

The Crisis and the Transition Economies

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The views expressed in this presentation are those of the author and do not necessarily represent those of the IMF or IMF policy.

Structure of the presentation

- ✓ Why the region was vulnerable and how it coped with the crisis
- ✓ Prospects for the world economy
- ✓ Impact of deleveraging on the region

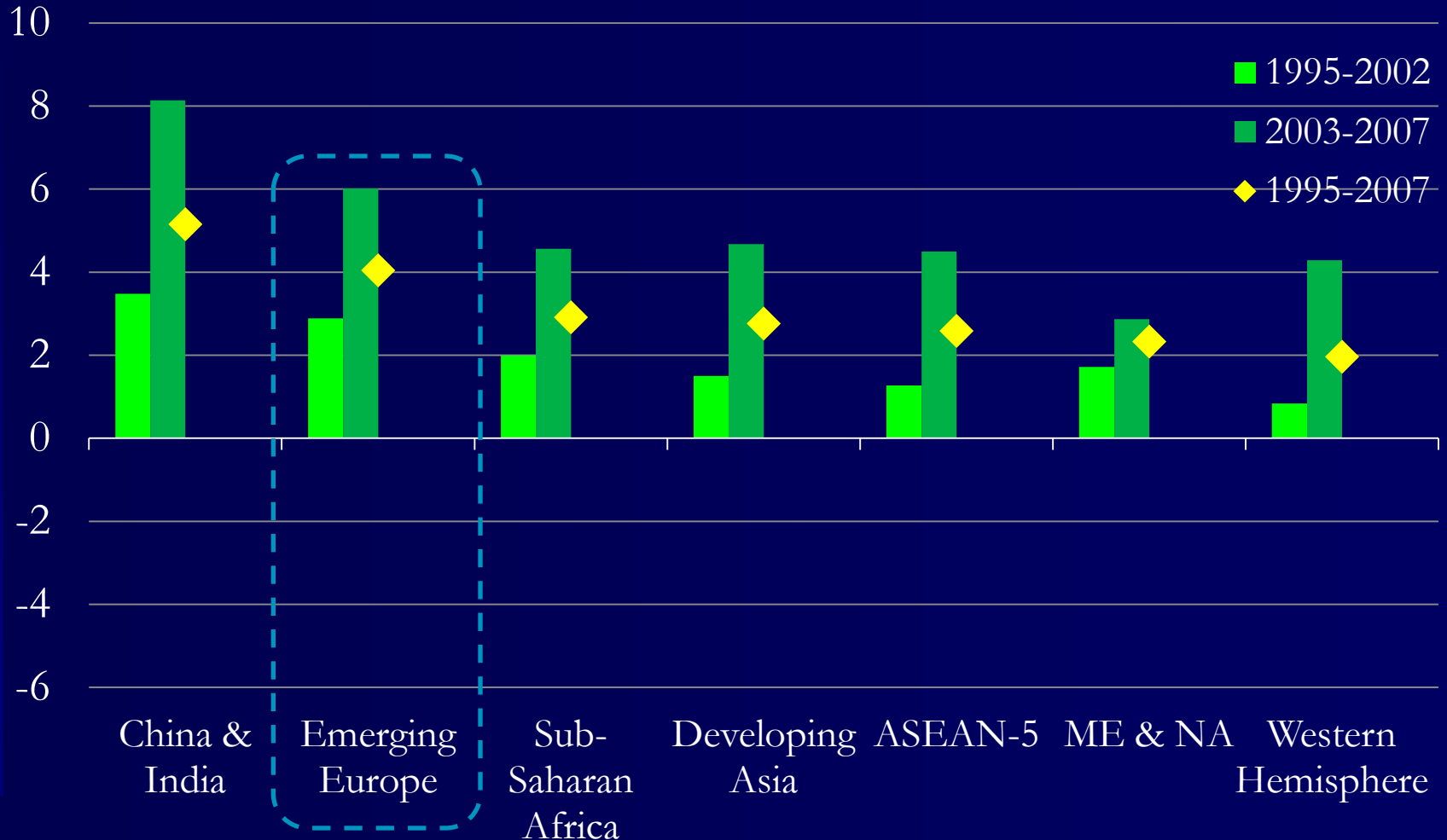


- ✓ Why the region was vulnerable and how it coped with the crisis



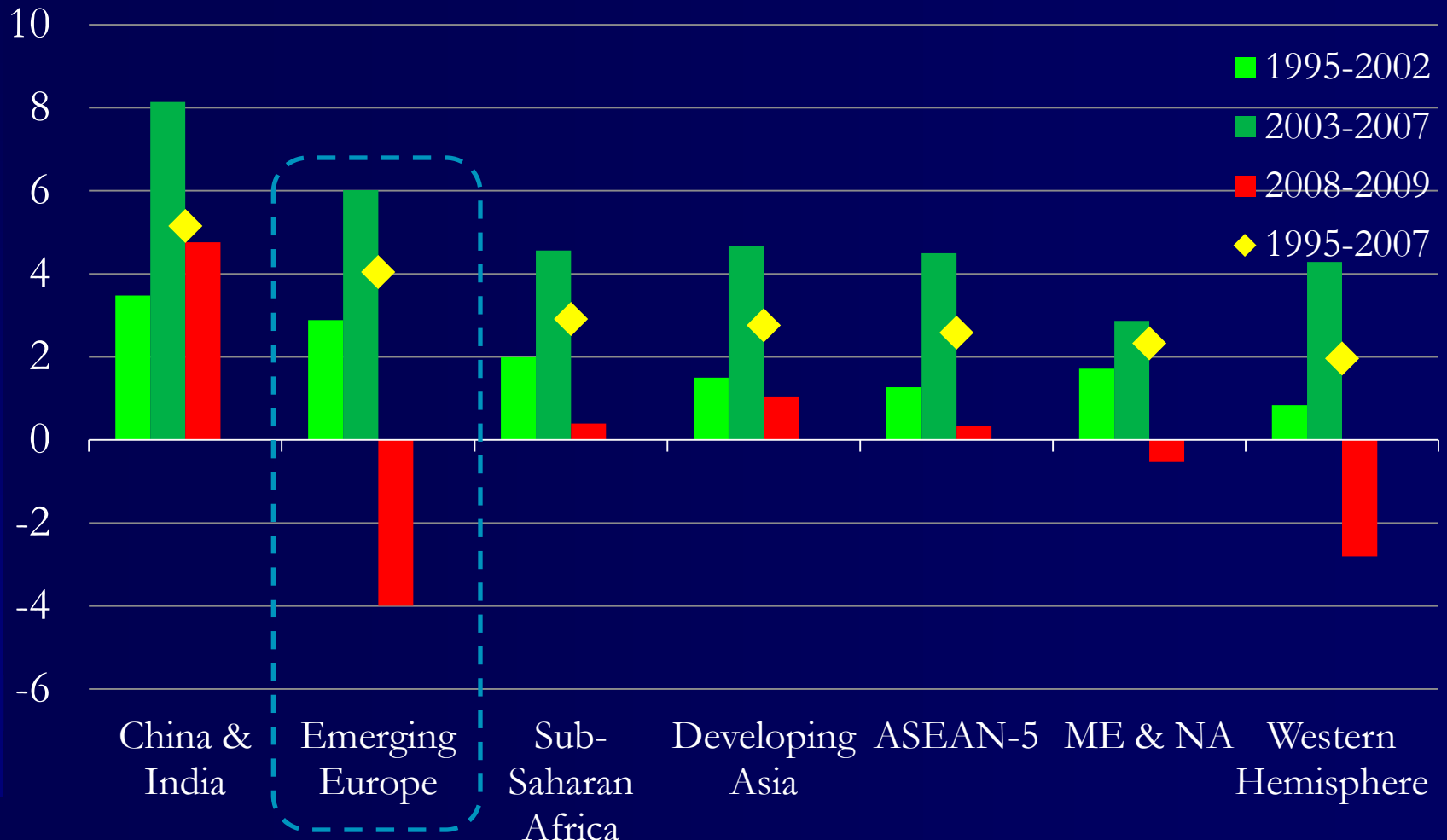
Emerging Europe was among the fastest growing regions...

Real GDP per capita growth
(average annual growth rates)



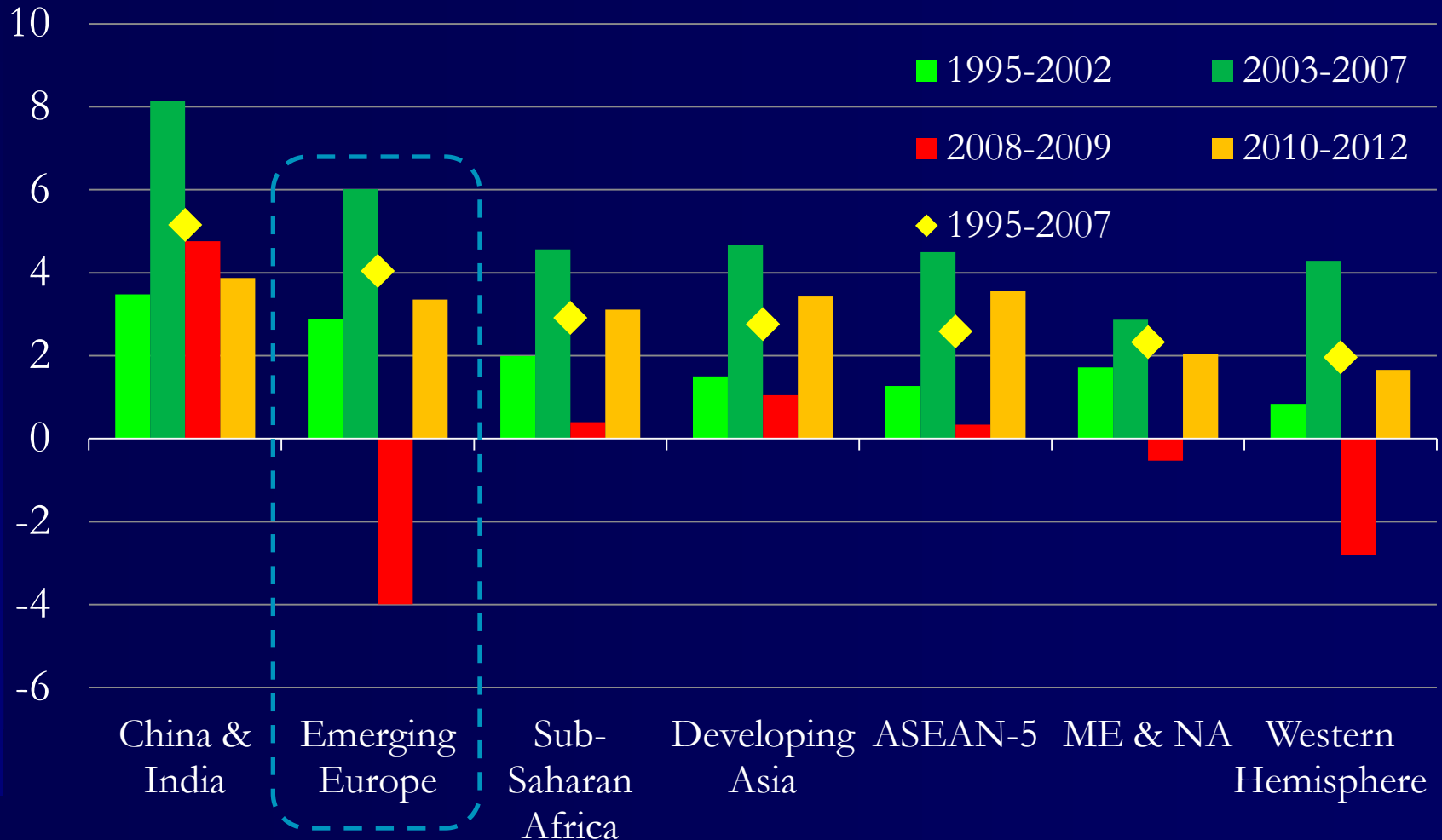
...but was most affected by crisis...

Real GDP per capita growth
(average annual growth rates)



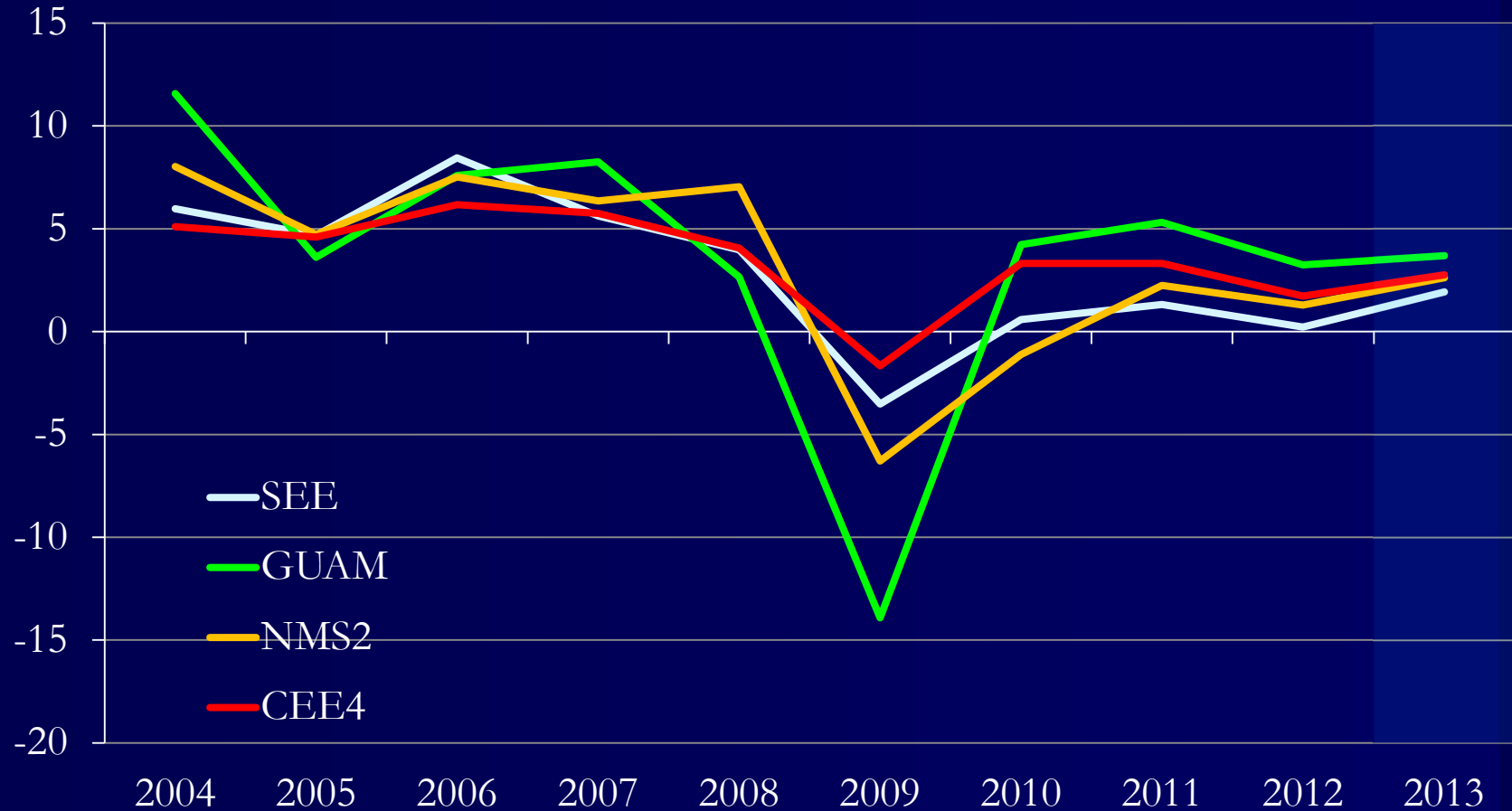
...and recovery is the slowest.

Real GDP per capita growth
(average annual growth rates)



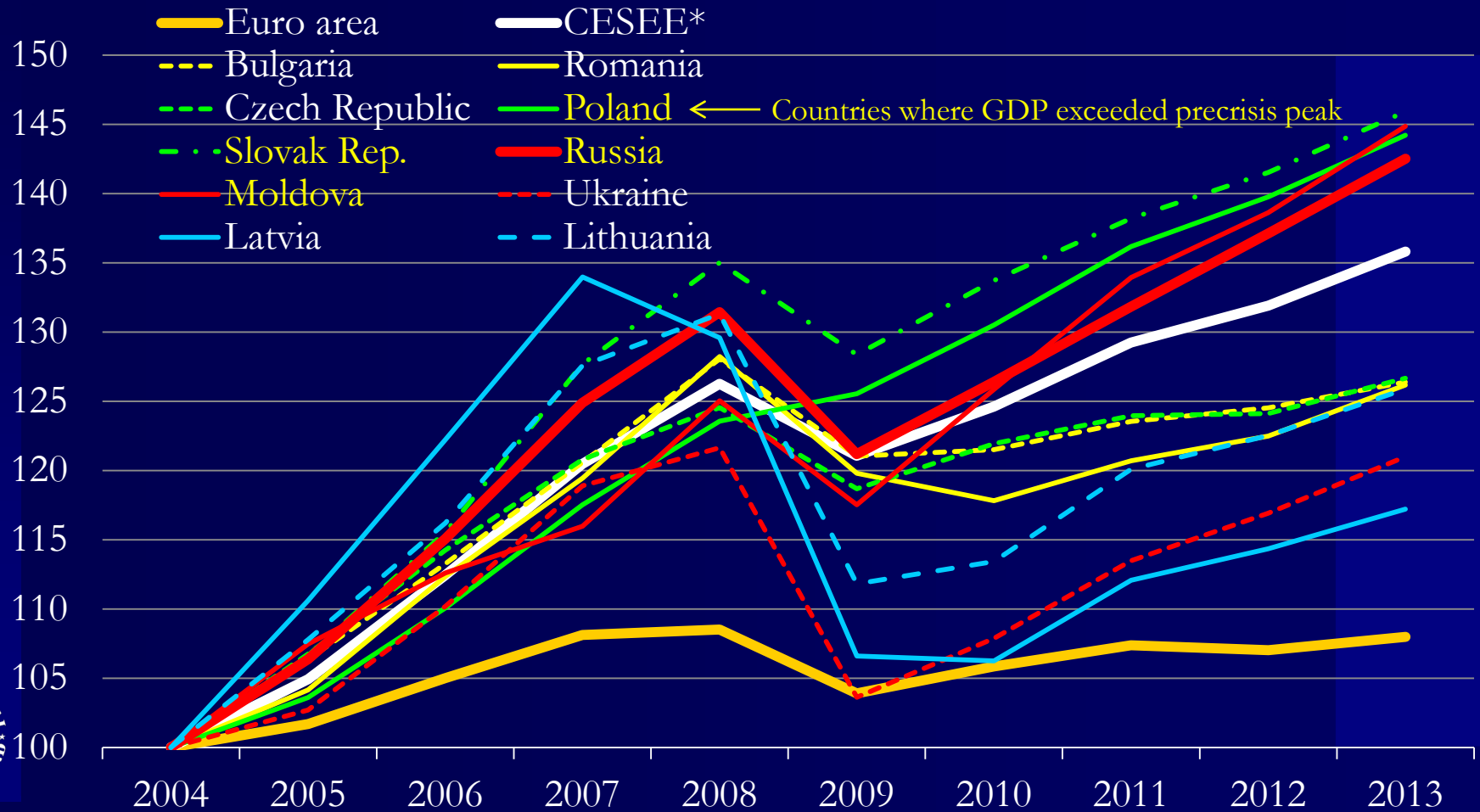
While the recovery is underway...

Change in real GDP
(Year on year)



...output losses have been severe...

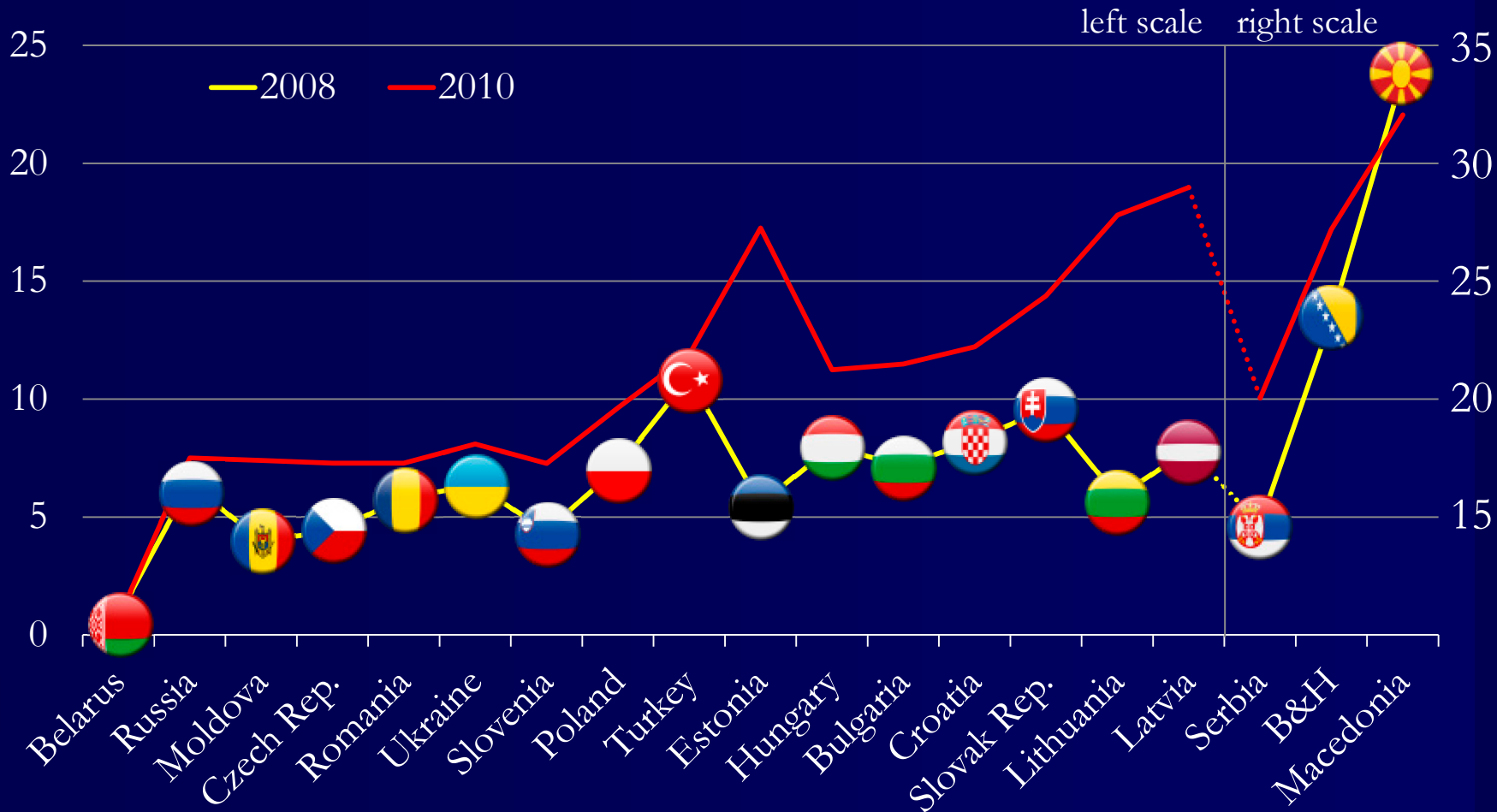
Real GDP levels
(index, 2004 = 100)



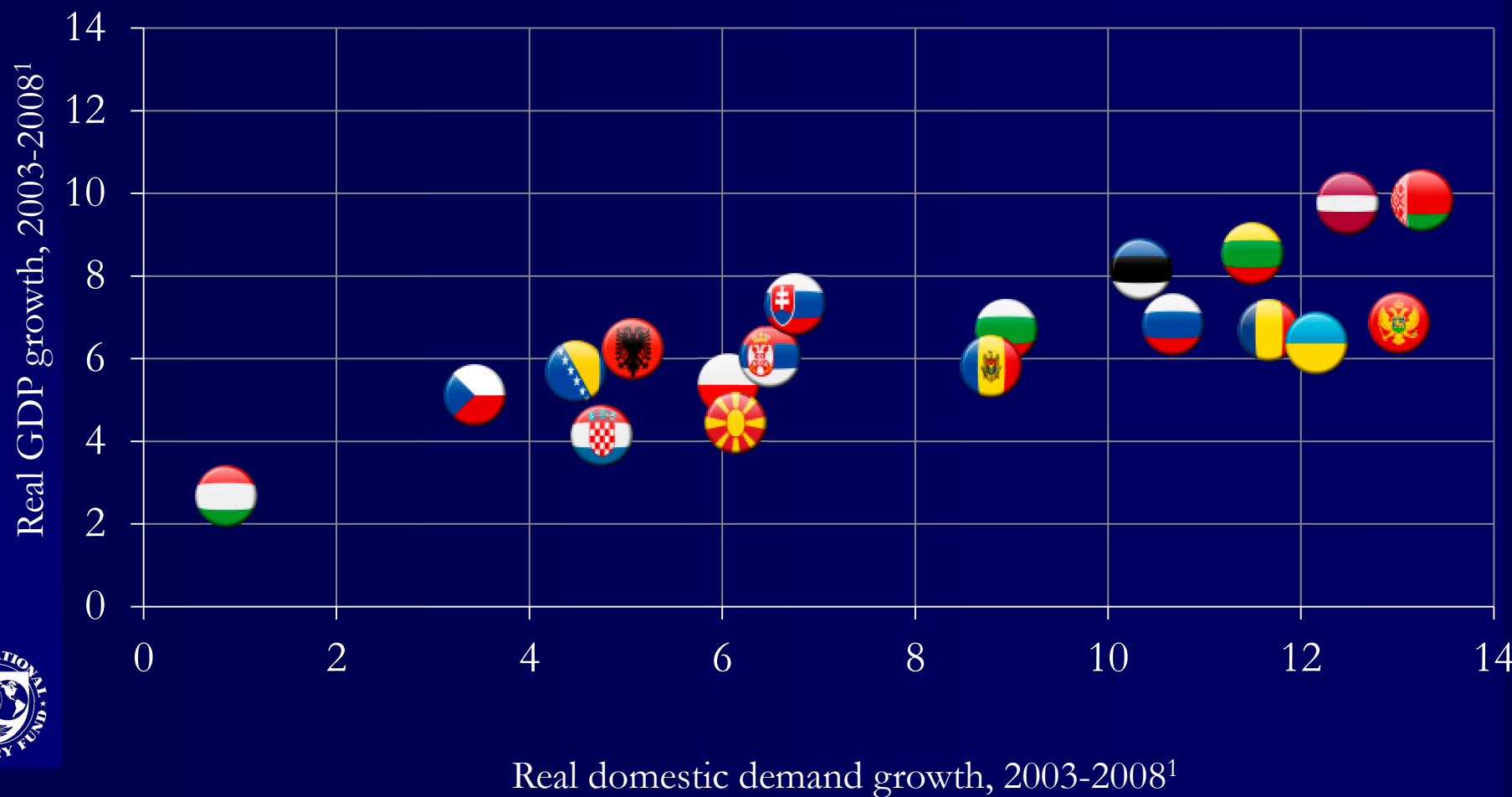
...and unemployment has only fallen slightly.

Unemployment rate
(percent)

2013

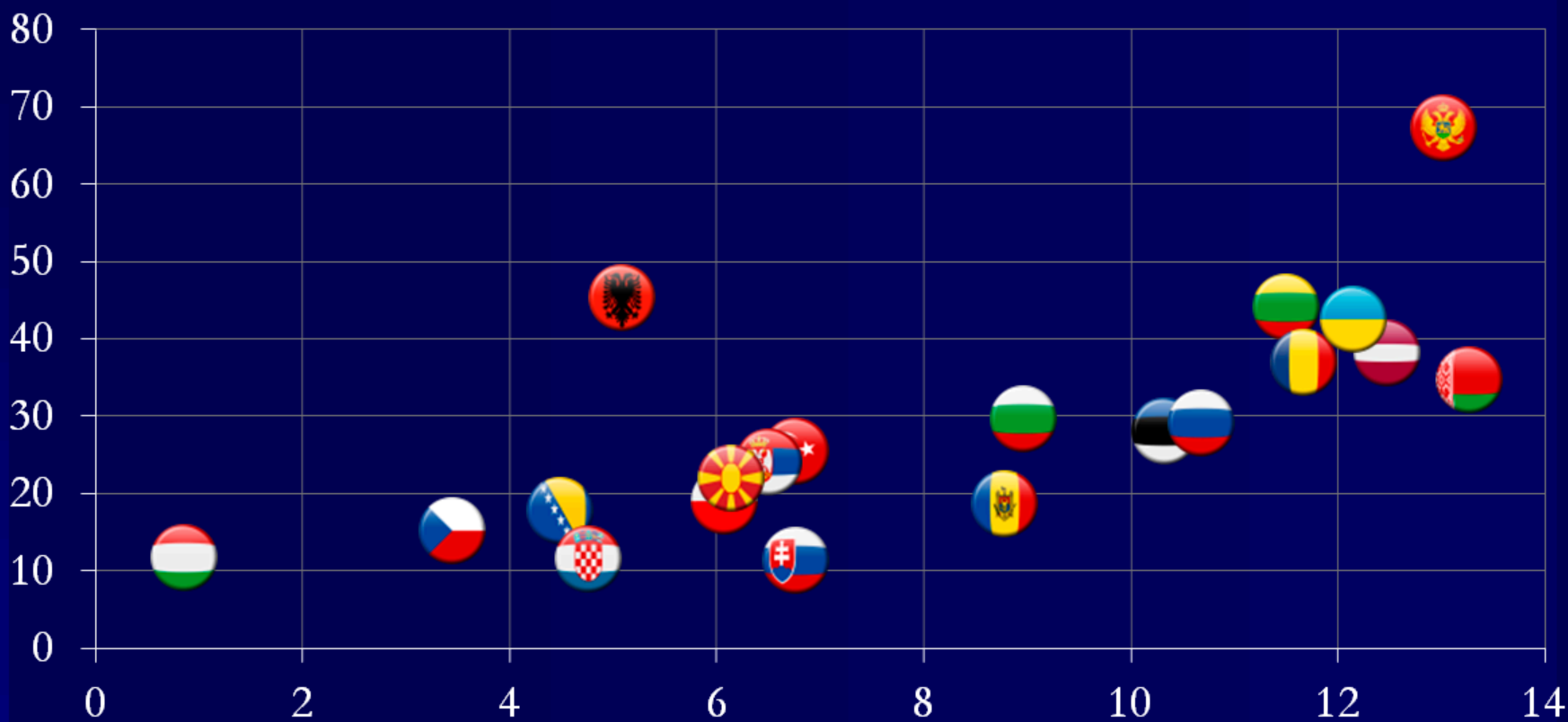


Growth was fueled by a domestic demand boom...



...driven by domestic credit...

Real private sector credit growth, 2003-2008¹



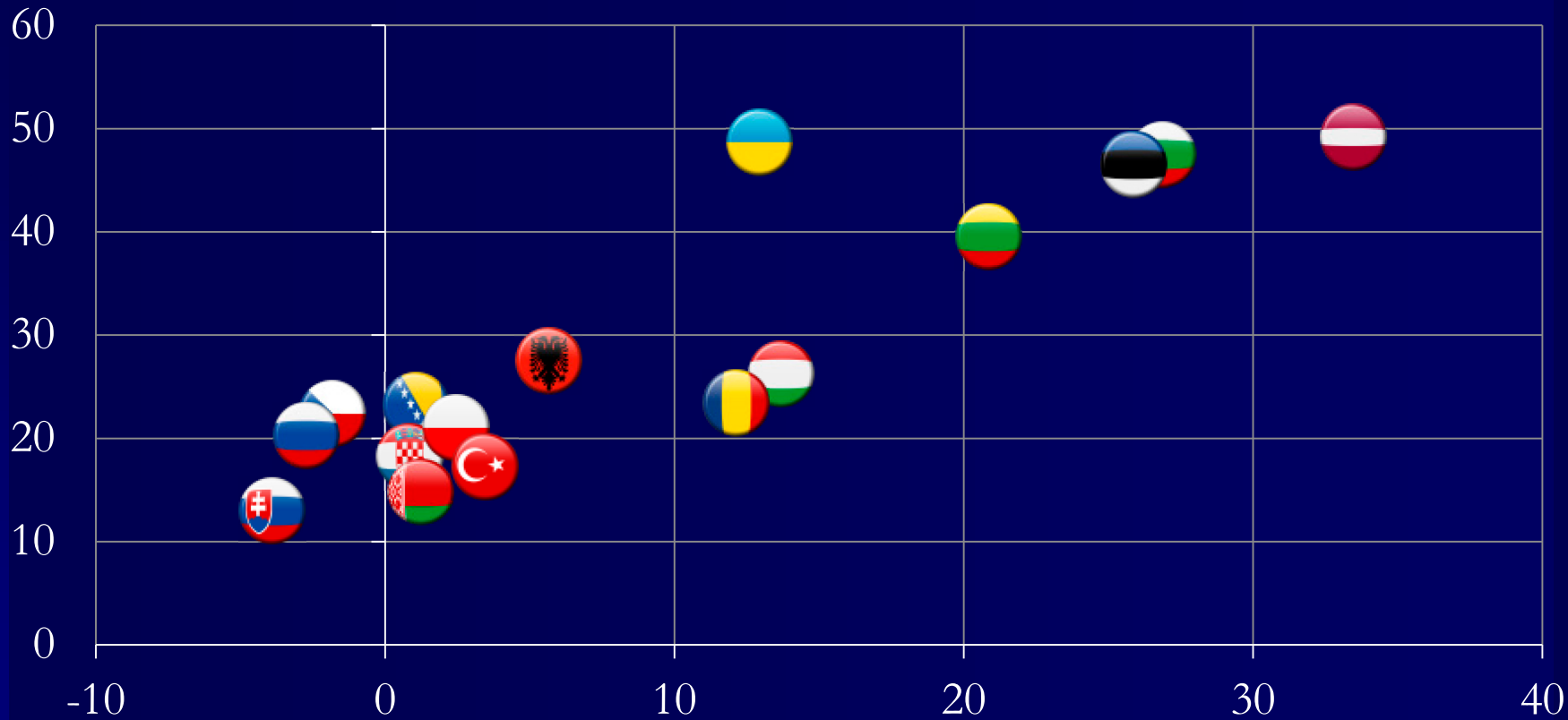
Real domestic demand growth, 2003-2008¹

¹As the boom in the Baltic states ended in 2007, data for the Baltics refer to 2002-07.



...financed by bank inflows...

Change in private sector credit to GDP, 2003-2008¹

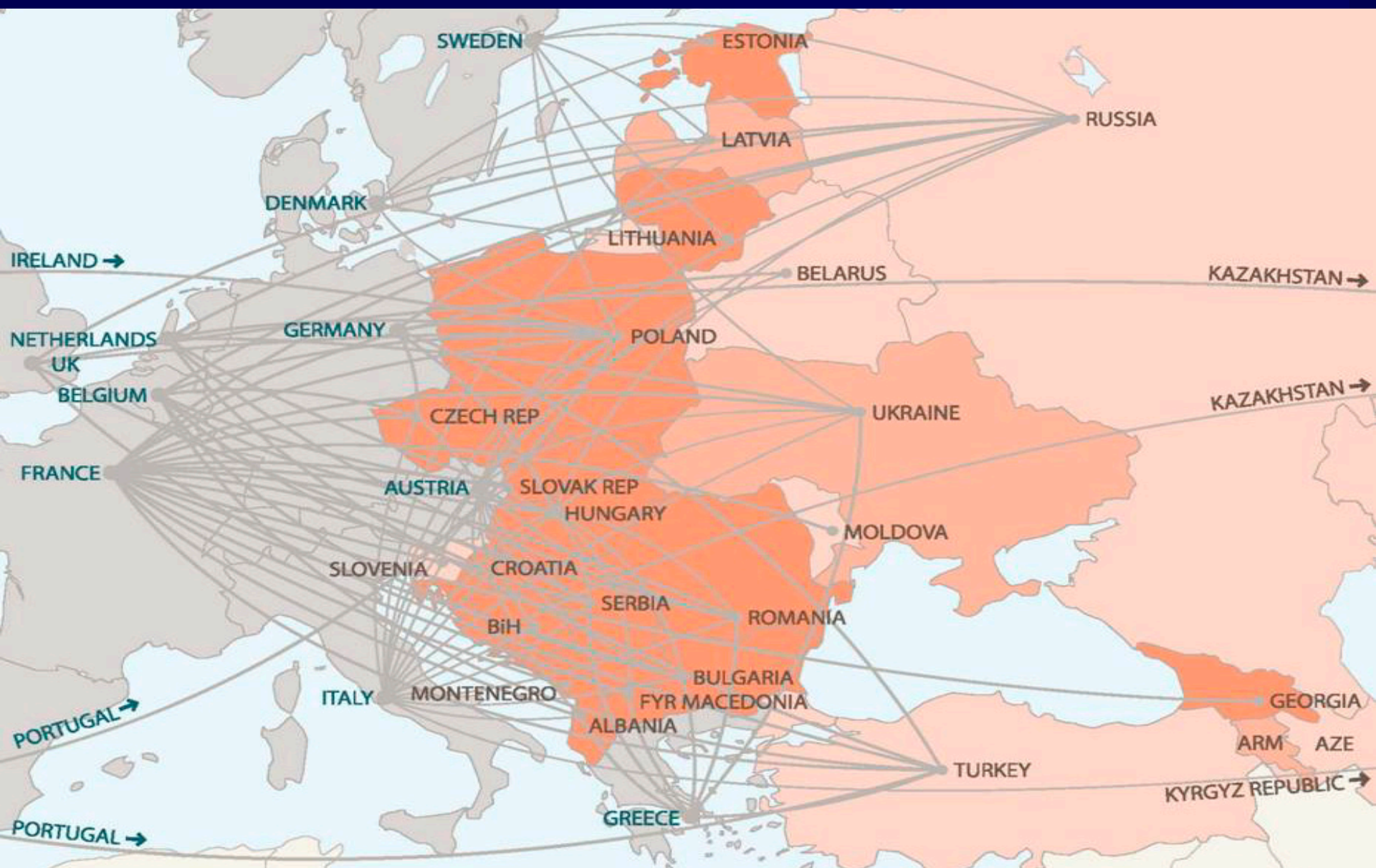


Change in external position of BIS-reporting banks, 2003-2008¹

Source: IMF, International Financial Statistics and World Economic Outlook database.

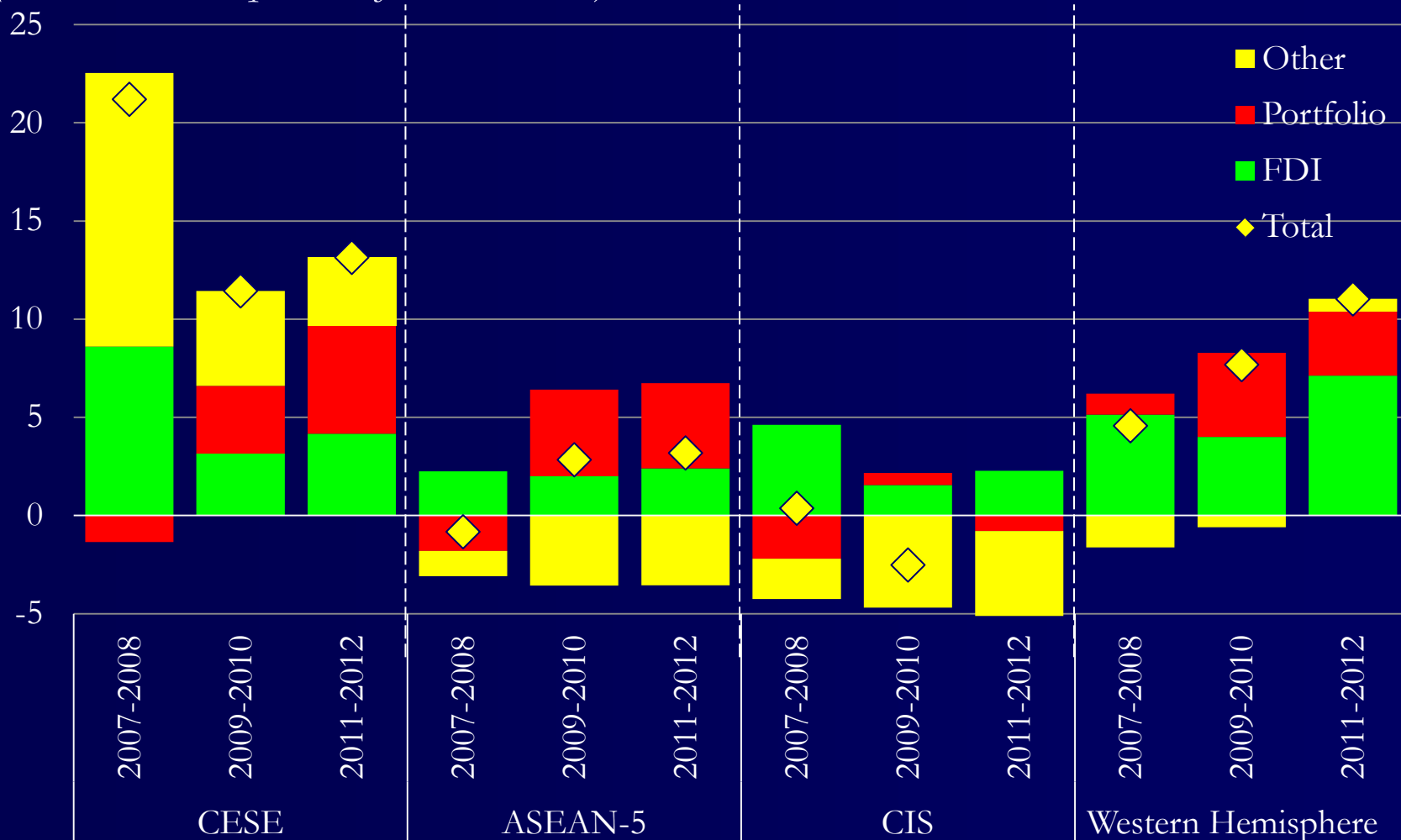


...facilitated by West European parent banks.



Capital inflows were more important than elsewhere...

Flows to Emerging Markets
(cumulative, as a percent of 2007 GDP)

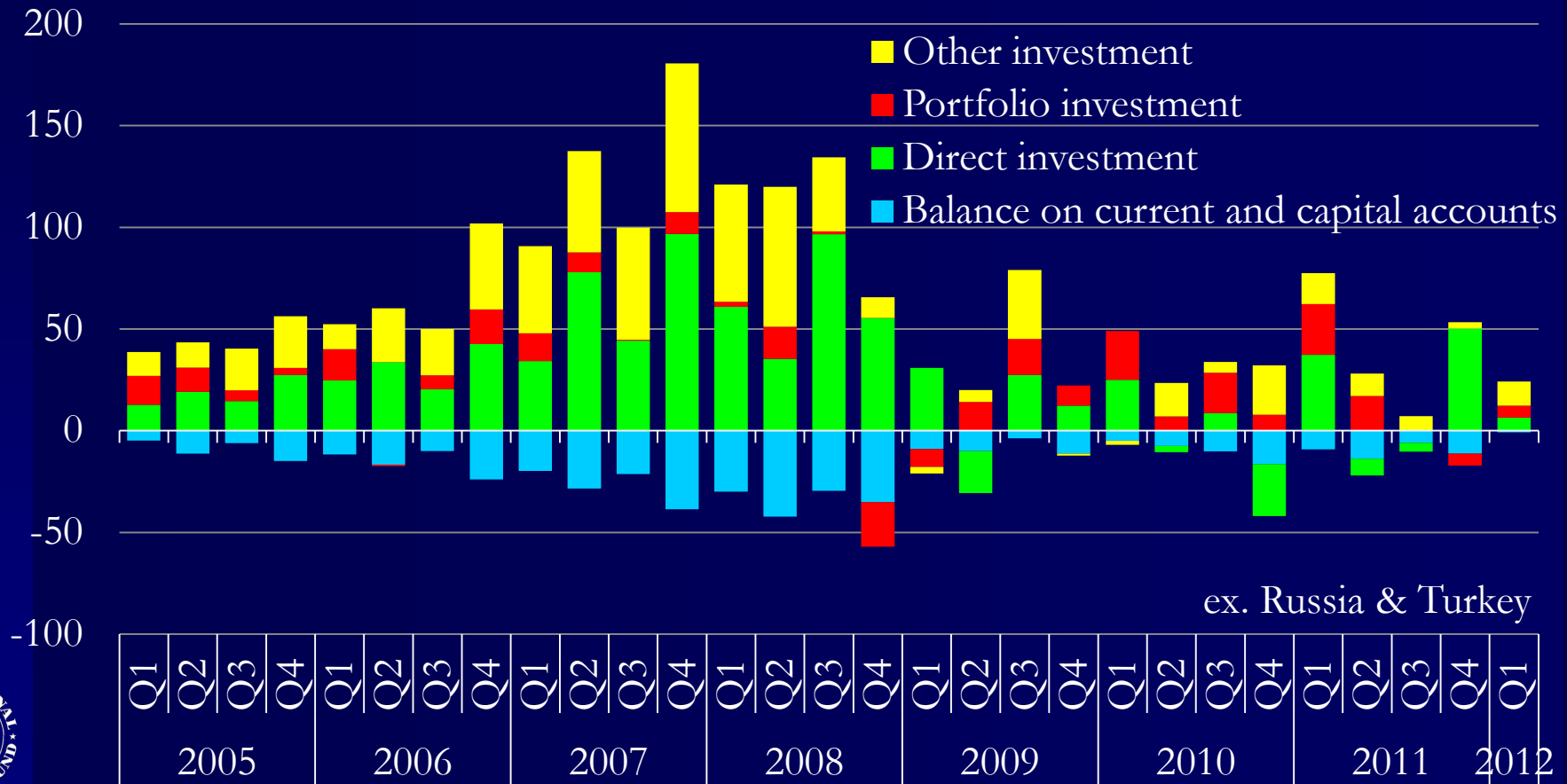


Source: World Economic Outlook

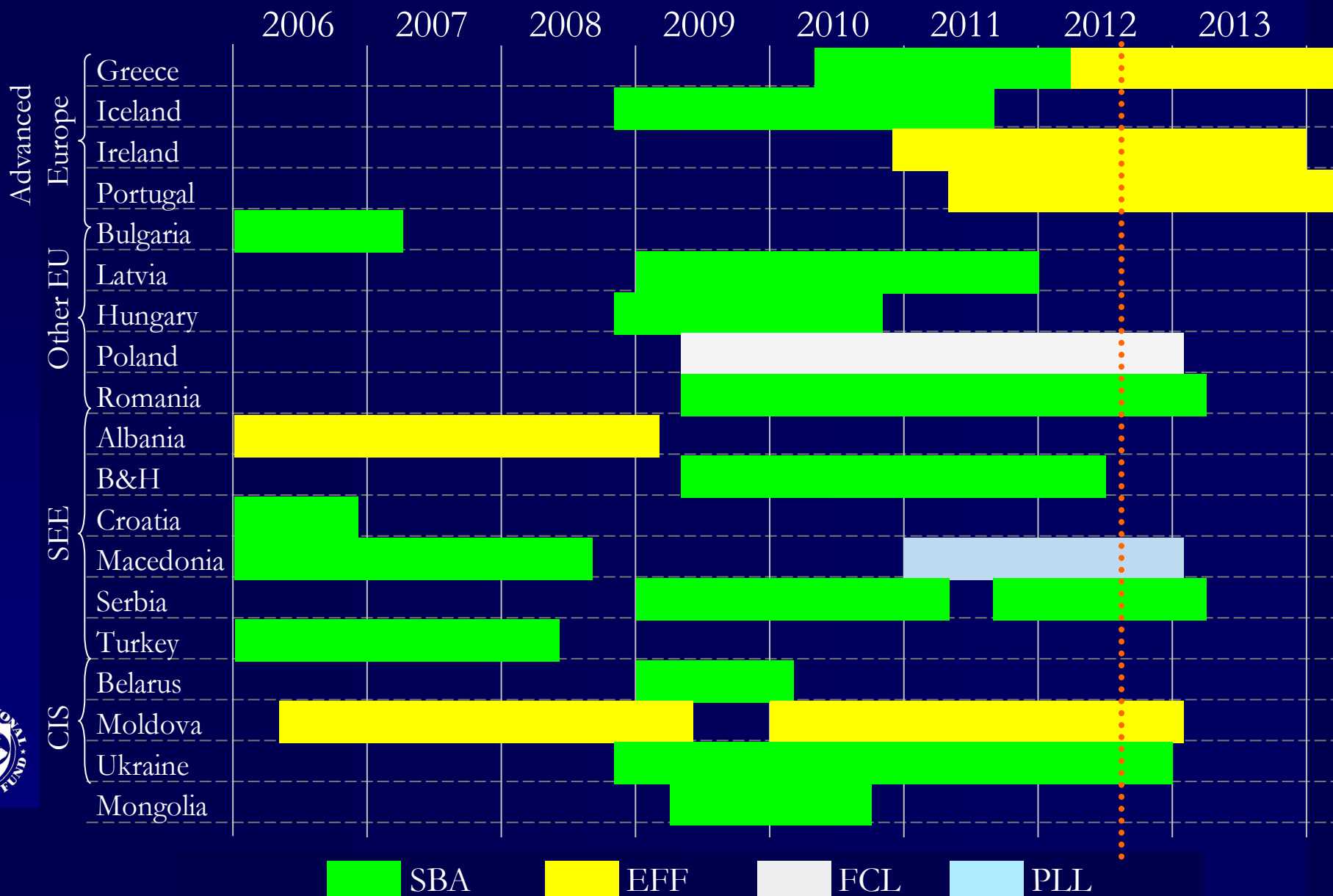


...but bank flows stopped suddenly.

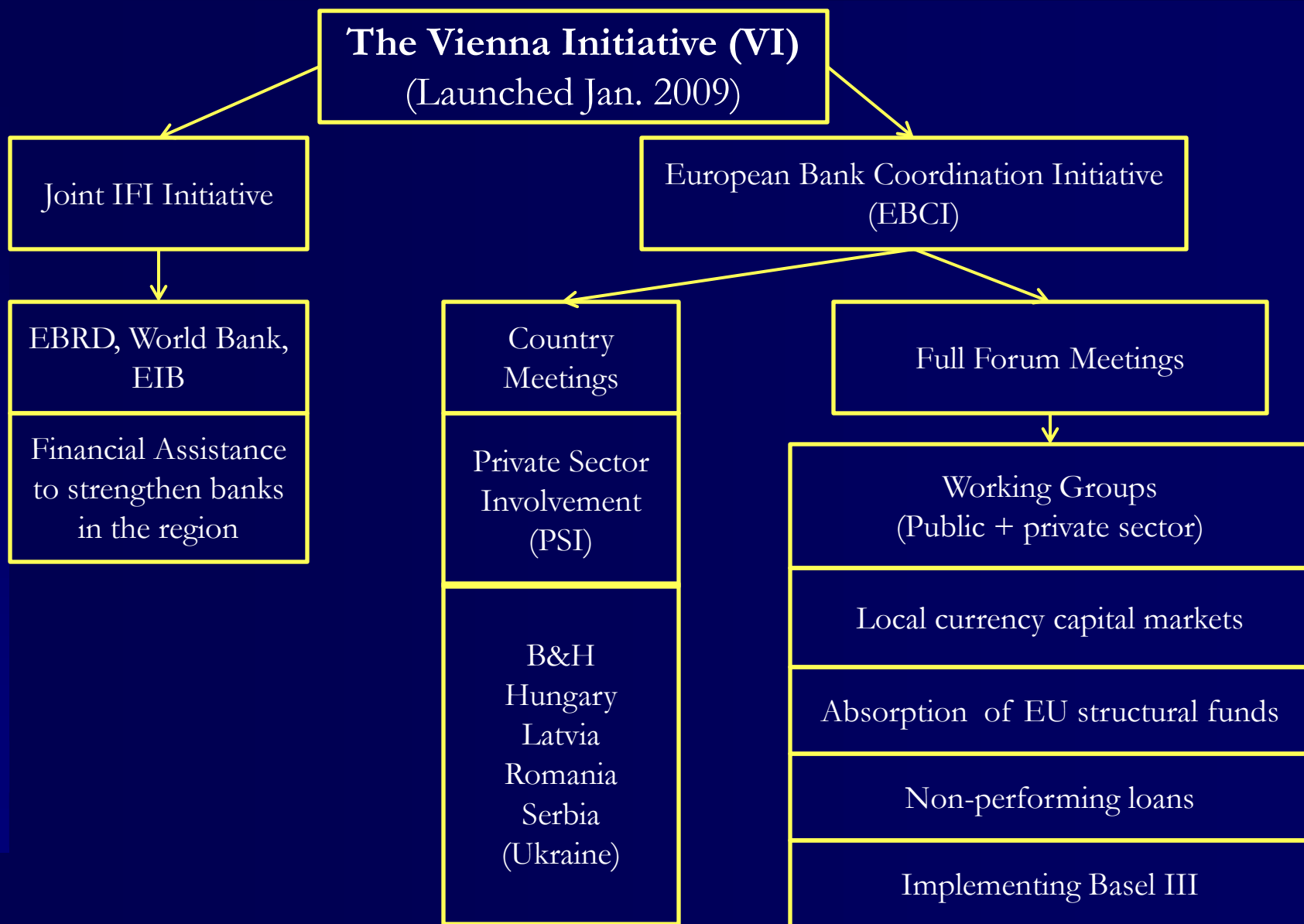
Capital Flows into CEE
(USD billion)



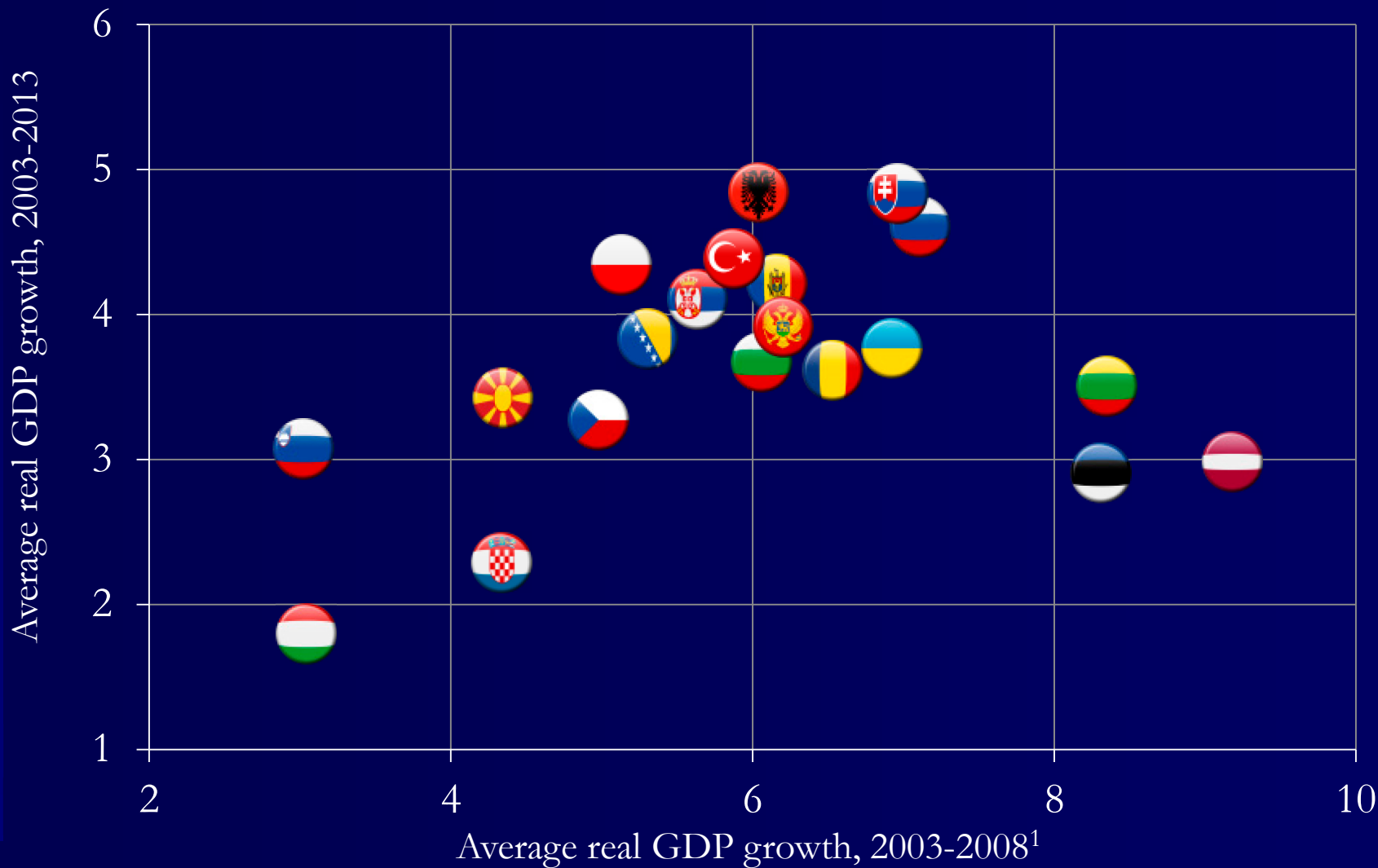
IMF support helped reduce the shock...



...and the Vienna Initiative kept banks engaged.



Big booms were followed by big busts.



¹As the boom in the Baltic states ended in 2007, data for the Baltics refer to 2002-07.



Current account deficits have closed...

Current Account Balance
(percent of GDP)



— Croatia
— Hungary
— Latvia
— Lithuania
— Poland

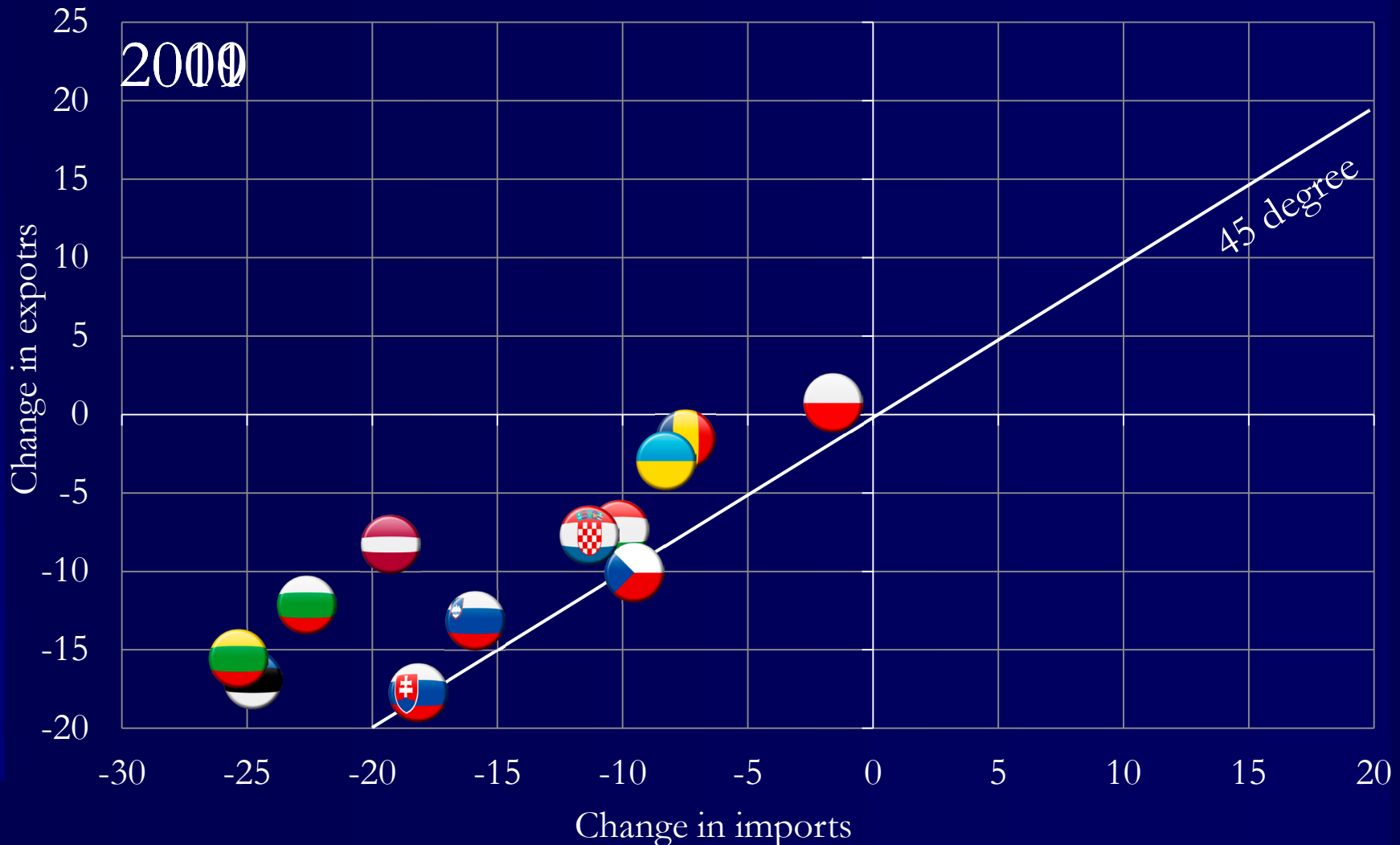
— B&H
— Bulgaria
— Macedonia
— Romania
— Serbia

— Belarus
— Russia
— Turkey
— Ukraine



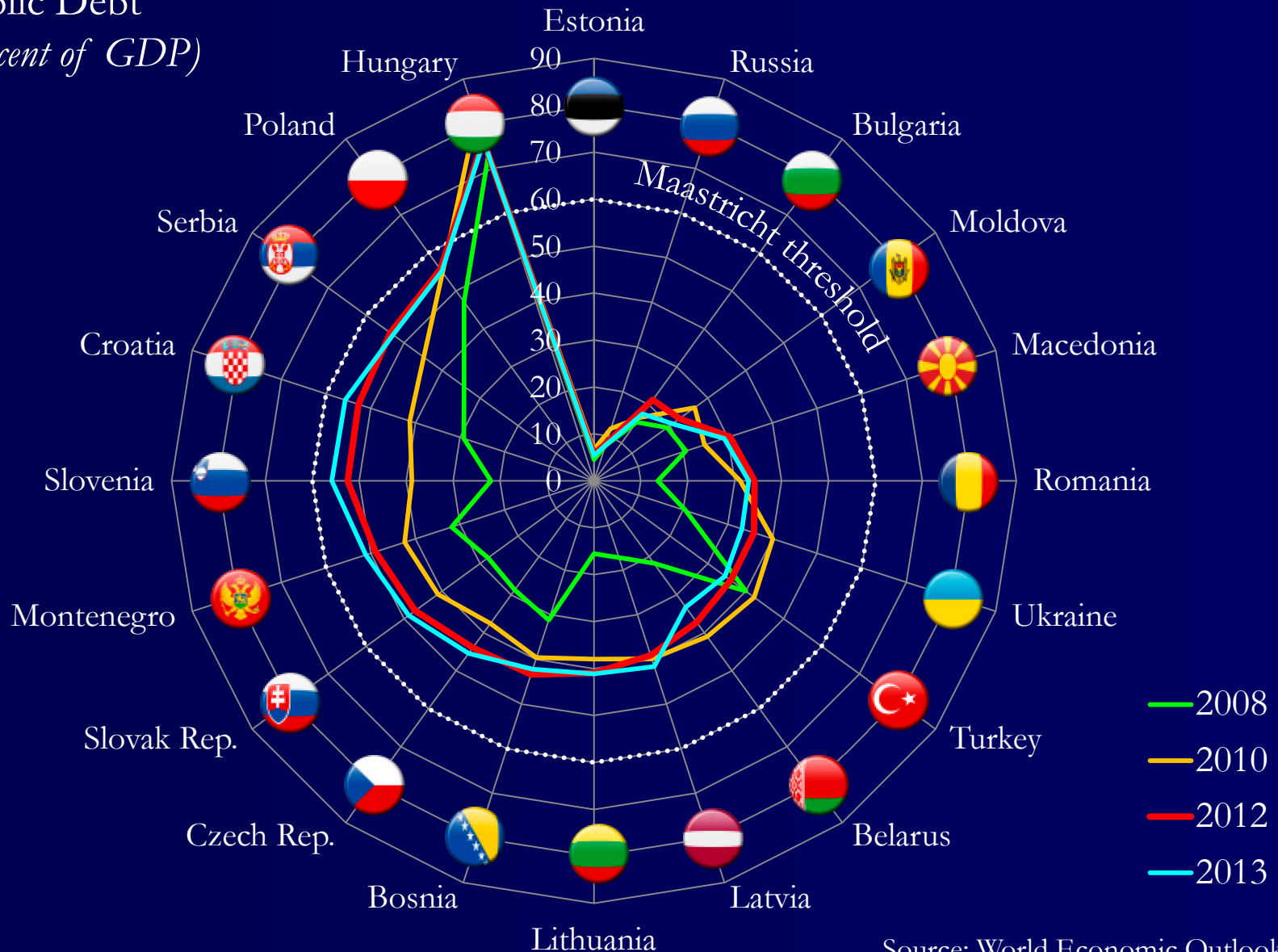
...as export growth followed import compression.

Change in Imports and Exports since 2008
(percent of 2008 GDP)



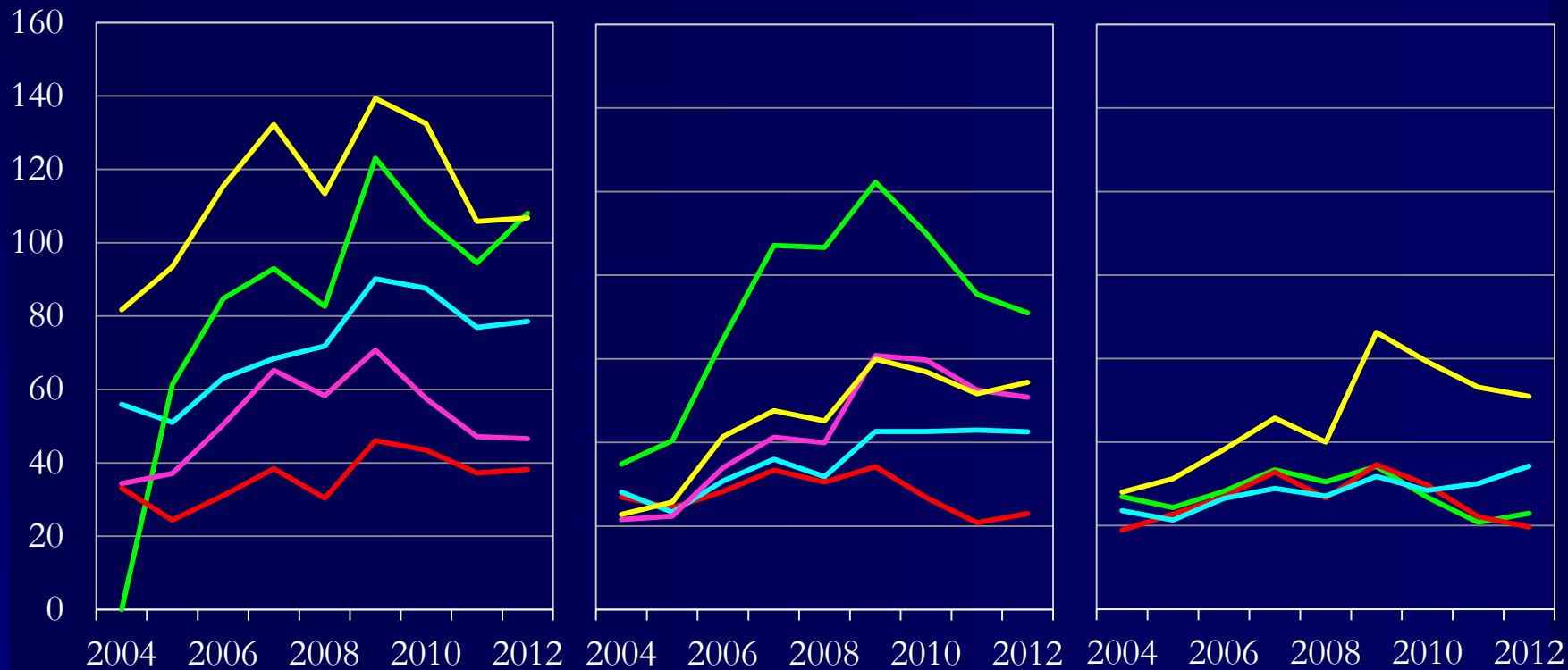
Some countries have used up fiscal space

Public Debt
(percent of GDP)



Private sector external debt remains high.

Private Sector External Debt (percent of GDP)



— Croatia
— Hungary
— Latvia
— Lithuania
— Poland

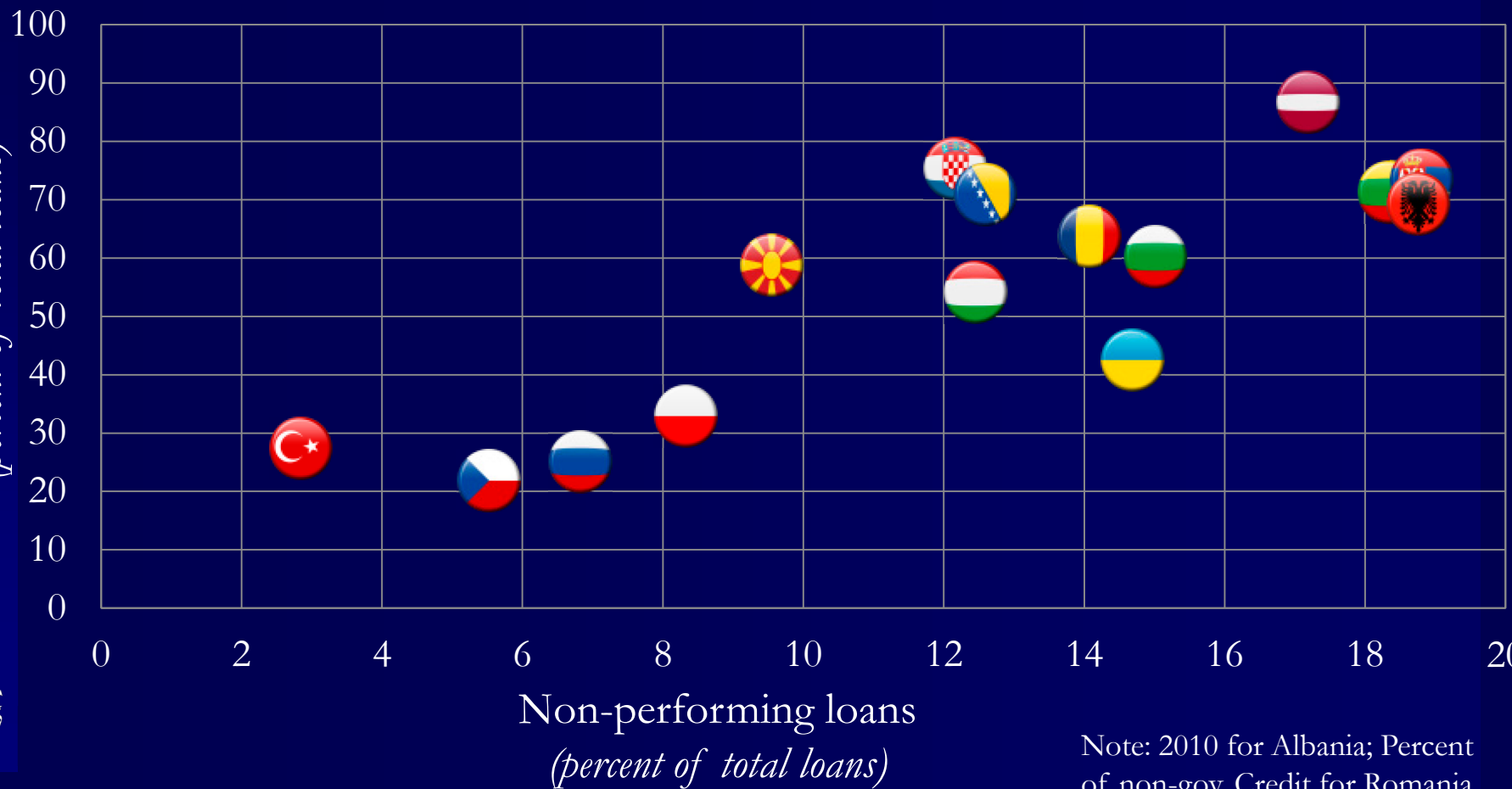
— B&H
— Bulgaria
— Macedonia
— Romania
— Serbia

— Belarus
— Russia
— Turkey
— Ukraine



NPLs are linked to foreign currency loans...

Foreign-currency-denominated loans
(percent of total loans)



Note: 2010 for Albania; Percent of non-gov. Credit for Romania

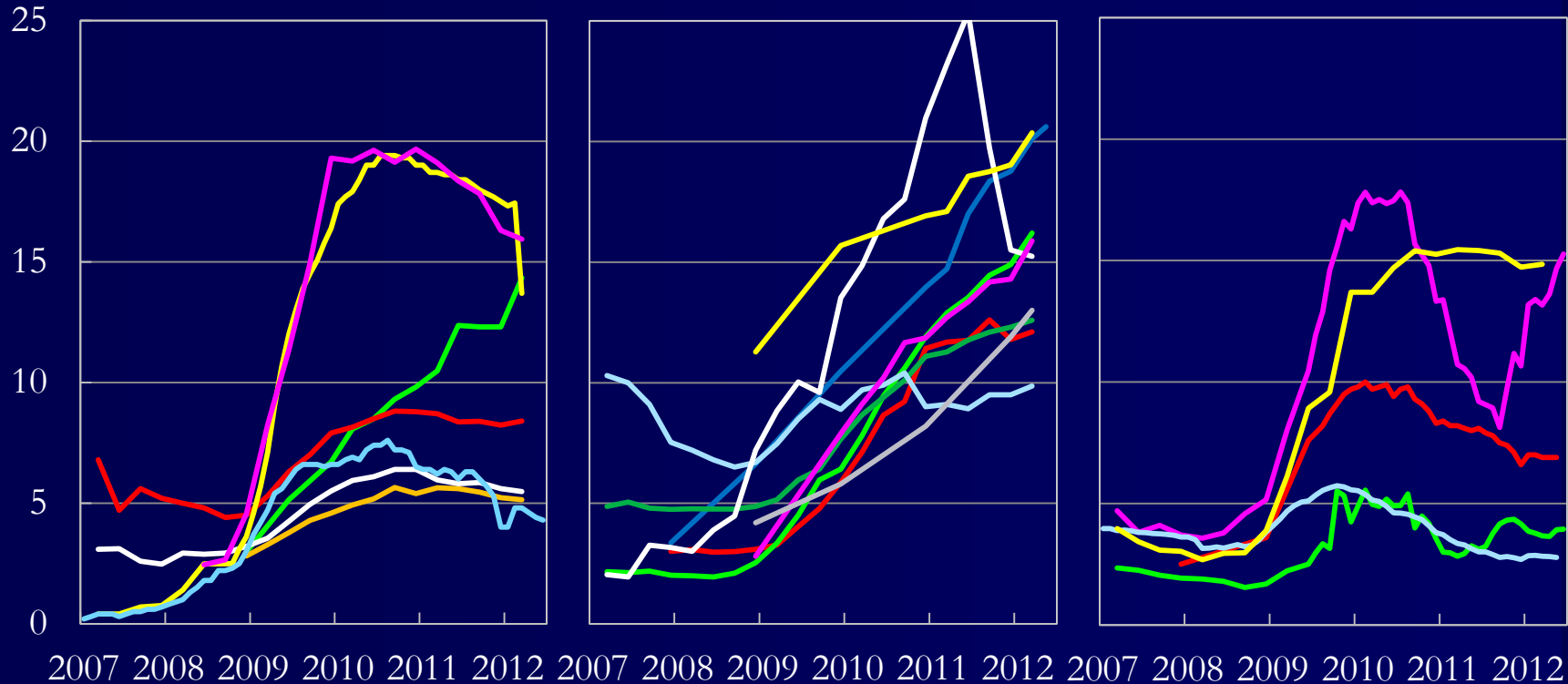


...but seem to have peaked in most cases.

Bank NPLs to Total Loans
(percent)

Note: Data are not fully comparable across countries due to differences in national classification practices. For Latvia, March data exclude Parex Bank which lost its banking license in March 2012.

Source: Country authorities; IMF country desks; and IMF, Statistics Department



- Hungary
- Albania
- BiH
- Belarus
- Poland
- Bulgaria
- Croatia
- Moldova
- Czech Republic
- Macedonia, FYR
- Montenegro
- Russia
- Slovakia
- Romania
- Serbia
- Turkey
- Latvia
- Slovenia
- Ukraine
- Lithuania
- Estonia



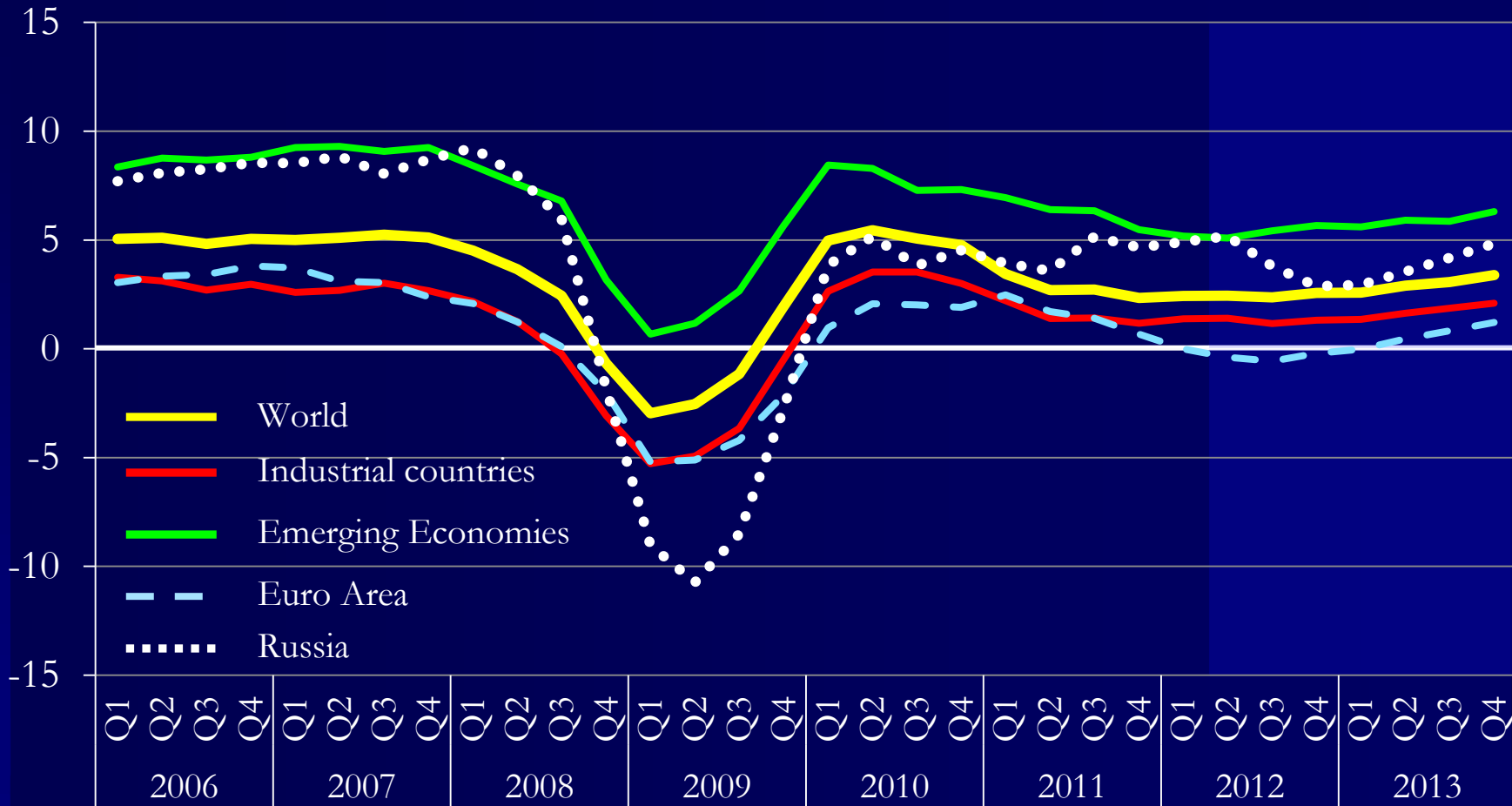
- ✓ Why the region was vulnerable and how it coped with the crisis
- ✓ Prospects for the world economy



The world economic recovery is slowing...

GDP Growth

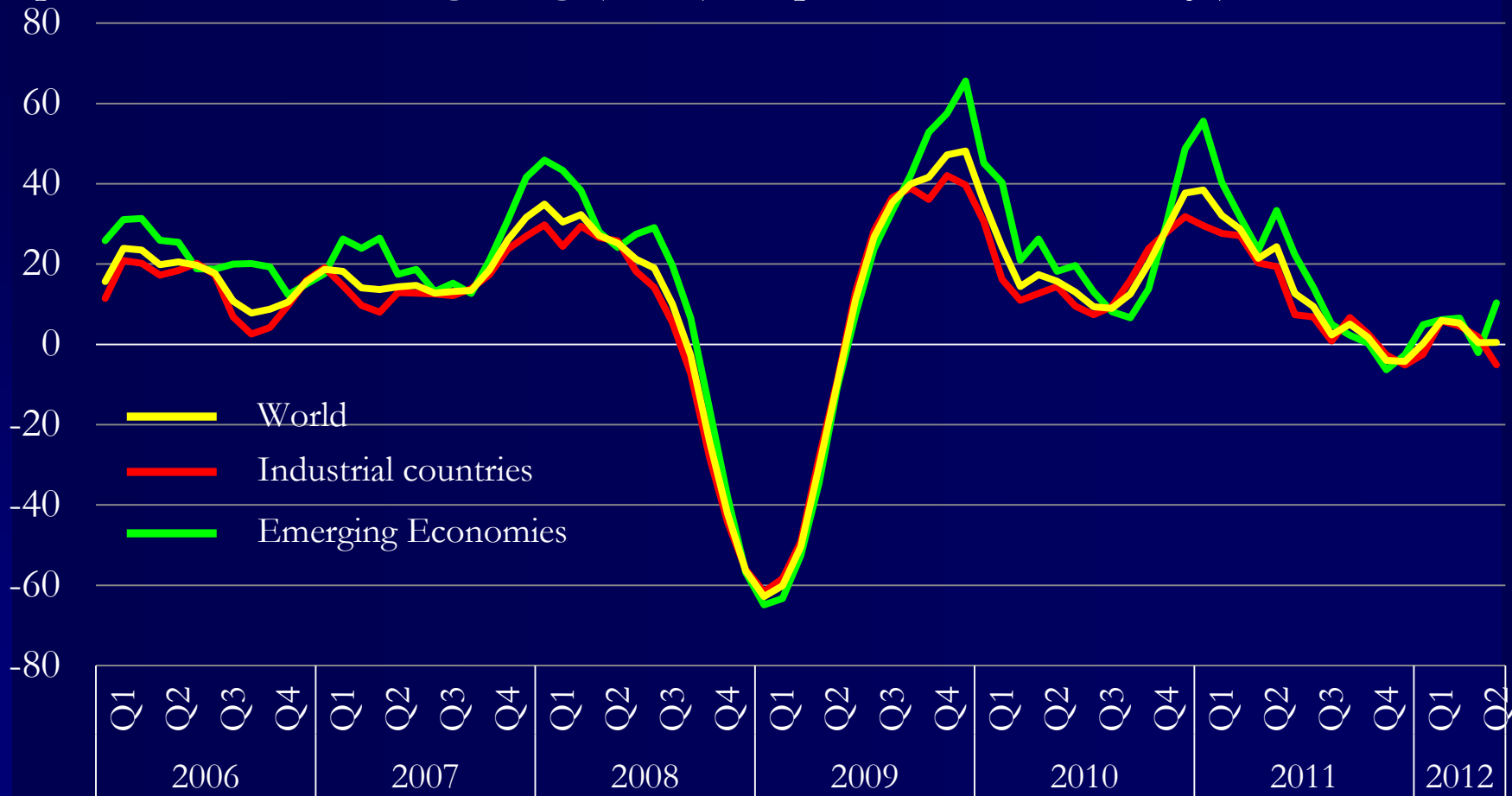
(percent)



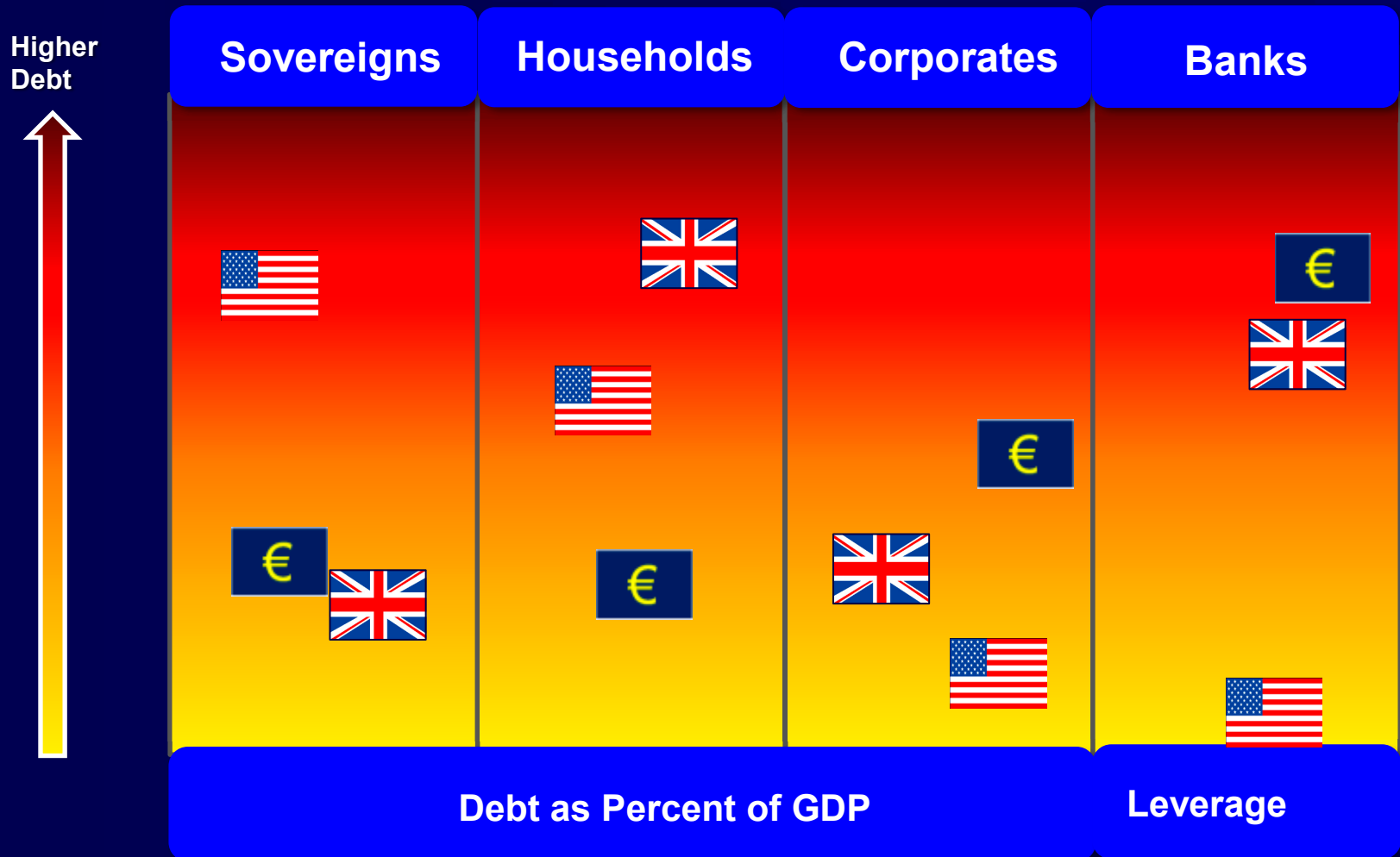
...and trade growth has come to a halt.

Merchandise Exports

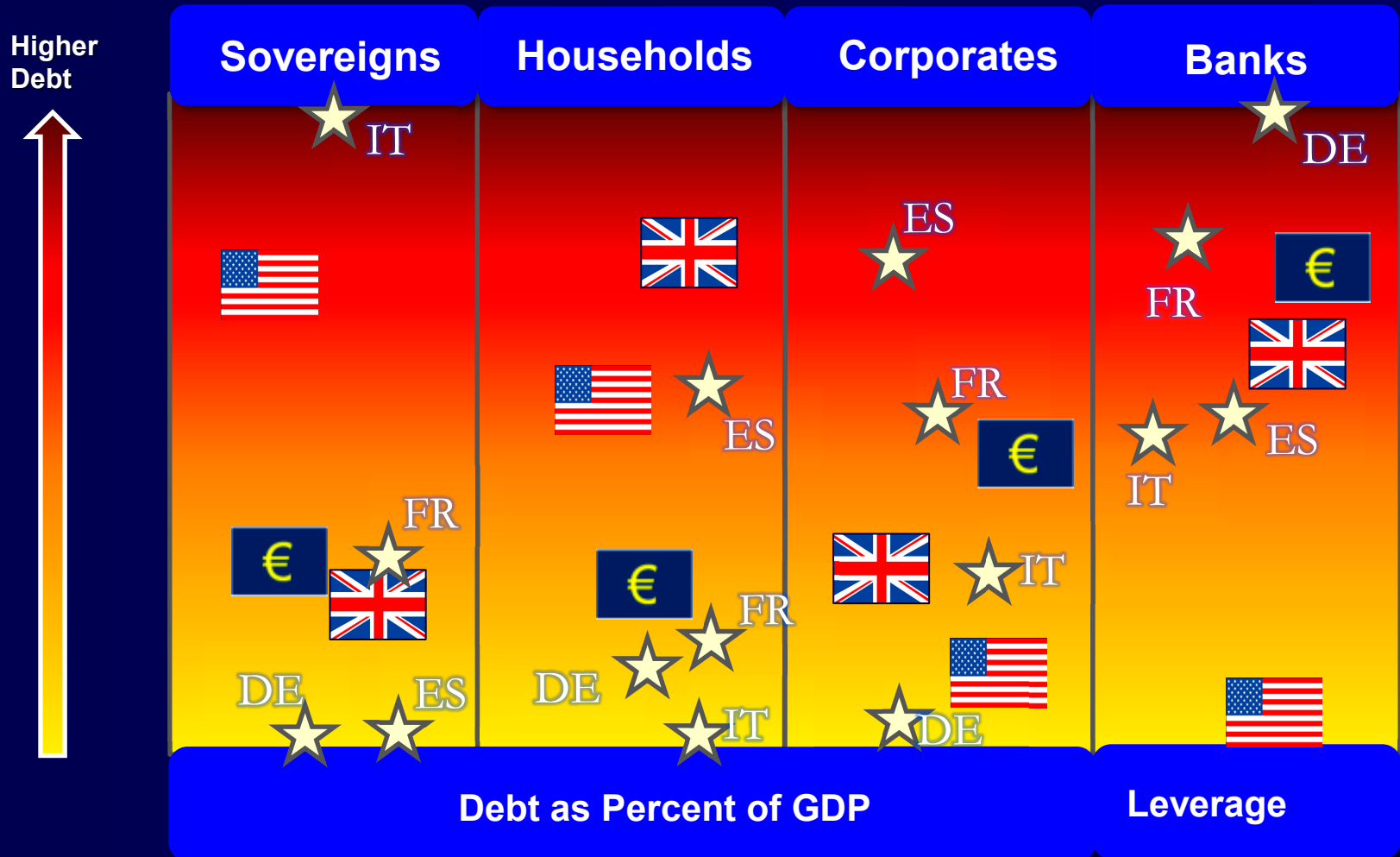
(percent; three-month moving average (3mma) over previous 3mma, annualized)



Industrial countries face problems of debt ...



...but the configuration differs by country.



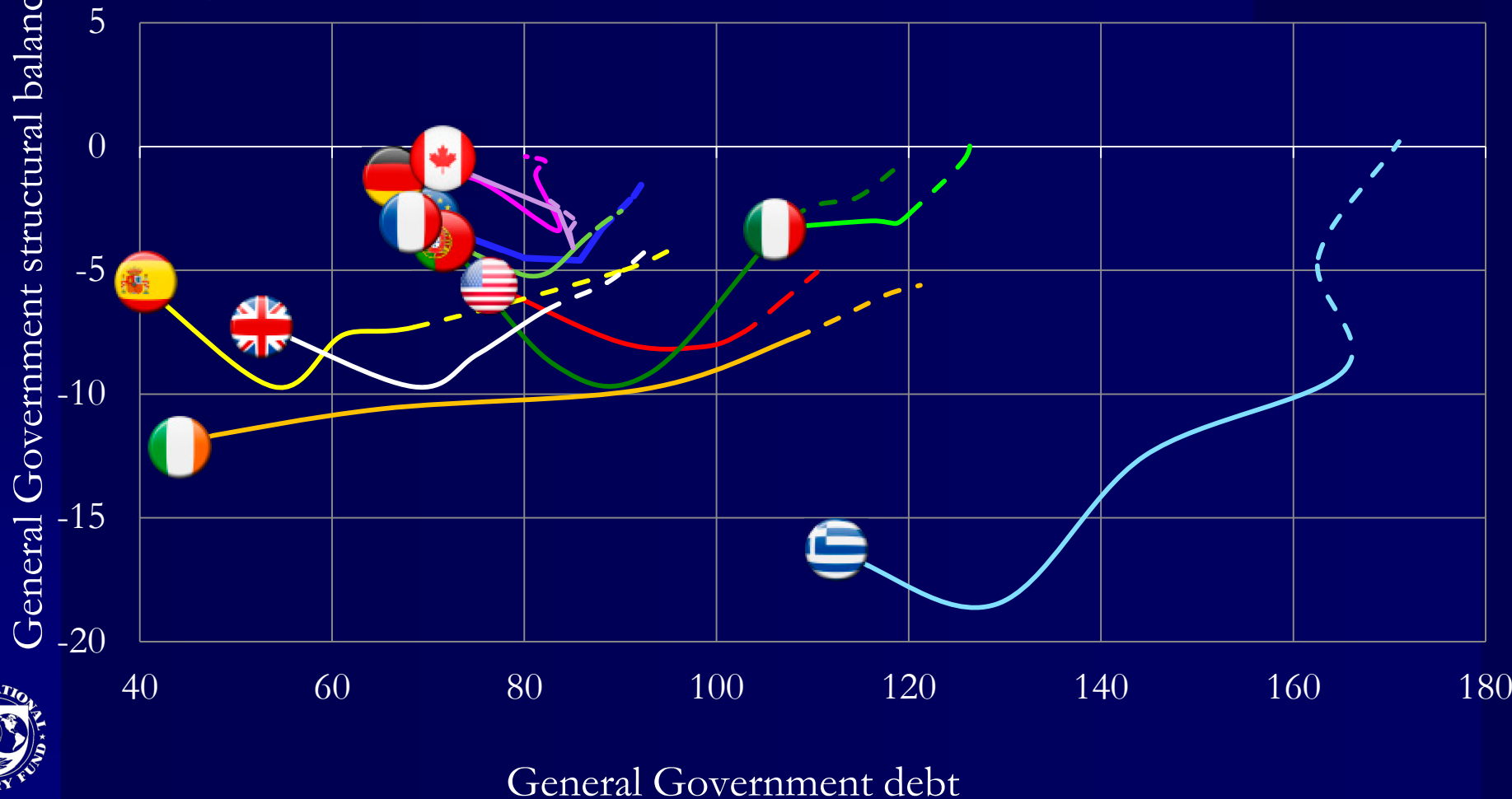
Deficits are being controlled, but debt ratios rise.

General Government cyclically adjusted deficit and debt

2013

General Government structural balance

(percent of GDP)



General Government debt



Baseline outlook is critically dependent on policy action

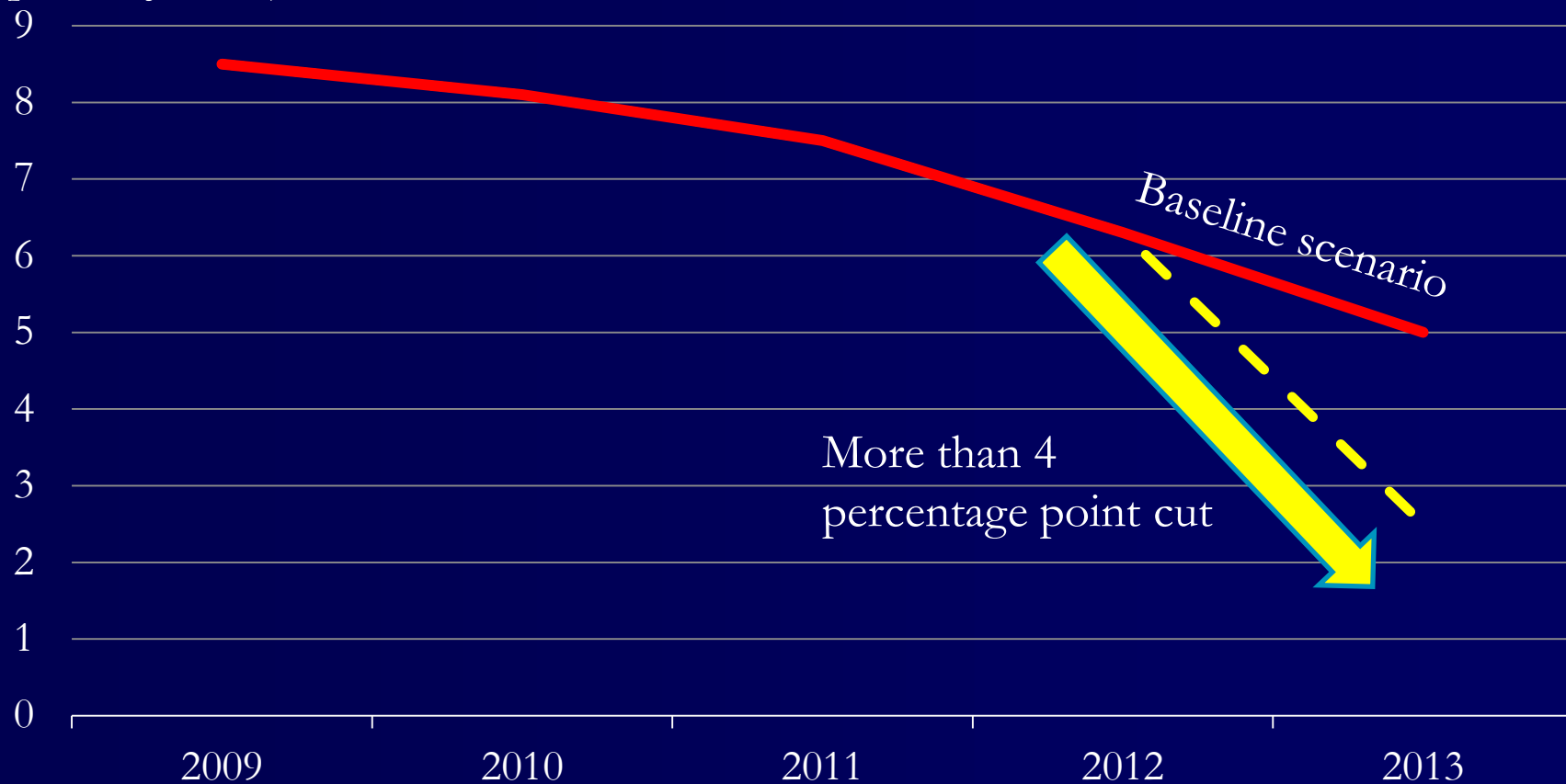
- US to prevent fiscal accidents
- Emerging markets to cope with slowdown
- Eurozone to overcome crisis



US must avoid the “fiscal cliff”.

US General Government Structural Deficit

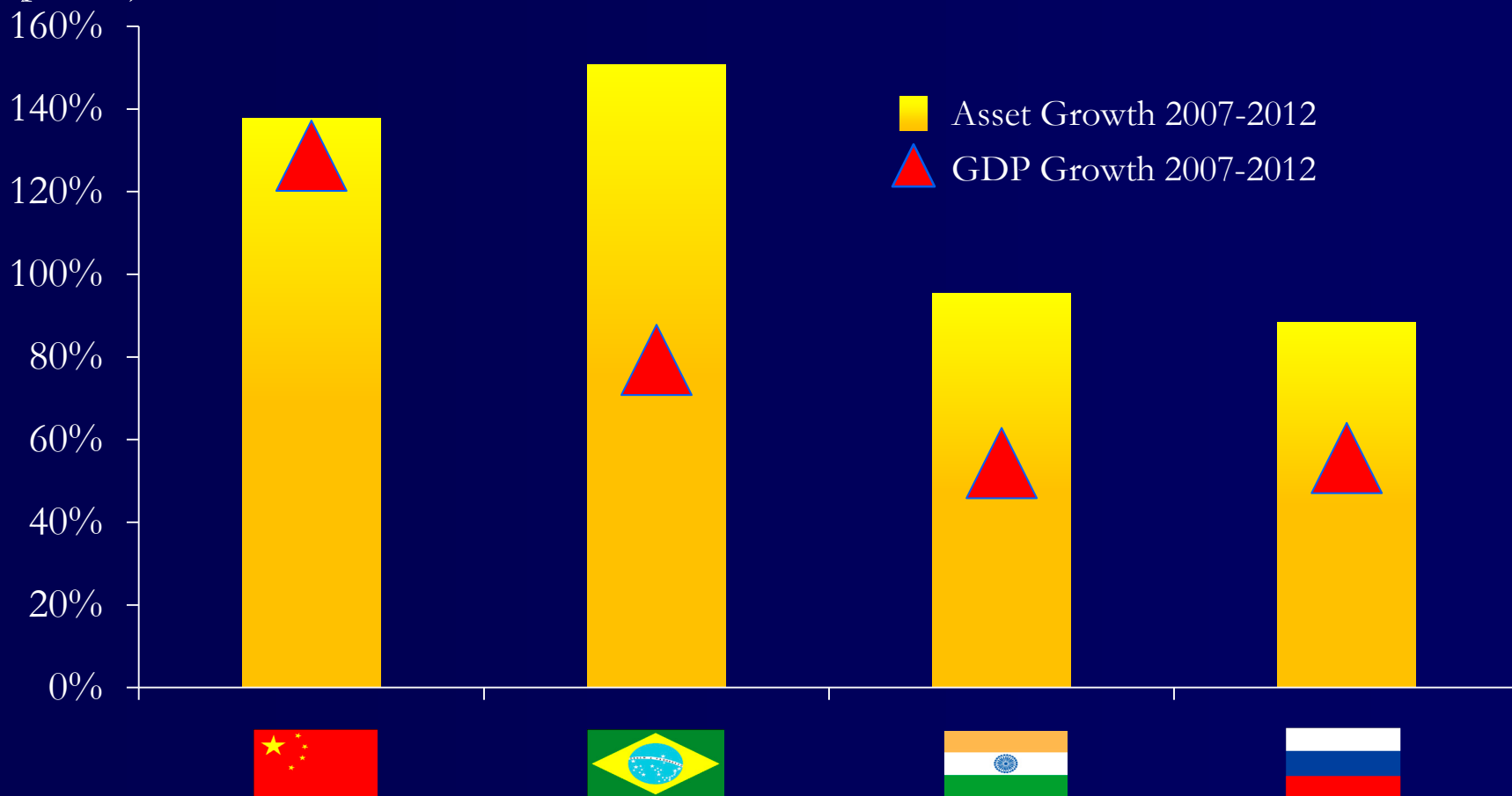
(percent of GDP)



The BRICs must manage the consequences of credit growth.

Asset Growth in selected EM Top 50 Banks

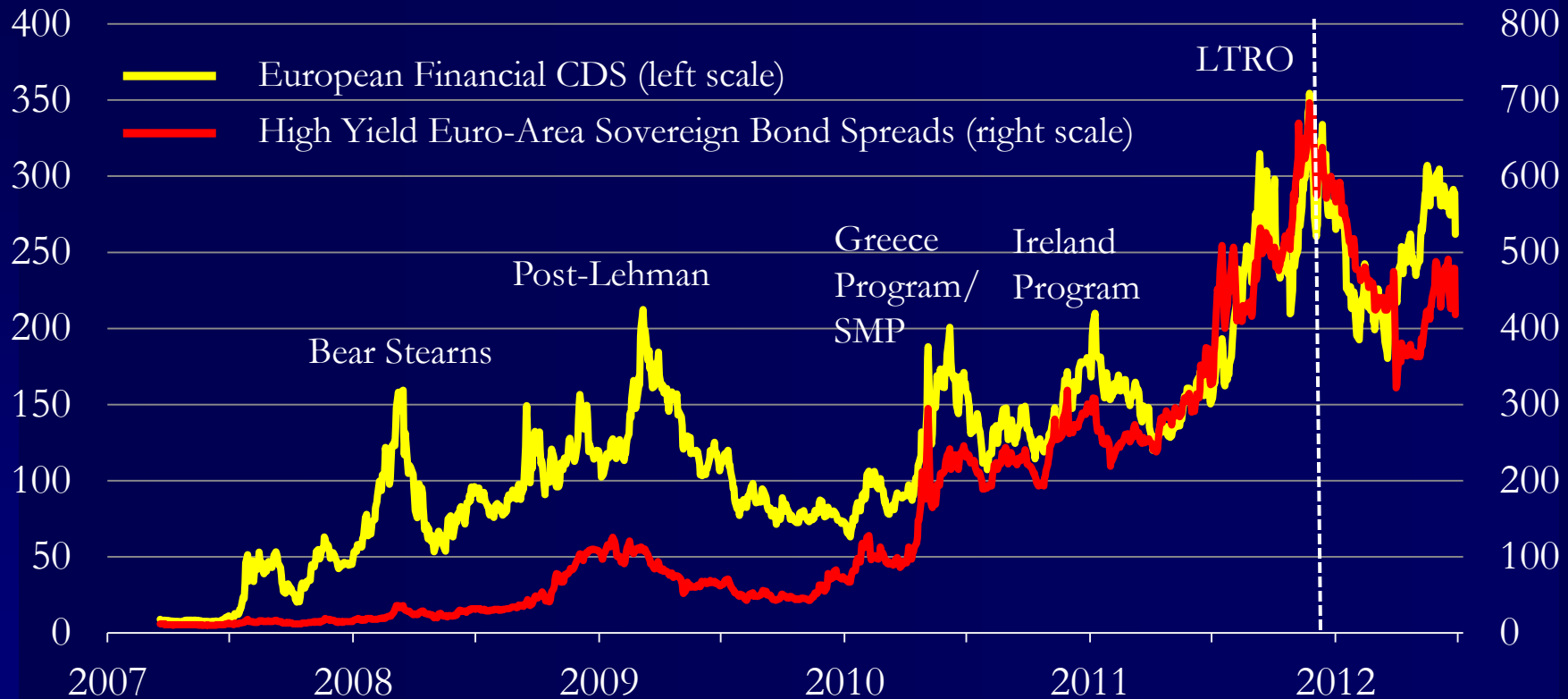
(percent)



The crisis in the eurozone requires further action.

Sovereign and Bank Spreads

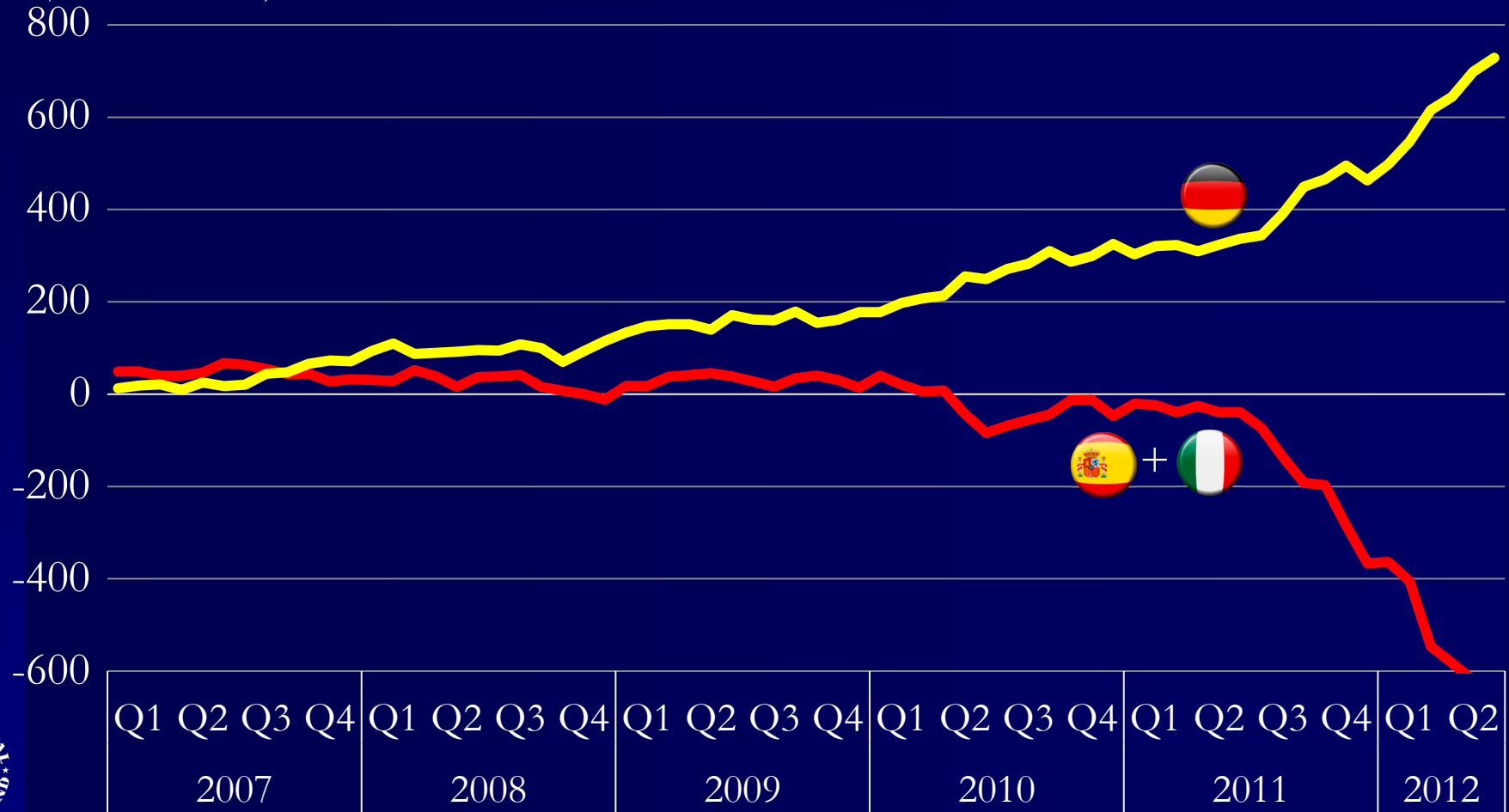
(basis points)



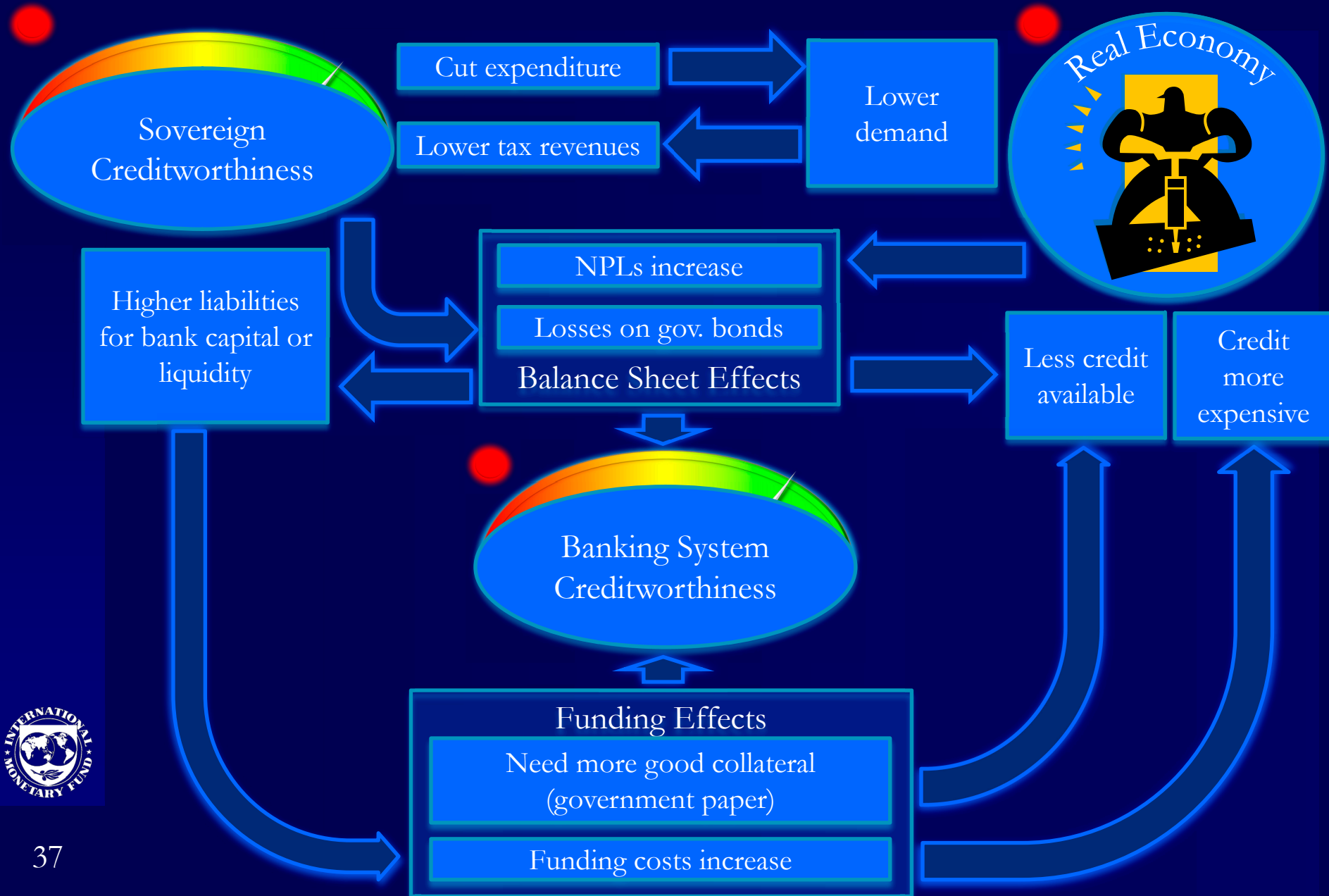
Cross-border lending in the eurozone has collapsed.

Net Balance with the Eurosystem (Target 2)

(EUR billions)



Feedback loops link sovereign, economy and banks

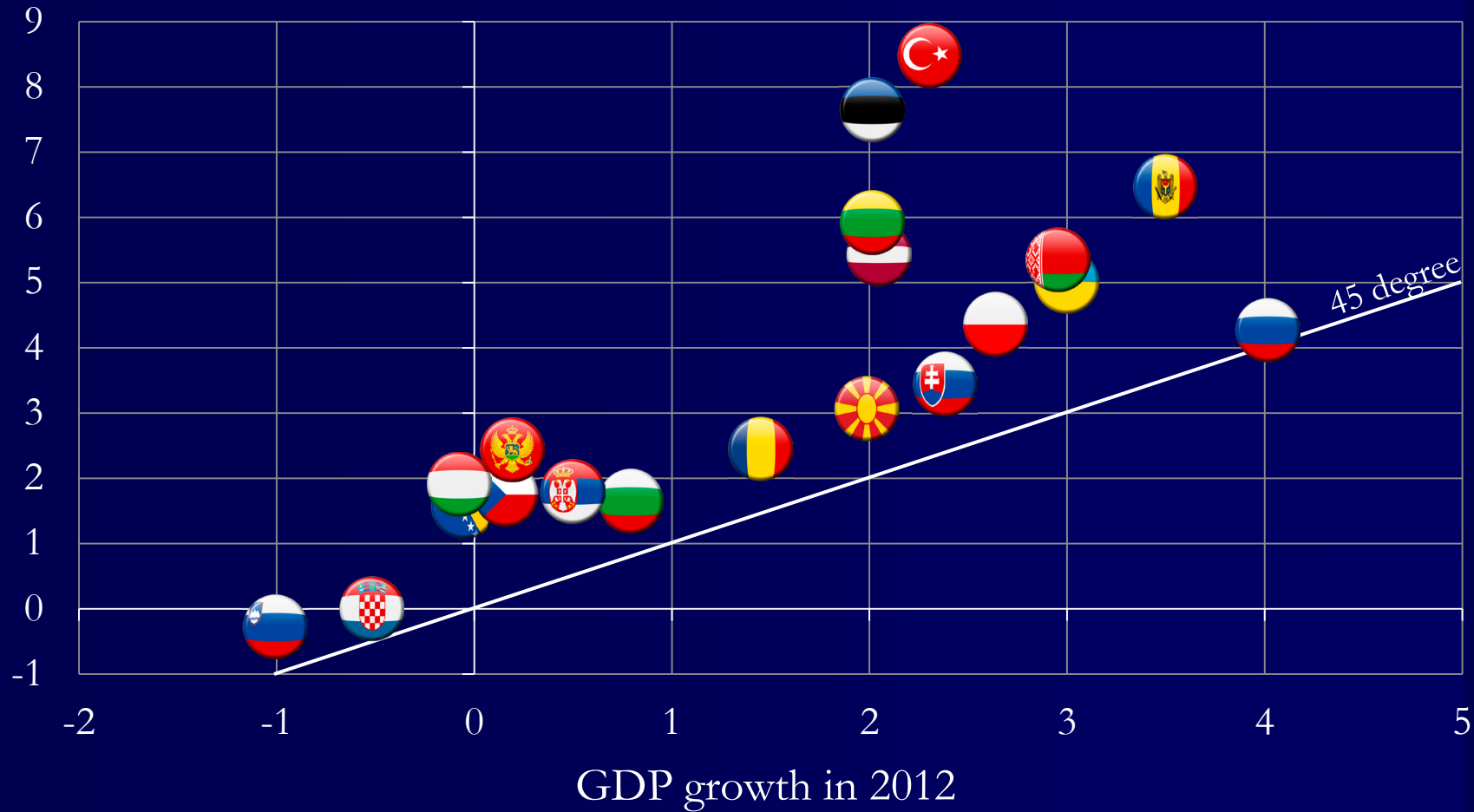


The slowdown is affecting CEE

GDP Growth

(percent)

GDP growth in 2011

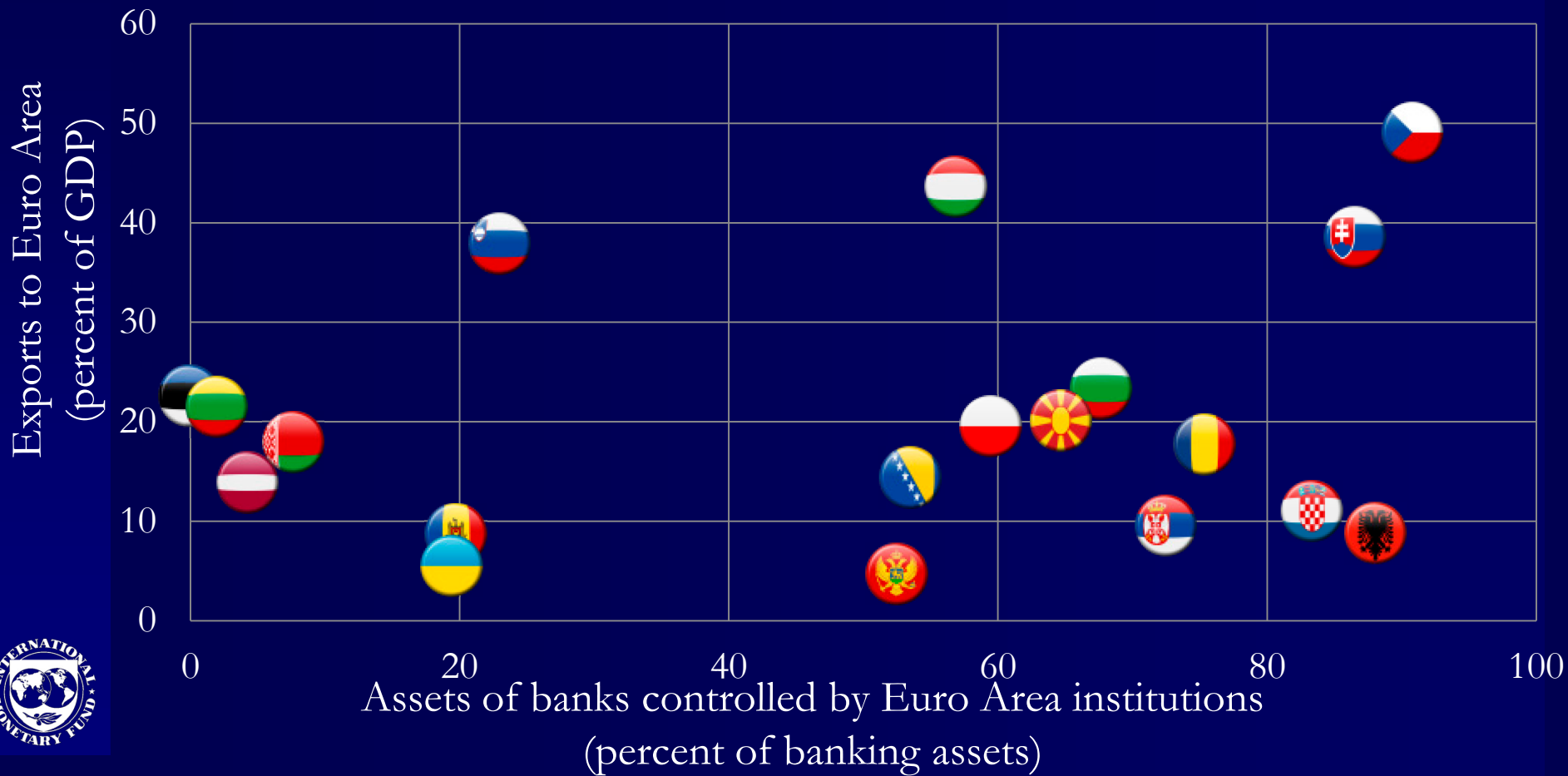


If a major Eurozone shock occurs:

- Exports would be hit
- Output could fall sharply
- Fiscal revenues would decline
- Funding pressures on banks would rise
- Exchange rate depreciation would worsen NPLs



Links to Euro Area go through trade and banking.

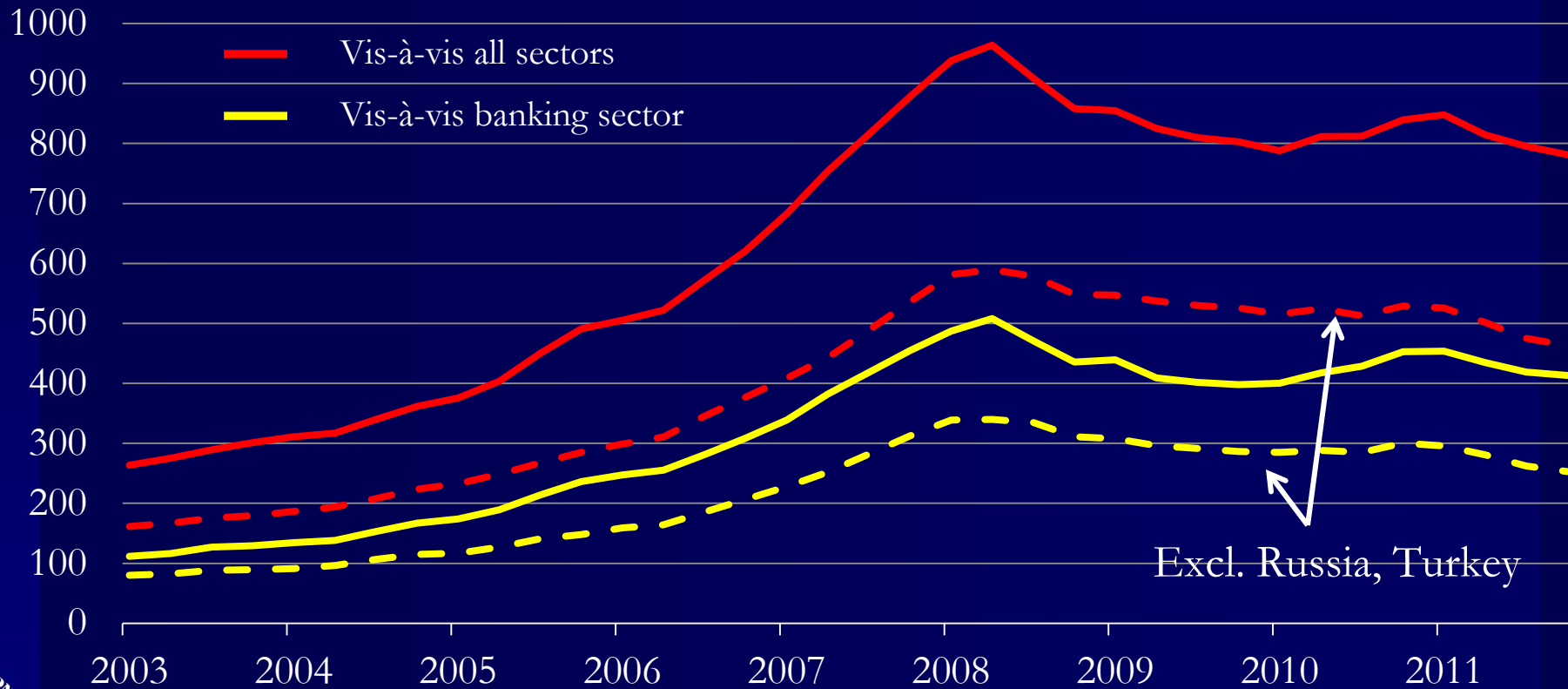


- ✓ Why the region was vulnerable and how it coped with the crisis
- ✓ Prospects for the world economy
- ✓ Impact of deleveraging on the region



BIS banks' exposure to CEE is falling.

Exposure of BIS-reporting Banks to CESEE
(USD billion, exchange-rate adjusted)

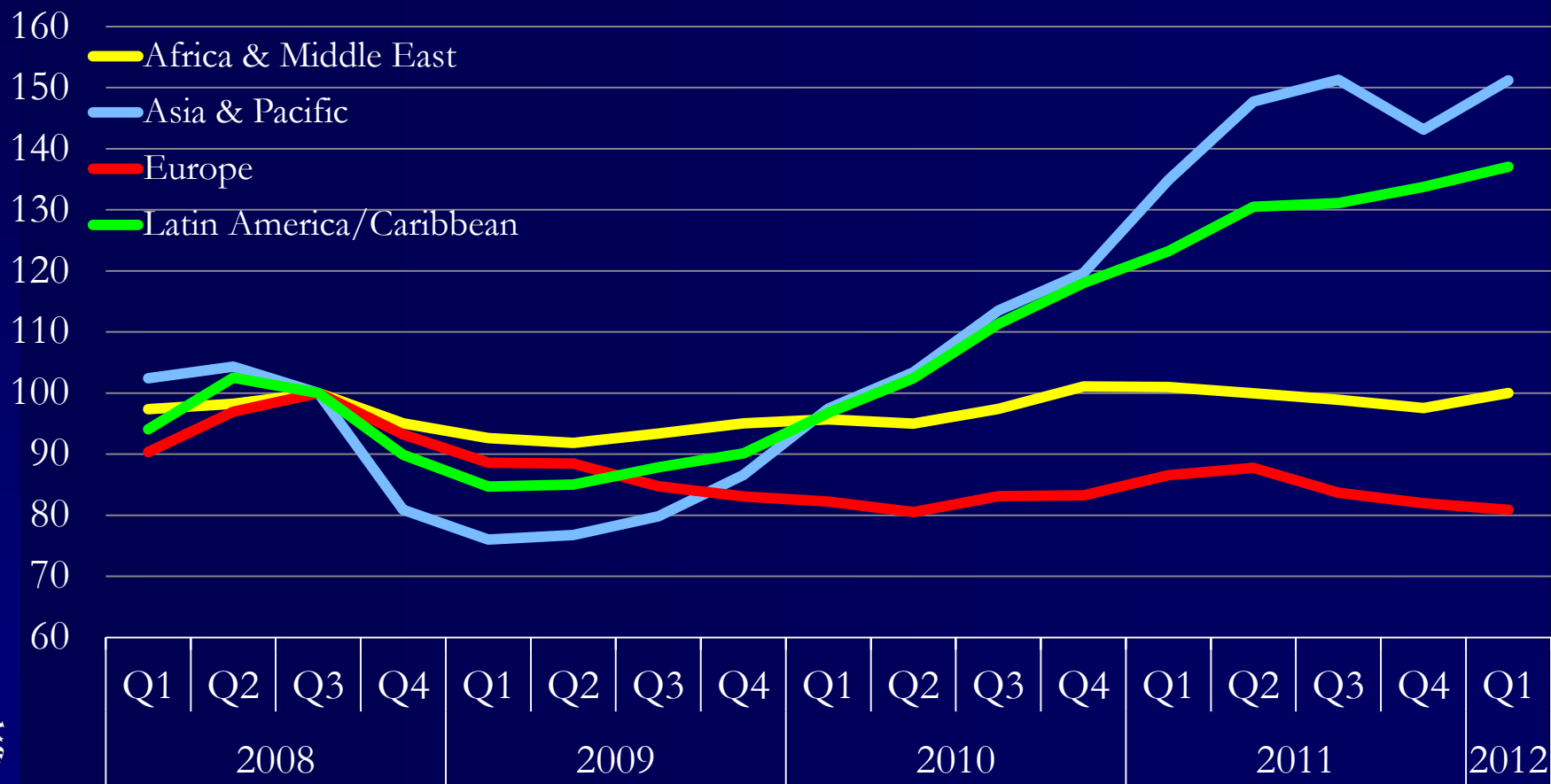


Excl. Russia, Turkey



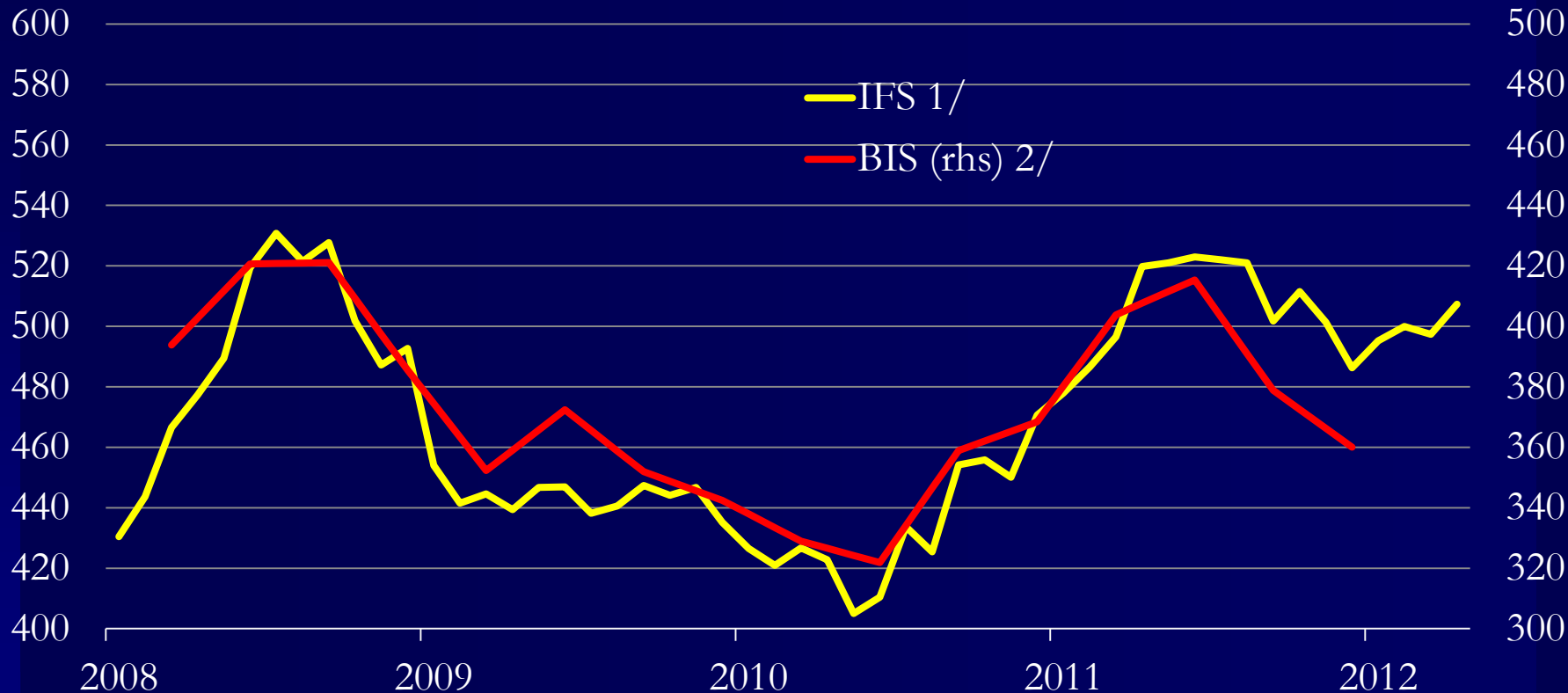
Deleveraging in region is more rapid than elsewhere.

External positions of reporting banks vis-à-vis all sectors in Emerging Economies
(Estimated FX adjusted index, Sep-08 = 100)



LTRO has (temporarily?) slowed the process.

Banks' Foreign Liabilities,
(USD billions, Jan-2008 – Apr-2012)



1/ Other depository institutions' liabilities to non-residents.

2/ BIS-reporting banks' claims on banks in emerging Europe (locational statistics, not exchange-rate adjusted).

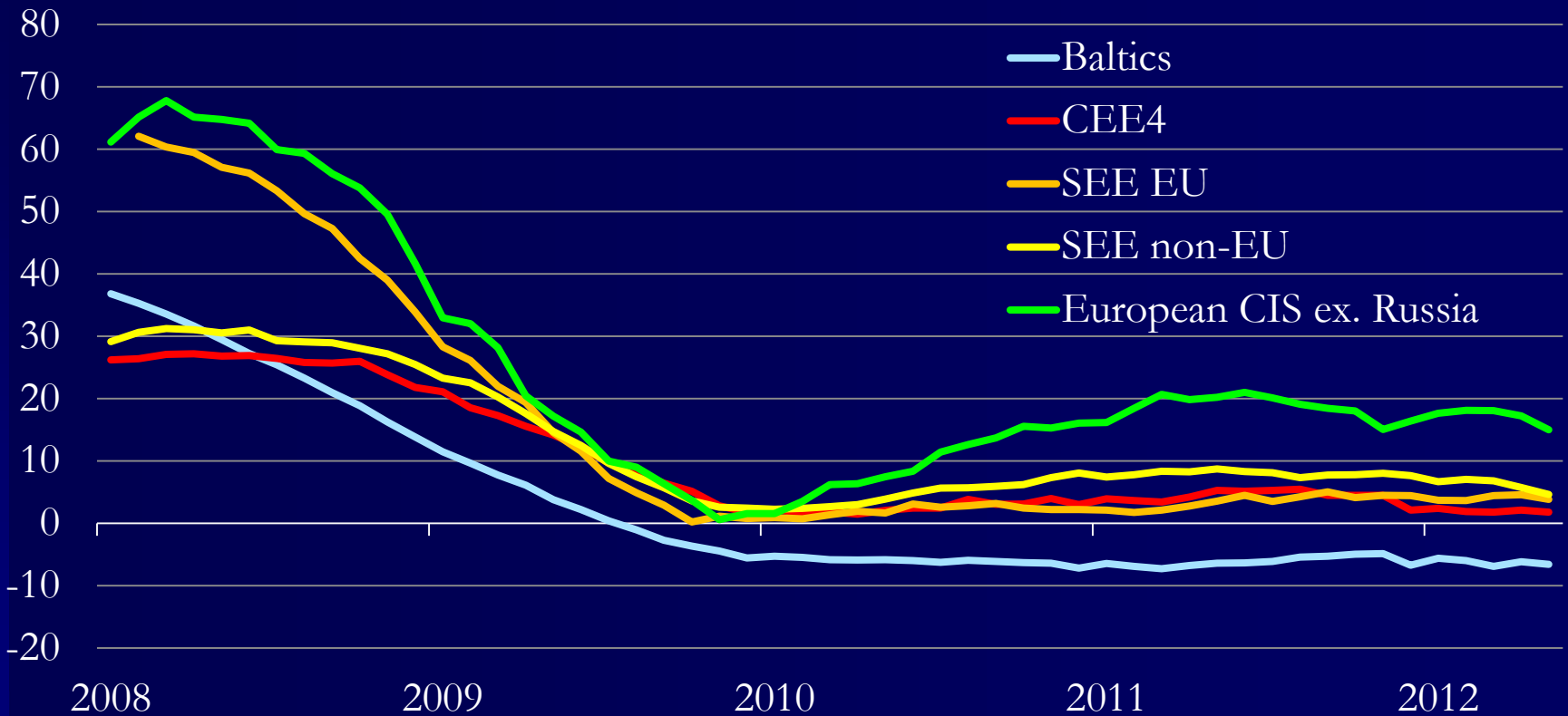
Source: BIS; IMF, IFS.



Credit growth remains feeble...

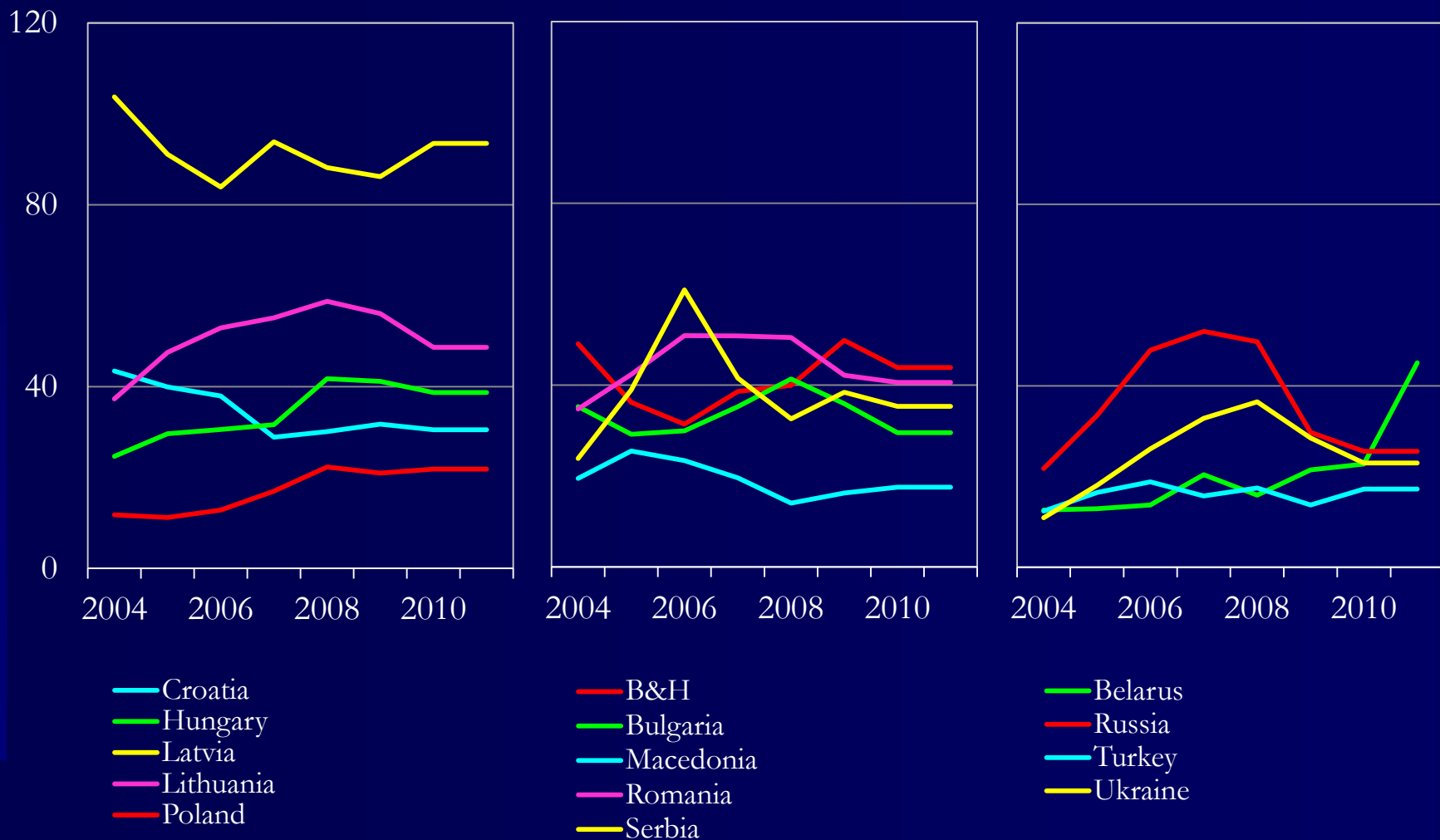
Private Credit Growth

(percent, 12-month moving average, annualized)



...since much credit is financed from abroad.

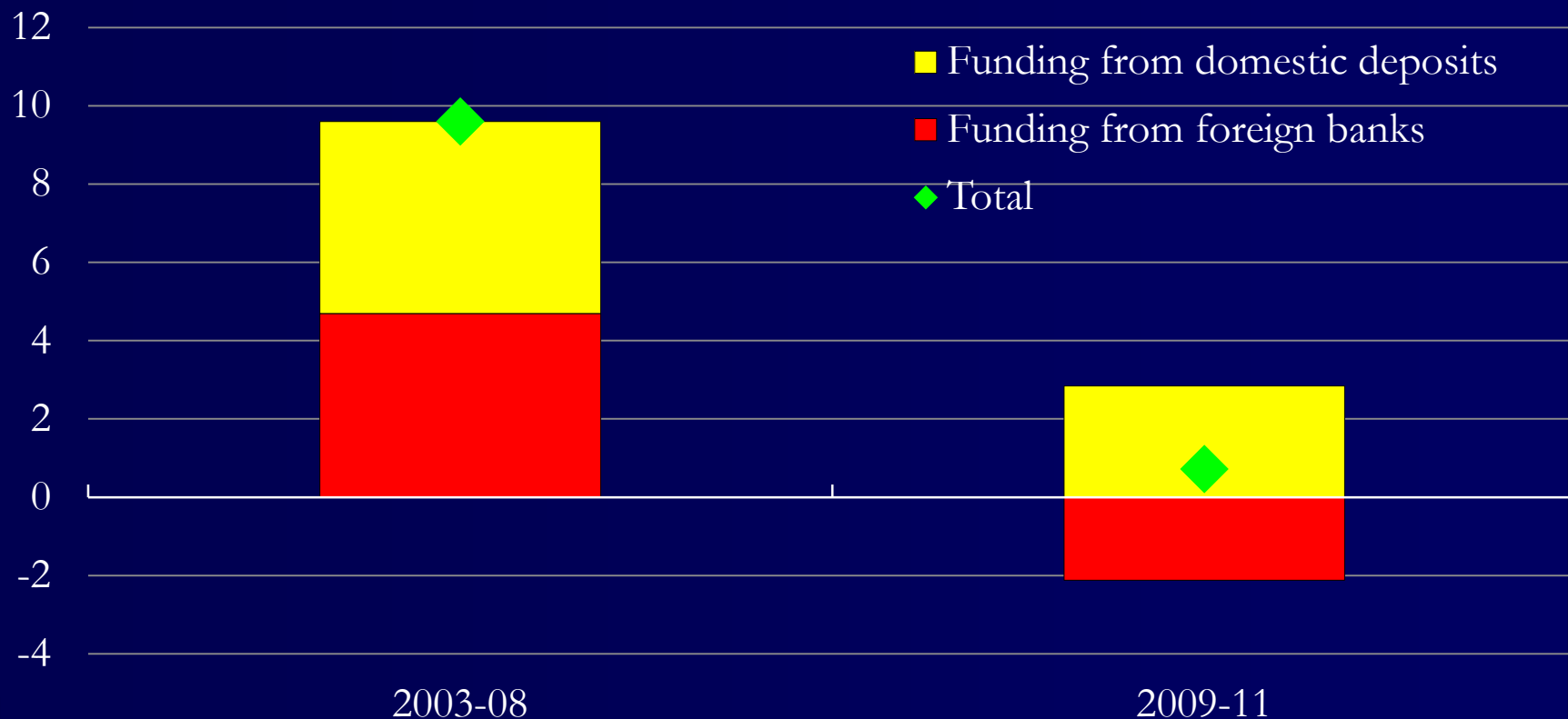
Foreign liabilities in percent of domestic credit
(percent)



External funding has dried up...

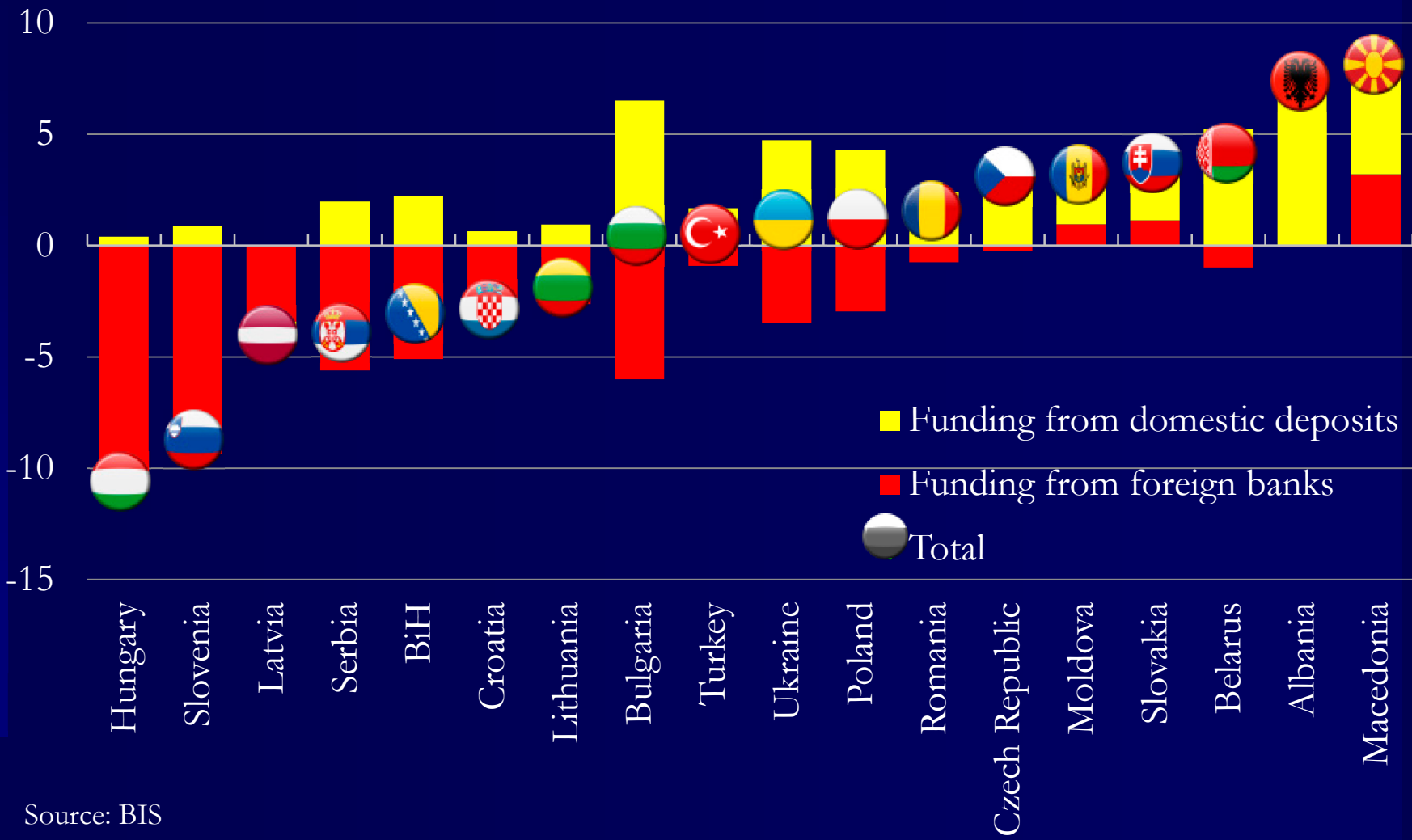
Banks' Funding Sources

(percent of GDP, exchange-rate adjusted)



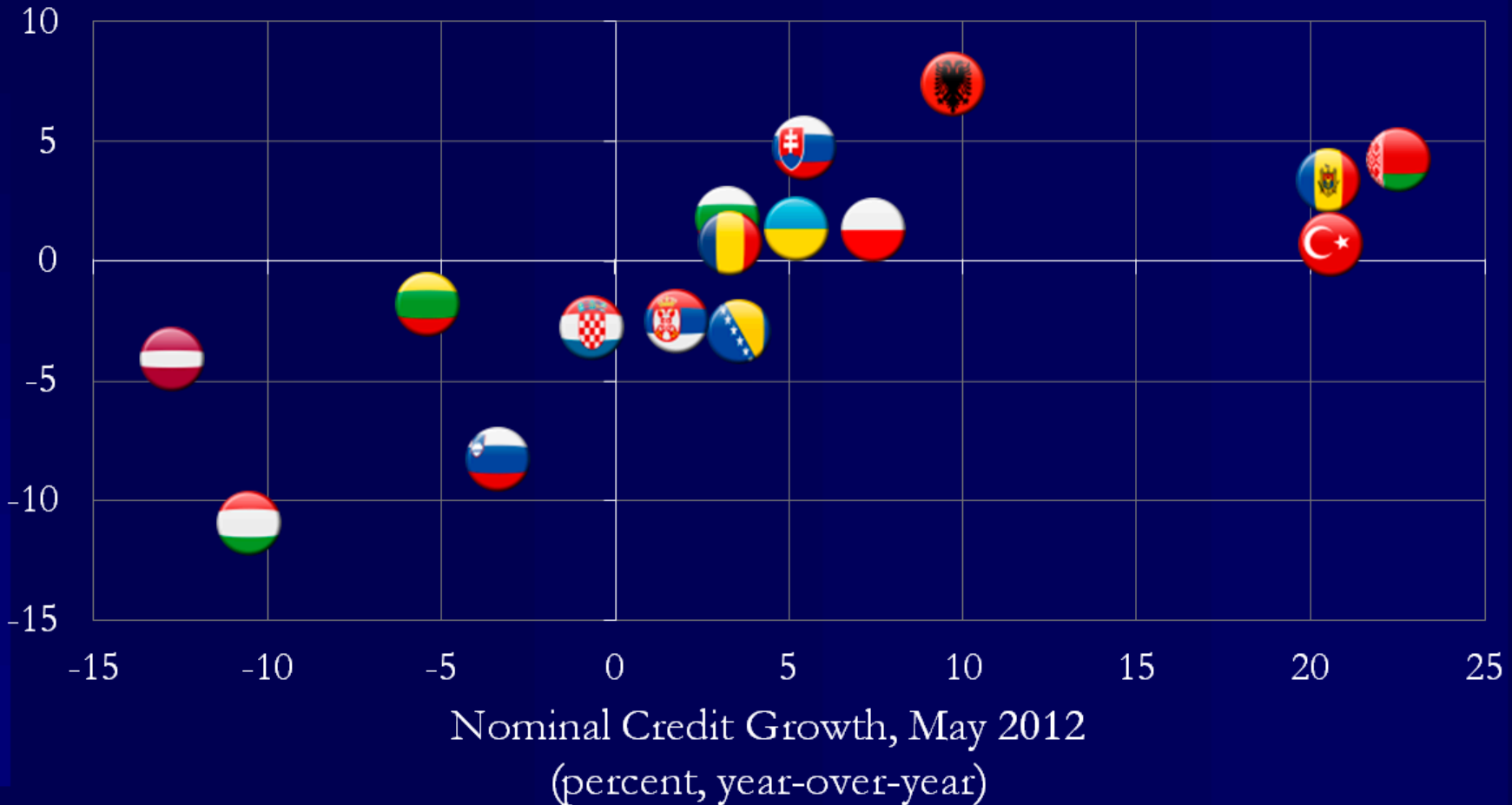
...but domestic deposit growth compensates...

Change of Banks' Funding Sources, 2011:Q3-2012:Q1
(percent of GDP annualized, exchange-rate adjusted)

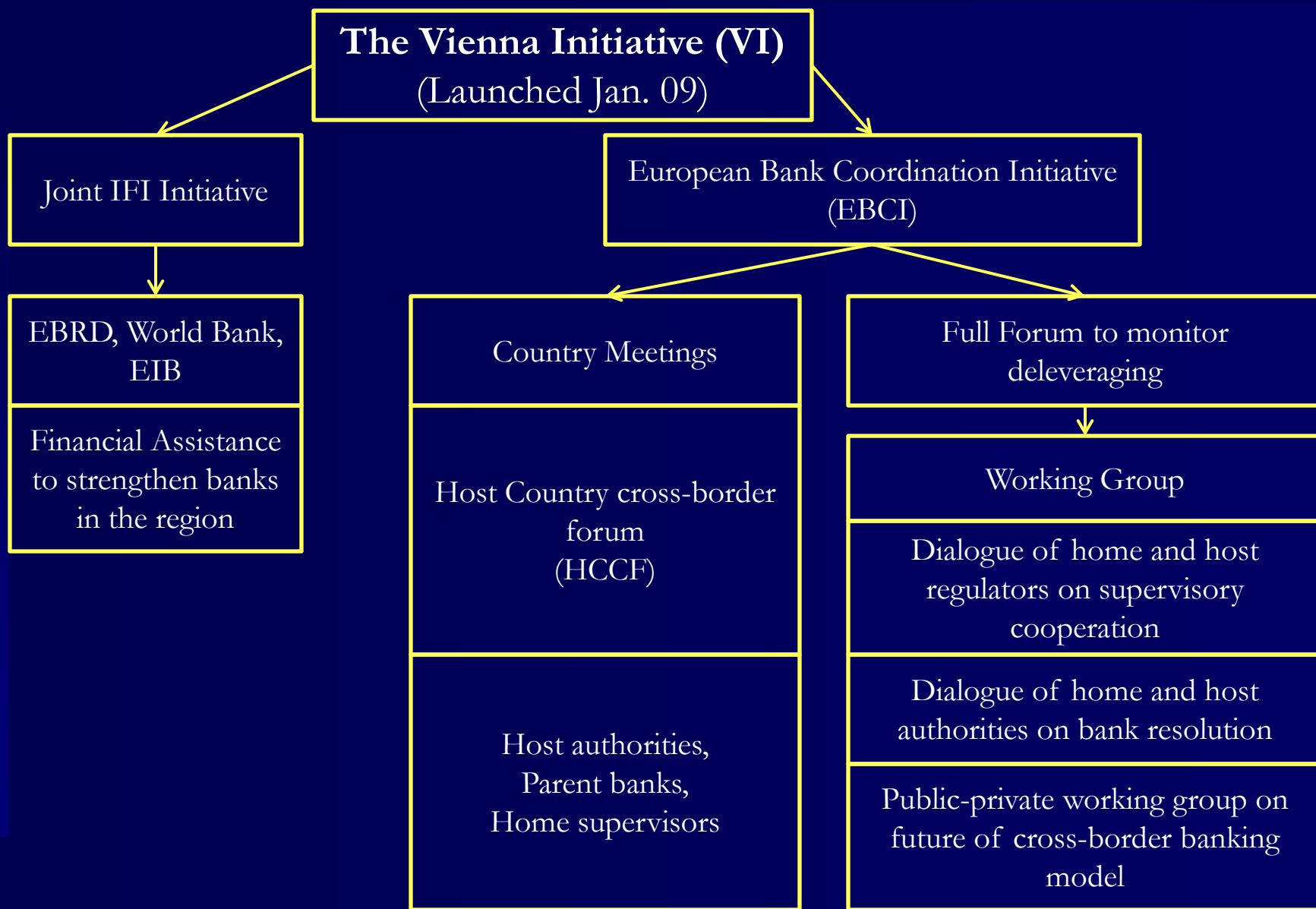


...allowing credit growth in some countries.

Change of Banks' Funding Sources
(percent of GDP annualized, FX adjusted)



Vienna initiative seeks to keep process in hand.



Thank you

