The Impact of the Global Economic Crisis on Central and Eastern Europe

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Outline of the presentation

• Course of the crisis
• Why CEE was so vulnerable
• How the crisis affected the region
• Aftermath of the crisis
Growth in the “Great Moderation”

Change in real GDP
(Year on year)

Source: WEO database
Inflation under control

Change in Consumer Prices Index
(Year on year)

Source: WEO database
But growing global imbalances

Current Account Imbalances (billions of USD)

Fuel exporters
Cent. & East. Europe
USA
Japan
Germany
China
ROW
World

Source: WEO database
And rising asset prices

House prices
(index, 2003q1=100)

Source: Haver Analytics
Rapidly growing leverage

Debt Outstanding by Sector (US)
(Billions of dollars)

- Foreign
- Federal government
- State and local governments
- Total Business
- Total Household
- Domestic Financial Sector

Source: Federal Reserve
And explosive growth of new instruments

Total Interest Rate and Currency Swaps outstanding
(Notional amounts, Trillions of dollars)

Source: ISDA Market Survey
Emergence of sub-prime crisis

US Sub-prime mortgages deliquencies by vintage year (percent)

Source: GFSR, April 2008
Spread of the financial crisis

Heat map

Subprime RMBS
Money markets
Financial Institutions
Commercial MBS
Prime RMBS
Corporate credit
Emerging Markets
Sovereign credit

Source: Global Financial Stability Report, April 2010
Collapse of credit supply

Bank Lending to Private Sector
(percent, year on year)

Source: Global Financial Stability Report, January 2011
Unprecedented fall in world trade

World exports growth
(\textit{percent, year on year})

Source: WEO database
Unprecedented fall in world trade

World exports growth
(percent, year on year)

Source: WEO database
CEE region most seriously affected

GDP growth
(percent, year on year)

Source: WEO database
Recession sharpest in Hungary

GDP growth
(percent, year on year)

Source: WEO database
Wide current account deficits in CEE

Current Account Balances
(percent of GDP)

- Advanced Economies
- Emerging & Developing Economies
- Central & Eastern Europe
- Developing Asia
- Western Hemisphere
- CEE 4

Source: WEO database
Region is very open to trade

Trade openness
(percent of GDP, 2007)

Source: WEO database
And dependent on eurozone market

Merchandise exports to Euro Area as a share of GDP (2007-2009 average)

Source: Direction of Trade Statistics; World Economic Outlook, April 2010
Steady capital inflows before crisis

Net Capital Inflows (percent of GDP)

- Czech Republic
- Hungary
- Poland
- Slovak Republic

Source: WEO database
Credit fueled a property boom

Source: WEO database

Change in nominal housing prices, 2003-07

Change in credit to GDP ratio, 2003-07
And increase in stock prices

Equities indices
(Jan-05=100)

Hungary applies for external support

Source: Haver, WEO database
Real wages also grew strongly

Hungary applies for external support

Real wage index
(\textit{Jan-05}=100)

- Czech
- Hungary
- Poland (enterprise sector)
- Slovakia

Source: Haver, WEO database
Fiscal strength was misleading

General Government Balance
(\textit{percent od GDP})

Source: WEO database
Net banking inflows came to a stop

Banking Flows (millions USD)

Source: BIS
IMF provided assistance to region

EU countries:
- EU member countries
- SBA program
- FCL program

Non-EU countries:
- SBA program
- EFF program
- PCL program

Precautionary programs
Global growth has resumed

Change in real GDP (Year on year)

Source: WEO database
But imbalances are reemerging

Current Account Imbalances
(millions of USD)

Fuel exporters
Cent. & East. Europe
USA
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ROW
World

Source: WEO database
Non-performing loans have risen

Non-performing loans
(percent of total loans)

Source: IMF, GFSR
Fiscal consolidation is needed

General Government Fiscal Balance
(percent of GDP)

Source: WEO database
As debt burdens increase

Source: WEO database
As the boom in the Baltic states ended in 2007, data for the Baltics refer to 2002–07.

Source: IMF, World Economic Outlook and IMF staff calculations.
Lessons for Central and Eastern Europe

1. Accession to European Union and eurozone will not anchor policy as in the past.

2. Growth can no longer rely on such large inflows of bank credit.

3. Budgets need consolidation throughout the region.

4. Growth will need a new stimulus
   - Based on exports, rather than domestic consumption.
   - Regulatory and structural reforms still needed to remove obstacles to entrepreneurship and efficiency.
Thank you!