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World Bank Group Directs US\$12.5 Billion in Fiscal 2009 to Mitigate Impact of Global Economic Crisis in Europe and Central Asia

WASHINGTON, July 24 2009—During Fiscal Year 2009, a period marked by the sudden onset of the global financial crisis, the World Bank Group committed US\$12.5 billion in support to its members and to private business in the Europe and Central Asia (ECA) Region. The World Bank Group commitments in ECA grew in fiscal year 2009 by 58 percent, as financing was rapidly approved to help cushion the impact of the global economic crisis on the poor and to position countries for post-crisis recovery.

Many countries in Europe and Central Asia entered the crisis in a vulnerable position. Relatively high current account deficits, elevated external debt levels, very rapid credit growth, and a consumption boom financed by foreign currency borrowing created vulnerabilities in Central and Eastern Europe (CEE), the Baltics, and some Commonwealth of Independent States (CIS), leaving several of them particularly exposed to the crisis. On the other hand, sharp drops in commodity prices brought growth in economic powerhouses of the eastern part of the Region (Russia and Kazakhstan) to an abrupt halt and hit the less well-off parts of the CIS very hard.

“After a decade of impressive growth and poverty reduction, the Region has now been severely hit by the global economic crisis,” said **World Bank Europe and Central Asia Vice President Shigeo Katsu**. *“Risks have*

materialized into a full-blown crisis, faster and deeper than expected. A human crisis is looming in Europe and Central Asia, and countries are already losing the poverty gains made in recent years. We will continue supporting ECA countries by focusing on preserving jobs, protecting people, and stabilizing the financial sector. Through these measures, countries can cushion the impact of the crisis and ensure they are in a better position to rebound afterward.”

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), which provides financing, risk management products, and other financial services to members as well as analytical services, capacity building and technical services; the International Development Association (IDA), which provides interest-free loans and grants to the poorest countries; the International Finance Corporation (IFC), which makes equity investments and provides loans, guarantees and advisory services to private-sector business in developing countries; and the Bank Group’s political risk insurance agency, the Multilateral Investment Guarantee Investment Agency (MIGA).

The IBRD/IDA recipients are using these funds for 53 projects across all sectors, designed to overcome challenges of the crisis and be better positioned for the post-crisis period by focusing on productivity and innovation in the enterprise sector; establishing a healthy business/investment climate; creating a qualified and skilled workforce, through projects targeting health and education; improving public administration;

World Bank Group Commitments in Europe and Central Asia Fiscal Years 2009 and 2008 (year ends June 30)

| World Bank Group | FY09 | FY08* |
|------------------|-----------------|--------------|
| IBRD | \$8.9bn | \$3.7bn |
| IDA | \$0.4bn | \$0.5bn |
| IFC | \$2.1bn* | \$2.7bn* |
| MIGA | \$1.2bn | \$1.2bn |
| TOTAL | \$12.5bn | \$8bn |

*Own account only. In FY09 excludes \$841 million mobilized through syndications and structured finance.

creating legal and judicial systems; and implementing economic infrastructure programs, particularly transboundary programs. IDA commitments in ECA were US\$383 million, and IBRD commitments totaled US\$8.9 billion in fiscal 2009, more than doubling the \$4.2 billion of FY08. The top borrowers in ECA in FY09 by volume were Poland (US\$2,550 million); Kazakhstan (US\$2,125 million); and Turkey (US\$2,075 million).

In a rapidly changing economic landscape, the World Bank continues to be a vital development partner and responded to strong demand for economic support across the poorest countries. To help create jobs, the Bank financed labor-intensive infrastructure projects across the Region, including a package of three projects for Armenia in the amount of US\$35 million designed under the Fast-Track Facility as an immediate response to the global economic crisis, US\$20 million to help Tajikistan protect social spending and continue its development agenda despite a shrinking budget, US\$11 million to increase power and heat generation in Kyrgyz power plants, and US\$10 million to continue to foster post-privatization growth in Moldova's agricultural and rural sectors. Immediately following the August 2008 conflict in the South Caucasus, the Bank and the United Nations led a group of donors in preparing a Joint Needs Assessment for Georgia that examined financing needs for post-conflict recovery and reconstruction. The Bank and the European Commission subsequently chaired a donor conference for Georgia in October 2008 that raised \$4.5 billion in assistance over three years.

In middle-income countries, the Bank continued to provide a broad range of product lines addressing the diverse needs of this group in ECA. Among these were the US\$800 million to support implementation of Turkey's updated national electricity strategy and its ongoing program to reform the electricity sector, US\$2.125 billion in Kazakhstan to help upgrade a 1,062 km stretch of the international trade corridor linking China to Russia and Western Europe, US\$1.250 billion to support reforms in public finance management in Poland, US\$400 million to improve the condition and quality of roads and increase traffic safety along Ukraine's main road network, US\$200 million to enhance social protection in Bulgaria, and US\$122.5 million to improve the competitiveness of Croatia's Rijeka port as a Pan-European transport route. The Bank also supported a US\$78 million Partial Risk Guarantee for the privatization of Albania's Energy Distribution System Operator.

The Bank also played a crucial role in stabilizing the financial sector by providing budget support for reforms in almost half the Region's countries, conducting diagnostic work on the banking sector, and helping client countries restructure and recapitalize their banking sector. In a joint initiative, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group pledged to provide up to \$31 billion to support the banking sectors in the region and to fund assistance to businesses hit by the global economic crisis. Support included equity and debt finance, credit lines, and political risk insurance.

In some countries, and in particular in Russia, the Bank forged partnerships at the subnational level to strengthen capacity in areas such as public administration, social service delivery, education, and public-private partnerships for infrastructure finance.

An important element of the Bank's services in ECA is knowledge generation and dissemination through extensive analytical work as well as capacity building. Flagship reports published in FY09 include *Adapting to Climate Change in Europe and Central Asia*, which warns that the impact of climate change in ECA will be more significant than expected due to a lingering post-Soviet legacy of environmental mismanagement and the poor state of much of the Region's infrastructure, leaving countries poorly prepared to adapt. The 'adaptation deficit' is already challenged by climate variability, which will only worsen the consequences of projected trends in climate in the coming decades. In this context it is noteworthy that Turkey was the first country that benefited from the Clean Technology Fund (CTF) with the approval in FY09 of the US\$ 600 million Private Sector Renewable Energy and Energy Efficiency Credit Line, which includes US\$ 500 million IBRD financing and US\$ 100 million CTF resources. The global community is the beneficiary of this program and the program reflects Turkey's commitment to reduce Greenhouse Gas emissions.

The ECA region launched Knowledge Briefs to share knowledge and good practices with our clients. Other analytical products, such as the EU-10 and Russia Economic Reports, provided a comprehensive analysis of recent economic developments and the impact of the on-going crisis on a regular basis. The Bank is actively monitoring the human impacts of the crisis in the region through labor market monitoring, social benefits monitoring, and rapid-response surveys. Ongoing analysis examines the impact of the crisis on social protection and household welfare, its effect on pensions, the extent to which safety nets are capable of responding to the crisis, and the role of the Bank. The institution has facilitated policy dialogue on several pressing issues such as the food crisis, the financial crisis and its impact on migration and remittances

The International Finance Corporation (IFC) continued investing in strategic areas in FY09, with a particular focus on existing clients and supporting financial markets. In FY09, IFC committed \$2.1 billion for its own account and mobilized an additional \$841 million in financing for its clients. IFC supported 87 projects, of which 53 percent are in IDA countries and in frontier regions of middle-income countries. Advisory services were an integral part of IFC's activities, delivering training to over 400 stakeholders in the financial sector on crisis-related topics, helping to catalyze the market for investments in energy efficiency and cleaner production, supporting infrastructure development through public private partnerships, developing the agricultural sector and improving corporate governance.

“Our main priority was to help our existing clients to deal with the continuing global economic crisis with investments and advice, which resulted in a very strong portfolio,” said **Jyrki Koskelo, IFC's Vice President for Europe and Central Asia**. *“We also invested in selected new projects with high development and climate change impact. We are doing more in IDA and post conflict-affected countries, providing banks with much needed liquidity and trade finance to support cross-border trade in the region. In just one year we tripled our trade finance program in ECA.”*

During FY09, MIGA provided support for ten projects with US\$ 1.2 billion in political risk insurance or guarantee coverage in the region.

“Countries in Eastern Europe and Central Asia continue to rely on private investment and foreign direct investment to overcome the financial crisis and restore economic growth,” said **MIGA's Executive Vice President Izumi Kobayashi**. *“But with liquidity drying up, the risk appetites of international investors for projects in these economies dropped substantially. MIGA will continue to play a significant role in helping ECA countries by supporting lending to the real economy through private banking groups.”*

The agency's support is significant for building market confidence in these emerging economies in times of economic crisis.

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For more information about the World Bank Group; please visit www.worldbank.org