Early Warning System

EBRD-2036

Cross-Regional: Maintenance and development of pricing and forecasting models framework

Quick Facts

Financial Institutions	European Bank for Reconstruction and Development (EBRD)
Status	Approved
Bank Risk Rating	U
Borrower	Regional
Sectors	Finance

Project Description

According to the Bank’s website, the Local Currency (LCY) and Capital Markets Development Initiative (the Initiative) aims to promote the use of local currencies and develop local capital markets in the EBRD region. High levels of foreign currency use, especially foreign currency lending to unhedged borrowers without adequate financial buffers, in most countries of the EBRD region creates significant macro prudential risks contributing to excessive economic cyclicality, disproportionately affecting the poor.

The EBRD is committed to address these issues by providing local currency loans where possible. This has been challenging in emerging countries where LCY funding markets are underdeveloped and other (off-shore) sources of funding are scarce or unavailable. Lack of developed LCY markets and benchmark interest rates make it necessary to base such fixed LCY interest rate pricing on projection of country-level macroeconomic variables and investors` risk preferences. More specifically, pricing LCY rates at different tenors whilst running interest rate risk necessitates the use of an interest rate swap (IRS) pricing model based on projections of country-level macroeconomic variables and risk preference modelling for different tenors.

In early transition countries - Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Ukraine and Uzbekistan - where LCY markets are underdeveloped, market based curves (for various products, e.g. IRS and XCCY swaps) are either non-existent or do not provide good price discovery. As a result, this impedes LCY usage and impairs market development. The projection of such country-level macroeconomic variables can be made possible by the help of Forecasting and Policy Analysis System (FPAS) models, as well as employing risk compensating yield curves models, which are based on the macroeconomic projections derived from the (semi theoretical, semi-market based) FPAS models.

Investment Description

- European Bank for Reconstruction and Development (EBRD)

Investment type not available at the time of disclosure.

Contact Information

General enquiries

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ACCESS TO INFORMATION

You can request information by emailing: accessinfo@ebrd.com or by using this electronic form: https://www.ebrd.com/eform/information-request

ACCOUNTABILITY MECHANISM OF EBRD

The Project Complaint Mechanism (PCM) is the independent complaint mechanism and fact-finding body for people who have been or are likely to be adversely affected by an European Bank for Reconstruction and Development (EBRD)-financed project. If you submit a complaint to the PCM, it may assess compliance with EBRD's own policies and procedures to prevent harm to the environment or communities or it may assist you in resolving the problem that led to the complaint through a dialogue with those implementing the project. Additionally, the PCM has the authority to recommend a project be suspended in the event that harm is imminent.

You can contact the PCM at: pcm@ebrd.com or you can submit a complaint online using an online form at: http://www.ebrd.com/eform/pcm/complaint_form?language=en

You can learn more about the PCM and how to file a complaint at: http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html