

Speech by Riccardo Puliti
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South East Europe: Crisis and Perspectives
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Dear Excellencies, Ladies and Gentlemen

First of all let me thank Professor Papantoniou, The Centre for Progressive Policy Research, The Hellenic Centre for European Research Studies and The Institute of International Economic Relations for your kind invitation to this important event. It is an honour to form part of such a distinguished panel of guests.

The European Bank for Reconstruction and Development (EBRD) is an International Financial Institution (IFI) which is owned by an array of states and other institutions, such as the EC and the EIB. The states members of the EU own around 64% of the capital of the EBRD but the single largest shareholder is the USA with 10.11% of the shares.

EBRD finances and invest in projects located in the countries formally part of the Soviet Union (FSU), the pact of Warsaw and the non-aligned countries in South East Europe (mainly the Balkans). Since January 2009 the mandate of EBRD has been extended to Turkey. The mandate of the EBRD is to finance project that contribute directly or indirectly to foster the transition from a dirigistic economy to a market based one. The EBRD performs its mandate starting from a EUR 20 billion capital base.

As a Business Group Director of the EBRD, I lead the Bank's efforts in the Energy sector, this means investments in power generation, transmission and distribution and investments in the whole related to the exploration, transportation and distribution of hydrocarbons. The total level of investments by the EBRD in the energy sector is approximately equal to EUR 7 billion – EUR 4.1 in Power and EUR 2.9 in Natural Resources. In 2009 only, EBRD provided approximately EUR 1.5 billion to projects in the energy sector.

EBRD usually finances/invests in privately owned projects using market-based financial instruments such as corporate lending, private equity and project finance.

In the Energy sector the EBRD follows closely from core aims:

- Increasing the security of the EU energy supply;
- Promoting sustainable energy consumption and production to reduce the environmental impact of energy and to combat climate change;
- Promoting energy efficiency and reduce energy intensity;
- Ensuring the availability of affordable energy for the competitiveness of host economies and the EU.

The aims described above, exemplifies our integrated approach to climate and energy policy.

Obviously the financing/investments of the EBRD in South East Europe do not stop at the energy sector (more on this subject later on). EBRD is a major financier (providing debt like instruments and investor (equity/quasi equity like instruments) in financial institutions, transport and municipal infrastructures and to that very important economic interconnecting sector which is represented by the small-medium size enterprise.

The amount of financing/investments in the South East region of Europe has reached the level of approximately EUR 2 billion in 2009, about 60% of which is in energy projects.

The global financial crisis that we are experiencing globally, has hit the South East European Region later than the US and Western Europe but, even if the impact has been delayed it is quite important nevertheless. The “2009 Transition Report” published by the Bank a few days ago is very clear in showing the sudden slow down in GDP growth: on average GDP growth has been reducing from 7% in 2006, to 6.3% in 2007 to 6.5% in 2008 (estimate) to 6.2% in 2009 (projection).

The good growth experienced pre-crisis, begins in the mid 90’s when many of these countries experience a rapid process of integration into the global economy and income convergence with more advanced economies.

Economic integration occurred mostly at three levels:

- Trade – Trade volumes between the EU (EI-15) and the South Eastern European countries expanded particularly rapidly with a big impact on production of goods;
- Finance – Financial integration proceeded at an even faster pace than trade did, linked in part to political integration. The presence of foreign-owned banks grew dramatically especially in Central Europe, the Baltics and South Eastern Europe;
- Labour – labour migration had a very strong impact on the economic performance since it generated considerable remittance flows.

The economic integration brought about very important benefits to the South Eastern European countries but also developed the significant macroeconomic vulnerabilities such as credit expansion being fuelled at a very quick pace, trade unbalances created by sudden imports fuelled by consumption etc.

In the context of a global crisis like the one we are experiencing now, the unsustainable nature of these vulnerabilities was suddenly clear.

I believe it is now the work of the host countries, the IMF, the IFI’s (such as the European Investment Bank and The World Bank Group), the EC and other important countries (in terms, for example, of donor countries) to help develop the right policies/investments to kick-start economic growth. Obviously this will have to take place in the context of the global economic picture.

It is the work of the EBRD to be part of the process described above.

As promised, I did not forget that the subject of this panel is “New Energy Routes.”

At the EBRD, we believe that one of the most compelling issues experienced by the South Eastern European region in terms of energy is the issue of lack of regional integration, both in power transmission and in natural gas transportation and storage.

Lack of regional integration in energy infrastructure is a factor of vulnerability.

In a not too distant historical past, energy infrastructure was designed on a national basis. Nowadays new countries look rather different and energy infrastructures present a less than optimal degree of efficiency. Investing in regional integration related projects will contribute

to make energy use more efficient and economically viable and will also help in diversifying energy sources where necessary.

An example of the above is the development, financing and construction of underground gas storage, which can very much contribute to an efficient use of gas and to mitigate possible gas crisis. The EBRD has already financed two of these projects in 2009 for a total amount of around EUR 250 million (in Hungary and in Croatia). An additional amount of EUR 300 million should be used during 2010 to finance the construction of two new projects in Serbia and Bulgaria.

The financing of underground gas storage is important in a context of solidaristic use of energy within the EU and with neighbouring countries.

In terms of new routes, we follow closely the development of the Trans European Networks - Energy (TEN-E) routes identified by the EU and which will contribute to the trans-European energy infrastructure network. The development of most of these projects constitutes a first class opportunity for the Southern European countries to benefit of a network of high quality energy infrastructure assets. The concept of a South Eastern European “energy hub” is becoming a reality.

In terms of large natural gas projects, we follow closely all major projects. Our attention is due to the relevance these projects have in terms of energy diversification both in terms of routes and sources. Russia will remain a very important gas supplier but other countries could assume a bigger supplying role, countries such as Azerbaijan, Turkmenistan, Iraq, Egypt and the gulf region in terms of LNG.

I strongly believe in the role of private sector in the development of energy infrastructure. It is necessary that the right instruments are developed to attract and retain private investors. In this context the importance of transparent, open, public tenders procedures cannot be stressed enough – these are the key pre-conditions to attract and retain quality long term investors.

In conclusion, the identification and support of shared energy infrastructure projects will bring about new investments, better security of supply and better efficiency which will contribute to the economic recovery of the region.

The improvement in the security of supply and the better energy integration should also fuel both economic and political confidence which in turn constitute a major base for an additional effort in market reforms which is the base for attracting international investments.

Thank you for your attention.