

Istanbul, April 10th, 2010

SOUTH EAST EUROPEAN COOPERATION PROCESS
ECONOMY AND FINANCE MINISTERS MEETING
CHAIR'S SUMMARY

On April 10, 2010 The Economy and Finance Ministers (ECOFIN) of the South East European Cooperation Process (SEECP)¹ member countries met under the Chairmanship of Mr. Ali Babacan, Deputy Prime Minister of the Republic of Turkey, in Istanbul. The Meeting was preceded by the High Level Officials Meeting of Deputy Ministers, Central Bank Governors and Banking Sector Regulators and a Panel on “G-20 and SEECP” on April 9th.

Representatives of the International Monetary Fund (IMF), the World Bank Group (WBG), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Council of Europe Bank (CEB), Black Sea Trade and Development Bank (BSTDB) and Regional Cooperation Council (RCC) and academia also attended the High Level Meetings.

The meetings were focused on four areas, i) the macroeconomic outlook for the region, ii) the role of International Financial Institutions (IFIs) in the region's development process and structural reform efforts, iii) the impact of policy decisions discussed under the G-20 and iv) how to further improve the economic policy coordination in the region.

Macroeconomic outlook

SEE countries were not immune from the global economic crisis. During the crisis period, consumer and producer confidence plummeted, external financing shrunk, export demand declined, credit markets deteriorated and remittances dropped sharply. The region's aggregate output was significantly dampened by around 5 percent in 2009. The policy makers have responded the crisis through interest rate adjustments, monetary policy measures and expansionary fiscal policies.

¹ The SEECP was established in 1996 to strengthen security and the political situation, intensify economic relations and collaborate in the areas of human resources, democracy, justice, and battle against illegal activities. Turkey is chairing the South East European Cooperation Process (SEECP) between June 2009 and June 2010.

Those policy responses, the European economic, regional and political integration and increased role of the IFIs have helped most of the SEE countries stabilize their economies. In most of the region, confidence bounced back, risk appetite started to increase, exports accelerated, and the inventory drawdown moderated. However, the major risks for growth are not eliminated since the private credit remains sluggish and unemployment is still high.

Implementing the policies to stimulate dynamics of the economy and support domestic saving and investment will expedite the rebound of the growth in the region. Capital inflows especially foreign direct investment is also crucial for the region. Hence, the countries should implement policies to boost confidence in the region and these steps should be supported by the IFIs.

The role of international financial institutions in the region's development

The region has a great potential for sustainable high growth. IFIs can play an important role in promoting sustainable economic and social development in the region and especially in assisting regional economies affected by the recent financial crisis. IFIs are the major players providing financial resources, sharing knowledge, building capacity and creating partnerships between the public and private sectors in the region. In this regard, the IFIs should preserve and even increase their existing support to the region. There is also need for improving the effectiveness of IFI lending.

Looking ahead, the biggest challenges in the region are enhancing competitiveness and productivity, undertaking social sector reforms including employment policy, building infrastructure and fostering human development. The role of the IFIs would be critical in supporting private sector activities. In this regard IFIs should help governments create a conducive environment for private investments and promote entrepreneurship. In this regard, IFIs should explore to find ways to extend more support to address those challenges across the SEE region and better coordinate among themselves especially in the areas of energy efficiency, infrastructure and SME financing.

G-20 and SEE Region

G-20 played an important role during the crisis. The international policy coordination under the G-20 is important and the momentum achieved during 2009 should be preserved.

The issues discussed under the G-20 are relevant and have potential implications for the region. In particular, financial sector regulatory reforms are of utmost importance. These reforms should be done consistently across jurisdictions and should not hinder the flow of capital to developing countries, an issue critical for the region.

Looking forward, the G-20 is expected to continue playing an important role during the post crisis era, especially regarding the coordination of exit strategies, reforming of the IFIs so as to increase their effectiveness and legitimacy and addressing the global challenges.

G-20 should give more weight on its work to promoting development issues such as poverty reduction, supporting social safety nets and realizing the ODA commitments.

Further improving economic cooperation in the region

In the post-crisis era increasing regional cooperation has become more critical than ever as the global economic and financial architecture is going through a comprehensive reform process.

By acknowledging that a full recovery and sustainable growth relies on effective cooperation in the region, the existing cooperation and collaboration in the region should be strengthened. This would enable the region countries to take policy actions in a coordinated manner so as to maximize the benefit of the people living in the region. SEECF would be the main platform for enhanced coordination among regional countries.

Increasing trade and investment among region countries and avoiding all kinds of protectionism are seen important also.