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Recovering sustainably from the Covid-19 crisis – focus on CEE

The word “sustainability” is in vogue now – it is used so often and in many different contexts that its original meaning can sometimes get lost. But when it comes to recovering sustainably from the economic crisis precipitated by the Covid-19 pandemic, we need to go back to first principles. It is important that we tackle this recovery in a manner that will endure beyond emergency interventions, so that we give true meaning to our promise to “Build Back Better.”

Understandably, the emergency response of governments worldwide, including in the Central and European (CEE) region, has been focused on individual’s incomes and corporate liquidity. Because of the severity of the crisis, there is always the risk that well-intentioned kneejerk reactions could lead to less sustainable outcomes. For example, increase in state ownership of companies to protect corporate balance sheets is likely viewed as systemically important. As a multilateral development bank with a distinct private sector mandate, the EBRD recognises that these types of solutions are likely during crisis but we will be there to advise when such emergency measures need to be reversed to promote a private sector-led recovery that is both inclusive and sustainable.

When we interpret “sustainability” in its broader sense, meaning the ability to continue over a prolonged period of time, we need to look at the diverse tools at our disposal. At the EBRD, we are committing all of our activity in 2020-2021, worth €21 billion, to help our regions counter the economic impact of the pandemic.[1] Separately, all eleven CEE EU members will be net recipients of grants and will have access to new, cheap loans under the EU’s EUR750 billion pandemic recovery plan. It is encouraging that the Rating Agency, Fitch, forecasts higher growth for all but one of these countries in 2022 than 2021, making the CEE region stand out[2].

However, no single source of finance will come to the rescue – they need to be manifold and diverse. That is why the EBRD has focused on introducing new products in the region, such as the Commercial Paper (CP) programs to mobilise emergency assistance for working capital as well as Banking sector capital Instruments to strengthen the capital base and promote new lending.

Interpreting “sustainability” in the more narrow sense, in terms of its

impact on environmental matters, the EBRD recognises how important it is that there is a post-Covid green recovery. The emergency response in the CEE has so far not focused on green stimulus measures. However, if they are properly targeted, public policy interventions could spur economic growth in a more climate-friendly way. Policymakers should harness this unprecedented opportunity and use it as a springboard to a greener path. And a new vibrant group of investors is supportive of ESG goals and they are not shy in directing money to a sustainable future. Positives are already occurring in Poland and the Czech Republic, with both countries attempting to move to a future less dependent on coal.[3] Separately, in Hungary, the Central Bank is working with the EBRD to develop a sustainable capital markets development strategy, which will complement its ongoing initiatives aiming to green the financial system and to mitigate the risks of climate change. A similar project is ongoing in Lithuania.

The genesis of many of these initiatives pre-date the Covid crisis, but are even more relevant now. And there are other reasons to be optimistic for the CEE region: the International Renewable Energy Agency has confirmed that there is huge potential for clean energy there. According to a recent study, the economies of Central and South-Eastern Europe could cover 34 per cent (from 16% in 2015) of their rising energy demand cost-effectively with renewables by 2030.[4] At the EBRD, we stand ready to support them in their transition.

[1] <https://www.ebrd.com/what-we-do/coronavirus>

[2] <https://www.fitchratings.com/research/sovereigns/next-generation-eu-fund-to-boost-cee-sovereigns-growth-in-2022-13-01-2021>

[3] https://think.ing.com/uploads/reports/CEE_Green_Opportunity_Master_3_Nov_-_FINAL_.pdf

[4] https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Oct/IRENA_REmap_CESEC_2020.pdf