

**OPENING STATEMENT BY
THE PRESIDENT OF THE
EUROPEAN BANK FOR
RECONSTRUCTION AND
DEVELOPMENT**

**Opening Statement
Annual Meeting of the Board of Governors**

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Prime Minister, Governors, Ladies and Gentlemen,

Welcome to the 2009 EBRD Annual Meeting! It is an honour for me to address you as President of the EBRD and I thank you for coming to our meeting here in London.

This year marks the 20th anniversary of the fall of the Iron Curtain. Our region emerged from more than 40 years of communist rule and embraced democracy. The division of Europe was finally overcome.

Huge progress has been made in establishing the foundations of societies based on the rule of law. Today a generation has grown up in liberty, its human rights protected, free to pursue its own aspirations. And the countries and peoples opened themselves enthusiastically to the outside world from which they had been artificially cut off for decades.

Strong fundamentals initially allowed the EBRD region to withstand the crisis when it started in the West in 2007. However, in the last quarter of 2008 many countries succumbed to the turmoil and are now suffering a severe recession.

In his latest forecast for our 30 countries of operations the EBRD Chief Economist predicts that output in 2009 will be 5 per cent lower than in 2008, although we see significant differences among the members of this group.

Until 2008, strong capital inflows, demand for exports and high prices for commodities helped to fuel the region's growth. But these forces also veiled vulnerabilities such as growing and – in the long term – unsustainable current account deficits. They also reduced the incentives to diversify economies and implement reforms.

The abundance of cheap money triggered investment and consumer booms. Thus these years created an increasing dependence on external demand and foreign financing, while domestic savings and the development of local capital markets lagged behind.

When the flow of capital dried up, the crisis hit the region hard. Where integration had previously seemed to generate a “virtuous circle” of capital inflows, asset price increases, rising consumption and investment, and more inflows, some analysts now see this process going into reverse.

But while we witness economic and social stress in our region, what we have **not** seen is just as noteworthy: there have not been systemic banking and uncontrolled currency collapses, reform reversals, or challenges to democratic systems. Notwithstanding exposure to external shocks and a deep recession, the standard elements of past emerging market crises have been largely absent so far.

What explains this? Firstly, the extraordinary record of increasing trade, financial, and – in some cases – institutional integration with advanced countries. Bank financing and foreign direct investment in the EBRD region are based on long-term commitments, not “hot money”, as emerging market financing has so often been.

But secondly, broader democratic forces have also been at work, with greater freedom of expression and of the press, and a hope among citizens that they can influence the policies of their leaders. Close political and institutional ties have been a source of stability. They have also been instrumental in mobilising unprecedented international support, with the EU as a key anchor.

Thus integration is giving resilience to the way the EBRD countries are coping with the crisis. This is a testimony to the achievements of twenty years of transition.

Ladies and Gentlemen,

The crisis has also taken its toll on the EBRD. As you know, for the first time in 10 years the Bank had to report a loss in 2008. The net book loss of €602 million was largely a result of revaluations in the reported value of our equity portfolio. Looking ahead we also have to anticipate a rise in loan impairments.

Operationally, the Bank recorded some impressive achievements last year, and at this point I should like to pay tribute to my predecessor, Jean Lemierre, from whom I have taken over an institution with strong foundations and a dedicated staff.

- Despite the collapse of the syndicated loan market and a slump in investor appetite in the last quarter of 2008 our commitment levels were strong at €5.1 billion for 302 projects. Some two-thirds of these projects were with local sponsors.
- The Early Transition Countries Initiative, which covers countries of Central Asia and the Caucasus region, and our activities in the Western Balkans expanded significantly, with the combined total of ETC investments reaching €1 billion and new investments in the Western Balkans up 16 percent.
- Investments under the Sustainable Energy Initiative climbed to almost €1 billion in 2008 alone and at this Annual Meeting we are launching a substantially expanded second phase.
- Turkey became a country of operations and last week we signed our first investment in the country, a large wind farm project developed in cooperation with the EIB and the IFC.

The success of these and other initiatives depends on the support the EBRD receives from the donor community. I want to express our gratitude and appeal to you to stand by our countries at a time when your commitment is more needed than ever.

The crisis has also presented the EBRD with unprecedented challenges. With your support, Governors, we have responded rapidly and successfully. Our crisis response package, which was approved by the Board in December, defines three key areas of activity:

- In the *financial sector* we are aiming at strengthening balance sheets and ensuring banks' liquidity and capacity to continue lending;
- In the *enterprise sector* we are focusing on the short-term refinancing needs of viable enterprises which are hit by the crisis; and
- We are supporting *critical infrastructure* to avoid the abandonment of essential projects because of a lack of funds.

We have also stepped up our cooperation with other international financial institutions, joining forces in investments and in policy dialogue. We are encouraged by the backing for an active crisis response which has been lent to the international financial institutions by the London G20 Summit.

Let me highlight one key initiative in this context: the International Financial Institutions' Joint Action Plan which was launched in February.

The EBRD, EIB and World Bank Group have committed themselves to invest €25 billion over two years to strengthen banking networks and the real economy in our countries of operations. We are delivering – for instance with investments in systemic banks such as Parex banka in Latvia and Ukreximbank in Ukraine. Most recently our Board approved financing of €130 million for on-lending to businesses in the region through 12 subsidiaries of Italy's Unicredit Group. And more such activity will follow with other systemic banks.

In addition, the initiative has allowed us, in close cooperation with the IMF, to help bring together banks and regulators from home and host countries in forging common approaches to the crisis.

Our results so far this year suggest that the model works. Our first quarter business activity in 2009 was 60 percent above the same period last year. As of today, more than €2 billion has been signed in investment commitments. While commercial finance is retreating, the EBRD is playing a proactive, counter-cyclical role as a strong partner for private business.

The demand for our equity and loan investments is higher than ever and is likely to remain so for the foreseeable future. We have the ability to support projects that lead the market, but these are inevitably more risky. We are prepared to take more risk while remaining firmly committed to sound business practices and rigorous standards.

Ladies and Gentlemen,

Allow me to return to the countries of our region. When I meet policy-makers, business people or journalists these days two questions are always asked: When will the worst be over? And, what needs to be done?

On the first question we are now predicting a slow “bottoming-out” of the recession this year, followed by the beginnings of recovery in 2010.

It would be unrealistic, however, to expect a return to double-digit growth, record levels of investment and readily available finance. Looking ahead, our task is to help make growth sustainable and lasting. And for this, we have to draw the right lessons from the crisis.

A fundamental question is the future role of the state in the economy: While the current degree of intervention is clearly not a permanent solution, neither are unregulated markets the answer. A key task therefore will be to improve the quality of institutions and regulations.

Other tasks ahead of us are, for instance, the strengthening of the capacity for domestic financing in order to reduce dependence on external capital. Innovation and diversification will empower the region to make best use of its human resources and limit reliance on commodities. And greater energy efficiency and the promotion of sustainable forms of energy must be a central priority for the region to improve and strengthen transition, competitiveness and security.

In order to face these challenges we must position the EBRD so that it can play a dynamic and constructive role in crisis and recovery. We seek your guidance, Governors, on the following mid-term priorities for the Bank:

- In the *financial sector*, we will focus on strengthening balance sheets and bolstering intermediation capacity with special emphasis on the further development of domestic capital markets and local currency lending.
- In the *enterprise sector*, our aim will be the provision of risk capital and financial access for the diversification of the real economy, particularly small and medium-sized enterprises.
- In the field of *energy efficiency*, we will expand our efforts to improve competitiveness, strengthen energy security and mitigate climate change.
- In the *energy, municipal and transport sectors*, we will focus on the continued development of financing solutions combining sovereign, sub-sovereign and private sources to support the realisation of key investment projects.

The EBRD’s capital base is strong and it is needed to support the rising levels of risk we face. A sustained, increased level of activity will raise the question of the Bank’s capital adequacy. This is an issue that the management and Board of the Bank will start to address shortly in the context of the discussions about our medium-term strategy for the period from 2011 to 2015. We will revert to you for your decision at our 2010 Annual Meeting in Zagreb.

Ladies and Gentlemen,

Twenty years ago this day, in the Soviet Union another round of the first multi-candidate elections to the Supreme Soviet took place with independent, populist and democratic candidates routing contenders from the communist party.

In Prague, the playwright Václav Havel was preparing himself for another hearing before the magistrates after an eight-month sentence for spreading “civil unrest”. The Washington Post ran a detailed story under the headline “Eastern Germany Losing Its Shine”, with growth – according to official figures – expected at below 1 per cent that year. Less than six months later the Berlin Wall fell.

The EBRD region has come a long way. Twenty years of transition give us the confidence that our countries will continue to develop successfully. As President of the EBRD, the institution which was set up to support this process, I salute our countries of operations for what has been achieved.

Let me assure you that now, more than ever, the EBRD remains your reliable and committed long-term partner.

Thank you for your attention.