



Talking points for the RCC Secretary General

**Meeting of the SEECP Ministers of Economy and Finance – Deputies Session
Istanbul, 9 April 2010**

Excellencies, Ladies and Gentlemen,

- I would like to thank the Turkish Chairmanship-in-office of the SEECP for convening this important forum to discuss the role of the IFIs in our region and map out possible avenues for cooperation going forward.
- Let me start by noting some recent encouraging developments in South East Europe. Since the last quarter of 2009, we are witnessing a return to modest growth with both industrial production and exports picking up slightly in most of our countries. Although weak, these are encouraging signals that the crisis has bottomed out, and that we are on the path of recovery.
- However, only a year ago, it seemed that our countries are rushing into an unstoppable downward spiral threatening to wipe out a decade of growth. If we were to replay the scenarios that were widely cited in early 2009, we would have heard of imminent bank failures, radical currency devaluations, exploding unemployment, reversed reforms, and finally, widespread social unrest. None of this has happened and while there were several explanations offered to why this is the case, I would focus here on only one: cooperation.
- What we have seen in the past year and a half is an unprecedented level of cooperation and coordination between the governments, IFIs, European Union and the foreign financial institutions that have come to dominate most of our markets.
- The influx of capital from the international financial institutions directed mostly to the financial and public sector has been extraordinary – EBRD, the World Bank Group and the European Investment Bank (EIB) have pledged to provide €24.5 billion in support of the banking sector in the region, IMF has put in place arrangements with three countries in SEE worth more than €17 billion. The European Union has quickly rolled out financing programmes including, for the first time, direct budgetary support through IPA. Last, but not

the least, the Vienna Initiative created early last year has enabled EU-based banks operating in the region to maintain exposures in South East Europe reinstating confidence into the regional financial markets.

- The response has been substantial and comprehensive, but more importantly, it has been flexible and timely. I will remind you that all of this was put in place within the past 14 months, dispelling critics who have too many times described the EU and the IFIs as slow, bureaucratic and inflexible.
- The national administrations have carried the heaviest burden throughout this period, and the response has been mature and well coordinated within the region and with the international partners. Even though the room for fiscal maneuver was limited, as weaker economic activity has contributed to a significant drop in public revenues, the initial crisis response has managed to contain the worst aspects of the downturn.
- If you allow me, I will take a brief moment to outline some of the recent developments regarding the RCC's work in the region and some obvious synergies between our activities and those of the institutions represented here.
- RCC has recently celebrated its second anniversary. Over the past two years, the RCC has successfully completed the succession from the Stability Pact and the cooperation process in Southeast Europe now firmly resides in regional ownership. We have deepened our work with a wide ranging network of existing regional cooperation programs and have helped initiate and foster collaboration in new areas that we deem crucial for our European future.
- Anniversaries usually present an opportunity for introspection, but we have used ours to once again reach out to our partners and reassess the position of our region in the rapidly changing European environment.
- The international conference on Western Balkans in 2020 that we organized in Sarajevo during February identified several policy areas that need urgent action. If left unaddressed, these areas will continue to impede the restructuring of our economies and prevent the shift towards more innovative, dynamic, and higher value-added industries. The most important take-away from this exercise for us however was a clear need to build a region-spanning vision that will guide our policy actions over the next decade, not by simply emulating the EU2020 exercise, but rather complementing it with our own view for the future.
- To support this process, the RCC has embarked on developing its own mid-term strategy to guide its activities in the period between 2011 and 2013. In close cooperation with the European Commission and our regional and international partners we have developed a

comprehensive work programme that will translate into concrete activities over the next three years. This work was complemented by our continued involvement with our colleagues from the European Commission in the programming of the 2011-2013 Multi Beneficiary Instrument for Pre-Accession Assistance. By linking the gaps identified in our strategy with the resources from the MB IPA we will be able to strategically address some of the pressing challenges in South East Europe.

- Many of the areas that we will be working on over the medium-term will be mentioned here today. I particularly want to mention several areas that we deem crucial in order to develop sustainable economies in the region.
- Human capital development remains a subject of utmost importance for our countries. I am stressing this policy area, because unlike several others that are viewed as “quick fixes”, the investments and reforms aimed at improving human capital can have an impact only in the long term. To bring change, our policy makers will need to take a truly strategic long view for our countries to be able to extricate themselves from the low-wage trap. The RCC has recognized this gap early on, as the human capital dimension remains one of its main five priority areas and there is ample opportunity for regional cooperation in this domain. Together with our regional partners, the RCC has embarked on an ambitious agenda of championing tertiary education reform through its higher education initiative with the universities from South East Europe. Development of a regional research and development strategy for innovation will also be initiated soon to complement the national efforts by taking a broader regional view and utilizing potential synergies.
- After a long period of relatively easy access, the private sector is yet again struggling to tap into favorable finance. This is especially true for the SME segment which seems to be hit the hardest by the economic downturn. The RCC intends to focus its efforts on several areas in this field including further integration of fragmented regional capital markets and exploring ways of attracting early stage and informal equity finance through a concerted regional approach. A number of regional initiatives to expand access to finance have been endorsed by the RCC and we will work with our European and international partners to explore the feasibility of these initiatives.
- Inadequate infrastructure and its low level of interconnectivity both within the region and with the EU remains a problem for most of our countries. This is true to all types of infrastructure, from ICT to physical such as roads, railways and airports; to illustrate, the total air traffic in the Western Balkans is only one fifth of that of Vienna airport. Regional cooperation in this area has no alternative. The RCC intends to be very active in this field and its involvement will be both on sectoral basis (energy, transport, ICT infrastructure, etc.)

as well as on functional, such as development of Public Private Partnerships in infrastructure, a mechanism that is currently in its infancy in the region.

- The RCC will continue to be the voice of South East Europe in all relevant forums. The Western Balkans Investment Framework and the International Financial Institutions Advisory Group will be the two main fora for the interaction of South East Europe with the IFIs. RCC intends to have a constructive advisory role in this process, by providing a regional outlook and giving a voice to our member countries who will be most directly impacted by the work of the IFIs.
- Our guiding principle in executing our activities and planning for the future can be summed up by two main points: regional relevance of our interventions and value added to the already existing national efforts.
- This is particularly important given that resources are becoming more scarce; at all levels – within companies, governments, international organizations - we are required to deliver more while using less. At the RCC, this means an increased focus in our approach and leverage of other institutions' resources to be able to make a substantial impact on the region of Southeast Europe.

Ladies and gentleman,

- Even though the region has seemingly entered somewhat calmer waters, we are all aware that the work of the governments and our European and international partners is far from over. Now, more than ever before, Southeast Europe needs fresh investment, particularly in productive, export-oriented industries. It is here that the RCC plans its biggest contribution. Promoting the region as a single investment space, and creating an environment that will harvest the synergies of cross-regional resources and supply chains will be the top priority for the RCC. The transfer of the SEE Investment Committee to the RCC framework will provide regional cooperation process with a powerful tool for promoting and enabling region-wide reform. By partnering with other regional structures, such as CEFTA and Regional Network of Investment Promotion Agencies, the RCC can articulate a common platform for emergence of a South East European investment market.
- Our first and foremost partners, however, will remain to be the governments in the region for it is at the national level that these regional policy deliberations take shape of concrete measures. We will therefore continue to seek close cooperation with national administrations in all stages of our work, knowing that a vision without supporting action may remain just a dream.
- Thank you for your attention.