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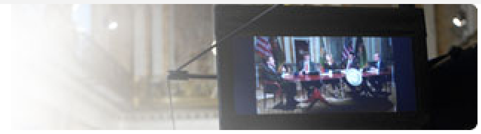

Prepared Statement by U.S. Governor Marisa Lago at the European Bank for Reconstruction and Development’s Nineteenth Annual Meeting of the Boards of Governors

5/18/2010

TG-702

I am delighted to represent the United States at the 19th Annual Meeting of the Board of Governors for the European Bank of Reconstruction and Development (EBRD).

We are convening in Zagreb during a period of heightened uncertainty about the region's near term prospects. In our view, this latest period of volatility again serves to spotlight the EBRD's vital role in protecting transition gains and encouraging continued reform momentum. As the Bank's largest shareholder, the United States affirms its strong support for this institution.

A key objective of this meeting is to conclude the fourth EBRD capital resources review, which will guide the Bank's operations through 2015. This review was especially timely, as it provided a critical opportunity to assess the Bank's mandate, priorities and challenges in the context of the global financial crisis. During this review, EBRD management made a compelling case for fresh resources to meet the extraordinary demands arising from the global financial crisis and to fulfill its mission of promoting transition to well-functioning, market-based economies in its countries of operation. For this reason, we are prepared to fully endorse Management's proposal for a fifty percent increase in the EBRD's capital base. We would also like to commend President Mirow for his leadership in assisting member countries during this critical period, and for his role in building consensus among shareholders on the capital increase.

EBRD member countries were especially hard hit by the global financial crisis. On average, the region's economies shrank by 6 percent in 2009, with some countries experiencing double digit declines in output. No other region experienced such a significant contraction. Fortunately, the EBRD was poised to mitigate the crisis impact through the significant and well-timed expansion of its lending and investment activities, which led to a 60 percent increase in business volume last year.

Recent projections suggest that this year the region should see some recovery, albeit uneven, with average growth in the region of around 3 percent. However, developments in Greece have highlighted significant downside risks to the broader European recovery. As a result, prospects for EBRD member countries remain uncertain as slower European growth and continued market volatility will weigh heavily on the region. We welcome the extensive actions by Europe to restore confidence and financial stability. In addition, we believe that the EBRD can play an important role in helping its borrowing countries manage this latest set of challenges.

We draw two broad conclusions from the impact of the global financial and debt crises on the region: first, there remain significant structural weaknesses that allowed the development of large economic imbalances persist in many of the EBRD's countries of operation; and second, countries must address these weaknesses to achieve sustainable growth and reap the full benefits of economic and financial integration. Structural weaknesses include: dependence on commodity exports, underdeveloped local capital markets, and difficult business environments that constrain competitiveness and can lead to domestic asset bubbles.

Through its initial crisis response, the EBRD has already demonstrated that it has a vital role play in redressing these sources of vulnerability. The EBRD is now preparing to launch a new initiative to support local capital market development, which should help reduce systemic vulnerabilities, such as an overreliance on un-hedged foreign currency borrowing. We very much welcome this proposal.

In addition, we support management's recommendation to include the promotion of economic diversification as an important strategic priority for the Bank. We agree that diversification remains key to reducing the region's reliance on heavy industry and commodity exports, thereby generating more balanced and stable growth. We also welcome the Bank's intention to scale up its policy dialogue, in coordination with other IFIs, on the lessons of the crisis. We hope that the Bank can work with borrowing countries to establish competitiveness reform strategies.

Finally, we endorse the Bank's commitment to improve energy efficiency and energy security within its transition mandate. The EBRD's ongoing Sustainable Energy Initiative has surpassed its investment objectives, reflecting rising demand in countries of operations and effective mainstreaming of energy efficiency and climate financing as the region moves towards a low-carbon economy.

In conclusion we remain optimistic that the countries of the region will once again demonstrate their resilience in restoring economic growth and making progress towards transition. With this positive outlook, we are particularly pleased to support this innovative temporary capital increase, which is structured to ensure that the Bank can provide the strongest measure of crisis support during this difficult period.

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