Anchoring economic policies in South East Europe: The role of European and International institutions
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SEESOX - Bank of Albania High-Level Seminar

This report draws on discussions at the workshop on “Anchoring economic policies in South East Europe: The role of European and International institutions”, which was held in Oxford on 9 May, 2014. The participants included academics and officials from Albania, the United Kingdom, the EBRD, and the region of South East Europe.

The report represents SEESOX's interpretation of discussions at the workshop and does not purport to reflect the views of any of the participants or of the various organizing institutions.

Preamble

This high-level seminar on “Anchoring economic policies in South East Europe: The role of European and International institutions” was organized by the Bank of Albania, which also supported it, and South East European Studies at Oxford (SEESOX); it was the seventh such event. The seminar was conducted in cooperation with the Political Economy of Financial Markets (PEFM) programme and the European Bank for Reconstruction and Development (EBRD). The convenors of the seminar were Othon Anastasakis (SEESOX), Ardian Fullani and Altin Tanku (Bank of Albania), and Max Watson (SEESOX/PEFM). The seminar brought together a wide range of experts with considerable experience with the issues and the region, plus representatives from seven central banks in the region.

The discussions were candid and lively and conducted under the Chatham House rule. Therefore, the following report does not identify any individuals. It does convey the main issues and questions raised at the high-level seminar and represents SEESOX's interpretation of the discussions.¹

This high-level seminar examined the changing nature of the policy challenges to re-launch durable growth across the region in the wake of the

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financial and euro-area crises. Concretely, it focused on the role of external anchors in shaping and supporting policy thinking and implementation. As both European and international institutions have adapted their policies and modalities in response to these crises, the question of how these actors can help embed more effective economic policies was front and centre in the discussions. The EBRD provided a curtain-raising session on 8 May focused on the contributions that deeper and more-targeted structural reforms could make to re-launch growth, and on the associated the political economy dynamics. The first session on 9 May explored the evolving policy thinking and operational modalities of these institutions in light of these crises. The second session delved into four case studies of country experience in order to draw broader lessons for the region. The concluding session provided an opportunity for senior central bankers to share insights, discuss key challenges, and to exchange views on policy options.

**Seminar: Is Eastern Europe stuck in transition?**

Discussion in this seminar attempted to answer the question posed in the seminar’s title—Is Eastern Europe stuck in transition? Key facts were presented as laid out in the EBRD’s 2013 Transition Report, *Stuck in transition?* In particular, the Great Contraction (2008-09) followed by the euro-area crisis were seen to have triggered doubts about the ability of South Eastern European countries to resume their economic convergence with advanced countries and raised the question whether a different “growth model” was needed—one less dependent on credit flows. After the move to a market-oriented economy in the early 1990s, these economies experienced a rapid catching-up process that largely closed—prior to the global and euro-area crises—the previous productivity gap with countries with similar per capita income.

Market reforms—as measured by the EBRD’s transition indicators—stagnated after the mid-2000s. In part, this stagnation was viewed as a natural consequence of the transition process; the “easier”, or “big-bang”, reforms were implemented earlier, leaving the more difficult reforms for later. It is also the case that with a narrower transition gap, the convergence pace could naturally be expected to slow. However more worryingly, the average transition indicators for South Eastern European countries have stagnated at a level noticeably below that achieved by Central European and Baltic economies, implying a reform gap. Moreover, at the country level, transition indicator downgrades outnumbered upgrades for the first time in 2013. At the sector level, reform reversals and increasing government intervention, especially in the energy sector, have occurred, particularly in some countries of central and south-eastern Europe. One factor explaining this reform fatigue has been the more challenging economic
environment in the wakes of the global and euro-area crises. In the aftermath, public opinion in the region turned against market reforms, especially in more democratic countries.

During the discussion, the previous credit-fuelled expansion was not generally viewed as a viable option going forward for two main reasons. One, the risks inherent in this growth model were now more clearly recognized. Two, international capital flows were unlikely to reach their prior magnitudes in part because of the lessons learned and in part because of regulatory and prudential changes. At the same time, the room for manoeuvre for fiscal and monetary policies was seen as largely exhausted by the efforts to buffer the region’s economies from the spillovers from the global and euro-area shocks. Moreover, real economic convergence required real changes to these economies, implying the need for structural reforms.

Structural reforms, particularly those related to governance and economic institutions, were seen as often facing political and social constraints. In the discussion, participants commented upon what appeared to be in a low-growth equilibrium, or “Catch-22” situation. Faster real growth was more conducive to structural reforms, while structural reforms were vital for faster long-term growth. Low-growth made structural reforms more difficult to implement owing to reduced public/political support, but at the same time structural reforms were seen as more necessary than ever before. What to do?

Discussion turned to how to change the political-structural reform-real growth process from a vicious circle into a virtuous circle. In this connection, it was recognized that market reforms that failed to benefit the population at large were not likely to enjoy widespread and lasting public support. The benefits of real growth needed to be, and to be perceived to be, shared broadly and fairly by society—so called “inclusive growth”. However, the EBRD 2013 Transition Report provides evidence that past growth in many transition economies had not been very inclusive. Specifically, household asset inequality in 2010 is relatively high in western Balkan countries. Moreover, the empirically-based reasons for this asset inequality lie to a significant degree in factors beyond the household’s control, such as place of birth, parental education, and parental membership in the communist party. These non-opportunity-related factors explained more than 6 times the variation in household asset inequality for countries in south-eastern Europe compared to a sample of advanced European countries. Thus, a more inclusive growth strategy than occurred previously was considered to be an essential ingredient for moving to a virtuous circle of accelerated reforms and faster growth.
The role of domestic and external anchors—economic institutions—to help the reform process was discussed at length. High-quality domestic economic institutions were viewed as fundamental to this effort. Also, such high-quality institutions need to be grounded in, and supported by, political institutions that are also more inclusive—that is, are more democratic. The empirical analysis presented in the EBRD’s 2013 Transition Report found that countries with greater integration—openness to trade and finance—tended to have better economic institutions; political systems with more proportional representation tended to achieve better results. Such combinations of economic institutions and political democracy were seen to be more effective in taking on domestic vested interests that sought to maintain the status quo; thus, well-informed bottom-up choices of these countries provided an important domestic reform impetus. In addition as was observed, one should not dismiss the contributions made by strong leadership in some successful reform efforts. Several participants expressed the hopeful view that political institutions had already passed a key threshold, making them better able to guide successfully the economic process; therefore from this perspective, the political transition was deemed not to be stuck and could prove to be a positive force to promote structural reforms. Some others were more reserved in their judgment, worrying about the implications of nationalistic and populist groups both inside and outside of the EU.

Participants also noted that external anchors, such as the EU, EBRD, and IMF, have played important, supportive, roles by providing policy advice, technical assistance, and financial resources. Thus, these external anchors have validated internal anchors and were not seen as a substitute for strong domestic economic and political institutions.

Session I: An outlook that challenges existing policy anchors
The next topic for discussion was the challenges that existing policy anchors must address to be relevant in the region in the post-crisis environment. Participants were reminded that this not only entailed drawing new lessons from the recent crises, but also—as Reinhardt and Rogoff have said—remembering not to forget the old lessons—and to look for vulnerabilities that may be hiding in our blind spots. In this connection, external institutions can provide an additional set of eyes to help guide domestic policy makers and to help jog their memories. But have external institutions adapted to the challenges of the “new normal”? Are all their engagement modalities equally effective? Are there gaps? These are some of the issues that this session explored.
During the past ten years, all, but two, countries in the western Balkans have had one or more IMF-supported programs. Thus, IMF via its conditionality has provided an important external policy anchor and has been a source of external assistance for nearly all countries in the region. However, the presented background analysis showed that the outcomes related to real growth, inflation, and the current account and fiscal balances were not different between countries with and without IMF-supported programs. What then did IMF-supported programs achieve?

According to this analysis, the key IMF contribution during the post-crisis period appears to have been the ability to finance larger, albeit still reduced, current account deficits (after adjusting for foreign direct investment) for countries with IMF arrangements compared to comparable balances for countries without IMF programs. Nonetheless, some participants expressed the view that IMF financing had been less generous in south-eastern Europe than elsewhere, noting relatively lower average access levels and the absence of any use of the Flexible Credit Lines.

Participants noted that IMF conditionality had become more flexible, particularly related to fiscal accounts. As a consequence, fiscal balances (and public spending) did not exhibit more consolidation in countries with IMF program than those without IMF programs.

While IMF structural conditionality had been redesigned and softened, the number of structural benchmarks has increased materially since the financial crises particularly in Europe. For some, this development was partially seen as a spillover from the heavy structural conditionality contained in the euro-area programs supported by the Troika.

For others, it represented a return to past levels after a dip. Many seemed to think that increased structural conditionality also coincided with appropriately greater emphasis on structural reforms to spur medium-term real growth. From this latter perspective, additional IMF structural benchmarks were to be welcomed as implementation of such reforms helped lay the foundations for faster growth over the medium term. Some were more sceptical about whether IMF structural reforms were properly targeted and would have liked to see the World Bank to be more active in the region.

All countries in the region have periodic surveillance conducted by the IMF and by the EC (to varying degrees depending on their EU relationship), using different modalities and criteria, although similarities existed too (e.g., technical assessments by their respective staffs; and a political-level peer reviews), including the risk of peer protection. Such surveillance had limitations; for example, neither the IMF nor EC sounded the alarm ahead of the global financial and euro-area crises. Consequently, the IMF
revamped its surveillance policies and practices—adopted the Integrated Surveillance Decisions, updated its methodology for assessments of external imbalance and reserve adequacy, while the EU introduced new procedures—the European Semester, the Macroeconomic Imbalance Procedure (MIP); strengthened existing procedures most notably related to fiscal policy; and made institutional changes, such as those pertaining to Banking Union.

Participants noted differences in approach by these two institutions. For example, IMF surveillance is principles-based, striving to achieve comparable treatment of its members, and relies primarily upon “soft” law. On the other hand, the EU is rules-based, seeking common treatment, and is buttressed by legal statues; thus, the EU has a well-defined “corrective arm” which includes possible financial sanctions. While the IMF uses official peer pressure, it also relies on private financial market discipline that is induced by greater transparency of IMF economic assessments; this public approach must be balanced against its role as a trusted, but private, advisor. Official participants questioned whether IMF surveillance had as much traction with country authorities, or financial markets, as IMF programs.

Turning to the content of surveillance by the IMF and EC, it was observed that the IMF approach of comparable treatment recognizes country specific circumstances, while the EU approach applies common benchmarks, which emphasizes equal treatment. Various indicators (MIP/SGP) employed by the EU are backward looking and asymmetric in nature—focused on deficits rather than surpluses. Backward-looking indicators plus forward-leaning policy actions could generate an adverse feedback loop. In contrast, it was noted that the IMF utilizes forwarding-looking projections, which have their own risks, as the platform for its policy recommendations; the IMF has also developed a transparent set of empirically-based vulnerability indicators that allow for differing country circumstances. Against this background, participants commented upon the possibility that the IMF and EC might provide policy advice that was not wholly consistent with each other, placing the recipient country in an awkward position. While some participants noted the possibility of “cherry-picking” advice, most official participants observed that EU membership, or the pull of EU membership, was likely to give the EC greater sway.

As regards the importance of EU membership, a general opinion emerged that it was more accurate to view the prospect of EU membership as an “attractor”, or exerting a gravitational pull, rather than an anchor with its possible negative connotations. However, once EU membership was achieved, policy discipline and reform efforts slacked off, all too frequently. This problem would be compounded if the final,
often more difficult, stages of structural reforms had been met via a “ticking the box” process, rather than more substantively. Taking on the difficult areas of policy reform at the outset of the EU accession and thereby giving more time for these reforms to become deeply rooted was seen by several participants as the way forward. The question was asked whether this weakening of the attractor forces after EU membership implied that the membership process should take longer in order to ensure that as much as possible was accomplished prior to joining the EU. The answer was a resounding NO, because a longer process was seen as weakening the forces of attraction.

Participants moved on to discuss macroprudential policies, which represented a new area of policy advice the EC, and the IMF. In this connection, it was observed that many regional central banks had significant experience in using macroprudential tools even if they were not called macroprudential at the time. These tools had been utilized to enhance financial sector stability and to increase the effectiveness of monetary policy. But these efforts were frequently undermined by international capital flows and regulatory arbitrage. In this connection, participants generally welcomed the IMF’s new institutional view on capital flow management (CFM)—that considered CFMs to be useful to deal with capital surges and sudden stops and were part of the macroprudential toolkit. This IMF view contrasted with the EU policy to remove all restrictions on capital movements not only within the EU but with respect to non-EU countries as well. Nonetheless, EU policy did allow exceptions such as when it was necessary to protect the functioning of the Internal Market or a sudden crisis occurs—such as in Cyprus.

With structural policies seen as ever more essential for durable long-term real growth, participants focused on the contributions that could be made by international and European development institutions, particularly the EBRD. In this connection, participants commented favourably upon the new set of sectoral transition indicators that had been developed by the EBRD; these indicators were more objective and quantitatively based than the previous country indicators. It was felt that these new indicators could more effectively diagnose transition gaps, help identify suitable projects, and provide a tool for results-based monitoring. Like the IMF, the EBRD was viewed as a countercyclical lender; indeed EBRD lending had increased in the wake of the financial crises. Greater technical and financial support by the EBRD could help mitigate to some extent the economic and political forces that acted to slow, or even reverse, reform momentum. The more difficult economic and financial environment also meant that the EBRD needed to continue to support existing
clients because a smooth hand-off to the private sector was not possible and new opportunities with the private sector were scarcer.

As regards private capital flows, cross-border bank lending was seen to still be in retreat for two main reasons. One, parent banks, especially in Europe, were under market and regulatory pressures to strengthen their balance sheets, particularly their capital ratios; consequently, deleveraging was a widespread phenomenon affecting their external as well as domestic assets. Two, regional banks were not viewed as being as profitable as they previously were, reflecting amongst other factors, raising non-performing loans and reduced demand from high quality borrowers. On the other hand, portfolio flows had in some cases surged in recent years, primarily in the form of debt, rather than, equity instruments; in this context the fact that the stock of portfolio investments in emerging market economies relative to their GDPs was only half the same ratio for advanced economies; this comparison suggested that portfolio investments in emerging market economies had considerably more room for expansion.

It was also observed that lending to sovereigns in the region was on the upswing with higher volumes and finer pricing. In some cases, participants found it difficult to reconcile these terms by the private financial markets with their assessments of economic fundamentals. This caused some participants to wonder whether markets were once again mispricing risk—seemingly forgetting important lessons from the global financial and euro-area crises. Participants also noted that such market behaviour could lull country authorities into taking less ambitious policy actions. This was seen to contrast with the need for more ambitious policies to restart durable real growth and the policy recommendations coming from the international and European external anchors.

Session II: Lessons from country experience in the past decade

This panel examined lessons from four country experiences—Cyprus, Greece, Hungary, and Latvia. All four countries had experienced their own crises and called upon the IMF and the EU for assistance (in 2013, 2010, 2008 and 2008, respectively). In the two euro-area cases, the IMF-EU response was in the context of the Troika (IMF, EC, ECB), while in the other two cases, it was not because they were not euro members. In thinking about the lessons to be drawn, participants commented that this small sample focused on crisis cases and that experience may not be wholly germane to the non-crisis economies in the region.

Discussion amongst the participants started with an examination of the commonalities and differences in origins of these countries’ crises. One similarity found by most participants was that foreign capital inflows played a major role in fuelling credit booms, particularly related to housing. This
activity typically took place through the domestic banking system, which was closely connected to foreign banks, and operated in an environment with an open capital account and little perceived risk of exchange rate fluctuations. In the case of Hungary and Greece, foreign capital inflows also financed unsustainable fiscal deficits; indeed Hungary had been under the EU’s excessive deficit procedure since joining the EU in 2004; in retrospect fiscal policy was insufficiently tight in the other two cases. Monetary policy was not available (in Cyprus, Greece, and Latvia) to restrain credit demand or severely constrained (Hungary) by foreign exchange risks in the balance sheets of households and banks. Macroprudential tools were not called upon in part because the extent of the financial risk was not recognized and because those tools were not deemed to be effective with free capital movements without support from home-country supervisors.

Participants did not seek to dwell upon the details of the individual programs developed to cope with these countries’ individual crises; rather the participants sought to identify relevant themes. In all four cases, the government needed to provide financial assistance to the banking system, which increased sharply the public debt. While such risk transfer to the public sector was seen as necessary, it also was thought to stem from past inadequate official oversight of the financial sector. Thus, participants viewed recent efforts to strengthen macro-and micro-prudential supervision as an entirely appropriate response to protect the public purse in the future. However in general, participants stressed the need for greater supervisory coordination to cope with regulatory arbitrage efforts by financial institutions that undermine the effectiveness on national efforts. In this connection, several participants noted the “reciprocity principle” adopted by the Basel Committee on Banking Supervision; under this principle, which applies to counter-cyclical capital buffers, home supervisors can be expected to impose the same capital and risk weights as the host country for exposure in the host country by home country banks. This creates a level playing field and prevents regulatory circumvention by banks.

In general, participants considered that the policy challenges brought about by these crises were large and complex, taxing the technical and political ability of country authorities to respond. Also, country authorities and their foreign partners were to some extent unprepared to deal with these crises. The magnitudes of the adjustment problem were especially large in Greece and Latvia, which experienced real output declines of over 25 percent and sharp increases in unemployment. Moreover, initial projections of the output contraction for these two countries turned out to be under estimates—the outcome fell by more than expected. It was
observed that a recent report by the IMF Independent Evaluation Office had found systematic overestimation of real growth in the context of programs with exceptional access as was the case in Greece and Latvia; interestingly, no systematic projection bias was uncovered in IMF-supported programs with lower access levels, such as Hungary and Cyprus. Indeed in Cyprus, the actual contraction in output in 2013 was less than projected.

Participants discussed the distribution of the adjustment burden between external and domestic actors and within segments of the population, and the implications for the political and social cohesion necessary to support the adjustment process. It was generally recognized that official financial assistance helped ease the immediate adjustment burden for the economy as a whole. However, because such financing needed to be repaid in the future, it deferred the needed adjustment and did not reduce its total magnitude. It was noted that Fund financing typically catalyzes additional private financing, which would diminish the immediate adjustment burden; however, in some circumstances where perceived senior creditors have a significant, and rising, share of total sovereign debt, the opposite could occur because the probability and magnitude of a private sector “haircut” on sovereign debt that it holds would increase as it did later in Greece. The domestic/external distribution (as well as the internal distribution) of the adjustment burden as also a key consideration in Cyprus especially as regards the bank deposits. Indeed, the Cypriot Parliament intervened to change the announced agreement with the Troika because they did not think depositor pain was being shared fairly.

In addition to the external/domestic distribution of the adjustment burden, the distribution within society was crucial. This distribution has a public sector vs. private sector dimension; a generational dimension—young vs. old; and a sectoral dimension—traded vs. nontraded goods. The latter is a key element in the “internal-devaluation” efforts undertaken in Cyprus, Greece, and Latvia. The design of the economic program was considered to be critical in determining these distributional consequences. Vested interests may induce the country’s authority to shift the burden elsewhere. On the other hand, external actors may not be sufficiently a tune to these distributional implications.

Participants noted the apparent difference in the ownership of adjustment policies in the cases of Latvia and Greece. The Latvian authorities were seen as strongly committed to preserving their currency link to the euro even in the face of arguments by IMF staff to depreciate the currency. In the end, the Latvian authorities’ position was supported by the EC. However, this choice to eschew an external devaluation required Latvia to pursue
an internal devaluation. Toward this objective, the Latvian authorities cut nominal wages in the public sector to signal their determination and this action was buttressed by a major fiscal consolidation. Notwithstanding the large economic and social costs, the Latvian authorities steadfastly implemented their policy program, stressing to the general public its ultimate objective—to facilitate euro-area membership. The later objective was supported in elections during this turbulent period with the two major pro-euro political parties receiving about two thirds of the vote in two successive elections.

In contrast, the economic policies in Greece devised to cope with its economic crisis, appeared to have been imposed by the Troika rather than to have authored by the country authorities. One implication drawn was that adjustment burden was distributed with less attention to domestic political requirements and the importance of building public support. The Troika came to be viewed by many within Greece as diminishing Greek sovereignty instead of serving to assist the Greek authorities to resolve its economic crisis. Moreover, in the opinion of some participants, the Troika’s credibility was undermined by overoptimistic growth projections, which quickly proved wrong, and necessitating further rounds of austerity. Moreover, euro membership came to be questioned (2012) with the possibility of Greece exiting the euro—i.e., “Grexit”. A restructuring ("haircut") of privately held sovereign debt followed in 2012—the first with the euro-area—but sovereign debt levels were still too high. Nonetheless, it was recognized that the Greek situation has begun to improve in 2014. Both the IMF and EC project positive economic growth in 2014 after six years of decline, although the OECD still forecasts a further, albeit small, decline (1/4 percentage) in real GDP. A primary fiscal surplus has been achieved; and the Greek government had a successful bond issue in April 2014. But the question of adjustment fatigue remained, which was seen as casting a shadow on the forthcoming elections for the European parliament.

More generally, some participants wondered if lasting damage might have been done to the reputations and usefulness of external anchors, such as the EU and IMF. In this regard, it was noted that the IMF still encountered engagement problems in Latin America and Asia as a consequence of its handling of their respective crises (in the 1980s and 1990s). In addition, public demonstrations against the Troika in euro-area program countries coupled with public opinion polls showing low support for the EU gave some credence to this concern. While not wishing to minimize these concerns, it was observed that several countries in the region (e.g., Albania, Kosovo, Macedonia, Romania) have had new IMF arrangements within the last 2 years. In general, participants
considered EU membership still to exercise a strong pull in the region toward sound macroeconomic policies and market-friendly structural reforms. That said, the EU seemed understandably pre-occupied by its internal struggles and therefore appeared to devote less attention to the region; the EU anchor had perhaps thus slipped a bit and needed to be strengthened.

Session III: Panel of Central Bankers

This concluding panel provided an opportunity for the seven senior central bankers from the region to share views on the economic outlook and the associated policy challenges. With the Chatham House rule in effect, these officials exchanged candid insights, revealing sophisticated analysis and deep experience. However, it is difficult to do this discussion justice while honouring the confidentiality of all participants. Thus, this account must necessarily provide a high-level summary that doesn’t capture the full richness and detail of the discussion.

One common theme in the discussion was the poorer prospects for real growth and the expectation of slower real convergence process. While the pace of real convergence should be expected to slow over time, there was general agreement that the recent abrupt downshift required a structural policy response. Monetary and fiscal policies had undertaken the heavy lifting to cope with the spillover from the financial and euro-area crisis and had little further room for manoeuvre. Public debt ratios had risen considerably in the region, except in a few cases. In this context, several participants also noted that income and wealth inequality had worsened over time; urban-rural income differences within countries were also greater now than previously.

The economic headwinds caused by deleveraging activities of foreign banks in general and euro-area banks in particular, was seen as a major policy challenge for the region. In this connection, the Vienna Initiative 2.0 was deemed to be a major success in helping to manage this process and to open up a dialogue with EU supervisors. Domestic banks would need therefore to rely more than previously upon domestic savings to fund their domestic lending. While challenging, this development would also reduce vulnerabilities stemming from a high loan-to-deposit ratio. The dialogue with foreign supervisors also allowed officials in the region to discuss the spillovers from EU reform efforts, such as banking union, and broader changes to the financial regulatory environment, such as Basel III. As regards the latter, some participants noted the possible adverse implications for the volume and pricing of trade finance and investment projects. This dialogue with foreign supervisors could also prove useful if central banks in the region needed in the future to apply macroprudential tools. Many participants, as crucial to ensure the effectiveness of national
macroprudential tools, deemed enhanced cross-border co-operation.

While not cited by the senior central bankers, other participants stressed the important contributions made by central banks in anchoring policies. In this connection, the crucial policy anchoring roles of the currency board arrangements in Bulgaria and Bosnia and Herzegovina were mentioned. Public support for these arrangements also made possible the adherence to the necessarily tight fiscal rules. At the other end of the spectrum, having too close a relationship with the government or government interference, such as in Hungary could erode central bank credibility, weakening its role as a policy anchor.

There was a broad sentiment that domestic fiscal institutions needed to be strengthened. This strengthening could take several dimensions: (i) independent macroeconomic projections; (ii) objective analysis of revenues and expenditure programs; (iii) improved financial reporting and monitoring; and (iv) enhanced accountability. The government could also develop procedures to ensure that legitimate payment requests (including for VAT refunds) were processed on a timely basis and that government arrears were reduced and then eliminated; slow payment by the government to the private sector were viewed as a placing a drag on private sector income and activity. At the same time, it was recognized that public procurement practices must be seen to tackle effectively the risk of corruption.

Participants also saw scope for different external anchors to improve their engagement in several ways. As regards the IMF, it was acknowledged that it had become more flexible and responsive but many participants felt it should move further in that direction. In particular, greater emphasis could be given to real economic growth rather than financial or external stability. Program access could be larger and countries in the region could benefit from a broader array of types of IMF arrangements. The importance going forward attached to structural reforms meant that the EBRD and especially the World Bank should ramp up their lending and technical assistance activities. Some participants thought that IMF structural conditionality could make a useful contribution. Swap arrangements with central banks in advanced economies (i.e., the ECB, Bank of England) would also serve to strengthen the policy anchoring role of central banks in the region. By mending itself, the EU would make a major contribution to the region. This would also allow the EU to devote more energy and resources to the enlargement process. For many in the room, the prospect for EU membership remained the glue that held the region peacefully together and would strengthen economic and political relations in the future.
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Programme

Thursday 8 May

17:00 Seminar

Is Eastern Europe stuck in Transition?

Oleg Levitin (European Bank for Reconstruction and Development); Peter Sanfey (European Bank for Reconstruction and Development)

Chair: Othon Anastasakis (St Antony’s College, Oxford)

Friday 9 May

09:15 Welcoming and introduction

Othon Anastasakis (St Antony’s College, Oxford); Ardian Fullani (Governor, Bank of Albania)

09:30 Session I – An outlook that challenges existing policy anchors

Chair: Ardian Fullani (St Antony’s College, Oxford)

Lead Discussants:

Adam Bennett (St Antony’s College, Oxford)
The experience of IMF programs and policy performance in the region

Russell Kincaid (St Antony’s College, Oxford)
The evolving nature of surveillance - relevance to the region?

Peter Sanfey (EBRD)
Diagnosing and anchoring structural policies

Gillian Edgeworth (Unicredit)
The changing financial environment and the role of policy anchors

11:15 Session II – Lessons from country experience in the past decade

Chair: Othon Anastasakis (St Antony’s College, Oxford)

Lead Discussants:

Julia Kiraly (International Business School, Budapest; KBC Group)
Experience in Hungary

Jens Bastian (Hellenic Foundation for European and Foreign Policy)
Lessons from Greece

Androulla Kaminara (St Antony’s College, Oxford; European Commission)
The Cyprus experience

Peteris Zilgalvis (St Antony’s College, Oxford; European Commission)
The case of Latvia
14:30 **Session III** – Panel of Central Bankers

Chair: **Jens Bastian** (ELIAMEP)

**Ardian Fullani** (Bank of Albania)

**Anita Angelovska Bezoska** (National Bank of the Republic of Macedonia)

**Nikola Fabris** (Central Bank of Montenegro)

**Mariella Nenova** (Bulgarian National Bank)

**István Kónya** (Hungarian National Bank)

**Belma Čolaković** (Central Bank of Bosnia and Herzegovina)

**Arben Mustafa** (Centrao Bank of the Republic of Kosovo)

16:30 **Closing Remarks**: Ardian Fullani and Russell Kincaid
South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at St Antony’s College, Oxford. It focuses on the interdisciplinary study of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford’s best tradition, the SEESOX team is committed to understanding the present through the longue durée and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality teaching and research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote the multi-disciplinary study of the region within the University of Oxford (e.g. politics, international relations, anthropology, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.