



OECD REGIONAL ROUNDTABLE ON CAPITAL ACCOUNT LIBERALISATION:

BENEFITS AND CHALLENGES FOR TRANSITION COUNTRIES IN SOUTH EASTERN EUROPE AND CENTRAL ASIA

12-13 May 2003

a) The event

1. This roundtable was organised by the OECD Secretariat, in co-operation with the National Banks of the Czech Republic, Hungary, Poland and Slovakia to discuss the benefits and challenges of capital account opening to global financial markets with transition countries in Central Asia, Caucasus and South Eastern Europe and to develop recommendations for good regulatory policies in this field.

2. The discussions were largely based on a series of case studies, presented both by the recent OECD Members from Central and Eastern Europe, by Turkey and by non-member countries such as Moldova, Croatia and Armenia. The latter group of countries expressed interest in benefiting from OECD's forty years of collective experience in promoting progressive liberalisation of current and capital account operations among its members. Particular focus was directed towards the recent experience of its new members from Central and Eastern Europe in adhering to the principles of the OECD Code of Liberalisation of Capital Movements, which remains the only multilateral instrument in existence under which obligations of liberalising capital movements are agreed and enforced. Both in the case of recent and old Members, the benefits of capital account liberalisation have proved to be substantial while the risks can be managed if the liberalisation process is accompanied by adequate supporting policies and development of appropriate institutional-governance systems. Issues such as the impact of initial conditions and policy contexts faced at the start of liberalization on the pace and order of liberalisation measures were considered. The interface between liberalising different categories of capital flows was also discussed, as well as the degree of domestic financial sector development and inter linkage with international financial markets. While capital controls are no longer regarded as a policy option by any OECD Members, several non-members raised questions regarding the need for maintenance of exchange and capital control systems as a safeguard against tax evasion and capital flight.

b) Participants

3. The participation included, amongst OECD Member countries, the Czech Republic, Austria, Hungary, Poland, Slovakia and Turkey. Six non-Member countries took part in the discussions, namely Albania, Armenia, Belarus, Croatia, Moldova, Uzbekistan. Most of the delegates were officials from government ministries and central banks involved in policy implementation with respect to capital account

liberalisation and foreign exchange regulation. In addition, there were representatives from the State Planning Organization and the Turkish International Cooperation Agency (please see the attached List of Participants).

c) Outcome of the discussions

4. Being the first event organised on this subject at the OECD Istanbul Centre, much of the meeting time was by necessity spent to develop mutual understanding amongst participants of the respective policy considerations and stances taken by the non-OECD Members in the area of capital account liberalisation. The questions from non-member country representatives stimulated by the presentations by Czech, Hungarian, Polish and Slovak officials certainly confirmed the particular relevance for non-members in emerging market economies of these recent liberalisation processes in the context of increasingly globalised and integrated international financial markets. Non-members were also keen to learn about the policy approaches and considerations with respect to short-term capital flows as experienced by Turkey during its recent financial market crisis. The meeting participants considered this initial exchange of views on the complex policy area of capital account liberalisation very useful and saw merits in developing a concrete list of principles and best practices at some future meeting, possibly through an informal peer review of participating countries, based on the review process for the OECD Codes of Liberalisation.



*In Co-operation with the National Banks of the Czech Republic,
Hungary and Poland*

**CAPITAL ACCOUNT LIBERALISATION:
BENEFITS AND CHALLENGES FOR TRANSITION COUNTRIES IN SOUTH
EASTERN EUROPE AND CENTRAL ASIA**

ISTANBUL, 12TH - 13TH MAY 2003

LOCATION

OECD Centre for Private Sector Development
3rd Floor, Yali Kosku Cad. No. 19
Eminonu
Istanbul, Turkey
Tel. +90 - 212 - 512 58 53

Agenda

Monday, 12 May 2003

9:00 - 9:45 *Registration and Coffee*

9:45 -10:30 *Introduction*

- ◆ *Welcome by Representative of the Turkish Government*

- ◆ *Introductory statement by the Chair, Mr. Pavel Klima, Vice Chairman, OECD Committee on Capital Movements and Invisible Transactions*

- ◆ *Mr. Engin Göksu., Manager, OECD Centre for Private Sector Development, Istanbul*

10:30 – 12:30 *Session I – Benefits and Challenges of Capital Account Liberalisation*

Themes: This session aims to set forth the benefits as well as the challenges and pitfalls of capital account opening. Benefits such as efficiency effects and upgrading of policies, practices and institutions will be reviewed as well as the risks inherent in large capital inflows subject to sudden reversal, which must be taken into account in policy formulation. An introductory presentation will summarise the forty years of experience of OECD Members in promoting progressive liberalisation of current and capital account operations under the OECD Codes of Liberalisation - with particular emphasis on the liberalisation experience of its six new members acceding in the period 1994-2000. The collective OECD experience shows that the benefits are substantial while the risks can be managed if the liberalisation process is accompanied by adequate supporting policies and development of appropriate institutional-governance systems.

The Benefits of Liberalisation : The OECD Experience

- ◆ *Introductory presentation by Ms. Eva Thiel, Senior Economist, OECD Directorate for Fiscal, Financial and Enterprise Affairs*

The Overall Challenges Facing Policy-makers During the Liberalisation Process

- ◆ *Presentation by Ms. Ewa Sadowska Cieslak, National Bank of Poland*

- ◆ *Comments by Representatives of the Hungarian, Czech and Slovak National Banks*

- ◆ *Plenary discussion*

12:30 - 14:00 *Lunch Break*

14:00 - 15:30

Session 2

Recent Experiences in OECD Transition and Non-Member Emerging Economies

Themes: In this session, case studies of respective liberalisation processes will be presented by experts from recent OECD members, from Turkey as well as from a number of non-member countries to stimulate an exchange of views amongst participants during the subsequent plenary sessions. Issues such as the impact of initial conditions and policy contexts faced at the start of liberalization on the pace and order of liberalisation measures will be considered. The interface between liberalising different categories of capital flows will also be in focus as will the degree of domestic financial sector development and inter linkage with international financial markets.

The Liberalisation Process in Hungary and the Choice of Monetary and Exchange Rate Policy Settings

- ◆ *Presentation by Mr. Werner Riecke, Hungarian National Bank*

The Czech Liberalisation Process and the May 1997 Financial Crisis

- ◆ *Presentation by Mr. Tomas Holub, Czech National Bank*

The Process of Capital Account Liberalisation in Poland: Institution-building and Ensuring Overall Financial Sector Stability

- ◆ *Presentation by Ms. Ewa Sadowska Cieslak, National Bank of Poland*

The Liberalisation Process in the Slovak Republic: Addressing Short term Inflows on the Road to EU Accession

- ◆ *Presentation by Ms. Tatiana Mikulenkova, the Slovak National Bank*

15:30 – 16:00

Coffee Break

16:00 – 17:30

Continuation Session 2

- ◆ *Plenary discussion on the basis of presentations by OECD CEE Members*

Day 2: 13 May 2003

9:15 - 10.45

Continuation Session 2

The Experience of Turkey with Capital Account Liberalisation as an Original Member of the OECD

- ◆ *Presentation by Ms. Zirha Kirlidog, Turkish Treasury Ministry*

The Liberalisation process in Moldova

- ◆ *Presentation by Mrs. Lucia Hadarca, National Bank of Moldova*

The Process of Liberalisation in Armenia

- ◆ *Presentation by Mr. Vardan Petrosyan, National Bank of Armenia*

The Process of Liberalisation in Croatia: Redesigning Foreign Exchange Legislation

- ◆ *Presentation by Mr. Zoran Jurak, Croatian National Bank*
- ◆ *Plenary discussion on the basis of presentations by Turkey, Moldova, Armenia and Croatia*

10.45 – 11.15 *Coffee Break*

11.15 – 12.45 Session 3

Supporting policies and institution-building for successful liberalisation: recommendations for best practices

Themes: This session will focus on the policy options available for promoting stability during the liberalisation process. It will address needs for sound fiscal, monetary and exchange rate policies accompanied by full transparency and efficient data dissemination as well as effective signalling of policy intentions to build confidence in international markets, to facilitate risk assessment and avoid the build-up of unsustainable balance-sheet positions. The importance of robust institutions and sound governance principles throughout the economy will be emphasised, in particular as concerns prudential oversight and strengthening of the domestic financial sector. The session will also discuss the practical feasibility of a sequenced approach to capital account opening, as well as the case for controls: when and over what time frame may they work? In this context, aspects of good foreign exchange rule making will be examined, to ensure transparency and proportionality of measures of control still being implemented. The importance of efficient monitoring and reporting systems to detect potential vulnerabilities as alternatives to the imposition of controls will likewise be explored.

- ◆ *Comments by:*
 - *Previous presenters of individual country experiences*
 - *Other representatives of non-member transitions countries*
- ◆ *Plenary discussion.*

12:45 - 14:15 *Lunch*

14:15 - 15:45

SESSION IV: CONCLUSIONS AND FURTHER WORK

This final session will focus on the key messages that have emerged from the discussions outlining, if possible, a list of principles and best practices against which follow-up could be planned at a future date. One form of such follow up work which could be envisaged would be an informal peer review of participating countries, based on the review process for the OECD Codes of Liberalisation.

