

EBRD Strategic Initiative: Local Currency and Capital Markets (LC2) Development



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

2015

At a glance

The strategic objective of the LC2 Initiative is to achieve more efficient and self-sustaining financial intermediation in the EBRD's countries of operations through broader use of local currency and the development of local capital markets, thereby contributing to economic growth and fostering a more stable financial environment.

The LC2 Initiative concentrates efforts to increase the share of EBRD investments in local currencies and to identify and support sequenced reforms in local capital markets across **five interrelated themes**:

building stable and sustainable macroeconomic policy frameworks

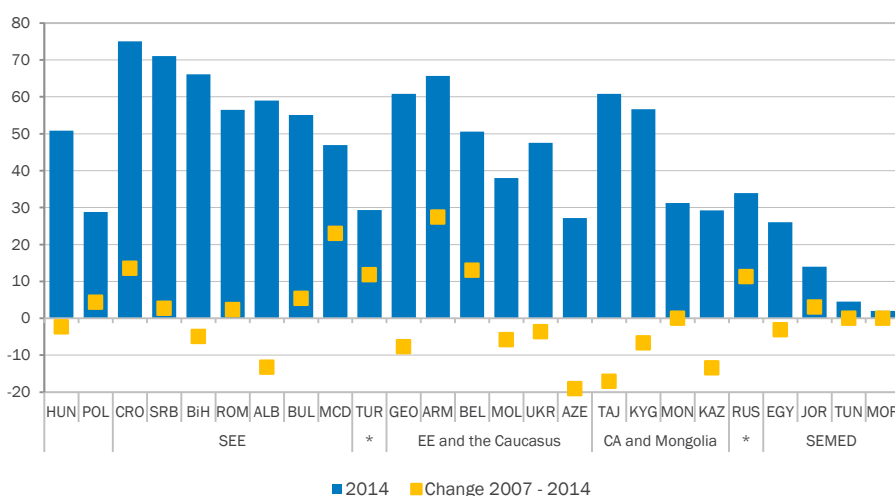
improving the legal and regulatory environment to support capital market activity

developing financial market infrastructure including clearing and settlement

developing the institutional investor base

promoting a more efficient transaction environment and expanded product range

Credit dollarisation in EBRD countries of operations (%)



2013 Capital Market Transition Indicator

Central Europe and the Baltic States	South-eastern Europe	Eastern Europe and the Caucasus
Croatia	Albania	Armenia
Estonia	Bosnia and Herzegovina	Azerbaijan
Hungary	Bulgaria	Belarus
Latvia	Kosovo	Georgia
Lithuania	Macedonia, FYR	Moldova
Poland	Montenegro	Ukraine
Slovak Republic	Romania	
Slovenia	Serbia	

Central Asia	Southern and Eastern Mediterranean	Russia
Kazakhstan	Egypt	4
Kyrgyz Republic	Jordan	
Mongolia	Morocco	
Tajikistan	Tunisia	
Turkmenistan		
Uzbekistan		

The capital market transition indicator ranges from 1 to 4+, with 1 representing little or no change relative to a rigid centrally-planned economy and 4+ representing the standards of an industrialised market economy. The indicator takes into account stock market capitalisation as % of GDP, the number of listed companies, securities trades as % of GDP, money market index, government bond index, turnover index, quality of securities market legislation, and effectiveness of securities market legislation.

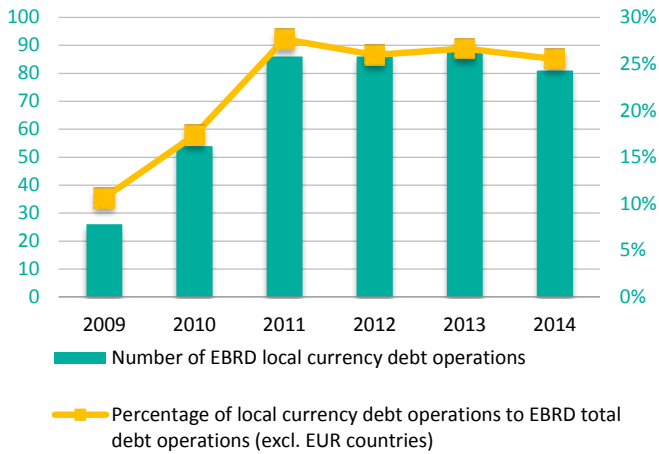
For more detailed interpretation, see the methodological notes in the online Transition Report, at www.tr.ebrd.com.

Activities of the LC2 Initiative

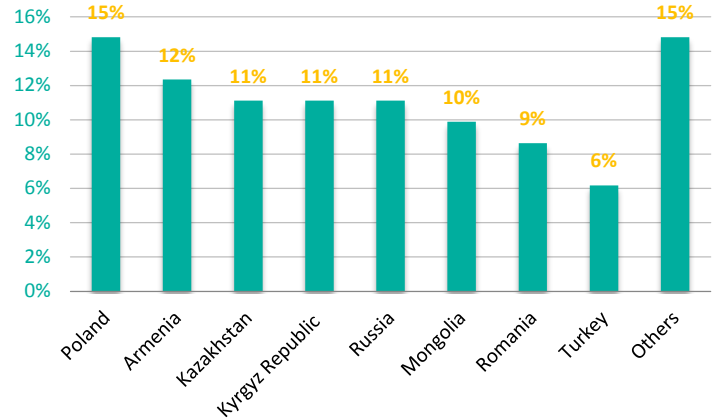
The activities of the LC2 Initiative include analytical and advisory work, technical support for relevant investments and capital market transactions, as well as technical assistance activities including implementation of capacity building projects.

The LC2 team supports and coordinates LC2-related activities of the banking, treasury, economist office, legal transition and policy teams at the Bank.

**EBRD Local currency operations
(2009-2014)**



**The number of EBRD local currency debt operations
with country breakdown (2014)**



"Others" category includes countries in which the share of total LCY debt operations does not exceed 2%: Belarus (1%), Moldova (1%), Morocco (1%), Tunisia (1%), Azerbaijan (2%), Georgia (2%), Jordan (2%) and Tajikistan (2%).

- EBRD invested USD 33 million in Frontier Clearing Fund (www.frontclear.com), an innovative start-up with significant capital market development potential in March 2015.

Frontclear will offer guarantees on local currency (LCY) collateral to enhance medium term funding and risk management transactions in emerging markets. This will in-turn improve EBRD's access to risk and liquidity management products in currencies where they do not currently exist and thereby improve its capacity to offer more flexible loan products to borrowers in LCY.

- EBRD facilitated the production of the SEMED flagship report on capital market development.

The report culminates the local capital market assessments undertaken in Tunisia, Jordan, Morocco and Egypt in 2012-2014 into one single report. EBRD co-led the capital market stream under the joint IFI Deauville Partnership and this report updates the original assessments and aims to synthesize the findings into a single document that will serve as a guide for capital market development in the SEMED region. The report emphasises cross cutting themes and prioritises recommendations on a regional level. It will serve as a valuable tool in shaping the EBRD strategy and actions in the region.

- EBRD continues to support the Romanian government's capital market development programme, which aims to improve the functioning of the local capital markets by enhancing liquidity and increasing the availability of debt and equity offerings in the local markets.

EBRD acquired a 4.99 per cent stake in the Bucharest Stock Exchange and is hosting a series of conferences to discuss the reforms needed to upgrade Romania to emerging-market status. In late 2014, EBRD also issued a Eurobond denominated in Romanian leu and linked to the three month Romanian interbank Index.

- EBRD has been supporting central banks in Armenia, Georgia, Kyrgyzstan, Moldova, Mongolia and Tajikistan to improve their capacity to target inflation as the anchor of monetary policy.

- Three local currency bond issuances were completed in the first quarter of 2015 by EBRD.

Two 6-month bonds totalling 2 billion Armenian dram were placed via an auction on the NASDAQ OMX Armenia, and the third is a 3-year bond totalling 25 million Georgian lari. Following successful collaboration among the EBRD, governments and local financial institutions, these transactions represent important milestone for local currency financing.

Contacts

Local Currency and Capital Markets Development

André Küüsvek, Director
Tel: +44 207 338 6430
Email: LC2info@ebrd.com