European Bank for Reconstruction and Development (EBRD): subscription by the EU to additional shares in the capital

2011/0014(COD) - 02/02/2011 - Legislative proposal

PURPOSE: to permit the European Union to subscribe for additional callable shares in the EBRD in the framework of the capital increase decided by the EBRD Board of Governor on 14/15 May 2010.

PROPOSED ACT: Decision of the European Parliament and of the Council.

BACKGROUND: the European Bank for Reconstruction and Development (EBRD) was established in 1990 to support the development of market economies from central Europe to central Asia following

the widespread collapse of communist regimes. The European Union, together with the European Investment Bank (EIB) and 40 countries (including all EU Member states at that time), were founding members. The EBRD is currently owned by 61 countries, the EU and the EIB. The initial capital of the EBRD was fixed at ECU 10 billion, of which the EU subscribed 3%.

In 1996, the Governors of the EBRD decided to double the authorised capital of the EBRD for which the EU subscribed an additional 30 000 shares of EUR 10 000 each, bringing the EU subscribed capital at EUR 600 million. The EU share in the EBRD total authorised capital was maintained unchanged.

At the Annual Meeting of the Governors of the EBRD on 14/15 May 2010, the Board of Governors adopted Resolutions 126 and 128 providing for an **increase in the authorised capital stock of the Bank of 50% from EUR 20 billion to EUR 30 billion**. The capital increase comprises **EUR 1 billion paid-in capital and EUR 9 billion of new callable capital**.

For the EU, it means that the EU shall subscribe up to an additional 27 013 callable shares (each worth EUR 10 000 each) amounting to EUR 270.13 million taking into account the EU proportion of 3.031% in the subscribed capital.

The subscription of callable shares amounting to a total of EUR 9 billion will become effective as soon as the individual shareholders have completed their internal procedures and deposited their instruments of subscription, as it was the case for the 1996 capital increase. The Bank would expect that the callable capital increase will become effective at the end of April 2011, but in any event not later than 31 December 2011.

IMPACT ASSESSMENT: the EBRD fourth Capital Resources Review (CRR4) for the period 2011-2015, which was undertaken during the past year, reflected the need for the Bank to respond effectively to the crisis and to redirect its medium term strategy taking account of the significant impact the crisis is having on its region of operations. In this framework, the EBRD carried out an analysis of capital enhancement options, based on the need to comply with the Bank’s statutory ‘gearing ratio’ and economic capital requirements, the maintenance of the Bank’s Triple-A credit rating, as well as the effective and efficient use of shareholders' capital.

The efforts undertaken by the EBRD to mitigate the impact of the crisis in all its countries of operations through the proposed capital increase will allow the Bank to sustain a high level of activity and accompany the recovery in its region of operations, in cooperation with the EIB and other International

Financial Institutions. It is expected that the capital increase would enable the EBRD to have an annual business volume of about EUR 9 billion for 2011 and 2012, and about EUR 8.5 billion until 2015.

LEGAL BASIS: **Article 212** of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: under the terms and conditions of Resolution 128 on capital increase in the form of additional subscription of callable capital, the authorised capital stock of the Bank shall be increased by 900 000 callable shares, each share having a par value of EUR 10 000 which shall be subject to redemption in accordance with the provisions of the above Resolution. **The EU is entitled to subscribe up to 27 013 callable shares**.

The proposed Decision aims at authorising the EU to take part in the callable part of the EBRD capital increase by subscribing to the shares it is allowed to.

According to the terms of the Resolution 128, each member of the EBRD shall deposit with the Bank an instrument of subscription whereby the member subscribes to the number of callable shares specified in such instrument. In addition, the member shall deposit a representation that the member has duly taken all legal and other internal action necessary to enable it to make such subscription.

BUDGETARY IMPLICATION: as regards the callable part of the capital increase, its budgetary impact will be catered for by the **budget line 01 03 01 02 "European Bank for Reconstruction and Development – Callable portion of subscribed capital"**, which has been established in the 2011 budget, so as to reflect the EU budget's liability deriving from the callable part of the EU participation in the EBRD's capital. The budget line should be endowed with a 'p.m.' reflecting the contingent nature of the call and a budgetary comment defining the size of the contingent liability.

Although a call is considered to be highly unlikely, the budgetary line and its comment will reflect the financing needs which could arise in the event of a payment request by the EBRD relating to the callable part of the capital subscribed by the EU.

The modalities of the EU participation in the capital increase of the EBRD do not foresee any operational expenditure. The amount for human resources amounts to EUR 135 million for 2010 to 2013.