EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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President’s Press Conference

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President: Suma Chakrabarti

MR WILLIAMS: Ladies and gentlemen, welcome to this concluding press conference for the 25th Annual Meeting and welcome also to those people watching us on the live streaming. Sir Suma will make a brief introduction and then I will take your questions.

THE PRESIDENT: Thank you, Tony, and welcome to you all. Thanks for coming this afternoon for this short press conference. Let me start by saying a big thank you to our shareholders for once again putting their trust in me and giving me the honour of leading this great institution for another four years. I have to say I am absolutely delighted of course, and not just on a personal level, because I think guiding this Bank over the next four years and continuing to support the countries of operations that we serve will be enormously satisfying. It is a really wonderful job in terms of trying to maximise impact, transition impact, as we call it, in the 36 countries.

At the same time, I want to pay tribute to Marek Belka and to thank him for being such a worthy opponent in what I think is still far too rare a thing – a contested election for the job of the head of an international financial institution. I have long believed in contestability for these jobs and it is good that two elections running EBRD has provided a great template for the system as a whole.

The other set of people I want to pay the biggest tribute to is to the staff of EBRD. Without what they have achieved over the last four years, it would not have been worth me running, frankly, because it is their performance, what they have done, their track record really that I ran on. I am so grateful to them and I look forward to working with them for the next four years in trying to shape transition in our countries of operations.

There is no doubt that we serve a very heterogeneous region but I think the Bank is in very good shape to try to tackle the challenges that our region throws at us, and we have the experience and expertise to tackle them successfully.

In the hearings that I had with shareholders, I made clear that my personal vision is to deliver the strategy that the shareholders have set us for the period up to 2020 and in order to achieve those goals I set out three cross-cutting priorities: first of all, I believe we need to keep working at re-energising transition through the private sector. Private sector development must be our focus, to promote green and inclusive growth. We need to implement our Green

Economy Transition approach, we need to push further on the development of local currency lending, local capital markets, do even more to promote SMEs that create jobs – look at the youth unemployment rates in so many of our countries of operations – and also deliver on our Strategic Gender Initiative. What we really have to do is try to integrate into our economies the elements of the marketplace that are really excluded; whether it is women, young people, under-served regions, we really want them to be more part of the economic market place.

Second – and I do stress this a lot but it is worth stressing again – we have to remember we are a bank. We need to make a profit, we need to retain our triple-A rating; we have done so very successfully over many years, and that is very important, and so another priority for the next four years is what I call financial sustainability. It is very important indeed.

Thirdly, in an environment, as you all know, that remains challenging, we have to take an even tougher approach to our budget over the next four years. The only way the EBRD can match the ambitions of our shareholders but also deliver within the resources that are likely to be approved by those shareholders is by becoming much more operationally effective and efficient, and we are on course to do just that.

This 25th Annual Meeting, a meeting which allowed us to look back on our performance over the last quarter of a century, we were able to reflect on how much we have been able to contribute to the successes of a now very varied region. We could look back at the numbers, at the €105 billion of investment in over 4,500 projects, at how, I think, we have really contributed over the 25 years to the shift of all of these economies into fully fledged market economies. Most importantly, we should look ahead, I think, to the remaining challenges and how the Bank is poised to deliver on them. As management, we had an opportunity to demonstrate to our shareholders how the EBRD is now producing positive change on the ground, to show how we are combining a high level of investment with vigorous support for reform, and in this regard I have to say I am really pleased that over the last 18 months or two years, so many more of our countries of operations are beginning to really push ahead again on reform.

Our shareholders also had a very lively debate this morning about the Bank's role in revitalising economic growth. They looked especially at how investments in infrastructure and the green economy can support productivity, ensure that growth is both equitable and inclusive. There were also stimulating panel sessions looking at some of those issues which are of great importance to the Bank in the countries that we serve. Yesterday you will have heard from our economists and our Acting Chief Economist about the environment in which we are working, and the latest regional economic prospects report showed that finally, after five consecutive years of slowdown, the economies across our region as a whole are now showing some signs of an upturn. But it remains very clear to us and to our Governors that growth still remains insufficient. Much more needs to be done. We cannot any longer take what we used to call rapid convergence in the medium to long term as a given. I made clear to our Governors at the opening session yesterday that the EBRD's current strategy is well aligned with the task of re-energising not only transition but also growth, but we also have to do much more on this and that is one of the reasons I have called for a forum on Growth and Investment in the EU 13 countries of operations to be held in Budapest later this year. I am confident overall that EBRD has the tools, the skills and the experience to meet the challenges of the future and to accelerate a recent rallying of reforms across its regions. I think we are very well placed to exert a decisive influence on change in the 36 countries where we now work.

Thank you very much. I am happy to take your questions.

PATRICE NOVOTNY (Agence France Presse): Two questions. First, the outlook report produced yesterday emphasised that there are some difficulties because of geopolitical tensions. I was just wondering if you could elaborate on what to your mind could ease these tensions and how the countries in the EBRD zone can enjoy better growth. The second question is about China, now a member of EBRD. I was wondering what kind of projects you need with this country, what is expected and is there something special with regard to the new Silk Road?

THE PRESIDENT: Thank you very much, Patrice, for two very interesting questions. On the first, I think there is no doubt that the geopolitical tensions around Ukraine, for example, are hampering growth. Also, the geopolitical tensions around, let us say, the Syrian refugee crisis and the impact in the neighbourhood is also hampering growth. There is no doubt about that but I think on top of that it is the response to those sorts of issues – sanctions, the oil price situation – that has obviously had an impact on Russia, and Russia is a really important economy in our region. People tend to forget that but it is vital that the Russian economy performs well, because of its links, through trade, through investment, through remittance channels, to so many of our countries. As I say, when the Russian economy catches a cold, the rest of the economies around it can get flu very easily. That I think has happened to some extent in central Asia, and also to some extent in eastern Europe and the Caucasus. We need the Russian economy to recover. That will be of major benefit to the region and that is very important, obviously.

Second, on the issue of the tensions in the Middle East, obviously both of these geopolitical tensions are above the EBRD's pay grade to resolve. They have to be resolved by political leadership. We are responding as best we can within our business model in south-eastern Turkey and northern Jordan. We have announced this package of €900 million, of which €400 million would have to be in grants. That will essentially help to stimulate SME development in south-eastern Turkey, and Jordan and also Lebanon when it becomes a member and a country of operation, because SME development will help absorb some of the refugee population and the refugee hosts' population into the labour market more easily.

The second part of that is that you can imagine, if you are in a place like Gaziantep, which I visited recently, or even in Amman, the pressure on public resources because of the increase in numbers of refugees. Jordan's population has increased by 20 per cent or probably more, because of sharing refugees. That is why I am very proud that only a week ago our Board approved the Greater Amman Solid Waste Crisis Response Package, and yesterday I was able to sign the grant agreement from the UK linked to that project, to make it a reality. It is with projects like that that we have to develop more municipal investment to cope with the refugee pressures in the region.

I have described China – and will do again – as a win/win/win. It is a win for the EBRD because it is great to have the world's second largest economy in the EBRD as a shareholder. That is very important in terms of global governance and also for China because of the EBRD's very specific private-sector-based business model, which China wants to learn from and use in its own development banks to take them forward. Third, and for me by far the most important reason, is that it is really important for our countries of operations.

We have done some analysis, and you can see that Chinese investment has increased in all our countries of operations in the last decade and a half; but our economists calculate that across the piece, if you look at the characteristics of the Chinese economy and the economies of our countries of operations, there is probably about a 40 per cent to 50 per cent deficit in the level that Chinese investment should be.

One of the best ways to get that Chinese investment in at the right quality standards is to work through the EBRD; so we now have the job of ramping up business development with China. We are also working with the AIIB, which is not a Chinese institution. It is an international institution, but obviously China has a huge influence on it. I was very proud that last week our Board approved the first co-financing project with the AIIB, which is a road project in Tajikistan. I think that that will be the first of many to come.

The Silk Road is obviously part of that push. We are going to do a lot more investment along the Silk Road. It seems to be a liberally defined route, if I may say so, with lots of byways and eddies, so there will be a lot of investment through Central Asia, all the way through to Turkey, which will fit the description of the New Silk Road.

A SPEAKER: You mentioned the cooperation with the AIIB and the EBRD. The AIIB has just been established, but the EBRD has a longer history. What are your views on the cooperation between the old and the new banks? The G20 summit will be held in China this September: do you think that the summit will make progress in terms of corruption cooperation among the multilateral banks?

Second, what is the role of infrastructure in the global economy?

THE PRESIDENT: I would say that it is very nice, in a way, to now be described as "the old" and the AIIB as "the new", because until it was created we were seen as "the new". You are right; we are no longer the new kid on the block. The AIIB is the new one.

Cooperation between the AIIB and the EBRD has, frankly, been first-class. From day one we very much embraced it. We think there is a need for an institution like this. Linking to your point on infrastructure, the infrastructure financing deficit in our own region, the region that we both cover, is huge. There is no way that we or the World Bank or the Asian Development Bank could have filled this gap on our own; we need to leverage in others. The

AIIB is great. I want to get more private-sector financing into this region for infrastructure as well.

From day one it was great, and they invited us to come and give advice. We agreed that we should be very frank about the advice and say: "Here are the things that we think worked in the last 25 years; but here are the things we found challenging as we set up and ran the institution." They found that very refreshing, that we were able to have a very honest, frank conversation. We talked about environmental and social standards, the treasury function, our valuation function and our Operations Committee and how that worked – the nuts and bolts of running an organisation.

Many had concerns about whether the AIIB would have the same environmental and social standards as institutions like the EBRD. Our first co-financing project has already shown that the AIIB simply used the EBRD's standards and our due diligence. That is a very good sign and we should take confidence and comfort from that. I can only see this relationship getting better and better going forward. I hope that within the next eight or nine months a second project will be co-financed with the AIIB.

The G20 is a fundamental process for all international financial institutions. You mentioned two subjects, but there are a number of areas where the EBRD has been helping the G20 process for many years now, whether Korea, Russia, Turkey, Australia or Mexico. We have been very heavily involved.

Infrastructure will be one of the biggest topics, partly because of the infrastructure financing deficit that I mentioned earlier, but also many people see this as almost a key ingredient in re-energising economic growth. As emerging markets' growth levels have weakened, convergence has been slower than more advanced economies. Infrastructure is seen as a priority for everyone, and therefore it is not surprising that it has pride of place. An interesting discussion is going on about whether targets should be set for financing of infrastructure. In a way, it is already out there because the gap has been calculated and it is very important that we try and fill that gap. However, we must not make it a gap that is filled by the public sector, because that will not happen – there is not enough fiscal space to make that happen around the world, so we have to work harder at attracting private sector financing into infrastructure. We have to have better projects, and that is where I am really proud of the

EBRD's new infrastructure project preparation facility. They are saying that there are plenty of very good infrastructure projects, but they are not put together very well to make them financeable, or bankable. That gives us a chance.

The other aspect that is worth dwelling on in the G20 is the push to leverage balance sheets. This is very much led by Canada in the G20 process, but all the multilateral institutions, including the EBRD, have become involved. We are all trying to do the best we can to leverage each other's balance sheets so that we can increase what we do and add firepower to the system. That debate is worth watching as well.

STEFANIE LINHARDT (The Banker): Mr Chakrabarti, you have mentioned three priorities going forward, one of which was, as you said, "We have to remember that we are a bank", and also you want to become operationally more effective. Can you expand on these two points a bit, please?

THE PRESIDENT: Thanks, Stefanie. I think the "bank" point is simply, if you look at our world – and it goes back to Patrice's question – the world we are operating in, we are operating in an incredibly difficult, challenging environment. We have the geopolitical tensions that he mentioned, but we also have the economic environment issue, the economic growth issue, and it is becoming even harder for skilled people in our Bank to try and find the right sort of projects that are financeable and bankable; they have to work extra hard to do that. They have to work really, really hard to find those projects that will provide a good enough return and that our various regional portfolios will be sufficiently successful that overall they will return a profit for the Bank.

It is not just about our banking operations; it is also our treasury operations; in this environment, with equity markets under stress we are also having to work harder as well. All in all, we are just having to work harder as a bank, just like every other multilateral bank, to try to make that profitability, and it is important to do so. It is also important in terms of triple-A ratings to make sure that all our shareholders – and this is the point I was making to them – show very explicitly how much they support the institution, as demonstrated this week, obviously. These sorts of shows of support mean a lot to credit rating agencies as well. That is a fundamental issue, I think.

The second issue is really about our operational processes and efficiency. It sounds a bit internal, so let us make it external and more interesting for journalists and others. If you ask a client we work with in the private sector what they think of us, they say really nice things, and we get very good feedback, but if you ask them one thing they would like to change, it is the proportionality of processes. We are still seen as the fastest multilateral in the world, but it still takes a year from concept to signing of a project, on average – some are faster, some are slower.

For the client, that is a long time, because if they go to a commercial bank, if a commercial bank was willing to finance that project, it would be much faster of course. What can we do to narrow the gap? That is the question. I want to be in a position in four years' time where I do not have to go to Georgia and meet that same client who said to me, "The only thing you didn't ask me was my waist size", which just shows you the sort of detail that we used to go into, and still do. We need to be proportionate and ask the questions that are really required to be asked in order to deliver the project successfully.

That is just an example, but there are plenty of examples of processes that over time just accrete and you add things to them and add things to them and at some time in any institution's history – and 25 years is a good time – you need to take a look and say, "What can we actually cut out that is just no longer necessary?" That is what we are doing, and I hope to find sufficient savings so that we can reprioritise and reallocate the priorities that our shareholders now think are the new priorities.

QUESTION (Business Magazine Capitals(?)): Sir Suma, I have a question for you about the refugee crisis in the European Union and its neighbouring countries. During your second term do you expect to develop new, specific programmes that would be addressing this serious humanitarian and economic crisis in the European Union at the moment? If so, what concrete steps will you be taking to address this refugee crisis in Europe?

THE PRESIDENT: Thank you very much. I think I have two answers to that interesting question. First of all, let me just say EBRD must stick to its business model. We are not a humanitarian organisation. UNHCR and others should be taking the lead there, and that is not our area of expertise. What can we do to help? It is always important to think when we see this on our TV screens. It is clearly a very serious tragedy and difficult to deal with, but we have to design a response that is professional, that is cool, that is objective but very much in line with our private sector mandate, and that is what we have been trying to do.

The first part of the answer is really to tackle this for us at source, and the nearest source that we can get to in our countries of operation is south-eastern Turkey, northern Jordan and Lebanon when it becomes a member. We are trying to design the response in the region rather than outside it. We may do some things on SME development in the Balkans as well – so southern Serbia, Kosovo, some areas where there are also some pressures – but I think the bulk of our response is going to be in that Middle Eastern region and it is part of that €900 million package. As I said earlier, SME development, municipal services development, are very much at the centre of it. That package can only work if we get enough grant funding. That is why it is so pleasing that the UK yesterday signed, and Justine Greening announced, the whole £30 million package from the UK, and also signed the first one for the first project in Jordan. We have very good feedback from the European Commission and from the US. We need all our donors to really chip in to this because of that €900 million we need €400 to come from donors. €100 million will come from EBRD's own net income, but there is still €300 million to find, and we have 10 per cent of that now from the UK but we have to find the rest. It is really important. We cannot make this business model work without that element of grant.

NATALIA KOPYLOVA (RIA Novosti): My question is about the privatisation process in Russia. Is EBRD interested in that process, or EBRD's clients or shareholders, and could it push EBRD to start new operations in Russia?

THE PRESIDENT: Natalia, if this were June 2014, yes, but it is not. In July 2014, as you know, we were given guidance by our shareholders that we should not bring new projects for Russia to the Board. This was not a comment on the quality of our work or the quality of our partnership with Russian clients or the Russian state, which was actually in very good shape, with a lot of reform being supported by great investments there. It was comment on the geopolitics, and it was a reaction to the geopolitics that Patrice mentioned. So for the last two years we have not brought new projects to our Board. I read, like you, obviously, about the government's plans on privatisation with great interest, but we cannot pursue them. It is the shareholders who have to give us guidance and it is their leadership on this, not management.

MARC JONES (Reuters): Just a quick question on whether you have got anywhere with the idea of graduation going forward, and what the plans are, maybe putting in some indicators to work out when it is appropriate to graduate a country. The second question, just out of interest, is: all your accounts are in euros and your finances are in euros. How much money are you losing as a result of the negative interest rates in the eurozone at the moment?

THE PRESIDENT: Well, we made a profit of €800 million last year, so I think we are doing OK actually, and the first four months of this year have been good as well. We are on track in terms of making a profit again this year. Actually, not all our accounts are in euros. We hedge as well.

On graduation, which is a really interesting and big question, as you know, Marc, only one country had graduated from the EBRD, the Czech Republic, before the financial crisis. At that point of course the expectation was that others would graduate, but then the crisis hit and countries very much wanted EBRD to stay engaged, not least because a lot of the eurozone banks were deleveraging from those countries, so there were gaps that EBRD could fill.

The way we look at graduation – and this involves indicators, as you call them, but I guess they are the criteria we would look at – is to see whether the country has transition gaps. Are there gaps in its development towards a fully-fledged market economy where the EBRD could, through its expertise, have transition impact?

The second question is very fundamental, and in some ways even more so. Could those gaps be plugged not by the EBRD but by the commercial banking sector, and is it willing to take the risk to do so? That is the question we always ask. We look at that when we do our country strategies. We have just approved three country strategies for the Baltic States and for Hungary – and these are some of the advanced transition countries. In each of those cases the country in question committed itself to the principle of graduation, but we also still found the gaps and the areas of impact and additionality where the EBRD could continue to do good work.

This is a live debate. It will always be of interest. The way we want to deal with it is always in terms of the country strategies and the country strategy updates. We are always looking at whether or not it is the right time, but so far, as I said in my vision and in my hearings, there is a good case to stay engaged in some of these countries.

EKATERINA BELKINA (Russian Interfax News Agency): I would like to know about your investments in Russia. As we all know, the EBRD stopped investing in Russia in 2014, but does the EBRD have any intention to sell its Russian assets, perhaps shares in Russian companies, in a year or three years?

THE PRESIDENT: There is no such plan. What happens in terms of our equity investments is that we always make a judgement, whether it is in Russia or any country, as to the right time to sell. When has the transition impact that we can bring through our involvement reached maturity; and is this a good price that we can sell at? Russia is no different – we would do the same.

You are right about one thing; the quality of our Russian portfolio has been the best. It has been really, really important to the Bank in the past. Even last year, just over a third of our net income came from the quality of those assets. It is a very important set of assets, and although the guidance is that we cannot have new projects, that is why we still spend so much of our time and effort in maintaining the quality of the portfolio in Russia. It is very, very important to our wellbeing, I would say.

THE CHAIRMAN: Are there any further questions? If that is not the case, I will thank Sir Suma, and I thank you all for coming.
