workshop report

South East European Studies
at Oxford

Strengthening linkages in South East Europe: Policy anchors and business perspectives

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seesox
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Bank of Albania – SEESOX High-Level Conference

This report draws on discussions at the conference on "Strengthening linkages in South East Europe: Policy anchors and business perspectives", which was held in Tirana, Albania, on 19th September, 2013. The participants included academics, officials, and representatives from the business community from Albania, the United Kingdom, the ECB, the IMF, 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 (except where specified).

Preamble

The conference was convened by the Bank of Albania in collaboration with SEESOX. Its purpose was to take stock of the institutional changes underway in the EU/euro area since the onset of the global crisis four years earlier, and assess their implications for the region of South East Europe. The conference was tasked with exploring two specific issues under this broad context. The first of these concerned the extent to which official policies across the region could be strengthened and anchored more deeply over the medium term; the underlying objectives of these reforms would be to lay a stronger foundation for growth, ensure that the shocks inflicted on the public finances by the crisis could be reversed at a suitable pace, and allow fiscal space to be rebuilt for the future. The second issue related to the nature of the economic linkages that were now developing across the region, and what these trends revealed about remaining barriers or challenges for economic co-operation and the creation of a wider regional market. In addressing this issue, the conference organizers sought to reach out to the business community to seek their views and input and so better inform the debate in academic and official circles.[1]

[1] An informal roundtable discussion was convened the day before the conference by Ardian Fullani (Bank of Albania) and Othon Anastasakis (St. Antony's College, Oxford) to engage with representatives of the business community to discuss the economic challenges facing Albania and more generally to strengthen the dialogue between academics and public officials with the private sector.

The conference was opened by two keynote speeches by Edi Rama (Prime Minister of Albania), and by Ardian Fullani (Governor of the Bank of Albania). Mr Rama, newly elected as Prime Minister, saw his democratic mandate as a vote in favour of greater integration with the EU, for improved governance in Albania and strengthened efforts to combat corruption, and for fostering a more vigorous, dynamic and export oriented economy.[2] In this latter task, in particular, Mr Rama saw a need for a more business-friendly tax and regulatory environment. Mr Rama also stressed the importance of bringing down the level of public debt. Mr Fullani's speech expressed many of the same objectives, underlining the importance of continued integration with the EU as the best anchor for structural reforms in Albania, and also highlighting the role that the business community could play in hastening this integration process.[3]

Albania in a European and regional Context: Strengthening policy reforms and anchors

The first session of the conference provided a review of the economic circumstances that had led to the present conjunctural situation of South East Europe, and sought direction for policy reforms and anchors to better position the region for the future. In a series of spectacular charts, delegates were reminded of the imbalances that had driven the region's old growth model into recession, exacerbated non-performing loans in the banking system, triggered a painful process of deleveraging, and—in a climate of near zero credit growth—led to at best a sluggish recovery.[4] The loss of output and slow growth, meanwhile, had stripped the public finances of a level of revenue buoyancy that policy makers had assumed had become a permanent feature of the fiscal landscape and so encouraged an unduly lax spending regime that it was hard to dismantle. The result was a widening of fiscal deficits and a rising level of public debt. The region also still lagged well behind their role models in the EU on governance, ease-of-doing business, and corruption indicators (e.g., those of the World Economic Forum, the World Bank, and Transparency International). This pointed to a need for change not just in macro-economic policy formulation, but also more

A select number of these businessmen subsequently joined the conference on the following day.

[2] Click here for the full text of Mr Rama's speech.

[3] Click here for the full text of Mr Fullani's speech.

[4] One particularly interesting chart showed how the majority of countries in the region (Bosnia, Bulgaria, Macedonia, Montenegro, Romania and Serbia) had (by 2013) broadly speaking regained (more or less) their output levels of 2008, after five years of deep recession and lost production. Two countries, however, had largely avoided recession (for different reasons) and were now well above their output levels of 2008 (Albania and Kosovo), while two other countries had failed to escape recession and remained well below output levels last seen in 2008 (Croatia and Slovenia). It is ironic that both these latter countries are now members of the EU and one is a member of the Euro.

fundamentally to the institutional bedrock of the region.

Looking ahead to elements of a comprehensive reform agenda, the conference attendees were reminded of the findings presented at an earlier SEESOX-Bank of Albania conference (in June 2012) which identified a number of areas in which fiscal institutions in the region could be strengthened, in ways which would ground fiscal policy on more sustainable foundations.[5] Of the ten key institutions deemed most important, the three that needed to become more widespread and strengthened in the region were (i) fiscal risk management, (ii) independent fiscal agencies (for oversight), and (iii) parliamentary approval/legislative anchoring of budgets. These institutional fiscal "anchors" could be supplemented by a range of quantitative fiscal anchors. The latter could include debt ceiling rules, budget balance rules, expenditure ceilings, and revenue objectives. It was recognized that none of these tools were fool-proof, nor could they be a substitute for sound policy making by those in authority. But they could help the latter control the power of vested interests and avoid policies being forced off-track.

Policies specific to Albania were also identified as reform priorities. Fiscal policy could benefit from a more forward looking perspective (multi-year budgets), streamlined tax administration, and a more forceful effort to deal with public sector arrears. Many of these (and other) issues were no doubt the subject of further debate and discussion between the Albanian authorities and the International Monetary Fund (which was represented at the conference and which participated in the discussions).[6]

The role of the EU in furthering the reform process of South East Europe was actively debated. It was, however, becoming clear that the European lode star had lost much of its brilliance in the wake of the global crisis. Many apparent European "certainties" were now taking on the more elusive hue of "myth". Power seemed to be shifting away from "Europe" (centred in Brussels) toward key EU member states, especially Germany, changing the character and direction of the EU. The EU was no longer such an attractive destination (Iceland has turned away from membership), nor a sufficiently powerful locomotive or role model to pull the reform process in South East Europe on its own—there needed to be a self-generated domestic momentum for reform in the region.

[5] See the SEESOX report on the June 2012 Tirana seminar *South East Europe: Prerequisites for Reform* for more details on this particular presentation.

[6] The IMF returned to Tirana during December 3-17, 2013 to resume discussions with the Albanian authorities. At the end of this mission, the IMF announced a staff-level agreement with the authorities (subject to approval by IMF Management and the Executive Board) on an economic program that could be supported by a €300 million (approx.) 36-month Extended Fund Facility (EFF) with the IMF.

Financial assistance from the EU has ceased to be a free gift, and now comes with irksome strings. The ease of convergence of accession states toward the EU core moreover looked much harder when convergence even within the EU had manifestly failed. The free movement of people within the EU was no longer assured, with growing evidence of push-back from prosperous Northern countries against migrants from the impoverished South. Economic prosperity resulting from European integration was clearly not a one way street any more. And last and perhaps most disappointing of all, was the realization that while democracy may give voice to the people it provides no guarantee of prosperity. Nevertheless, despite this tarnishing of the European "promised land", there still a consensus among delegates that there was really no alternative to continuing integration.

Regional commercial linkages and the scope to enhance the business environment: The business view

In the second session delegates heard experts from the private business and financial community deliberate on ways in which private sector activity could help regenerate growth in the region. Much had been made of increasing the role of markets in the transition process, but perhaps too little attention had been paid to the importance of improving the business environment. Corporate economies of scale were important, but this did not mean just supporting large companies, but rather allowing small and medium sized companies to grow. Conversely, foreign inward direct investment (and related economies of scale) could be enhanced by de-politicizing the role of large foreign corporate entities—a barrier that smaller foreign entities do not face.[7] The advantages of economies of scale also pointed to the need for a regional dimension to promoting business. The Western Balkans in particular were well placed to strengthen regional cooperation, with a common language, many common cultural elements, extensive cross border personal contacts, and the region's geophysical position. These considerations outweighed some of the negatives of the region, which included corruption, legal barriers, and limited access to finance. Bilateral or multilateral agreements on taxation should be speeded up. In this regard, stability of corporate tax rates was as important as (and perhaps more important than) low taxes. Labour mobility within the region could be made easier, which would help remove labour shortages/surpluses in skilled work, and thereby improve productivity

[7] Of course, one could also argue that big investors (once in) will likely have the advantage of having greater clout (compared to smaller investors) to face down local vested interests. Similarly, smaller investors (including those from the region) are likely to have difficulty competing against, or operating in an environment dominated by, large state-owned or favoured corporate entities.

across the region. Regional cooperation and trade could also help remove intra-regional price distortions in commodity and services production and break down local monopolies. Road transportation has been improved, but direct flights between capital cities in the region would help both trade and tourism.

Central Banking panel discussion: The enduring impact on the region of the global and euro area crises: A Central Banking perspective

The central bankers' panel deliberated on the question of European banking union, and there emerged a coalition of opinion that seemed to judge banking union, on balance, a good thing.[8] The jury was still out on the best way to resolve banks within the banking union, or to deal with non-performing loans in the region (although the Vienna 2 initiative has made important advances). Different bank resolution techniques, and the funding thereof (if applicable), have different macroeconomic (as well as Euro-political) implications. The prospect of QE tapering in the USA (and elsewhere) creates dilemmas for central banks in the region which will try to insulate their financial markets (and exchange rates) from the undoubted turbulence that will result from this. The session concluded that the region will have to cope with repeated financial waves, some coming from further reverberations within the Euro zone, and some from the tapering effect. These waves will affect both market interest rates and financial flows. In riding these waves, policy makers in the region will need to have at their disposal all their instruments—especially monetary policy and macro-prudential tools—while respecting a commitment to prudent fiscal policy.

[8] This represented a positive shift in opinion on banking union compared to the last SEESOX-associated congregation of central bankers from South East Europe at the SEESOX-Central Bank of Bosnia workshop in Oxford on May 16, 2013, where views were more circumspect.

Participants

Othon Anastasakis (Director of SEESOX; Fellow of St Antony's College, Oxford)

Adam Bennett (St Antony’s College, Oxford)

Milojica Dakić (Governor, Central Bank of Montenegro)

Nigel Davies (Managing Director, Wyn River Limited)

Helen Dendrinou-Louri (Deputy Governor, Bank of Greece)

Gillian Edgeworth (Chief European Emerging Market Economist, Unicredit)

Ardian Fullani (Governor, Bank of Albania)

Bedri Hamza (Governor, Central Bank of Kosovo)

Nadeem Ilahi (Mission Chief, IMF)

Turalay Kenç Deputy Governor, Central Bank of the Republic of Turkey

Edmond Leka (President, Union Bank)

Samir Mane (President, Balfin Group)

Dietlof Mare (CEO, Vodafone Albania)

Frank Moss (Director General, International and European Relations)

Edi Rama (Prime Minister of Albania)

James Roaf (Regional Resident Representative, IMF)

Marko Skreb (Chief Economist, Privredna Banka Zagreb)

Branko Urosevic (Associate Professor of Economics, Univ. of Belgrade)

Max Watson (Visiting Fellow, St Antony’s College, Oxford)

ABOUT SEESOX

seesox
South East European Studies at Oxford

SEESOX
European Studies Centre
St Antony's College
University of Oxford

Telephone: +44 1865 274537
Fax: +44 1865 274478
E-mail: seesox@sant.ox.ac.uk

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.

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