Progress in Reducing Vulnerability of CEE Economies

From crisis to recovery: old and new challenges in Emerging Europe

Frankfurt, July 5, 2011

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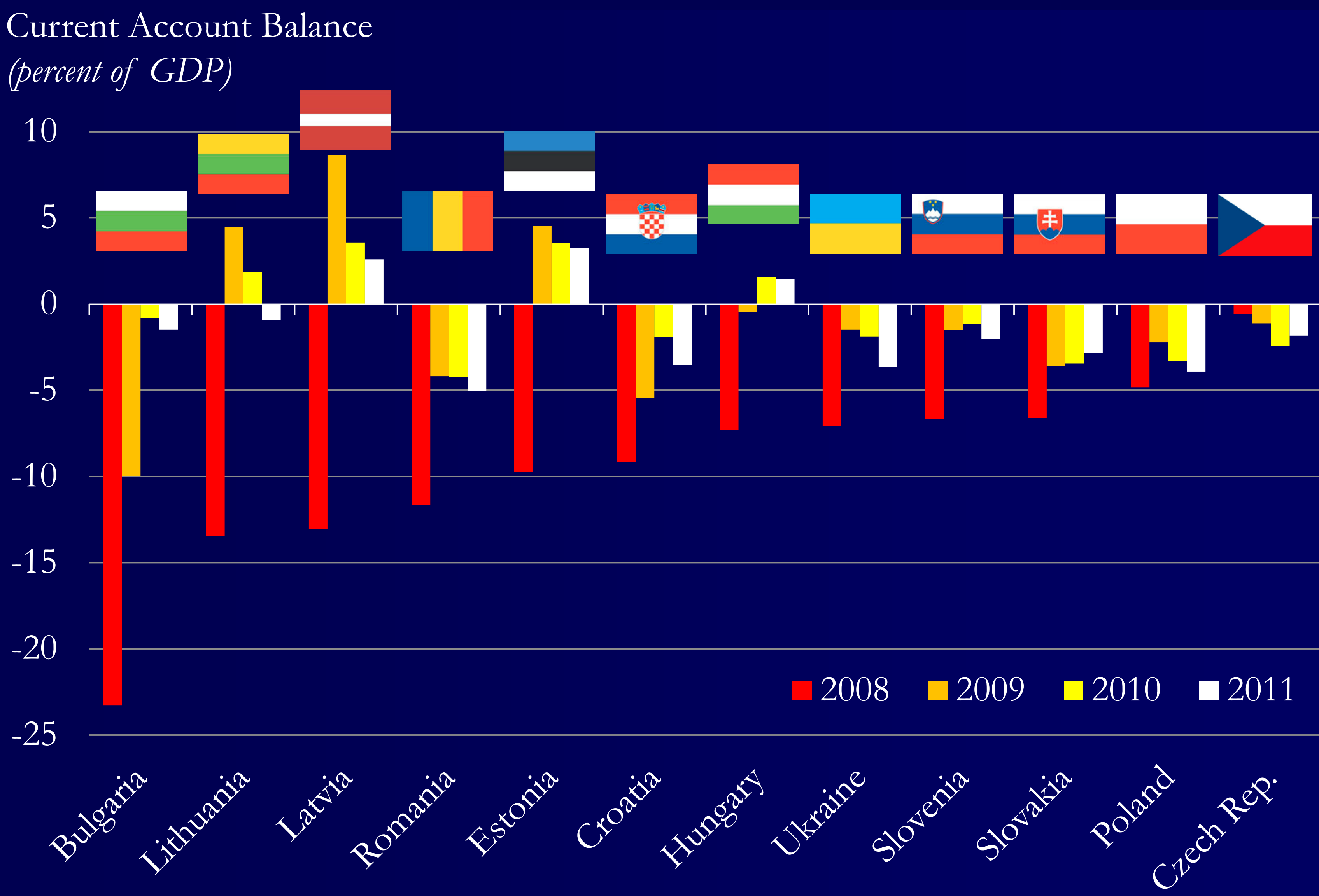
Outline

- How much has the vulnerability to crisis of CEE countries been reduced?

- Look at elements of:
  - Vulnerabilities to external shocks
  - Financial sector vulnerability
  - Fiscal vulnerability

- Based on vulnerability work by Fund staff

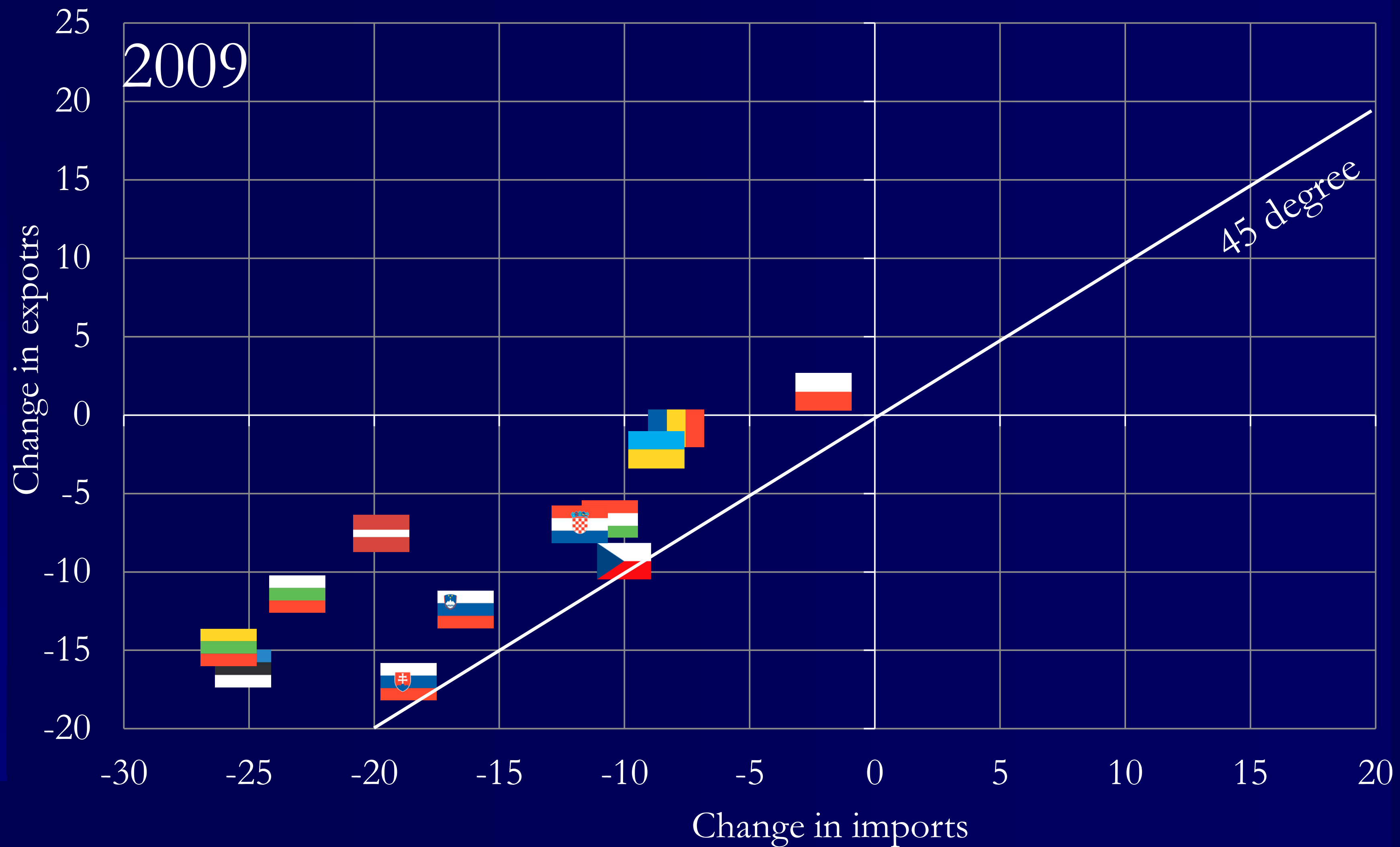
Current account deficits have been reined in …



Source: IMF, WEO database.

… with import compression at first, followed by satisfactory export growth

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



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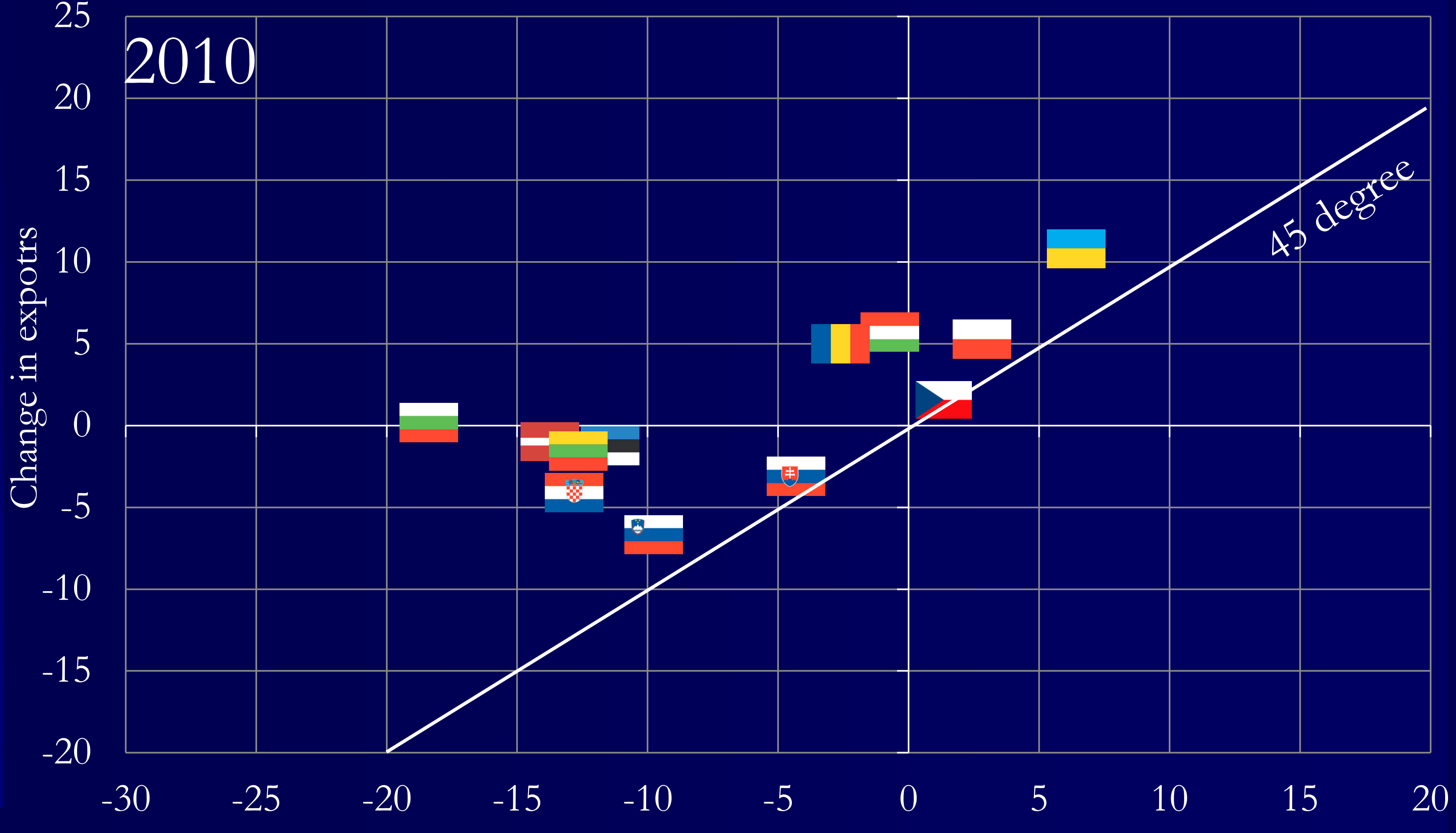

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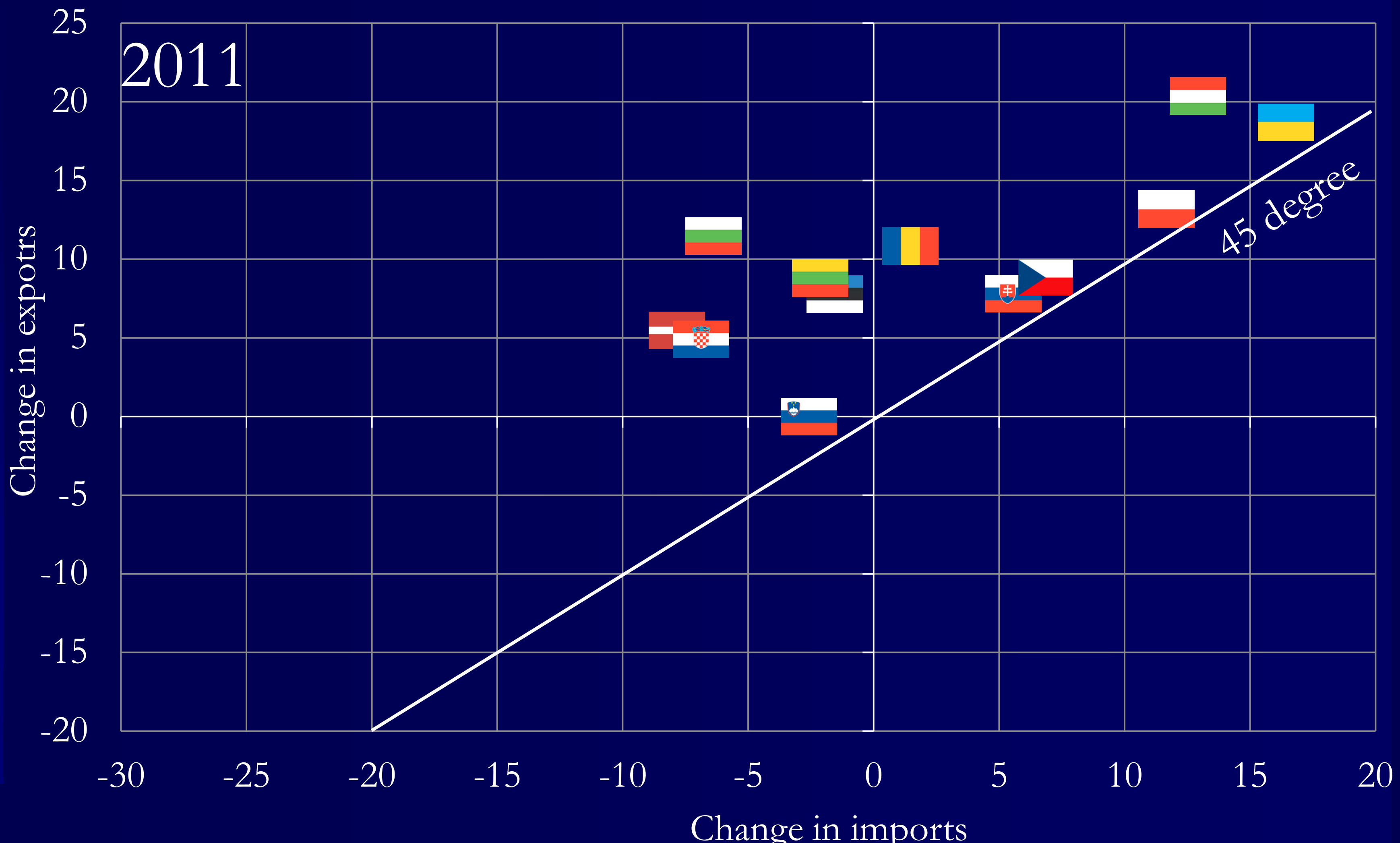
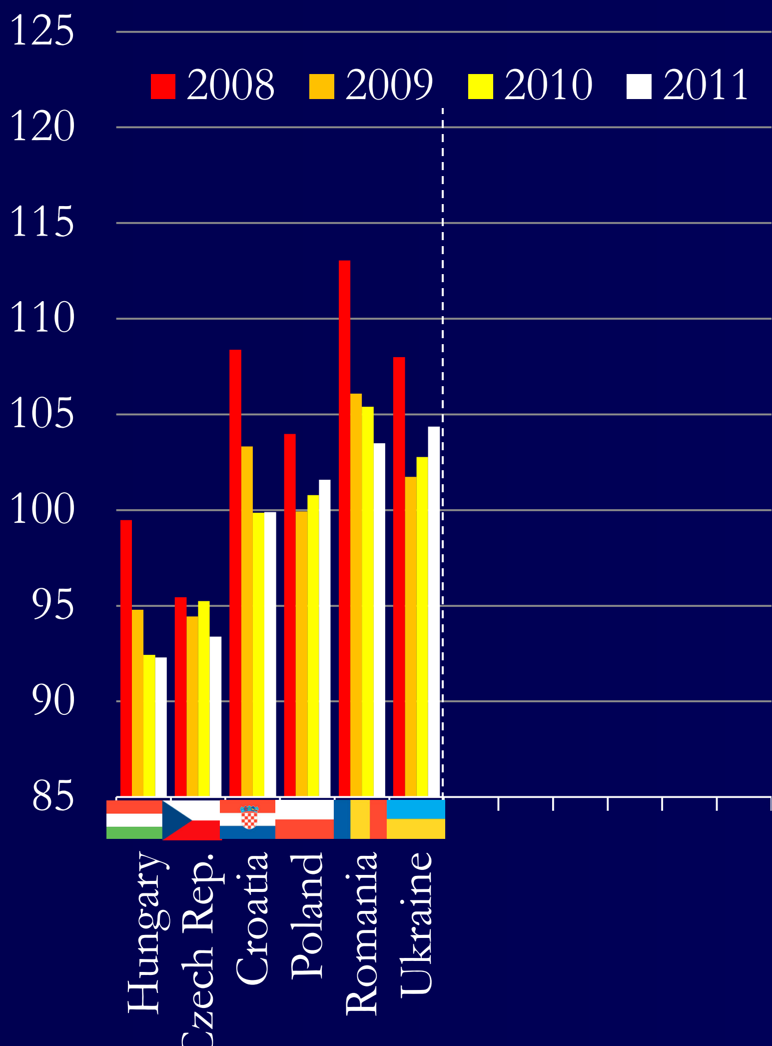


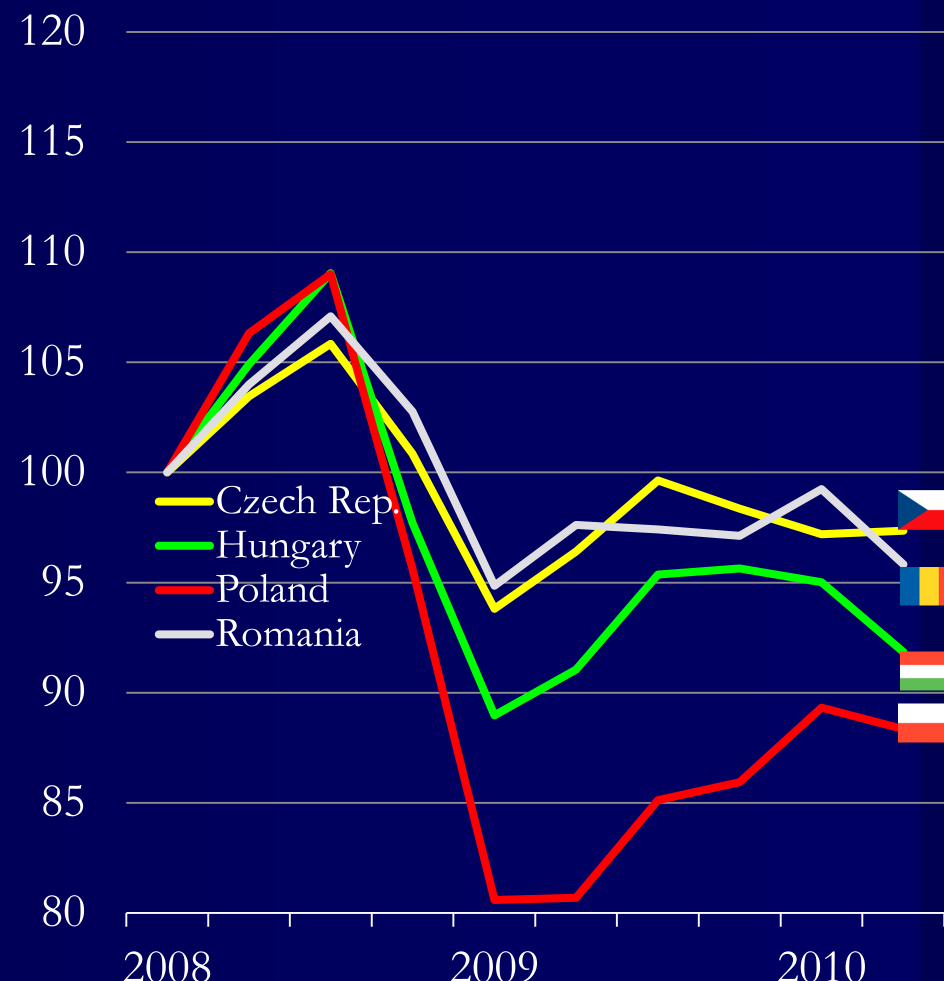
Source: IMF, WEO database.

For floaters, domestic demand compression has been mitigated by exchange rate adjustment, …

Domestic Demand
(percent of GDP)



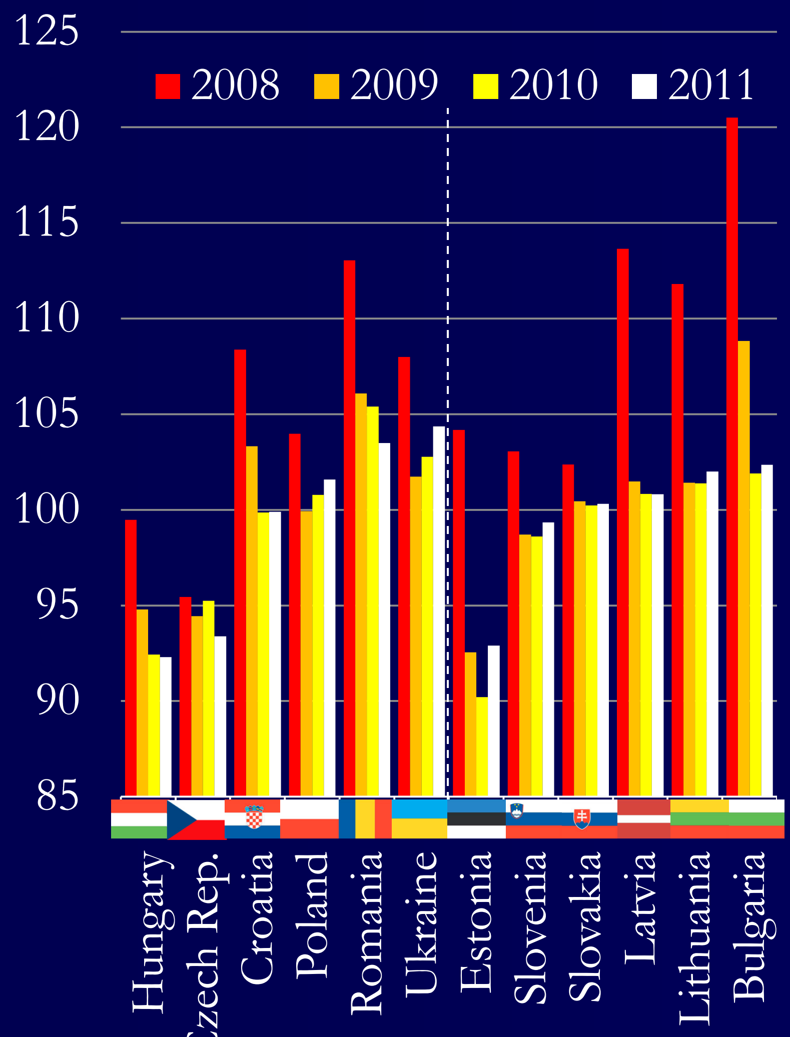
Real Effective Exchange Rate
(ULC based, 2008Q1=100)



Source: IMF, WEO database; Eurostat.

…but in the peggers, price adjustment is slower.

Domestic Demand
(percent of GDP)



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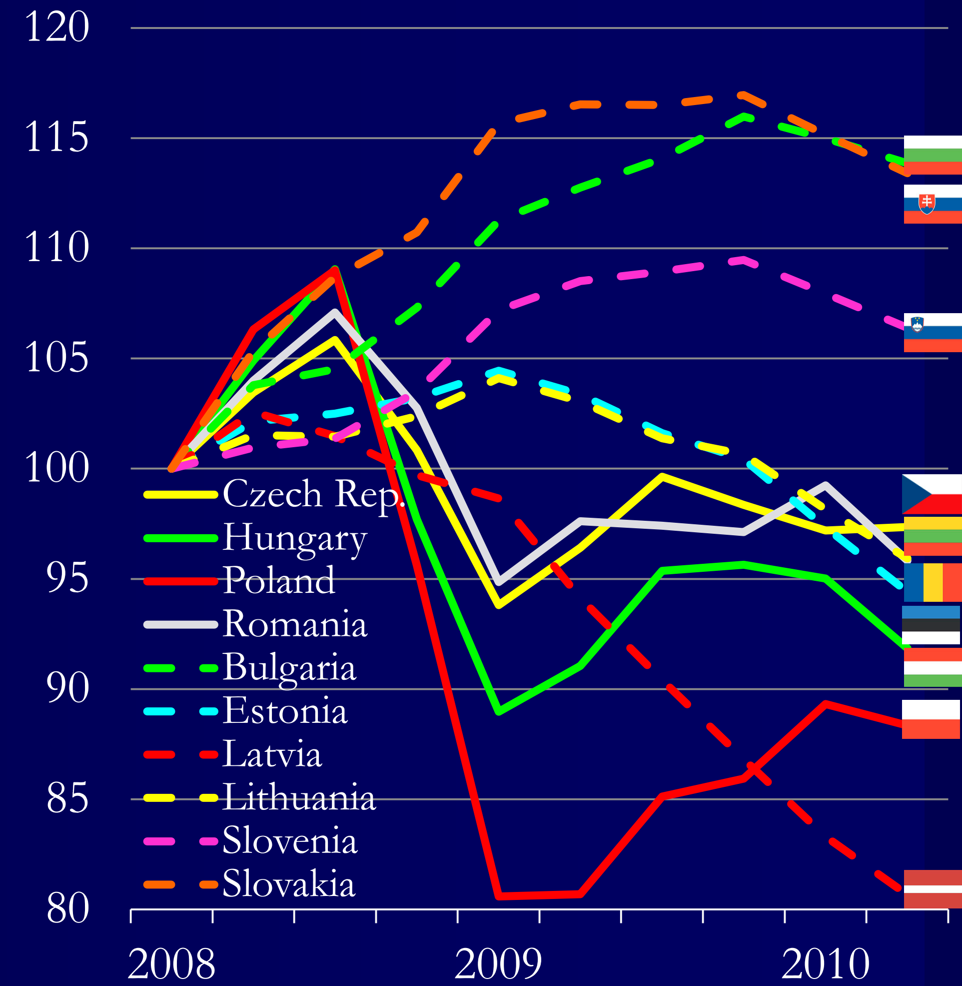
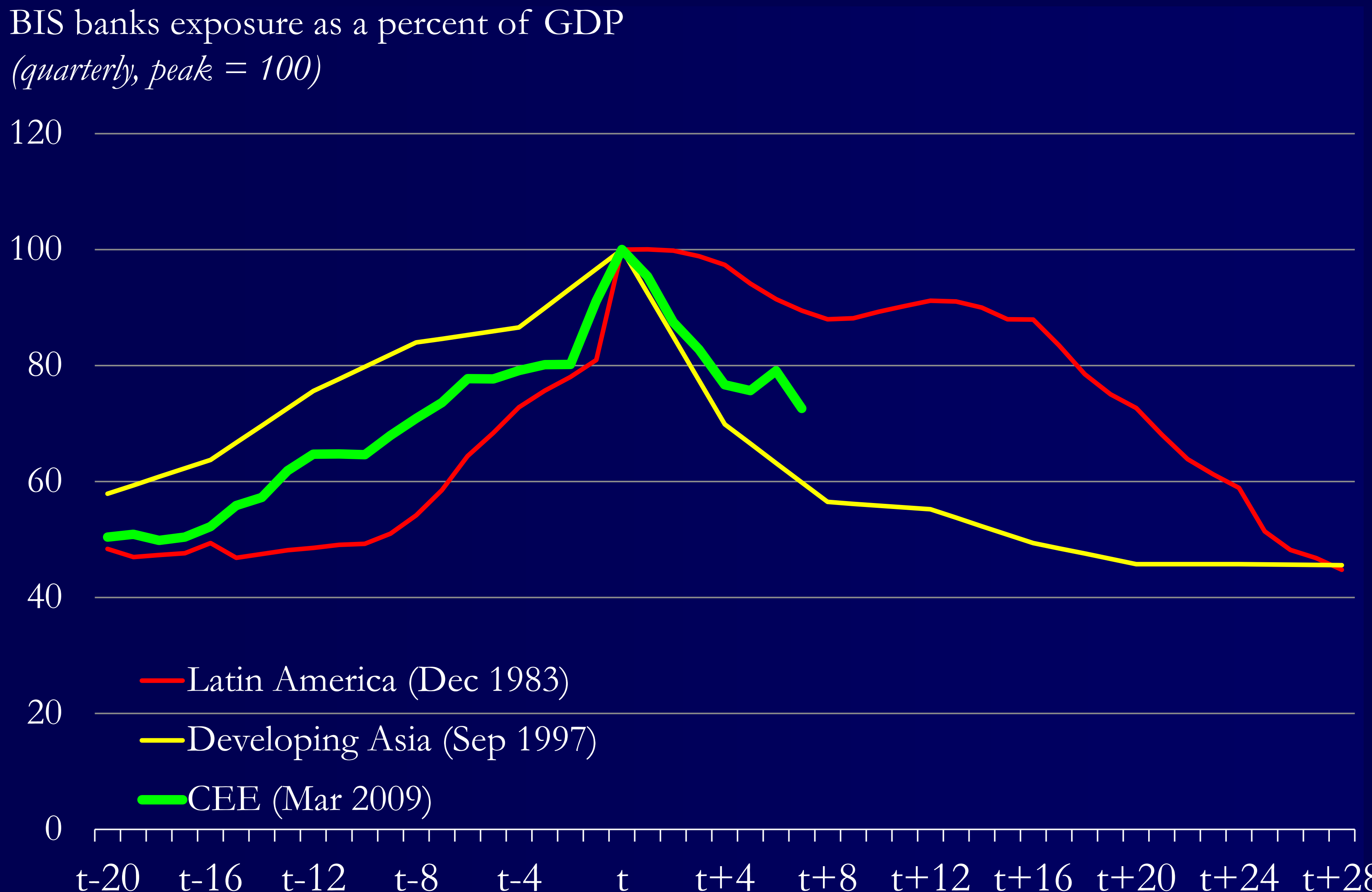


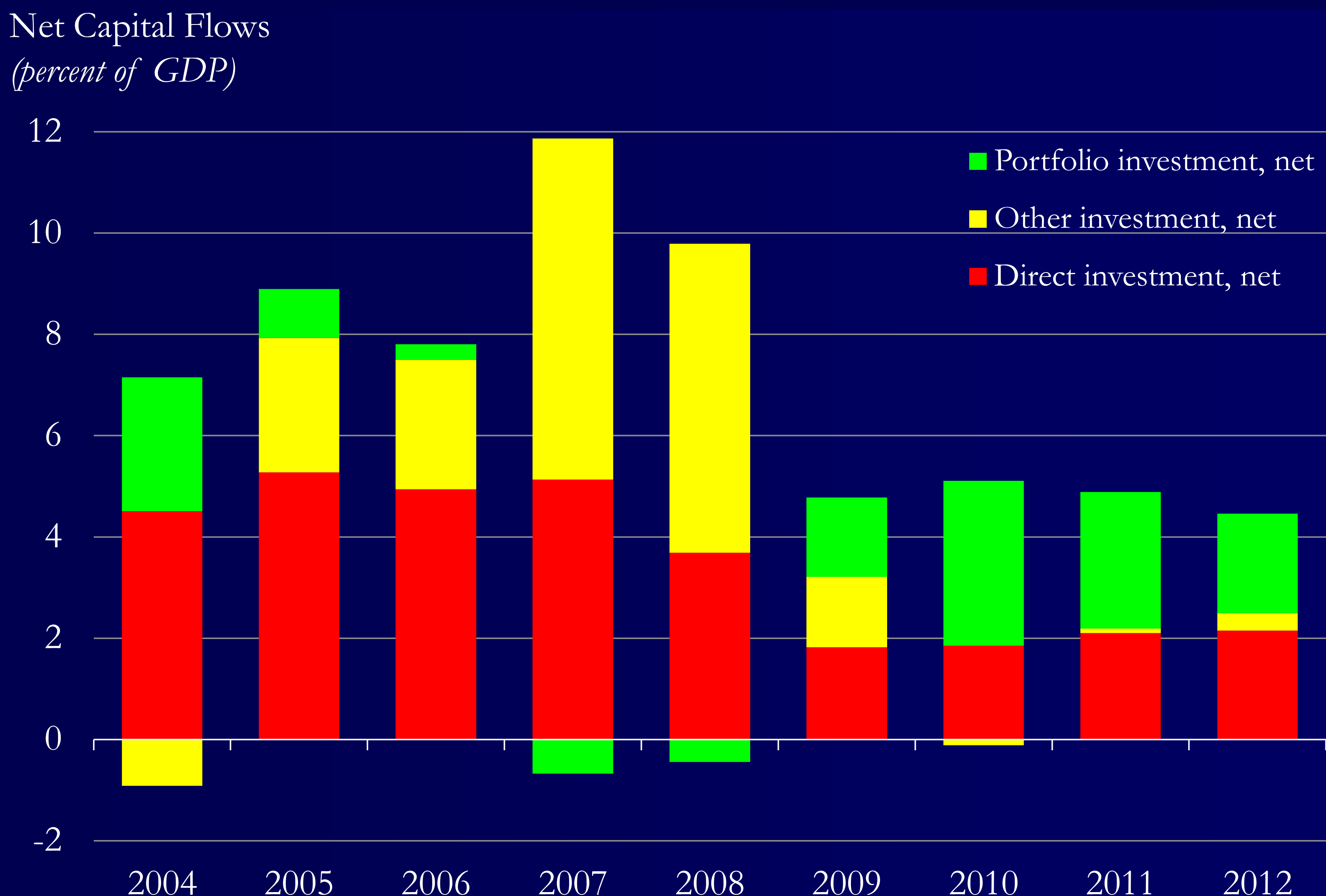
Source: IMF, WEO database; Eurostat.

Bank exposure to CEE is falling as expected …



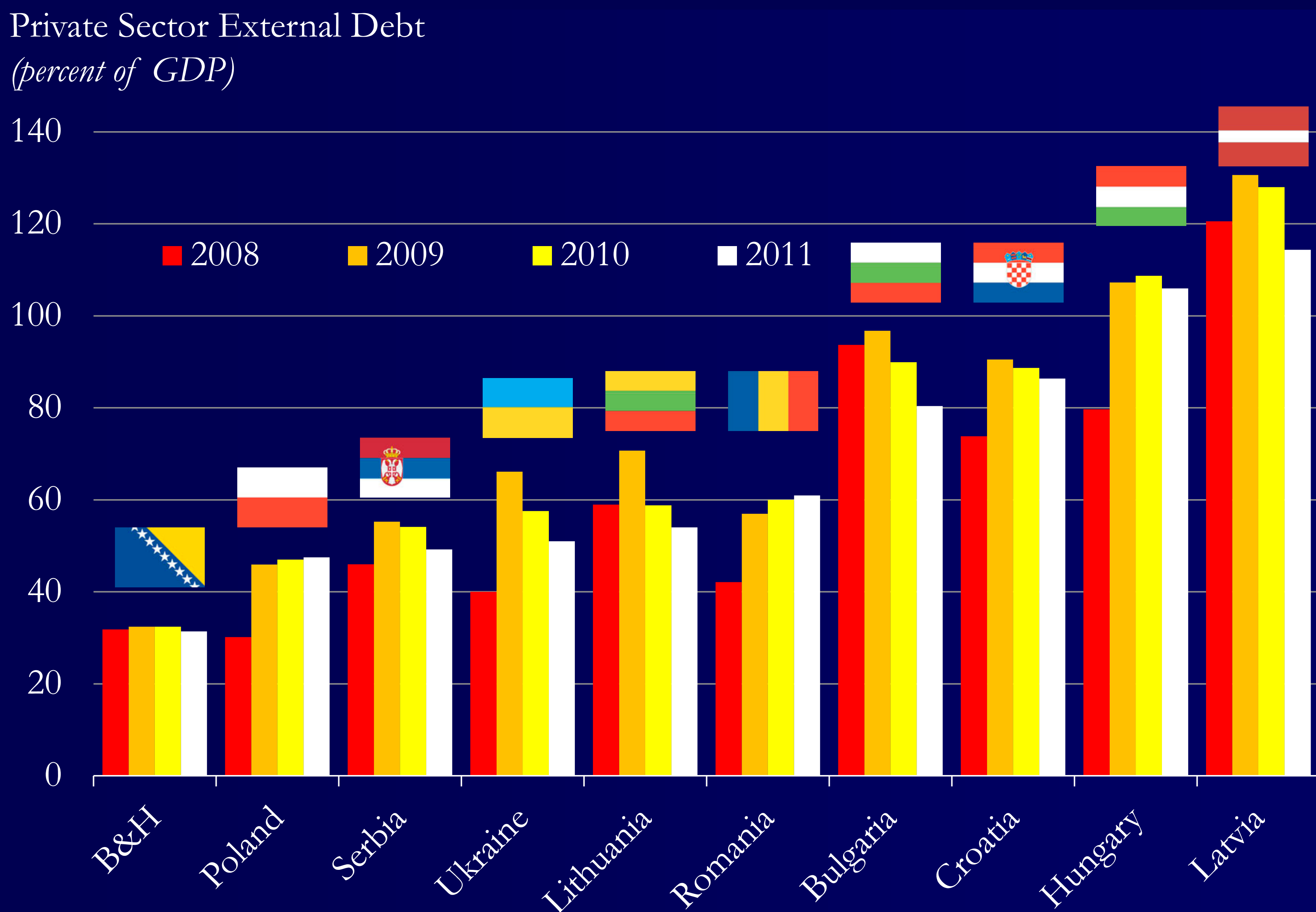
Source: BIS; IMF, WEO database.

…shifting the structure of capital flows.



Source: IMF, WEO database.

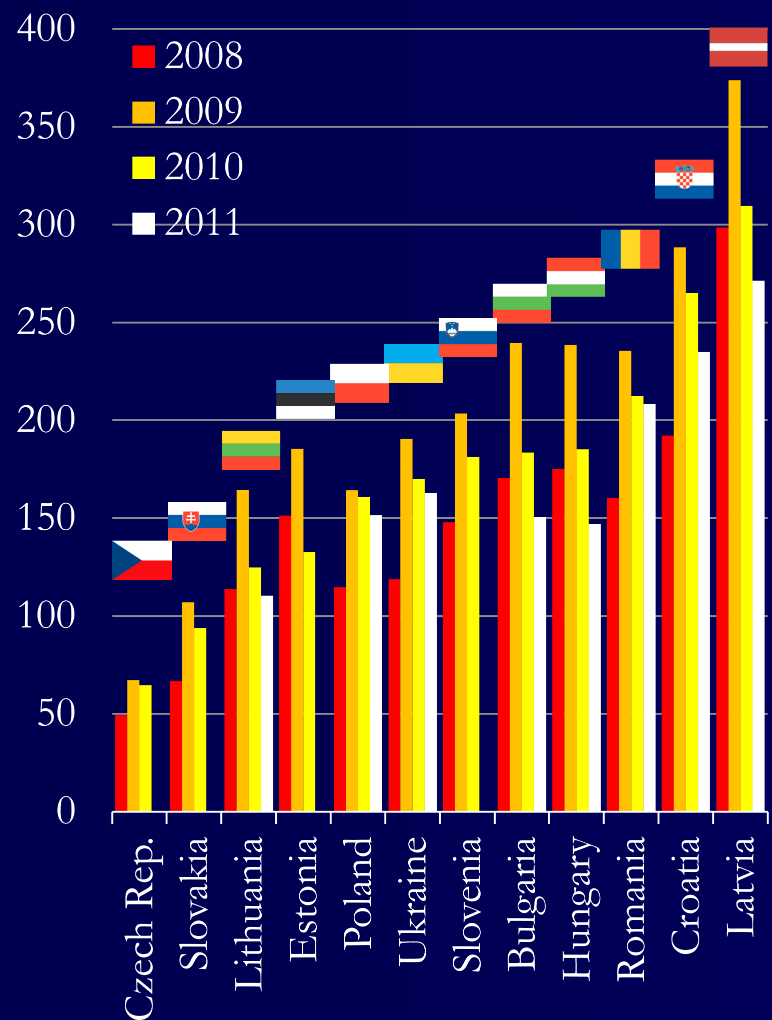
Private sector external debt often remains high.



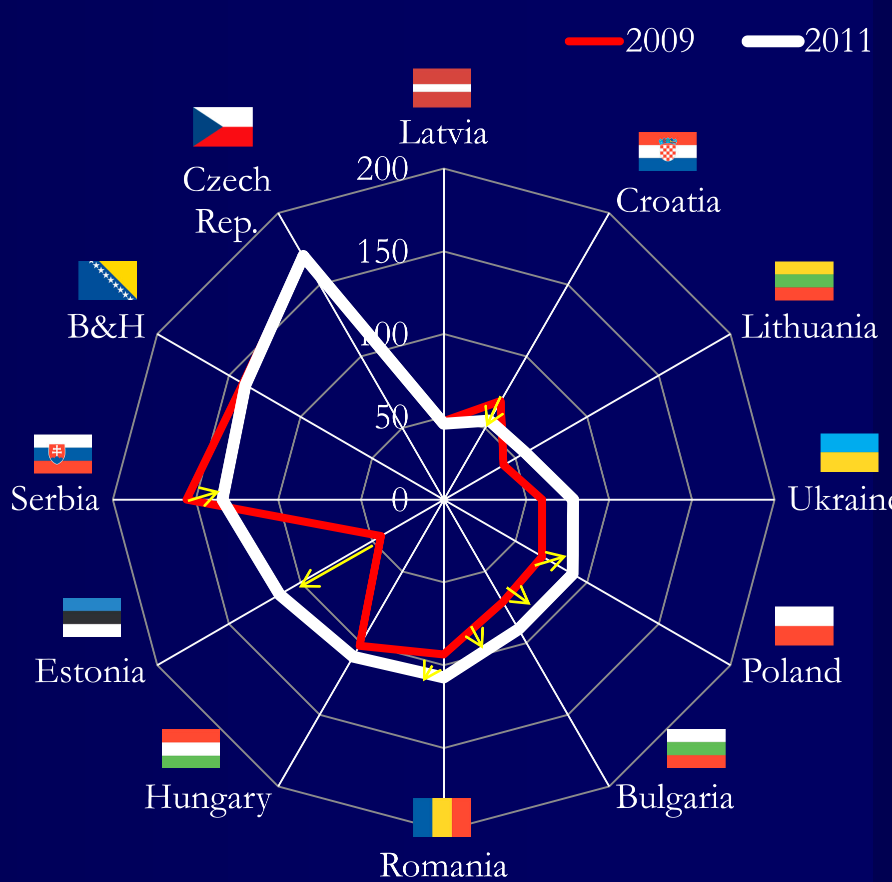
Source: IMF staff.

But is becoming more serviceable and reserve cover is growing.

Gross External Debt
(percent of exports)



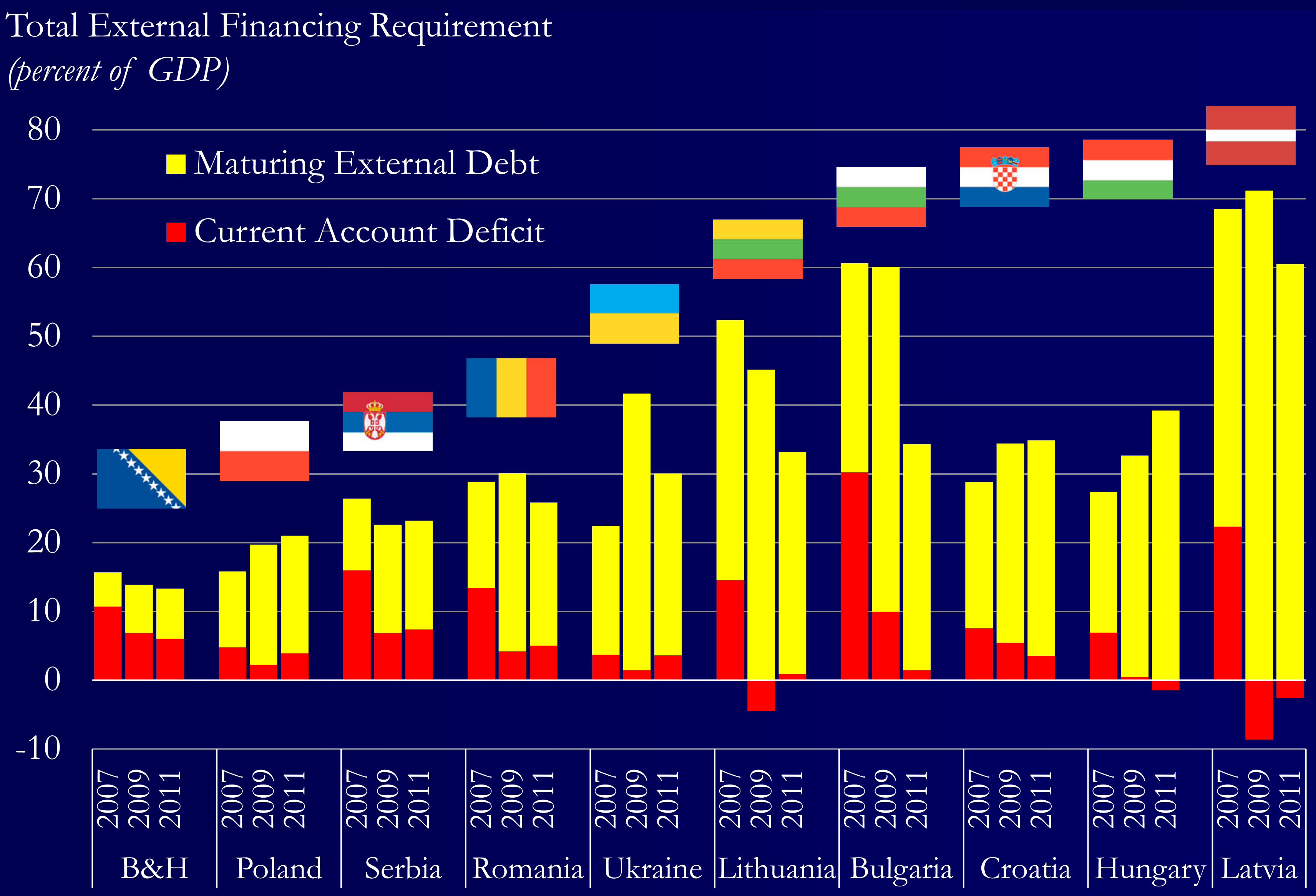
Gross Reserves to Short-term External Debt*
(percent)



Source: JEDH database. IMF staff.

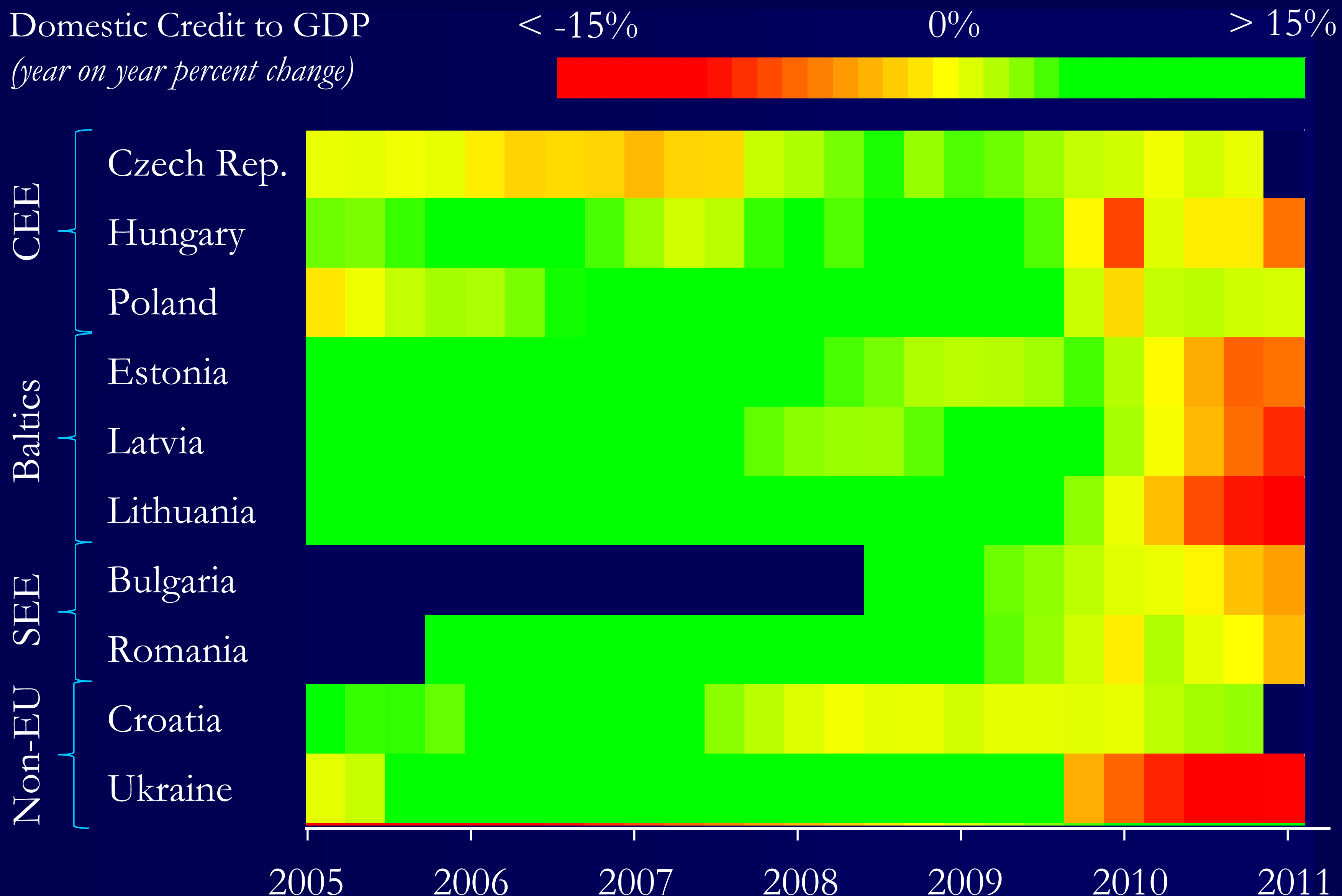
* debt at remaining maturity

… But some external financing needs remain high.



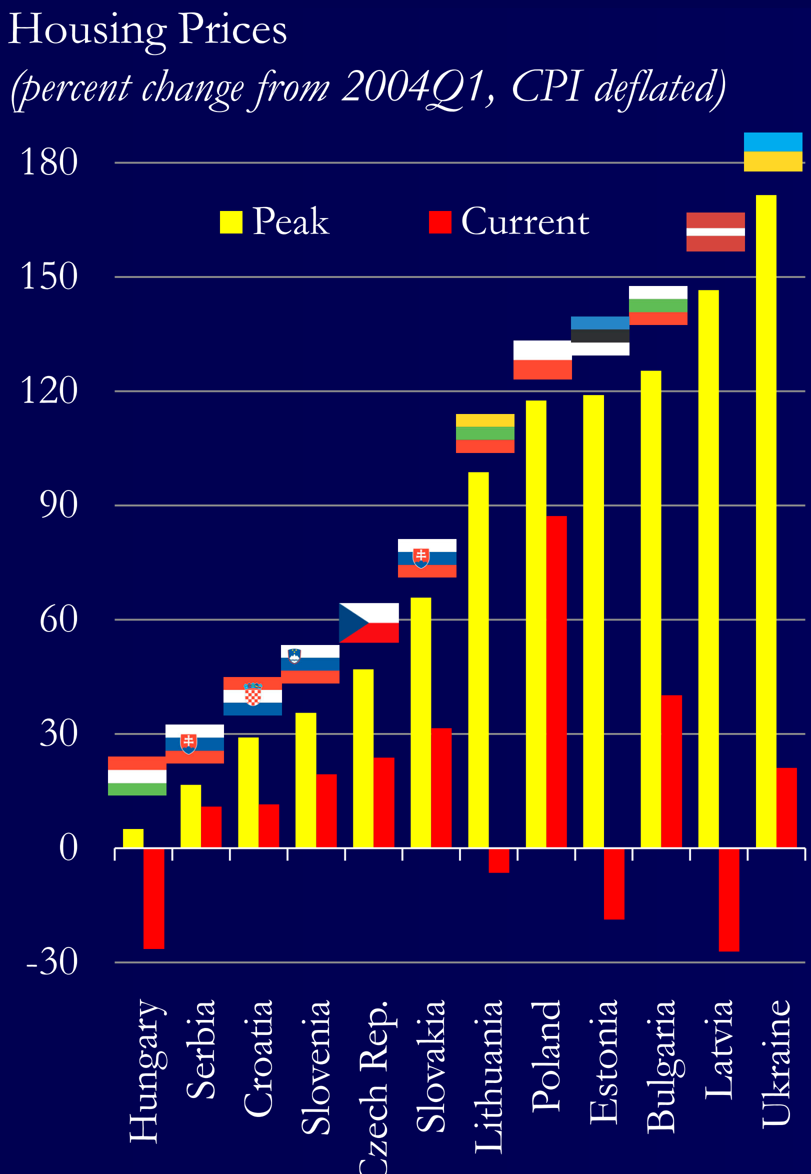
Source: IMF staff.

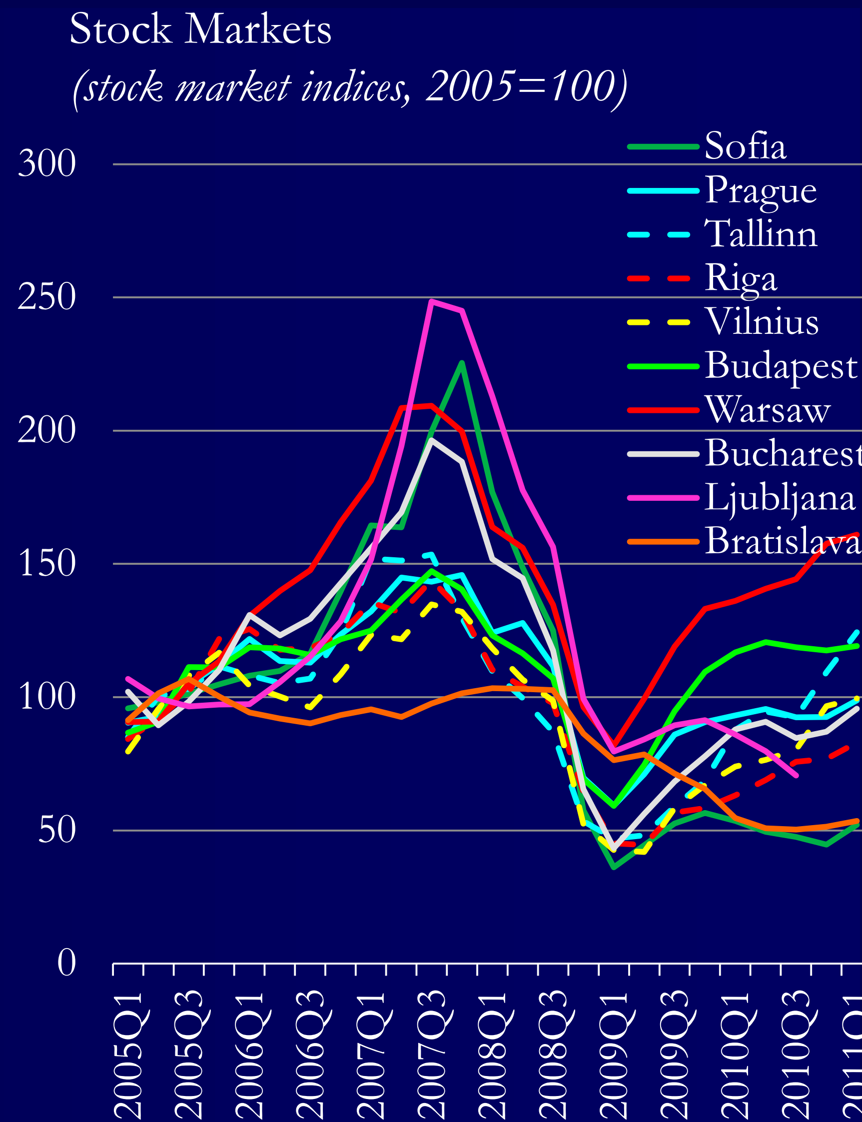
The growth of credit to GDP has reversed…



Source: Haver.

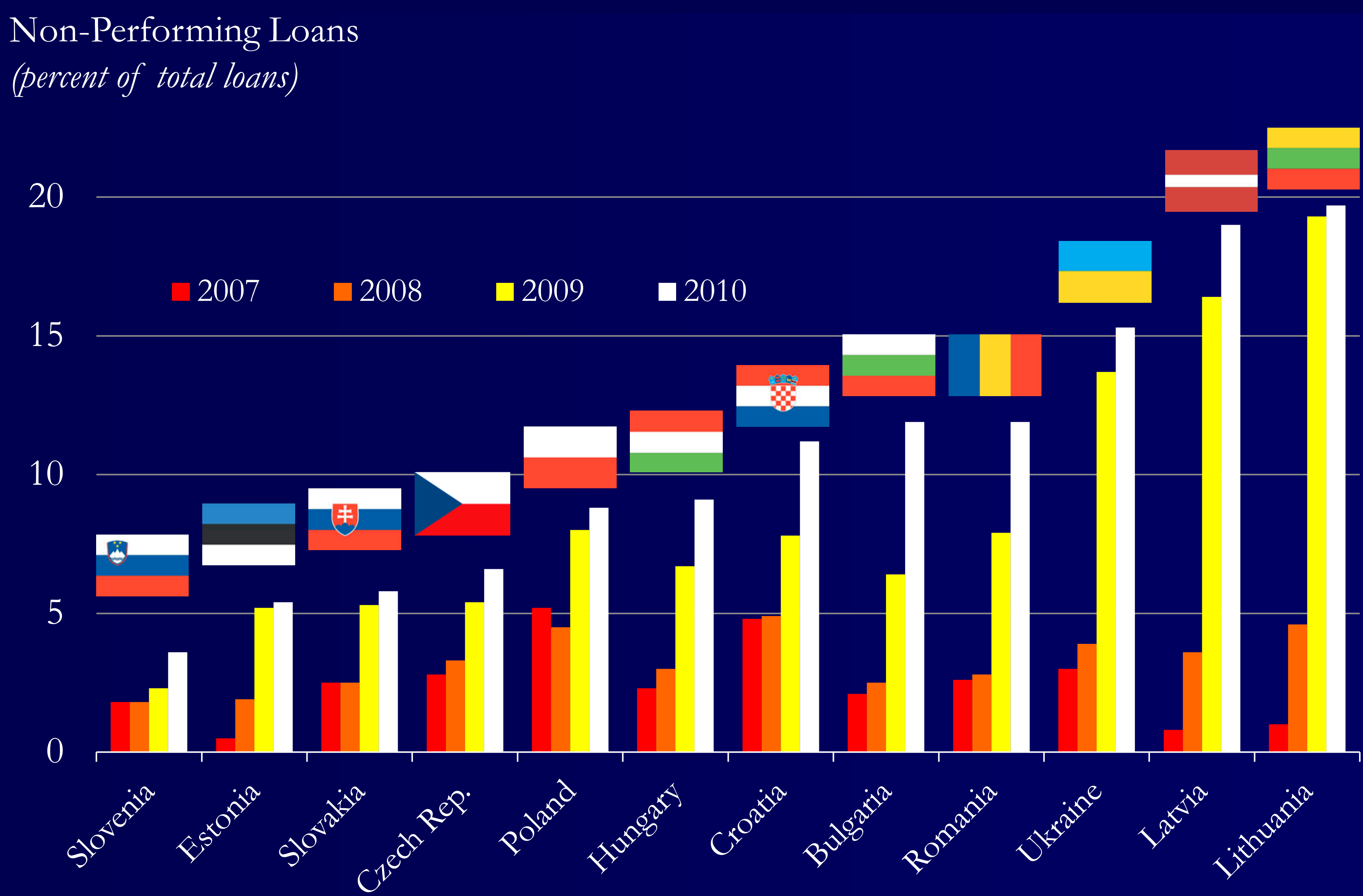
…and asset price bubbles have deflated.





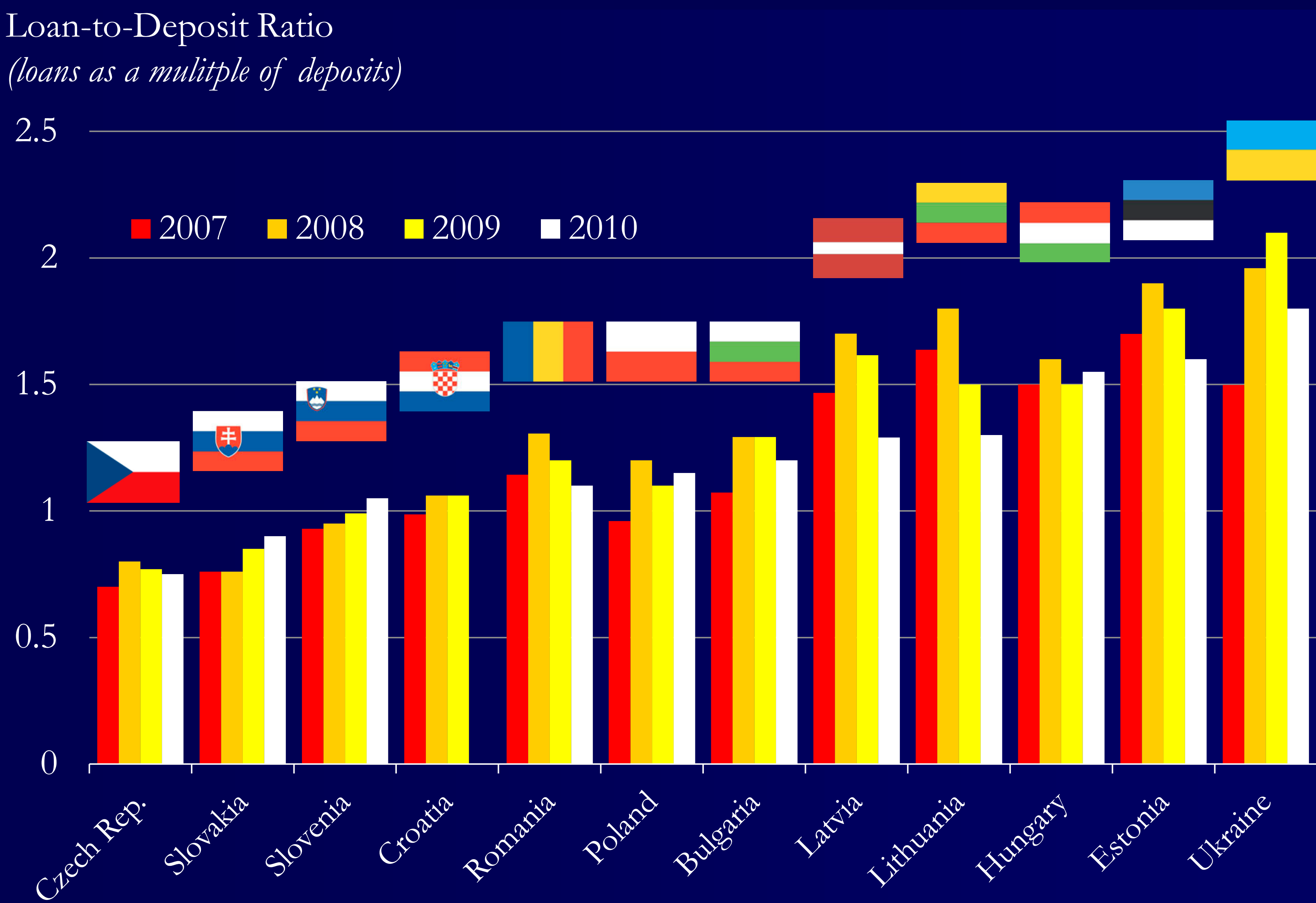
Source: IMF, IFS; Global Property Guide; Eurostat.

The resulting increases in NPLs seem to be peaking



Source: IMF staff.

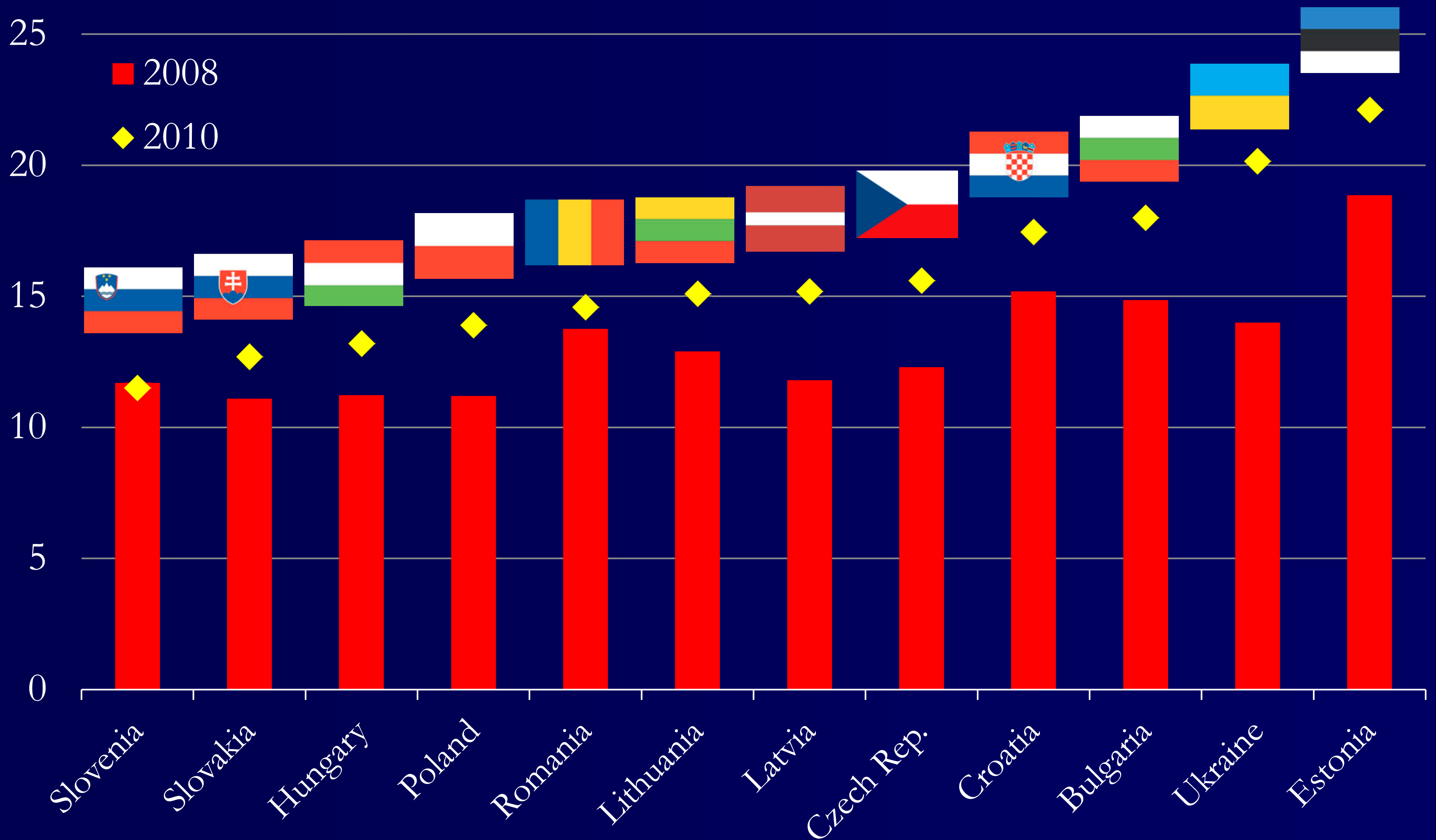
Loan to deposit ratios are generally improving,



Source: IMF staff.

..banks are becoming better capitalized,…

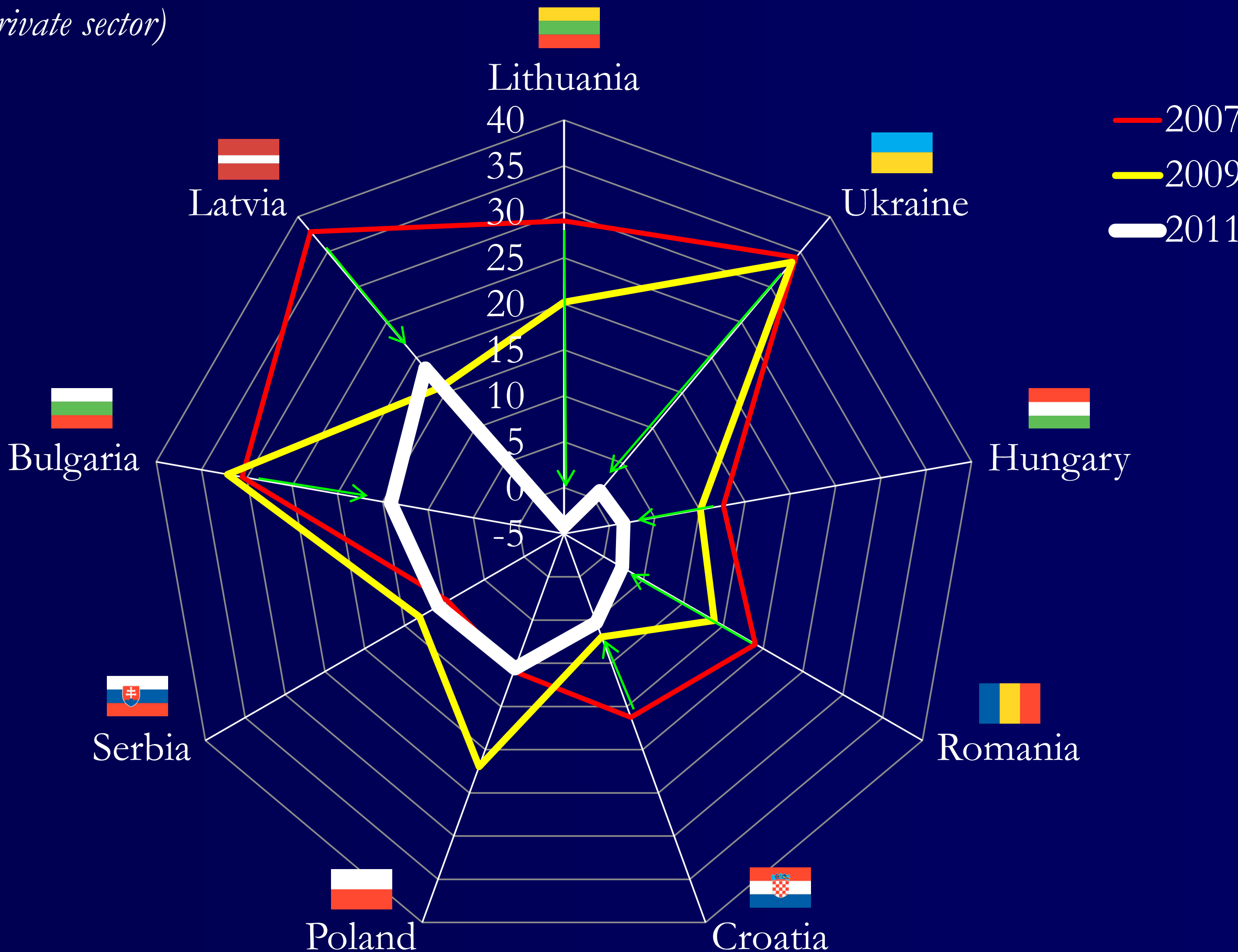
Banks' Capitalization
(regulatory capital to risk-weighted assets)



Source: IMF staff.

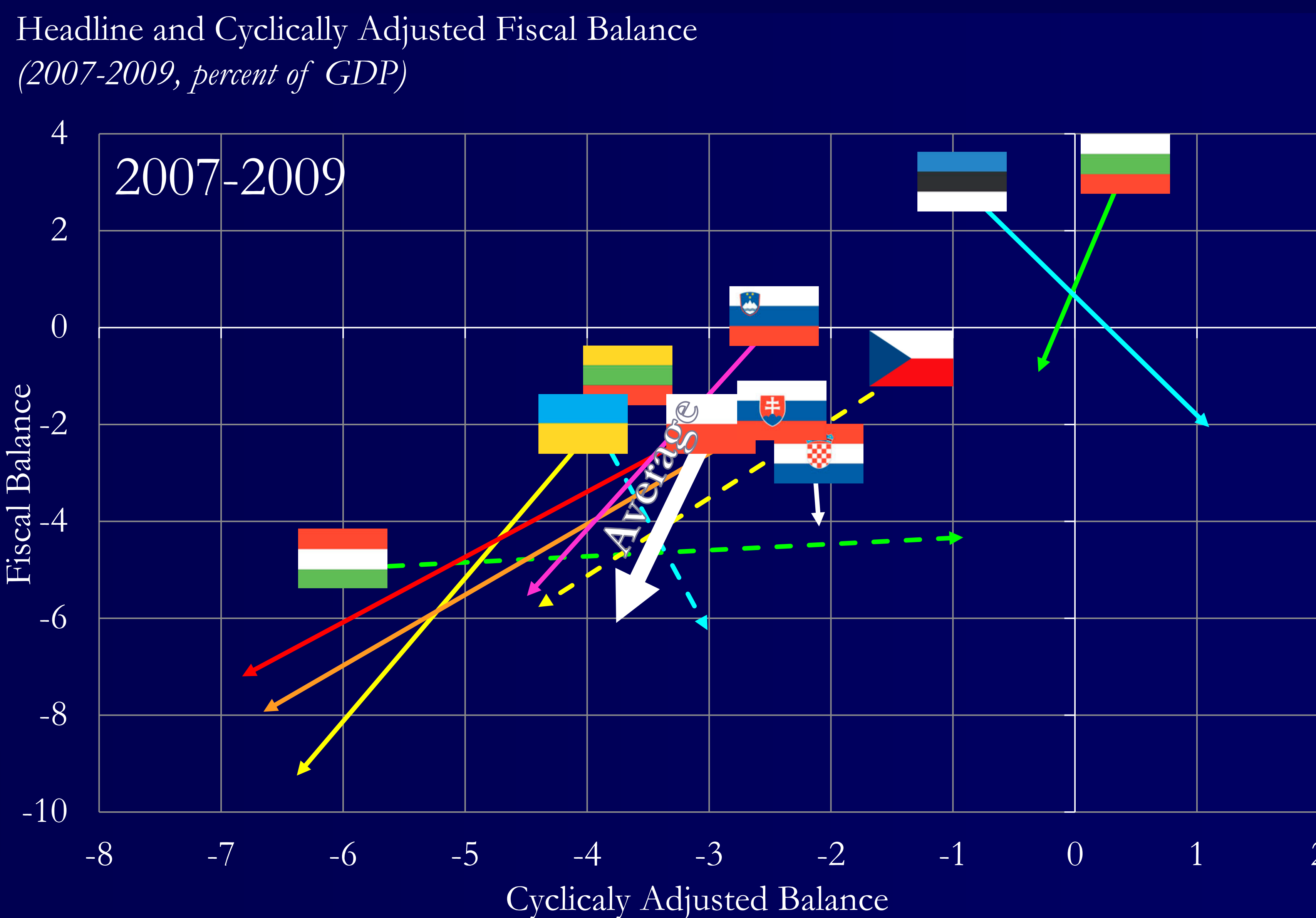
…and the effects of the credit boom are receding.

3-year Cumulative Change in Credit-to-GDP ratio
(credit to private sector)



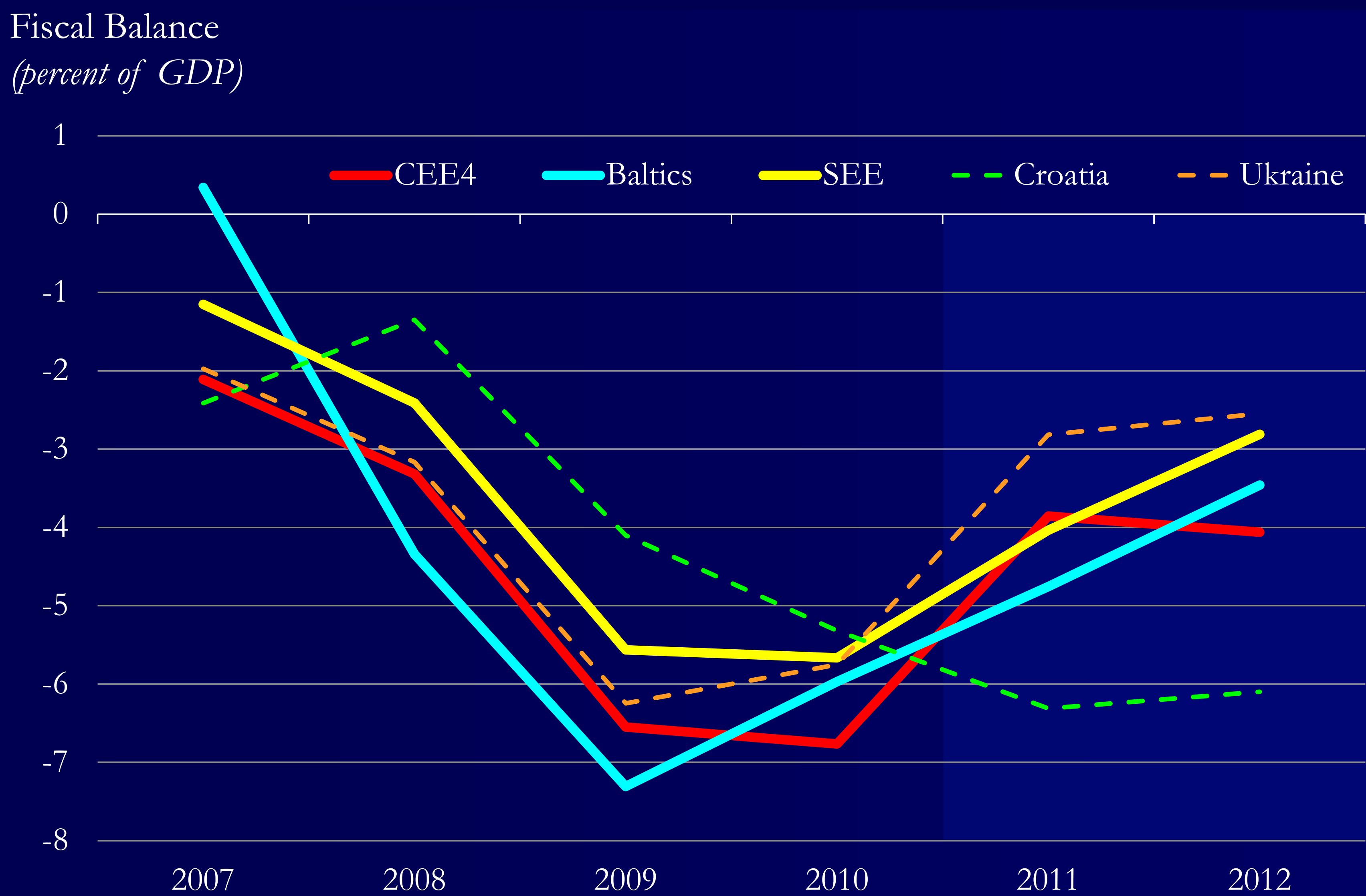
Source: IMF staff.

The crisis revealed the weaknesses in fiscal positions



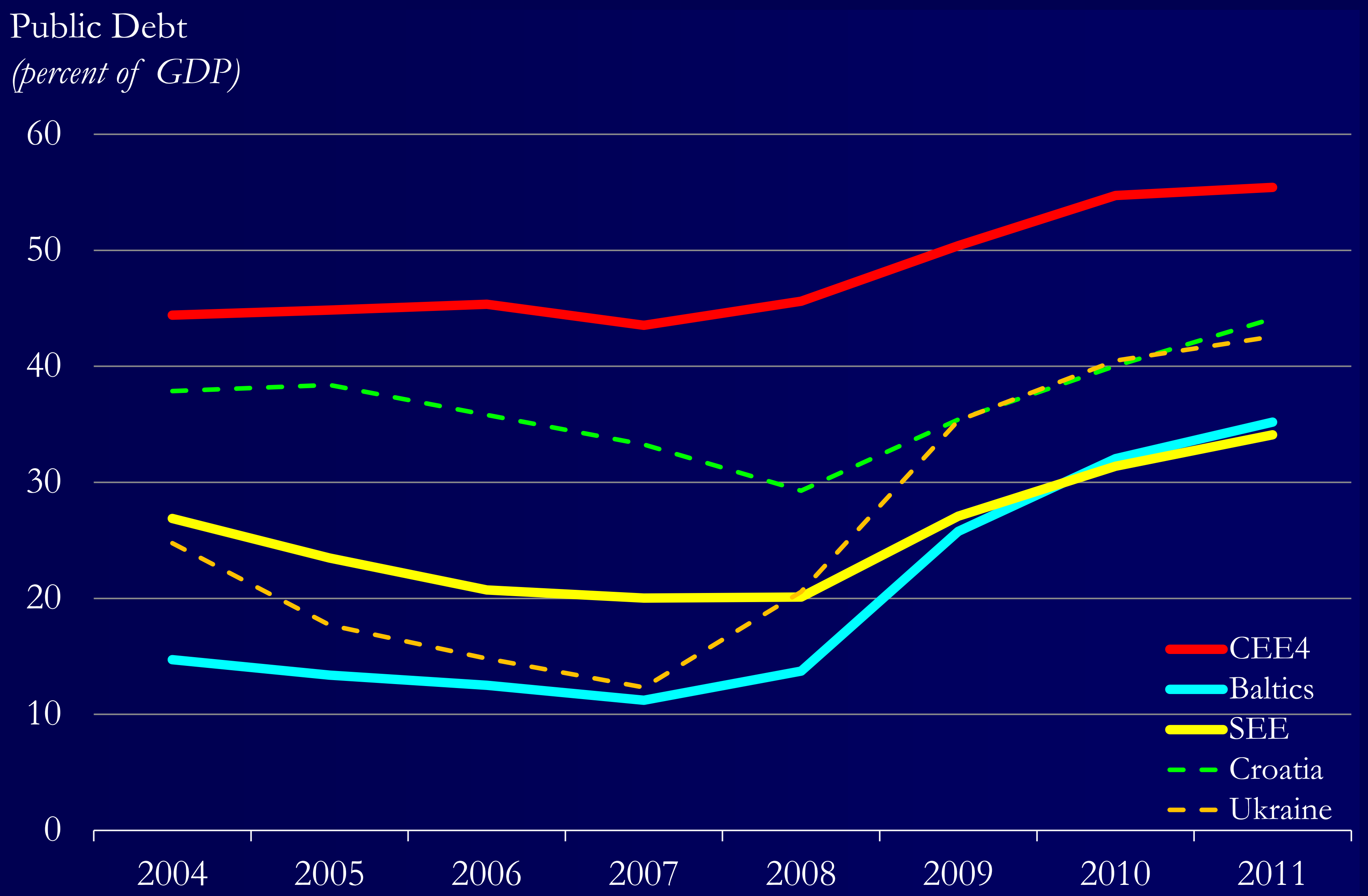
Source: IMF, WEO database.

… and consolidation is taking place gradually.



Source: IMF, WEO database.

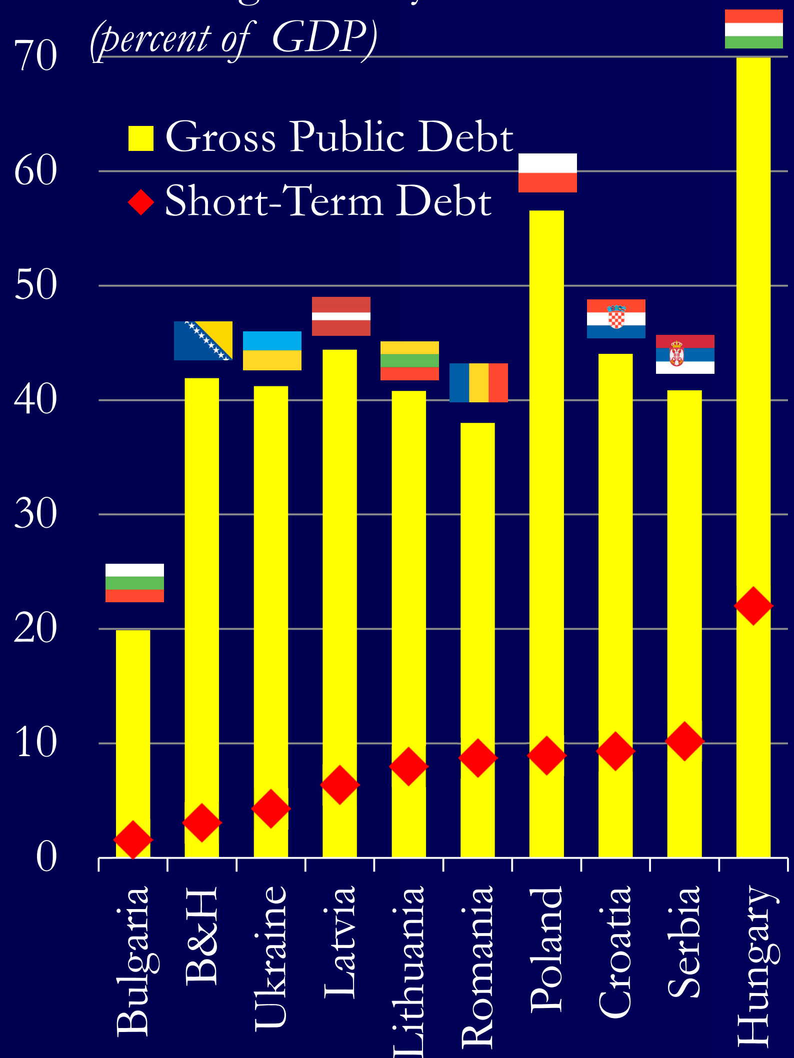
A legacy is the sharp increase in public debt.



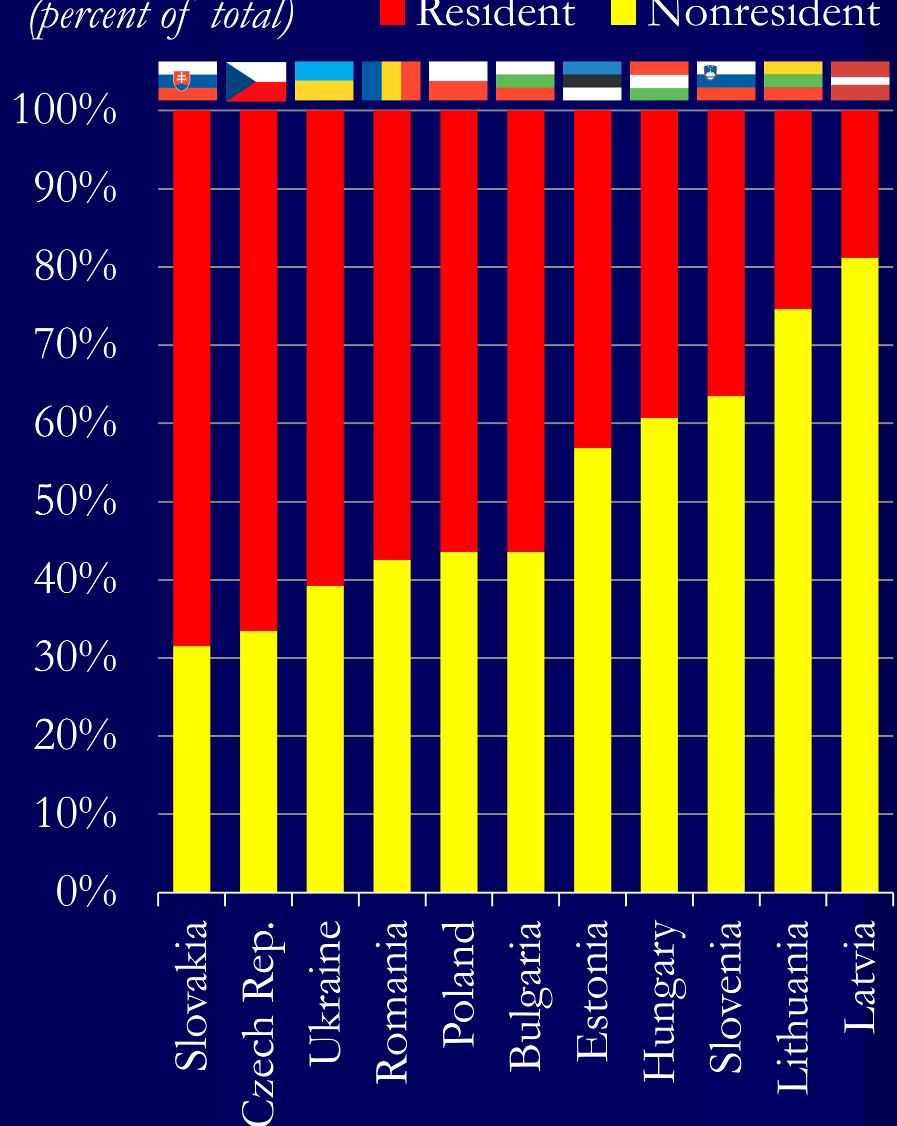
Source: IMF, WEO database.

… whose structure is in some cases susceptible to roll-over risk.

Gross and Short-Term Public Debt at Remaining Maturity
(percent of GDP)



Nonresident Holdings of Public Debt, 2010
(percent of total)



Source: IMF staff.

Conclusions

- Countries situations vary
- In general **external** vulnerability down
- **Financial sector** vulnerability shows some improvement
- **Fiscal** vulnerability has risen sharply
- All remain at concerning levels
- Further consolidation needed for next few years

Thank you