

How are the countries of Southeast Europe affected by the global economic and financial crisis?

Michael A Landesmann

presentation at the International Conference:
'The Global Financial and Economic Crisis: Challenges and
Strategies in Southeast Europe', Berlin Nov. 2-3, 2009

How are the countries of Southeast Europe affected by the global economic and financial crisis?

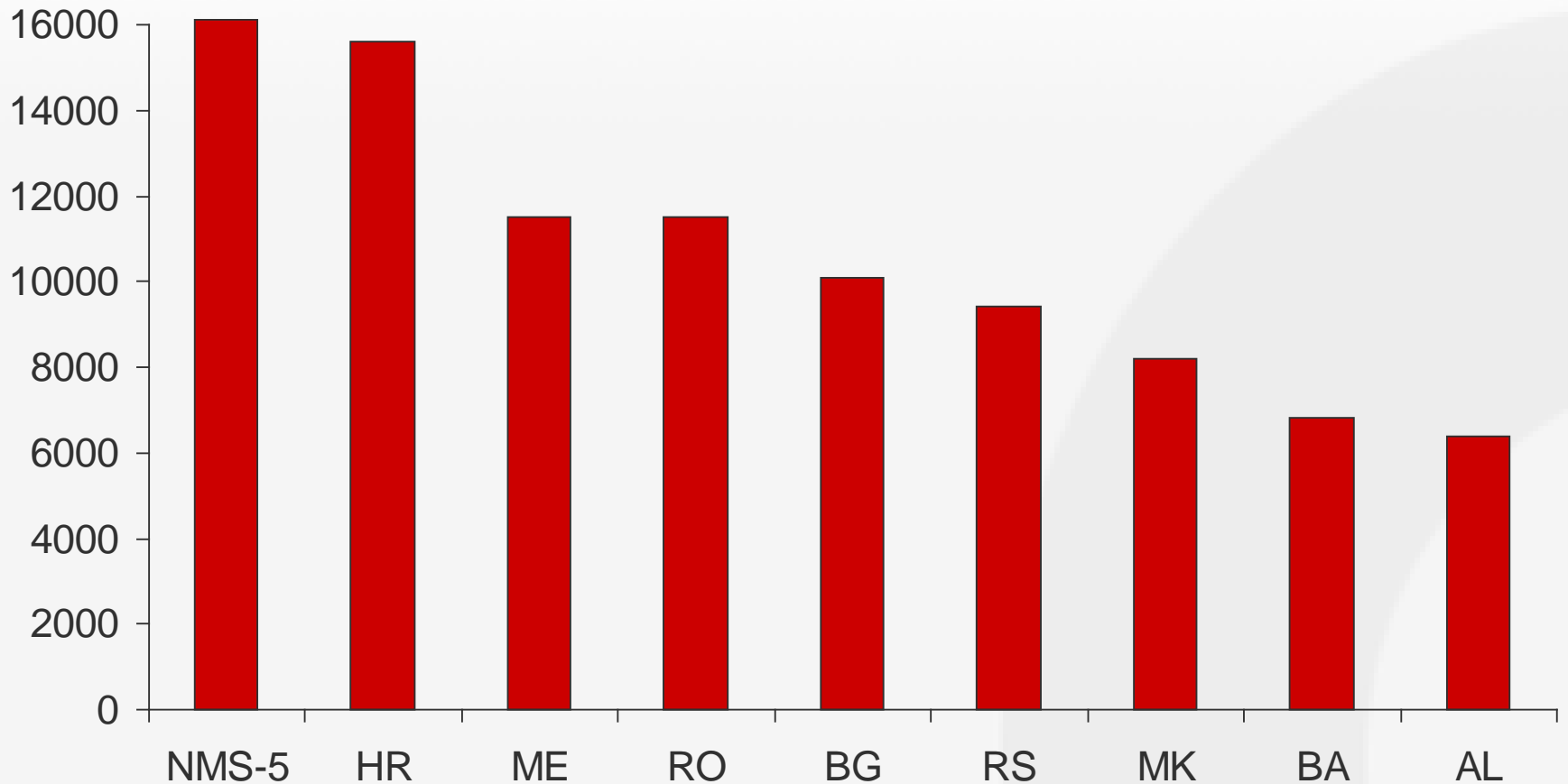
- Topics:
- Starting point: Developments prior and vulnerabilities to the crisis
- Trade, current accounts, foreign debt, fiscal developments
- Differences with CE and amongst SEE economies
- Likely pattern of recovery
- Which model for growth in the future?

Starting points: Developments prior and vulnerabilities to the crisis

- Growth and catching-up prior to the crisis: following CE?
- Trade, current accounts, foreign debt, fiscal developments
- Real exchange rates and exchange rate regimes
- The impact of the crisis
- Recovery from the crisis

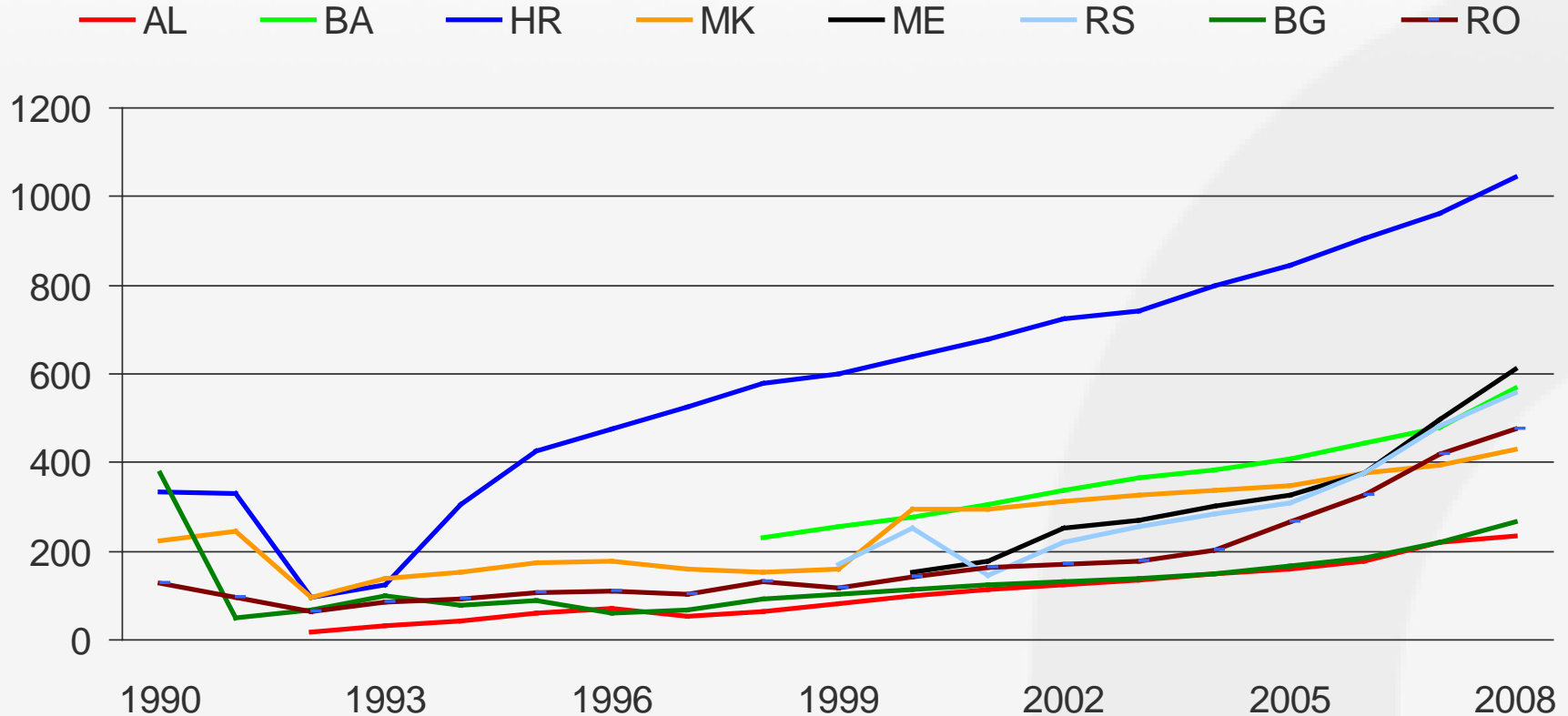
GDP per capita, 2008

EUR at PPPs

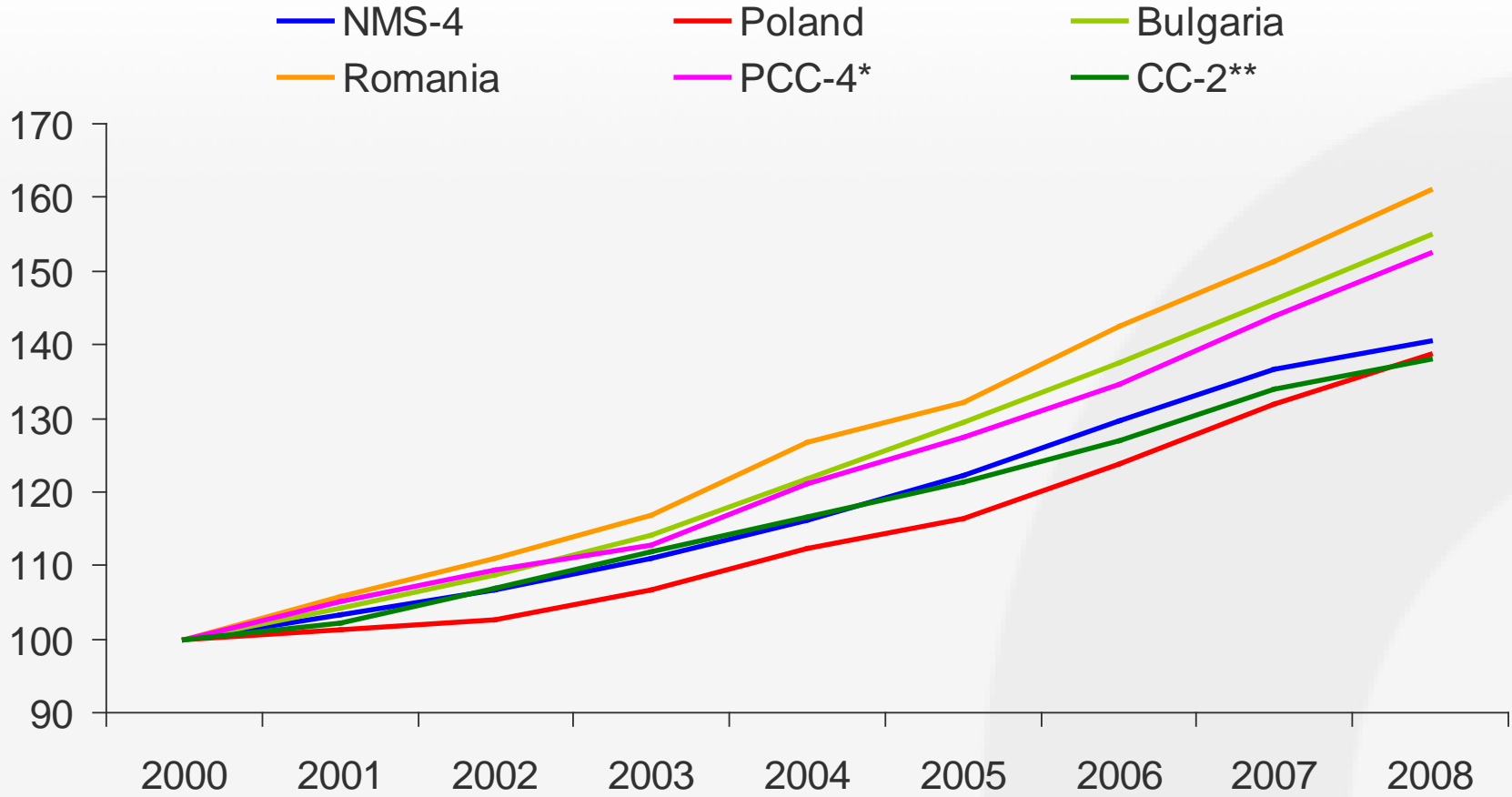


Average gross monthly wages, 1990-2008

EUR at exchange rate



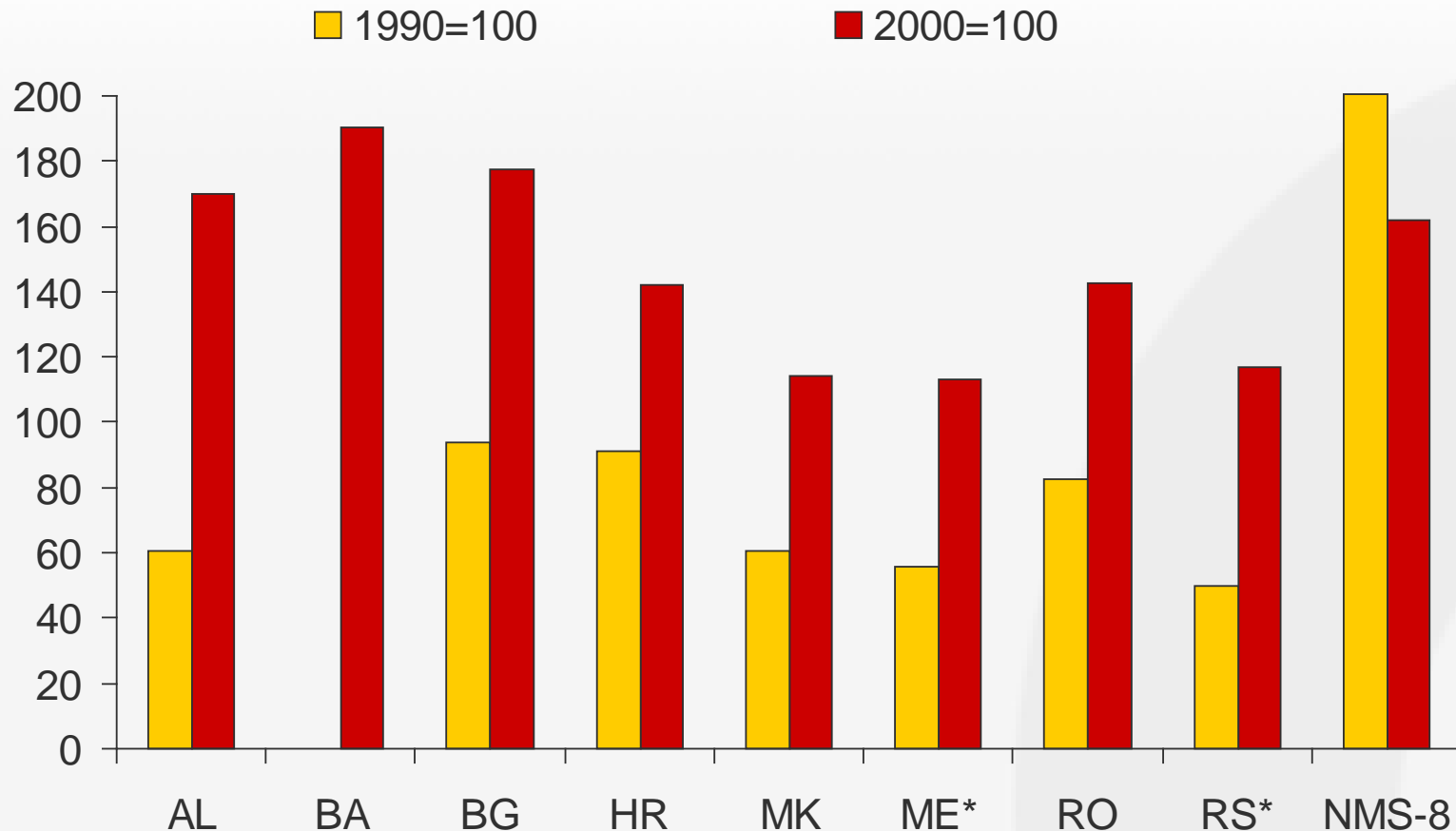
Real GDP growth in CEE and SEE, 2000 = 100



Note: * PCC-4: AL, BA, ME, RS. **CC-2: HR, MK.

Source: wiiw Annual Database incorporating national statistics.

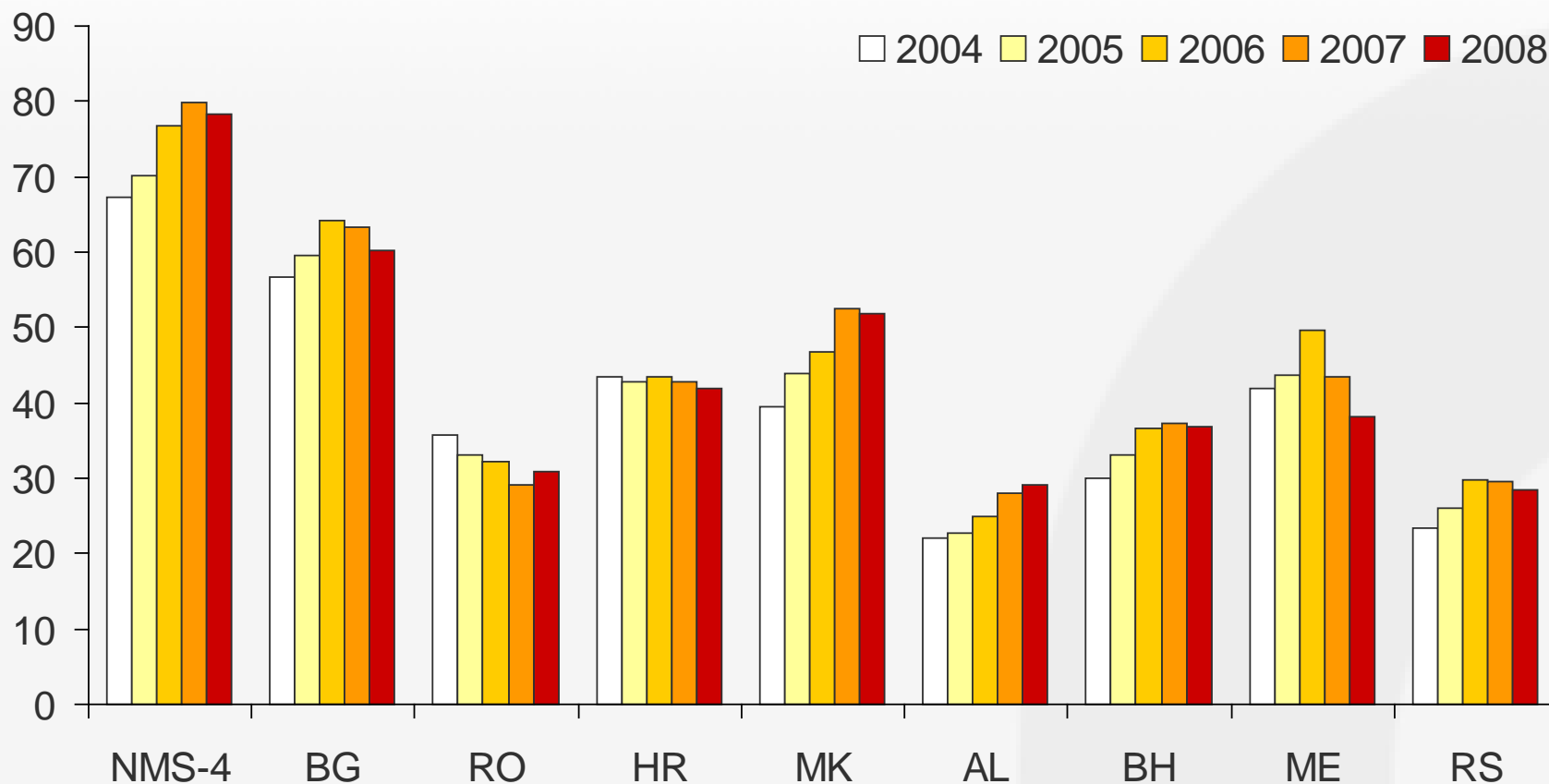
Industrial production, 2008



Note: Until 1998 data refer to Serbia and Montenegro.

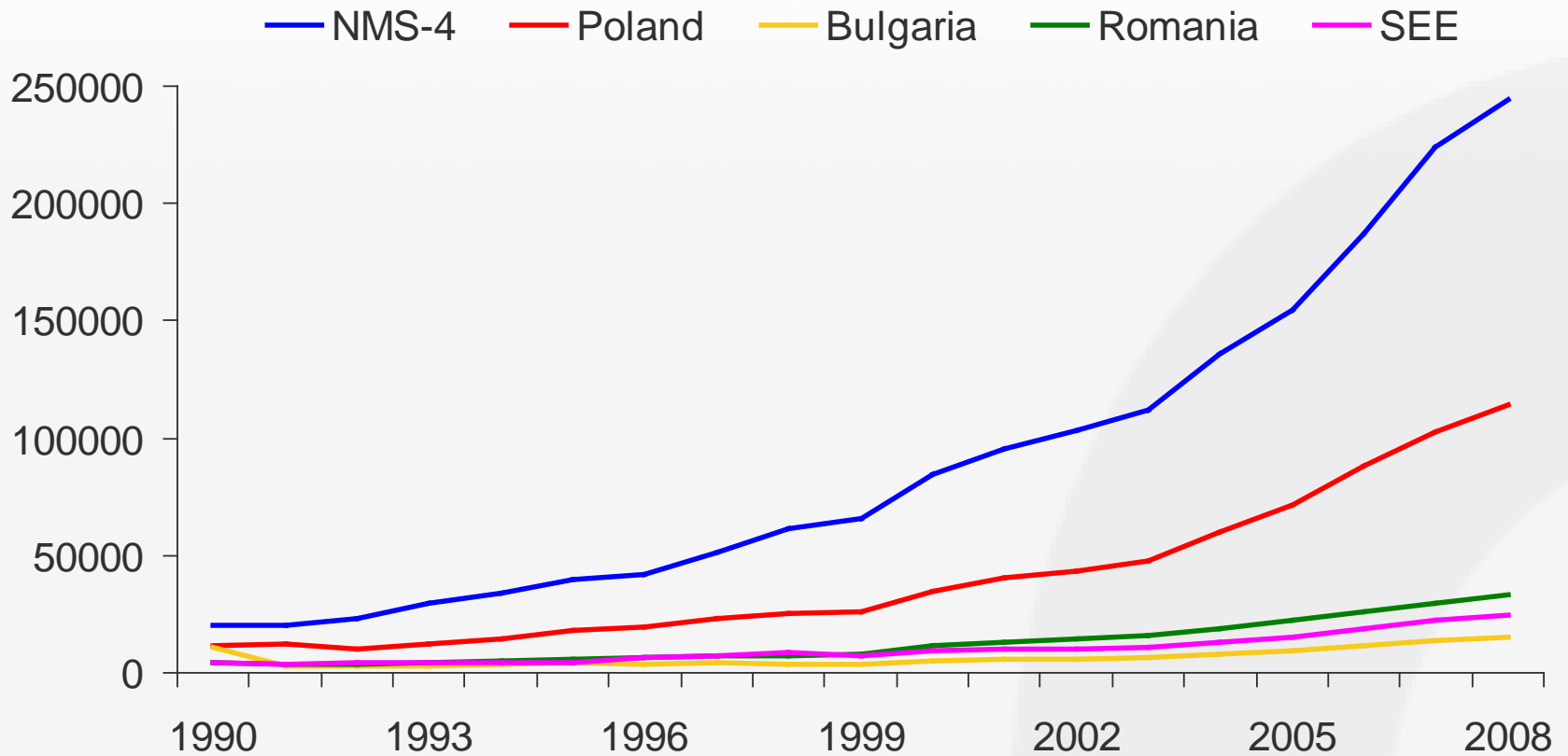
Source: wiiw Annual Database incorporating national statistics.

Exports of goods and services (BOP) in % of GDP



Source: wiiw Annual Database incorporating national statistics.

Exports in NMS and SEE, EUR mn

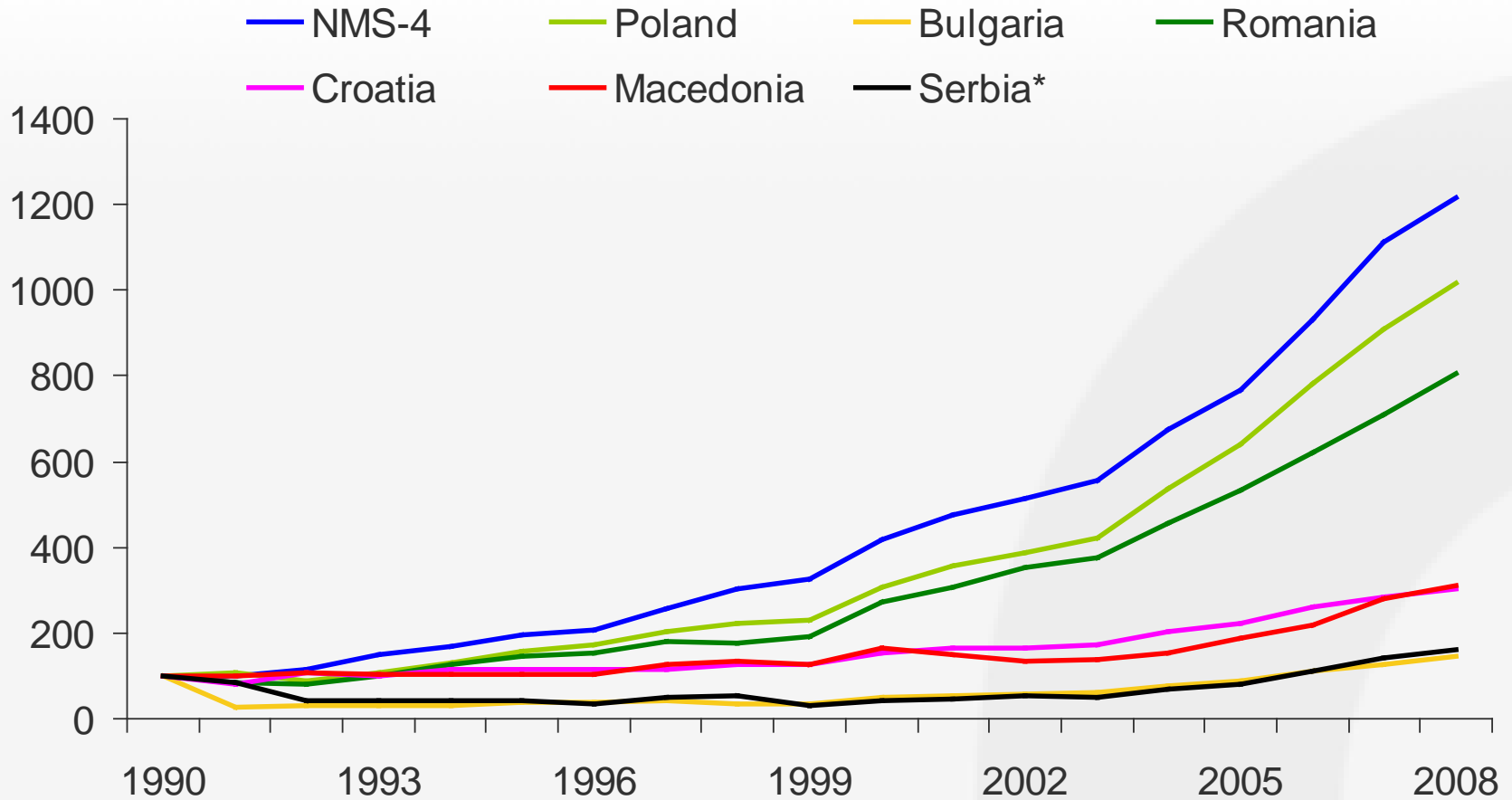


Note: Data refer to sum over available data

Source: wiiw Annual Database incorporating national statistics.

Exports in NMS and SEE, 1990-2008

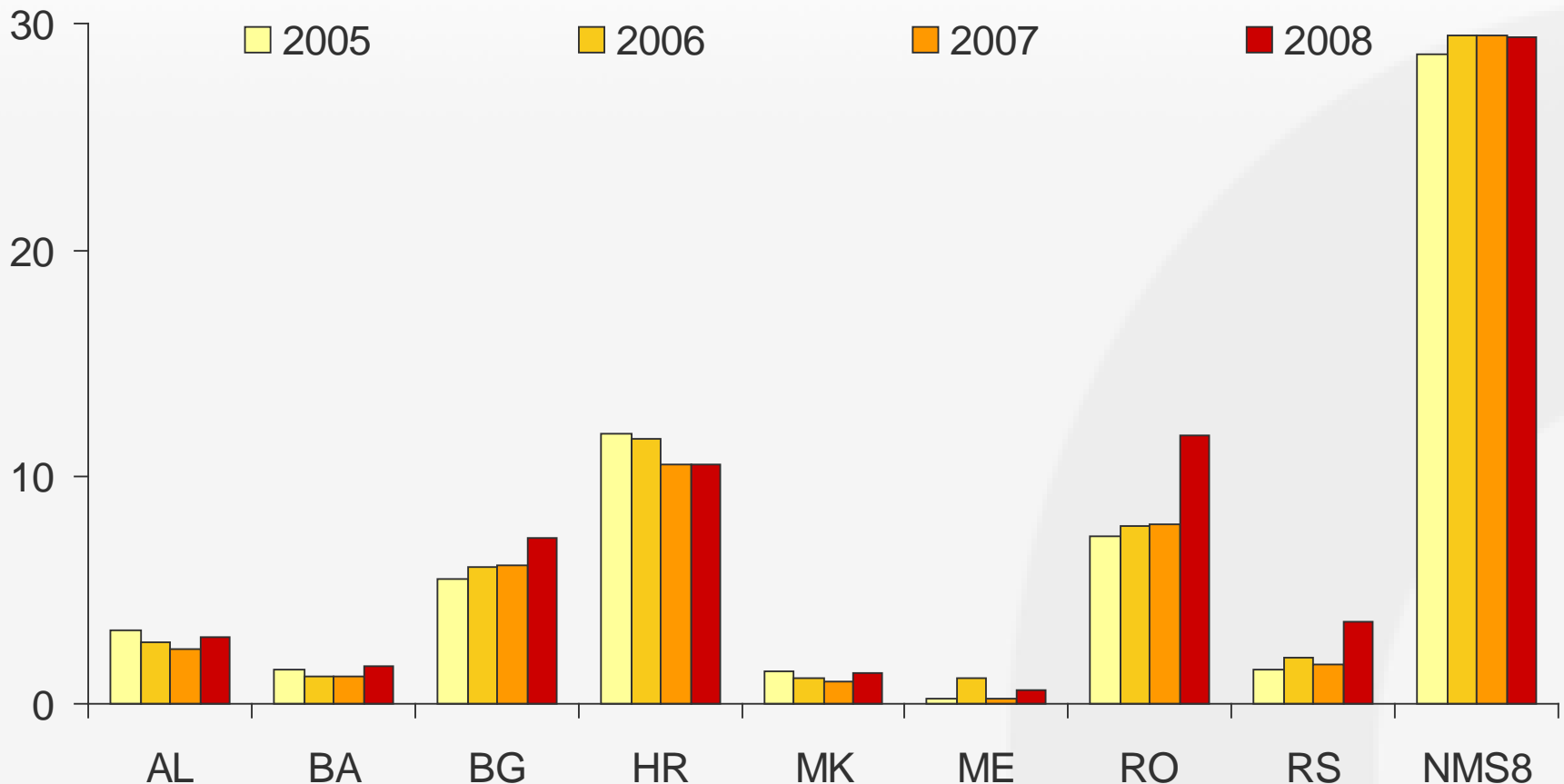
1990=100



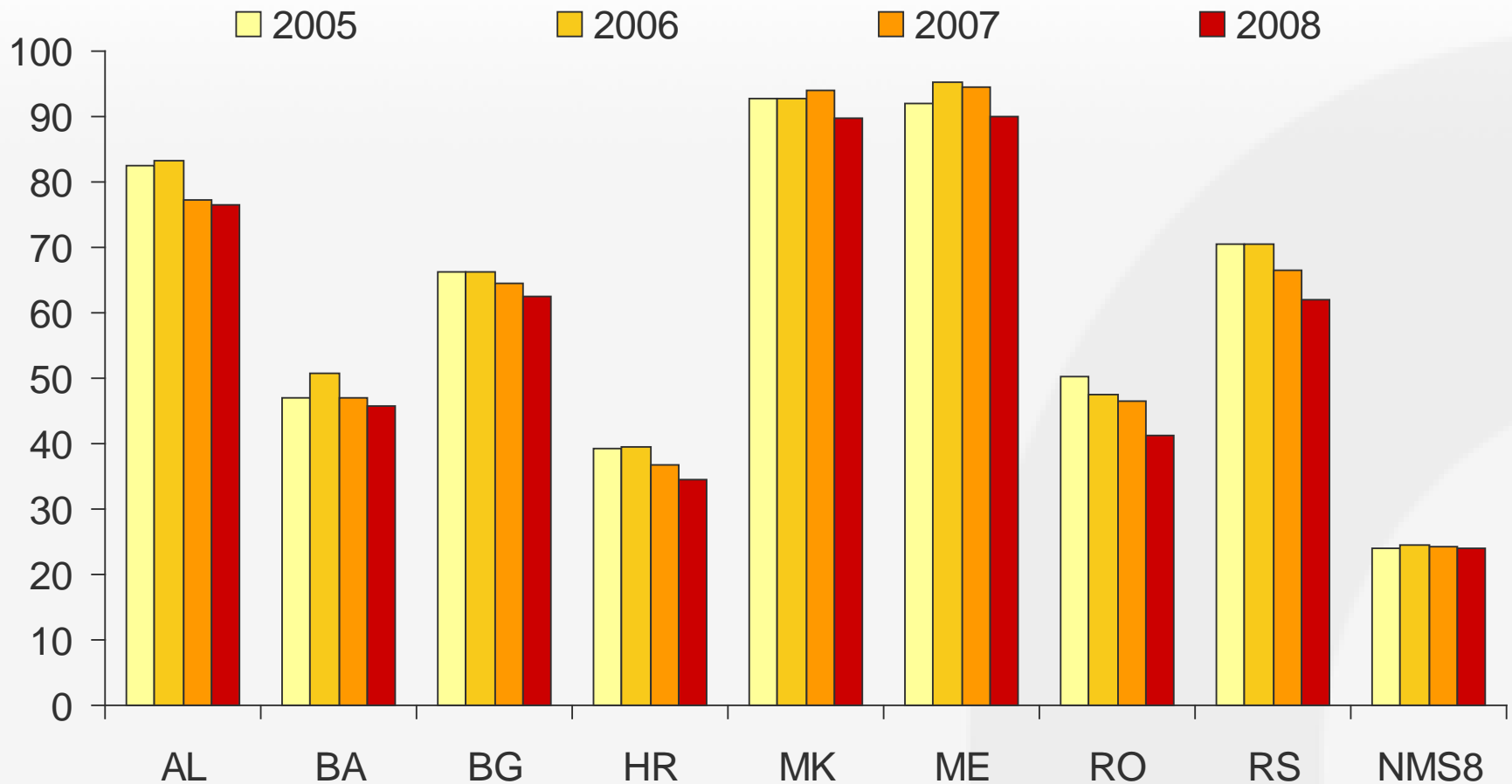
Note: Until 1998 data refer to Serbia and Montenegro.

Source: wiiw Annual Database incorporating national statistics.

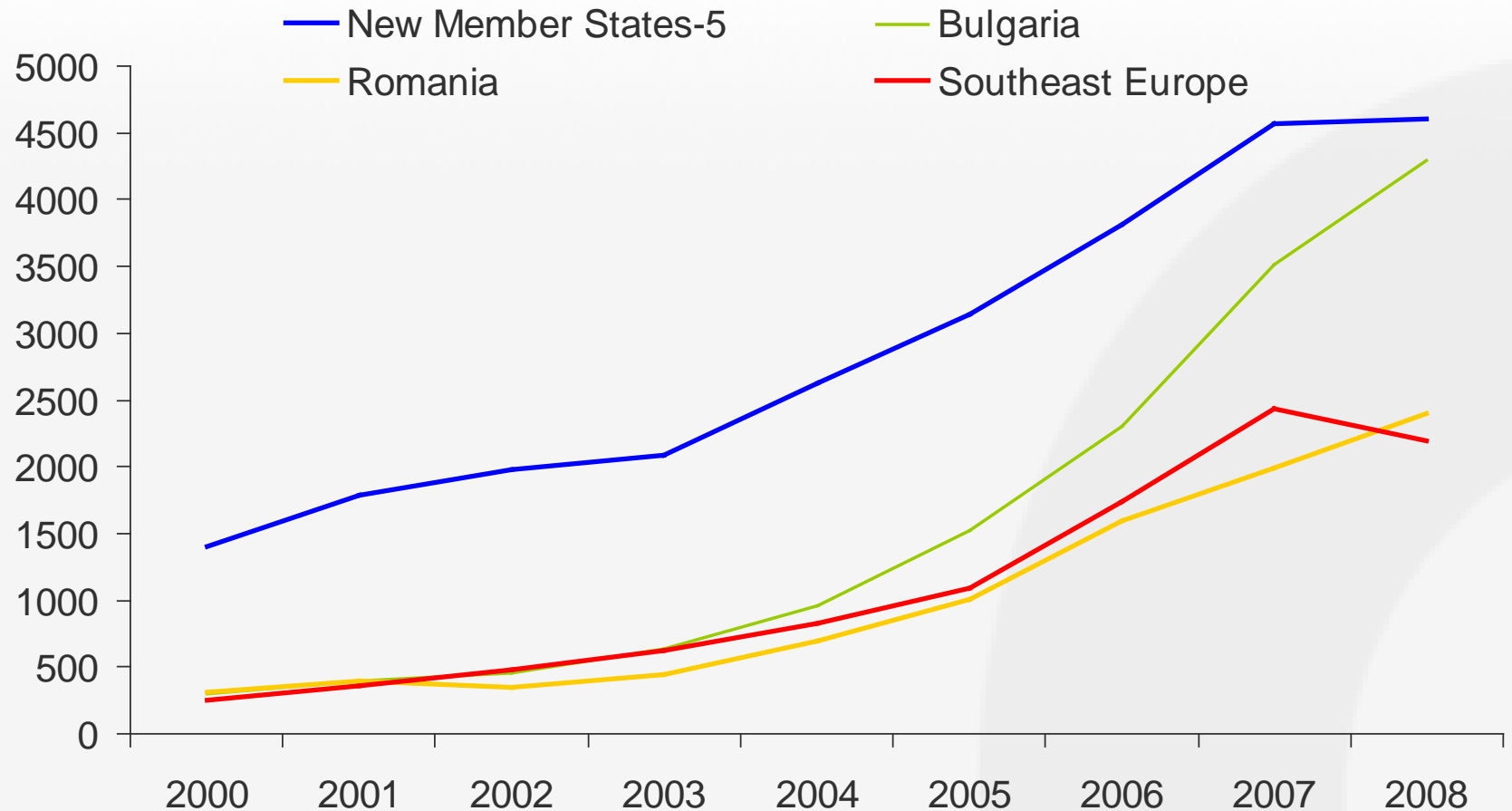
Technology-driven industries, as % of total manufacturing exports to the EU



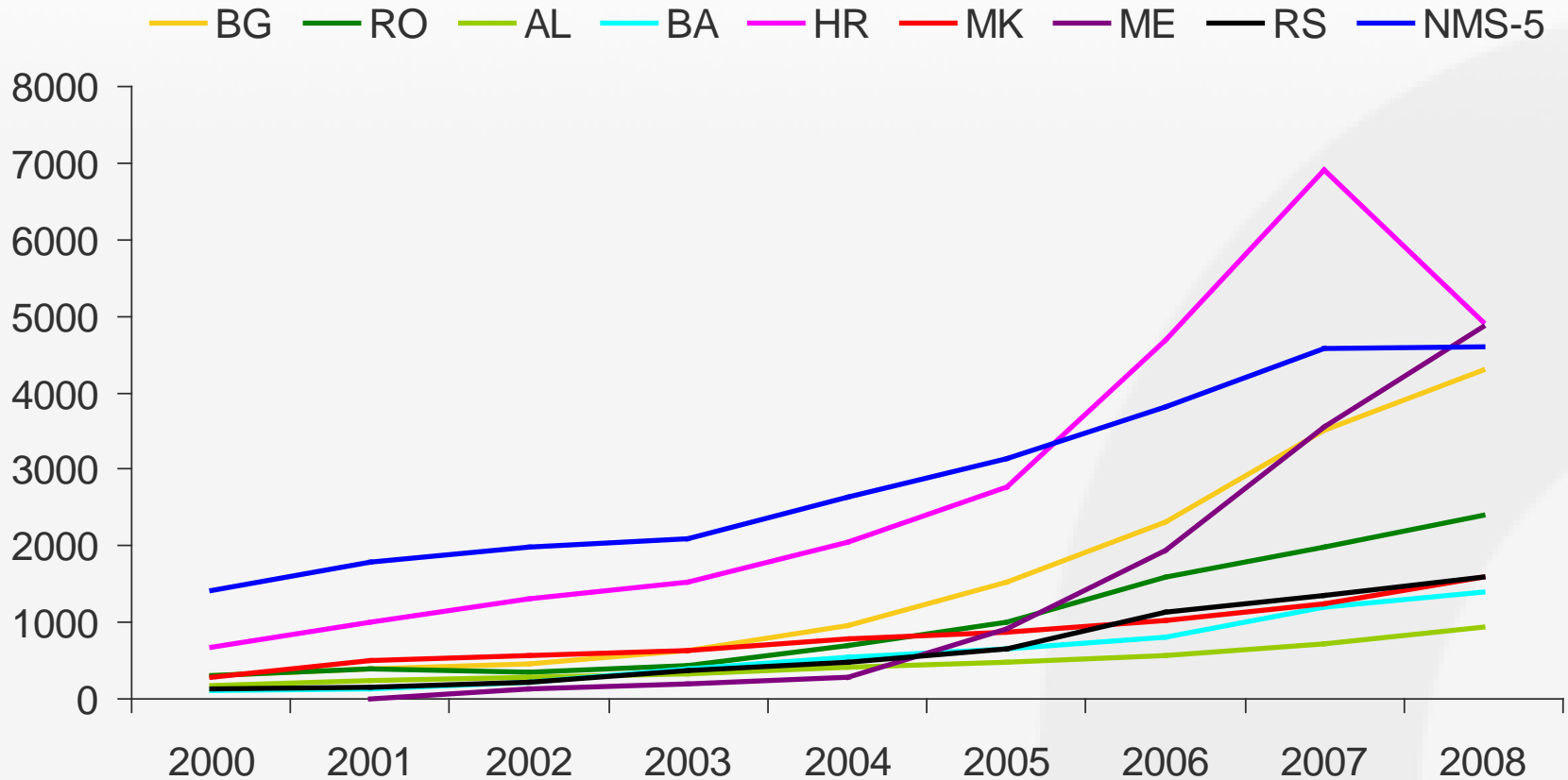
Low-skill industries, as % of total manufacturing exports to the EU



FDI stock, per capita, in NMS and SEEC, 2000-2008, EUR



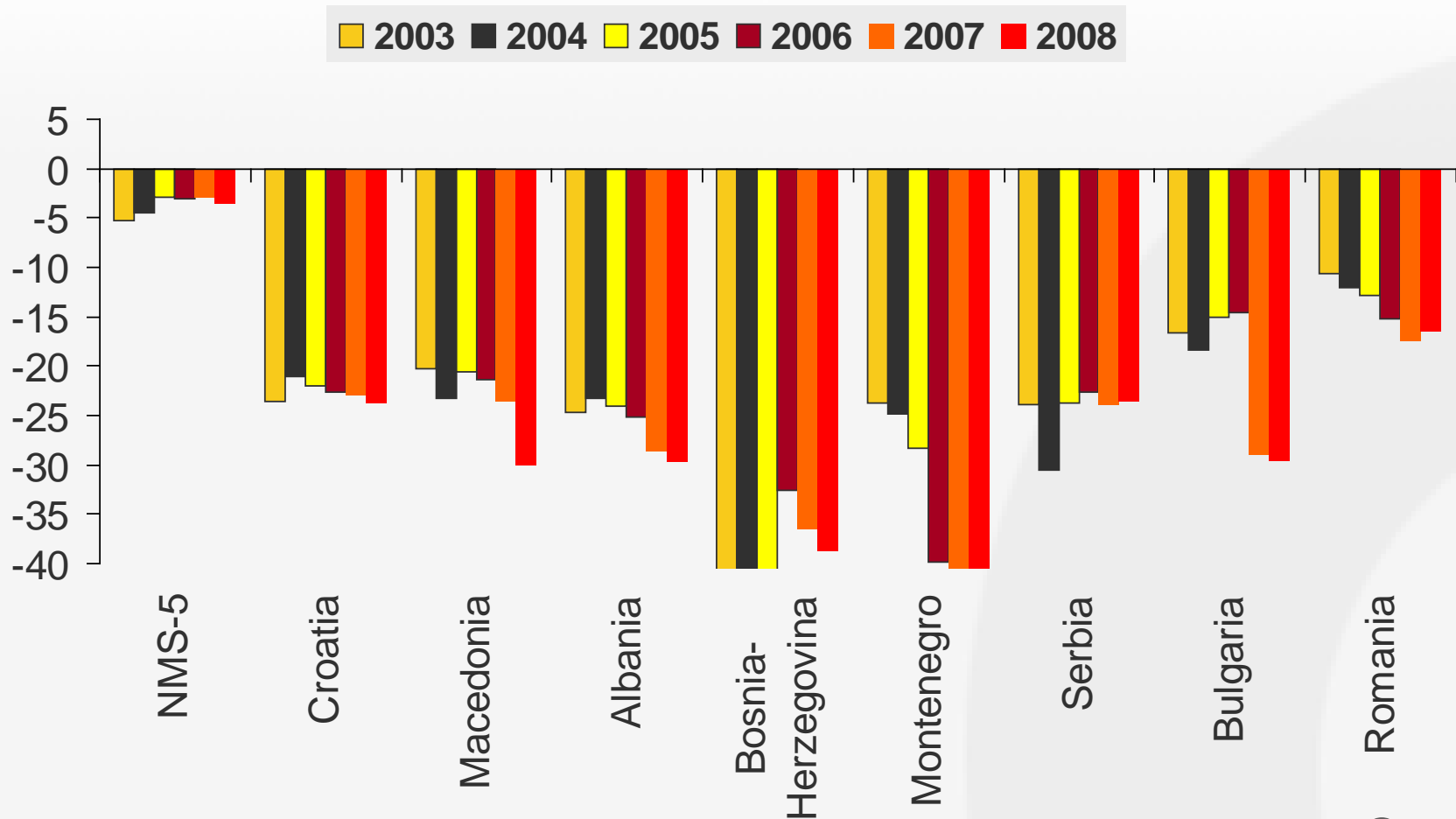
FDI stock, per capita, in NMS and SEEC, 2000-2008, EUR



Source: wiiw Annual Database incorporating national statistics.

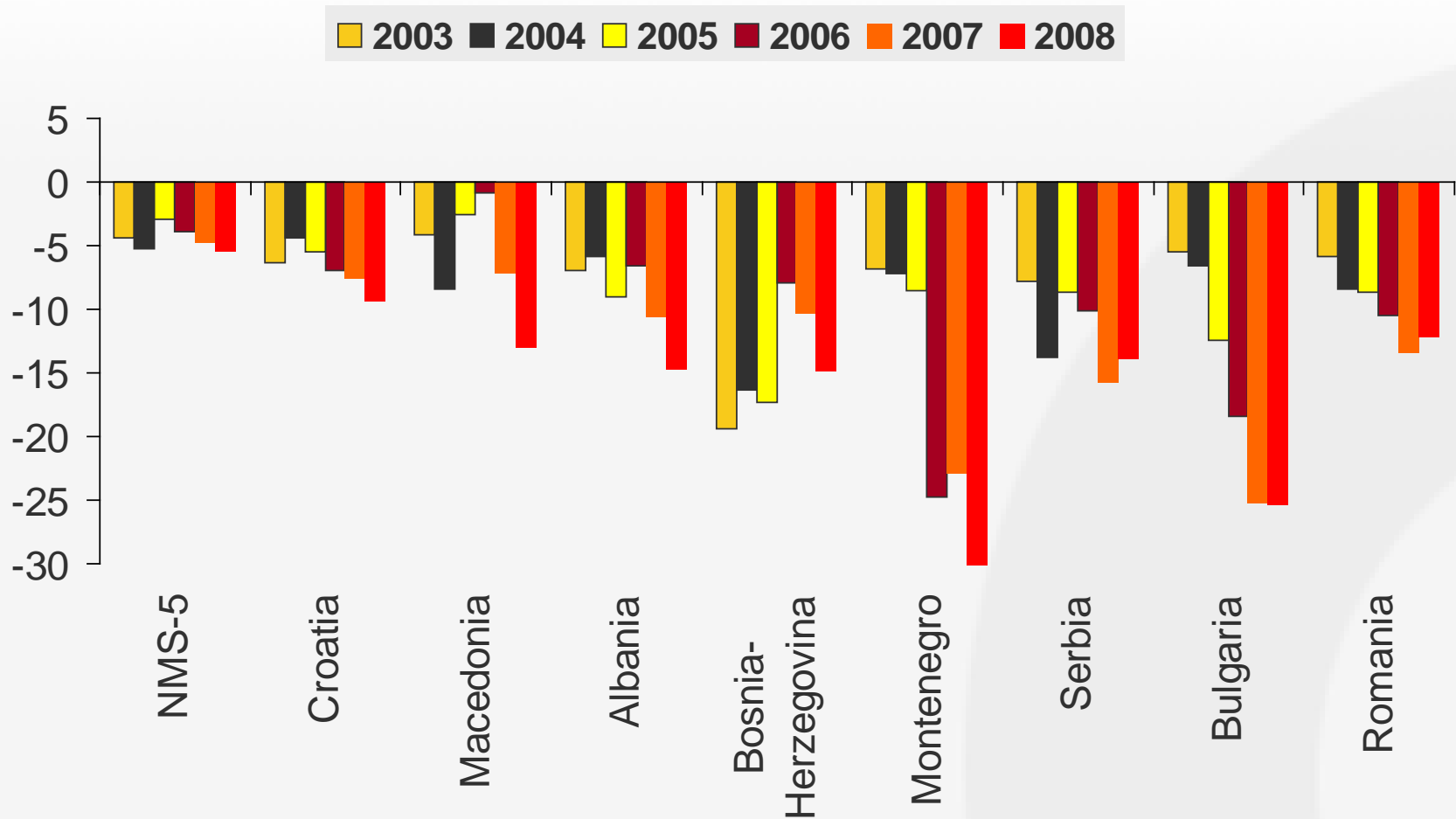
Trade balance (commodities)

in % of GDP in SEE and CEE



Current account

in % of GDP in SEE and CEE



Components of the Balance of Payments

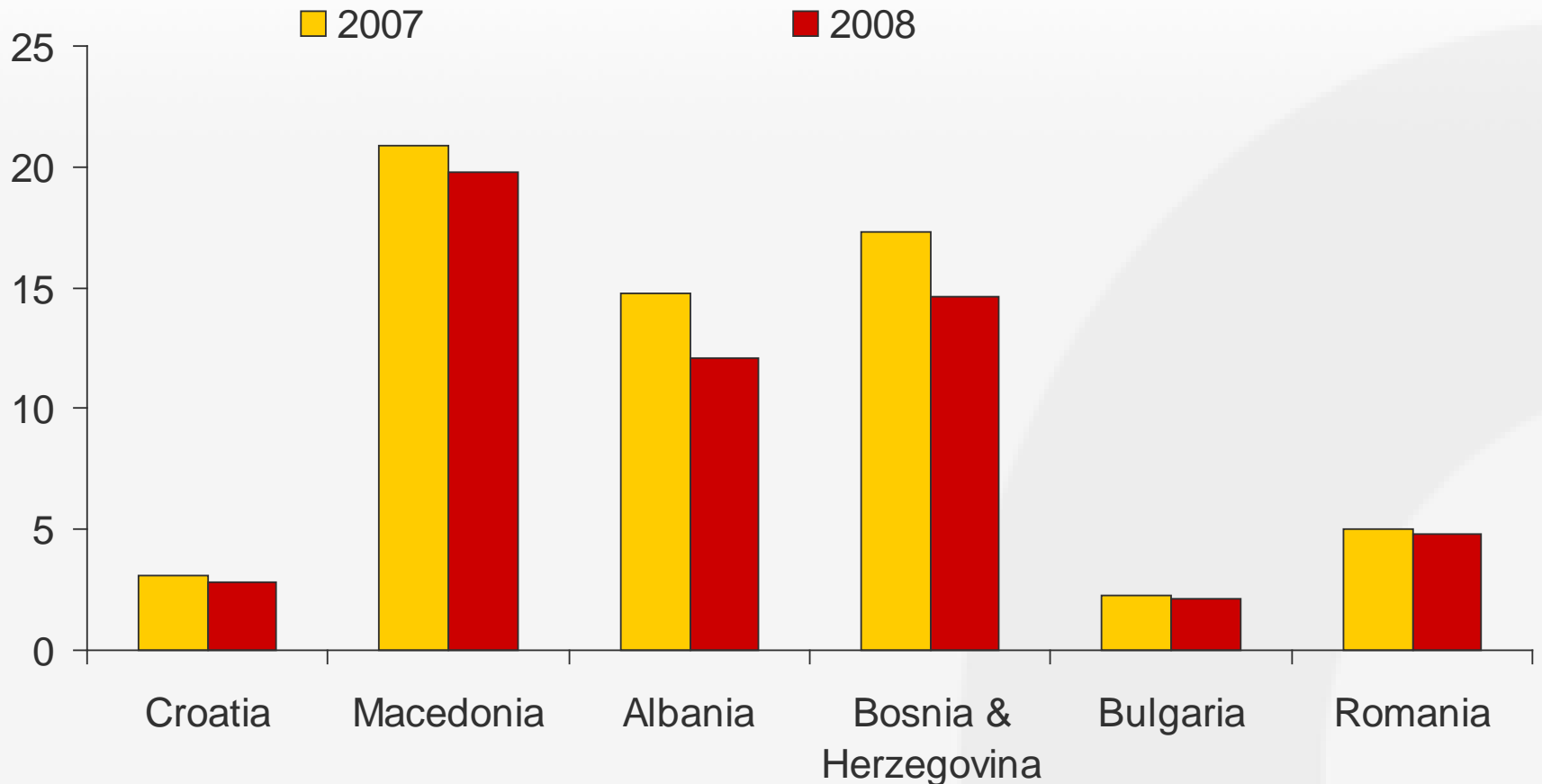
in % of GDP, 2008

	Croatia	Macedonia	Albania	Bosnia & Herzegovina	Montenegro	Serbia	Bulgaria	Romania
Current account	-9.4	-13.1	-14.7	-14.9	-30.1	-13.9	-25.4	-12.2
a) Trade balance, net	-22.9	-26.7	-27.1	-38.1	-44.6	-20.2	-25.2	-13.4
Exports of goods	20.6	41.3	10.2	27.9	15.5	20.7	44.6	24.5
Imports of goods	-43.5	-68.0	-37.4	-66.0	-60.1	-40.9	-69.8	-37.9
b) Services, net	14.7	0.0	0.8	5.4	12.1	-0.3	2.3	0.6
1. Transport, net	1.1	-0.9	-1.1	0.3	.	.	0.3	0.0
2. Travel, net	14.1	1.0	1.3	3.3	.	.	2.7	-0.1
3. Other, net	-0.5	-0.1	0.6	1.8	.	.	-0.7	0.7
c) Income, net	-3.3	-1.4	1.2	3.2	0.2	-2.1	-3.9	-3.8
1. Compensation of employees, net	1.2	1.4	1.9	4.4	.	.	4.2	0.8
2. Investment income, net	-4.5	-2.9	-0.7	-1.1	.	.	-8.1	-4.6
d) Current transfers, net	2.2	15.0	10.5	14.6	2.2	8.8	1.5	4.4
1. General government, net	-0.1	0.7	0.4	1.3	.	.	0.3	0.6
1. Other sectors, net	2.3	14.3	10.1	13.3	.	.	1.2	3.7
Private transfers, EUR mn	1342	1286	1086	1851	.	.	720	6576
Private transfers, % GDP	2.8	19.8	12.1	14.6	.	.	2.1	4.8
Private transfers, per capita	303	628	342	482	.	.	94	306

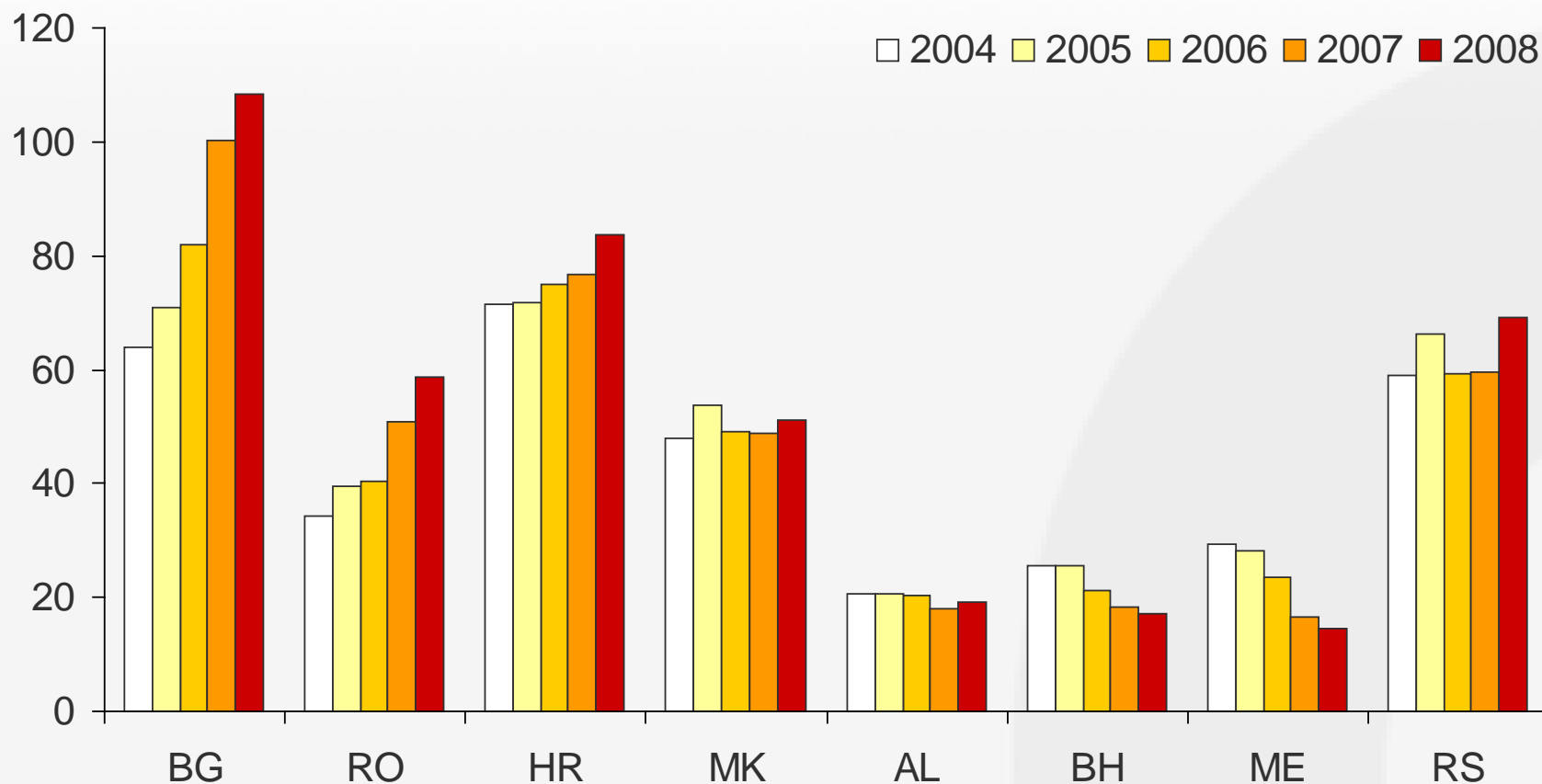
Source: National banks of respective countries.

Private transfers in SEE

in % of GDP

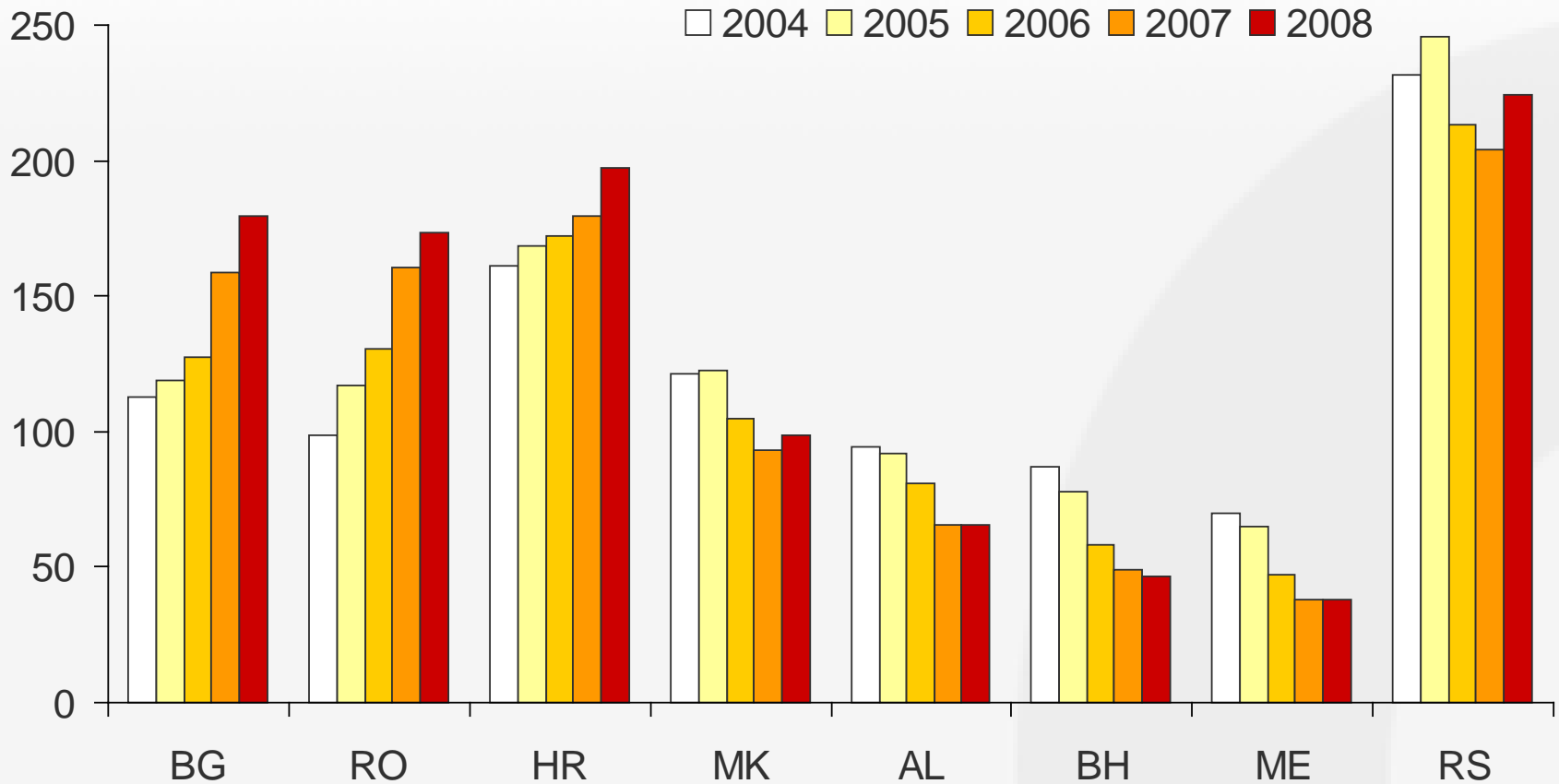


Gross external debt in % of GDP



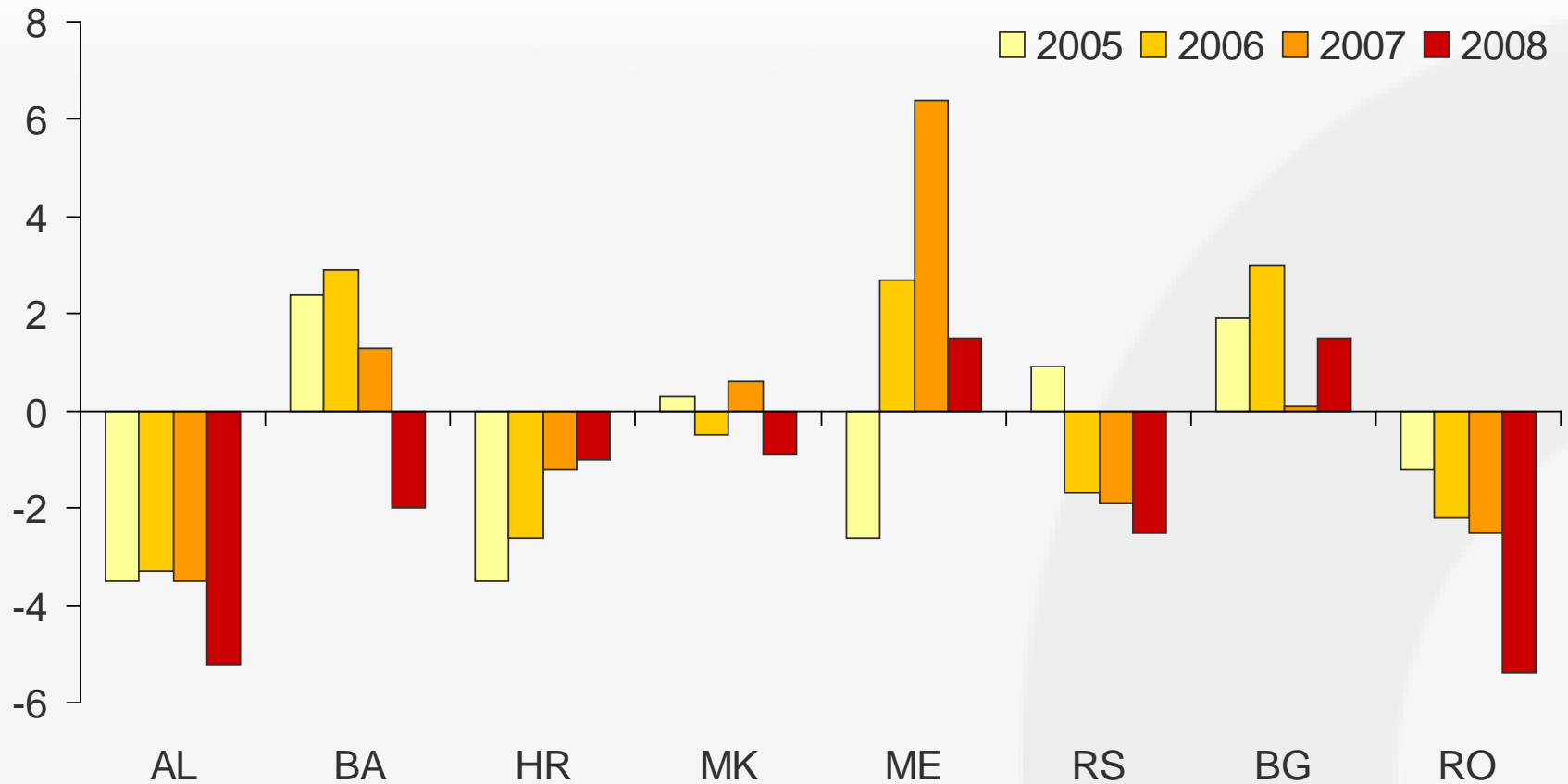
Source: wiiw Annual Database incorporating national statistics.

Gross external debt in % of exports of goods and services (BOP)



Source: wiiw Annual Database incorporating national statistics.

General government budget balance, in % of GDP



Source: wiiw Annual Database incorporating national statistics.

Labour market indicators 2008

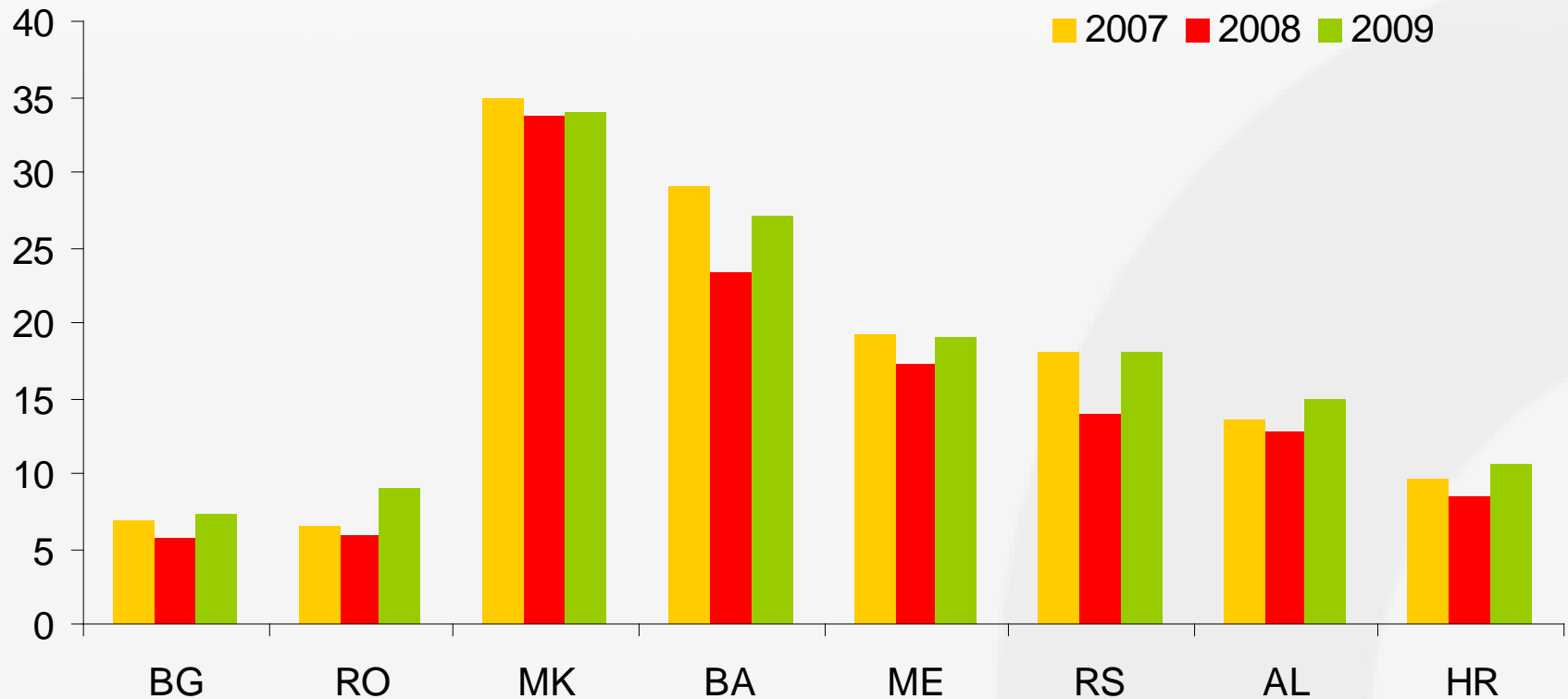
LFS, in % average

Employment rate ***Unemployment rate***

Albania	53.8	13.1
Bosnia and Herzegovina	33.6	23.4
Croatia	44.4	8.4
Macedonia	37.3	33.8
Montenegro	42.3	17.2
Serbia	44.4	13.6
Bulgaria	50.8	5.6
Romania	51.4	5.8

Unemployment rates, 2007-2009

in %, annual average, LFS



Summary points:

Developments prior and vulnerabilities to the crisis

- Growth and catching-up prior to the crisis: following CE?
- Most important Achilles heel: export capacity, lack of industrial capacity
- High negative current accounts make SEE economies vulnerable
- Specific aspects of trade and capital accounts: services trade, transfers, multilateral support
- Foreign debt positions (public/private), fiscal positions differ
- Exchange rate regimes!!
- Disastrous (un)employment situation

The impact of the crisis

- Two main transmission channels:
 - through trade: exporting activity
 - through finance: credit system, capital accounts

- Impact of the crisis: Comparison with CE economies:
 - less dependent on export markets
 - other components of capital accounts important (transfers, multilateral support)
 - private sector debt differences across SEE

- Likely path out of the crisis and main stumbling blocs
 - real exchange rate problems
 - FDI inflows questionable
 - sustained problems in the credit system

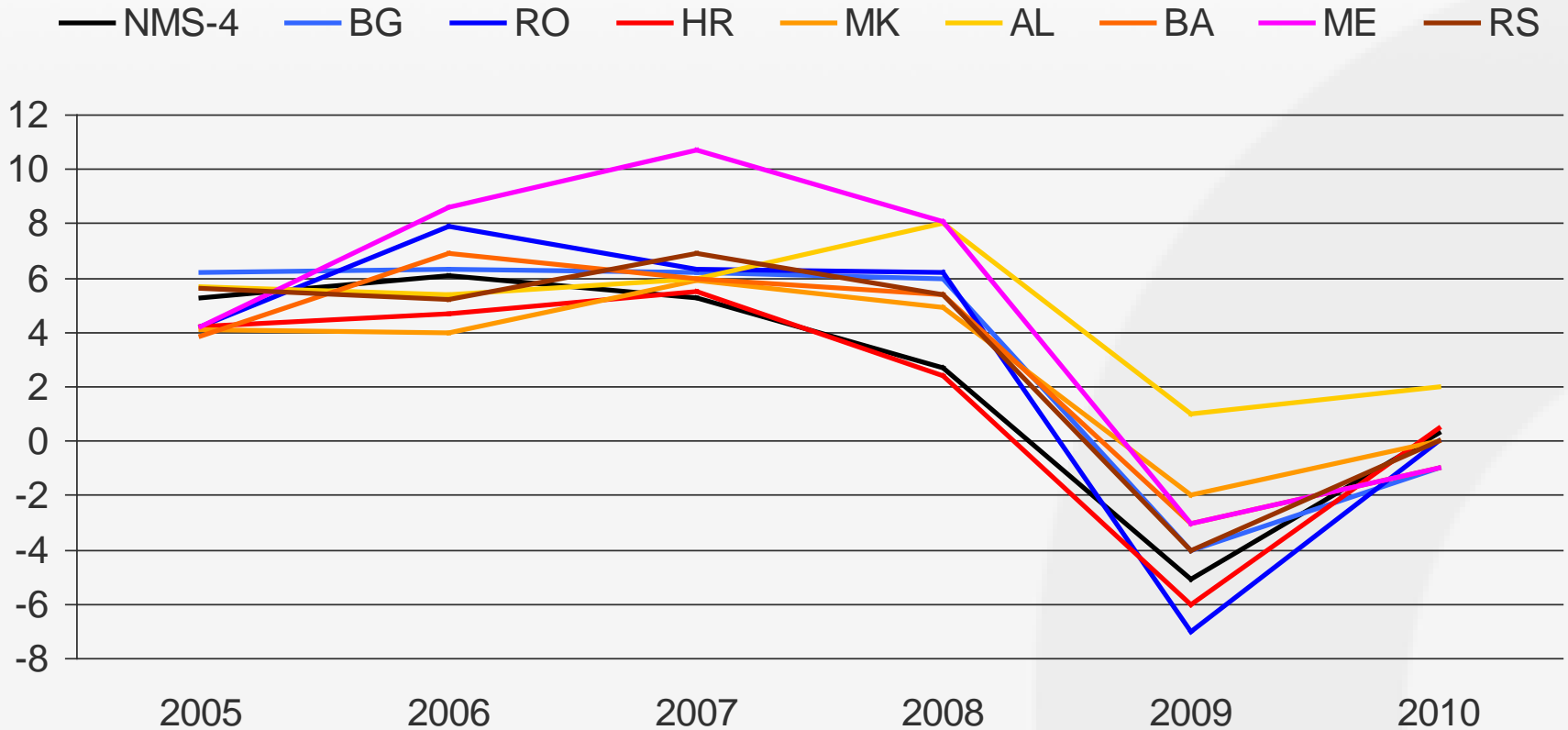
Differentiation across the SEE economies

- Differences in:
 - degree of openness; export structure (e.g. metals, tourism)
 - levels of foreign debt; levels of private credit stock
 - exchange rate regime
 - which sources of finance could hold up CA deficit (remittances, multilateral support)
 - leeway for fiscal policy (some fiscal stimulus in Serbia, Macedonia, Montenegro, B&H); tight IMF arrangement in Romania

- Recovery depends on:
 - export market recovery and export capacities
 - movements in real exchange rate
 - slower recovery if previous growth was predominantly built on expansion of construction, financial services, trade

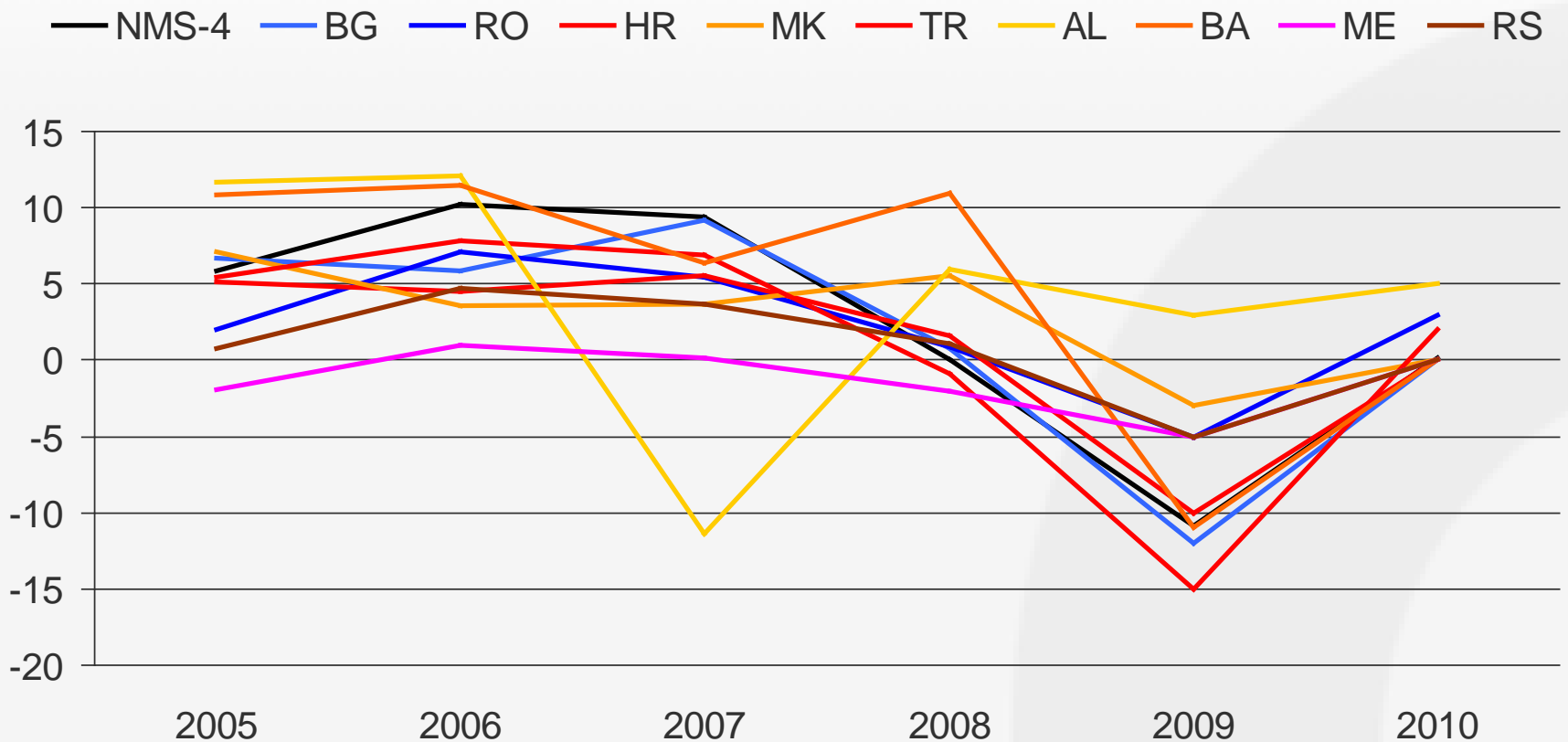
GDP growth rates, 2005-2010

year-on-year, growth in %

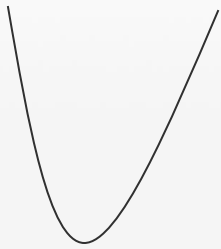


Industrial production growth, 2005-2010

year-on-year, growth in %



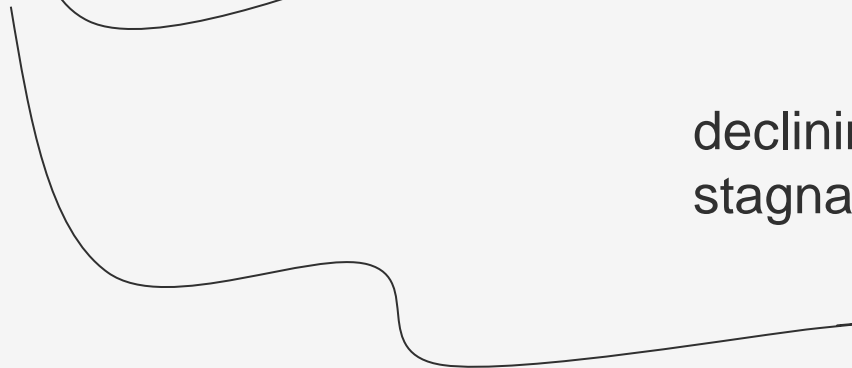
Development scenarios 2009-2011



declining GDP – bottoming out – fast return to pre-crisis GDP and earlier growth path



declining GDP – bottoming out – stagnation – slow return to the pre-crisis GDP, lower long-term growth path



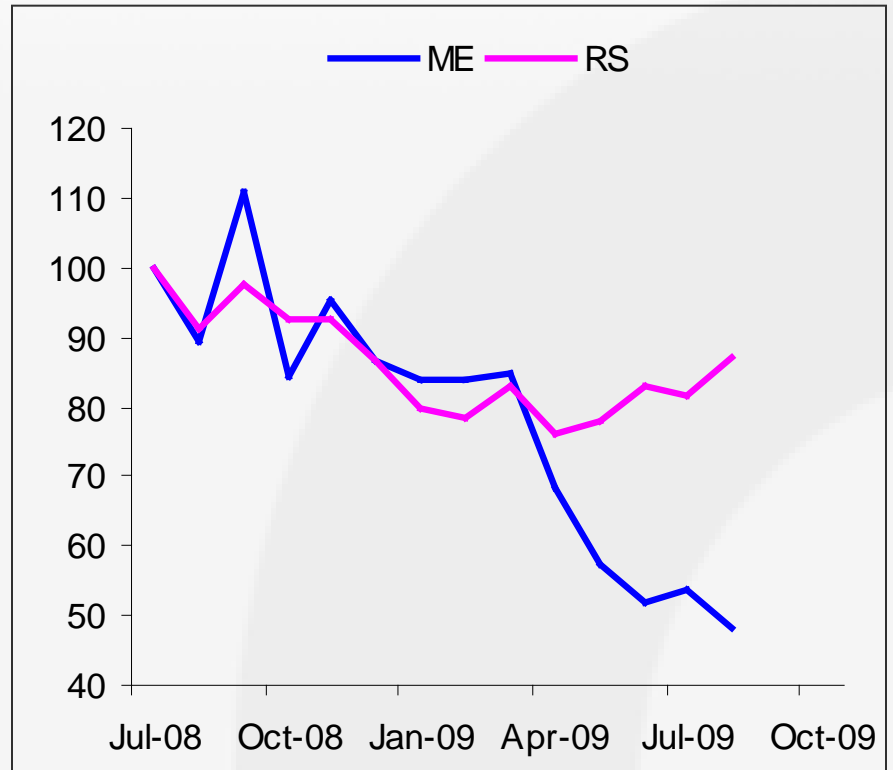
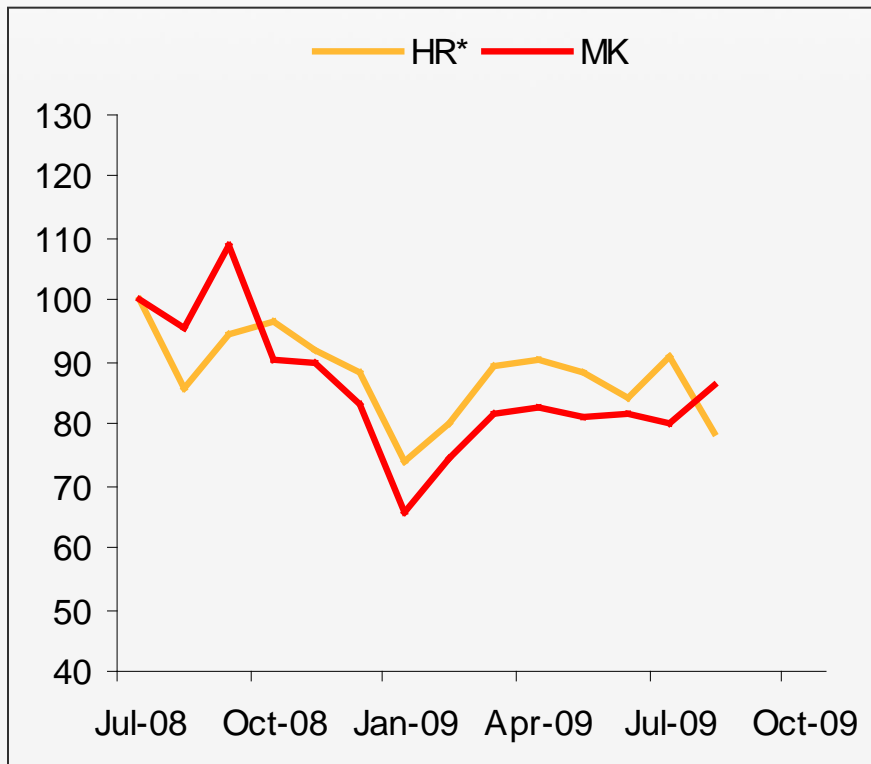
declining GDP – bottoming out – stagnation – possible further CA crises

GDP developments - change in % against preceding year

	2007	2008	2008 1-2Q	2009 1-2Q	2009	2010	2011
						wiiw forecasts	
NMS-4	5.3	2.7	3.9	-5.6	-5.1	0.3	2.6
Bulgaria	6.2	6.0	7.0	-3.5	-6.0	-1	3
Romania	6.3	6.2	8.2	-6.2	-8.5	0.5	2
Croatia	5.5	2.4	3.9	-6.5	-5.5	0.0	2
Macedonia	5.9	4.9	6.2	-1.2	-2.0	0	2
Albania	6.2	8.0	6.7	5.4	1.5	3.0	5
Bosnia & H.	6.0	5.4	.	.	-3.0	-1	1
Montenegro	10.7	8.1	.	-3.5	-3.0	-1	2
Serbia	6.9	5.4	7.6	-4.1	-3.5	1.0	2

Industrial production: very slow recovery

Industrial production, July 2008 = 100



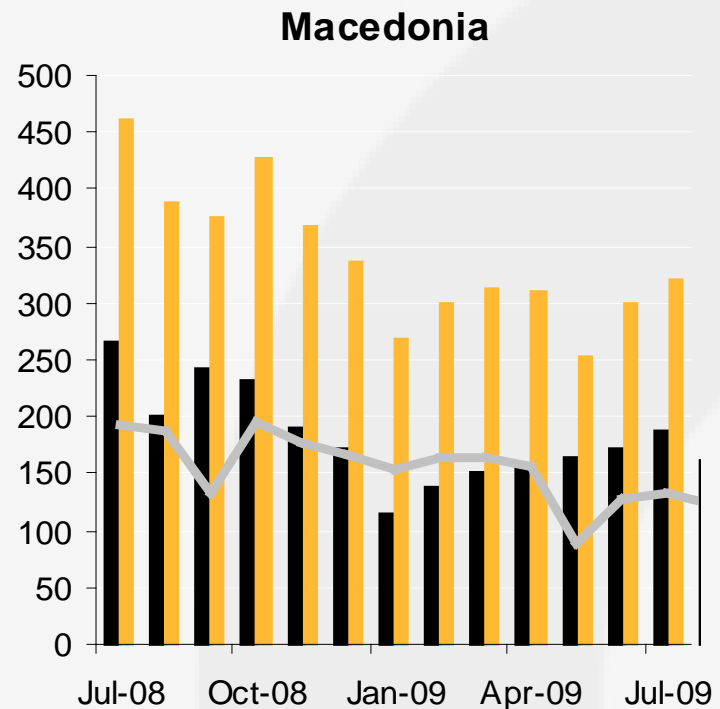
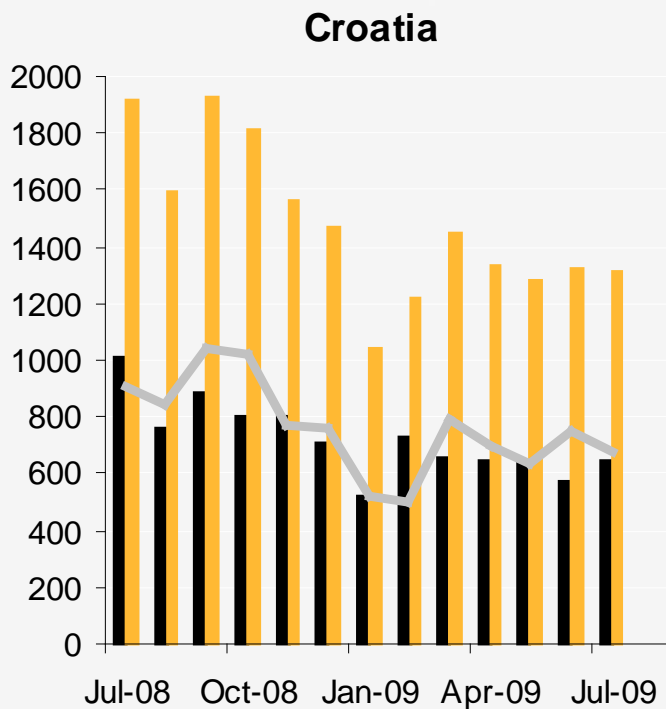
* not seasonally adjusted.

Source: wiiw Database.

Foreign trade: very weak recovery

EUR million, 2008-2009

Imports Exports Deficit



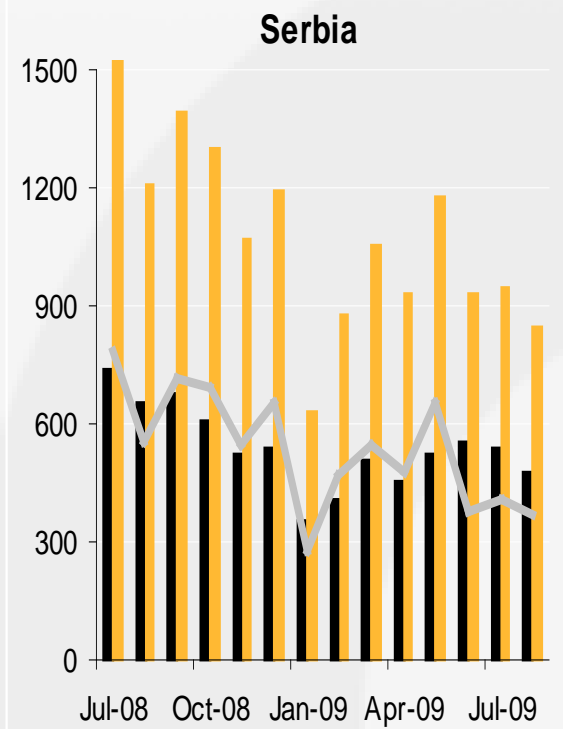
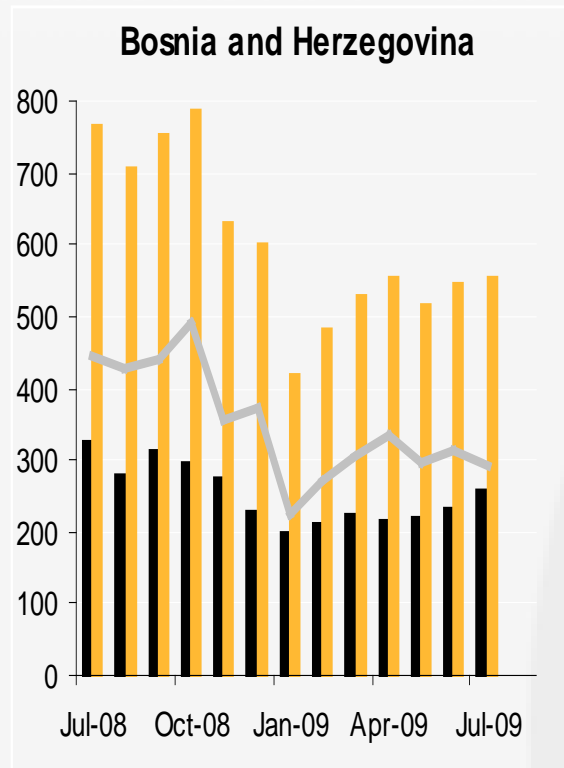
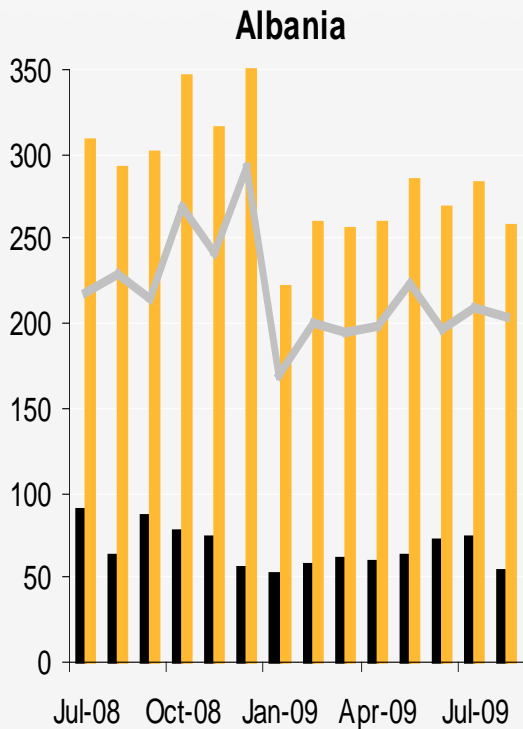
Foreign trade: exports flat

EUR million, 2008-2009

Imports

Exports

Deficit

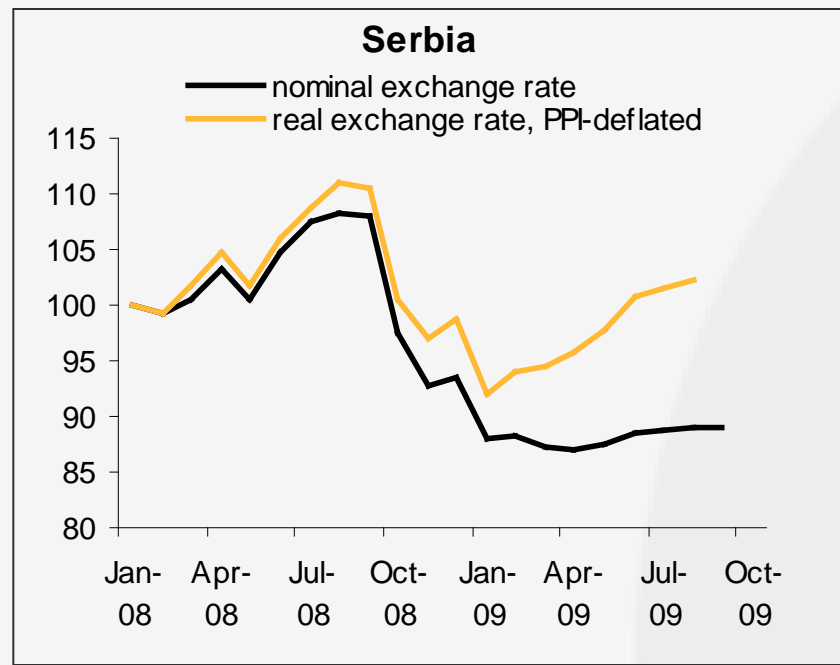


Source: wiiw Database, Eurostat.

Exchange rates*

Flexible exchange rate: drastic real depreciation after September 2008

2008-2009, EUR NCU, Jan. 2008 = 100



*Values over 100 indicate appreciation over January 2008.

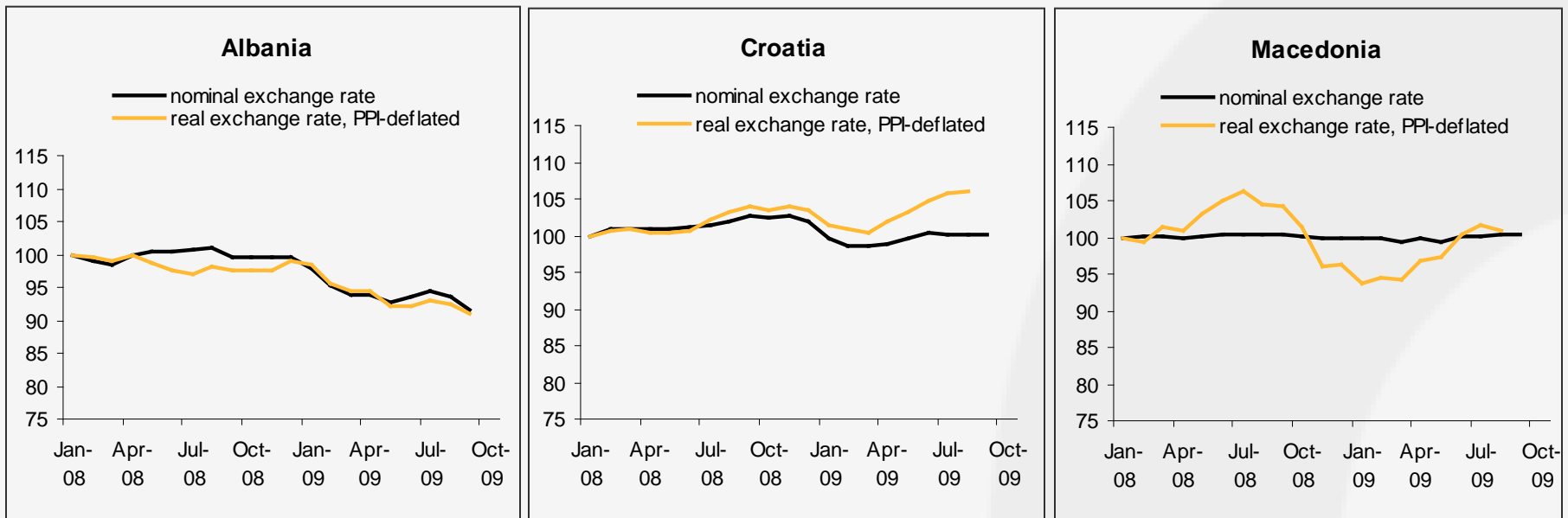
Source: wiiw Database, Eurostat.

Exchange rates*

De-facto fixed exchange rate:

modest real depreciation after September 2008

2008-2009, EUR NCU, Jan. 2008 = 100

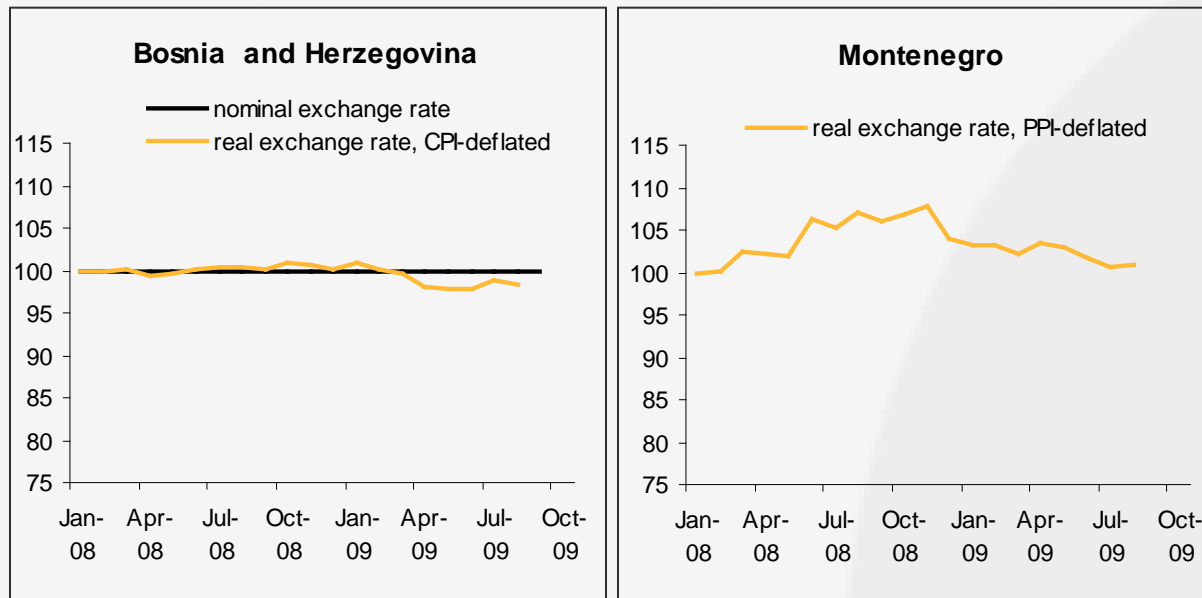


*Values over 100 indicate appreciation over January 2008.

Source: wiiw Database, Eurostat.

Exchange rates*

Currency board or euro as legal tender:
 minor real depreciation after September 2008
 2008-2009, EUR NCU, Jan. 2008 = 100



Values over 100 indicate appreciation over January 2008.

Source: wiiw Database, Eurostat.

Southeast Europe: Outlook

- Ability to adjust to less – and more expensive – external financing is indispensable
- Upswing needs external demand impetus – particularly in the Western Balkan countries
- Consequences of a delayed upswing:
 - rising deficits in private and public sectors – problems of financing – burden on the banking sector
 - further deterioration of the tight labour market situation, with potentially negative impact on political stability
- Can something be done on exchange rate policy?!?