



Resolution 1759 (2010)¹

Final version

Activities of the European Bank for Reconstruction and Development (EBRD) in 2009: facilitating economic integration in Europe

Parliamentary Assembly

1. In 2009, the global financial and economic crisis was in full swing across Europe, leading to an exceptionally deep downturn for most Council of Europe member states in central, eastern and south-eastern parts of the continent, which put to the test the solidity of economic fundamentals, social peace, governance and institutions, as well as the direction of structural reforms. Timely and concerted action at national and international levels was crucial in mobilising resources to stabilise the macroeconomic situation and preserve the confidence of all stakeholders in development prospects.
2. Parliamentary scrutiny over the prioritisation of expenditure by states and international institutions, such as the European Bank for Reconstruction and Development (EBRD), is particularly relevant with a view to ensuring fair allocation and good use of resources. Building on the Agreement of Co-operation between the Council of Europe and the EBRD, the Parliamentary Assembly appreciates the opportunity to contribute its views on the action of the EBRD in the light of the ongoing economic crisis.
3. In keeping with its mandate, the EBRD actively responded to the region's needs for financial resources in order to mitigate the impact of the crisis. The Bank's investments over 2009 were unprecedented in scale and were targeted at the countries that suffered most from the crisis: two thirds of the operations concerned the category of "anti-crisis measures" and were implemented in collaboration with other international financial institutions and governments of the region. The collective approach to tackling financial problems enabled the region's countries to preserve macroeconomic stability and economic growth potential. However, the major problems revealed by the crisis still require appropriate solutions. The task and the challenge for the international community are to rehabilitate the current economic model, to enhance the sustainability of the financial system and to stimulate employment.
4. The Assembly welcomes a substantial increase in the EBRD's volume of operations over 2009 – with commitments up from €5.1 billion in 2008 to €7.9 billion in 2009 and disbursements amounting to a record €5.5 billion – even as the Bank's own accounts incurred a net loss of €746 million in 2009 after a loss of €602 million in 2008. It notes that these losses, the first since the effects of the Russian crisis in 1998, were largely unavoidable due to the shrinking value of the Bank's equity operations and higher provisions for the potential underperformance of loans. The Assembly is aware of the likely prolonged demand for the EBRD's financing at similarly high levels for the period 2010-2015 and fully supports the decision to approve a corresponding temporary 50% increase in the Bank's capital from €20 billion to €30 billion.
5. In this context, the Assembly underscores a major catalytic role that EBRD lending plays in the realisation of investment projects through co-financing arrangements. The Bank has thus mobilised funds several times larger than its own and has, together with its partners, achieved a significant multiplier effect in its operations. This effect is all the more relevant for spreading high standards of corporate ethics and the concept of corporate social responsibility.

1. *Assembly debate* on 6 October 2010 (33rd Sitting) (see [Doc. 12349](#), report of the Committee on Economic Affairs and Development, rapporteur: Mrs Naghdalyan). *Text adopted by the Assembly* on 6 October 2010 (33rd Sitting).



6. The Assembly appreciates the EBRD's contribution to the establishment of the Vienna Initiative (more formally known as the European Bank Co-ordination Initiative), which not only bolstered investor confidence in the banking sector of central, eastern and south-eastern Europe at a critical moment, but also helped avert a systemic banking crisis in some parts of the region. Early in 2009, the EBRD, together with the International Monetary Fund and the European Union, rallied a gathering of foreign banks, their subsidiaries, governments and regulators with the aim of reaffirming multilateral commitment to the region and devising an action plan underpinned by solid funding support.

7. Eastern European economies experienced an overall contraction of 6.1% of GDP in 2009 (ranging from a contraction of 18% in Latvia and 8.7% in Russia to modest growth in Poland and Albania at 1.6% and 2.2% respectively), the largest of any emerging market region. The spread of the crisis into the EBRD client countries can be linked to persisting global imbalances, deficient international regulatory frameworks for financial markets and institutional failures to correctly assess complex financial products. However, the countries in the region that were most seriously affected generally had inherent structural weaknesses, including heavy dependence on foreign capital, a rapid growth of the private sector and household debt spurring property and construction bubbles and a consumption boom, budget deficits, regulatory flaws and, in some cases, excessive reliance on remittances and external demand.

8. The Assembly is concerned that the deteriorating macroeconomic situation and the implementation of anti-crisis or stabilisation measures have resulted in a slowdown or a reversal of improvements in living conditions throughout the EBRD's countries of operation. Household incomes decreased and poverty levels increased as wages were cut, unemployment soared and social benefits were curtailed. It is reassuring that the response of the population has so far been moderate and that domestic political stability has not been seriously affected throughout the region. Furthermore, recent turbulences in the eurozone have not hurt the EBRD client countries, which remain on a steady, though fragile, recovery path with average growth forecast at 3.7% in 2010.

9. Moreover, even though progress with structural reforms inevitably slowed down in 2009 when governments focused on the immediate problems caused by the crisis, in no country did the leadership adopt an anti-reform policy stance. This is a sign of growing political consensus over the ultimate goal and the necessity of socio-economic reforms with a view to building lasting prosperity and securing long-term benefits in the context of globalisation. Policy dialogue and co-operation with international development institutions, such as the EBRD, remain a highly valuable tool for these countries to identify appropriate national reform-oriented options and solutions.

10. The Assembly notes that despite a large increase in the volume of EBRD financing, the number of projects supported in 2009 increased only slightly compared to the year before (respectively 311 and 302 projects). This corresponded to a massive support to major banking groups and enterprises and a welcome sharper focus on lending to the real economy, in particular through enhanced participation in trade facilitation, energy and infrastructure projects (including participation in important public sector undertakings) and stronger commitment to micro, small and medium-sized enterprises with a strong job-creation potential. The Assembly is concerned that the latter commitment is not sufficiently covered and should be further expanded.

11. The Assembly welcomes the start of EBRD projects in the newest country of operations – Turkey – and the resumption of commitments to the countries of central Europe and the Baltic states against the background of their evolving needs and changing circumstances. It believes that the EBRD is well placed to promote further economic integration in Europe, not least through support to projects in the priority areas (including energy security and efficiency, good environmental governance and development of small and medium-sized enterprises) under the European Union's Eastern Partnership in favour of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, and more generally under the European Union Neighbourhood Investment Facility.

12. The Assembly calls on the EBRD to:

12.1. use its network of partner institutions to stimulate a debate on macroeconomic policy prescriptions and the longer-term implications of the financial-economic crisis in terms of good governance, including more effective regulation and oversight of cross-border lending and further institutional development, in both private and public sectors;

12.2. assist its countries of operation in respect of pension system reform, notably as regards the setting-up and governance of private pension schemes and funds, and to take part in the process of institutional reform;

- 12.3. expand its contacts with the Council of Europe Development Bank with a view to identifying possible joint activities;
- 12.4. maintain its increased volume of lending to support economic recovery in its countries of operation and to co-operate more closely with regional development institutions;
- 12.5. foster, together with other international financial institutions, investment in companies with good management but facing temporary financial difficulties and to help such companies restructure their debt obligations and carry out structural adjustments through technical assistance programmes;
- 12.6. tighten its control over indirect loans, in particular the financing conditions applied and the risk premiums charged by the intermediaries to the final borrowers;
- 12.7. contribute to the harmonisation of lending standards, in particular with a view to cutting the administrative hurdles in the lending process;
- 12.8. extend the investment programme under its Sustainable Energy Initiative into new sectors, such as buildings, transport and renewable energy, and to increase the range of instruments to channel such investment;
- 12.9. increase lending to the early transition countries and the European Union candidate countries in south-eastern Europe, based on the analysis of their medium-term needs, taking into account the impact of the crisis, and to reduce consultancy while increasing more tangible enterprise support services;
- 12.10. continue to give priority to the financing of projects in the fields of energy security and efficiency, good environmental governance and development of small and medium-sized enterprises;
- 12.11. enhance its assistance to the development of local capital markets and lending in the local currencies of client states in order to decrease these countries' dependence on lending in foreign currency and on external financing;
- 12.12. assist the development of mechanisms of risk control in relation to domestic currency lending in order to diminish reliance on highly leveraged credits through hedge funds;
- 12.13. continue facilitating the access of women entrepreneurs to finance and business advisory services, notably through microfinance institutions.

13. The Assembly also draws the attention of the Council of Europe member states to the broad policy conclusions drawn from the crisis. It is convinced that financial institutions are an essential part of a market economy and that they ought to serve – first and foremost – the needs of the productive sector. This calls for the strengthening of regulatory frameworks and oversight mechanisms to ensure responsible lending and investment practices, adequate capitalisation and deposit insurance, and a timely and effective regulatory base.

14. The Assembly encourages the executive and parliamentary authorities of the Council of Europe member states to pursue sound macroeconomic policies that take better into account the cyclical nature of economic development, reinforce tax compliance, fiscal discipline and activities for combating corruption, stimulate improvements in the business climate, foster productivity gains, and give due consideration to future health and pension obligations for ageing populations. The Assembly therefore asks these authorities to give due support to the EBRD's New Growth Agenda that seeks to help countries tackle economic vulnerabilities and imbalances, boost competitiveness and achieve sustainable "green" growth.