosovo		-	-	-	-
Montenegro		1	-	1	-
Romania		1	1	1	-
Serbia		1	1	1	-
Turkey		1	-	1	1
Greece		1	1	1	1
Cyprus		1	1	Part of SE	-

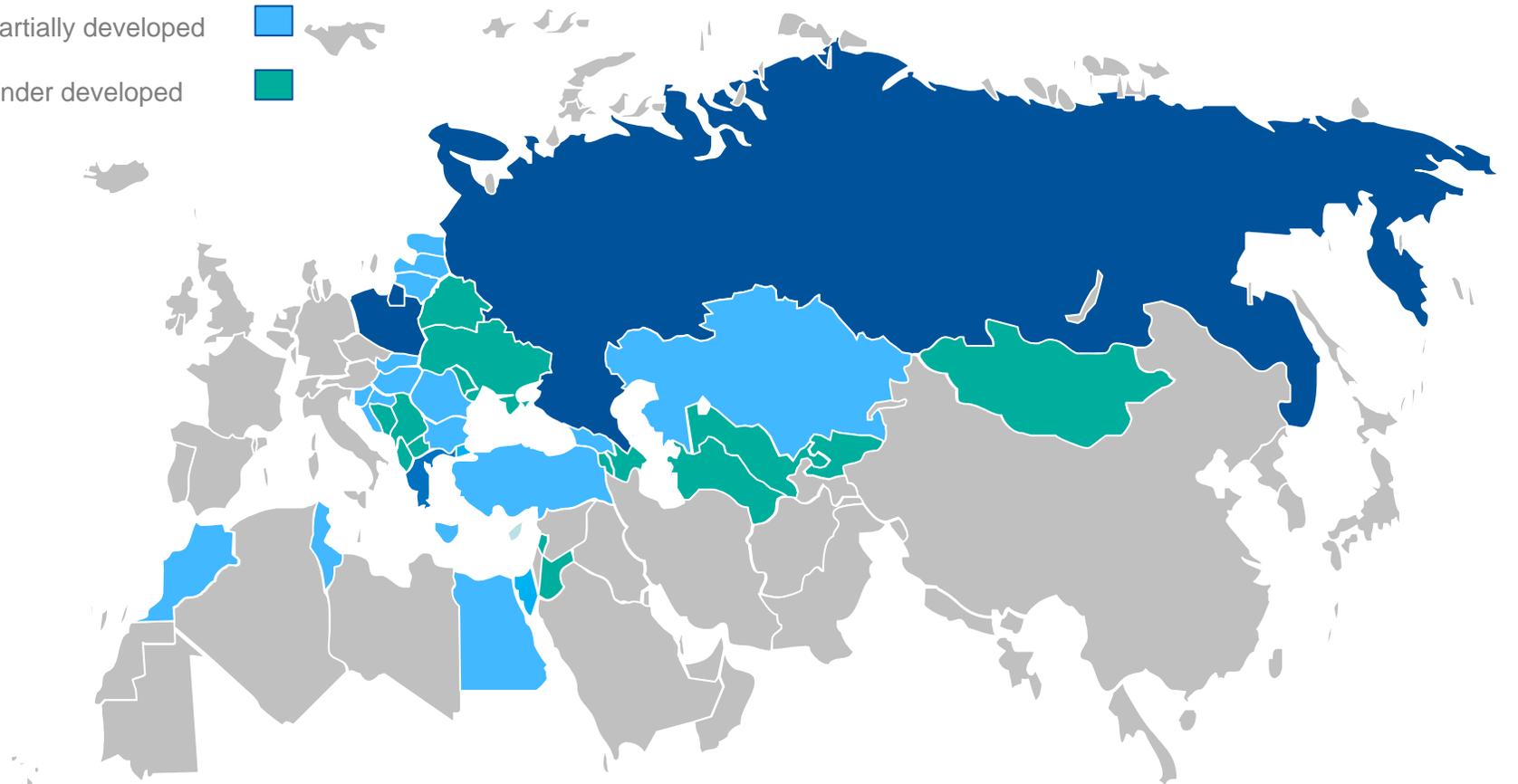
	Country	Stock exchange	MTF	CSD	CCP	
Eastern Europe and Caucasus	Armenia	1	-	1	-	
	Azerbaijan	1	-	1	-	
	Belarus	1	-	1	-	
	Georgia	2	-	1	-	
	Moldova	1	-	1	-	
	Ukraine	5	-	2	-	
	Kazakhstan	2	-	1	-	
	Central Asia	Kyrgyzstan	1	-	1	-
		Mongolia	2	-	1	-
		Tajikistan	1	-	1	-
Turkmenistan		1	-	-	-	
Uzbekistan		1	-	1	-	
Southern and Eastern Mediterranean		Egypt	1	-	1	-
	Jordan	1	-	1	-	
	Lebanon	1	-	1	-	
	Morocco	1	-	1	-	
	Tunisia	1	-	1	-	
	West Bank and Gaza	1	-	1	-	
	Russian Federation	1	-	1	1	

Source: EBRD Research, stock exchange websites

# Annex D: Overview - State of CM legal framework development, product range and investor base

Key

- Moderately developed 
- Partially developed 
- Under developed 



Source: LC2 country assessment, country strategies, PPOs