

# **ISRAEL**

16/5/08

**Statement by Prof. Eckstein on behalf of Israel**

Dear Mr. Chairman, Mr. President, Ladies and Gentleman

On behalf of the state of Israel I would like to start by expressing our sincere appreciation to the Government of Ukraine and the local Government of Kiev for hosting the annual meeting in this beautiful city.

This is the last annual meeting under the leadership of Mr. Lemierre. We would therefore like to thank you, Mr. President, for your enthusiasm and excellent leadership during the last eight years. Your commitment to the Bank and to the countries of operation brought about the significant results that we have all witnessed. Last year was no exception. During 2007, the Bank has reached an all- time record in terms of transition impact, volume and disbursements, and had another very successful year in terms of profits. We would like to thank the bankers, the management and you personally, Mr. Lemierre, and Governor Fischer and myself wish you continued success in your future, which we do not doubt will prevail.

The EBRD and some of its countries of operation are going through many changes and some key questions were raised in the Bank. I would like to mention some of them.

Has the Bank fully accomplished its mandate, or is it on the brink of doing so? Our opinion is that the answer to this question is No. Even though the new EU member countries have done very well and are very close to achieving a fully functioning market economy, the Bank has a significant role in supporting the transition process of countries of operation – the Western Balkans area and the Former Soviet Union

countries. Our view is that the Bank's tasks in these countries are more challenging, since the incentive of EU accession is less concrete for some of them and does not exist for the others. Therefore, the Bank should be committed to the process of transition in this region.

Is it right to increase the volume of the Bank activities to 5.7 billion – which is beyond the volume that was agreed upon in the strategy for 2006-2010 (3.5 billion)? Such a proposal stands before us today, and we support it. As the Bank promotes transition to a functioning market economy, it seems right that it will respond to the increase in the market's demand for its services. The fact that in 2007 the volume of the Bank reached an all-time record and its quality was rated excellent indicates that the Bank has an important contribution to the economies.

What should the Bank do with the accumulated profits that generated what we call the "excess income"? We recommend that as long as the mission of the Bank is not fully accomplished the money should be used to support the countries of operation, or put in a reserve which will enable the Bank to sustain its support to the countries in the medium term. We, therefore, support the outstanding proposal on the income allocation.

Should Turkey be approved as a new country of Operation? Israel certainly strongly supports it. We believe that it is the interest of Turkey, Europe and other countries, as it will enhance the country's move to a **fully open** market economy and, therefore, indirectly supports democracy and stability. It is also the interest of the Bank, which could use the opportunity to diversify its very concentrated portfolio.

Last, but not least, I would like to comment on the role of the EBRD role given the world financial markets turmoil. There is a concern that the liquidity squeeze might jeopardise the process of transition in the Bank's countries of operation. It may lead to an unwanted result: the difficulty of good private sector companies to carry out high-quality investments which are needed for advancing the transition process. Therefore, we would like to encourage the EBRD to be innovative in its approach. The EBRD should supply the funds necessary to support the continued process of transition during this period of financial stress. This should not be viewed as liquidity supply or lender of last resort, but as continued support of the functioning of the financial market in transition countries to enhance market economic activities.

Thank you very much.

tat