EBCI Vienna Initiative

IFIs Pledge Continued Drive to Support Central and Eastern Europe Through Recovery

Region continues to face significant challenges

The European Bank for Development and Reconstruction (EBRD), the European Investment Bank (EIB) Group, and the World Bank Group* on Monday warned against complacency in the face of significant challenges that stand in the way of economic recovery in Central and Eastern Europe.

Meeting in Istanbul at the World Bank and International Monetary Fund Annual Meetings, EBRD President Thomas Mirow, EIB President Philippe Maystadt and World Bank Vice President Philippe Le Houérou said that unprecedented coordinated international action had helped stave off a systemic crisis in the region. But more needed to be done and they pledged renewed action on the part of their institutions to support the region's return to growth. The three international financial institutions (IFIs) were very well on track in delivering on the Joint IFI Action Plan with commitments of already €16.3 billion by end of September 2009 (€12.4 billion already signed) in crisis-related financial support for the Central and Eastern European region, they said. However, efforts had to be continued to support Central and Eastern Europe into its recovery period.

Launched by the three IFIs on February 27, 2009, just as the global economic crisis was heading towards new depths, the Joint IFI Action Plan in support of banking systems and lending to the real economy in Central and Eastern Europe aimed to:

- support banking sector stability and lending to the real economy in crisis-hit Central and Eastern Europe with a financing plan of up to €24.5 billion for 2009-2010;
- commit to make joint assessments of large bank groups' financing needs; and
- rapidly deploy assistance in a coordinated manner, according to each institution's geographical and product remit.

Financing was complemented with efforts to coordinate national support packages and policy dialogue among key stakeholders in the region, in close collaboration with the International Monetary Fund (IMF), the European Commission, and other key European institutions.

At their meeting in Istanbul, the three signatories of the Joint IFI Action Plan presented their first **Joint Progress Report**, discussed new challenges ahead, and future areas of cooperation. The meeting was attended by key EU-based parent banks of subsidiary banks in Central and Eastern Europe, their home and host country supervisors, fiscal authorities and central banks, as well as the European Commission, the IMF and the European Central Bank (ECB).

Their report noted that policy dialogue cooperation between the three IFIs, in close collaboration with the IMF and the European Commission, had facilitated the management of the crisis on a private-public sector platform under the European Bank Coordination (Vienna) Initiative.

This had strengthened incentives in preserving European integration. Actions had been integrated into macroeconomic crisis response programs, supported by the IMF and, in the framework of EU economic and financial policies, also by the European Commission.

These efforts have contributed to avoiding a systemic regional crisis in face of massive economic shocks, noted the report. Parent banks have continued to support their subsidiaries and viable local banks have managed to stay in business.

However, despite signs that the grip of the economic crisis is easing, and despite country variations, significant challenges remain ahead before the region can get firmly on the road to recovery and growth.

Specifically, credit to the real economy-and SMEs in particular-is still shrinking, non-performing loans are rising, bank recapitalization needs remain large and unemployment is increasing rapidly.

The Institutions believe that economic recovery will depend critically on private-sector growth, which will not re-emerge without lending to the real sector.

This requires, in addition to vital funding, strengthening banks' balance sheets, helping mitigate financial risks in the region and restructuring of private debt where necessary and possible. It will be important to address the vulnerability of foreign exchange exposures, in tandem with the development of long-term local currency funding and capital markets.

Continued policy dialogue is needed to strengthen regulatory frameworks.

Looking forward the three institutions pledge to persevere in their efforts under the Joint IFI Action Plan to support lending to the real economy and in the region, while addressing the challenges ahead in close collaboration with other international and European institutions and governments.

Table 1. Commitments and Delivery under the *Joint IFI Action Plan*

(Euro billions)

	Commitments		Available as of end-September 2009 2/	of which signed as of end-September 2009 2/
	2009-2010	**Indicative for 2009** 1/		
TOTAL	**24.5**	**12.3**	**16.3**	**12.4**
EBRD	6.0	3.0	3.4 3/	2.4
EIB	11.0	5.5	9.2 4/	6.3
World Bank Group	7.5	3.8	3.7	3.7
IBRD	3.5	1.8	2.5	2.5
MIGA	2.0	1.0	0.65	0.65
IFC	2.0	1.0	0.5	0.5

1/ Of the €24.5 billion, proportional for 2009.
2/ Board approvals (EBRD, EIB, MIGA, IBRD), signings (IFC).
3/ Includes local bank support and trade finance. Excluding these, total delivery was €1.9 billion.
4/ Of which €6.3 billion signed and €1.7 billion disbursed.

* The World Bank Group, which includes the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Bank for Reconstruction and Development (IBRD), is providing support of about €7.5 billion:

- IFC, through its crisis response initiatives in sectors including banking, infrastructure, and trade as well as through its traditional investment and advisory services, is expected to contribute up to €2 billion;
- IBRD intends to increase lending in Europe and Central Asia up to €16 billion in 2009-10 out of which up to €3.5 billion is envisaged for addressing banking sector issues in emerging Europe; and

MIGA will provide political risk insurance capacity of up to €2 billion for bank lending.