

From Boom To Bust ... and Back.

German-Baltic Chamber of Commerce

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Eastern Europe

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

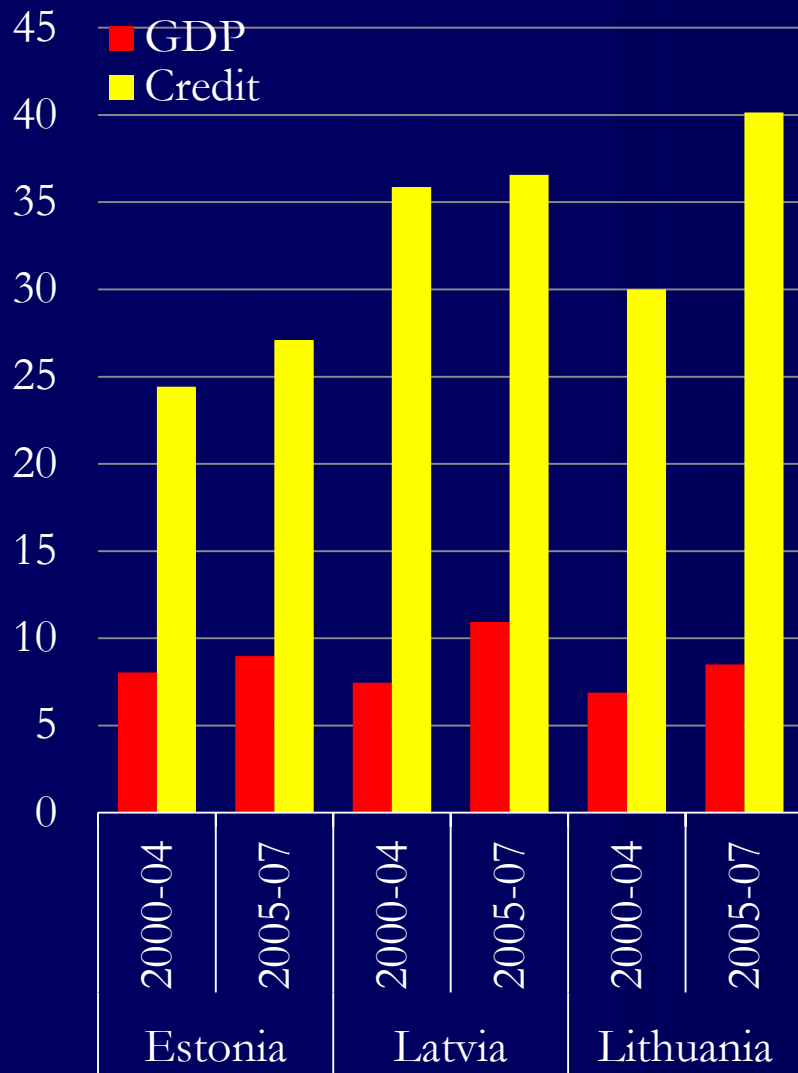
Scope of the presentation

- ✓ The Boom Years
- ✓ Crisis Unfolding
- ✓ Crisis Response
- ✓ Recovery
- ✓ Challenges

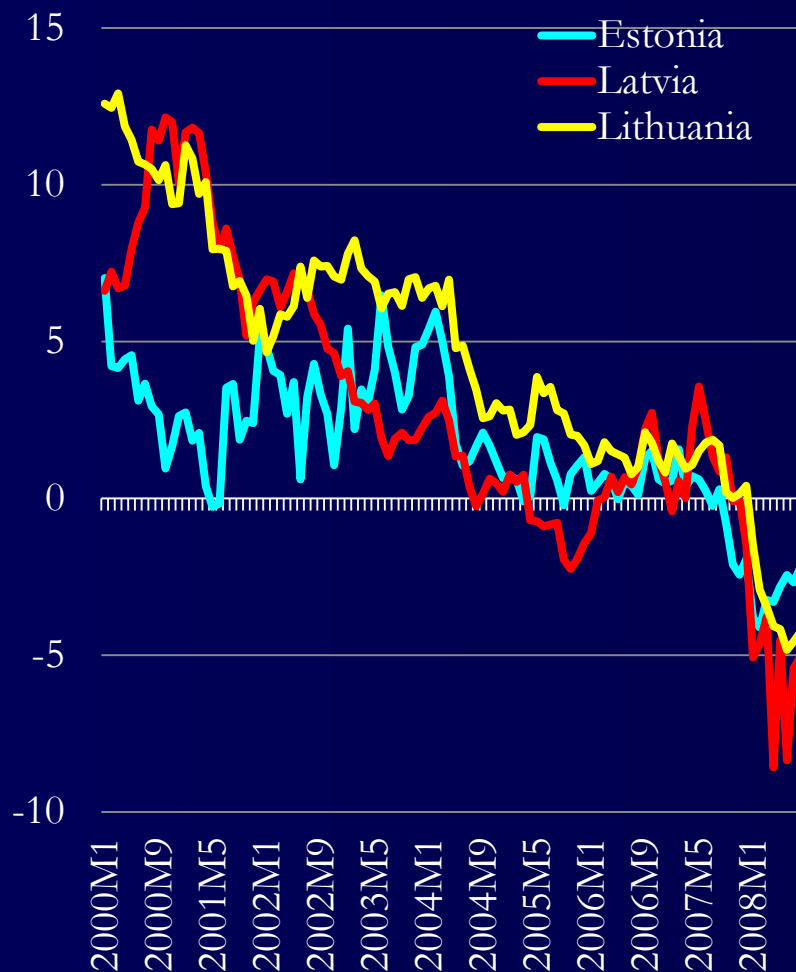


The Boom Years: Growth and Credit

Average Real GDP and Real Credit Growth



Real Lending Rate

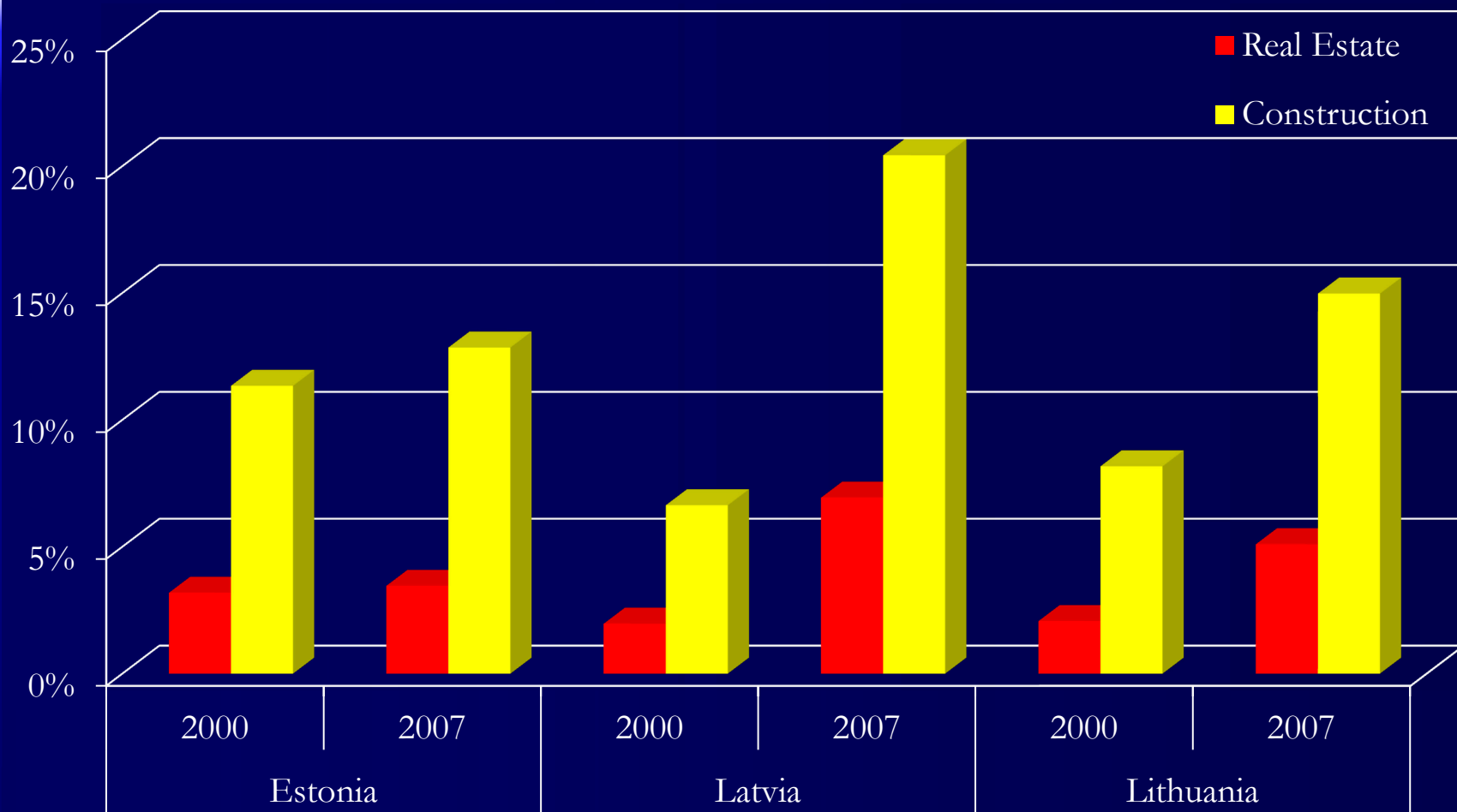


Source: WEO database; IFS.



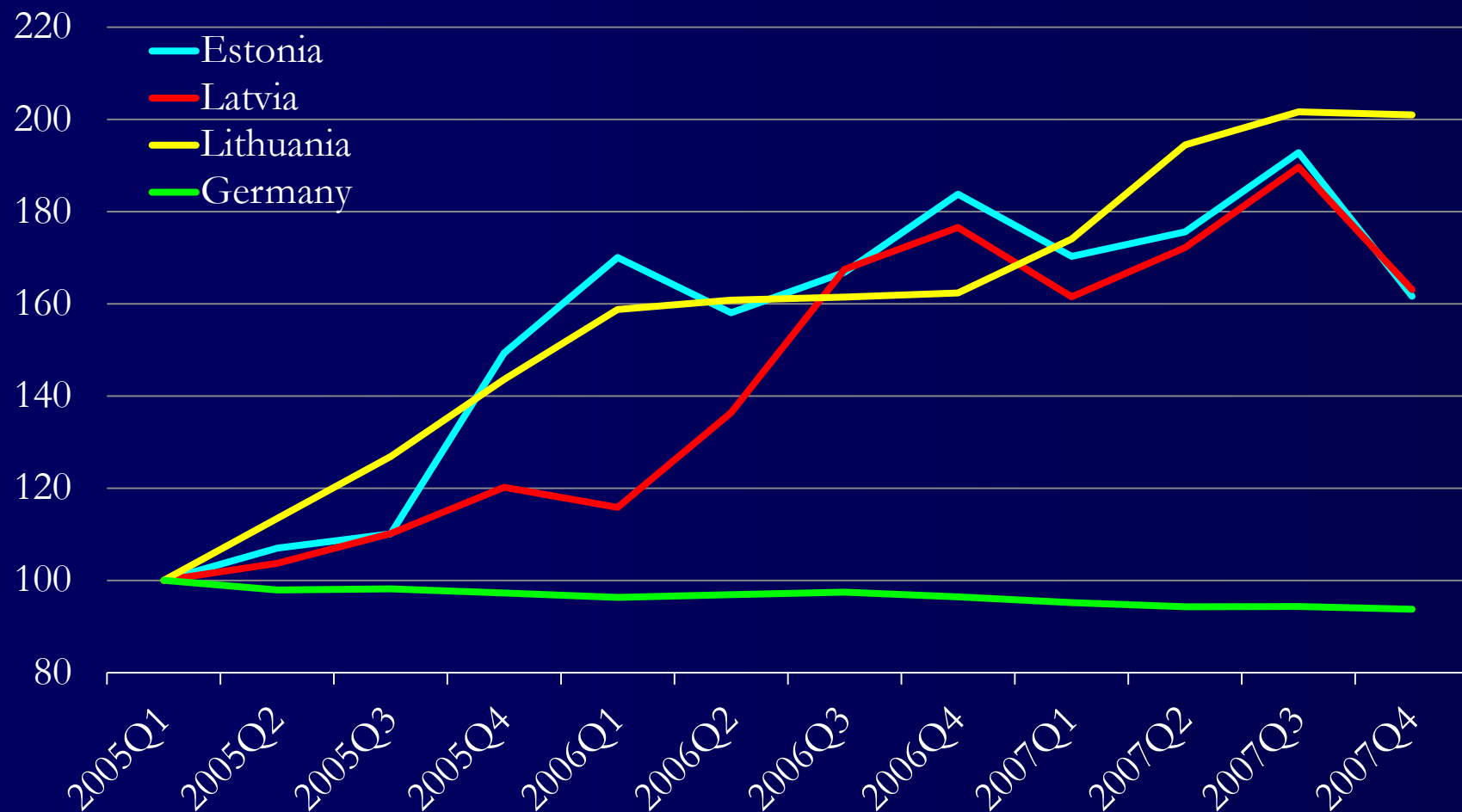
The Boom Years: Property and Construction

Share in Production Value

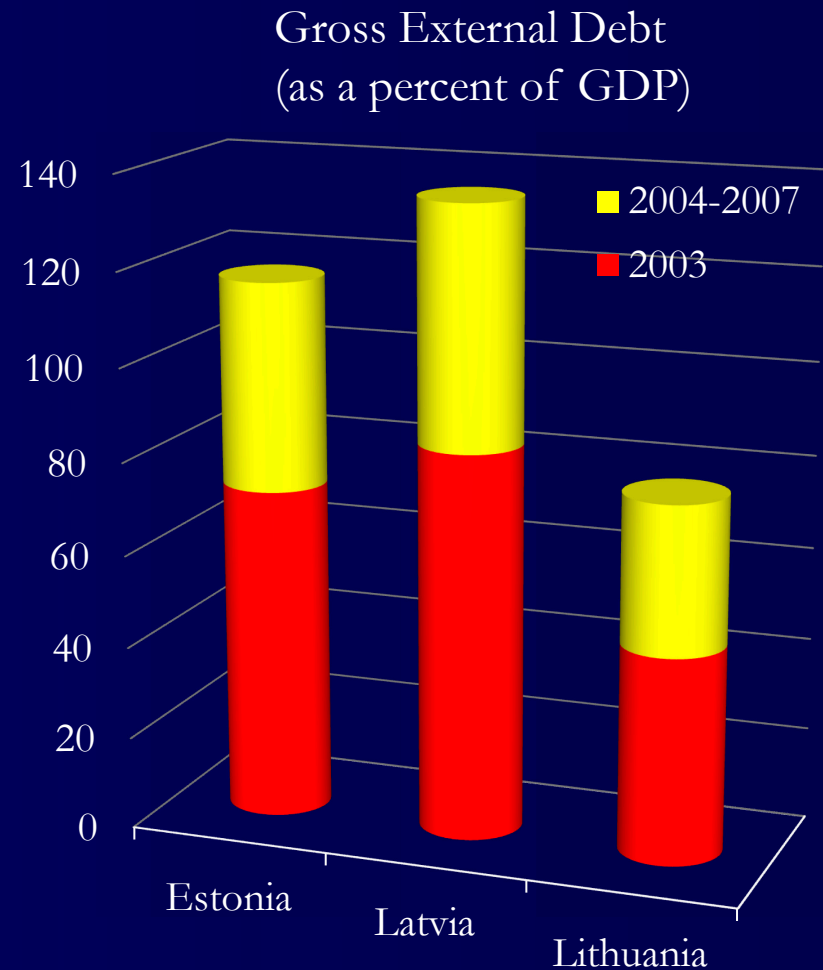
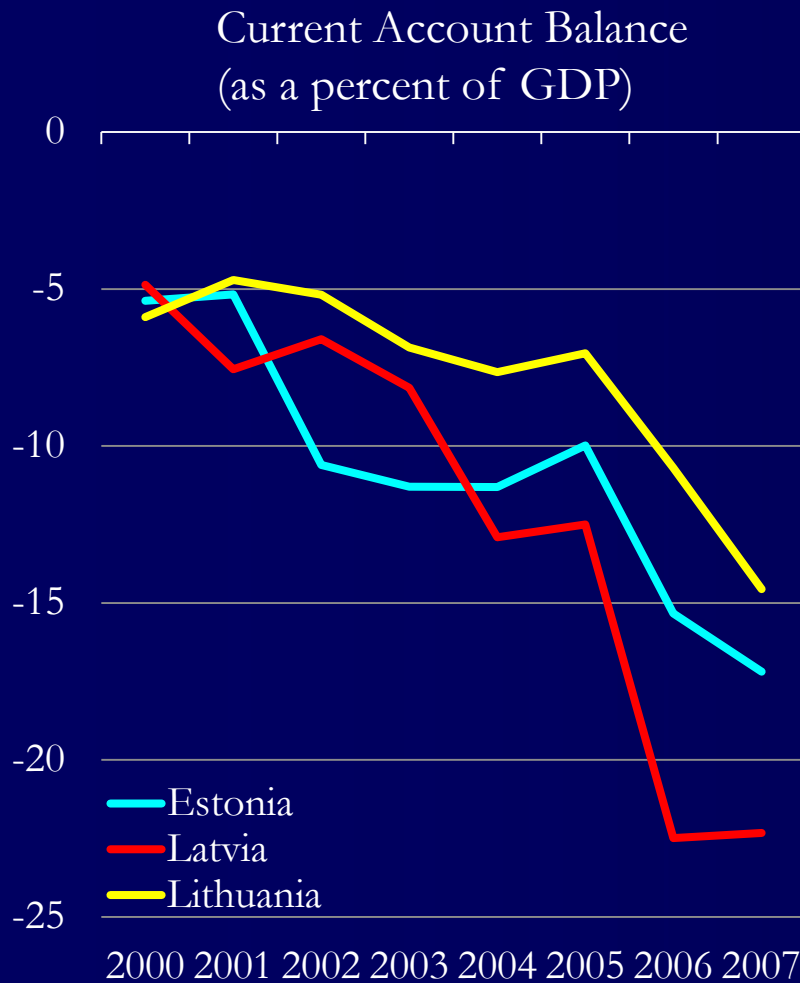


The Boom Years: Housing Prices

Housing Prices
(2005Q1=100, HICP deflated)

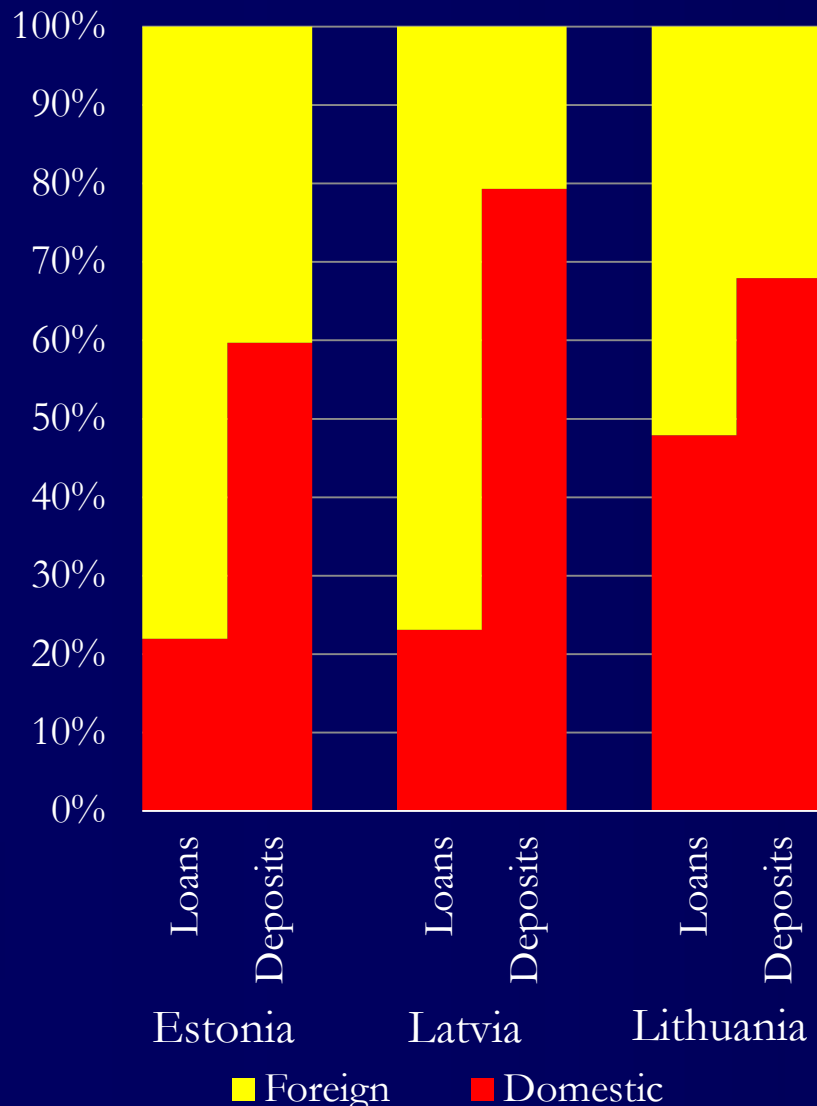


The Boom Years: Current Account & Foreign Debt

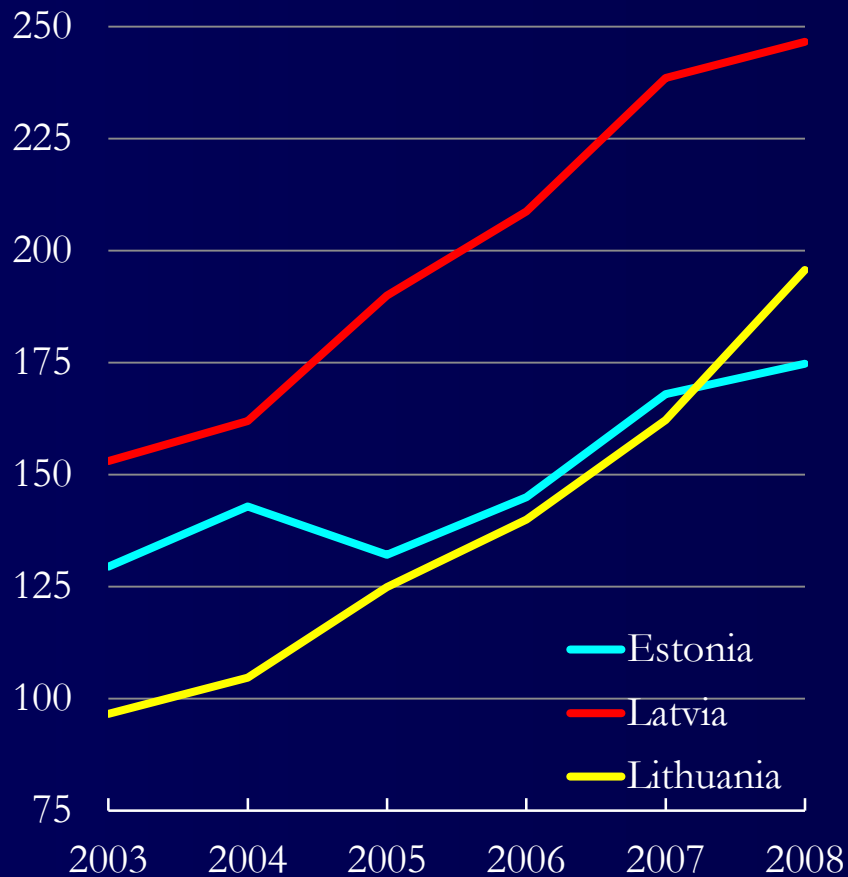


The Boom Years: Financial Vulnerabilities

Currency Structure (end-2006)



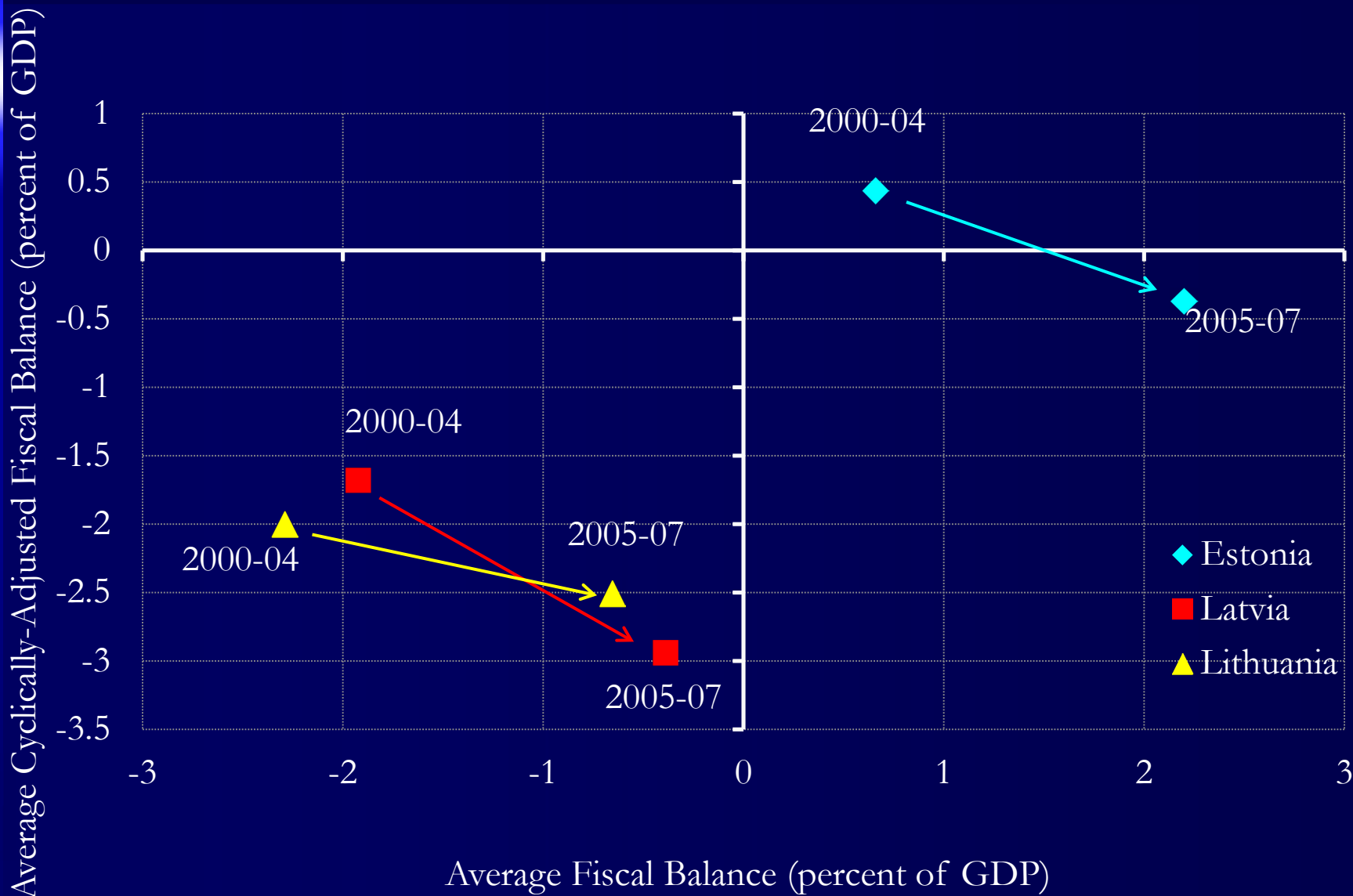
Loan-to-Deposit Ratio



Source: Haver.



The Boom Years: Fiscal Policy Stance

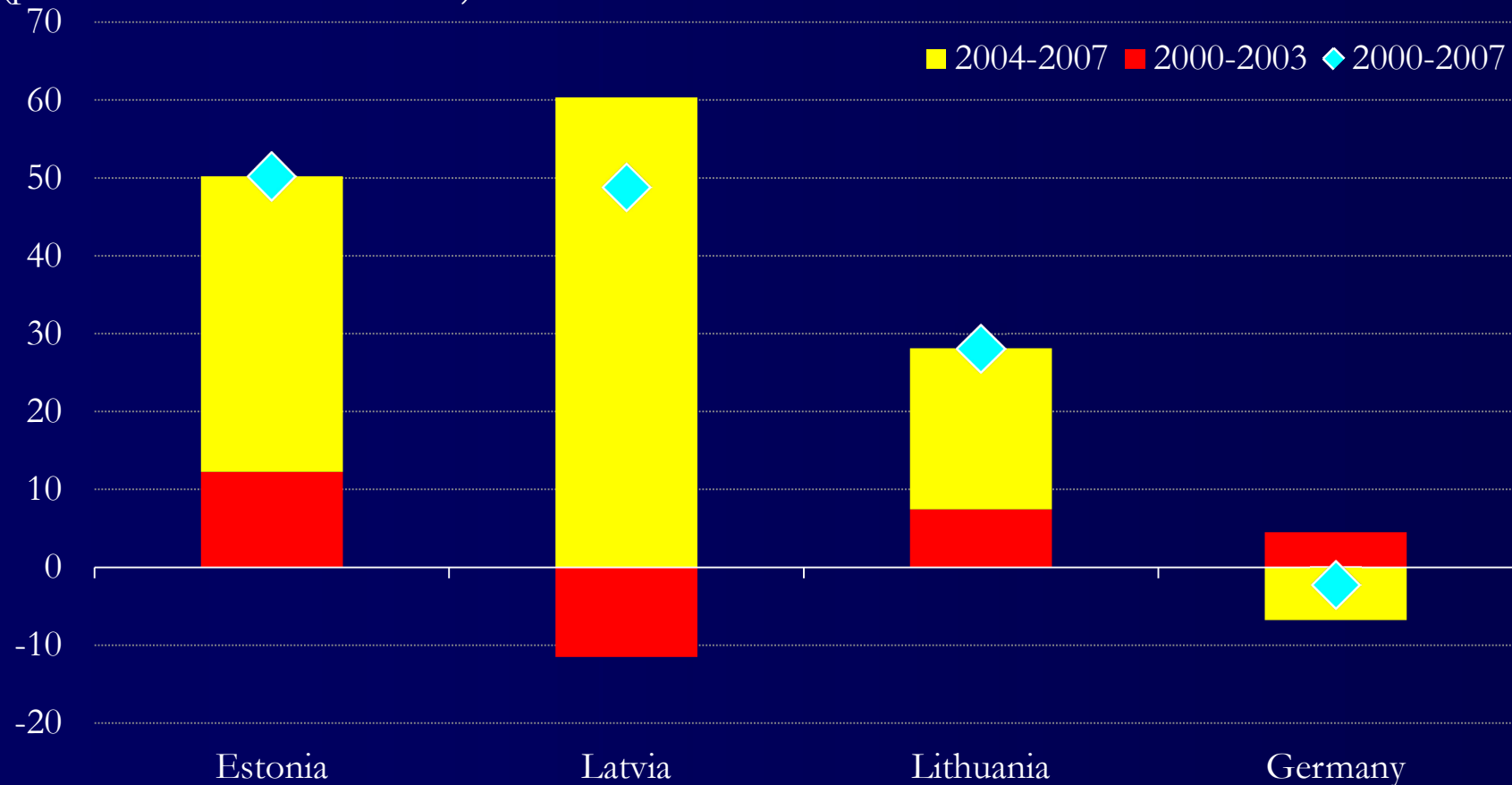


Source: WEO database.



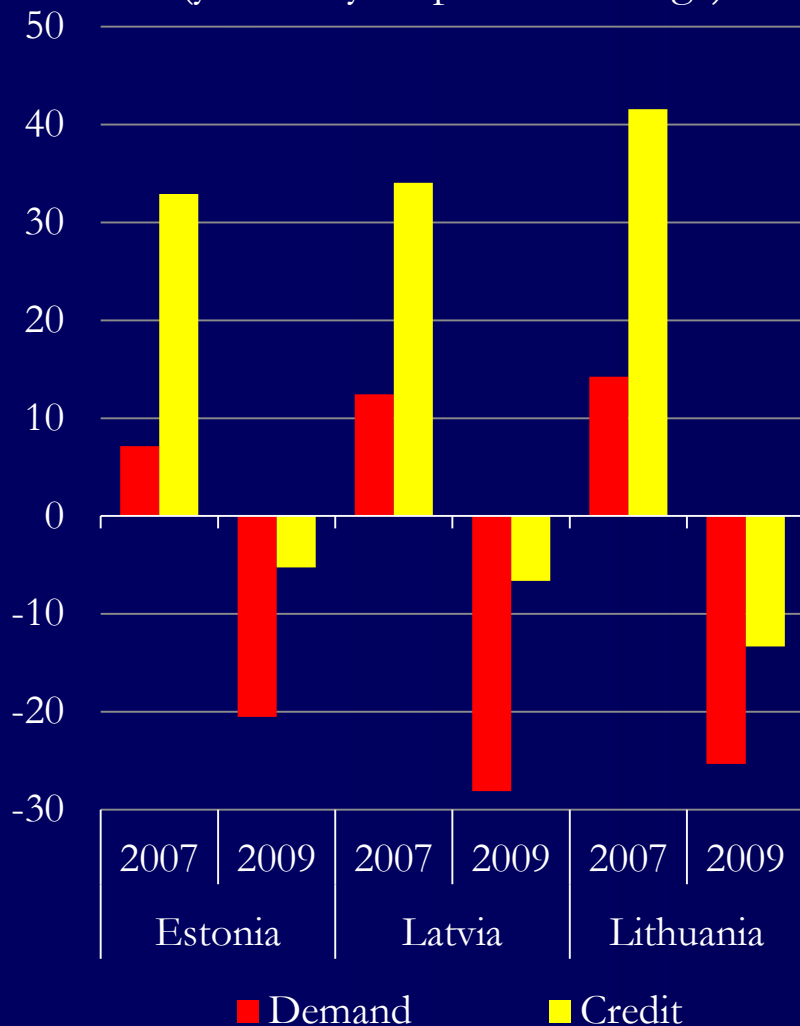
The Boom Years: Competitiveness

ULC-weighted REER appreciation
(percent increase from 2000)

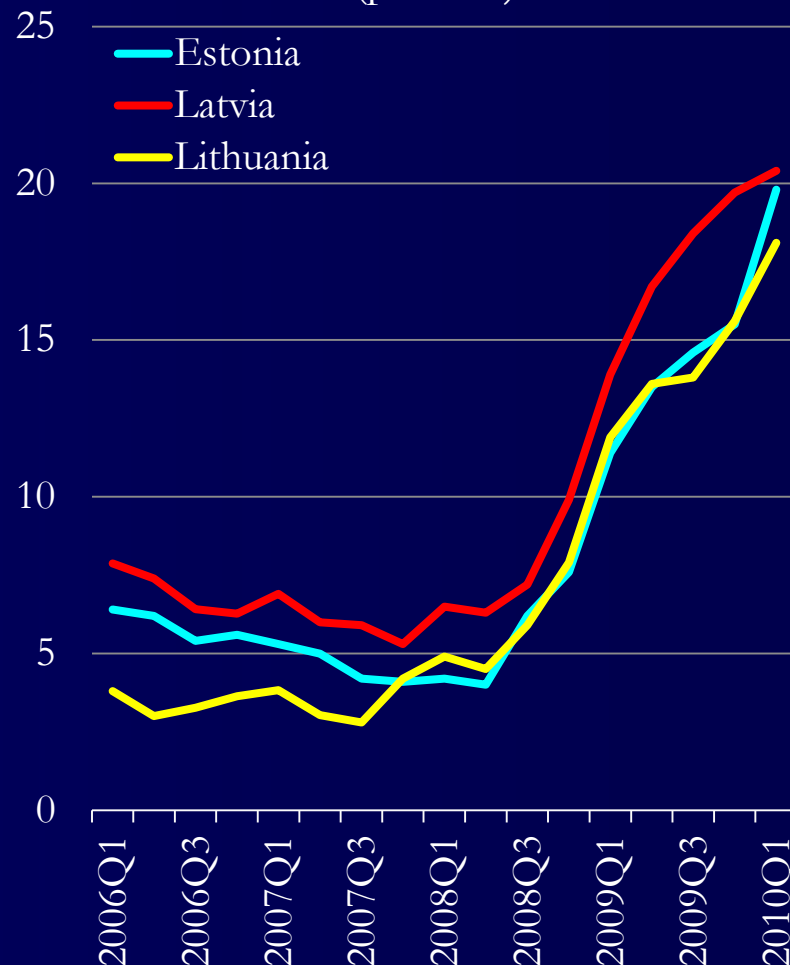


Crisis Unfolding: Growth and Unemployment

Domestic Demand and Credit Growth
(year-on-year percent change)

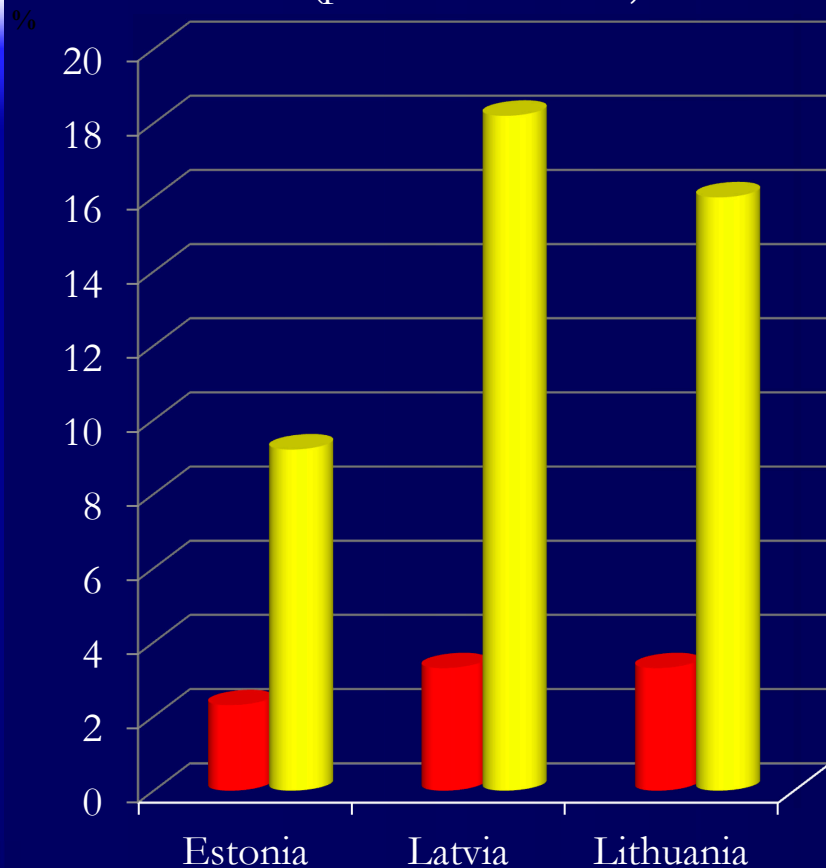


Unemployment Rate
(percent)



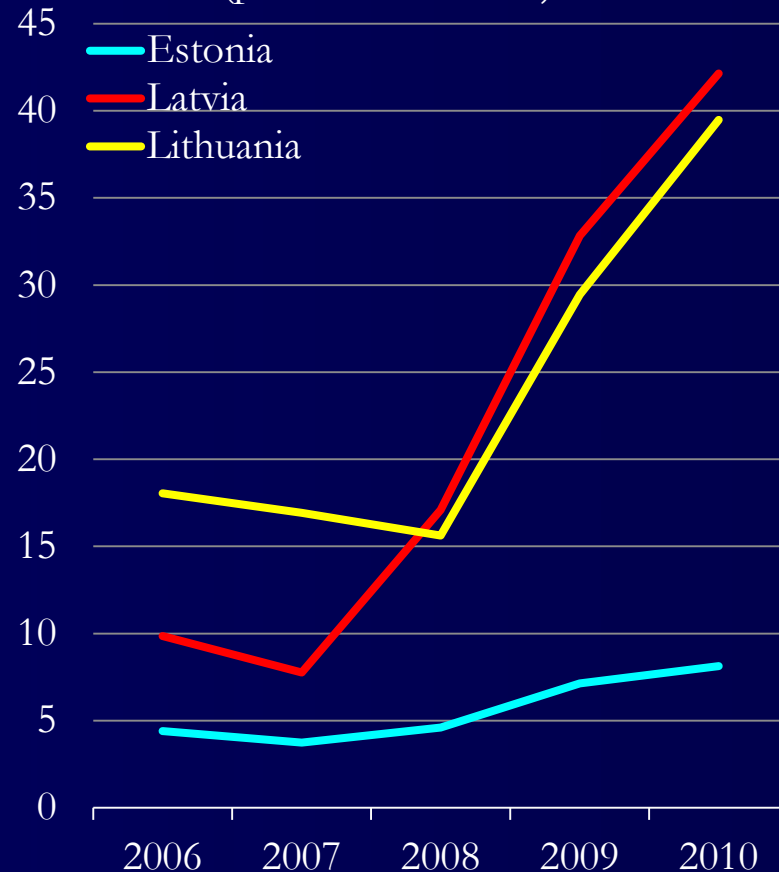
Crisis Unfolding: Fiscal Pressures

Fiscal Balance (percent of GDP)



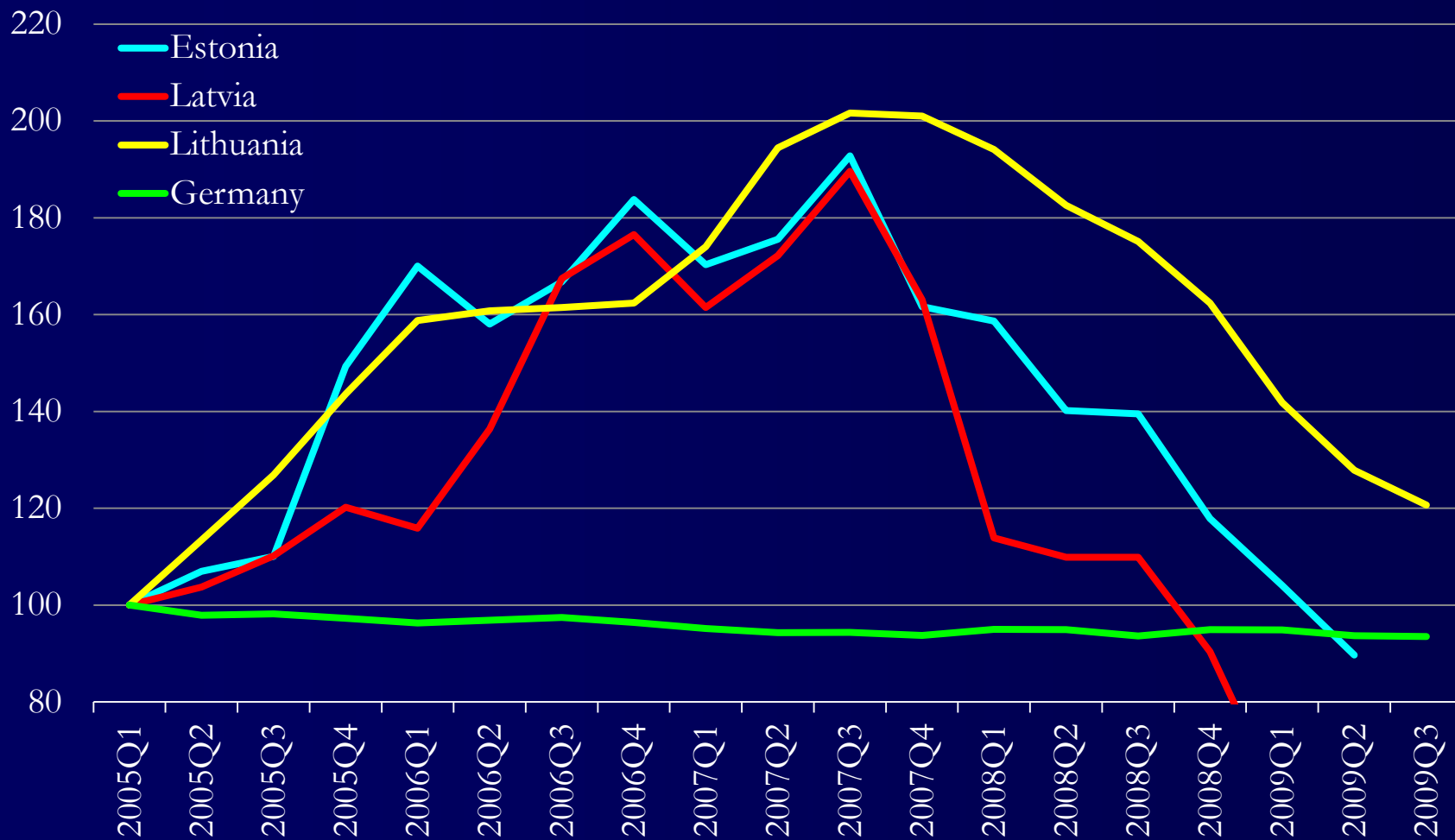
■ 2008: fiscal deficit
■ 2009: deficit before measures

Government Debt (percent of GDP)



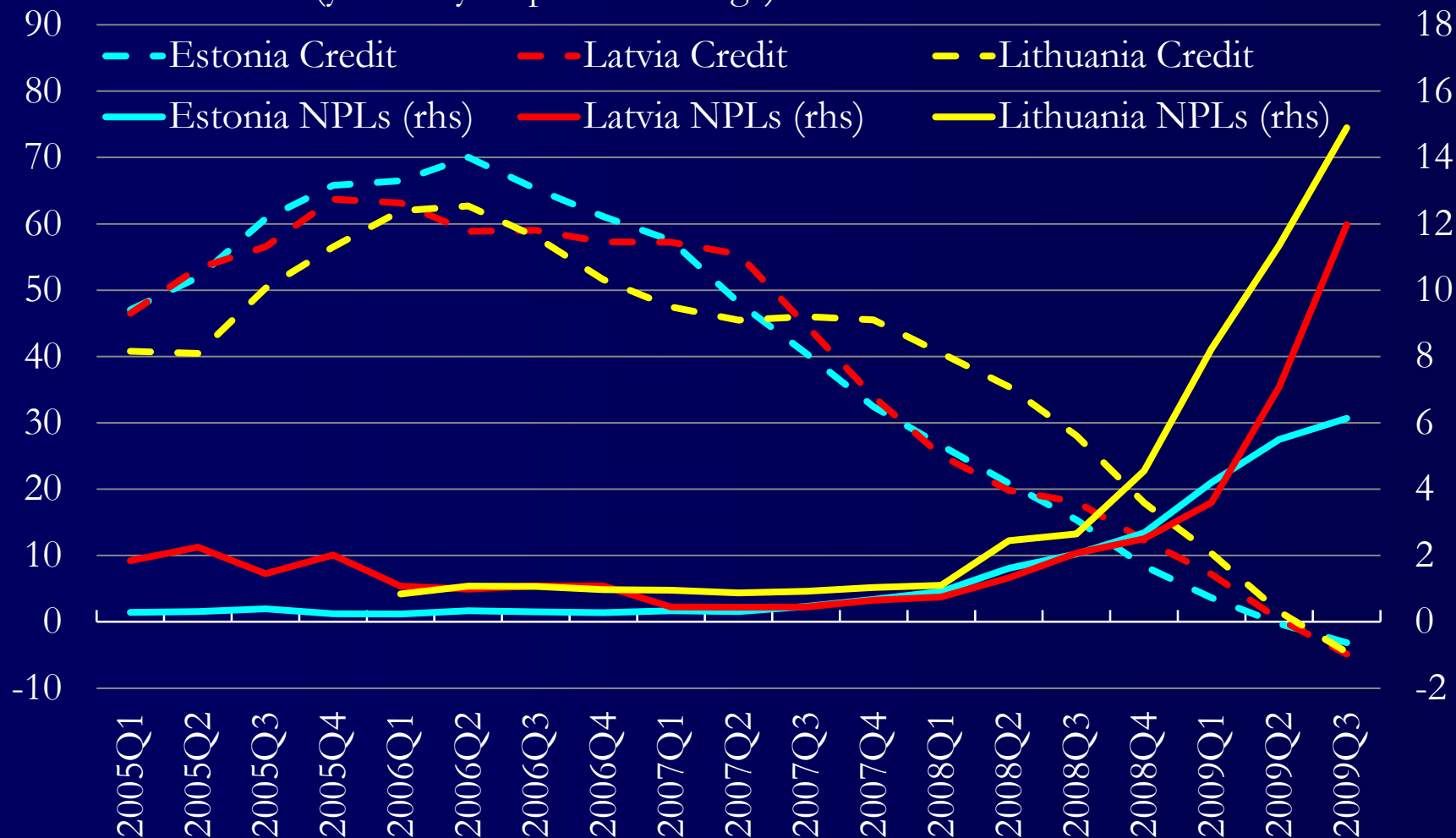
Crisis Unfolding: Housing Prices

Housing Prices (2005Q1=100, HICP deflated)

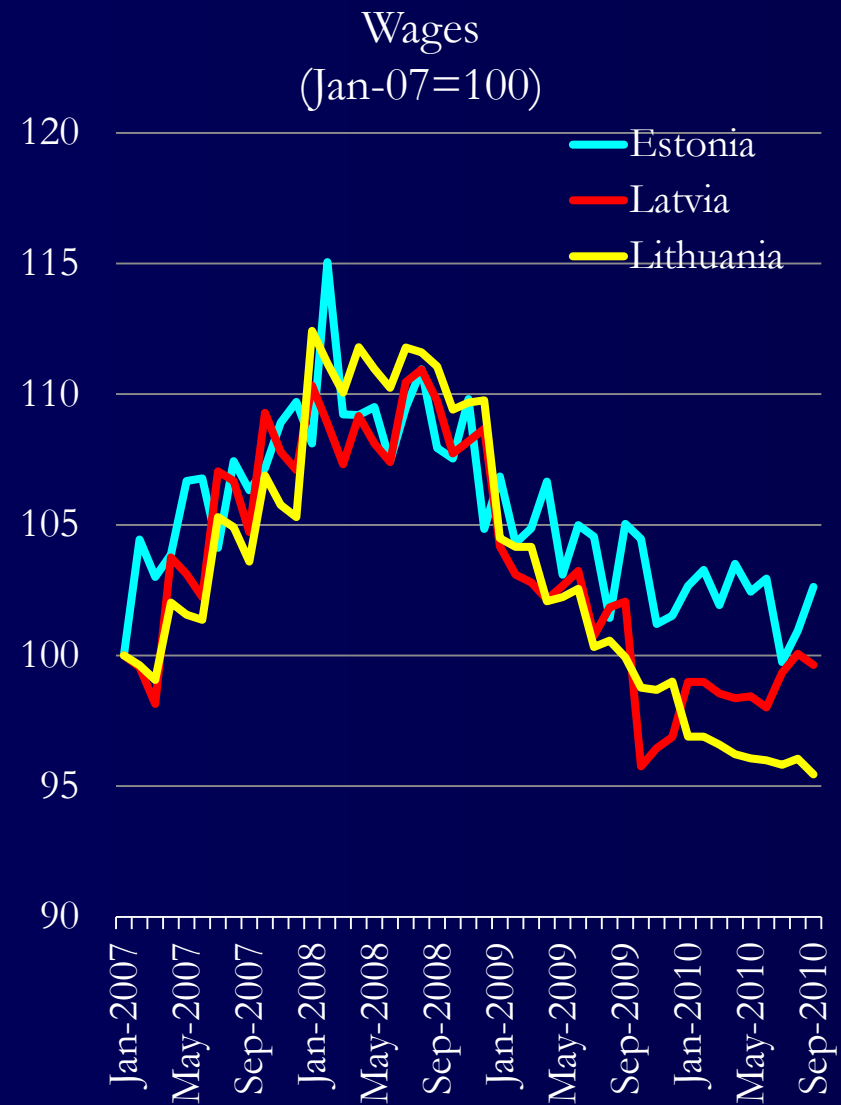
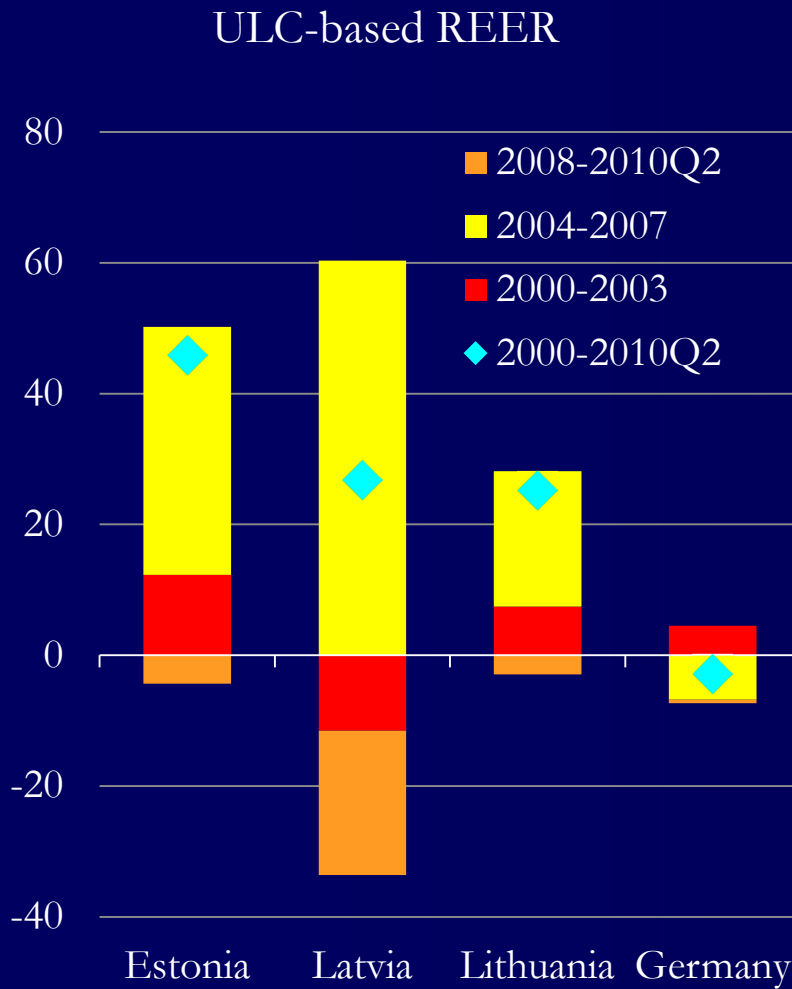


Crisis Unfolding: Credit and NPLs

Non-performing Loans to Total Loans (percent)
and Credit Growth (year-on-year percent change)

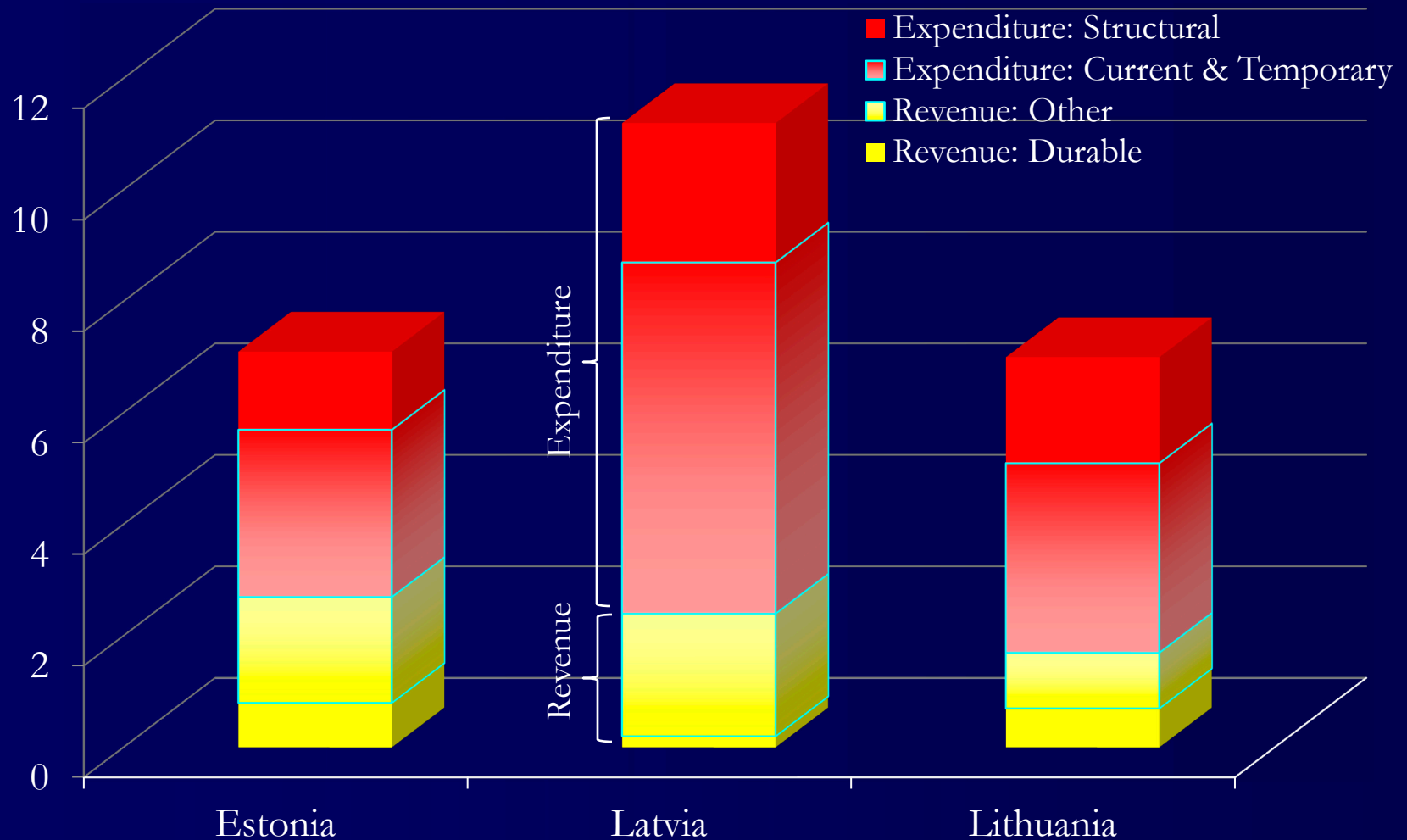


Policy Response: Internal Devaluation



Policy Response: Fiscal Adjustment

2009 Fiscal Adjustment
(percent of GDP)

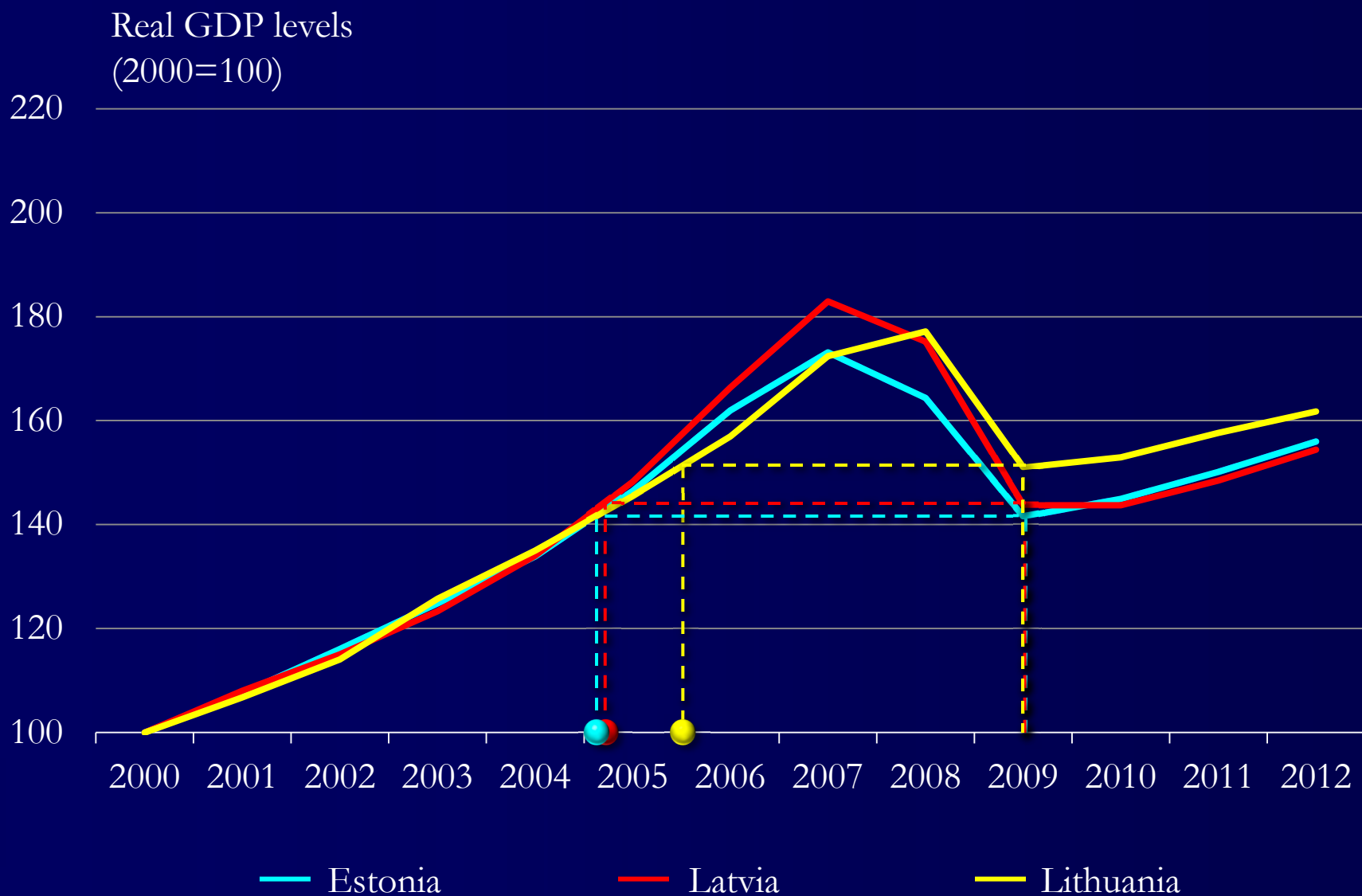


Policy Response: External Support

- ✓ Concerted efforts to maintain bank exposure
- ✓ Swap line with Riksbank (Estonia)
- ✓ IMF and EU program support (Latvia)

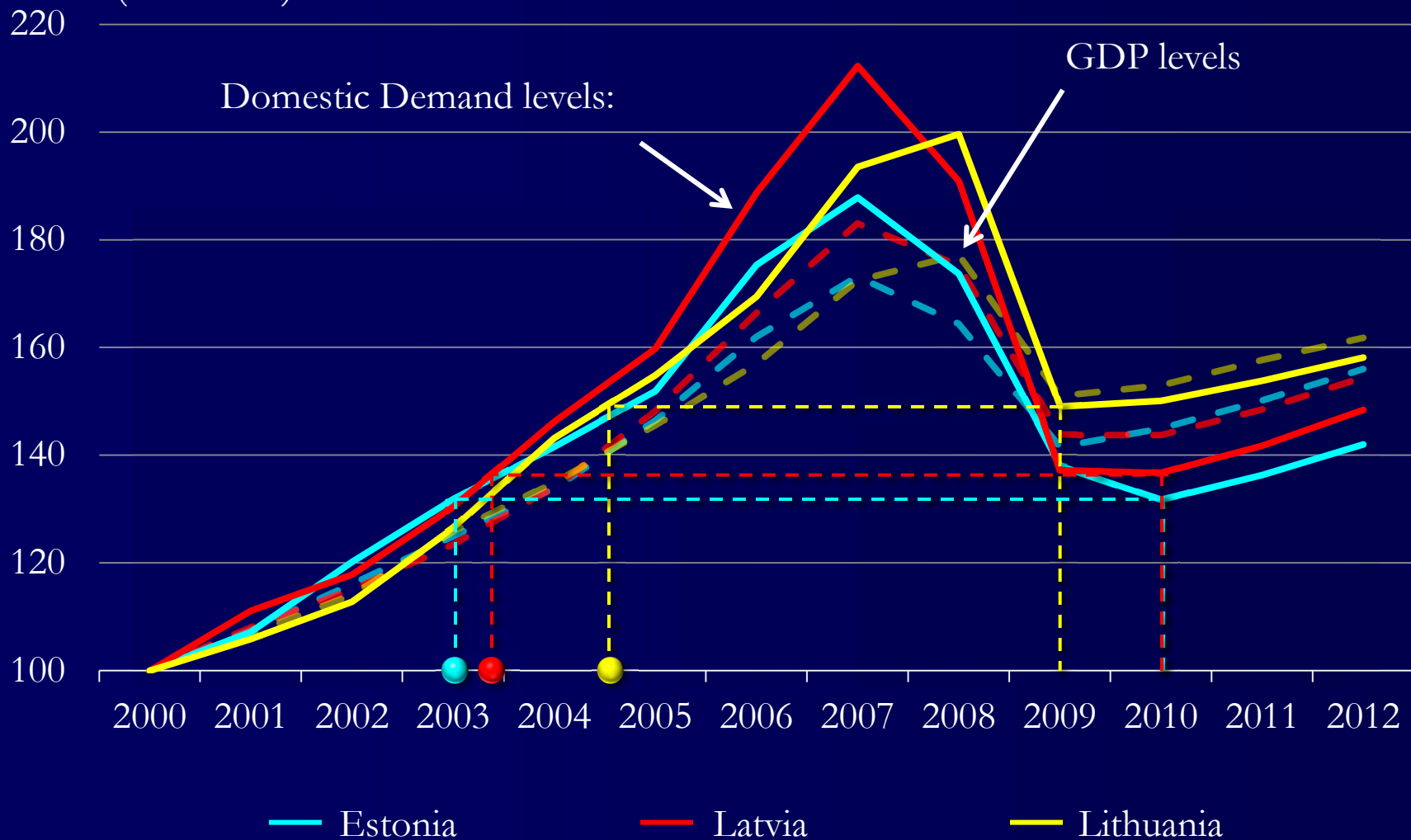


Recovery: Real GDP



Recovery: Domestic Demand

Real GDP and Real Domestic Demand levels
(2000=100)

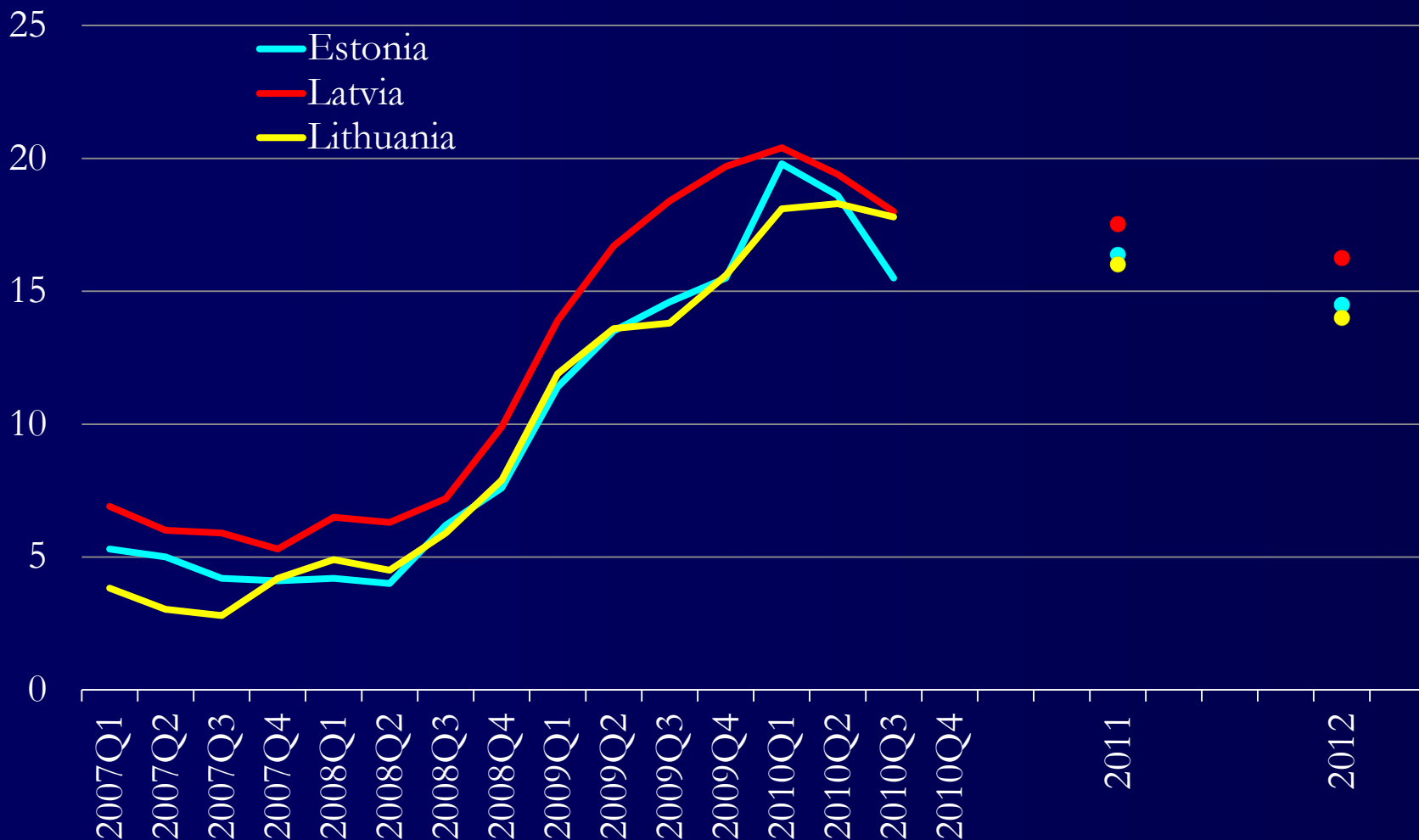


Source: WEO database.



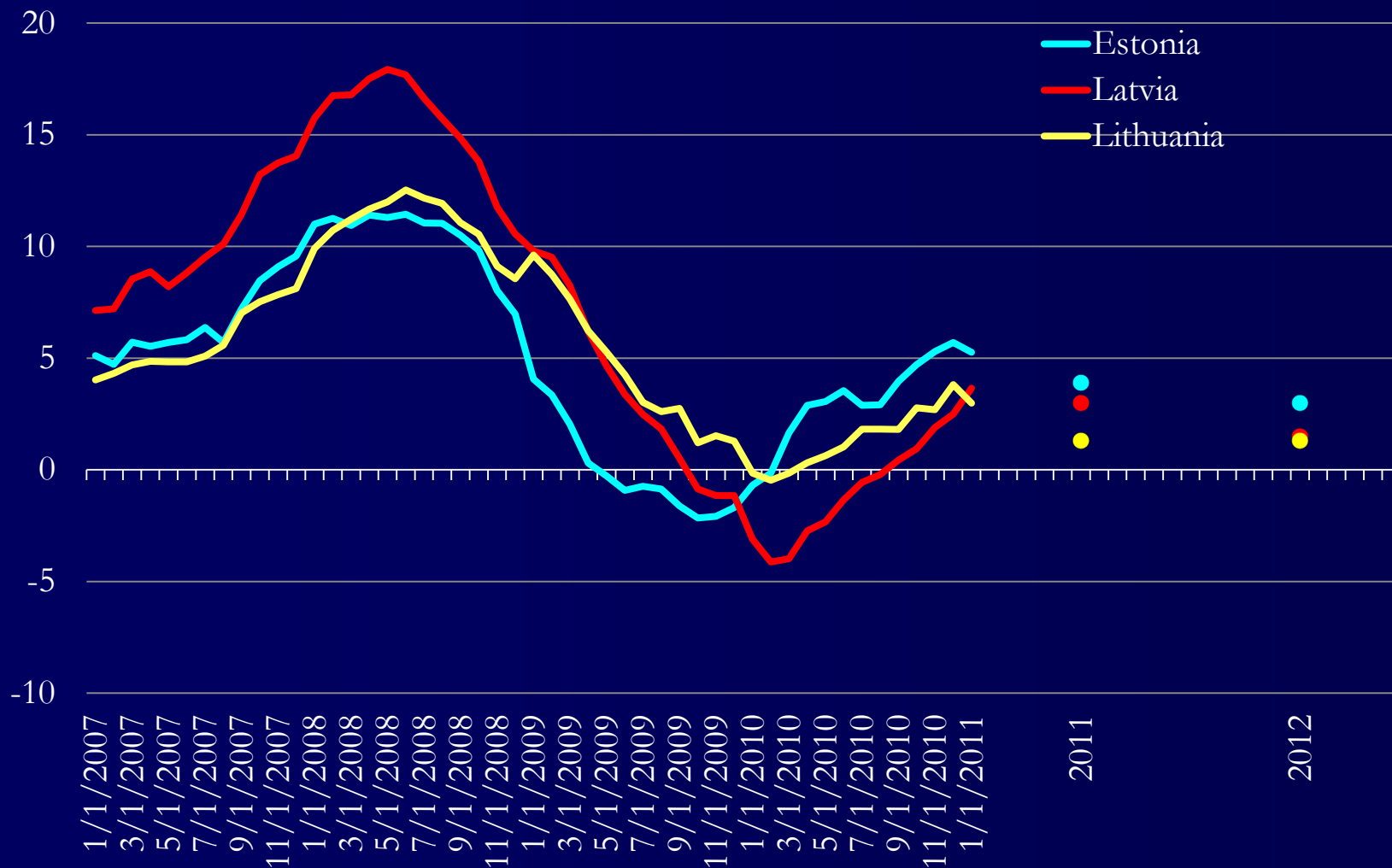
Recovery: Unemployment Rate

Unemployment rate (percent)



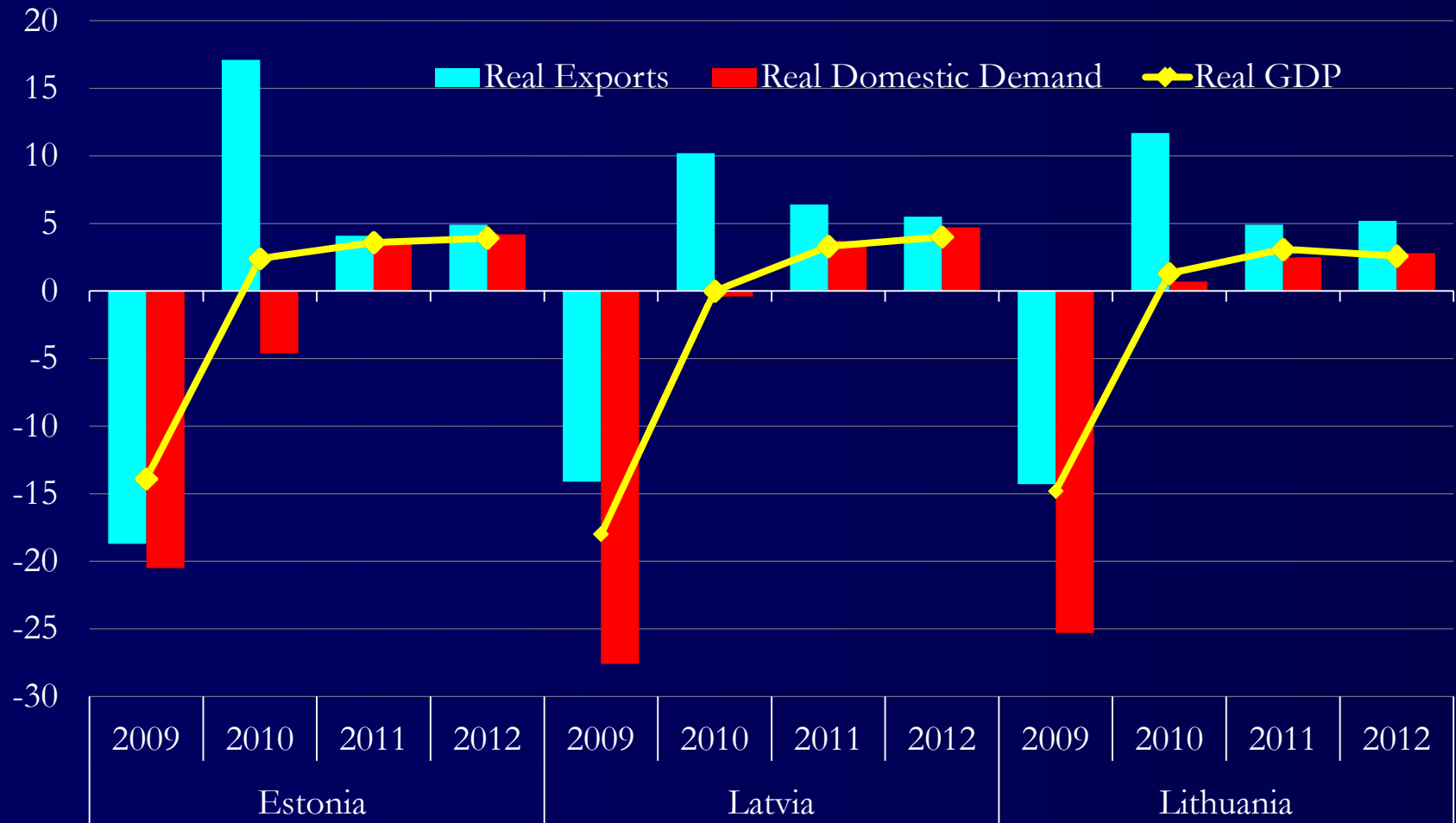
Recovery: Consumer Prices

Consumer Price Index (year-on-year percent change)



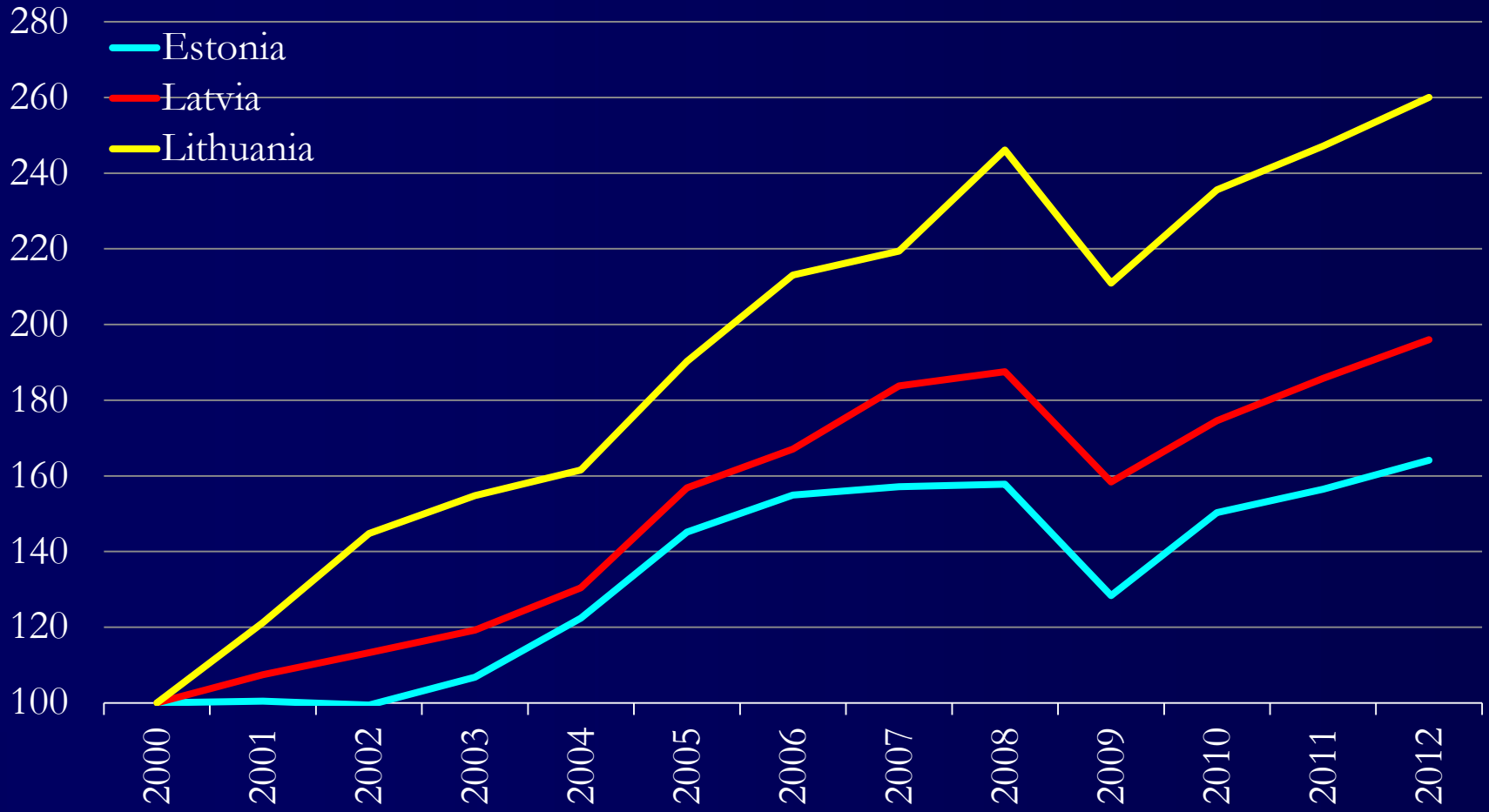
Recovery: Export led growth

Growth Components (percent change)

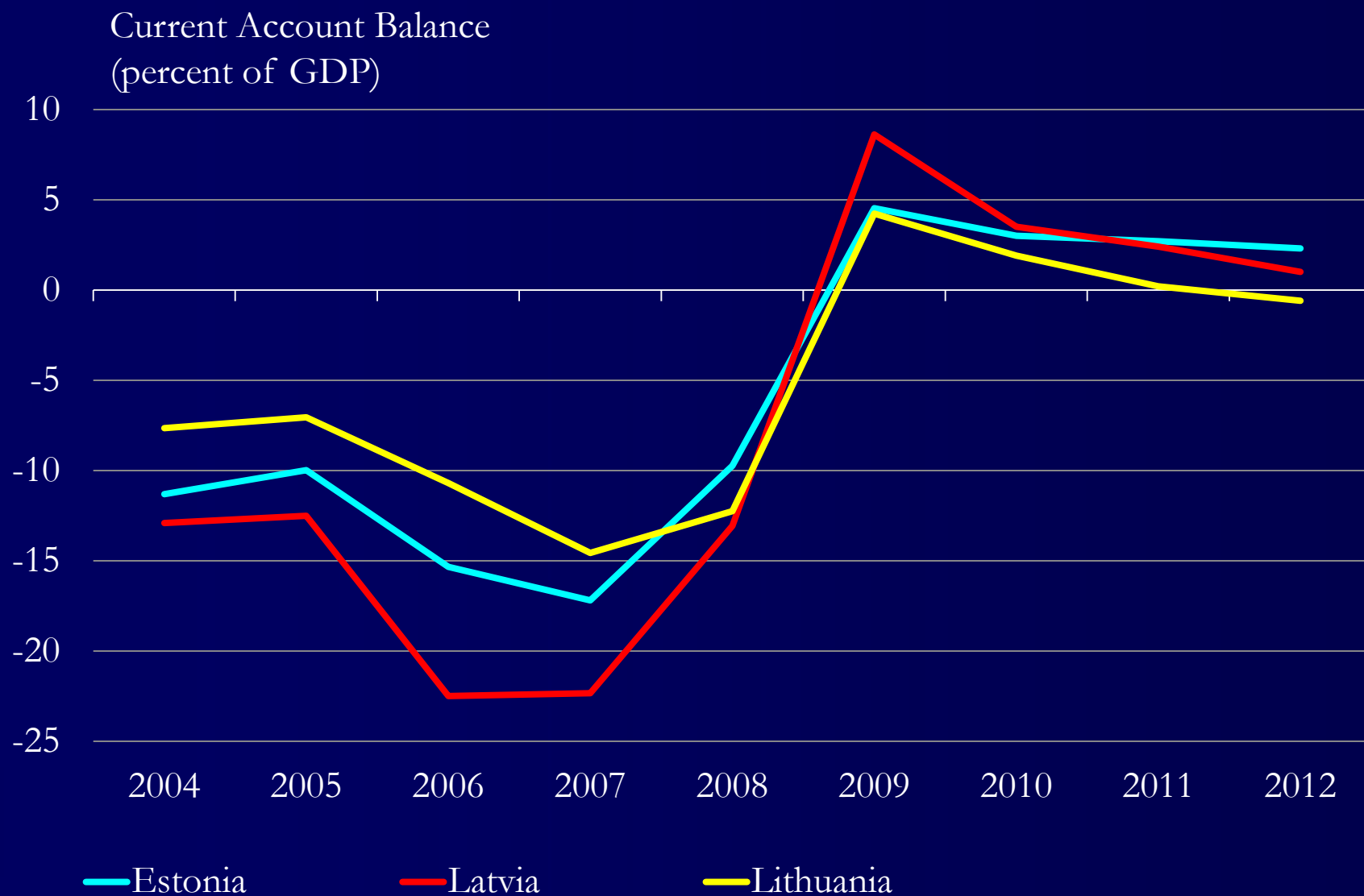


Recovery: Real Exports

Real Exports of Goods and Services (2000=100)

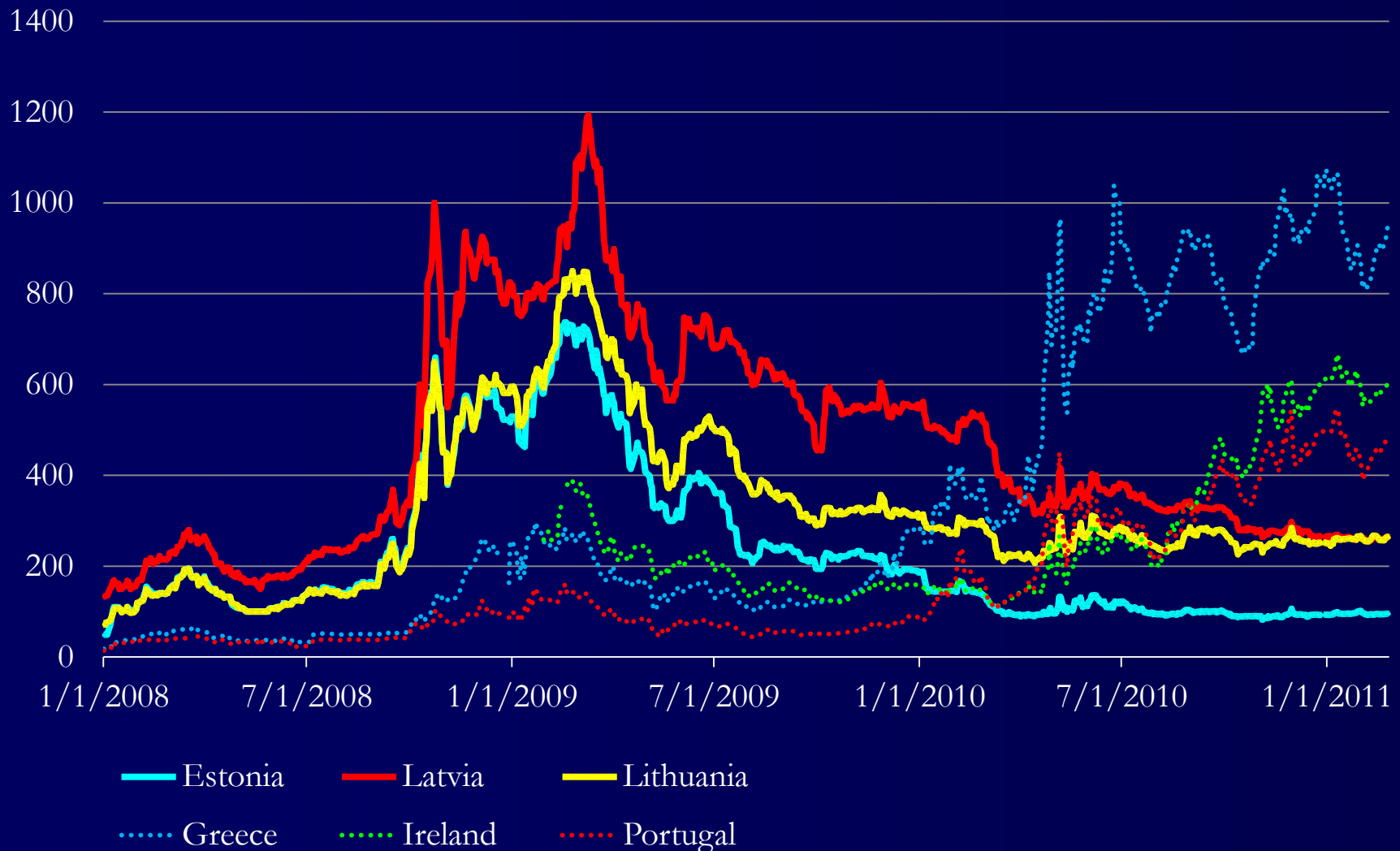


Recovery: Current Account Balance



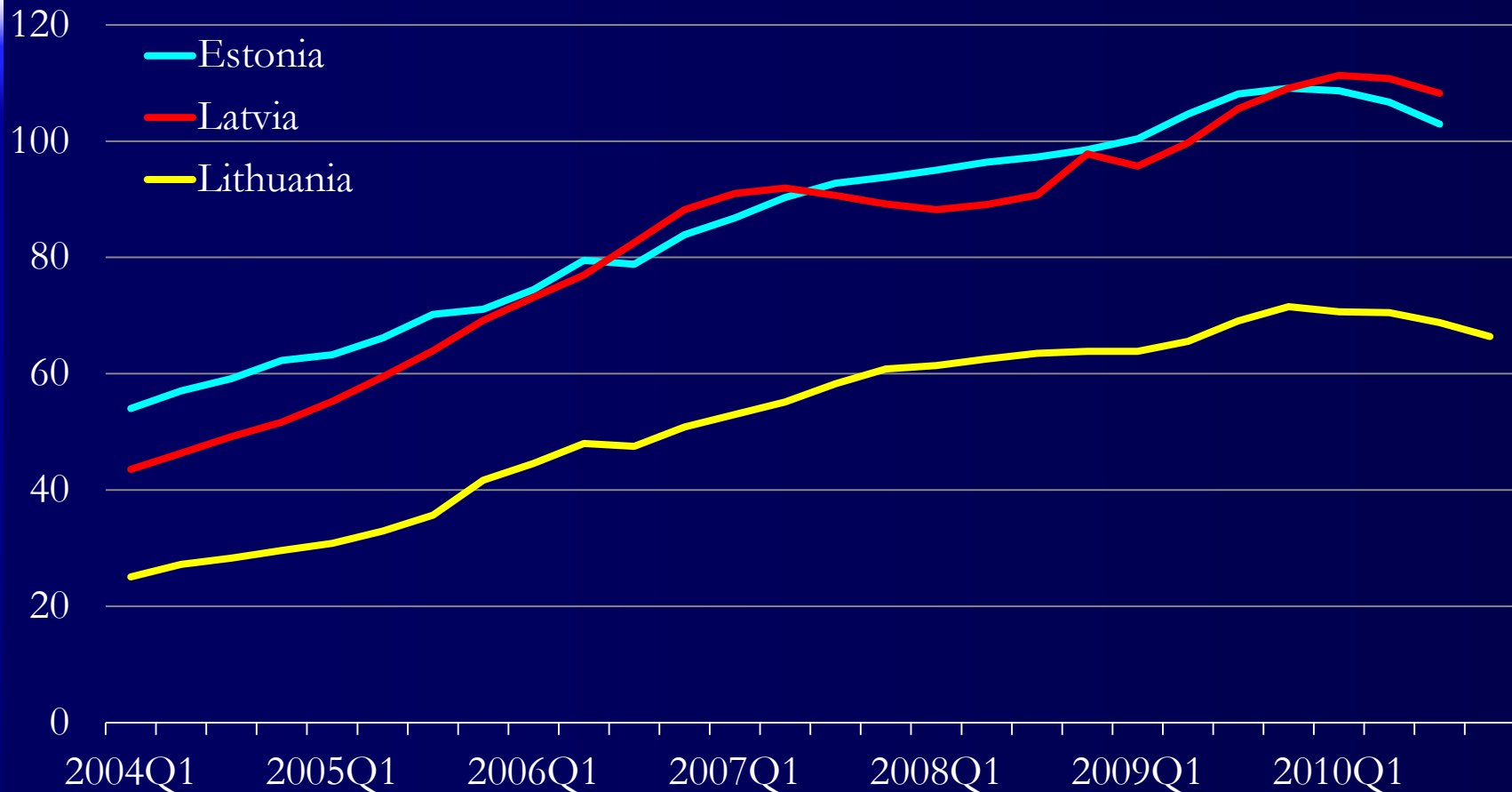
Recovery: Market Confidence

Credit Default Swaps spreads



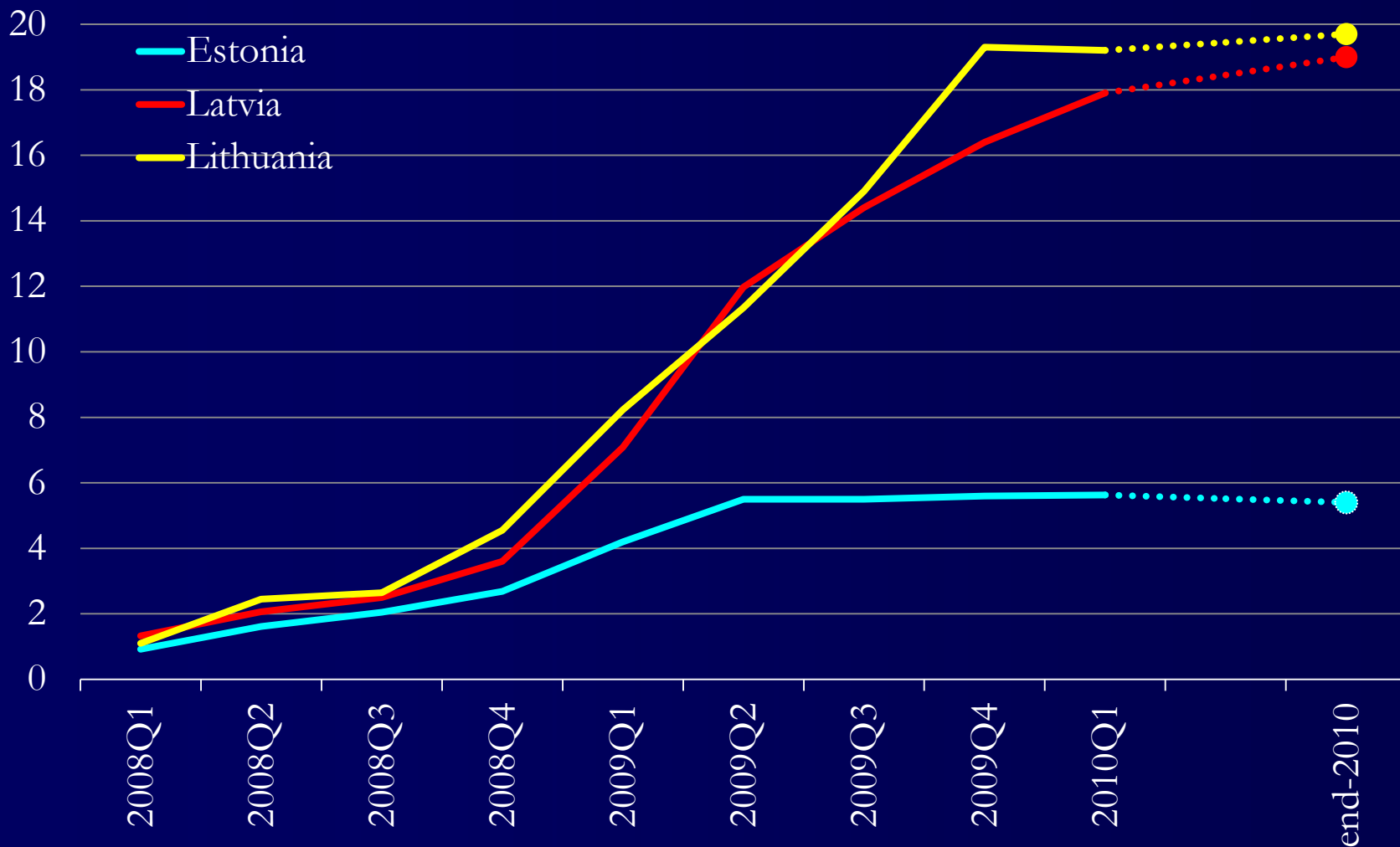
Challenges: Deleveraging

Claims on Private Sector (percent of GDP)

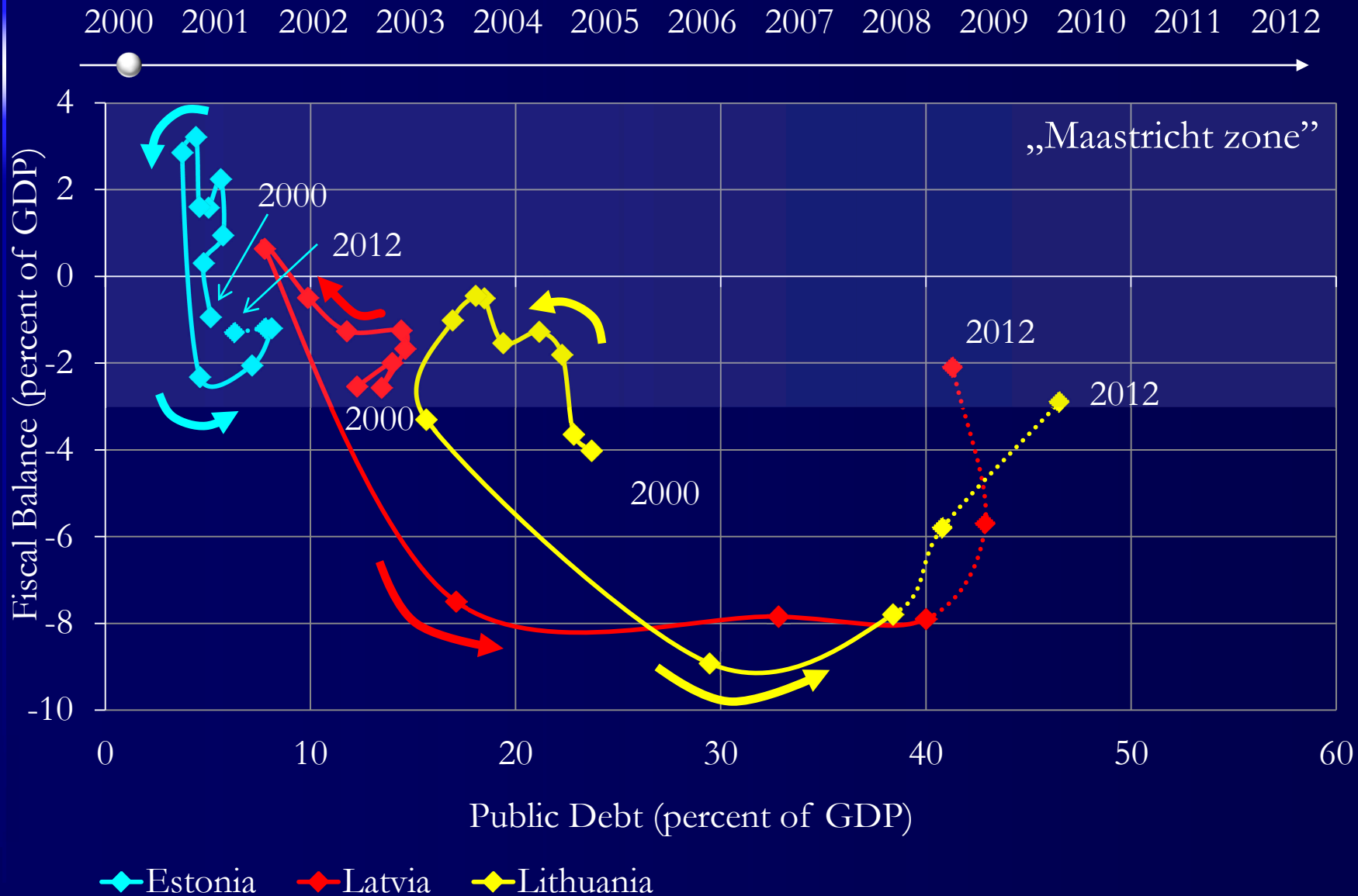


Challenges: NPL

Non-performing loans (percent of total loans)



Challenges: Fiscal Consolidation

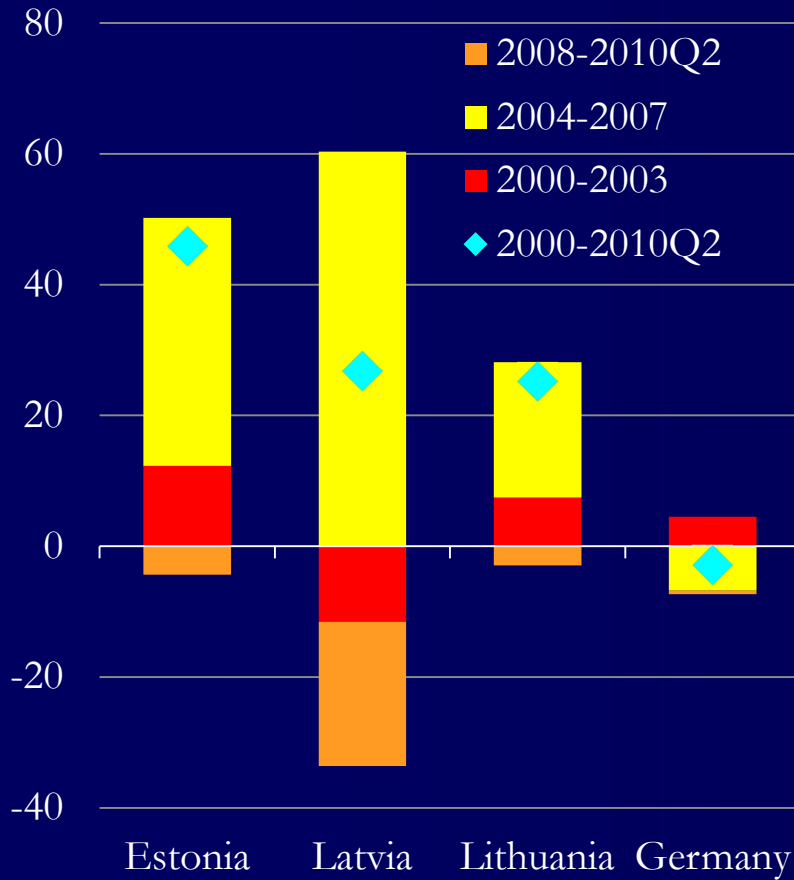


Source: WEO database.

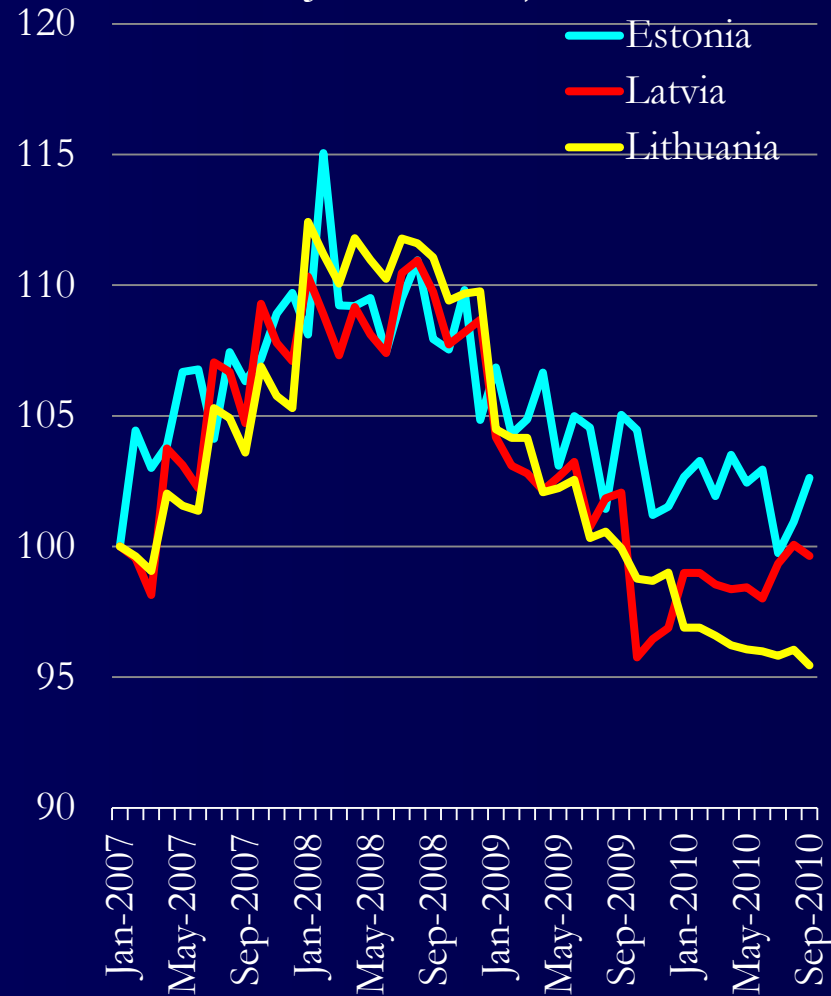


Challenges: Improving Competitiveness

ULC-based REER



Wages (Jan-07=100)



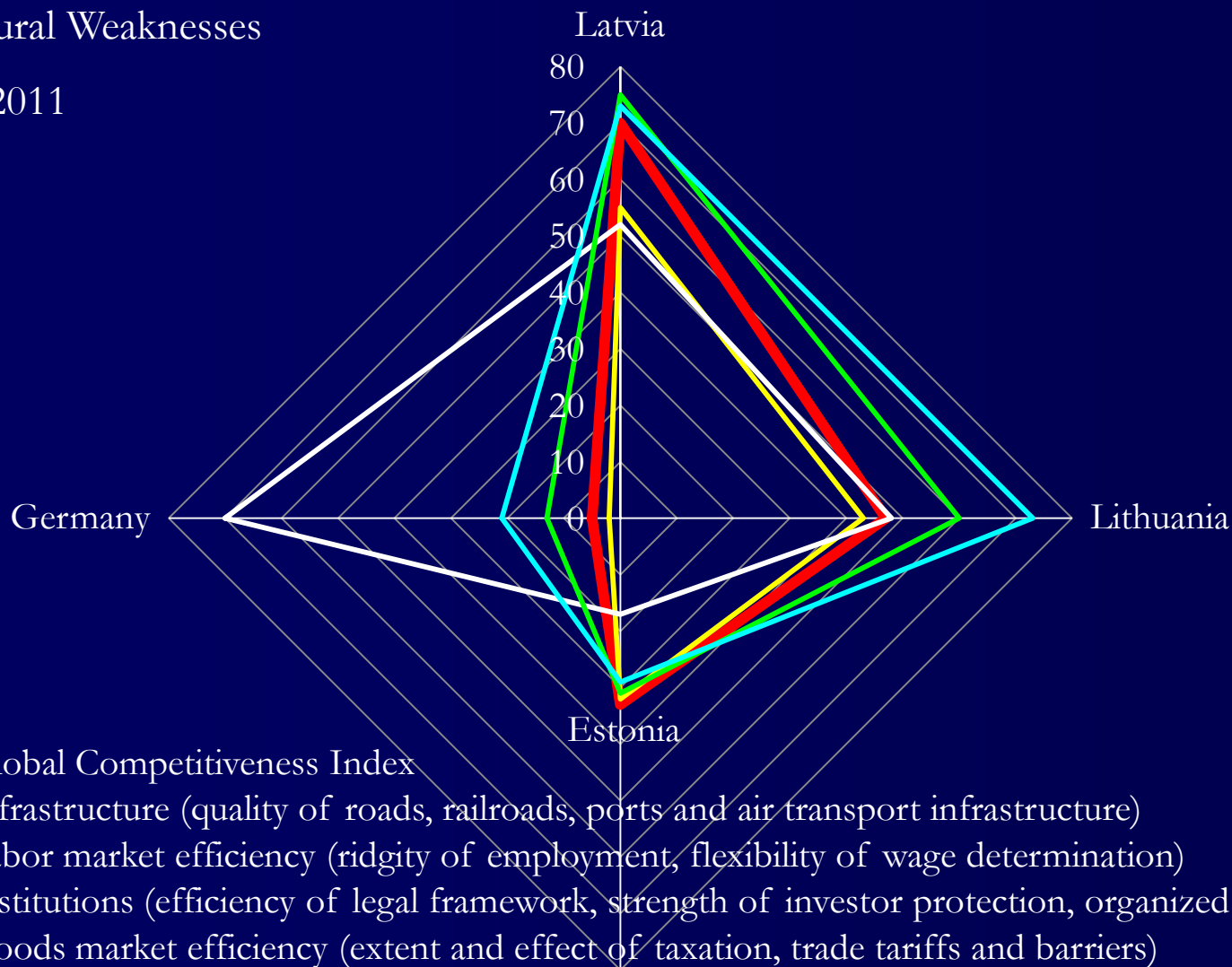
Source: Eurostat, Haver.



Challenges: Obstacles to Business

Structural Weaknesses

2010-2011



- Global Competitiveness Index
- Infrastructure (quality of roads, railroads, ports and air transport infrastructure)
- Labor market efficiency (rigidity of employment, flexibility of wage determination)
- Institutions (efficiency of legal framework, strength of investor protection, organized crime)
- Goods market efficiency (extent and effect of taxation, trade tariffs and barriers)



Thank you

