



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

Fourth Central European CEMS Conference  
Warsaw, February 25, 2011

**Mark Allen**

Senior IMF Resident Representative  
for Central and Eastern Europe

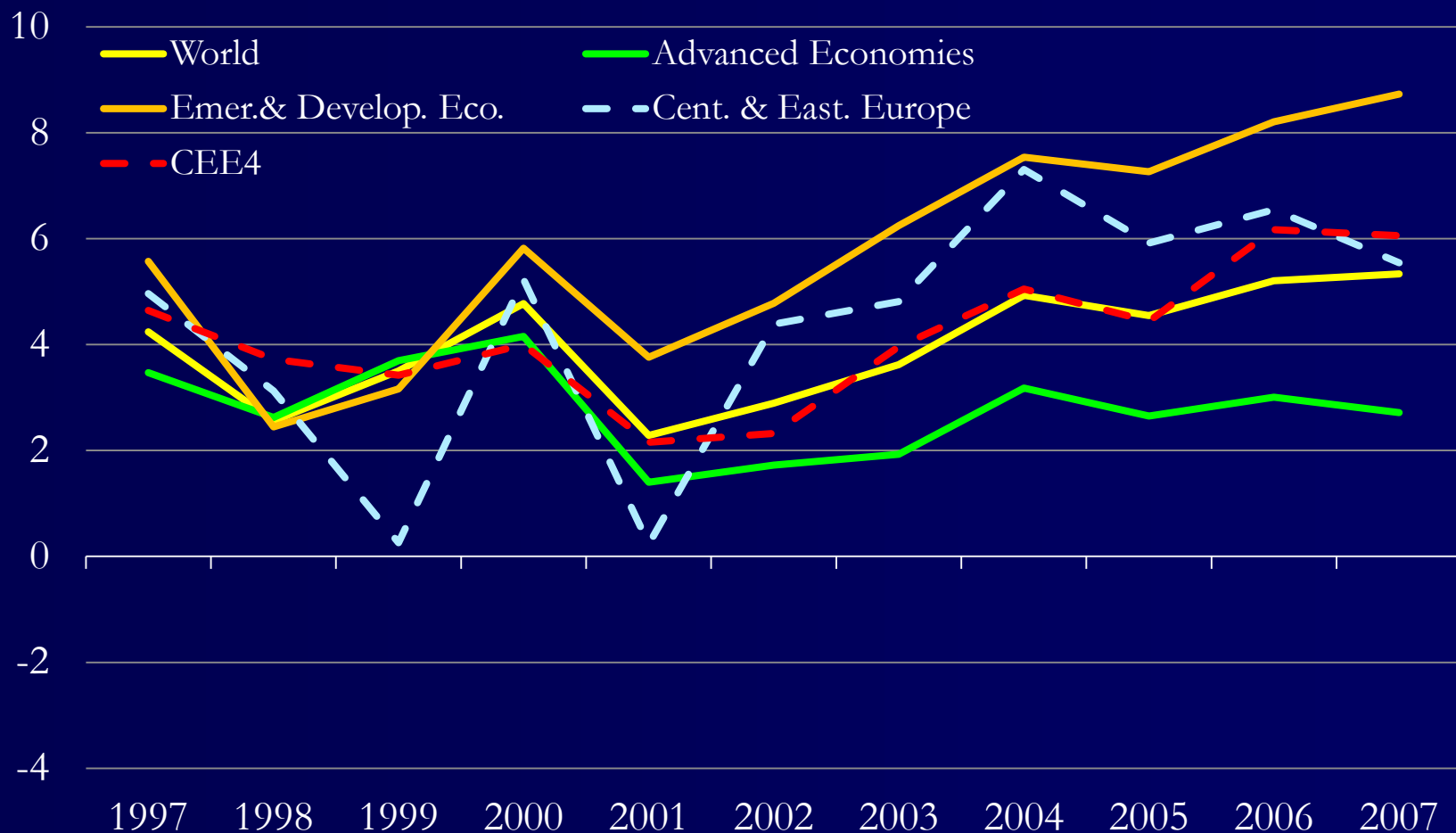
# Outline of the presentation

- 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)

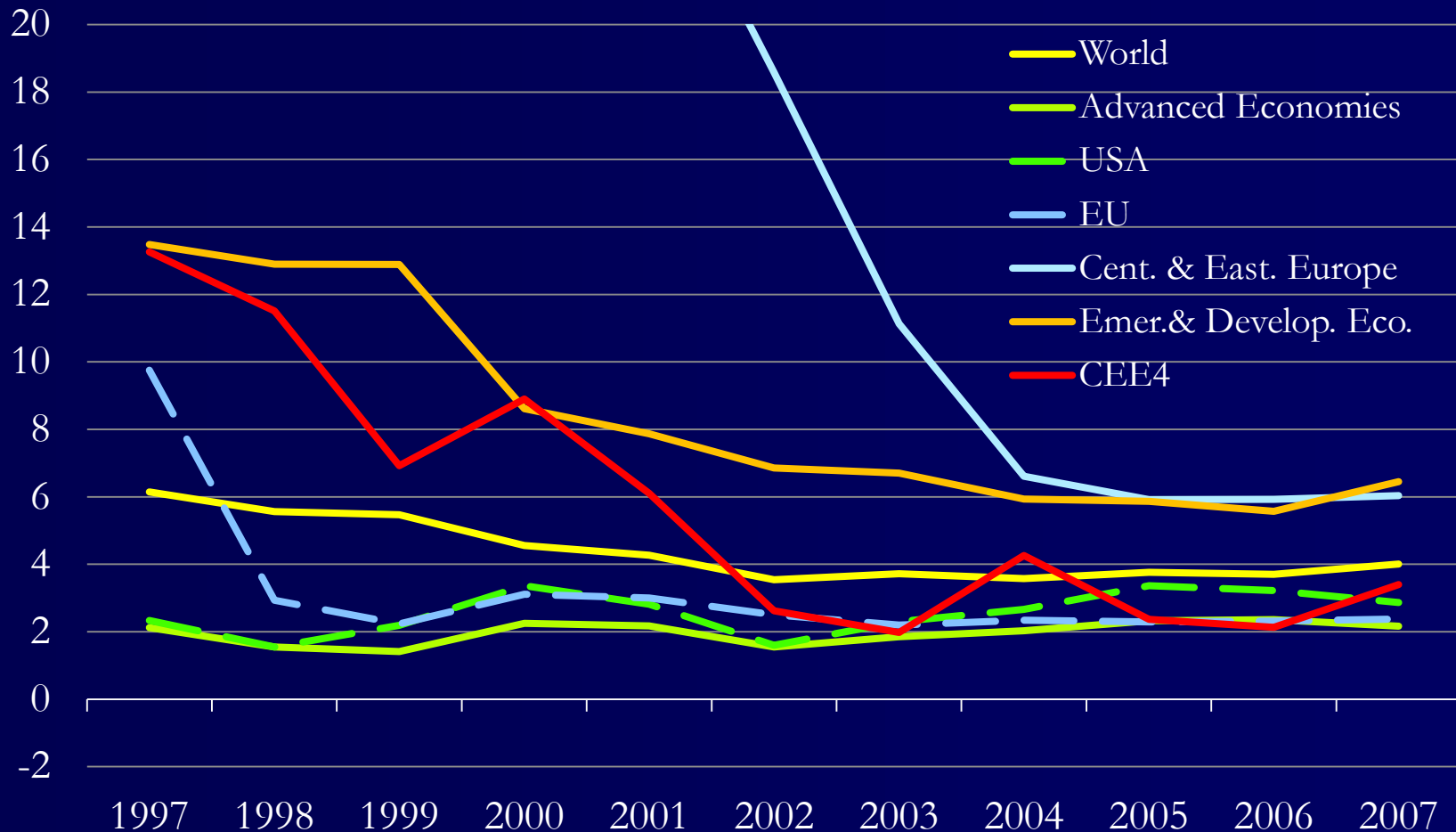


Source: WEO database



# Inflation under control

Change in Consumer Prices Index  
(Year on year)

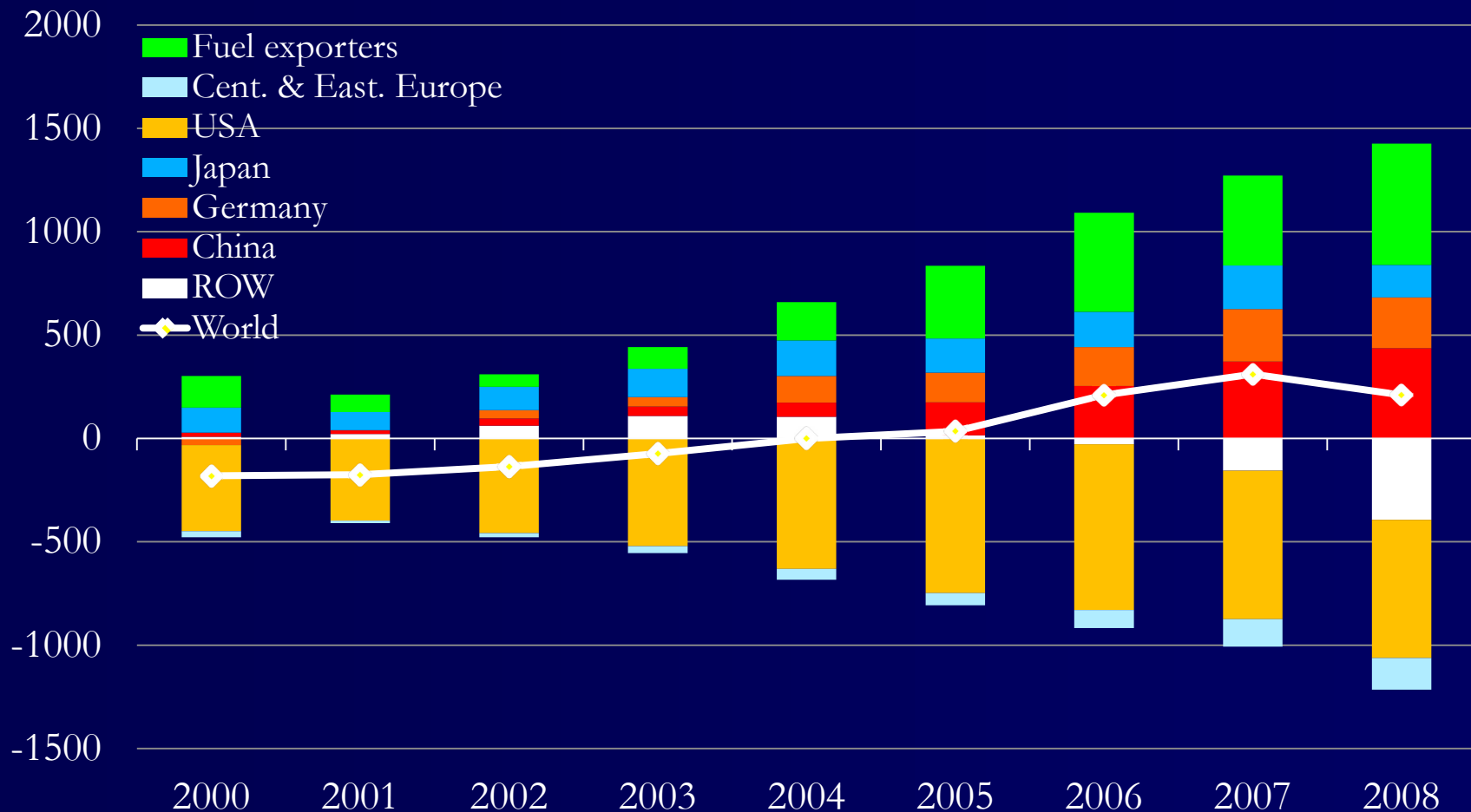


Source: WEO database



# But growing global imbalances

Current Account Imbalances  
(billions of USD)



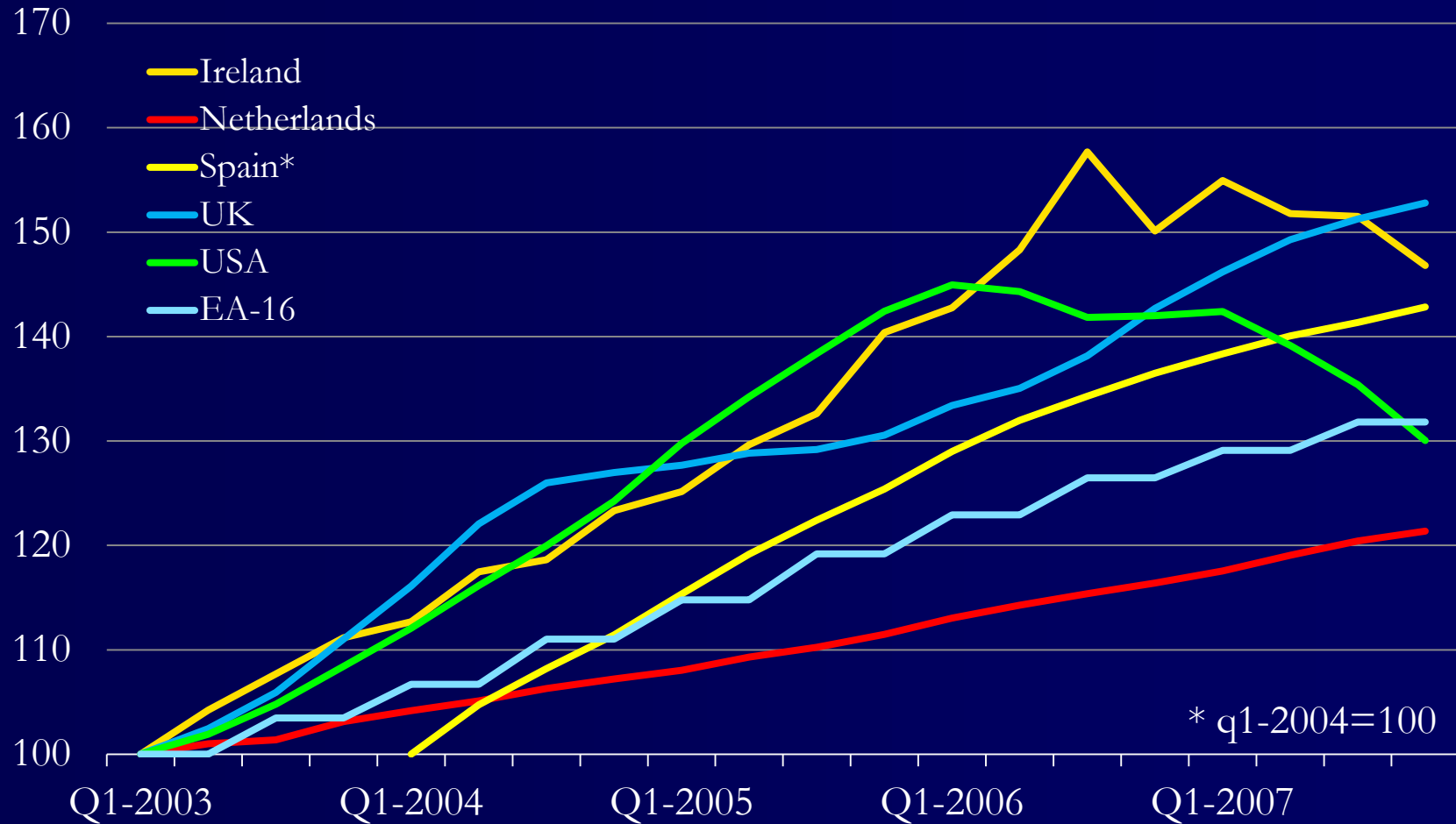
Source: WEO database



# And rising asset prices

## House prices

(index, 2003q1=100)

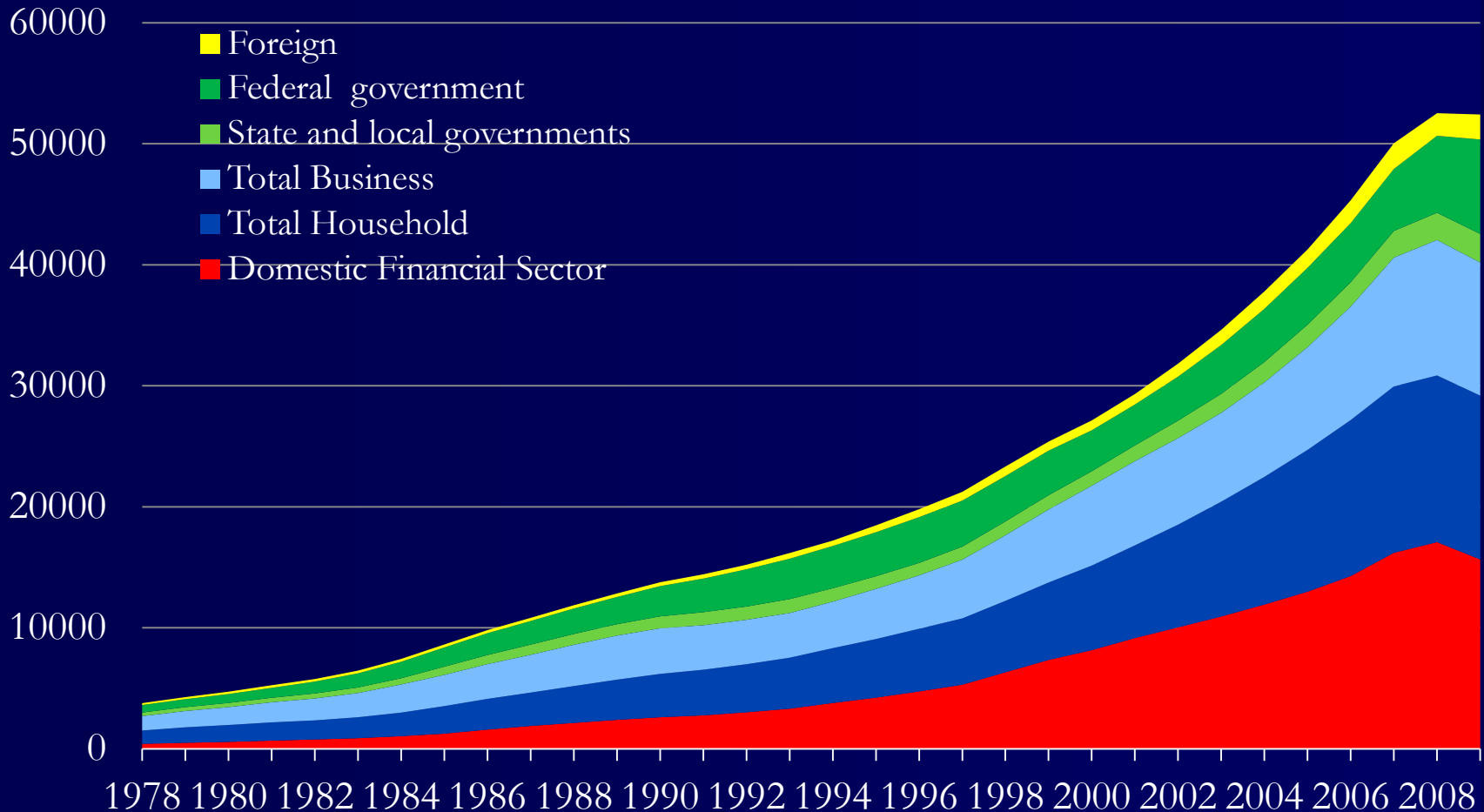


\* q1-2004=100



# Rapidly growing leverage

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

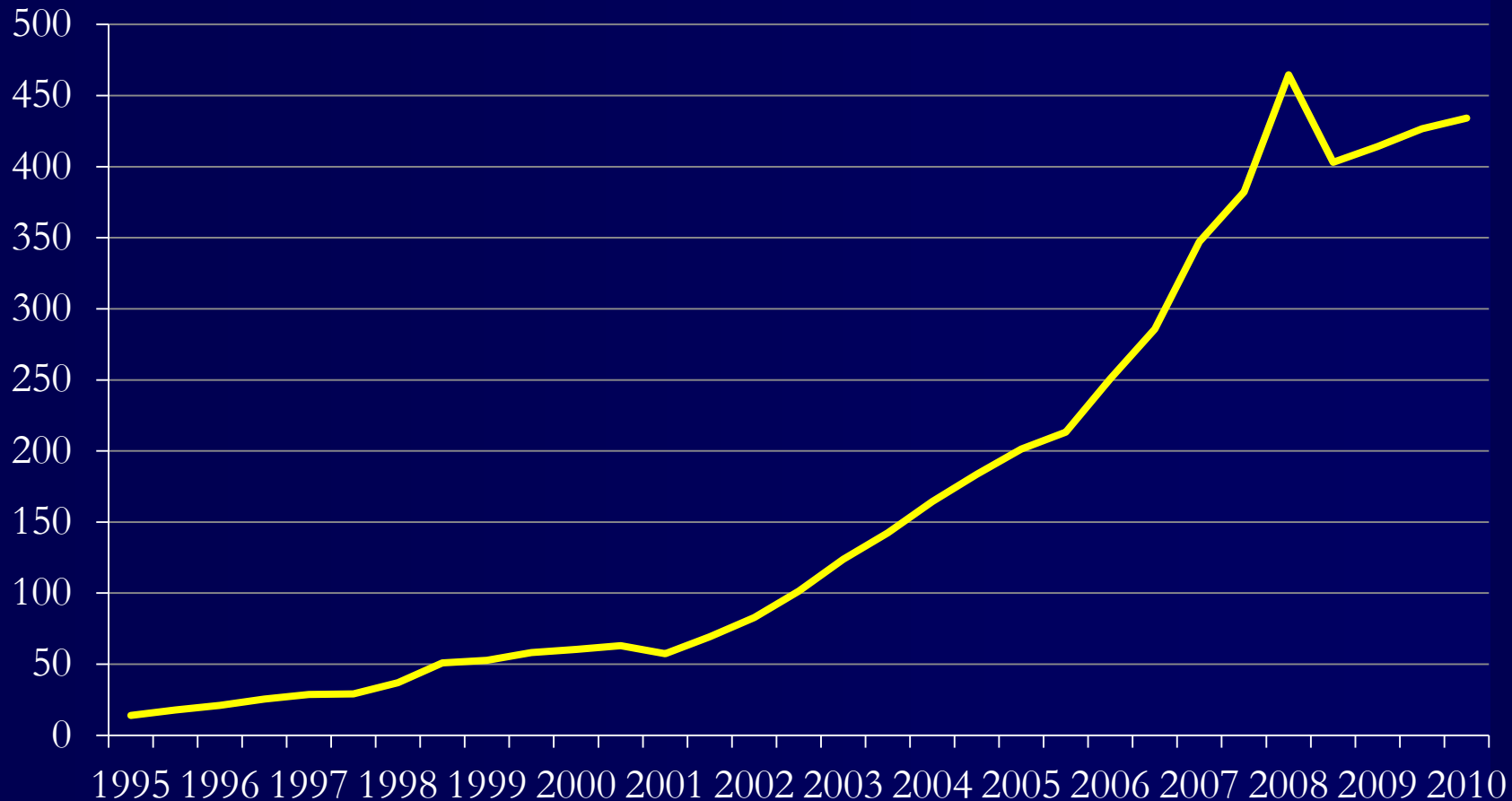


Source: Federal Reserve



# And explosive growth of new instruments

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

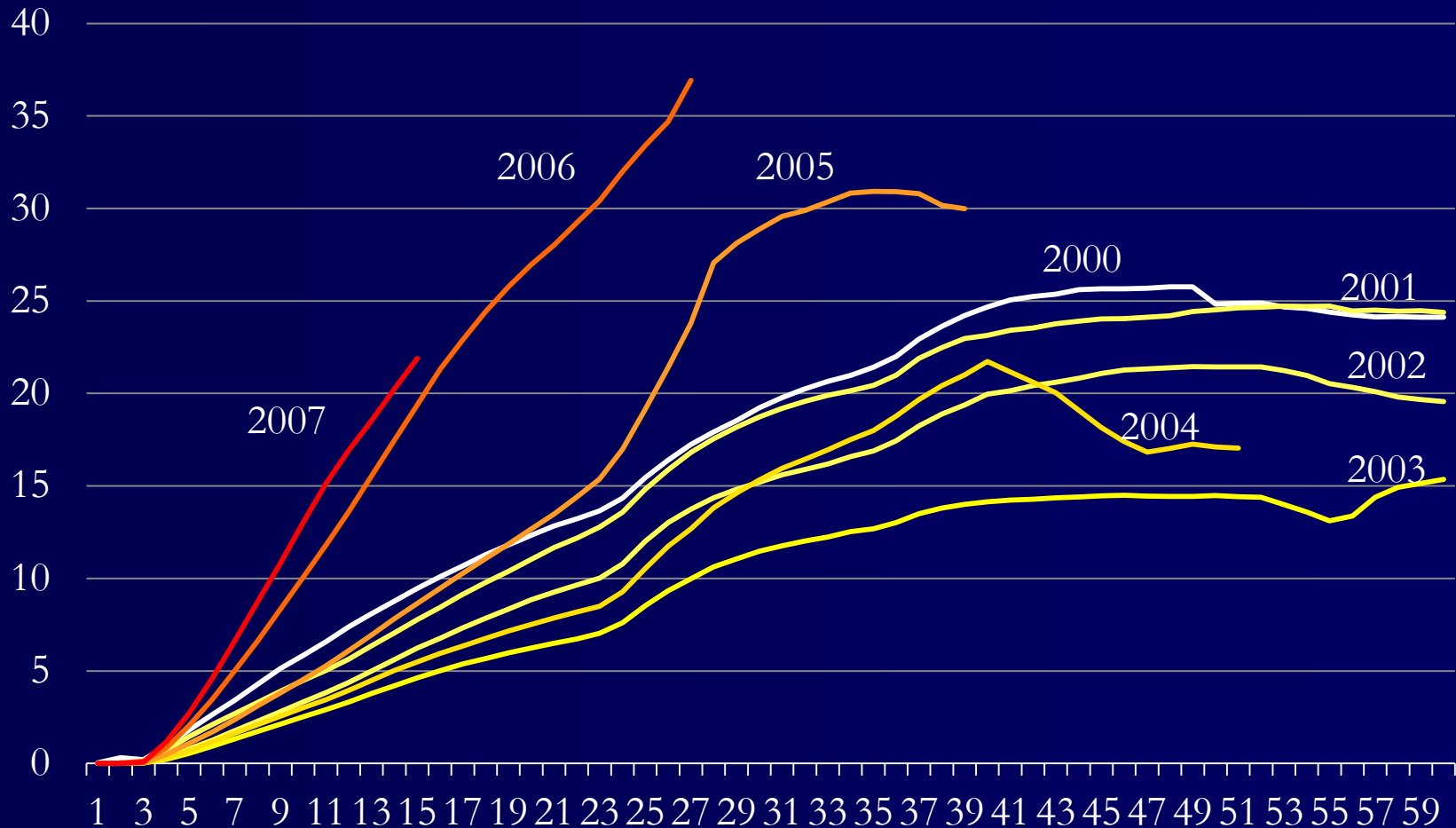


Source: ISDA Market Survey



# Emergence of sub-prime crisis

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

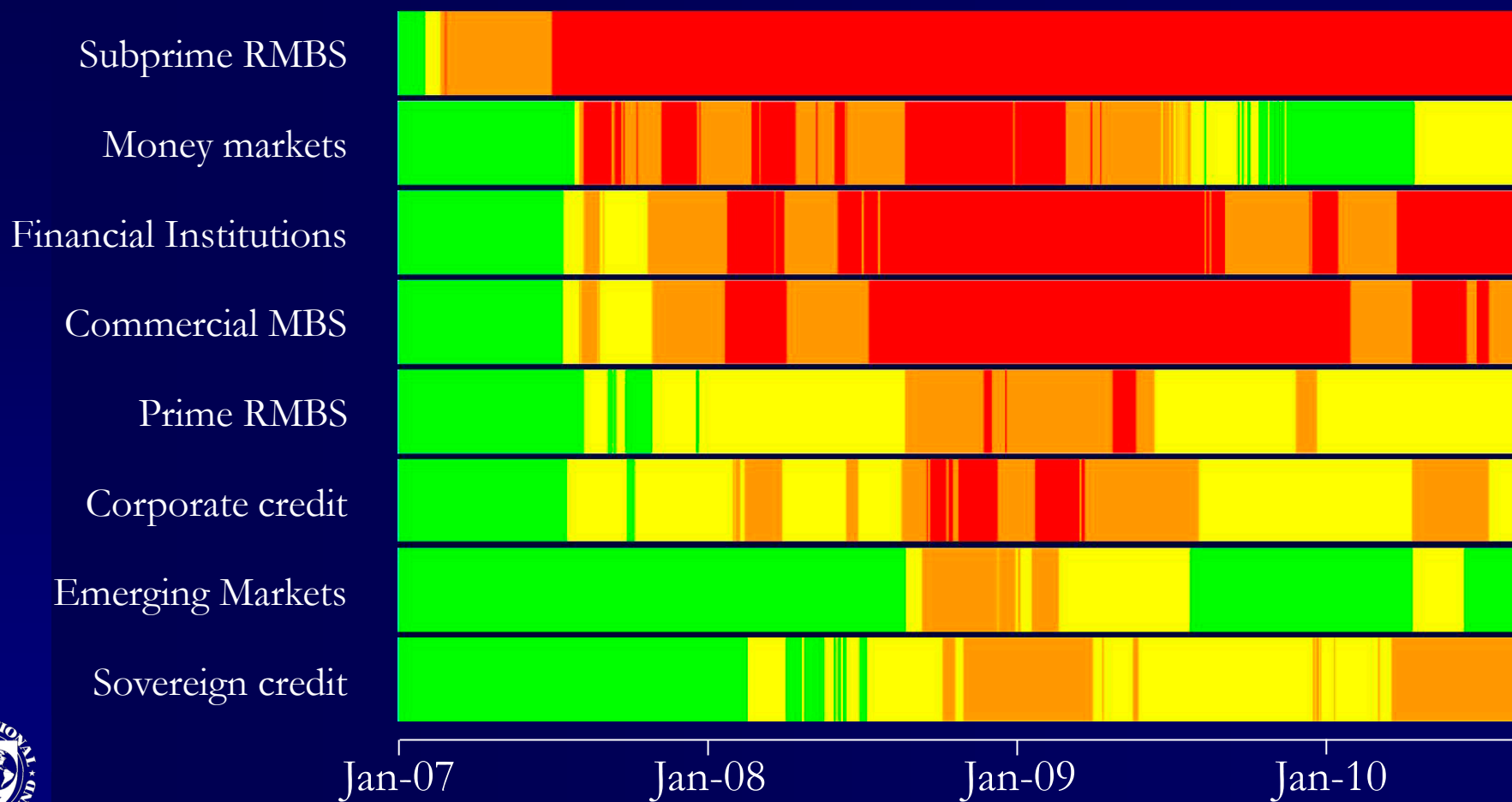


Source: GFSR, April 2008



# Spread of the financial crisis

*Heat map*

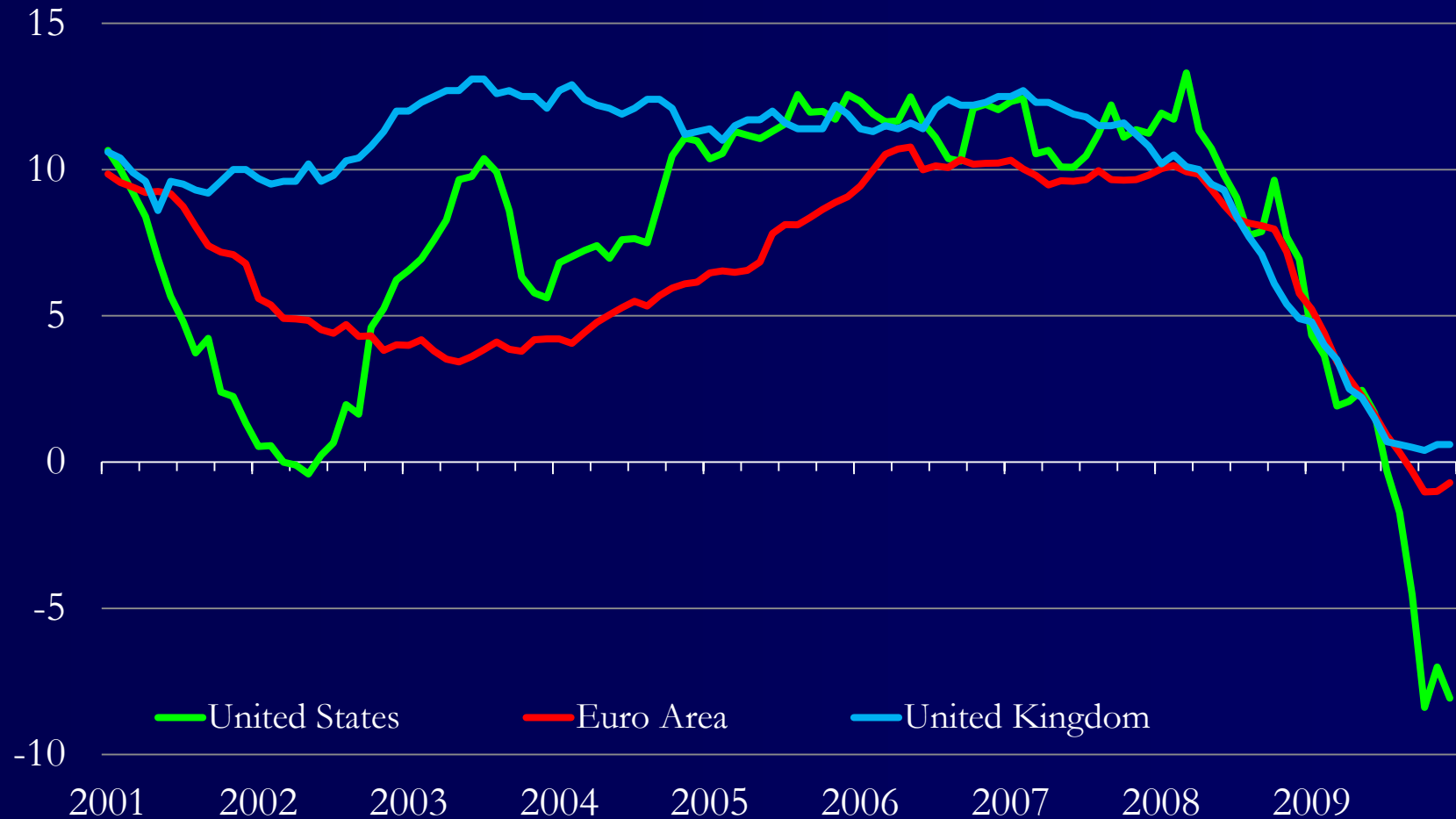


Source: Global Financial Stability Report, April 2010



# Collapse of credit supply

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

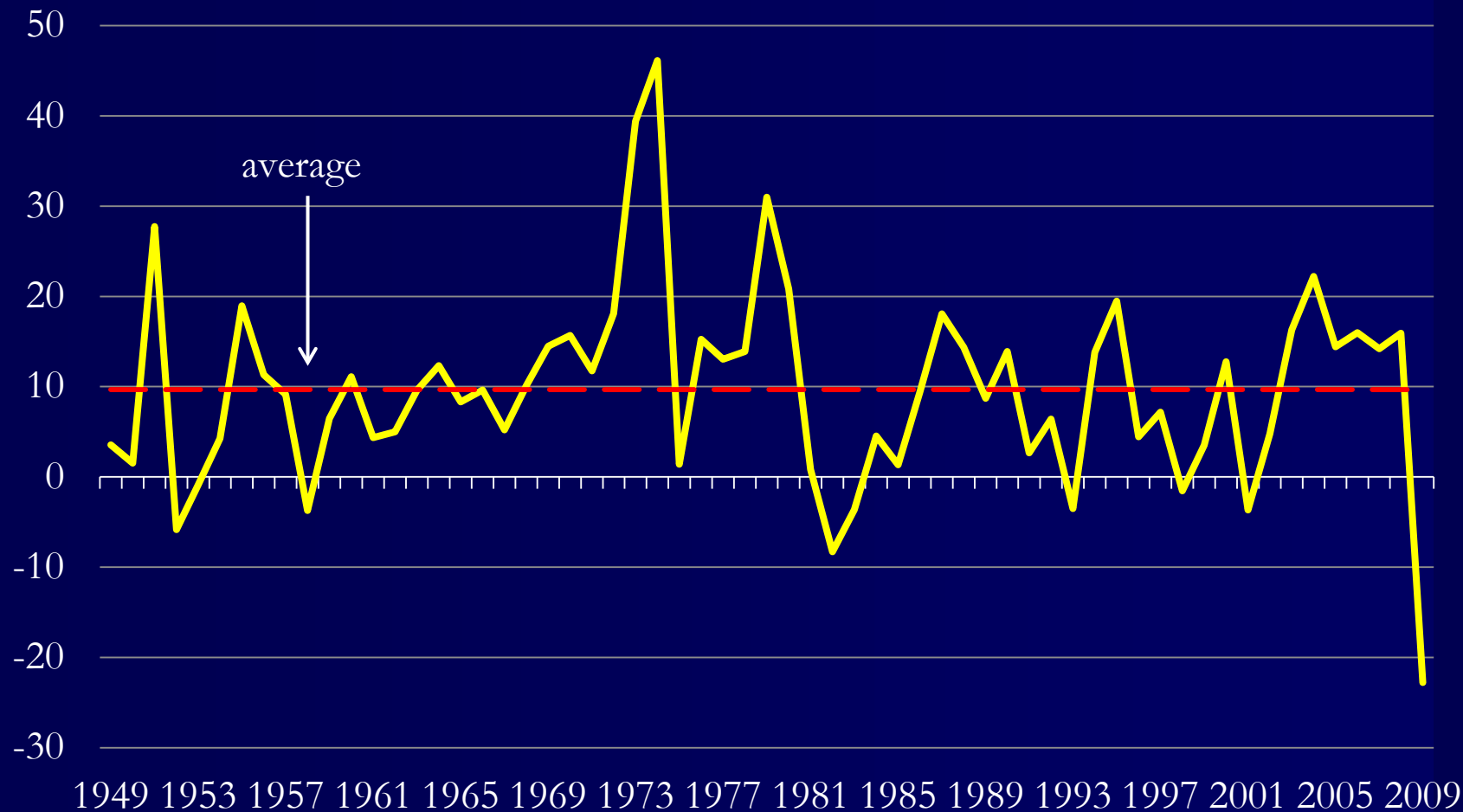


Source: Global Financial Stability Report, January 2011



# Unprecedented fall in world trade

World exports growth  
(percent, year on year)

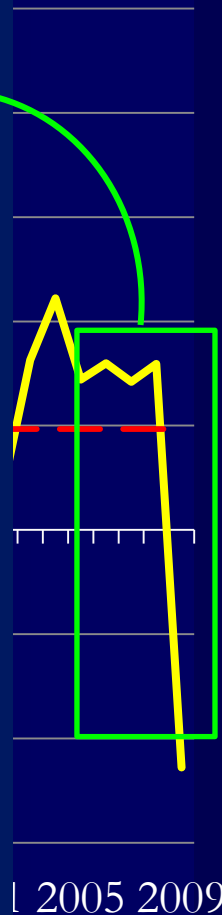
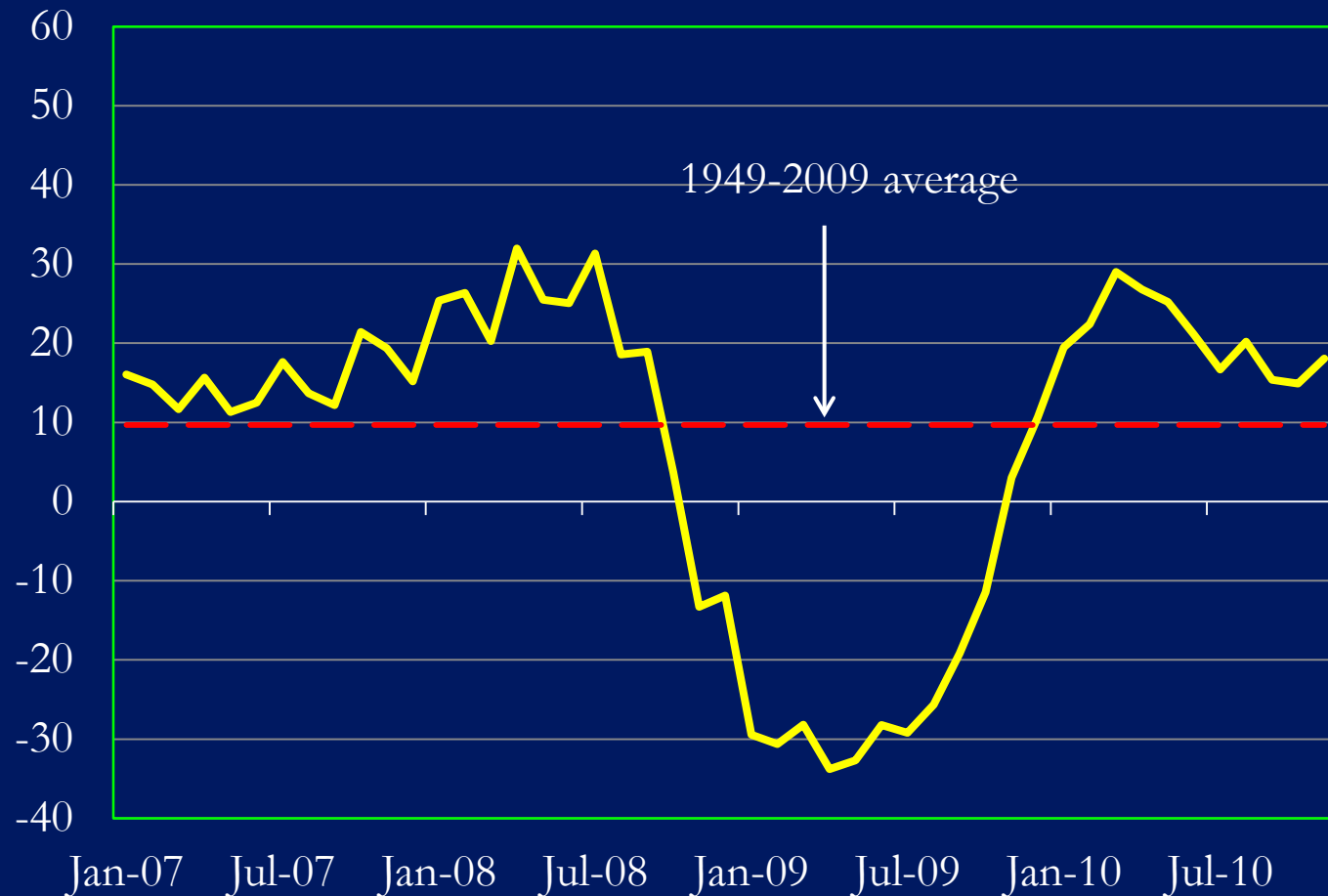


Source: WEO database



# Unprecedented fall in world trade

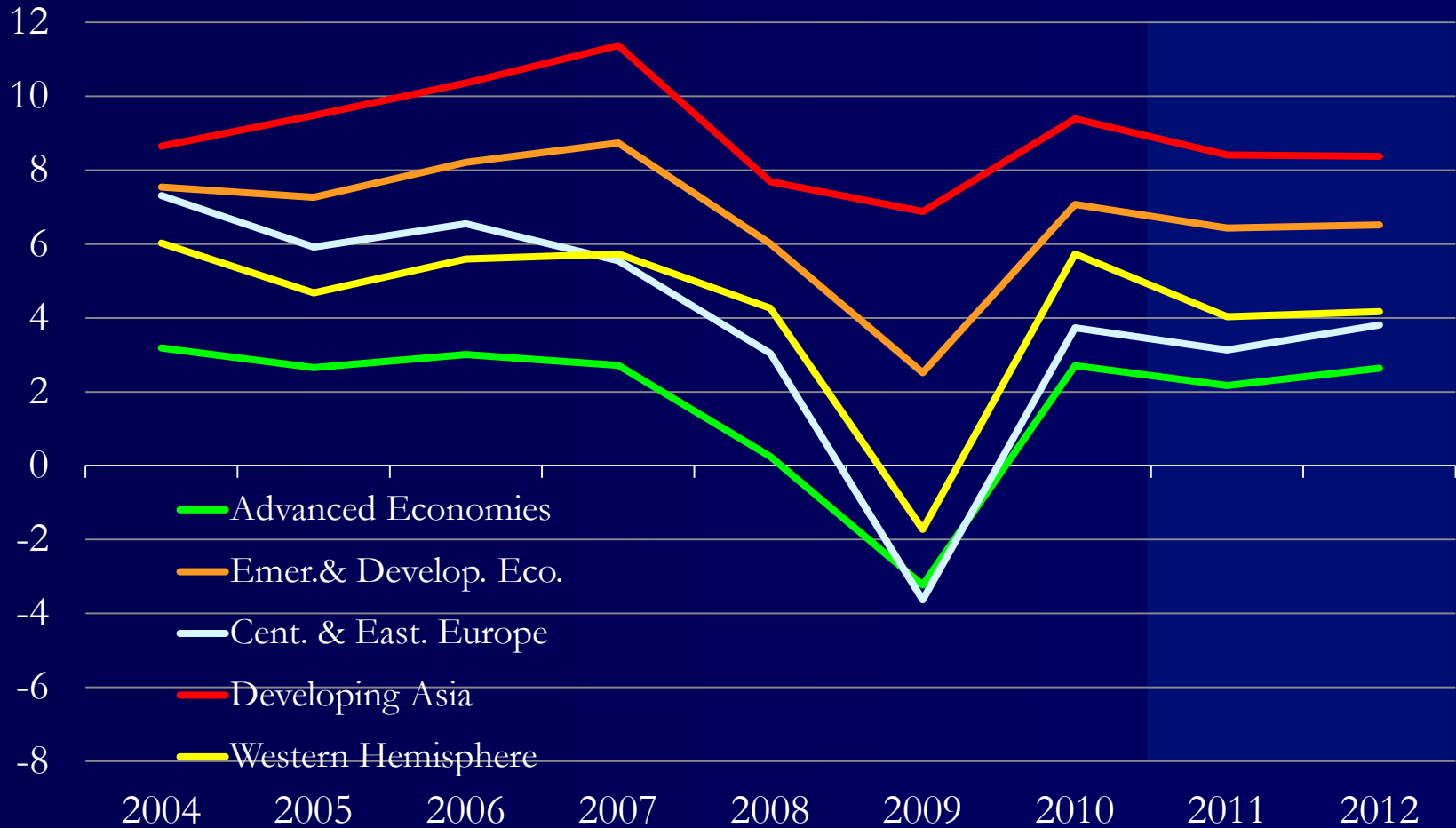
World exports growth  
(percent, year on year)



Source: WEO database

# CEE region most seriously affected

GDP growth  
(percent, year on year)

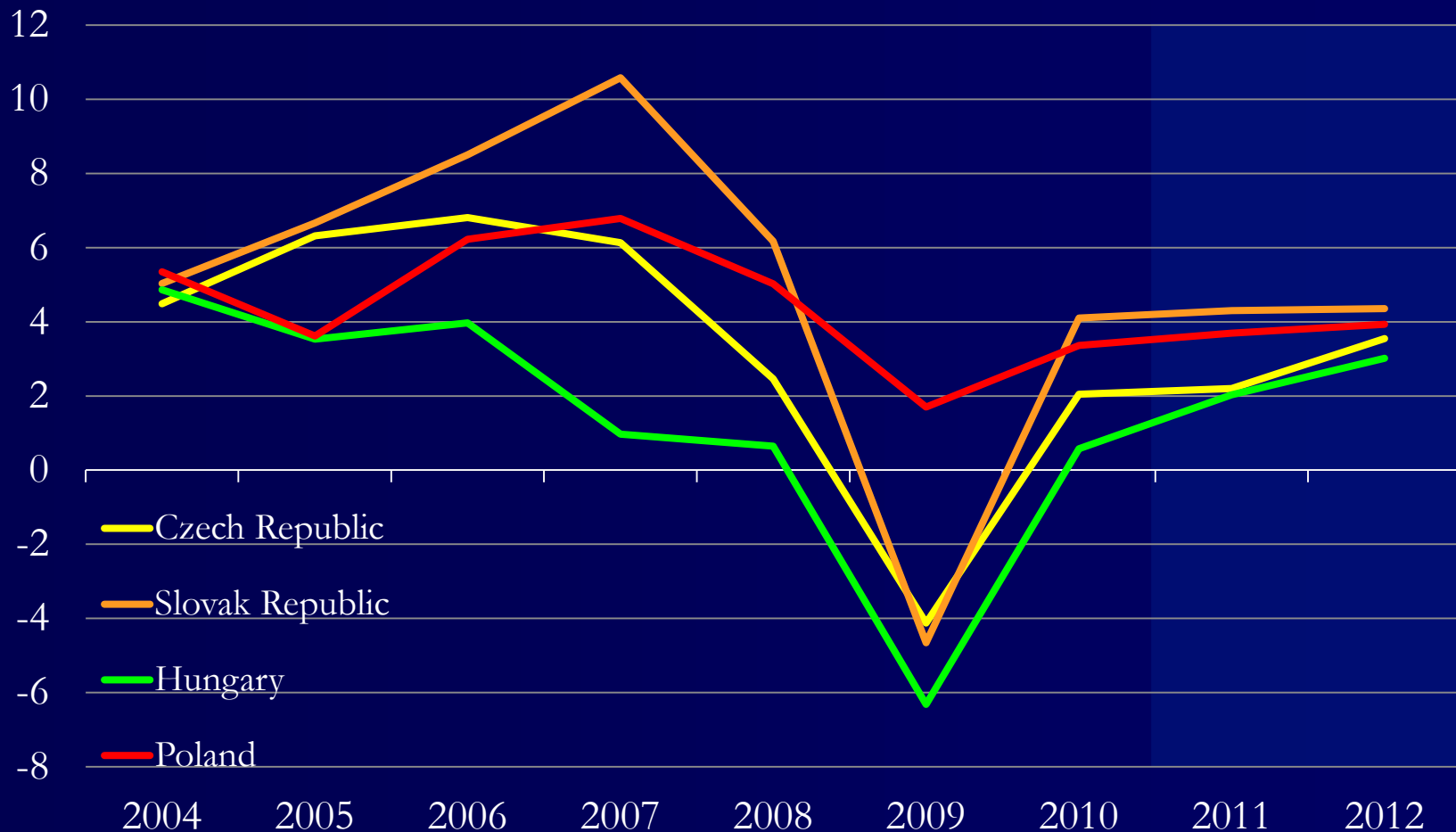


Source: WEO database



# Recession sharpest in Hungary

GDP growth  
(percent, year on year)

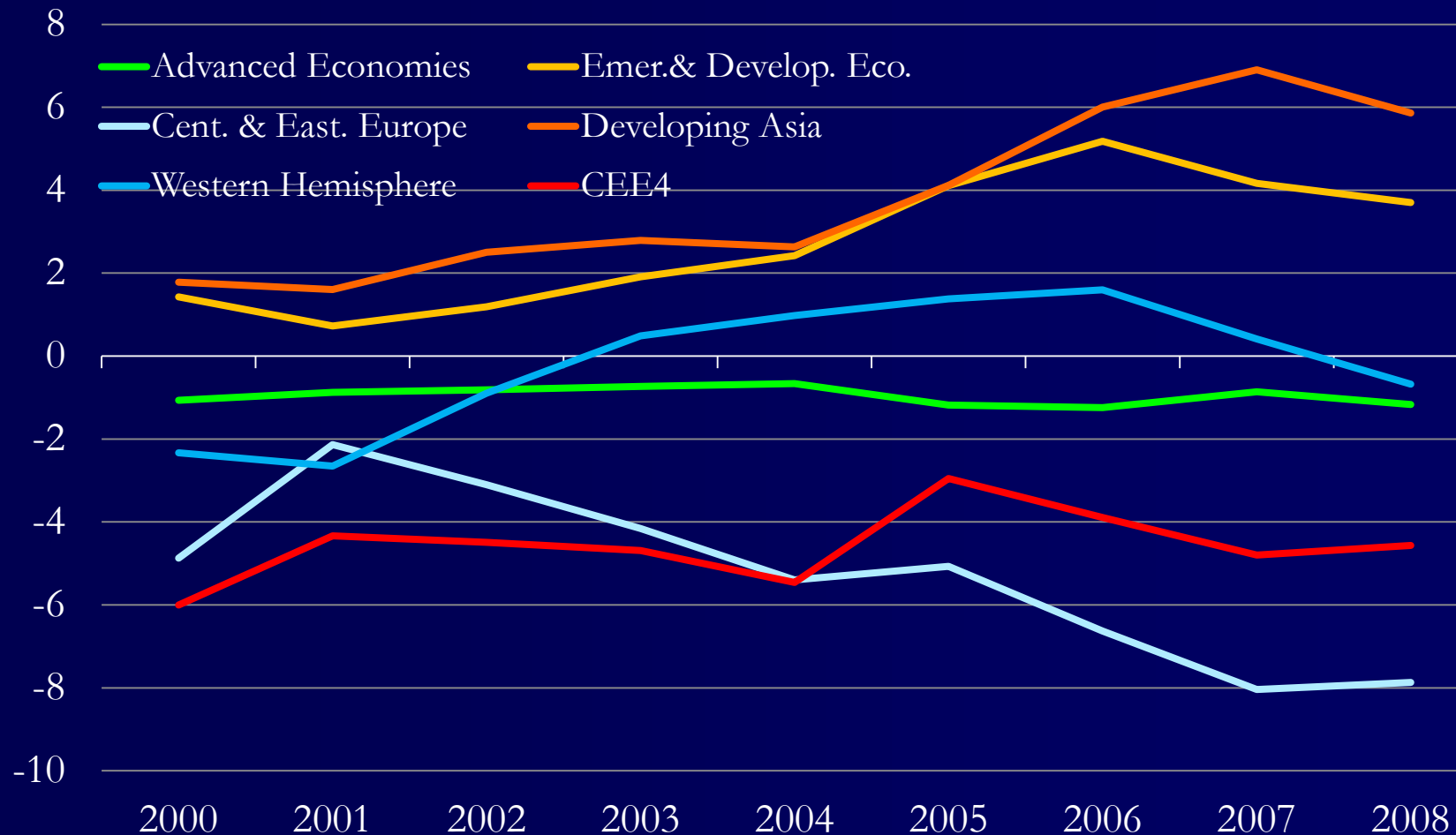


Source: WEO database



# Wide current account deficits in CEE

Current Account Balances  
(percent of GDP)

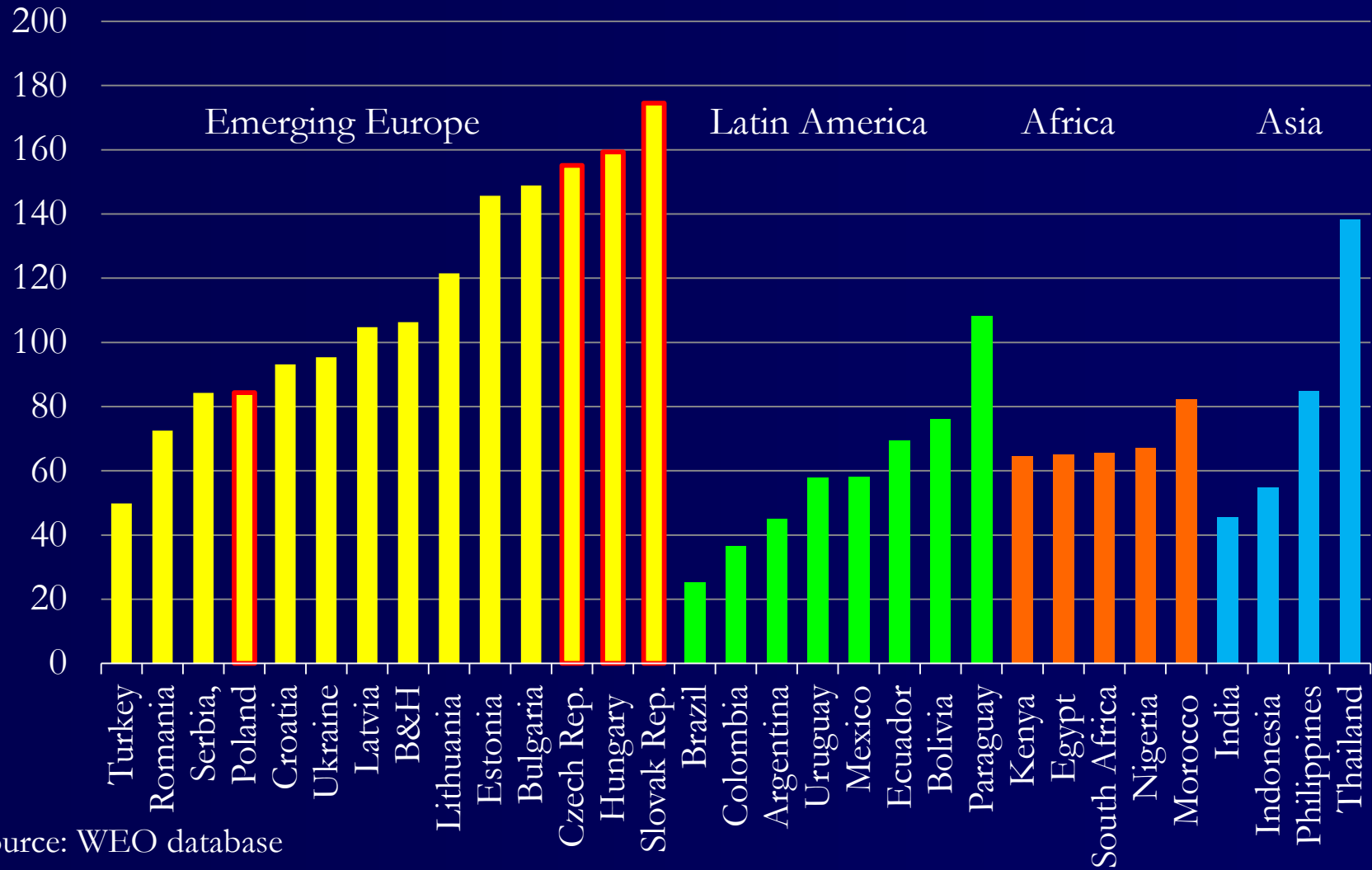


Source: WEO database



# Region is very open to trade

Trade openness  
(percent of GDP, 2007)

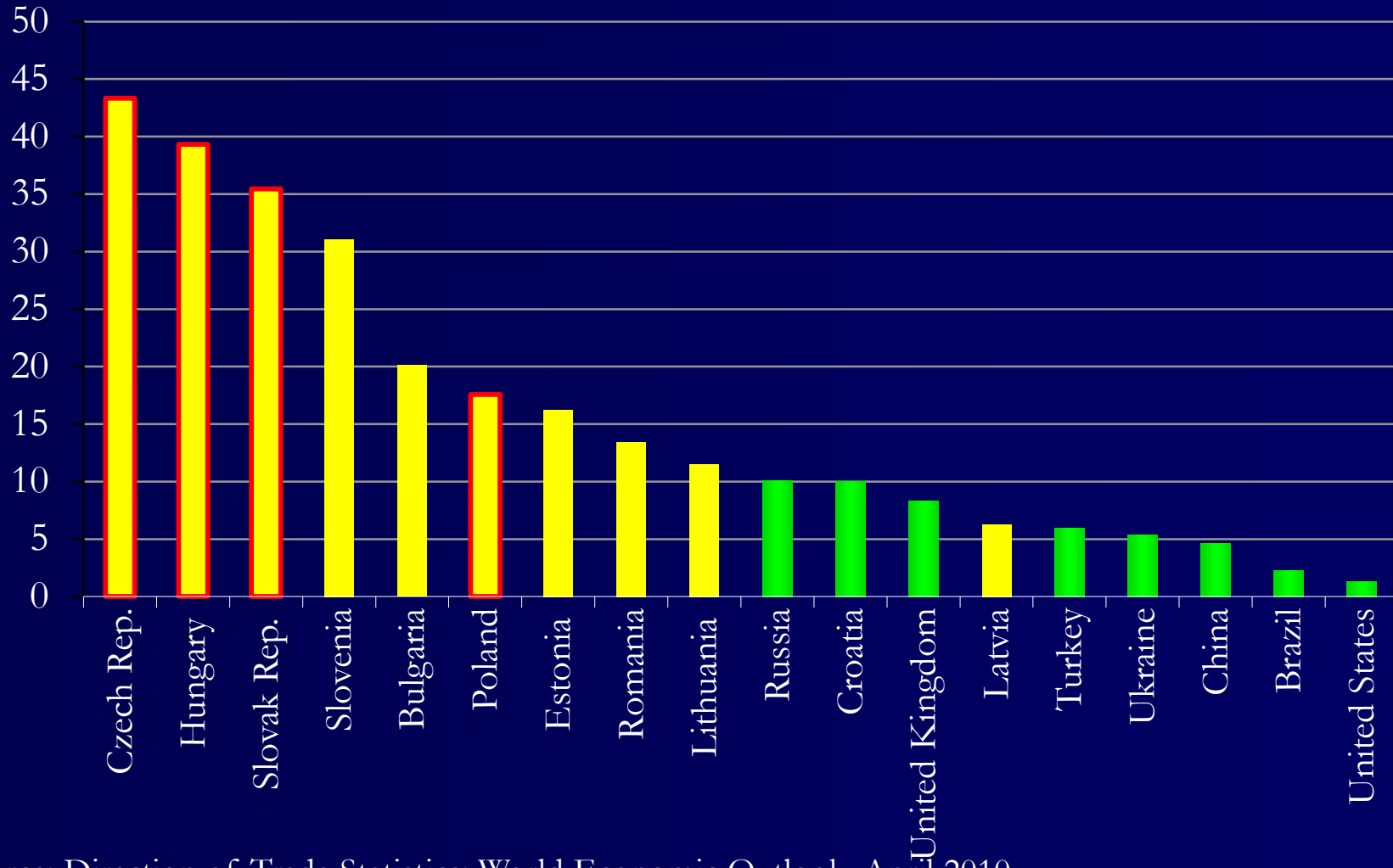


Source: WEO database



# And dependent on eurozone market

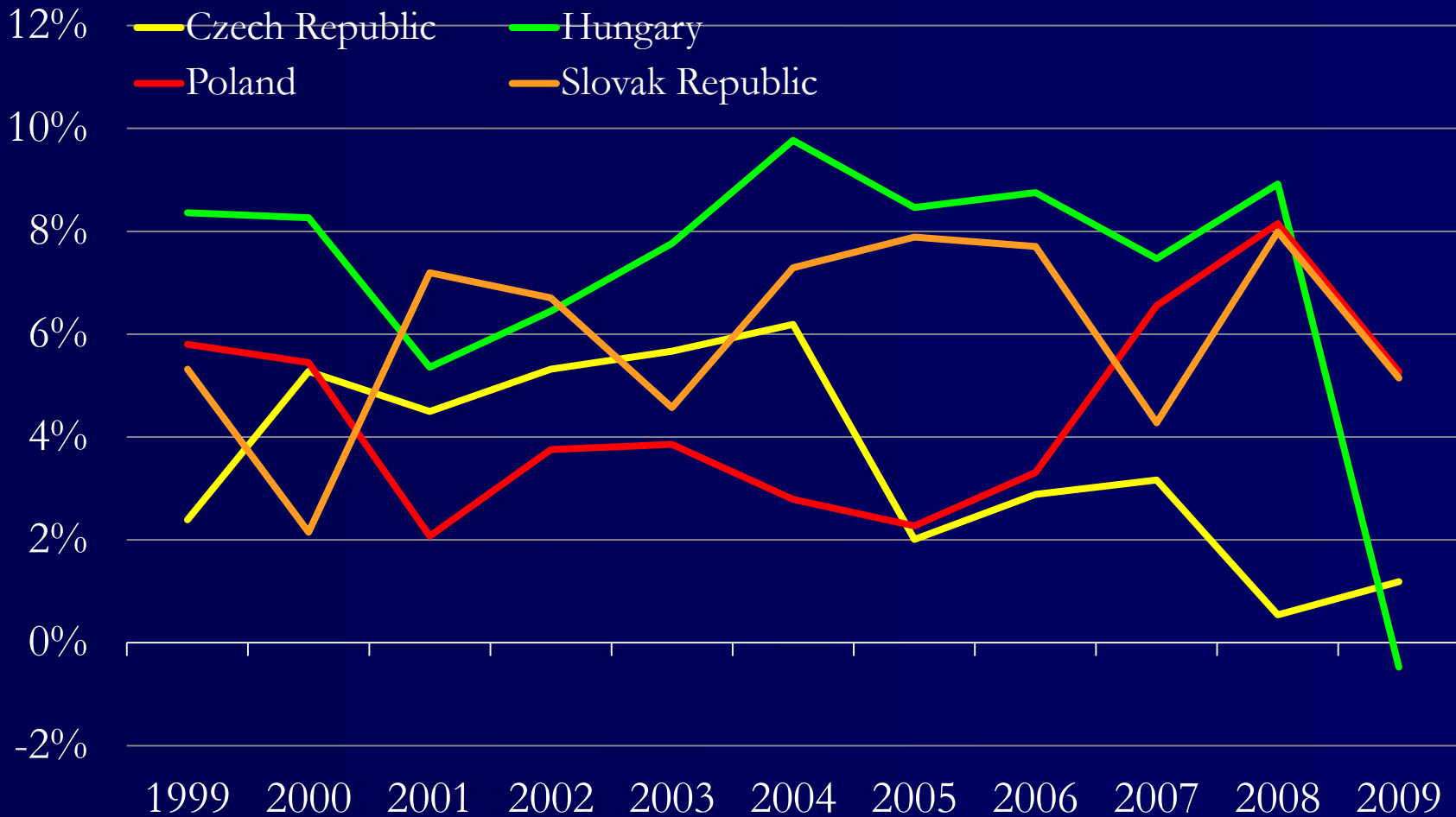
Merchandise exports to Euro Area as a share of GDP  
(2007-2009 average)



Source: Direction of Trade Statistics; World Economic Outlook, April 2010

# Steady capital inflows before crisis

Net Capital Inflows  
(percent of GDP)



Source: WEO database



# Credit fueled a property boom



Source: WEO database

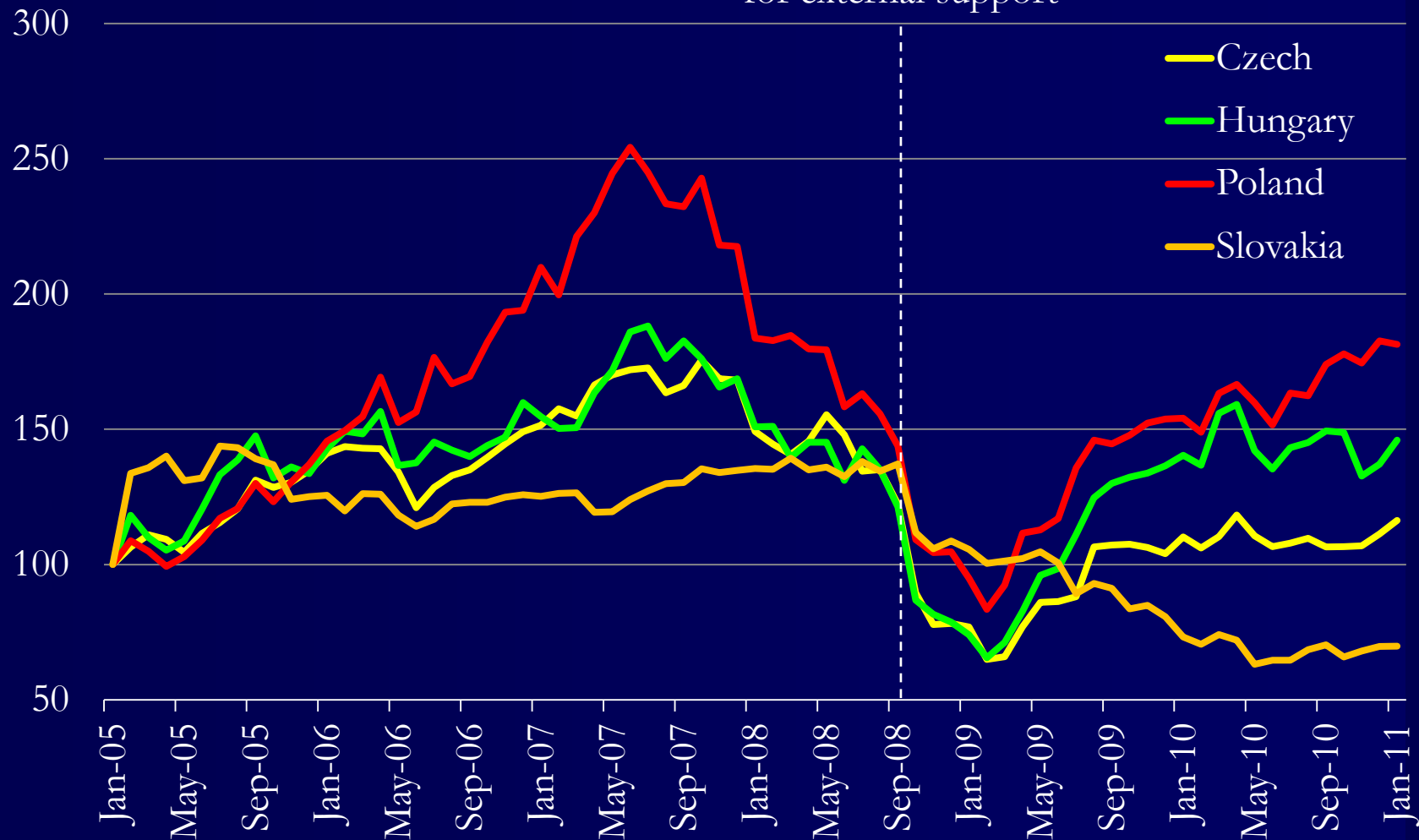
Change in credit to GDP ratio, 2003-07



# And increase in stock prices

Equities indices  
(Jan-05=100)

Hungary applies  
for external support



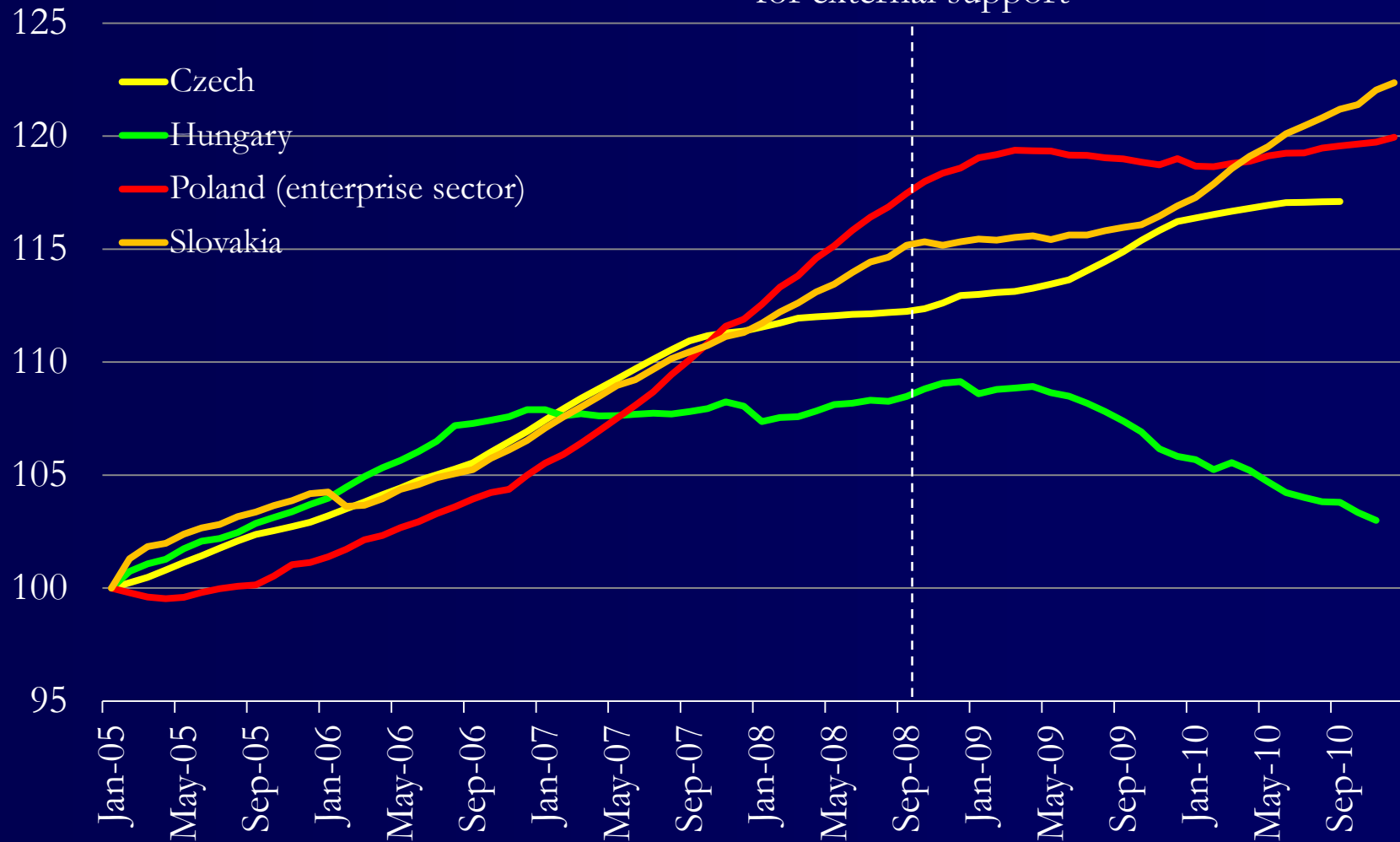
Source: Haver, WEO database



# Real wages also grew strongly

Real wage index  
(Jan-05=100)

Hungary applies  
for external support

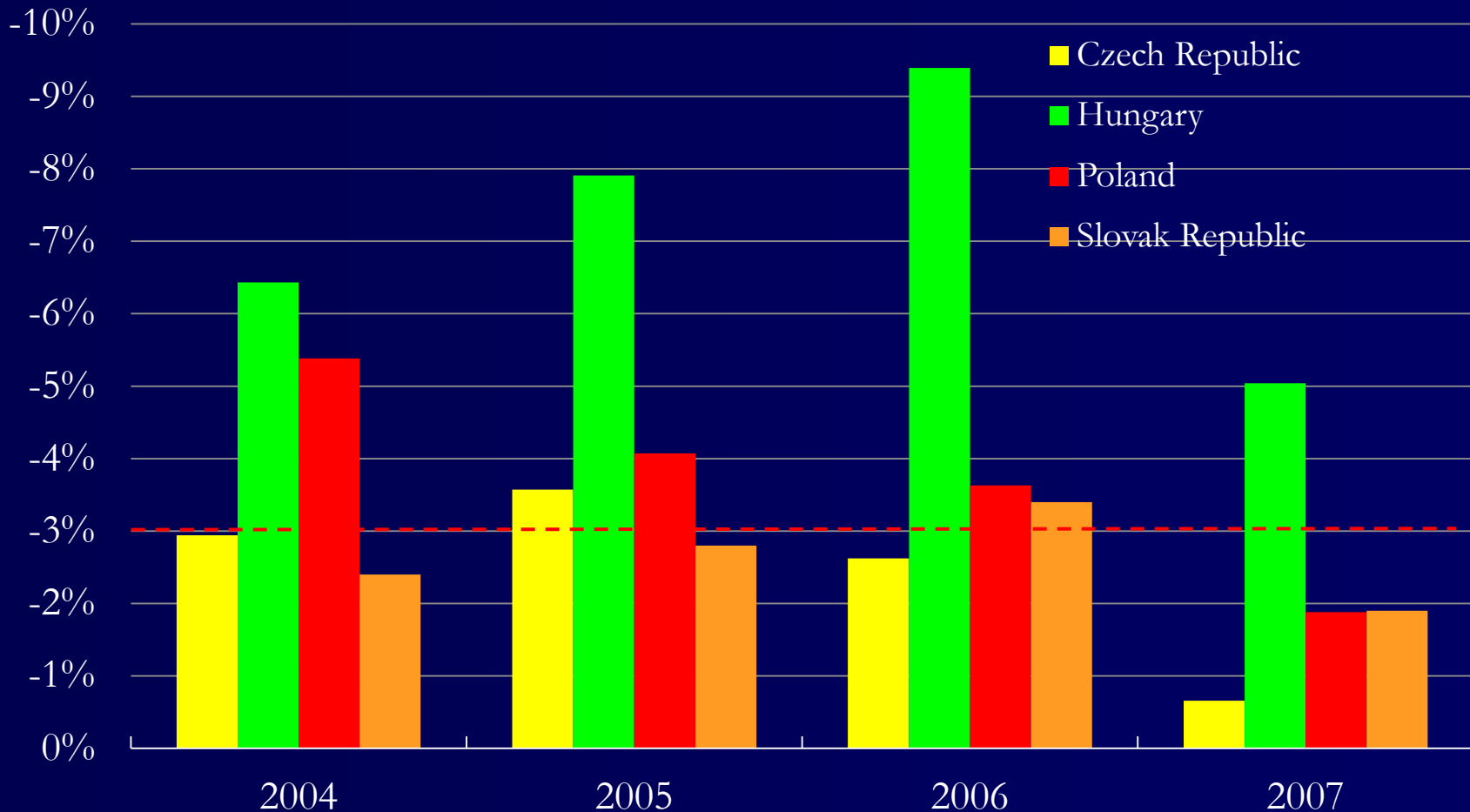


Source: Haver, WEO database



# Fiscal strength was misleading

General Government Balance  
(percent of GDP)

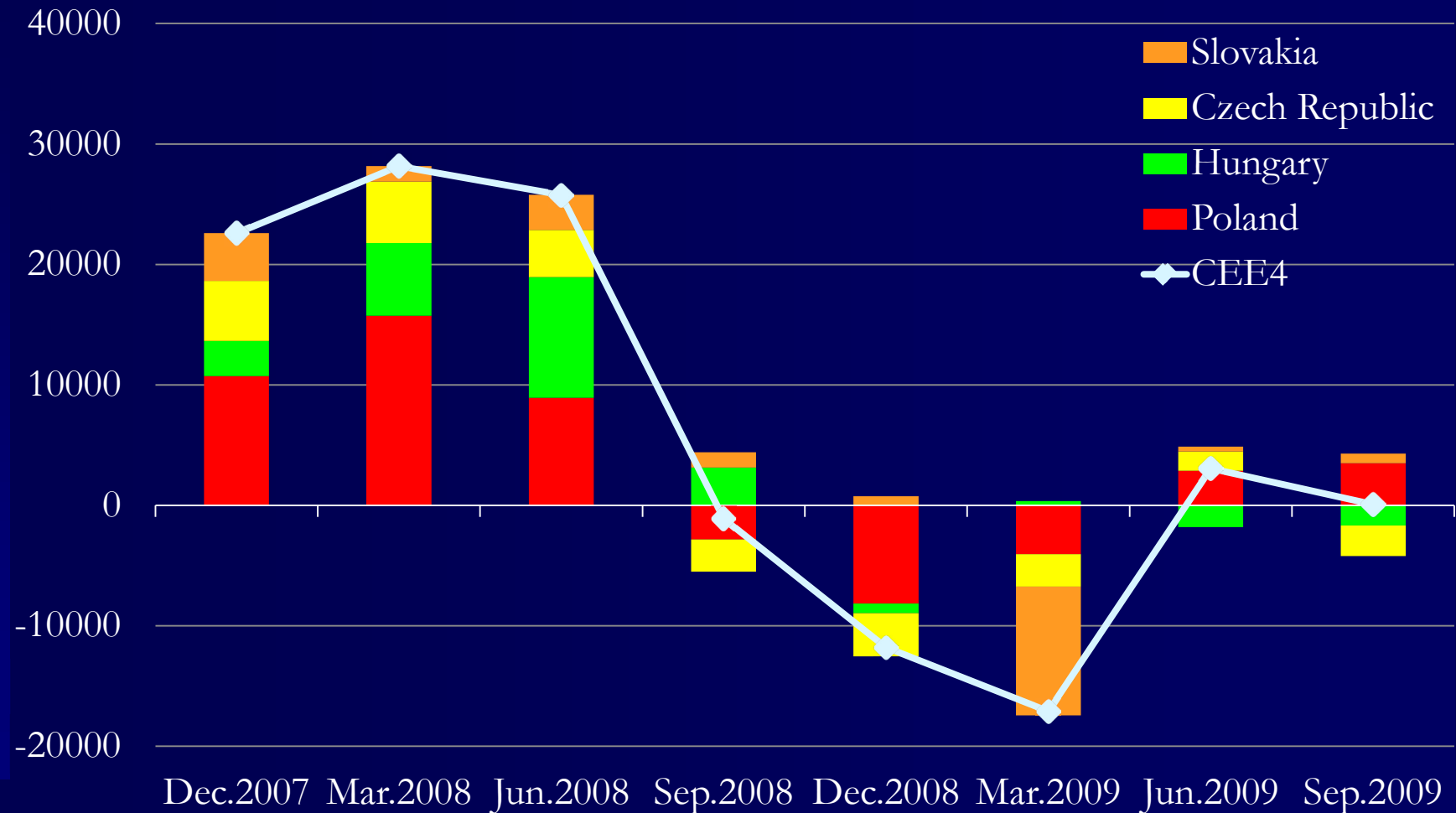


Source: WEO database



# Net banking inflows came to a stop

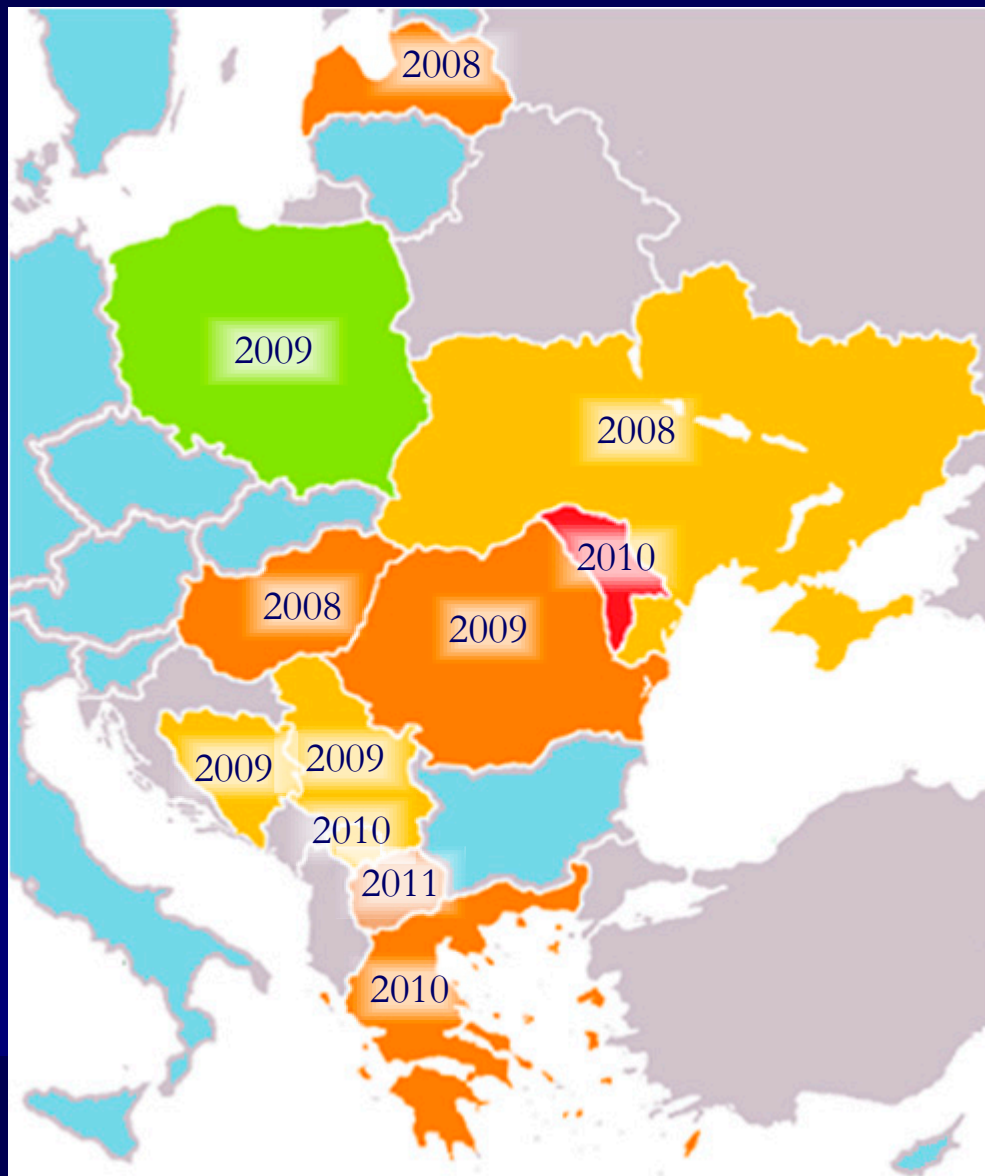
Banking Flows  
(millions USD)



Source: BIS



# IMF provided assistance to region



## EU countries:

- EU member countries
- SBA program
- FCL program

## Non-EU countries:

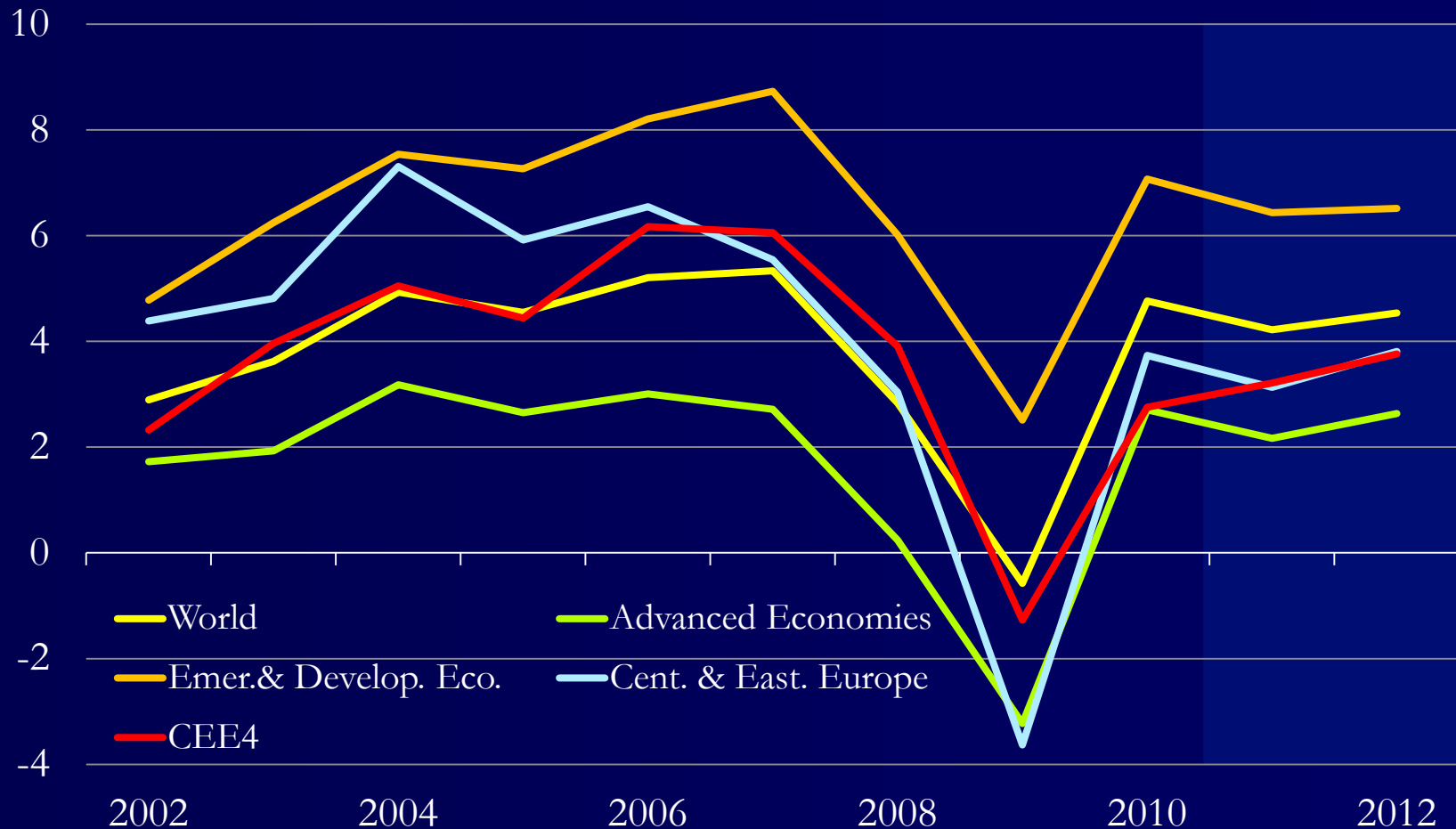
- SBA program
- EFF program
- PCL program

Precautionary programs



# Global growth has resumed

Change in real GDP  
(Year on year)

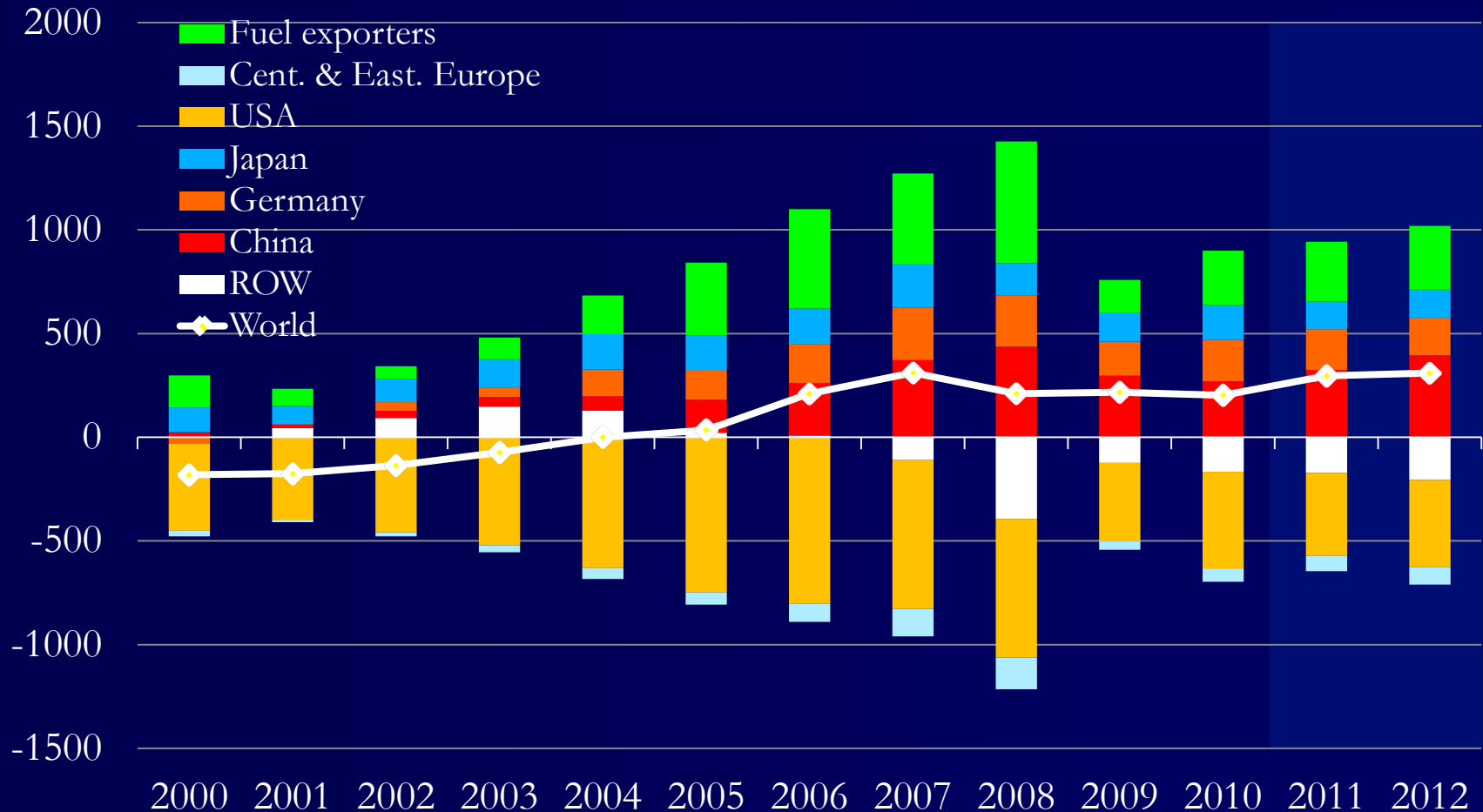


Source: WEO database



# But imbalances are reemerging

Current Account Imbalances  
(millions of USD)

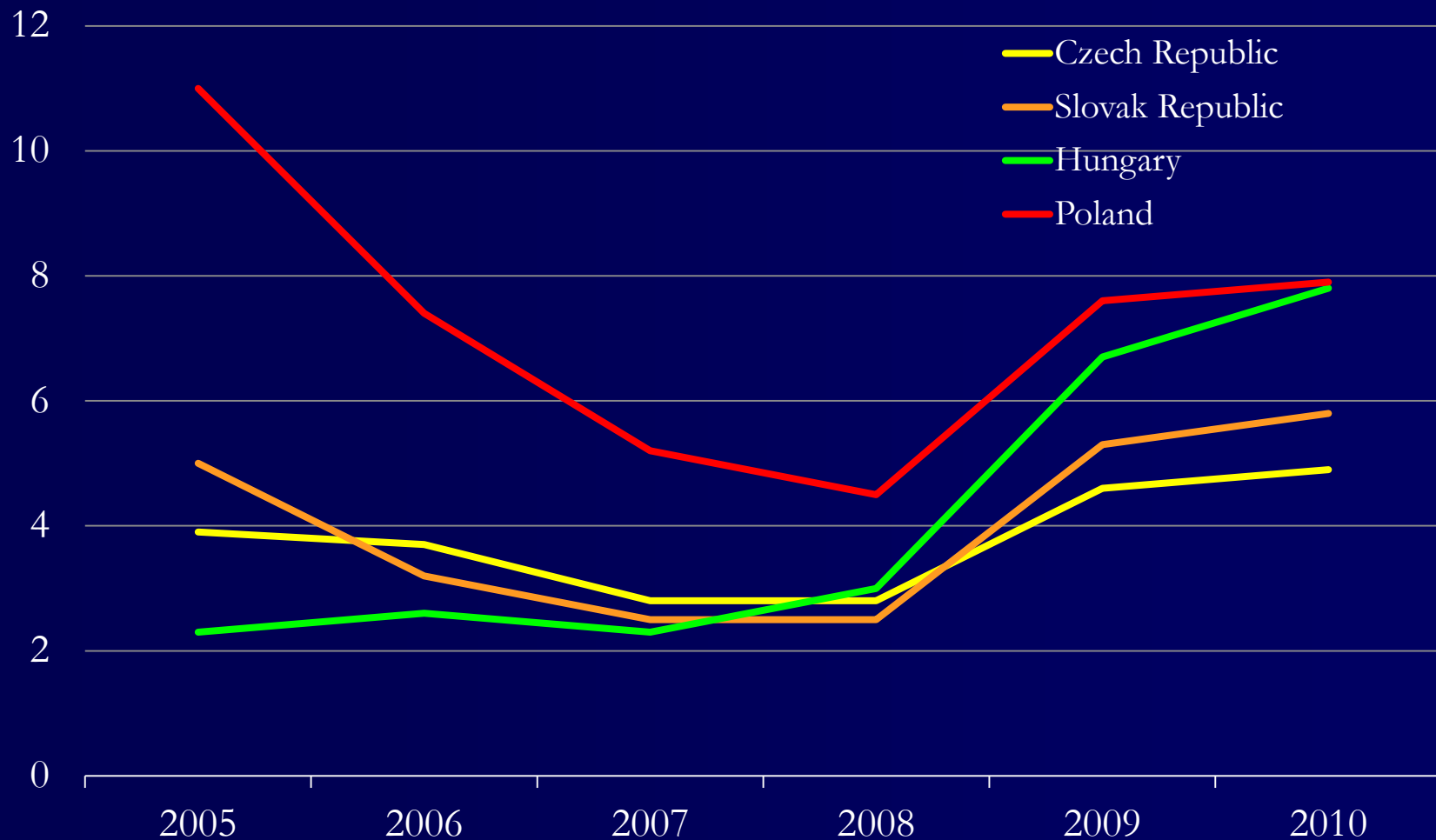


Source: WEO database



# Non-performing loans have risen

Non-performing loans  
(percent of total loans)

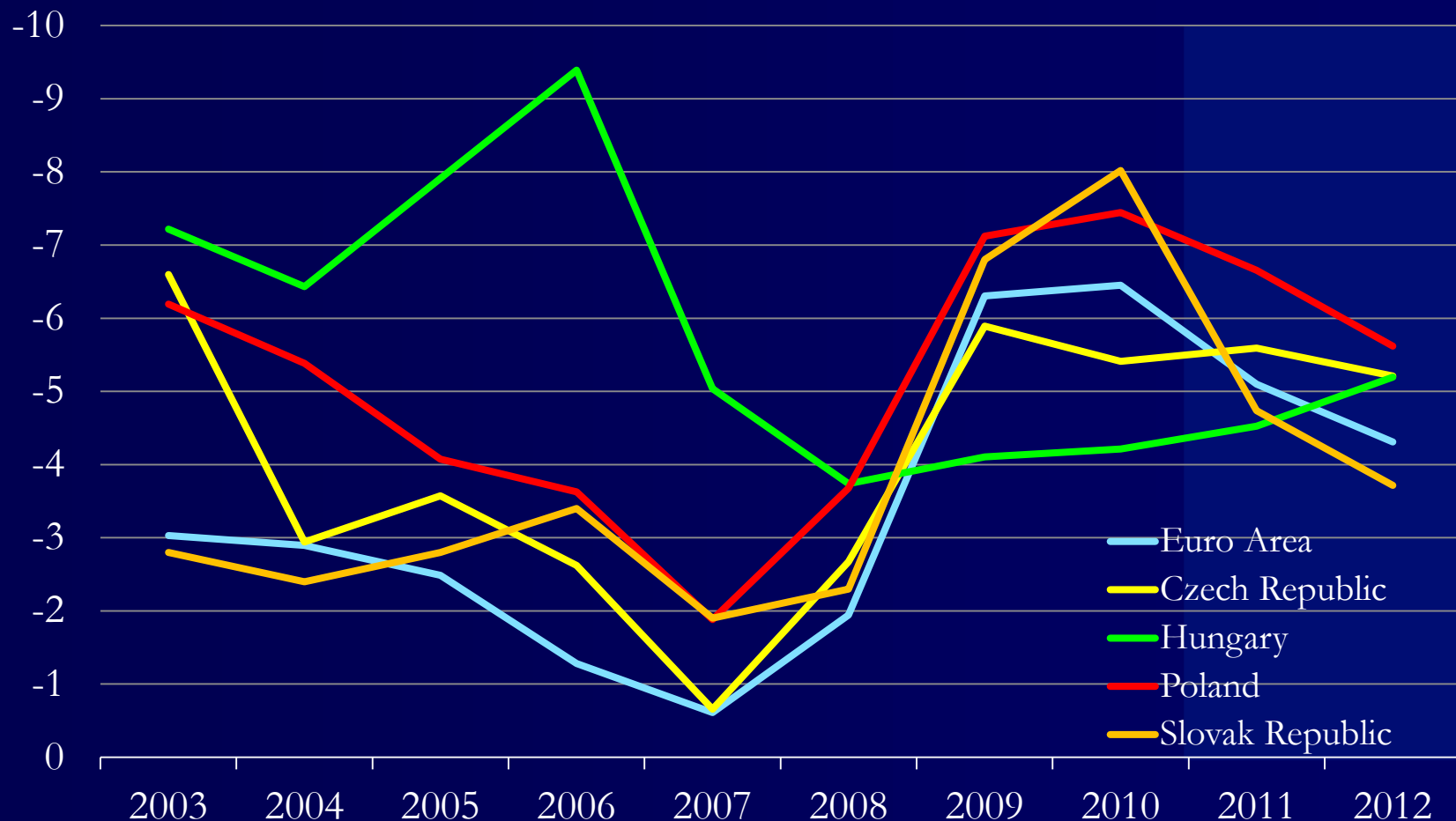


Source: IMF, GFSR



# Fiscal consolidation is needed

General Government Fiscal Balance  
(percent of GDP)

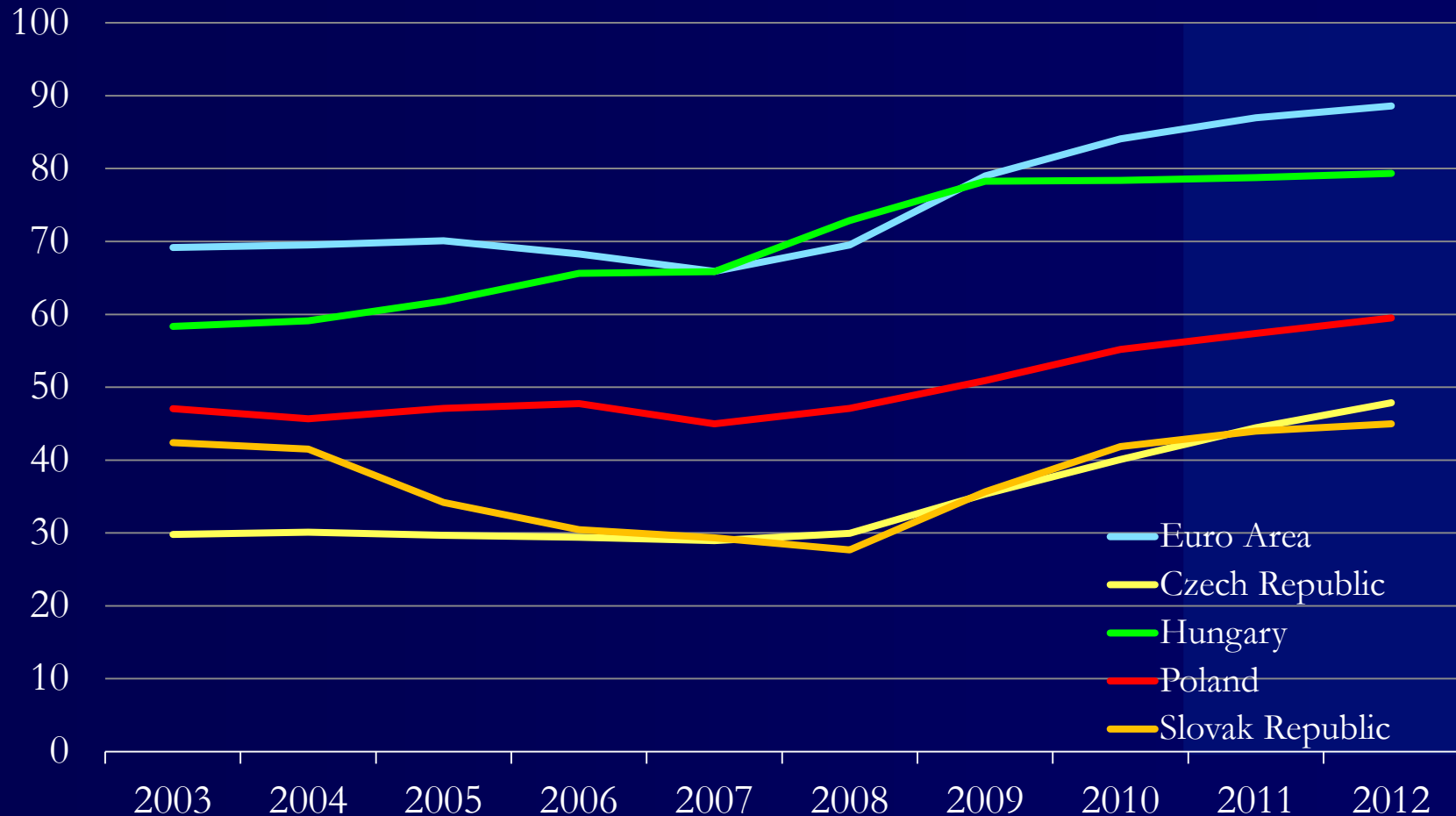


Source: WEO database



# As debt burdens increase

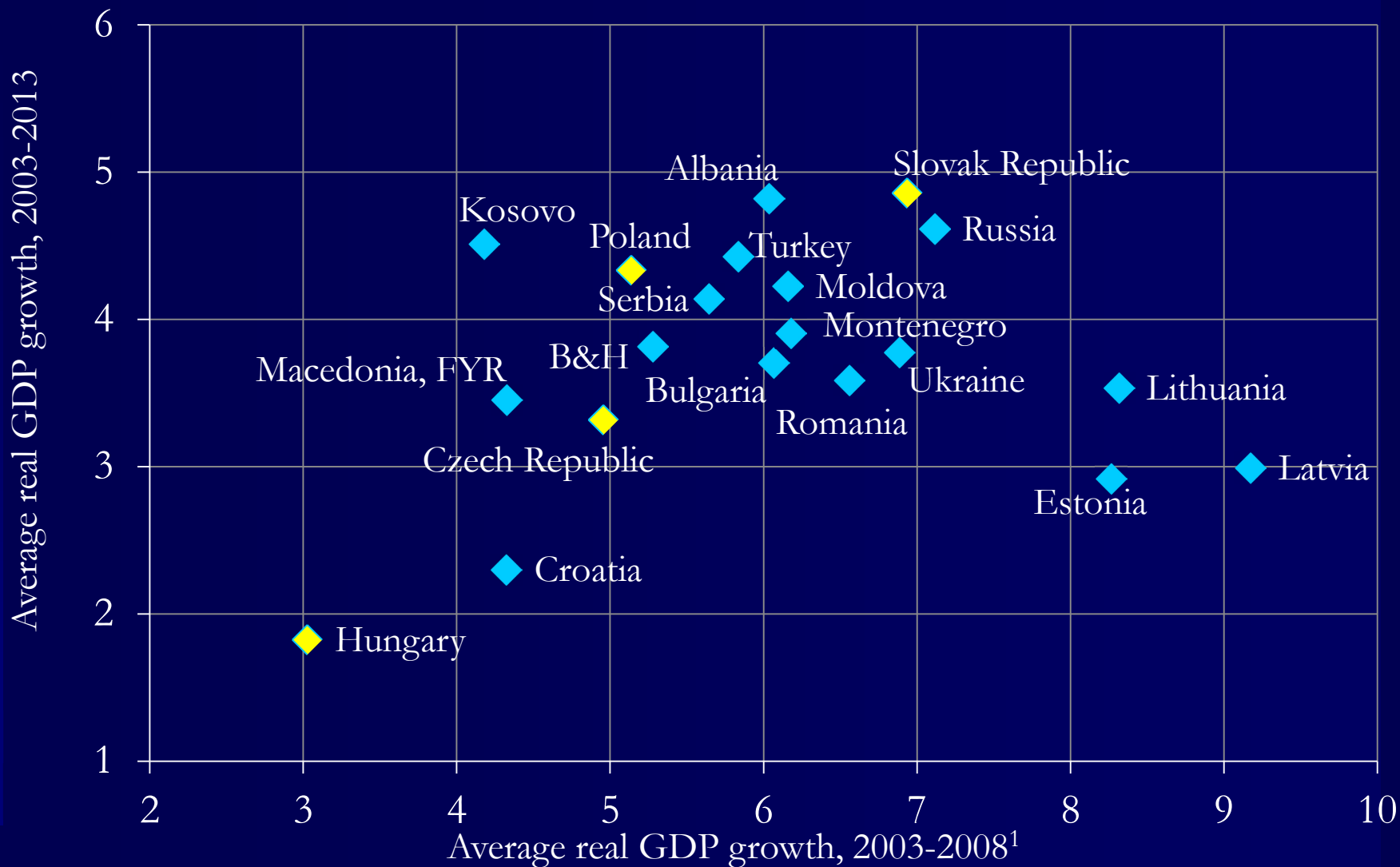
General Government Gross Debt  
(percent of GDP)



Source: WEO database



# Hares and tortoises



Source: IMF, World Economic Outlook and IMF staff calculations.

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



# 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!