Eastern Europe Fragilities

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## The Ongoing Crisis (so far…)

<table>
<thead>
<tr>
<th>Country</th>
<th>Depreciation (in Percent)</th>
<th>Reserve Losses (in Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Fixed</td>
<td>0</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>Fixed</td>
<td>22</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Fixed</td>
<td>29</td>
</tr>
<tr>
<td>Croatia</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>21</td>
<td>4</td>
</tr>
<tr>
<td>Estonia</td>
<td>Fixed</td>
<td>20</td>
</tr>
<tr>
<td>Hungary</td>
<td>32</td>
<td>0</td>
</tr>
<tr>
<td>Latvia</td>
<td>Fixed</td>
<td>29</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Fixed</td>
<td>31</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>Fixed</td>
<td>26</td>
</tr>
<tr>
<td>Poland</td>
<td>48</td>
<td>28</td>
</tr>
<tr>
<td>Romania</td>
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<td>15</td>
</tr>
<tr>
<td>Serbia</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td></td>
<td>Euro</td>
</tr>
<tr>
<td>Slovenia</td>
<td></td>
<td>Euro</td>
</tr>
</tbody>
</table>

Note: Depreciation and Reserves Loses are measured from peak values
The Early Warnings: Current Account Deficits

Average Current Account Deficit: 2007-2008
(Percent of GDP)
And External Debt Increased…
One Trigger of the Problems

Federal Funds Rate
(Percent per Annum)
Fueling Capital Inflows

Capital Inflows 2003-2008
(in Percent of GDP)
And a Domestic Credit Boom

Annual Growth Rate of Domestic Credit 2004-2007 (in Percent)
And the Economies Overheated

Annual Growth Rate of GDP 2003-2007
(in Percent)

Albania
Bosnia & Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Hungary
Latvia
Lithuania
Macedonia, FYR
Poland
Romania
Serbia
Slovakia
Slovenia
Their Own Subprime Problem

Real Estate Price Increases

- Albania
- Bosnia & Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Macedonia, FYR
- Poland
- Romania
- Serbia
- Slovakia
- Slovenia

- 2000-2007
- 2005-2007
- 2004-2007
Fiscal Imbalances

Government Deficit 2003-2008
(in Percent of GDP)
Further Concerns: Exposure of Financial Centers

Total Exposure: 1.4 trillion dollars
Eastern Europe GDP in 2008: 1.6 trillion dollars
Further Concerns: Exposure of Financial Centers

Exposure to Eastern Europe
(as a Percent of Lending to All Countries)
Looking Ahead

• Reversing the current account deficits will be painful given that the prior deficits are so large and government budgets are in deficit.

• **Memo:** Thailand’s Current Account reversal in 1998 was 12 percent of GDP, with GDP declining by 11 percent.

• Governments will have to struggle to reduce the deficit through a combination of tax increases and expenditure reductions, bringing a more pronounced cyclical downturn.

• And political instability.

• IMF Programs to the Region: Hungary, Ukraine, Iceland, Belarus, and Latvia for about $39 billion. Foreign loans maturing in 2009 are about $400 billion. What’s next?