

XIIth Euro-Mediterranean Conference on Economic Transition
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“ Financial and Banking Services at the heart of Economic Transition ”

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Opening speech by Mr Eneko Landaburu, DG RELEX

1st plenary session: Comparative advantages and drawbacks for international and Arab Finance of the MED region

Historically, Arab Finance has been quite active in the Mediterranean countries, although with an element of bias towards specific sectors, such as public debt, State-related companies and real estate. International Finance, particularly from Asia and the USA, do not have a similar tendency. Although European investors do not have the same ‘tropism’ as petrodollars, they certainly invest more than others in the region; but differences among sectors and Member States are significant. In this introductory panel speakers will develop those differences and, through this, present the comparative advantages and drawbacks for international and Arab Finance of the MED region.

Session A.1: Financial sectors and the real private economy in the MED region—achievements and shortcomings in financial intermediation

In recent years, reforms have been adopted in most MED countries. In spite of this, there is still a persistent development gap when compared with the most dynamic developing regions of the world, both for banks and Finance at large. Although the process is ongoing, it is now time to draw up a first investigative evaluation, stressing achievements, but also analysing shortcomings and proposing explanations for them.

Session B.1: Issues concerning bancarisation and insurance

The actual penetration of banking practices within a population (rate of bancarisation) is both an indicator of economic modernisation and also a real instrument for that modernisation, due to its pedagogical aspects, and because of what economists call a multiplier effect (instead of being sterilised from the economic cycle, or inefficiently mobilised, savings are reinvested, create additional wealth & saving, and a new cycle). Insurance, which delegates risks to actors able to mutualise and master them, is also fundamental in an efficiency perspective. Considering the low rates of insurance/bancarisation in the region, potential benefits for the economy are huge.

2nd plenary session: Access to finance and capital markets development

The second plenary will address access to finance and capital markets development within the perspective of economic ‘régulation’. What can Central Banks, Public institutions and International Financial Institutions do in order to enhance efficient access to finance and capital markets development? What are their respective roles? Which precise leverage do they have to accelerate the necessary transition? One decisive element is the continuous trade-off between the favouring of growth (attracting the maximum of capital whatever their kind) and securing robustness and resilience to crisis through imposing adequate and sufficient rules, inducing and rewarding right behaviour patterns.

Session A.2: Access to finance - The qualitative & quantitative obstacles for SMEs

SMEs are key for growth and economic transition. Easy and cheap access to finance and capital is fundamental for their development, and, considering the relative low development and internationalisation of financial markets in most Med markets (at least with respect to EU, US and even Asian competitors), traditional intermediation, i.e. Banks, are central. The problem is that, again in relative terms, Med banks suffer from a comparative disadvantage in terms of access to cheap financing and cheap capital, and tend to translate this in their relations with SMEs into terms of higher price for financing, higher risk aversion, higher sureties and guarantees... This leads to lost business opportunities and lower growth. What has already been done in this respect? What more should be done? Which reforms are priorities?

Session B.2: Developing capital markets- a regional (or sub-regional) vs. national approach – better mobilising national savings

It is obviously difficult for an economy or a region to pretend towards attracting international capital when it is not able to mobilise its own national/regional savings. Rich nationals are the best informed about the real potential of the economy and the actual robustness and credibility of reforms. Thus, the share of their own wealth they invest in their own country, and the saving rate itself (trade-off against spending always depends on expected return too) are the most telling indicators for international finance. In a world characterised by increasing international competition from other zones (e.g. rapidly growing Asia), international finance imposes high risk premiums on economies unable to avoid capital flight (or implicitly recognising a problem through limiting capital movements). In this respect, the MED region in general could have a better ranking.

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3rd plenary session: Financial services as vectors for capitalisation, innovation and modernisation

Bancarisation and financial services are prime drivers for economic transition. They induce a better utilisation of saving and enhanced economic efficiency in general, as well as the progressive generalisation of more capitalistic (and profit-oriented) mentalities. Availability of new instruments allows innovative opportunities, new markets and an easier financing of riskier activities. In Eastern Europe, they played a decisive role. M. Belka will explain how, and in which domains particularly. The key question is whether such reforms are possible in the MED countries, and if so, which should be the priorities and which results might be expected.

Session C.1: Governance challenges in the financial sector (banking, insurance and stock markets)

The second plenary has already highlighted that the proper development of banking, financing and insurance activities require adequate rules, especially from Central Banks and regulatory bodies. In modern finance, and particularly in developed countries, such regulation is more and more taken on board by the market itself, through self-regulation, enhanced (partially voluntary) accounting and monitoring reviews, and peer/rating 'governance' evaluation. In some MED countries, governance improved significantly in recent years, but, as a general rule, it remains below European standards. As a consequence, exposure to risk is higher, and firms suffer from lower confidence (and higher refinancing rates) from international markets.

Session D.1: Euromed negotiations on service and investment

Issues at stakes:

The last EuroMed Trade Ministerial paved the way to bilateral negotiations in the perspective of the 2010 free trade zone between the EU and its southern partners. They will proceed on a phased basis. Services & investment is definitely one of the two major corner stones (with agriculture) of this exercise. As already said, financial services are prime drivers for economic transition, and liberalisation of trade with Europe would obviously be a key opportunity to disseminate in the south the EU know-how and resources in this sector. For a country like Algeria, which 'sleeps' on more than \$100 billions' reserves, it could for instance be an opportunity to maximise this 'factor endowment' and facilitate using this capital for buying financial technologies and acquiring market shares in Europe (and abroad). Hence the importance to assess perspectives, expected gains, stumbling blocks...

Session C.2: Benefits and costs of adjustment

There are significant differences in the banking & financial sector's relative employment rates and productivity indexes among various countries enjoying a similar GDP per capita as our Med partners (and even among the Med countries themselves). For most partners, this implies that such services remain a potential source of growth & employment. A prerequisite is, however, the implementation of ambitious reforms, the fulfilment of human capital formation needs (and reallocation of inadequate human resources) and solutions to the consequent related problems. If this has not already been done in spite of the obvious potential gains, it is because there are significant social & political costs for such adjustment... and that financing of accompanying measures is not easy. This will be investigated in the discussion.

Session D.2: Prudential and regulatory issues; advantages of convergence towards the European model and priority avenues in this respect

This session is the third one devoted to rules-related aspects; it particularly focuses on the specific and central (though very technical) aspect of prudential rules with one key question in this respect: is a EU model an adequate one for this zone, and if it is, what are the priority avenues in this respect? The recent international 'subprime' crisis showed both the (transitory) fragility and the (fundamental) resilience of international finance, particularly of the European one. But such resilient prudential rules also have a cost, and may not be necessary or at least necessary without adaptation in less developed and less internationalised finance markets. This will form the core of the discussions.

Concluding Plenary Session: