

Istanbul, 10 April 2009

BS/BF/WG/R(2009)1

**REPORT OF THE
MEETING OF THE BSEC WORKING GROUP ON
BANKING AND FINANCE**

Yerevan, 9-10 April 2009

1. The Meeting of the Working Group (WG) on Banking and Finance was held in Yerevan, the Republic of Armenia, on 9-10 April 2009.
2. The Meeting was opened by Mr. Vache GABRIELYAN, Deputy Chairman of the Central Bank of the Republic of Armenia; and chaired by Mr. Vahe VARDANYAN, Head of Financial System Policy and Analysis Department, Central Bank of the Republic of Armenia.
3. The Meeting was attended by the representatives of the following BSEC Member States:
 - Republic of Armenia
 - Republic of Bulgaria
 - Georgia
 - Hellenic Republic
 - Republic of Moldova
 - Romania
 - Russian Federation
 - Republic of Serbia
 - Ukraine
4. The Meeting was attended by the representatives of the World Bank (WB) and the International Monetary Fund (IMF) as Guests.

The list of participants of the Meeting is attached as Annex I.

5. The opening and welcoming statements were delivered by Mr. Vache GABRIELYAN, Deputy Chairman of the Central Bank of the Republic of Armenia and Mr. Mikhail VARDANYAN, Head of the Multilateral Economic Relations Division, International Economic Relations Department, Ministry of Foreign Affairs of the Republic of Armenia. The Project Coordinator, Mr. Konstantinos ZAIMIS, also delivered an opening statement on behalf of the BSEC Permanent International Secretariat (PERMIS).

6. The draft agenda of the Meeting was discussed and adopted. The agenda, as adopted, is attached as Annex II.

IMPLEMENTATION OF THE RESOLUTIONS, DECISIONS AND RECOMMENDATIONS OF THE COUNCIL OF MINISTERS OF FOREIGN AFFAIRS

7. Upon the recommendation by the BSEC Council (Belgrade, 19 April 2007), the Working Group invited the authorities of the Member States to appoint their representatives on a long term basis by sending official Notes to BSEC PERMIS by 15 May 2009.

8. The Working Group took note of the Recommendation of the 16th BSEC Council (Belgrade, 19 April 2007) regarding its invitation to the BSTDB to actively participate in the meetings of the Working Group.

9. In this regard, the Working Group took note that a representative of the BSTDB unfortunately was not able to attend the Meeting due to other engagements of the Bank that were held during the same period. The Working Group invited the Bank to consider providing its support to the issues that were elaborated and decided during the Meeting.

REVIEW OF THE RECENT DEVELOPMENTS IN THE BANKING AND FINANCE SECTORS IN THE BSEC MEMBER STATES

10. This Agenda item was elaborated under the next item.

FINANCIAL CRISIS MANAGEMENT

11. The representatives of the Republic of Armenia, the Republic of Bulgaria, the Republic of Moldova, Romania, the Russian Federation and the Republic of Serbia made presentations on the recent developments in the banking and finance sectors and the macro-economic overviews in their respective countries.

12. Some of the presentations gave particular focus to discussions or agreements with international financial institutions (IFIs) like the World Bank and the IMF, in light of the effects caused by the global financial crisis, as well as the anti-crisis or stabilization measures in the respective countries.

13. Measures taken by the authorities of some Member States included support to the Balance of Payments (BoP), maintain credit facilities, and strengthen bank capital in order to enhance the overall liquidity of the financial system.

14. However, it was mentioned that the banking institutions in the BSEC Member States have not been affected in the same way since in some countries they have remained in stable conditions while in others they have suffered bank closures or other difficulties which required specific financial and regulatory reform measures to be introduced by the authorities. Nevertheless, most countries have suffered significant depreciation of their national currencies which has caused severe socio-economic problems.

15. Adverse effects caused by the global financial crisis in some of the Member States included a rise in unemployment and inflation, as well as a decrease in foreign exchange reserves, in exports, in capital inflows from abroad, in foreign direct investments (FDI), in bank deposits, in confidence to the banking institutions, as well as a greater difficulty for SMEs to have access to operating capital and loans.

16. In addition, concern was expressed by some Member States over the possibility or intention of foreign banks, with a significant presence in the banking sectors of these Member States, of repatriating their assets, a development that would cause further disturbance, instability and weakening of the financial system.

17. In addition to the information provided during the Meeting, the Working Group decided to invite the Member States to forward official Notes to BSEC PERMIS by 15 May 2009, providing information with regard to the anti-crisis measures, packages or regulatory reforms introduced by their Governments and Central Banks, as well as any eventual agreements concluded with international financial institutions due to the global financial crisis.

18. In this respect, the Working Group invited the BSTDB, in its capacity as BSEC's financial institution, to communicate via BSEC PERMIS to the Member States concrete information based on its experience and banking operations in the region and with regard to the overall effects of the crisis to the BSEC economies, as well as its decisions and activities in response to the global financial crisis.

19. Furthermore, the representatives of the World Bank and the IMF made presentations regarding recent developments in the financial sector in the Black Sea Region and in the Republic of Armenia in particular, as well as provided information on actions taken because of the financial crisis to support the public and private sectors in some of the Member States.

20. In this regard, the participants discussed with the representative of the World Bank the possibility of organizing joint seminars or other events with topics related to mitigating the global financial crisis.

21. The representative of the World Bank welcomed this idea which falls within the established framework of BSEC - World Bank cooperation and suggested to consider this issue as soon as possible.

22. The Working Group invited the Member States to submit their proposals via BSEC PERMIS by 15 May 2009, on specific topics for the above mentioned joint events with the World Bank which among others could include training for improving SME's access to finance by reinforcing or creating new credit facilities.

23. The Working Group, considering the adverse effects of the global financial crisis, decided to recommend to the Committee of Senior Officials to consider this important initiative that will enhance cooperation among Member States in this sector, as well as between BSEC and the World Bank.

24. Furthermore and with regard to the Decision of the BSEC Ministers of Foreign Affairs adopted by silent procedure on 10 March 2009, the Working Group submitted the following draft Decision of the Council to the Committee of Senior Officials for its consideration:

“The Council took note of the Report of the Working Group on Banking & Finance (Yerevan, 9-10 April 2009), expressed its satisfaction for the on-going discussions with the view to enhance inter-governmental cooperation and communication between the authorities of the Member States in this sector and invited the latter to communicate through BSEC PERMIS for dissemination to all Member States the eventual anti-crisis measures taken or envisaged, the reform policies, as well as any agreements concluded or under discussion with international financial institutions”.

Furthermore, the Council took note of the possibility of organizing jointly with the World Bank seminars, conferences or other events, expressed its support for this initiative which is implementing the provisions of the BSEC-World Bank Joint Letter signed in 2005, and instructed BSEC PERMIS to act accordingly in order to elaborate concrete proposals with the World Bank”.

25. Furthermore and with regard to the Decision of the BSEC Ministers of Foreign Affairs adopted by silent procedure on 10 March 2009, as well as the Recommendation of the 16th BSEC Council (Belgrade, 19 April 2007), the Working Group submitted the following draft Recommendation of the Council to the Committee of Senior Officials for its consideration:

“The Council took note of the Report of the Working Group on Banking & Finance (Yerevan, 9-10 April 2009) and invited the BSTDB to support, where appropriate, the activities and initiatives envisaged by the BSEC subsidiary organs in the sector as well as, to assist the Organization in enhancing cooperation with international financial institutions with the view to organize joint events in specific topics related to the global financial crisis”.

CONSIDERATION OF THE DRAFT ACTION PLAN FOR THE WORKING GROUP ON BANKING AND FINANCE AND PRESENTATION OF RELEVANT QUESTIONNAIRE

26. The Working Group, considering that no Member State has yet expressed its interest to be appointed as Country Coordinator invited the authorities of the Member States to consider this

issue and express any eventual interest in order for the Working Group to maintain continuity in its activities.

27. Furthermore, the Working Group, for reasons of effectiveness and efficiency invited the Member States to forward to BSEC PERMIS their suggestions, remarks and proposals with regard to the previous draft Action Plan for the period 2006-2008, as well as the Questionnaire, so that these documents be considered by the Country Coordinator that will be eventually appointed by the Council.

DISCUSSION ON THE POSSIBILITY TO ESTABLISH THE UNION/ASSOCIATION OF THE BANKS OF THE BSEC MEMBER STATES

28. The representative of the Republic of Bulgaria expressed the opinion that the establishment of such new structure is not necessary considering that the national bank associations of most BSEC Member States have joined the Interbalkan Forum of Bank Associations (IFBA) founded in 2004. In addition, the Association of Banks in Bulgaria (ABB), as well as all bank associations in the EU and most of non-EU countries, are members of the European Bank Federation (EBF). The creation of a new but similar structure would actually overlap with the existing ones.

29. The Working Group decided to postpone discussion of this issue until its next meeting.

DISCUSSION ON THE POSSIBILITY OF ORGANIZING REGIONAL TRAINING SEMINARS/WORKSHOPS

30. This Agenda item was elaborated under the item on “Financial Crisis Management”.

CREATION OF AN APPROPRIATE MECHANISM OF INTERACTION BETWEEN BSEC AND BSTDB

31. In the absence of a representative of the BSTDB, this Agenda item was postponed until the next meeting of the Working Group.

ANY OTHER BUSINESS

32. Upon an invitation from the Central Bank of the Republic of Armenia and the International Monetary Fund (IMF) Office in Armenia, the Working Group participated at the Conference “The Impact of the Global Economic and Financial Crisis on the Armenian Economy” which was held in Yerevan on 10 April 2009.

EXPRESSION OF THANKS

33. The Working Group expressed its sincere appreciation and thanks to the Government of the Republic of Armenia and the Central Bank of the Republic of Armenia for the warm hospitality extended to the participants and the excellent organization of the Meeting in Yerevan.

DATE AND VENUE OF THE NEXT MEETING

34. The Working Group agreed that the date and venue of its next meeting would be communicated to the Member States through BSEC PERMIS.

ADOPTION OF THE REPORT

35. The Working Group adopted the present Report for submission to the forthcoming Meeting of the Committee of Senior Officials of the BSEC Member States to be held in Yerevan on 14-15 April 2009 preceding the Twentieth Council of the Ministers of Foreign Affairs of the BSEC Member States to be held in Yerevan on 16 April 2009.
