

ACHIEVING SUSTAINABLE GROWTH IN SOUTHEAST EUROPE: MACROECONOMIC POLICIES, STRUCTURAL REFORMS, SOCIO-POLITICAL SUPPORT, AND A SOUND FINANCIAL SYSTEM



Conference jointly organised
by the Bank of Greece and the
University of Oxford (SEESOX)

ATHENS, 11 FEBRUARY 2011



SEESOX
South East European Studies
@ OXFORD



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**Programme of the conference on
“Achieving sustainable growth in
Southeast Europe: Macroeconomic policies,
structural reforms, socio-political support,
and a sound financial system”***

Welcome address by **George A. Provopoulos**, Governor, Bank of Greece

Keynote address by **Erik Berglöf**, Chief Economist, EBRD

**First session: Macroeconomic policy challenges and public sector reforms in
SEE countries**

Chair: **Yannis S. Costopoulos**, Chairman, Alpha Bank

Speakers (in alphabetical order):

Dubravko Mihajjek, Head of Emerging Markets, BIS

Paul Mylonas, Chief Economist, National Bank of Greece

Bob Traa, Senior Resident Representative in Greece, IMF

David Vines, Professor, Oxford University

Discussant: **Emmanuel Zervoudakis**, Director-Adviser, Bank of Greece

* The speakers' presentations can be accessed at: <http://www.bankofgreece.gr/Pages/el/Bank/SEESOX2011.aspx>

Second session: Structural reform challenges in SEE countries

Chair: **George Tavlas**, Director General, Bank of Greece

Speakers (in alphabetical order):

Tassos Anastasatos, Senior Economist, Eurobank EFG Group

Heather Gibson, Director-Adviser, Bank of Greece

Alan Paic, Acting Head, OECD Investment Compact for SEE

Peter Weiss, Resident Representative in Greece, DG ECFIN, European Commission

Discussant: **Peter Sanfey**, Lead Economist, EBRD

Third session: Building social/political support for reform in SEE countries

Chair: **Thanos Veremis**, Professor, University of Athens

Speakers (in alphabetical order):

Georgy Ganey, Programme Director for Economic Research, Centre for Liberal Strategies

Gerald Knaus, Chairman, European Stability Initiative

Discussant: **Othon Anastasakis**, Director SEESOX, Oxford University

Fourth session: Growth and the financial system

Chair: **George A. Provopoulos**, Governor, Bank of Greece

Speakers (in alphabetical order):

Ardian Fullani, Governor, Bank of Albania

Ivan Iskrov, Governor, Bulgarian National Bank

Cristian Popa, Deputy Governor, National Bank of Romania

Dejan Šoškić, Governor, National Bank of Serbia

Alexey V. Ulyukaev, First Deputy Chairman, Bank of Russia

Durmuş Yılmaz, Governor, Central Bank of the Republic of Turkey

Discussant: **Max Watson**, Oxford University

I. Introduction: Overview of key themes*

Southeast Europe stands at a crossroads today. The extent of progress made in economic development, democratic reforms, regional cooperation, and integration into global economic and financial markets was unthinkable a decade ago. The dynamics of this performance are unprecedented in the region's history.

By contrast, the past two years have been a difficult time for all countries. The financial crisis that began to affect Western markets in the second half of 2007 reached SEE by the fourth quarter of 2008. All macroeconomic indicators pointed in one direction: the region was facing a major economic slump. By the second half of 2010, there were signs that output was gradually stabilising. Cautious optimism is now being expressed that the worst is over and positive GDP performance is expected for most countries in Southeast Europe in 2011.

This optimism is fed by an economic recovery that is strongly based on export-led growth. An export-led growth agenda in the region is being implemented against the background of limited public investment resources, stagnant domestic consumer demand and constrained fiscal policy making capacity among most countries.

Moreover, a total of nine countries in the wider regions of Central, Eastern, Southeast Europe & the Black Sea currently maintain active or so-called precautionary programme arrangements with the IMF and/or the European Union. This toolbox of multi-year support includes balance of payments support, precautionary and flexible credit lines, as well as stand-by arrangements. Continuation, re-negotiation and future exit from these support facilities are a delicate political task for individual programme countries.

In view of this mixture of encouraging and challenging factors, the focus of presentations and discussions among participants rested on exploring five key issues. They can also serve as a roadmap for future regional cooperation between countries in the region of Southeast Europe.

1. The political economies of most countries in Southeast Europe, particularly among the Western Balkans, face considerable challenges on the upside, while seeking to limit downside risks. Put otherwise, the low per capita income in many SEE countries, compared with that in EU-27, points to the potential of a substantial catch-up, provided proper and sustainable over time policies are in place.

* The speakers' presentations can be accessed at: <http://www.bankofgreece.gr/Pages/el/Bank/SEESOX2011.aspx>

2. The financial sectors in SEE countries, albeit basically healthy, continue to face challenges. Domestic credit growth remains low reflecting demand, as well supply factors. Non-performing loans (NPLs) are rising, typically lagging behind the economic recovery. The loan-to-deposit ratio is high, owing in part to the availability of cheap funds from abroad. With regulators set against foreign currency lending, banks are trying to raise domestic financing in part through higher deposit rates, which however feed through to lending rates.

3. As the twin fiscal and public debt crises unfold in Greece, neighbouring countries in Southeast Europe are trying to determine how they will be affected by the developments in Athens. In light of Greece's track record of foreign direct investment, its foreign policy focus on the region and growing bilateral trade volumes between neighbouring SEE countries, Serbia, Albania, FYROM, Romania, Bulgaria and Turkey cannot remain indifferent to the magnitude of the crisis next door. Nor can they cast a blind eye to the consequences arising from solutions being addressed in Athens or advocated in Brussels, Berlin and Washington.

4. The role and responsibility of central banks in the region is going to have to continue being orthodox, but equally creative. Demand for tightening monetary policy is growing as economic growth takes root, albeit in a very fragile setting. Supervisory tightening is already under way, but in a context where credit availability at affordable conditions is a worry for firms, in particular SMEs. The issue of foreign currency borrowing – recognised as a major policy challenge on the regulatory and supervisory sides – is not over. The incentives for households to continue borrowing in FX are still present and available data points in the direction of continuing consumer demand and ample supply.

5. The level of cooperation achieved during the past three years among central bank governors is unprecedented in Southeast Europe. In order to consolidate a sustainable growth agenda, a key element concerns enhanced intergovernmental cooperation. Such cooperation can put in place the infrastructure networks and financial frameworks required to trigger stronger foreign direct investment across the region's economies.

A subtext of the conference rested in trying to answer in practical policy terms some of the political and economic questions that have emerged during the past two years as a result of the global economic crisis. Considerable progress has been made in regional economic cooperation in Southeast Europe. And there is scope for further deepening and expansion of such cooperation. Some of the issues raised during the conference concerned e.g.:

(i) How can domestic infrastructure projects be linked with regional economic cooperation initiatives? Is strategic coordination of IFI funding in cross-border infrastructure projects viable?

(ii) Cooperation priorities in the perspective of EU integration. How can candidate and pre-accession countries in the region jointly enhance their EU strategies?

(iii) Building on favourable cooperation examples in transport, energy, trade facilitation, agri-business, defence and crisis management.

(iv) Using the momentum to advance into new domains of cooperation in economic policy making, e.g. cross-border banking supervision, development of local capital markets and strengthening lending in domestic currencies.

The second conference jointly organised by the Bank of Greece and the University of Oxford (SEESOX)* underscored the need for such cooperative initiative and for providing a venue for constructive dialogue between decision makers, market participants, as well as policy advisers. The framework of cooperation established between the Bank of Greece and South East European Studies at Oxford (SEESOX) provides a platform for such critical exchanges and enhances the spirit of collaboration among the wider policy making community in the region.

* The first joint conference took place in Athens on 16 October 2009 and was entitled 'Challenges and prospects of South East European economies in the wake of the financial crisis' (<http://www.bankofgreece.gr/Pages/el/publications/seminars/SEESOX.aspx>).

II. Welcome address by George A. Provopoulos, Governor of the Bank of Greece

I am pleased to welcome you to the Bank of Greece. This occasion marks the second conference on Southeast Europe jointly organised by the Bank of Greece and Oxford University. The first conference, held in October 2009, dealt with the effects of the global financial crisis on this region and the policy challenges in the light of the crisis. The focus of this conference is different; it is on the longer-term growth potential of the region. Specifically, the conference will deal with the economic policies, institutions, and the political-social environment that can both increase and sustain potential growth. We are fortunate to have with us a number of experts from the central-banking, academic and commercial-banking communities. They will share with us their views about the growth potential of the region and the policies that can help achieve that potential.

The global crisis, which halted more than a decade of sustained growth in most countries of the region, has demonstrated that economic convergence in Europe is neither an inevitable nor an automatic process. Prior to the crisis, most of Southeast Europe was characterised by relatively high growth, based mainly on consumption spending, private and public. The increased consumption expenditure typically reflected rapid growth in domestic credit, to a significant extent financed through foreign capital inflows. Rising public spending often contributed to a widening of fiscal imbalances.

These imbalances had adverse consequences. Among other things, they added to domestic price pressures, reduced competitiveness and, along with rising private consumption, contributed to higher external deficits. In some countries, inflation surged to double-digit levels, wage increases far exceeded gains in labour productivity, and there were excessive increases in asset prices, especially the price of housing. These external imbalances left the economies concerned extremely vulnerable to an external shock. That shock came in the form of an eruption of a crisis in the US subprime mortgage market in August 2007.

In its early stages, the crisis was confined to advanced economies. Local and foreign banks in Central and Eastern Europe held only negligible amounts of the so-called toxic assets. However, as access to international capital markets was impaired, countries in this region most in need of external financing experienced large declines in output. A number of economies in Central and Eastern Europe were only moderately affected. Output contraction, however, was especially severe in the Baltics and, to a somewhat lesser extent, in Southeast Europe.

This circumstance suggests that countries with the more serious imbalances and vulnerabilities were most at risk from external financial shocks. The lesson from this recent experience is that convergence

efforts should be accompanied by stability-oriented policies that contain the build-up of imbalances, both domestic and external. Policy efforts at the national and international levels helped contain the impact of the crisis on economic activity. The prevailing exchange-rate regimes were successfully defended and the domestic banking sectors showed considerable resilience. In many instances, fiscal and monetary policies were tightened. In some cases, the tightening occurred within the context of programmes supported by the IMF and the EU. As a result, financial conditions have stabilised and there are now clear signs of a recovery in economic activity in most countries in Central and Eastern Europe.

Nevertheless, the global crisis has entailed large costs for the region. There has been a sharp decline in economic activity and unemployment has risen sharply in many countries. Moreover, the ongoing deleveraging process, that is the need to repair household and corporate balance sheets, tighter bank credit standards, as well as rising long-term unemployment, could slow the pace of economic recovery in many SEE countries. The Southeast European economies, like most other economies in Central and Eastern Europe, will likely experience reduced capital inflows, because investors have become more risk-averse. Consequently, foreign investment may decline compared with pre-crisis levels, leading to lower economic growth compared with the growth rates experienced in the years leading up to the crisis.

In light of the above, there will be a need to formulate and implement economic policies geared toward developing alternative sources of growth – policies that will render the economies less vulnerable to external shocks and that will allow them to better navigate their way through shocks, should they occur. One such source of growth concerns the traded-goods sector. Growth based increasingly on exports will help avoid the boom-bust cycle and asset price bubbles that have in the past been associated with non-FDI capital inflows. Such a growth will prove more sustainable. A more diversified export base will also help protect the economies concerned from sector-specific shocks, while providing an important mechanism for limiting the build-up of external debt.

Fiscal consolidation will be an essential element for securing high growth, by crowding-in private investment and making room for much needed infrastructure investment. Such consolidation will need to be accompanied by improvements in the effectiveness and efficiency of public spending as well as of the tax system and its administration. We look forward to a discussion of issues related to fiscal consolidation and macroeconomic adjustment in Session I of the Conference, which will be chaired by Mr Yannis Costopoulos, Chairman of Alpha Bank.

The desirability of establishing a more diversified export-based growth in the region highlights the importance of improving competitiveness. In this regard, policies that encourage greater flexibility in the labour market, competitive product markets, and an improved business environment will be critical. Issues addressing the necessary policies will be discussed in Session II of the Conference, which will be chaired by Mr George Tavlas, Director General at the Bank of Greece.

Policies of stabilisation and reform cannot be effectively implemented without public support. In a period of falling incomes and rising unemployment, achieving that support may prove challenging. It is especially important to try to ensure that the reforms are perceived by the public to be fair and effective,

so that the short-term sacrifices are considered worthwhile. Issues related to the building of social and political support for reforms in Southeast Europe will be addressed in Session III of the Conference, which will be chaired by Mr Thanos Veremis, Professor at the University of Athens.

With reference to the financial sector in Southeast Europe, the presence of foreign banks in the region has increased both the efficiency of financial intermediation and the availability of credit to the real economy. Yet, it has been argued that, in some cases, financial stress originating in EU parent banks may have been transmitted to the Central and Eastern Europe region in the early stages of the crisis. It has also been argued that euro area-based parent banks helped fuel credit booms in the region and encouraged the use of unhedged foreign currency borrowing.

After the crisis erupted, the “Vienna Initiative” responded to those criticisms. The Initiative promoted a dialogue among parent banks, home and host supervisors, and governments under the umbrella of the IMF, the EBRD and the EU. It made the countries in the region less vulnerable to shocks caused by sudden stops in capital inflows by committing parent banks to maintain their exposure to these countries. However, a number of challenges lie ahead, including the financial stability risks stemming from lending in foreign currencies and the substantial build-up of currency mismatches in private sector balance sheets.

Moreover, the Basel III framework, which has recently been released, sets stricter capital and liquidity rules than those that presently exist. The new rules will encourage banks to rely more on deposit-taking, thereby rendering the banking industry of the region more stable. However, the new rules may also lead to slower credit growth, since commercial banks may have to tighten their lending practices. The Basel III framework may, therefore, affect the dynamics of the macroeconomy, as well as the channels of credit that support economic activity. Issues related to the role of the banking system in the region will be addressed by fellow Central Bank Governors in Session IV of the Conference, which I will be honoured to chair.

Before concluding, I would like to touch briefly on the role of the ECB and the Eurosystem in the crisis. The Governing Council of the ECB has moved quickly and forcefully to adapt the ECB’s tools of monetary policy to the challenges of the crisis, most importantly by protecting euro area banks against liquidity shortfalls. We provided liquidity in unlimited volumes and with longer maturities to banks at an early stage. In parallel, we reduced the interest rate at which the banks can borrow from the Eurosystem to a historical low of 1%. We also launched a programme to purchase euro-denominated ‘covered’ bonds issued in the euro area. As a result, concerns that a credit crunch might emerge have not been realised. Moreover, confronted with a serious malfunctioning of the market for sovereign debt last spring, the Governing Council of the ECB intervened in that market. This intervention was meant to ensure a smoother transmission of monetary policy in all euro area economies.

III. Keynote address by Erik Bergl f Chief Economist, EBRD

Thank you very much, Mr Governor, and thank you for inviting me to this second conference. I had the pleasure of being here at the first conference, and I remember it was exactly the same pattern: You left a dreary, rainy London to come to a sunny, beautiful Athens. Actually, this crisis has brought a good thing with it; it has taken me to Athens much more often than in the past. Of course, when you come here it is a very different picture than the one you see in the media in London. Without doubt, it is a very difficult time for many people in the country, but what I have seen here is a very committed and competent team, both in the Bank and in the government in general. It has been a pleasure to have a chance to learn, visiting Athens.

So, I was going to talk about long-term growth, and I am going to do that based on our Transition Report that was released at the end of last year. And it really tries to address, as the Governor said, the long-term issues. I think there are many long-term growth issues in this region, and hopefully I will touch on some of the most important ones. The theme that we had for this report is Recovery and Reform. This is the first time we can say that we have recovery. It has been a very difficult period for much of our region, which spans not only Central and Southeast Europe, but also the former Soviet Union, all the way to Mongolia, and it has been a diverse experience but a very difficult one for most countries.

Southeast Europe has, in many ways, been a laggard into the crisis but has then also been a laggard out of the crisis. Now we can say we have recovery almost across the board, and this is something that we should be very happy about. What we do not see to the same extent is reform. That is really the message of our report, and the need to really learn the lessons and utilise this opportunity that the crisis presents to implement reforms.

We were looking for an image that would capture the central message or the spirit of the report. We looked back at the EBRD Transition Report 2008; this was the pre-crisis report that actually tried to address some of the long-term issues of growth. At that time, we were seeing a secular decline in growth, and we were worried about how to reinvigorate it. For this reason, we picked a rather sparkling cover for the 2008 Report, but maybe we should have looked at it a bit more closely; it was maybe just a bubble. When we talk now about the growth lesson, it is really about how we can get high but also sustainable growth, and that is going to be the message of this report.

I will cover first a little bit the main argument of the report, and then I am going to look at three areas of particular importance. It is about developing local currency finance, about building local capital

markets. We saw that this region was very vulnerable, because of the large exposures in foreign exchange, because of the lack of domestic savings, and so on.

The second area is about exports, and again here Southeast Europe, I think, stands out. How do you build a sustainable export sector? And I am going to try to make an argument that this is important, not only for balance of trade, but also to generate innovation in the economy.

Finally, I will say something about the broad agenda of improving the business environment. What can we learn from the recent past? And particularly what are the country-specific lessons?

Let me say a few words about Southeast Europe, as we see it for this year. As I said, you really have finally a recovery in the region. Still, Romania had negative growth last year, and so did Croatia, but for the whole there was a clear improvement, and, of course, Turkey stands out as having recovered much more quickly and has, in a sense, some of the issues of whether there is too much growth and too much inflow of capital, and has to have some very innovative things to address that.

But there is, at least in our assessment, the potential for growth across the board. The issues are very much about how you make this sustainable, how you get also higher growth to speed up the convergence with the rest of Europe. Let me now try to develop the basic argument in the report. If you look at the region, it is a tremendous success. Now, when I talk about the region, I talk about the whole EBRD region.

If you look at the period leading up to the crisis, from 2000 to 2008, the region grew actually at the same speed as emerging Asia and only slightly slower than China. But it did so with very high current account deficits. And of course there you see the source of vulnerabilities, and the impact of the crisis was most strongly felt in this region. So, the question that we have to ask ourselves is: is this the time to shift the model of growth, the model of development, for the region? And our answer is no; there is no need for a new growth model, but there are certain weaknesses that need to be addressed: these are the incomplete reforms, and I will come back to this, the unbalanced growth, the very strong emphasis on consumption, the strong emphasis on foreign capital, and some of the financial fragilities that we saw in the crisis. What we talk about in the report is not a new growth model, but a new growth agenda, which emphasises the two elements that I have mentioned, the stronger and safer growth. We also stress the need for building local currency finance, building local capital markets, removing the obstacles to export growth – and again I think here there is a country-specific agenda that we need to understand – and improving the business environment.

Just to give you a very rough and simple view of how we see developing local currency finance: developing domestic capital markets will help us address the problem of foreign exchange exposures and make more use of the domestic currency in credit. It will also help us improve the current account, and these both contribute to safer growth. And of course improving export growth is something that helps the current account, but, I think more importantly, it helps promote innovation. I am going to make an argument that not only are innovative companies more likely to export, but exports also drive innovation. And I will give you the gist of why that is so. Finally, improving the business environment helps exports, helps promote stronger growth. So, this is the argument in a nutshell.

Now let me come to local currency finance and the main reasons why this is so important. Well, it is a way of deepening local capital markets. It is increasing the source of domestic funding. Of course, this region will have to rely on foreign capital, and it is not about trying to completely replace foreign capital. It will be a very important source, and if this region was to rely entirely on its own savings, we would have a much slower convergence, and I think a much more unstable situation as well. So, we need to have foreign capital, but we also need to develop local capital markets. And we need to de-euroise, de-dollarise and increase the share of local currency in lending and reduce unhedged FX borrowing.

Looking at local currency loans and deposits, we can see that in some countries this is already established: Czech Republic, Poland, Turkey and Russia have a very significant share in local currency loans and deposits. Other countries, some in Southeast Europe like Serbia and Bosnia-Herzegovina, have very low levels of local currency usage. Of course, often loans and deposits come together, but not always. For example, in Latvia, Estonia and Hungary there are very large differences between loans and deposits.

Also, if you look over time, there has not been a steady trend towards more local currency finance. Actually, in many countries – Hungary, Latvia – the share of local currency has decreased. There are many explanations for this. But in other countries – Turkey, Armenia, to some extent Georgia, Kazakhstan – you see an increase pattern and an increase in local currency use. So, of course you ask the question: What is the reason? Well, let us consider the spread between local currency and foreign exchange lending rates. You can see that clearly, and particularly coming into the crisis, the spread increased. But, of course, this is just the approximate cause. This reflects the risks of devaluation. So, the question we are asking ourselves is: “what is the reason why so many unhedged firms and households take this risk?” I think there are many factors and this is a critical message that I want to get across, that yes, this is a pattern that we see in many countries, but the explanations may actually vary quite a bit from country to country, and we need to make a country-by-country assessment before we say what is the sort of policy response.

The first reason is that FX loans became very cheap in the region. There was a lot of desire, particularly from foreign banks, to put more foreign exchange into the region. This made these loans very cheap, and there is a lack of local financial development and this abundant foreign funding I think is something that we need to look at.

The second factor is that these risks that were built up were really much greater from a social point of view than they were for the individual. There was a sense that there were implicit bailout guarantees, and we know that very significant resources went in to protect banks after the shock had hit the region. And there were, of course, a lot of externalities that were not captured in the cost of finance, externalities of insolvency.

This is actually the deep cause: distortions, and we need to look at how we can get rid of these distortions. Even if foreign exchange borrowing was risky, local currency borrowing could often be even riskier, so when there are high real rates of inflation, or exports real rates, if inflation then was lower

than expected, you actually get very large risks. The deep cause here is, of course, a lack of macrostability. So, we need to look at the individual countries to see what the important factor is in that particular country, and often it is a combination of factors:

If it is about the lack of macrostability, well, obviously it is about improving the macroframework and building institutions. If it is about the lack of financial development, financial development comes when there are stable macroconditions, but you also need a lot of plumbing, a lot of infrastructure, to make this happen. So, it is about local capital market development, it is about putting in place the legal framework, it is about putting in place reference rates, and so on. It is a lot of plumbing, and here is something that EBRD has been involved in a lot in the past and is very much involved in now as well. Finally, if there is underpricing of FX risk, well, then maybe there is a case for regulation, to try to balance this.

So, if we look at the differences in macroeconomic stability, or specifically the predictability of inflation by comparing the inflation predictions of the IMF. This is not an attempt to say that the IMF was not very reliable in its predictions. I think that the IMF is the organisation that has the most resources and the most sophisticated means for doing this. But even the IMF had very large prediction errors when it came to predicting inflation during the 2000-2010 period. In some countries these prediction errors were much larger than in others. And these errors say something about the stability of the macroeconomic environment. What we did was to say OK, we have an understanding that there is a problem of macroeconomic instability, but we also need to look at the state of market development. And we looked at money markets and at government bond markets.

Basically the picture is that, for most of the region, very little has happened, with a few exceptions: Poland, Hungary, Turkey and Russia. Those countries experienced significant development. We used Poland as a benchmark, so we gave Poland a 10 and then we ranked the rest of the countries according to these different elements. What is unique about this index compared to many other indices, and maybe all the other indices that I know, is that we actually managed to get the real measure of liquidity, so through our Treasury Department we managed to get quotes for different maturities and the liquidity at different maturities, and that could give us a very good picture of how these markets actually work, not only what they look like working on paper. If Poland was the lead in our region, you can see, if you compare it to UK, that Poland has 10, the UK has 28. So, there is still a very significant way to go for most of the region, and particularly of course countries in the former Soviet Union.

A similar picture emerges when you look at the government bond markets. Here, I think more institutions are in place, but again liquidity is a real issue. And I think here the gap towards some of the more sophisticated bond markets in Western Europe is even greater.

So, attempting to put these different things together, we could look at the relationship between, on the one hand, the predictability of inflation, and, on the other, the extent to which money and bond markets are developed. In general, the more developed are markets, the better can inflation be predicted. This suggests that there is a need for progress in money and bond market developments. Moreover, if one looks at the share of foreign currency lending, a result that emerges is that the more developed

money and bond markets are, the smaller is the share of foreign currency lending. So, there is clearly some connection here, but there are also other factors that drive this pattern.

As I said, you need to do a country-by-country assessment. And where countries have a very unstable macro-environment, of course you need to focus solely on that, and probably these other concerns are secondary. But even for highly euroised countries, there may be a strong case for pushing the local currency agenda. Of course, if you are firmly committed to hard pegs, you need to live with the euroisation and manage its risks – which is also an important agenda – and then of course regulation is a very important element.

We could suggest that the policy message in different parts of our region depends on two dimensions: the credibility of the macro-institutional environment and whether you have a hard peg or not. And so here the basic message is that if you have a reasonably stable macro-environment, but you have a hard peg – countries like Hungary, Armenia, Georgia, Russia – it is really about further reform of macro-institutions, it is about developing local currency markets, it is about developing regulation.

If you have a weaker framework – countries like Ukraine, Central Asia, some of the countries in the Western Balkans – it is really about reforming macro-institutions, building a track record, country insurance, and so on. That was all I was going to say about local currency finance.

Let me go quickly to building export capacity. So, again I think the argument is clear. It is about trying to improve the current account, but it is also about driving long-run growth. And there is obviously a link between exports and innovation, and that is what I am going to try to make clear, which way the causality runs, because, of course, it is likely that innovative firms are better exporters, but maybe also exports help innovation. There are many reasons for this. Larger markets allow you to recoup the costs of innovation, but also the signals you get in international markets are important.

Actually, this causality is not obvious, because in many studies based on US and German data the causality really runs from productivity to exporting; more productive firms are exporting. But when you look at the emerging markets, a very common pattern is that exporting makes a firm more productive and innovative. From Asia and also from our region there is such evidence. This is what we did. We controlled for this effect innovative firms which are more likely to export. I will not go into the details of how we did this, but what we see is that, when you look at R&D spending, again controlling for the propensity of innovative firms to export, exporting companies are about one-third more likely to innovate. And this is based on survey data from the region. This is the basic reason why we think pushing exports is absolutely critical.

Again, the region has been very successful over a longer period, and here is a comparison to China, so if you look at the period 2000-2008, the achievements of the EBRD region are roughly comparable to China. If you look at export market concentrations, you think probably that it is better to have a broader export market, the EBRD region also did very well in reducing its dependence on a concentrated set of markets. That is a very good record. The problem is that many of the drivers that were important for this success are no longer as powerful. And clearly here the labour costs have risen in the region, in

some countries at an incredible rate. So looking at, for example, Latvia and Romania, this is the growth in unit labour costs compared to the United States, and you see in Latvia it has increased tenfold. Of course, we see now a very rapid adjustment of that, and I should say a successful adjustment, but clearly the strong driver of low labour costs is not the same any longer.

The same is true for tariffs. Many of the achievements were made in these trade arrangements, Poland joining the European Union, and so on. That driver is no longer strong. Slower projected growth also among large trading partners is another factor that will drive down growth.

What we need are structural reforms. When we do a statistical analysis, we find that the main drivers or the main instruments that seem to be important in the region are the following: (i) reducing and adapting non-tariff barriers; we know that even very small non-tariff barriers can have a very large impact on trade flows, so we need to try to find ways of reducing those, (ii) increasing efficiency of customs, and (iii) reducing corruption and entrenching the rule of law. These are the factors that stand out from statistical analysis on 130 countries.

So this is a broad message, but it really becomes interesting only once you look at what the factors are in individual countries. Here is an attempt to do that. This is for reducing non-tariff barriers, improving customs and reducing corruption. You can see that, if you are Lithuania, it seems that the main challenge is about customs procedures. If you are Poland, it is both about non-tariff barriers and improving customs. If you are Russia, you have to work on all these three areas. Again, it is just to give you an idea of what the reform agenda should look like to promote exports.

Finally, let me say a few words about the business environment and how to improve it. It is, of course, an old EBRD issue, and it is trivial to say that the business environment is important for long-run growth, because, really, we define the business environment as everything that may matter for growth, and it can be anything from institutions to education and to finance. But which aspect matters in a particular country? What is the particular challenge that the countries are poised to meet and need to think about? Here we should look at this survey that we do every three years, BEEPS, which is a survey of managers in all our countries of operation – now thanks to the World Bank it has been rolled out globally and has become a very important source of information on business environment. What we have done this year is quite different from what we have done in the past. I think we now have a better methodology to extract more information from BEEPS, and it is about trying to understand what it is that managers are telling us about the obstacles facing the businesses.

I am going to just focus on one element of improvement. If you look at what we have done, we have focused on the ten more important constraints that represent public goods. So we do not look at tax rates, we do not look at credit constraints. But these are things that are part of public goods that should be provided in the business environment. We focused on what we call relative perceived constraints. We tried to adjust for maybe a propensity in particular countries to be particularly critical; we adjust firm characteristics. Here is just an example of how this methodology may change. Here is a comparison of Montenegro and Serbia.

And if you believed the absolute numbers, you would think that Montenegro is a sort of paradise compared to Serbia, and maybe some of you think so, and it has some advantages, no doubt. But to say that the business environment is so much better in Montenegro, given that they separated so recently, is probably an overstatement. Once you correct for this propensity to be critical, you can see now that what managers really complain about in Serbia and what they are troubled by is corruption, while in Montenegro it is tax administration and skills availability.

If you look at the top three constraints in the region as a whole and in the different sub-regions, the obstacle that stands out across the region – and it goes for Central Europe, it includes Russia – is skills, access to skilled employees. This is absolutely a critical constraint for managers and companies in our region. Corruption is an important constraint, particularly in Central Asia. Tax administration is an important constraint, particularly in Central Europe and the Baltics.

I am just going to give you an idea of what you can say based on this kind of analysis. Let us look at tax administration; remember that this was an important factor in Central Europe. If we put all the Central European countries together and look at what is the relative severity of tax administration as a constraint, we see that Estonia stands out here. So you can try to understand: what did the Estonians do? Well, we know that they did very significant reforms in reducing complexity, assisting in electronic filing. They have a very transparent system. Remember here: it is not about the level of taxes, and actually we can show that this is uncorrelated with the level of taxes, and it is about making taxation simpler, more understandable and more predictable. A final point here is corruption. Looking at countries in the former Soviet Union, since 1999 you see in most countries corruption has increased. In Georgia it has come down very significantly, and you are probably familiar with all the reforms that the Georgian government did.

Let me just summarise here with what the basic message is. Again, we identified three areas of reform that are absolutely critical: local currency finance and capital market development; promoting export growth; improving the general business environment.

It is not about the new growth model. It is about improving the old growth model, making it more sustainable. And I think this will be particularly important, if capital flows, again, pick up, to make sure that it is a safer growth model. Here, structural reforms are absolutely critical to boost growth, and we need a new growth agenda. Thank you very much.

IV. First session: Macroeconomic policy challenges and public sector reforms in SEE countries

The first session of the conference was chaired by **Yannis S. Costopoulos**, Chairman of Alpha Bank. Speakers in this session discussed the major issues concerning the macrodynamics of the region and suggested models for public sector reform. Proposed fiscal measures were mainly on the expenditure side, while a stronger institutional structure as part of the reform agenda stood out as the single most important solution in both the medium and the long run.

The first speaker was **Dubravko Mihaljek**, Head of Emerging Markets at the Bank of International Settlements (BIS). He focused on the outlook for external financing of the public sector, a topic which the BIS follows closely.

As far as global portfolio capital flows are concerned, the highlight of 2010 was net flows to emerging markets, which peaked in October-November 2010 at a rate of about USD 40 billion per month. In advanced economies, these capital inflows were relatively subdued. Looking at the trends in cross-border banking, lending flows peaked before the crisis in 2007, followed by large outflows in 2009, and then a slow recovery. In 2010, Asia and Latin America already received more cross-border loans than they did at the peak in 2007.

The same cannot be said about Central and Eastern Europe, where lending is recovering very slowly. For Southeast Europe, international debt securities have proven to be a more stable source of funding than cross-border loans. External loans to banks in Southeast Europe are also not recovering rapidly. Only Turkey is experiencing resumption of bank lending to banks as in the pre-crisis period. Cross-border lending to the non-bank sector, including the public sector, where such lending is an important source of financing for public sector deficits, has yet to resume.

Regarding external vulnerability indicators, several countries in the region have had some decrease in foreign exchange reserves over 2010. However, the ratio of foreign currency reserves to short-term debt, which is perhaps the most relevant indicator of adequacy of reserves, seems to be at reasonable levels throughout the region, perhaps with the exception of Croatia, where short-term debt was higher than FX reserves at the end of 2010.

So we still are not where we were, unlike other emerging market regions, which have again an abundance of bank capital flowing into their economies. Within emerging Europe, Southeast Europe,

with the exception of Turkey, does not seem to be a major focus of international investors. Turkey, on the other hand, has shown a very similar pattern to Asian emerging economies in terms of capital flows. Resumption of cross-border lending to the region has been very slow, and international bond issuance has been more reliable but also a more costly source of external financing. And FX reserves buffer generally seems to be adequate for countries in the region.

Paul Mylonas, Chief Economist of the National Bank of Greece (NBG), discussed the macro challenges for Southeast Europe – SE5 – and Turkey. According to Mr Mylonas, SE5 can be grouped in one category and Turkey in a slightly different category. In many ways, Turkey provides lessons for the SE5 in the sense that once they overcome some of the challenges they face, the capital markets will realise their growth potential, and then they will again have the boom cycle of excess capital.

Currently, markets are getting more sanguine about the success of the reform efforts, and, in contrast, the European periphery seems to be the centre of attention and has negative repercussions on the region. Recovery is picking up. When the trends in quarterly GDP are examined, the worst seems to be over. Compared to the previous year, though, growth in the SE5 has proven below expectations, while Turkey came across as a positive surprise. A key question is the actual growth potential. Looking back at the five years before the crisis, growth rates were very strong, but one cannot rely on that average. There was probably a boom component in there. Per capita income in the whole region is quite low compared to the EU-27, so there is a catch-up impact that is going to feed through to growth in the years to come, if the appropriate macro environment is in place.

Some key challenges are:

Maintaining balanced output growth, where monetary and fiscal policy have a tough role to play. In the current environment, fiscal policy is the brake, because once the slowdown occurred, you saw the weaknesses in the fiscal accounts. And monetary policy is trying to be the accelerator, given the output gaps that occur.

Large imbalances, which is the key fear of markets. Current account deficits of very large volumes are a cause of concern, but Bulgaria, Romania and Serbia constitute good examples of how these deficits can be reduced immensely in only a few years. Again, Turkey is the opposite. After a very large reduction in the current account deficit below 3%, again with growth growing near 10%, it is widening again, and that is a policy challenge for Turkey going forward.

Borrowing in FX. Despite the crisis, there are large amounts of borrowing in FX. There were no major devaluations, and hence there was no discouragement against borrowing in FX. This makes the role of the regulator even more difficult now, to get banks out of FX lending. Clearly encouraging domestic financing markets is one way to do it, but this is a very tough issue and there is no clear solution.

Monetary policy is the solution that could give the necessary push to the economy. It is good while it lasts, but countries need to tighten at a certain point. Turkey, because it assessed the capital flows, the other countries because of two reasons: they are a bit worried about the exchange rates, and also because

they lowered the rates a bit too much. Inflation is going up throughout the world, some passed through from tax rate hikes. This is another constraint to growth, and how the monetary policy authorities balance that is going to be a major challenge ahead.

Potential growth depends on *structural reform*. A lot has to be done to improve potential growth including improvements in entrepreneurship, entry, exit, infrastructure, judicial system reform, reduced corruption. The EU has a major role to play in this endeavour.

Bob Traa, the Senior Resident Representative of the IMF in Greece, was the third speaker in the session. His focus was on Greece mainly, with an in-depth discussion of fiscal issues, including institution building, policy, and fiscal reforms in a broader context. The diagnostics that the IMF has of Greece, coming into this crisis, is that it has two massive problems: (i) it is not competitive, and (ii) it has serious fiscal imbalances. These are both flow and stock problems: flow problems in the sense that revenues minus expenditures, either external or fiscal, do not add up and have persistent large gaps; and stock problems in the sense that both the net external position and the public sector net worth of Greece are deeply negative.

The remedy for competitiveness is adjustment by changing relative prices and improving productivity, but the country does not have access to the exchange rate, and structural reforms take time. Then domestic absorption needs to be contained (slowing growth), which is painful but needs to be done to bring the current account back into closer balance. On the fiscal side, turning around a debt ratio actually needs the opposite: one would like to see very high growth.

In the short run this presents a strong dilemma. To square the circle of bringing together adjustment in the foreign balance and adjustment in the fiscal balance, the third leg that highly matters in this difficult time is supply-side reforms. The key is to make the economy more flexible in reallocating resources from domestic absorption to net exports. Implementing strong reforms can help jumpstart external demand and initiate a foreign direct investment cycle, stepping the country onto a path of higher growth, and achieve a higher standard of living. These reforms include: (i) labour reform, (ii) product and service market reforms; and (iii) business environment reform, which is a set of government administrative reforms that improve public services, reduce the number of permits and licenses and the bureaucracy involved in doing business. Fiscal and structural adjustment will require stronger institutions and stronger policies at the same time. Lowering of fiscal spending needs to be supported by a boost to the revenue side which will come from revenue administration reform and the simplification of tax policy.

Liquidity problems, as Mr Traa puts it, need to be addressed by strengthening confidence in the capital markets regarding the government's commitment to the adjustment programme and the reform agenda. He suggests that a major further boost to recovery and confidence could be given by better employing Greece's ample assets on the public sector balance sheet, including through privatisation.

The final speaker in the session was **David Vines**, who is a Professor of Economics at the University of Oxford. Prof. Vines focused on six main points regarding a theoretical European emerging

market convergence model: (i) saving and capital accumulation; (ii) FDI and technology transfer; (iii) trade liberalisation and integration of the region's production system; (iv) financial liberalisation; (v) labour market integration; and (vi) the prospect of membership of EMU which hangs over (i)-(v).

As a model for the countries in Southeast Europe, one can think of an economy with three sorts of goods: two kinds of tradeables – exportables and importables – plus the non-tradeables. Exportables are produced but not consumed at home. In this region, dominant sectors are tourism, aluminium, steel, and in Greece's case, financial services. The price of tradeables and the interest rate are taken as given by the rest of the world. The price of non-tradeables is determined by the model. These are very important components of a convergence strategy in this macroeconomic model, and this set of three categories is useful in constructing such a model. The Stolper-Samuelson theorem is illuminating in describing how the prices of factors of production in the economy with open capital and labour markets are determined by the prices of the goods in the world market. One then considers the volume of capital inflows that take place at these prices.

One of the factor rewards is exogenous, but what becomes endogenous is the price of non-tradeables. The world faces a given interest rate and given prices of tradeables. And what is crucially important in this economy is the determination of the price of non-tradeables and the wage. In this economy, trade liberalisation lowers the price of imports relative to the price of other goods. This economy is organised in a way that the return to exporting raises relative to the return to non-tradeables.

Having opened its capital markets enabled Eastern Europe to make the risky decision of low savings-high growth choice at varying levels across countries. This strategy opens the way for export-led growth in which countries borrow and invest in producing an efficient steel car or aluminium industry, and get on with specialising in what they are good at. At the same time, this requires a sensible trade policy, and particularly tough action on rent seeking in those industries. Otherwise, a consumption boom is inevitable, as consumers get access to credit. This entails currency risks, real estate price risks and leverage risks which may bring about insolvency.

Labour integration puts upward pressure on the wage as migrants leave the wage at home, and make a satisfactory outcome to that story on my previous page less likely. When the wage goes up, a consumption boom is more likely than an export-led growth story.

The core issue for policy in this framework is a short-run adjustment issue, which could allow the curtailment of domestic demand, partly by fiscal measures, and also the establishment of a sufficiently competitive position.

The discussant for this session was **Emmanuel Zervoudakis**, Director-Adviser at the Bank of Greece. He presented some stylised facts or broad generalisations about macroeconomic policy challenges, focusing particularly on public sector issues. As a result of the crisis and looking forward to capital inflows, domestic demand can no longer serve as a source of growth. For that reason, we have to envisage greater reliance on exports, demand management and supply-side reforms. In this respect, fiscal policy and public sector reforms in general have an important role to play.

The crisis and the policy responses to it have appeared to have exhausted the fiscal space, in other words the room for countercyclical expansionary policy as needed, and there is in fact a need for fiscal consolidation in many countries. If one looks at fiscal indicators, especially debt indicators of the countries in the region, they may not look particularly worrying. Bulgaria has a debt-to-GDP ratio of 18%, Romania 35-37%, Serbia 40%, Montenegro 44%, and when one compares these figures with that of the euro area of over 80%, Eastern Europe seems to be on safe grounds.

In fact, one needs to take into account that there is increased sensitivity of the markets. The growth prospects have deteriorated. The population is ageing. Moreover, when comparing debt ratios in those countries with debt ratios in the euro area, one needs to take into account the currency risk, the risk that arises due to the fact that a lot of these countries issued their debt in foreign currency, which puts a limit to how much the market can bear. Concerning the core euro area countries, there is the policy credibility issue.

So looking forward, adjustment will be necessary. Based on the international experience, it is widely accepted that expenditure-based fiscal adjustments are likely to be more successful and sustainable than tax-based adjustments. Some tax increases are perceived to be less harmful to growth, for instance indirect tax increases in comparison to income taxes or payroll tax increases. Needless to say that any adverse income effects that may arise because of such choices can in principle be alleviated by making the social transfer system more efficient and better targeted.

The fiscal system and the way the public sector operates can influence the business environment. An analysis of this experience would show how public sector reforms can lead to an improved business and investment environment.

V. Second session: Structural reform challenges in SEE countries

The second session delved more deeply into the structural reform agenda in the region. This session was chaired by **George Tavlas**, Director General of the Bank of Greece. Mr Tavlas underlined the importance of structural reform as a necessary foundation to unlock the long-term potential for growth. As part of the essential components of this long-term agenda, speakers focused on: product and labour market reform, enhancing the efficiency and functioning of institutions, increasing productivity by shifting production towards more skill-intensive sectors, promoting innovation and R&D.

Heather Gibson, Director-Adviser of the Bank of Greece, was the first speaker in this session. Ms Gibson referred to Greece for the most part in her presentation, but with a comparative approach, she emphasised the fact that the Greek experience is highly relevant to other countries in Southeast Europe.

The Greek economy, like other economies in the region, is characterised by two important stylised facts. First, it has a chronic current account deficit; second, it is relatively closed (as evidenced by the fact that its exports of goods and services are just over 20% of GDP compared to a euro area average of over 40%). This situation is usually referred to as Greece's competitiveness problem. However, effectively it is a question of productivity growth and, more specifically, total factor productivity growth.

Structural reform has a role to play in turning this situation around. In order to support this argument, Ms Gibson drew on three papers written by herself and colleagues at the Bank of Greece*. The paper by Ms Gibson examines sectoral productivity growth in the Greek economy from the mid-1990s to 2003. During this time, the economy was growing at high rates. A characteristic of growth was its concentration in sectors that would traditionally be considered non-tradeable; total factor productivity growth in tradeables sectors was poor. It is therefore not surprising that during this time Greece experienced current account deficits, while its openness lagged far behind that of other equivalent small economies, either in the region or in the wider European area.

The second paper by George Tavlas and Pavlos Petroulas examines a large panel of countries starting from the 1960s onwards, controlling for various factors that affect growth, including institutions. These

* Heather D Gibson, "Sectoral growth in the Greek Economy, 1995-2003"; Pavlos Petroulas and George Tavlas, "Growth regressions, the role of institutions and Greece"; Dimitris Sideris, "The role of product and labour market regulations and education in explaining productivity developments in Greece". All three papers are published in Greek in the volume: Georgios Oikonomou, Isaac Sampethai and Georgios Symigiannis (eds), *The Greek current account: causes of imbalances and policy recommendations*, Bank of Greece, 2010. The first two papers are also available in English.

factors are captured by the International Country Risk Guide indices that measure corruption, the rule of law and bureaucracy in a large number of countries. Results suggest that the impact of institutions and their quality on growth is highly positive and very significant. There is also evidence that the combined effect yields an even bigger boost to growth. In other words, countries that do well on all three indices get a bonus beyond simply the additive impact of the individual indicators themselves.

Finally, a study conducted by Dimitris Sideris looks at the impact of product and labour market reforms on, and the role of education in, total factor productivity growth in Greece. Results suggest that reforms in the areas of product market regulation and employment protection legislation will positively influence total factor productivity growth. In addition, the effect of the proportion of the workforce educated at university is positive, but it is significant only for countries in the sample that can be considered high-technology countries. Now, as high-technology countries we define those countries whose productivity is greater than or equal to around 80% of US productivity levels. Greece is not a high-technology country, by this definition, and therefore does not benefit from the fact that it has a high proportion of university graduates. In terms of education, it is very close to the top, coming third after Finland and the USA.

Greece would benefit hugely from labour and product market reform, which might lift it up, encourage a redistribution of production to more high-technology sectors, which would then enable it to reap the benefits of its highly educated workforce. The reform of institutions has a very important role to play, by helping raise growth and total factor productivity. It can also help reorient the Greek economy towards the tradeables sector, and therefore make it much more productive, solving the chronic problems related to current account deficits and lack of openness of the Greek economy.

The second speaker in this session was **Tassos Anastasatos**, Senior Economist at the Eurobank EFG Group. Mr Anastasatos began his speech by providing a definition for structural reform: Structural reforms are measures that reduce or remove impediments to the efficient allocation of resources, in order to promote long-term growth, without necessarily avoiding a recessionary impact in the shorter run. This definition includes competitiveness-enhancing measures, such as fighting oligopolistic features in product and labour markets and restructuring organisations. For the countries in Southeast Europe, structural reforms aimed at promoting financial development and trade liberalisation are critical. The region needs the so-called “high-quality growth”, that is, growth which is based on high quality in human capital and is friendly to the environment, qualitative institutions and issues related to governance. Prior to the crisis, the region grew rapidly, averaging 7.4% per year, for a decade. But the model was based on domestic demand, especially private consumption which was fuelled by capital inflows followed by rapid credit growth, expansion of consumption and real estate, and then overheating, real appreciation and current account deficits.

Currently, recovery has started but is uneven, depending on the structural characteristics of the countries and the degree of dependence on capital markets. In the medium term, any growth model would have to ensure access to financial markets, and macroeconomic stability is a prerequisite for

achieving this. The only readily available tool for boosting growth is supply-side reform via fiscal consolidation. Fiscal consolidation, by reducing the size of the public sector, crowds in resources to be channelled into exports and into investment. Secondly, a less productive solution is changing the allocation of resources of the budget away from public consumption towards investment through structural reform. Apart from these, in the short term structural reform has to focus necessarily on measures that will realign wage costs with productivity development.

In the medium term, production of non-tradeables has to be motivated. Several measures can be utilised to this end, such as support credit for SMEs, controlling mortgages, allocating land to firms more readily, educating entrepreneurs about opportunities in new markets, and reducing the bureaucratic burden on entrepreneurial activity. In the longer term, sustainability can only be achieved if we move away from the current paradigm of focusing, of specialising in medium- to higher-tech production. The cost of production in the area has risen, and rightly so, in previous years. The standards of living are rising; therefore, the area cannot expect to be able to compete in terms of low labour costs in the years to come. It has to move up the value chain through large investments in education and training, machinery and R&D.

Since public investment is so crucial in promoting and upgrading infrastructure, and resources are limited, governments would benefit from focusing on areas in which they believe that they have a comparative advantage, and on sectors that generate externalities of private investment, such as ICT, power and transportation, and avoid, of course, financing projects by criteria other than those of economic efficiency.

Any structural reform will be judged according to the criteria of whether it promotes exports and a move up in the value chain of exports in the longer time horizon. Having said that, the prospects of the area remain bright, because it possesses all the factors of production that are crucial for long-term growth, such as a well-educated labour force, a still modest wage level, compared with productivity, industrial culture, a strategic geographical location, and a low capital intensity, which warrants high returns on capital for the years to come.

Alan Paic, Acting Head of OECD Investment Compact for SEE, was the third speaker in this session. Mr Paic touched on three main issues: (i) business climate, (ii) policy support for SMEs, (iii) innovation and skills.

The OECD constructed the investment reform index, in 2006 and then in 2010, as their main assessment tool in the region. This index measures both the private sector perception and government self-evaluation of business environment reform, helping countries assess where they stand relative to international best practices.

Countries in Southeast Europe have reformed at an impressive pace. Privatisation and openness to foreign investments have come with great success. There remain a few barriers, such as slow land title registration due to cadastres not being digitised, cumbersome foreign worker permits in some of the countries, complex investment incentives in some regions, slowing down foreign investments. FDI-

related capital transfer remains an issue in Albania, Serbia and Bosnia-Herzegovina. Aftercare for investors is quite low in some countries. Legal frameworks for PPPs are in their infancy and need to be developed. Intellectual property rights could be enforced with more efficiency.

Human capital development emerges as the next important issue on the agenda. Reports of the private sector show that the skills which were developed by the education system were good in the theoretical sense, but not so much the practical skills. Moving on to the topic of innovation, a high performance on the knowledge production side can be observed, whereas, with regard to knowledge absorption which enables companies to transform their knowledge into wealth, the countries in Southeast Europe are performing lower than the average upper middle income countries.

In terms of policy making, all actors including the public and private sectors, the knowledge users, and the knowledge creators have to be able to communicate and interact. Policy needs to bridge initiatives by bringing the university, government and businesses together.

The fourth speaker in this session was **Peter Weiss**, Resident Representative of the European Commission, DG ECFIN in Greece. Mr Weiss focused exclusively on the Greek situation and business environment reform.

In the 2011 World Bank Doing Business indicators, Greece ranks 109th out of 183 countries on the ease of doing business. More specifically, Greece performs below comparators in areas of protecting investors and registering property, where developing countries have huge problems, but developed countries like Greece normally rank higher. European Commission Lisbon Assessment and then the 2020 Assessment show similar results.

Major components of reform in the next couple of years will include: enabling electronic completion of business registry procedures, speeding up the grant of licenses, strengthening the competition authority, implementing the Services Directive (an area where there are serious deficiencies in Greece), liberalising restricted professions, setting up a commercial register, reforming public procurement policies, opening up transport and energy sectors. Specific policies will target key sectors, in particular tourism and retail. Despite this long list, there are still a number of areas which are not yet addressed by the programme.

Suggestions for further reform may include developments in environmental permits, speeding up of procedures for granting export licences, elimination of double taxation, action plan for R&D and innovation policy, acceleration of the winding-up of companies, simplification of publication requirements, shortening of judicial procedures.

The discussant for this session was the EBRD Lead Economist **Peter Sanfey**. Mr Sanfey underlined the fact that by “structural reform” speakers in this session referred to institutions and capacity-building. This perception is consistent with the EBRD approach to the issue which does not only mean private sector development and privatisation, but also building market-supporting institutions.

This year’s Transition Report provides, for every country, a sector-by-sector assessment of their position relative to other countries in market structure and institutions that need to be developed for

markets to function properly. Looking at various business environment indicators, including EBRD transition scores, EBRD-World Bank BEEPS, World Bank Doing Business indicators and OECD investment reform indices, we can infer the following conclusions:

Surveys need to be considered as parts of a whole: Simply looking at one set of indicators can be misleading. An example to this is the World Bank Doing Business report which takes into account the legal environment and overlooks the actual experience on the ground. Analyses which use these indicators, therefore, need to be supplemented by evidence from surveys such as the World Bank-EBRD BEEPS, which include the private sector's perceptions about the business environment.

Within-country assessments are just as important: Without doubt, cross-country comparisons are extremely useful in measuring progress in regulatory reform; however, in certain areas, they may not be adequately informative. This year's Transition Report attempts to add a further dimension and address this concern. Within Southeast Europe, findings reveal the need for improvements in tax administration, curbing corruption, functioning of courts and the judiciary, and development of skills.

There is considerable scope for learning from other countries: A good example of cross-country collaboration is one among the central bank governors of Southeast Europe which developed and strengthened over the years. Constant interaction and consultation have resulted in more informed policy making, which could be a model for other institutions as well.

VI. Third session: Building social/political support for reform in SEE countries

This session, chaired by Professor **Thanos Veremis** from the University of Athens, focused on public support for the sustainability of reforms. As the recent economic crisis has aggravated public feelings toward governments and the state due to rising unemployment and falling incomes, public support for reform becomes not just crucial, but also hard to achieve. Speakers in this session examined the importance of public perceptions and how the need to reform in the future has to be communicated in a convincing way.

Georgy Ganev, Programme Director for Economic Research at the Centre for Liberal Strategies in Sofia, concentrated on societal attitudes towards reform in Southeast Europe, arguing that there are differences among countries. Some countries have gone through serious reforms, without too much public opposition, while others have been facing significant opposition, even for minor reforms. He then put some relevant questions which in his opinion summarise the gist of the issue:

Is the previous growth episode of the 2000s sustainable and/or repeatable? By “previous model” Mr Ganev meant the convergence integration model of the first decade of this century, mostly. If the answer is negative, and a new type of growth model has to be adopted which may require more sacrifices, this has to be clearly communicated to the public, as painful as the bad news might be.

If the model has to be modified, which are the important dimensions? At least three aspects seem to be very common among the Southeast European countries: first, there is a need for better human capital to grow; second, there is a need for skills and mobility, and third, competition has to be increased in internal markets via product market reform. Looking at these challenges, it is important to emphasise that these are all positive reforms leading countries to progress. Policy makers need to formulate these challenges in a positive and reinforcing way to allow the public to be more willing to digest such challenges.

What is the general attitude of the Southeast European societies towards reforms? In this regard, there is a very important distinction between societies being tired of reforms and societies being afraid of reforms. For most of the Southeast European societies, there is a danger of fatigue from past reform efforts. These societies have gone through so many reforms over the last 20 years, constantly, always with the promise of a bright better future.

Is the present crisis a good opportunity for reforms? Any crisis opens up a window for change, which may not be very acceptable in the beginning. The usual case is that societies in good times usually do not have an incentive to engage in structural change. In the bad times, they usually do not have many options and time is more pressing. Mr Ganev finished by arguing that this last crisis in the region came from outside and exposed and exacerbated many of the internal weaknesses in the region's economies.

Gerald Knaus, Chairman of the European Stability Initiative, addressed the issue of public perceptions and disappointments, with some promises not being met, causing the societies to feel "deceived". Initially, there had been promises and positive signals for the integration of the region into the EU, including the Sarajevo summit in '99, the Zagreb summit in 2000, and the Thessaloniki summit in 2003. The real breakthrough was when Croatia submitted an application for membership and accession talks started. This was a signal to the region that this other narrative was actually credible. But problems arose when it was realised that the other Western Balkan countries could not follow Croatia. Serbia still today has not opened accession talks, and the FYROM is a candidate, for almost six years, and this sends a chilling signal to the other countries in the region. Bosnia has not even applied yet. This situation shows that even before the economic crisis there were already some problems associated with public promises.

In addition, there were some chronic socio-economic problems, including high unemployment rates, especially in Kosovo, Albania and Serbia, while in Bosnia there was a massive subsistence agricultural sector. Overall, there was no moving up the value chain in the region, and production basically meant receiving the material from abroad, sewing it, cutting it and sending it back. The bottom line is that the regional development model before the crisis had failed to address the most serious problems of the region: job creation, rural development or a credible strategy for dealing with the surplus of labour in the rural areas in subsistence agriculture. There were very limited skills. The crisis, however destructive, presents an opportunity to redesign the growth model in the region and rewrite the economic geography of the Western Balkans today.

In this context, the EU accession process can be extremely helpful, in the sense that, if it directs the attention of policy makers towards the "real" circumstances, it can serve as a screening process, where local policy makers are required to describe the way their institutions actually work today or define concrete opening benchmarks for chapters on agricultural policy, rural development policy and industrial policy. Such steps would force the elites in those countries to engage more directly and less abstractly in their real problems.

Othon Anastasakis, Director of SEESOX at the University of Oxford, was the discussant for this session. He pointed out that both speeches made ample references to the past two decades, which help us better understand the current social and political climate of the crisis. Mr Anastasakis argued that there are three major legacies of the recent past which weigh heavily on how the publics react to the current crisis in Southeast Europe.

First, *the communist legacies*: while 1989 led to a total discrediting of the communist past, there are still some remnants of a communist nostalgia for the paternalistic and protective nature of the state which at times of crises keep on coming back to haunt choices and affect peoples' thinking.

Second, *the 1990s economic crises legacies*: people in the region are all too familiar with economic crisis, given that all the countries in the region went through severe economic and political mismanagement during the initial stages of transition. The 1990s crises in all the countries in the region determined the subsequent course which led to the growth model of the first decade of the 21st century.

Third, *the 2000s growth legacy*: this last decade has been marked by economic growth, investment from abroad, democratisation and European integration, and has given some hope and public confidence for the future. Understanding the actual impact of this period is crucial for the way forward. Did the period of growth and prosperity create a positive and sustainable mark which can help the countries come out of the crisis, or will it prove that it was based on shaky ground?

The role of the European Union in this current time is ambivalent. On the one hand, it is the pressure to reform and the hope for the future. On the other hand, the EU has a negative impact, as enlargement is no longer a priority. Mr Anastasakis finally argued that regional stability and cooperation is one of the keys to bring these countries out of the crisis, and help their course towards the EU. Countries in the region need to stick together in a much more efficient and productive way to come out stronger from this crisis.

VII. Fourth session: Growth and the financial system

The final session was a panel of central bank governors chaired by the Governor of the Bank of Greece, **George A. Provopoulos**. Speakers in the panel discussed the pre-crisis measures that were taken to strengthen the financial system and which helped them weather the effects of the crisis starting in 2008 onwards. A common aspect of all speeches was that, as the countries in the region gained experience in crisis management, monetary authorities were quick to adopt the necessary measures to alleviate the effects of the crisis in each of these economies. Idiosyncratic vulnerabilities, as well as suggestions for the road ahead, were also discussed in this session.

The first speaker of the session was **Ivan Iskrov**, Governor of the Bulgarian National Bank. Mr Iskrov focused on the following main points:

Politics and politicians do matter. The financial sector does not function in isolation from the rest of the economy and the political stance. A strong financial system cannot coexist with a fragile economic environment and political instability.

There is room for optimism as Western Europe has something to learn from the emerging Europe. The crisis did not originate in emerging Europe; rather, it started from the failure of the financial markets and institutions in countries where they had supposedly been best regulated, most experienced and most liquid. From today's perspective, Southeast Europe could serve as a good example of mitigating and weathering the crisis. One reason for this good performance is that most of the countries in the region gained rich experience from their own crises about 10-20 years ago.

Regarding the supervision of financial markets, and in particular the banking system, independent central banks led the process. In terms of banks' credibility, since the privatisation process, the region has had reputed international banks, which is not the case in some of the developed Western countries. Finally, it is important to mention that the Bulgarian government, Bulgarian Central Bank and central authorities used growth as a buffer to save for a rainy day. The current crisis affected Bulgaria, as well as the other countries in the region, at the end of 2008, with the decline in external demand and the lower capital inflows. But unlike many other countries in the region, Bulgaria had enough reserves to serve as a buffer. In the boom years before the crisis, especially during the very optimistic period of 2005-2007, the Bulgarian National Bank (BNB) insisted on building up capital and liquidity buffers, and tried to discourage Bulgarian banks from excessive asset growth.

When the business cycle turned down at the beginning of 2009, BNB focused on providing capital relief, supporting liquidity and facilitating lending activities. This was done through changes in regulations, allowing banks to renegotiate credit conditions for temporarily constrained but solvent clients.

Mr Iskrov concluded by urging the audience to always remember that the banking sector remains a key factor for economic recovery and growth, and warned against making scapegoats of banks.

The second speaker was **Ardian Fullani**, Governor of the Bank of Albania. Mr Fullani highlighted the crucial work of central banks in the region before and during the crisis, and proceeded with a focus on Albania. Mr Fullani drew three main lessons from the crisis:

(i) *There is no conflict between price stability and financial system stability in the long run.*

(ii) *Regional financial markets require regional supervision and crisis resolution mechanisms. The same holds for global markets.*

(iii) *The role of anchors in the designing and implementation of macroprudential policies, such as the EU integration process, are very important.*

Before the crisis, the Albanian economy was in a solid growth path with a cautious financial and monetary policy, supported by the flexible exchange rate. The financial system was dominated by the banking sector. Financial performance indicators were stable. At the same time, before and during the crisis too many gaps were opening too fast. International banks started operating and expanding in the whole region. Most of the credit growth went to the non-tradeables sector, and there was more spending rather than production and exports. Construction and services sectors were leading the economy with large amounts of borrowing. Banks overlooked the default risks, exchange rate risks and interest rate risks. Financial illiteracy was another concern.

Upon observing these, the Bank of Albania gradually introduced regulatory measures after having evaluated all the risks involved. These measures discouraged the rapid increase in lending, and encouraged banks to lend more in domestic currency with higher transparency toward clients, banks, products and services.

A multi-party dialogue was introduced between the Central Bank, the Minister of Finance and the government, involving the market and the public. Support of the media was a very important factor; with full transparency and accountability to the media, the Bank of Albania carefully explained where the risks are and what needs to be done for financial stability.

With the crisis, came the issue of managing price stability versus financial stability. In good times, the Central Bank maintained price stability, but in downturns, a main issue was the integrity of the financial system. Monetary policy foresight, the foresight of banking supervision and the foresight of financial stability became the most important elements. In the long run, price stability and financial stability do not conflict, but they complement each other.

Last year was a very difficult one, when all the pressures went directly or indirectly to the central banks, which are the last anchor of stability. The Bank of Albania conditioned its monetary policy on

fiscal policy, convincing the government to reduce the budget deficit from 7 percent to 3.5-4.2 percent. The strength that the Albanian economy had shown was due to financial stability.

In conclusion, the Bank of Albania is keen to join efforts on supervision and the crisis response mechanism. Cooperation with the Bank of Greece in the last four years has proven central in adopting crisis management measures and also for institutional development. There are also cooperative endeavours with the other central banks in the region. By the same token, success in continuing the structural reform agenda relies on coordination across the countries in the region.

The third speaker in the session was **Christian Popa**, Deputy Governor of the National Bank of Romania. Mr Popa started by highlighting the need for a longer term perspective in both policy making and also business planning, which includes appropriate risk evaluation and proactive measures on the policy side.

Romania's pre-crisis development had been fairly typical of the region, in the sense that they had a growth boom, which did not prove very sustainable. The boom is reflected in high gross fixed capital formation, investment and private consumption, all of which were fuelled by substantial capital inflows, of which a main component was a very brisk growth in credit, supported by parent companies abroad, which resulted in a carry trade.

A strong increase in foreign exchange-denominated credit was observed, leading not only to classic reheating symptoms, such as inflation and current account deficit, but also to strong nominal appreciation. The National Bank of Romania needed to curb foreign exchange lending, which seemed unsustainable. Today, Romania has a credit to non-government to GDP ratio of about 40%, which is very low in terms of peer comparisons. To achieve this, several tools were used; there were clear limits to how much the policy rate could be lowered, because the boom was also domestic. Next, minimum reserve requirements on both leu liabilities and forex liabilities were increased, but with a differential between them. The National Bank of Romania established, as early as 2002, not only loan-to-value requirements, but also loan-to-income in terms of debt service requirements for households. These were separate for consumer credit, for mortgage credit and overall.

To achieve results, the central bank adopted a proactive approach. Measures needed to be modernised, or essentially re-engineered continuously, because they did become porous over time and less effective. Also, some of these measures had distortive effects and this needed to be tackled. For instance, to improve balance sheets, parts of the banking portfolio of local foreign-owned subsidiaries were sold to the mother company. This caused liquidity conditions to seem better for those banks because they were getting cash, encouraging them to lend even more. Supervisory data about the externalised loans dropped, but external indebtedness on the private sector side increased, and therefore the country looked more fragile from that point of view.

The lesson here is that proactivity on the side of the host country is not enough. The host country adopting measures that are especially geared towards the borrower is not completely effective. There is a clear need for international cooperation, especially at the EU level, in terms of getting together home

and host supervisors and regulators, and involving the parent banks in the exercise that forex credit should no longer be the sole leading kind of business that local subsidiaries need to engage in.

Mr Popa concluded his speech by suggesting that the biggest challenge right now is to integrate not only price stability, which should continue to be the paramount objective of monetary policy for modern central banks, but also financial stability. It will be the next challenge ahead for central bankers everywhere: to integrate financial stability concerns meaningfully into their continuous price stability efforts.

Dejan Šoškić, Governor of the National Bank of Serbia was the fourth speaker in this session. Mr Šoškić referred to the region's economic growth in the last decade and delved into its sources, emphasising the fact that on the road ahead, a more sustainable growth agenda needs to be adopted.

In the past decade, growth in Southeast Europe was driven mainly by consumption, with a major contribution to the growth rate coming from services and other non-tradeable sectors of GDP. The sources of funds were mainly FDI, but more in the form of brownfield investments, not very much increasing the overall competitiveness and export capacity of the economy. As a result, the current account deficit widened, rising from 4.2 to 21.1% of GDP in 2008. The growth in wages was greatly above the growth in productivity. There was a high level of domestic consumption and a very low level of investments. With this, it is not completely fair to argue that the crisis was simply imported from more advanced economies. The crisis indeed revealed the structural deficiencies of economic growth in SEE countries in the past decade.

During the crisis, an enormous decrease in the current account deficit was observed, bringing it down, in the case of Serbia, from 21.1 percent in 2008, to 7 percent in 2009, and 6.9 percent in 2010. As in other countries, the banking sector proved to be quite resilient, with capital adequacy ratios around 20 percent.

Now, the main task – a difficult task – of the monetary authority is to provide a stable environment concerning inflation and the financial system. Last year, Serbia had a fragile growth rate of 1.8 percent of GDP, and in July came the food price shock. With a large share of the CPI being food and beverages, inflation was not actually under the control of monetary policy.

Another important task is to lower the level of euroisation and to increase the share of domestic savings. This needs to be complemented by a change in the structure of domestic savings from FX (mainly EURO) to local currency denomination. The National Bank of Serbia is frequently criticised by the public for its so-called dinarisation strategy, that it is fighting a battle that cannot be won, but since EMU is not an option for a foreseeable period, there are no real alternatives to local currency promotion. What is hampering this effort is the fact that people in Serbia, as in most of the ex-Yugoslav countries, used to traditionally save in foreign currency.

It is very important to have a good mix of not just monetary policy instruments, but also fiscal policy to support the overall effort to keep inflation under control; Serbia is experiencing public sector strikes and a high demand for wage increases.

One needs to keep in mind that Serbia's case is slightly different from that of other countries. The country has not yet recovered from the 1990s; industrial production in 2010-11 is about 45% of the level of industrial production in 1989. GDP per capita is somewhere around 65% of GDP per capita in 1989. So, Serbia is the only country that has not yet achieved the economic capacity it enjoyed before the transition process.

In the beginning of the 1990s, Serbia had hyperinflation, which completely undermined the confidence of households and corporates in local currency. This, coupled with bank insolvency, created massive problems for the overall transmission of surplus funds to investments in the country.

Now, the key for growth in the post-crisis agenda for Serbia is exports and investments, with lower, manageable spending. And as a rule, the stable exchange rate has to be the outcome of a relatively stable and strong economy. So far, Serbia has been successful in achieving this goal; last year, exports went up by 22 percent, there was a positive GDP growth, and the current account deficit fell to 7 percent of GDP.

The fifth speaker in the session was **Alexey V. Ulyukaev**, First Deputy Chairman of the Bank of Russia. Mr Ulyukaev highlighted the fact that Russia is on a recovery path, with GDP growth around 4 percent, industrial production and investment growth of around 8 percent. Expectations of GDP growth point to a further increase in the year ahead, meaning that Russia is expected to return to its pre-crisis situation by the end of this year. He also drew attention to the inflation challenge ahead.

Banks' non-performing loans stopped rising last year, and some show a tendency to go down in the near future. The financial results of the banking system seem to be good. Capital-to-asset ratio is closer to 20%. The trade balance and the current account appear sound. Last year still witnessed some outflow of private capital, though the balance of payments outlook seems promising, giving the banks room to increase again their reserves, which went down a lot during the crisis.

Now, the Central Bank of Russia can pursue an exit strategy: (i) Before and during the crisis, some exotic instruments were in place, like unsecured loans: unsecured loans were provided at volumes around RUB 2 trillion in three months, in late 2008-early 2009. Starting in 2011, no more unsecured loans of the central bank were to be given to commercial banks. (ii) Central bank financing to commercial banks came back to its normal maturity of three months: during the crisis they had enlarged it to six-, nine- and twelve-month refinancing tools. (iii) Collaterals of banks are now being checked by the standard procedure, which was not the case during the crisis, when they had a fast-track system. The government, for instance, included a company in the systemically important institutions list; in that case, the central bank provided them with a fast-track road.

Now, the greatest challenge is inflation. After 16 months of a downward trend, in July it started going back up. In the beginning it was because of supply-side shocks, the domestic food problem and the bad harvest. Late last year the non-food components also began to increase, and so did core inflation, partly due to the demand-side problem. The primary deficit is still very serious; the non-oil and gas deficit is at 13 percent of GDP.

The Bank publicly announced that they are moving to inflation targeting in the medium run. Currently, they are implementing some elements of it:

(i) *exchange rate policy: moving from managed to free float*

(ii) *interest rate policy: fixing the policy rate position*

(iii) *communication and transparency: a dialogue between the monetary agency and the society.*

After the crisis, inflation targeting has become more complex; it now has to be complemented with some element of monetary targeting. As in the model of ECB, the short-run macroeconomic modelling and long-run monetary modelling will both be needed. This modified inflation targeting means some concentration on price stability as well as financial stability, and this is a great structural challenge. For this purpose, the Bank of Russia created a new unit within the Central Bank, the ‘unit of the financial stability’, to combine the supervision of the balances of banks and banks themselves, with macro-analysis and macro-supervision, which includes their efforts to understand the vulnerabilities caused by global financial dynamics.

The final speaker in this session was **Durmuş Yılmaz**, Governor of the Central Bank of the Republic of Turkey (CBRT). Mr Yılmaz began his speech by referring to the growth rate which was achieved in 2010, estimated to be around 8-9 percent. He argued that the sustainability of growth is crucial, and that policy makers need to create an environment which will ensure stable growth in the coming years.

A natural response to an expanding economy with high credit growth is to curb domestic demand through increases in the policy interest rate. The dilemma involved in this is that when the policy rate is increased, the economy is exposed to capital flows. Capital flows exert pressure on the currency in terms of appreciation, which makes imports cheaper and exports expensive, leading to a widening current account deficit. In order to overcome this problem, CBRT initiated a monetary policy mix by which (i) short-term capital is deterred and channelled to the long end of the yield curve not to exert pressure on the currency in a negative way, and (ii) the level of credit expansion is reduced by increasing the required reserves on deposits, through which loanable funds available to the banks are reduced.

Since mid-2010, the Turkish economy experienced an acceleration in capital flows. But unlike the pre-crisis period, they are tilted towards short-term investments rather than FDI or long-term private loans. The first leg of this new policy, that is, the attempt to deter the short-term money and avoid appreciation seems to have been successful so far. The currency has depreciated by about 7-8 percent since the beginning of this policy implementation, and, therefore, some short-term money left the country. The banking sector is resilient. In terms of capital, liquidity, as well as leverage, Turkish banks are very sound. Turkey is planning to adopt Basel II rules in 2012.

The monetary policy mix can be summarised as the combination of lower policy rate, wider interest rate corridor and high required reserve ratios. Recently CBRT reduced the policy rate and widened the corridor between the overnight lending and borrowing rates, to allow fluctuation in short-term interest rates when needed.

Although it may look complicated at first, the framework that the CBRT adopted in spirit is not significantly different from conventional inflation targeting. The only difference is that previously the

policy instrument was the one-week repo rate, whereas now it is a policy mix of short-term interest rates, reserve requirement ratios and the interest rate corridor.

Of course, the measures taken by the CBRT are necessary, but not alone sufficient to safeguard financial stability. Given the economic situation, the combination of lower policy rates, higher reserve requirements ratios and wide interest rate corridor is the most appropriate policy mix, in terms of jointly upholding financial stability and price stability.

The discussant for this session was **Max Watson** of the University of Oxford (SEESOX). Mr Watson's discussion can be summarised in the following five comments:

(i) *Structural policies are directly relevant to macrofinancial risk and to the management of risk in the whole economy.* In a model of open capital account convergence, free capital flows, somewhat weak institutions, and incomplete structural reforms, only an improvement in structural policies could help direct capital inflows away from housing and consumption to more sustainable growth.

(ii) *It is true that policies have a finite capacity in this open economy setting, but they are nonetheless very important.* In essence the growth model cannot be changed, but the incentives within the growth model can. These incentives can be changed by modifying structural policies, and notably by attacking rents in the economy.

(iii) *Central banks have worked within limited degrees of freedom, but they have had really quite a powerful effect, including through a pre-emptive approach.*

(iv) *Central banks are going to have to continue to be orthodox but creative.* There is going to be a need to tighten monetary policy as growth takes root, but in a very fragile setting. Supervisory tightening is already under way, but in a context where credit availability is a worry for firms. The issue of foreign currency borrowing is not over: the incentives for households to continue borrowing in FX are still present.

(v) *Regarding supervision, the regional dimension is going to be extremely important.* Central banks have set a great example in regional cooperation, which needs to be extended; they could extend it strongly in the supervisory area to the home countries of the banks.

Cooperation is also very important in other areas. In a sense, the growth model of the last decade was a national growth model. It was an expansion of bank lending, mortgages and consumption. If the new model for the region is going to be one where the financial sector's role is more modest in channelling inflows, and the new emphasis will be on FDI, then the region as a whole needs to be the attractor unit. The countries are too small, in many cases, to be viewed as an extensive market.

In the next two or three years ahead, this question of building regional networks matters not only for the central banks, but it also matters in attracting capital flows to the real economy, in the form of direct investment. Keeping financial stability and keeping financial stability within the financial sector is only going to be possible if the composition of capital flows changes, and foreign investment becomes a much stronger component.

Conference participants

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Dr Anastasakis is the Director of Southeast European Studies at Oxford (SEESOX), University of Oxford and a Fellow at St. Antony's College. He teaches Southeast European politics and EU comparative politics. Previously he was Researcher at the London School of Economics; Expert & Advisor on European Union matters at the Greek Ministry of Foreign Affairs. He received his B.A. in Economics from the University of Athens, his M.A. in Comparative Politics and International Relations from Columbia University, New York and his Ph.D. in Comparative Government from the London School of Economics. His most recent books include *From crisis to recovery: Sustainable growth in South East Europe* (co-edited with Jens Bastian and Max Watson, SEESOX 2011), *In the Shadow of Europe: Greeks and Turks in the era of post-nationalism* (co-edited with Nicolaidis and Oktem, Brill, 2009) and *Greece in the Balkans: Memory, conflict and exchange* (co-edited with Bechev and Vrousalis, Cambridge Scholars Press, 2009). He has also published many articles on comparative democratisation in South East Europe, EU-Balkan relations and EU conditionality. He is the General Editor of the Palgrave Macmillan, St. Antony's College series.

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Dr Tassos Anastasatos is Senior Economist at Eurobank EFG. He holds a Ph.D. degree from the University of Warwick (UK) in Financial and International Monetary Economics, an M.Sc. (Warwick) in Economics and Finance, and a B.Sc. from the Athens University of Economics and Business in International and European Economic Studies. Previously, he held the post of Economist at the Bank of Greece and, before that, Lecturer at Loughborough University (UK). He has also served as Visiting Lecturer at the Athens University of Economics & Business, Research Associate at Loughborough Business School, and Consultant with Gerson Lehrman Group. He has published in the areas of exchange rate management and speculative attacks, exchange rate regimes, monetary integration and the impact on trade, monetary policy analysis, current account determination and competitiveness, the Greek economy and South-Eastern European economies and financial systems. He is involved in most of Eurobank EFG's research activities.

Jens Bastian (rapporteur), *SEESOX, Oxford University*

Jens Bastian has been the SEESOX/Alpha Bank Visiting Fellow on the political economy of Southeast Europe at St. Antony's College, Oxford (2010-11). Since January 2009 Dr Jens Bastian is

working as Senior Economic Research Fellow for Southeast Europe at ELIAMEP (Hellenic Foundation for Foreign & European Policy) in Athens, Greece. Prior to his current position he worked between 2005 and end-2008 as Economist/Institution Building at the former European Agency for Reconstruction (EAR) in Thessaloniki, Greece. He was responsible for project finance and management in economic development assistance for Kosovo, Serbia, Montenegro and the FYROM. Jens Bastian has also worked from 1998 to 2005 in the private sector as a Senior Investment Analyst for Southeast Europe at Alpha Bank in Athens, Greece. Moreover, after receiving his Ph.D. from the European University Institute (EUI) in Florence, Italy, he was appointed Research Officer at Nuffield College, U.K., from 1993-1994. He subsequently held the first DAAD lectureship in the Political Economy of Transition at the London School of Economics between 1994 and 1998. Jens Bastian is the Managing Editor of the Journal of Southeast European & Black Sea Studies. He has published extensively on subject-matters ranging from the political economy of transition in Southeast Europe, over Greece to Germany.

Erik Berglöf, *Chief Economist, EBRD*

Erik Berglöf is Chief Economist and Special Adviser to the President at the European Bank for Reconstruction and Development since 2006. He has previously held the position of Professor and Director of SITE at the Stockholm School of Economics. He has also taught at the Université Libre de Bruxelles and held visiting positions at Harvard, Stanford and MIT. He has published widely on financial development, corporate governance and transition economics. His interests have been particularly oriented towards policy issues in emerging economies, but he has also contributed extensively to the debate on regional and global institutional architecture. He has regularly provided advice to national governments and international institutions, including the IMF and the World Bank. Erik Berglöf was the founder and President of the Centre for Economic and Financial Research (CEFIR) in Moscow and a Programme Director at the Centre for Economic Policy Research (CEPR) in London. He is a non-resident Senior Fellow at The Brookings Institution in Washington, D.C.

Yannis S. Costopoulos, *Chairman, Alpha Bank*

Yannis S. Costopoulos is Chairman of the Board of Directors of Alpha Bank. Alpha Bank was formed after the acquisition of the Ionian and Popular Bank – the oldest Bank operating in Greece – by Alpha Credit Bank. Born in Athens in 1938, Mr Costopoulos received his B.Sc. in Naval Architecture at King’s College, Durham University, England. He is the grandson of the founder of the Commercial Credit Bank, as Alpha Bank was called when he joined it in 1963. From 1973 to 1984 he served as Managing Director and General Manager, from 1984 to 1996 as Chairman of the Board of Directors and General Manager and from 1996 to February 2005 as Chairman of the Board of Directors and Managing Director. Since March 2005 Mr Costopoulos is Chairman of the Board of Directors of Alpha Bank. Mr Costopoulos is Chairman of the Board of Directors of Ionian Hotel Enterprises, a Member of the Board of the Institute of International Finance and a Member of the International Monetary Conference. He is

also Chairman of the J. F. Costopoulos Foundation, a Member of the Board of Patrons of the European Association for Banking and Financial History, Vice-Chairman of the Benaki Museum, an Honorary Trustee of the Metropolitan Museum of Art and Chairman of the Board of Directors of the National Garden of Athens.

Ardian Fullani, Governor, Bank of Albania

Mr Ardian Fullani was sworn in on October 28th, 2004 as Governor and Chairman of the Supervisory Council of the Bank of Albania. Before his appointment as Governor, Mr Fullani was General Manager of the Italian-Albanian Bank (2000-2004), and Deputy General Manager (1997-2000). Mr Fullani started working at the State Bank of Albania in 1985, and since 1987, he served as Deputy Director of Foreign Department. With the establishment of the Bank of Albania in 1992, he was appointed Deputy Governor and Director of Foreign Department. He has also worked in the capacity of the President of the Albanian Association of Banks, Chairman of the Institute of Banking Studies and Assistance, as well as Commissioner of the Albanian Securities Commission. On June 7th, 2007, Mr Fullani was awarded by Mr Giorgio Napolitano, President of the Republic of Italy, the title “*Commendatore dell’Ordine della Stella della Solidarietà Italiana/Commander of the Star of the Italian Solidarity*”. Mr Fullani was born on January 15th, 1955 in Tirana, Albania. He holds two degrees, in Finance and Law, from the University of Tirana.

Georgy Ganev, Programme Director for Economic Research, Centre for Liberal Strategies

Georgy Ganev is an economist and a programme director for economic research at the Centre for Liberal Strategies in Sofia, Bulgaria. Since 2003 he is an Assistant Professor at Sofia University’s Faculty of Economics and Business Administration. Since 2005 he is Chair of the Governing Council of the Bulgarian Macroeconomics Association. His interests are related to issues of macroeconomics and monetary theory and policy, political economy, transition, development and growth economics, new institutional economics. At the university he teaches the standard courses of introductory macroeconomics, money and banking, as well as a graduate seminar in new institutional economics.

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Heather Gibson is a Director-Adviser at the Bank of Greece. After graduating with an M.Phil. and D.Phil. in Economics from the University of Oxford, she held a post as a Lecturer in Economics at the University of Kent. She has published widely in academic journals, including Oxford Economic Papers, *Economica*, *The Journal of Industrial Economics*, *the International Journal of Industrial Organisation* and *Oxford Bulletin of Economics and Statistics*. She has also authored/edited various books, including *The Eurocurrency Markets, Domestic Financial Policy and International Instability* (1989) and *International Finance: Exchange Rate and Financial Flows in the International System* (1996).

Ivan Iskrov, Governor, Bulgarian National Bank

Ivan Iskrov is Governor of the Bulgarian National Bank since October 2003. He is a member of the General Council of the European Central Bank and of the General Board of the European Systemic Risk Board. In 2001 he was elected an MP in the 39th National Assembly of the Republic of Bulgaria, where he held the position of Chairman of the Budget and Finance Committee. He was also a Member of the European Integration Committee and a Member of the Delegation to the Joint Parliamentary Committee Bulgaria – European Union. In the period 1997-2001 Ivan Iskrov was successively Executive Director and member of the Managing Board of DSK Bank and of Rosseximbank. Between 1993 and 1997 he held various expert and senior expert positions in the Banking Supervision Department of the Bulgarian National Bank. In 1994-1999 Ivan Iskrov took several specialisation courses in the area of banking supervision and banking, organised in Bulgaria and the USA. In 1992 he graduated from the University of National and World Economy, Sofia, with a degree of Master in Finance. A year later he was a visiting lecturer at the same university. He is a co-author of the textbook ‘Money, Banks, and Monetary Policy’, Sofia University St. Clement of Ohrid Press. In 2010 Ivan Iskrov became Commander of the Order of Leopold, granted by His Majesty King Albert II of Belgium. Ivan Iskrov was born on 26 March 1967 in the town of Pirdop, Bulgaria. He is married with one child. He is a fluent speaker of English.

Gerald Knaus, Chairman, European Stability Initiative

Gerald Knaus is the founder of the European Stability Initiative (ESI), a Berlin-based think-tank working on South-eastern Europe, Turkey, the Caucasus and the future of European enlargement. He studied in Oxford, Brussels and Bologna. He taught economics at the State University of Chernivtsi in Ukraine and worked for five years in Bulgaria and Bosnia for NGOs and international organisations. He was director of the Lessons Learned Unit of the EU Pillar of the UN Mission in Kosovo (from 2001 to 2004). He co-authored more than 60 ESI reports as well as many scripts for TV documentaries on Southeast Europe. Gerald Knaus has been based in Istanbul since 2004. He is a founding member of the European Council on Foreign Relations and Associate Fellow at the Carr Center for Human Rights Policy at the Harvard University Kennedy School, where he also spent one year as a Visiting Fellow lecturing on state building and intervention.

Dubravko Mihaljek, Head of Emerging Markets, BIS

Dubravko Mihaljek is a Senior Economist at the Bank for International Settlements (BIS) in Basel, Switzerland. He analyses macroeconomic developments and policies in industrial countries and in Central and Eastern Europe. From 1990 to 1999, he worked as an Economist and later as a Senior Economist at the IMF. Dubravko Mihaljek started his career as an Assistant Research Fellow at the Economics Institute, Zagreb, Croatia, 1982-1990. He holds degrees in Economics from the Universities of Zagreb (Dilp. oec., 1981), Minnesota (MA, 1986) and Pittsburgh (Ph.D., 1990). He published in the fields of his research on monetary and exchange rate economics, fiscal theory and policy, EU enlargement, economic development and banking.

Paul Mylonas, Chief Economist, National Bank of Greece

Paul Mylonas was appointed General Manager in 2004. His responsibilities were broadened in December 2010 when he became General Manager of Strategy and Governance at National Bank of Greece in December 2010. He is responsible for Strategic Planning and Research, the Strategy Team, the BoD Secretariat and Shareholder Services, the Management Office, as well as NBG's Corporate Social Responsibility. He is Secretary of the Executive Committee; he runs the Investment Committee and is Head of Investor Relations, as well as a member of the ALCO Committee of the Group. Moreover, he is a member of the Finansbank Board and the Economic Advisory Boards of the Foundation for Economic & Industrial Research (IOBE) and the Hellenic Banks' Association. From April 2004 to December 2010 he was General Manager of Strategy and Research and Chief Economist of the NBG Group, which he joined in 2000. From 1995 to 2000, he worked as Senior Economist in the Economics Department of the OECD, at the Money and Finance Division, and was head of the Greek and Spanish desks from 1997-2000. During 1999-2000 he served as the OECD representative at the G-10 Secretariat. During the years 1987-1995, he worked at the International Monetary Fund as Senior Economist, desk officer for Poland in the European Department, as well as in the Fund's Policy Development and Review Department. In the years 1985-1987, he was Visiting Assistant Professor at the Department of Economics in Boston University. Paul Mylonas holds a B.Sc. in Applied Mathematics-Economics (Magna cum Laude and Phi Beta Kappa) from Brown University, as well as an M.A. and a Ph.D. in Economics from Princeton University.

Alan Paic, Acting Head, OECD Investment Compact for SEE

Alan Paic is Acting Head of the OECD Investment Compact for South East Europe. He provides guidance on the overall direction of the Programme, which comprises projects related to business climate, competitiveness, innovation, and free trade in the region. Alan Paic oversees projects such as the Regional Competitiveness Initiative, a major project geared to improving competitiveness in South East Europe, supported by the European Commission. This project aims to build capacities of Western Balkans officials in order to improve innovativeness of Western Balkan enterprises and bridge pervasive skills gaps which undermine the human capital in the region. The Investment Compact for South East Europe also contributes to the implementation of the CEFTA2006 agreement between Western Balkans economies.

Alan Paic started his career as a research scientist, working at the European Particle Physics Laboratory, CERN. After earning an MBA degree, Alan continued his career in strategy consulting with Monitor Company and Stratorg, top-tier strategy consulting firms, advising both private and state-owned enterprises on competitiveness issues. Prior to the involvement with the Investment Compact for South East Europe, Alan's involvement with the OECD started with the MENA-OECD Initiative on Business Climate Development Strategy and the Competitiveness initiative. Alan holds a Ph.D. in physics from the University of Neuchatel (Switzerland) earned in 1994 and an MBA from INSEAD, Fontainebleau (France) from 1998.

Cristian Popa, Deputy Governor, National Bank of Romania

Cristian Popa (b. 1964) is Deputy Governor of the National Bank of Romania (NBR). In this capacity, he coordinates monetary and exchange rate policy, research, publications, econometric modelling and forecasting, EU affairs and international relations, and financial stability. His responsibilities include heading the NBR task force responsible for inflation targeting, as well as coordinating NBR participation in the sovereign ratings agency and investment bank dialogue, and actively participating in negotiations and day-to-day work with the EU, IMF, World Bank, EBRD and other IFIs. Dr Popa is Vice-President of the NBR Monetary Policy, Supervision, Euro Adoption and Participation in EU Structures Committees and a member of its Board of Administration. Dr Popa additionally serves as Alternate World Bank Governor for Romania and as member of the ECB International Relations Committee and of the Economic and Financial Committee, as well as accompanying person/alternate member of the ECB General Council. He also sits on the editorial boards of the *Romanian Journal of European Affairs and Oeconomica* and is an honorary member of the Board of Directors of the Romanian Academy's Institute for Economic Forecasting. He is also a board member of the New Europe College, Bucharest. Dr Popa joined the NBR in 1998, as Senior Advisor to the Governor and Chief Economist. He was previously employed in research (in 1991-8, he was Senior Research Fellow with the Institute of National Economy in Bucharest) and government (in 1993-4, Governmental Advisor to the Deputy Prime Minister in charge of Economic Reform; also, Director of Macroeconomic Policy Coordination within the Department of Economic Reform of the Romanian government). He completed two mandates as NBR Deputy Governor (1998-2004; 2004-2009). His current 5-year mandate started on October 12th, 2009. Dr Popa has been Fulbright Fellow with Harvard University (1994-5), ACE-PHARE Visiting Fellow with the NIESR (London, 1997), and Visiting Scholar with the University of Michigan (Ann Arbor, MI, 1997). He has delivered lectures at, among others, Harvard University, the London School of Economics, the London Business School, the Royal Institute of International Affairs (Chatham House), St. Mary's College of Maryland, the Austrian National Bank, the Joint Vienna Institute, the Economic Planning Agency of Japan, the Global Forum (Tokyo), and the Basque Country University, Spain. Dr Popa is the author of numerous research papers focusing on monetary policy, international trade, inflation, exchange rates, financial indiscipline, privatisation, banking system reform, and other issues pertaining to emerging and developed market economies.

George A. Provopoulos, Governor, Bank of Greece

Mr Provopoulos holds a Bachelor's degree in Economics from the University of Athens, and an M.A. and a Ph.D. in Economics from the University of Essex. He has been an Associate Professor at the University of Athens from 1979 to 2007, a Vice-Governor at the Bank of Greece from 1990-1993 and held various top executive positions in commercial banks from 1994 to 2008 (Economic Adviser at Alpha Bank, CEO at Emporiki Bank, Vice-Chairman and Managing Director at Piraeus Bank), before

becoming Governor of the Bank of Greece in June 2008. In the latter capacity, he is currently also a member of the Governing Council of the ECB and Deputy Governor for Greece in the IMF.

Peter Sanfey, *Lead Economist, EBRD*

Peter Sanfey is a Lead Economist within the Office of the Chief Economist at the European Bank for Reconstruction and Development (EBRD) in London. His main responsibilities lie in the analysis of economic developments and reforms in South-Eastern Europe (SEE), and in research and publications on a range of topics covering the whole transition region. He is an editor and author of the annual EBRD Transition Report. Dr Sanfey graduated from Trinity College, Dublin in 1985 with a B.A. (first class honours) in Economics, and received his Ph.D. in Economics from Yale University in 1992. He was a lecturer in economics at the University of Kent at Canterbury from 1992-97, teaching courses mainly in the fields of macroeconomics and labour economics, before joining the EBRD in October 1997. Dr Sanfey has published widely in international refereed journals on a variety of topics, mostly on transition, macroeconomics and labour economics. His recent publications have covered the link between reforms and growth in transition countries, subjective well-being in transition, and informal labour markets. He has recently co-authored (with Christopher Cviic) a book entitled: *In Search of the Balkan Recovery: the Political and Economic Re-emergence of South-Eastern Europe*, published simultaneously in August 2010 by C. Hurst & Co. publishers (UK) and Columbia University Press (US).

Dejan Šoškić, *Governor, National Bank of Serbia*

Mr Dejan Šoškić was appointed Governor of the National Bank of Serbia on 28 July 2010 by the National Assembly of the Republic of Serbia for a term of six years and began his term of office on 29 July 2010. Prior to this position, Mr Šoškić served as a special financial markets adviser in the National Bank of Yugoslavia, economic policy adviser in the EU Policy and Legal Advice Centre (from 2002 until 2003), and was a member of the Council of the National Bank of Serbia (from 2003 until 2004) and chairman until 28 July 2010. Dejan Šoškić holds a Ph.D. degree from Belgrade University, Faculty of Economics. He has worked as an Associate Professor at the Faculty of Economics in Belgrade and as a lecturer for graduate and MBA courses at the University of Nebraska, Omaha, teaching financial markets and institutions, financial management and international business and economics. In 2002, he was a guest lecturer at the universities of New Haven, Rhode Island and Berkeley, USA.

Mr Šoškić is a Fulbright alumnus and a member of the presidency of the Scientific Association of Economists in Serbia.

George Tavlas, *Director General, Bank of Greece*

George Tavlas is the Director General of the Bank of Greece and the Alternate to the Bank of Greece's Governor on the Governing Council of the European Central Bank. Prior to joining the Bank of Greece, he was a Division Chief at the International Monetary Fund. He earned his Bachelor's degree

from Babson College and his Master's and Doctorate degrees in Economics from New York University. He has been a Senior Economist at the US Department of State, an Advisor to the World Bank and the Organization of Economic Corporation and Development, and a Visiting Scholar at the Brookings Institution, the Reserve Bank of South Africa, and the Lebow School of Business at Drexel University. He is the Editor-in-Chief of *Open Economies Review*. He is the author of numerous articles in academic journals.

Bob M. Traa, Senior Resident Representative in Greece, IMF

Mr Traa is a national of the Netherlands and has been with the IMF for 25 years. He holds a Ph.D. in Economics. His work for the Fund has focused on Latin America (including Brazil and Argentina) and Europe (including Germany, Sweden, Spain, and Greece), and spans both annual surveillance and programme design and implementation. Mr Traa's background is in international monetary economics and his interests have recently focused on integrating balance sheet analysis into fiscal policy making for improved macroeconomic and inter-temporal balance. Mr Traa has been the Senior Resident Representative in Greece since October 2010.

Alexey V. Ulyukaev, First Deputy Chairman, Bank of Russia

Mr Alexey V. Ulyukaev is First Deputy Chairman and member of the Board of Directors of the Bank of Russia. Mr Ulyukaev was born in 1956 in Moscow. He graduated from Economics Faculty of the Lomonosov Moscow State University, where he subsequently finished a post-graduate course and was awarded a Sc.D. degree in economics in 1982. He also holds a Ph.D. in Economics from University Pierre Mendes in France, Grenoble. Mr Ulyukaev started his professional career as Professor's Assistant and Associate Professor at the Moscow Construction Engineering Institute. Later, he became consultant and section head of the editorial office of the *Kommunist* magazine and political analyst of the *Moskovskiye Novosti* (Moscow News) weekly. In 1991, Mr Ulyukaev began to work for the government institutions, first as Economic Advisor to the Russian Government and then head of the Group of Advisors to the Chairman of the Russian Federation Government. He served as Deputy Director of the Institute of Economic Problems of the Transition Period and as Deputy of the Moscow City Duma. From 2000 to 2004, he was First Deputy Minister of Finance of the Russian Federation. Since 2004, Mr Ulyukaev has held the post of First Deputy Chairman of the Bank of Russia.

Thanos Veremis, Professor, University of Athens

Thanos Veremis is Professor Emeritus of Political History at the University of Athens, Department of European and International Studies and Founding Member of the Hellenic Foundation for European and Foreign Policy (ELIAMEP). He has been Research Associate at the International Institute for Strategic Studies, London 1978-79; Visiting Scholar, Center for European Studies, Harvard Univ. 1983; Visiting Professor at the Woodrow Wilson School of Public and International Affairs, Princeton Univ.

1987; Visiting Fellow, St. Antony's College, Oxford 1993-94; Constantine Karamanlis Professor at the Fletcher School of Law and Diplomacy, Medford Massachusetts (2000-2003); and Visiting Senior Fellow at the Hellenic Observatory of the LSE (2010). He has served as President of the National Council for Education (2004-2010). Publications include: *The Military in Greek Politics*, London: Hurst & Co (1997); with Mark Dragoumis, Greece, World Bibliographical Series, vol.17, Oxford: Clio Press (1998); with John Koliopoulos, *Greece. The Modern Sequel*, London: Hurst & Co, (2002); *The Balkans. Construction and Deconstruction of States*, Patakis (2005). His most recent title (with John Koliopoulos) is: *Modern Greece. A History since 1821*, Wiley-Blackwell (2010).

David Vines, Professor, Oxford University

David Vines is Professor of Economics, and a Fellow of Balliol College at Oxford University. He is also Adjunct Professor of Economics in the Centre for Applied Macroeconomic Analysis at the Australian National University, and a Research Fellow of the Centre for Economic Policy Research. Since June 2008 he has been the Research Director of the European Union's Framework Seven PEGGED Research Program, which is analysing the Politics and Economics of Global Governance: the European Dimension. David's research is on macroeconomics and international economics. Recently he has worked on the macroeconomics of the global financial crisis, and on the reform of the IMF and the international financial architecture in the light of the crisis; he is the joint editor of a double issue of the *Oxford Review of Economics Policy* on the macroeconomics of the crisis, which was published in late 2009 and early 2010. He has also worked extensively on the relations between fiscal policy and monetary policy, and on the role of fiscal policy within the European Monetary Union. In addition, he has written on the future of the WTO and the World Bank, and, more generally, on the reform of global economic governance. David teaches macroeconomics, international economics and development economics to undergraduates at Balliol College, and at other colleges in Oxford University, and he coordinates the undergraduate course in international economics for University. He is also the coordinator of the Advanced Macroeconomics course in the Oxford M.Phil. Programme in Economics. He regularly supervises a number of M.Phil. and Ph.D. theses, which are mainly about international macroeconomic policy, and about the use of DSGE models in analysing such policy. David obtained a B.A. in Economics and Mathematics from Melbourne University, and an M.A. and Ph.D. in Economics from Cambridge University. From 1978 to 1985 he worked with James Meade in Cambridge, and from 1985 to 1992 he was Adam Smith Professor of Political Economy at the University of Glasgow. Between 1994 and 2000 he was the Director of the ESRC Research Programme on Global Economic Institutions in the UK. David was a Director of Channel Four Television from 1986 to 1992. More recently, he has been a Director of Oxford Policy Management, a consultancy company which provides policy advice to international aid agencies and governments in emerging market economies, and of the Oxford Policy Institute, a policy network which specialises in the delivery of public sector services.

Max Watson, Oxford University

Mr Watson is a Fellow at St Antony's College, Oxford, and a Fellow of Wolfson College, Oxford. He is a Director of the Central Bank of Ireland, and Research Director of the UK consultancy John Howell and Co Ltd. Until 2007, he was Adviser to the Director General of Economic and Financial Affairs at the European Commission. Previously he was at the IMF, where he was successively head of the International Capital Markets Division; mission chief to countries in the euro area and emerging Europe; and a Deputy Director of the Fund. His recent publications include: *From Crisis to Recovery: Sustainable Growth in South East Europe* (co-edited with Othon Anastasakis and Jens Bastian, SEESOX 2011); *Are there Speed Limits to Real Convergence?*; with Istvan Szekely, in *Real Convergence in Central, Eastern and Southeastern Europe*, Palgrave Macmillan, 2009; *IMF Surveillance in Europe: Progress in Refocusing*, IMF, July 2008; and *Laying the Financial Foundations for the Euro*, a book co-edited with Lars Jonung and Christoph Walkner, Palgrave Macmillan, June 2008.

Peter Weiss, Resident Representative in Greece, DG ECFIN, European Commission

Peter Weiss is Resident Representative for the Directorate General for Economic and Financial Affairs, European Commission. He is an Austrian national. He holds a Doctoral degree in Economics from the Vienna University of Economics and Business Administration. He served in various assignments as division head at the Directorate General for Economic and Financial Affairs of the European Commission. Before joining the European Commission he worked at the OECD Secretariat in Paris, the European Free Trade Association in Geneva and Brussels and as Assistant Professor of economics at the University of Economics and Business Administration, Vienna. He has authored various journal articles and book contributions in the area of labour markets, international trade and business cycles.

Durmuş Yılmaz, Governor, Central Bank of the Republic of Turkey

Born in Uşak in 1947, Mr Yılmaz obtained his BA in Economics from the City University of London and his M.A. degree from the University College, University of London. Mr Yılmaz started to work in the Foreign Exchange Department at the Central Bank of Turkey in 1980. He worked in the areas of Foreign Debt Rescheduling, Exchange Rates and Foreign Exchange Reserve Management. He became Deputy Director of Foreign Exchange Transactions Division in 1993, Director of Interbank Money Market Division in 1995, and Director of Balance of Payments Division in 1996. Mr Yılmaz was promoted to Deputy Executive Director at Markets Department in 1996 to supervise Foreign Exchange Risk Management, Credits, Foreign Exchange and Foreign Banknotes Markets and Open Market Operations. He was appointed Executive Director of the Workers' Remittances (Non-Residents FX Deposits) Department in 2002. Mr Yılmaz was elected Member of the Board in the Shareholders Ordinary General Meeting held on 7th April 2003. Having served as Board Member between May 2003 and April 2006, Mr Durmuş Yılmaz was appointed Governor of the Central Bank of the Republic of Turkey on 18 April 2006.

Emmanuel Zervoudakis, *Director-Adviser, Bank of Greece*

Mr Zervoudakis has been a Director-Adviser at the Bank of Greece since 2006. Prior to that, he was Assistant Director of the International Monetary Fund, which he joined in 1979. Since the early 1990s, his work at the IMF has focused mainly on transition economies in Europe, as head of Division in charge of Central and Eastern European economies and as head of missions to countries with adjustment programmes, including the Czech Republic, Slovakia, Romania, and Serbia and Montenegro. He holds degrees in Economics from the University of Athens, Greece (B.A.) and the University of Rochester, USA (Ph.D.).

