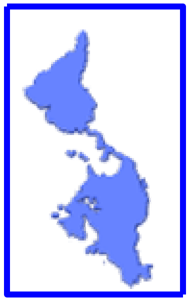
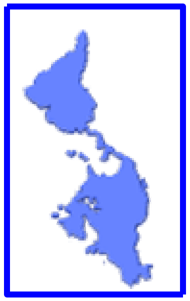


Eastern Europe Fragilities

Graciela Laura Kaminsky

George Washington University and NBER

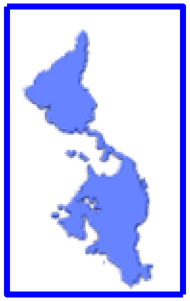
February 23, 2009



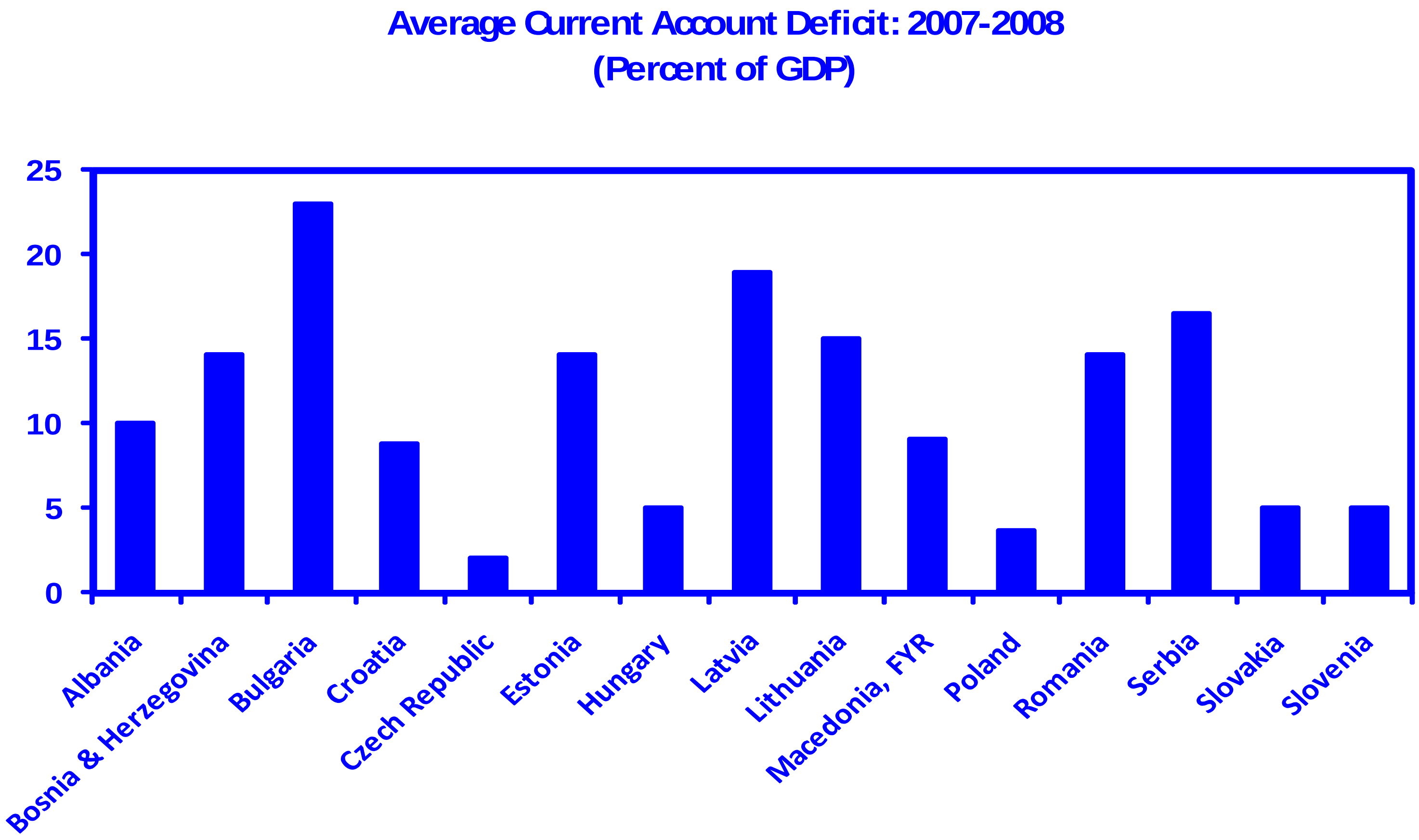
The Ongoing Crisis (so far…)

Country	Depreciation (in Percent)	Reserve Losses (in Percent)
Albania	Fixed	0
Bosnia & Herzegovina	Fixed	22
Bulgaria	Fixed	29
Croatia	7	29
Czech Republic	21	4
Estonia	Fixed	20
Hungary	32	0
Latvia	Fixed	29
Lithuania	Fixed	31
Macedonia, FYR	Fixed	26
Poland	48	28
Romania	37	15
Serbia	23	21
Slovak Republic	Euro	
Slovenia	Euro	

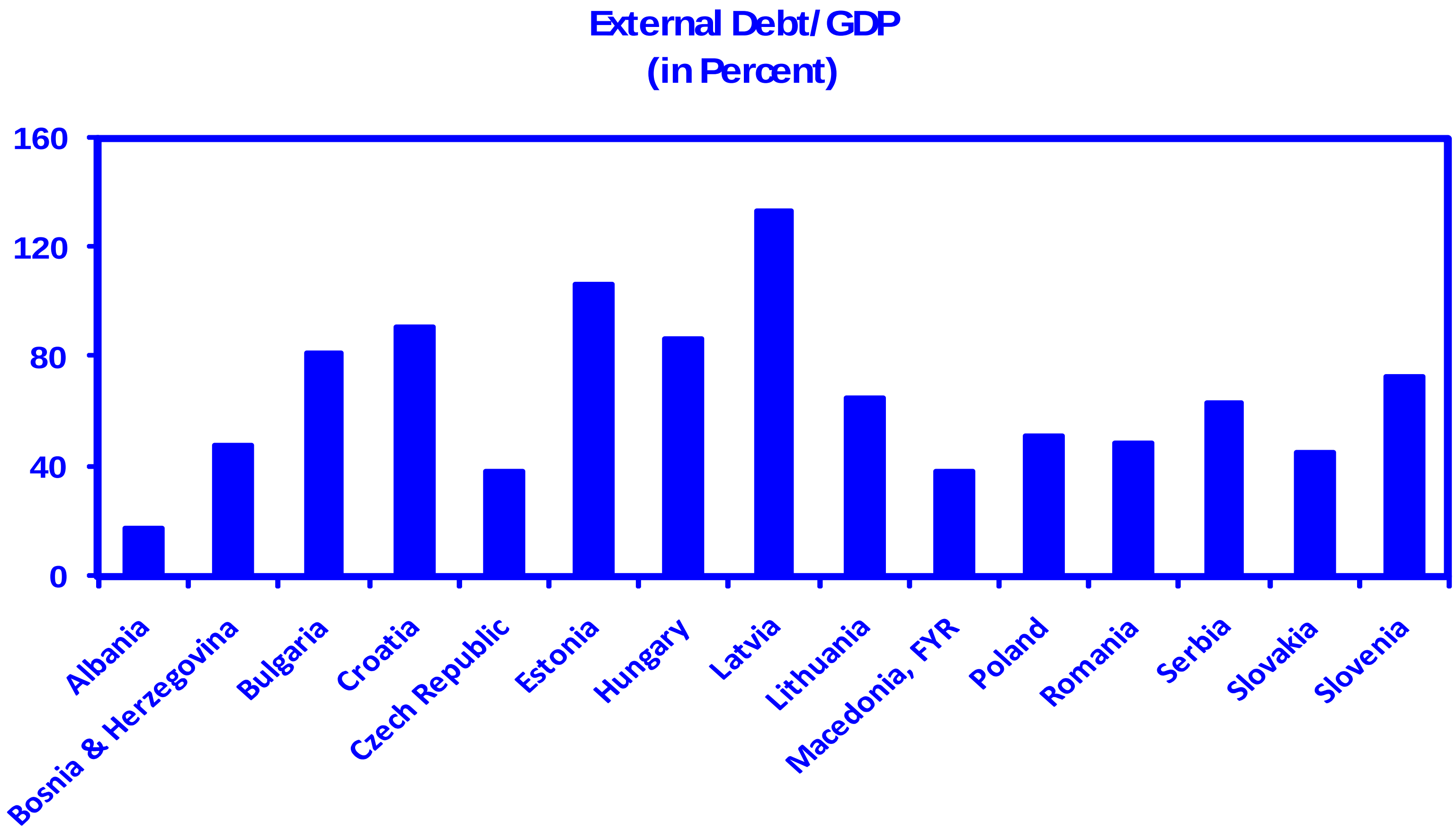
Note: Depreciation and Reserves Loses are measured from peak values

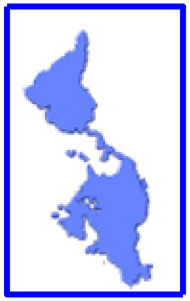


The Early Warnings: Current Account Deficits

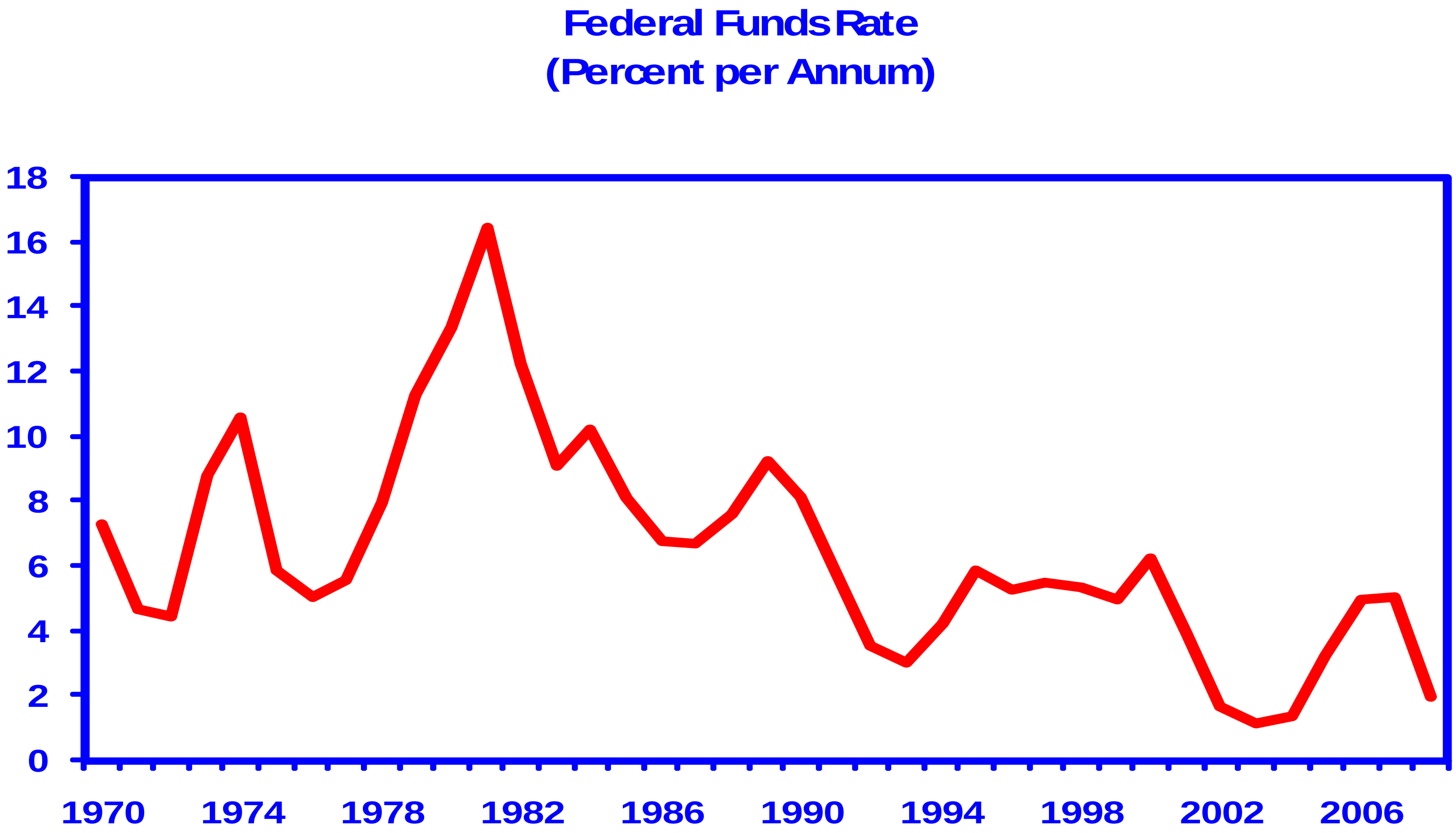


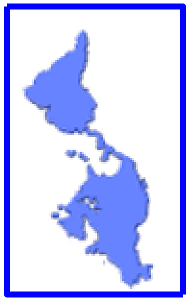
And External Debt Increased…



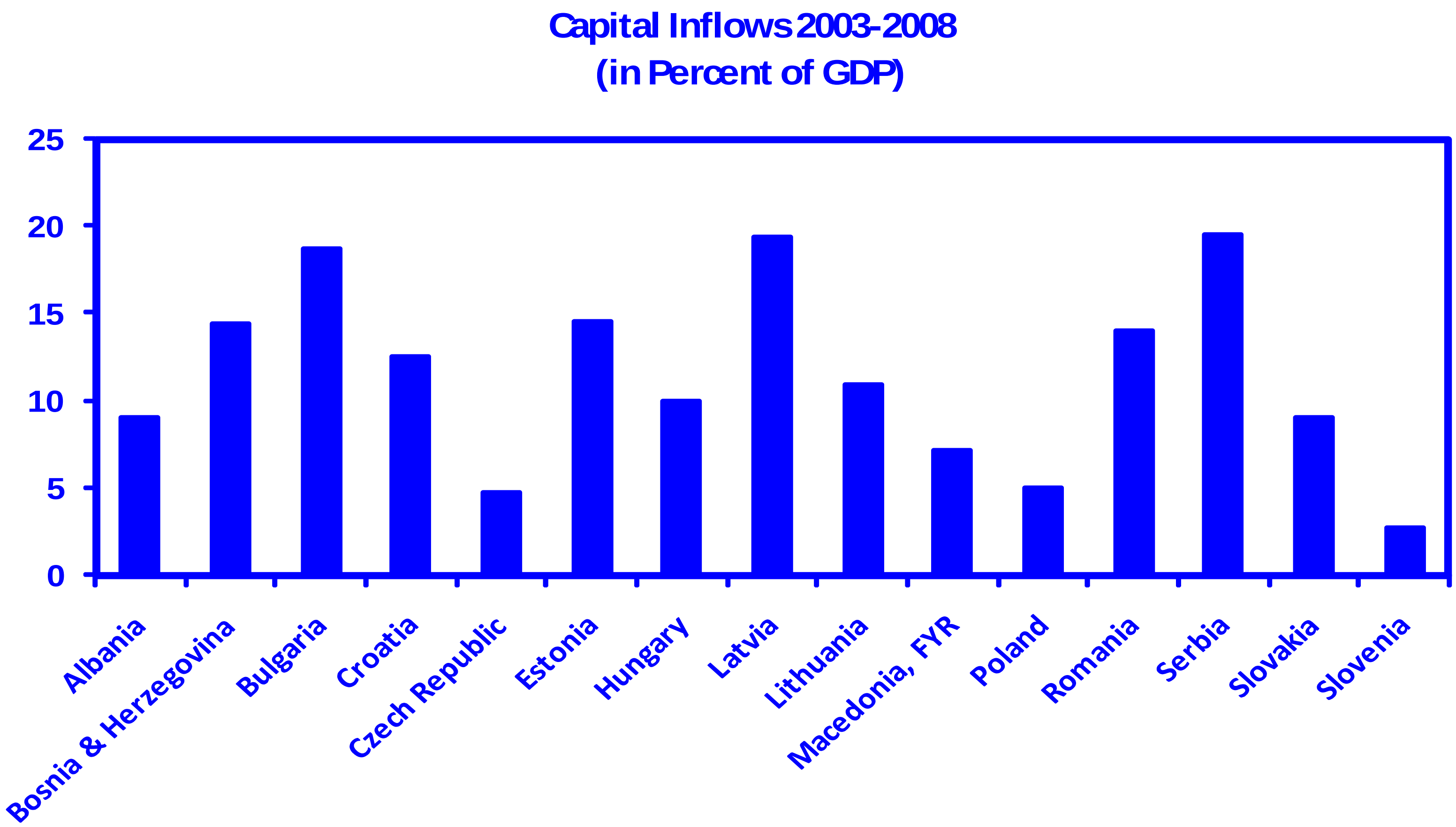


One Trigger of the Problems

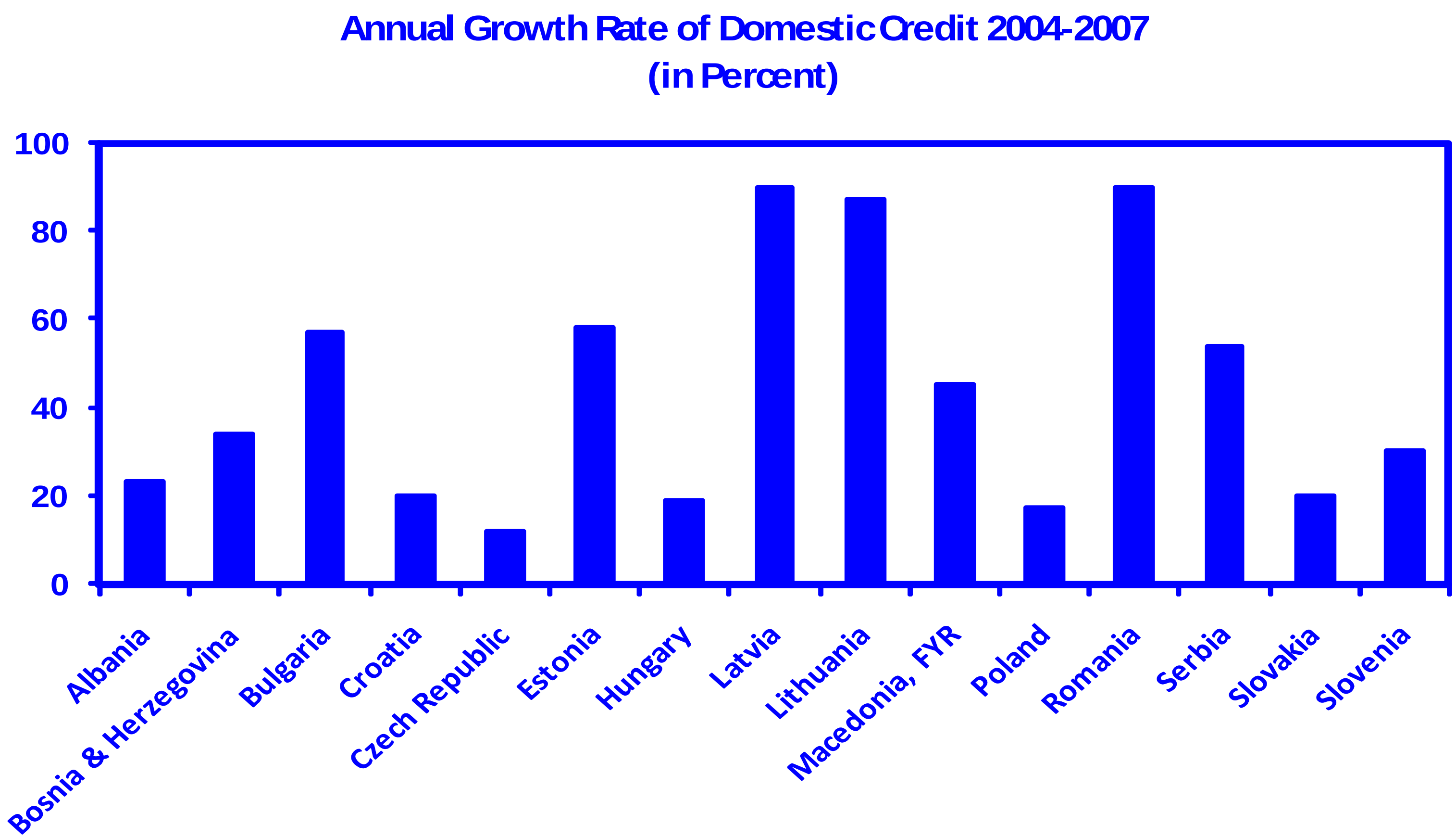




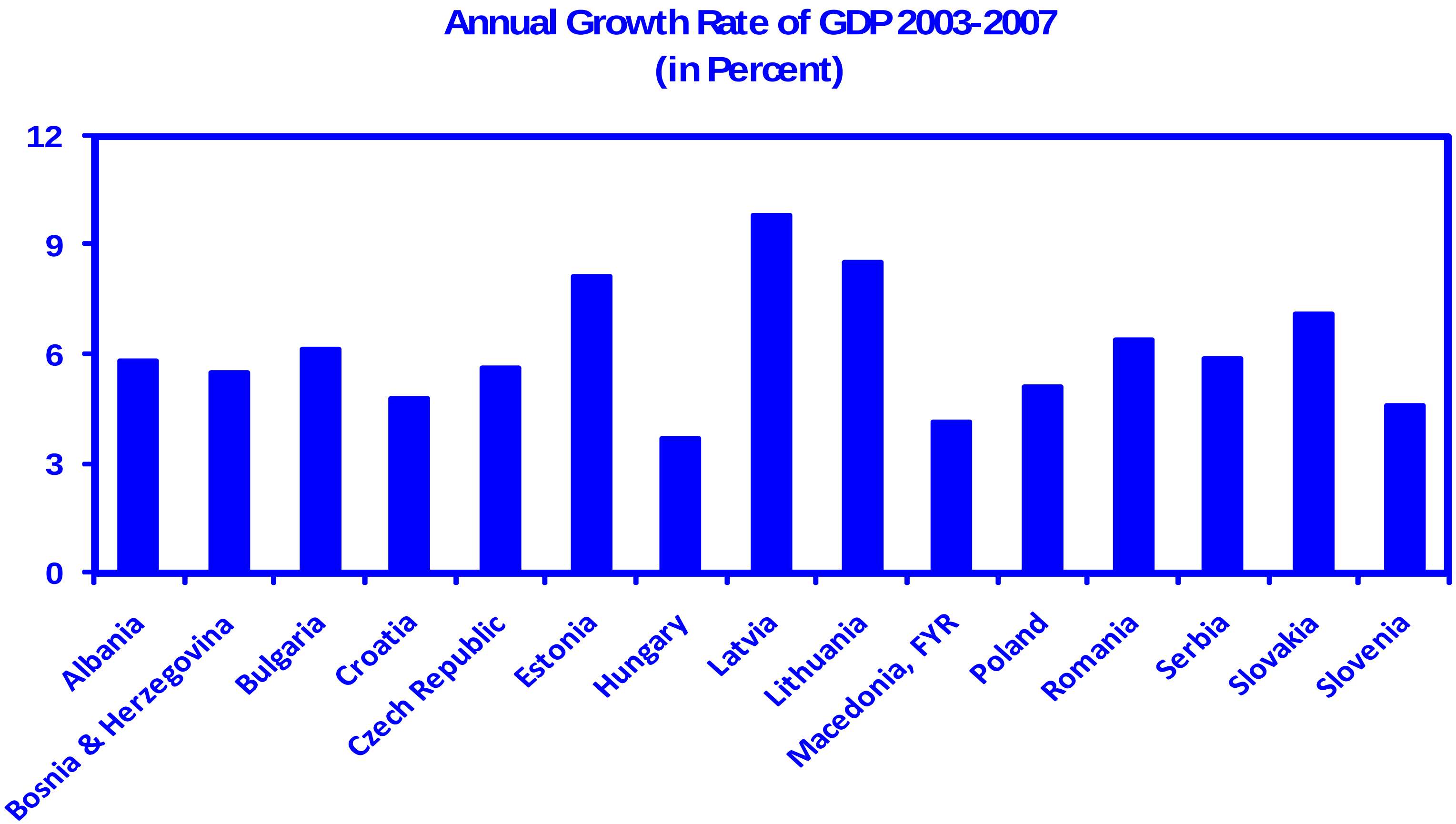
Fueling Capital Inflows

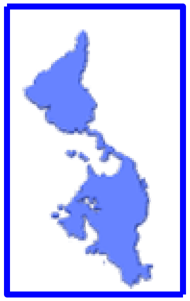


And a Domestic Credit Boom



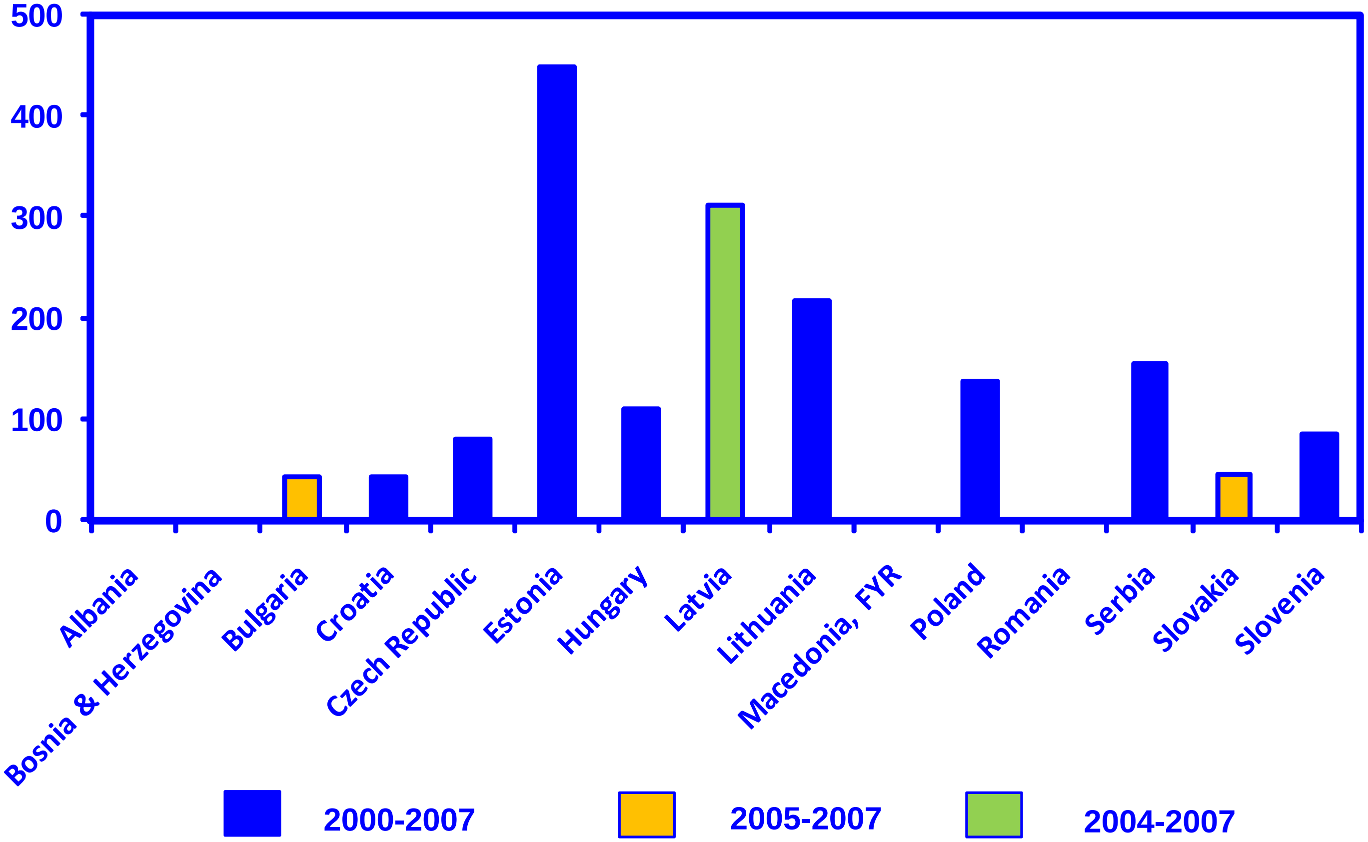
And the Economies Overheated

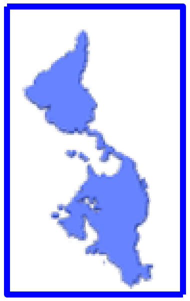




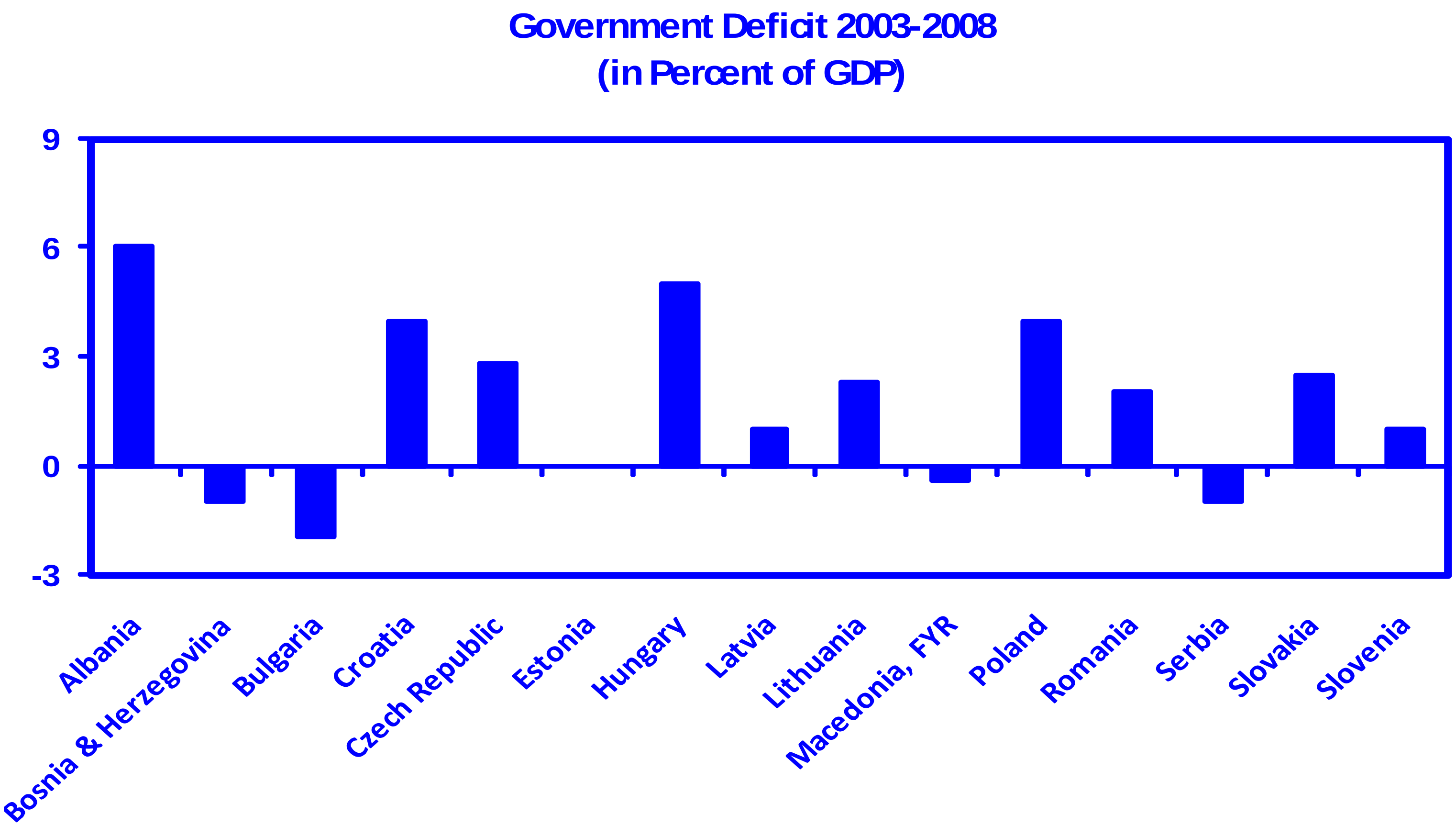
Their Own Subprime Problem

Real Estate Price Increases

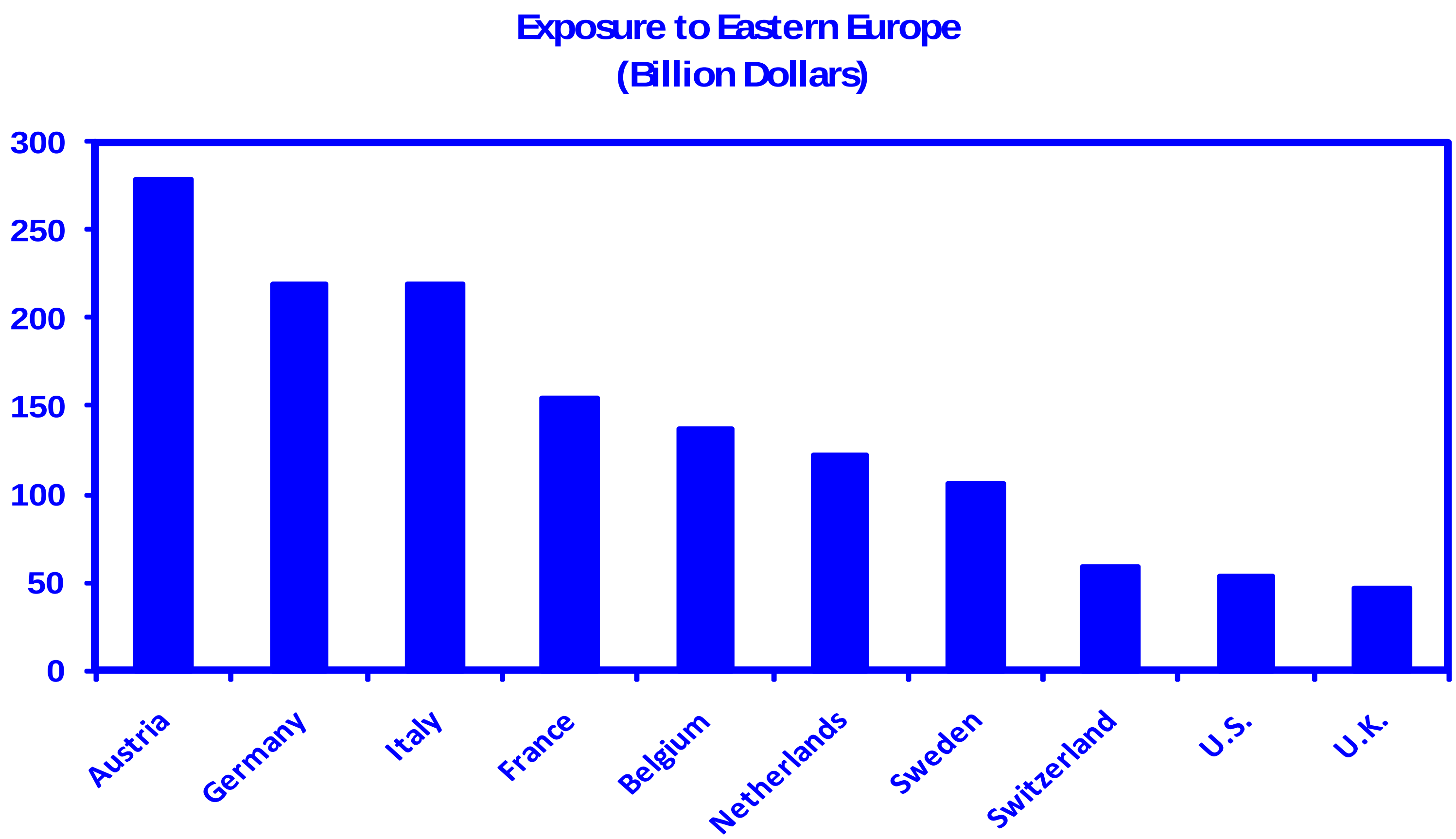




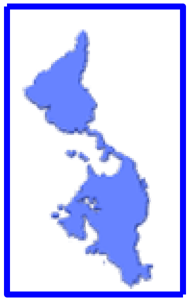
Fiscal Imbalances



Further Concerns: Exposure of Financial Centers



Total Exposure: 1.4 trillion dollars
Eastern Europe GDP in 2008 : 1.6 trillion dollars



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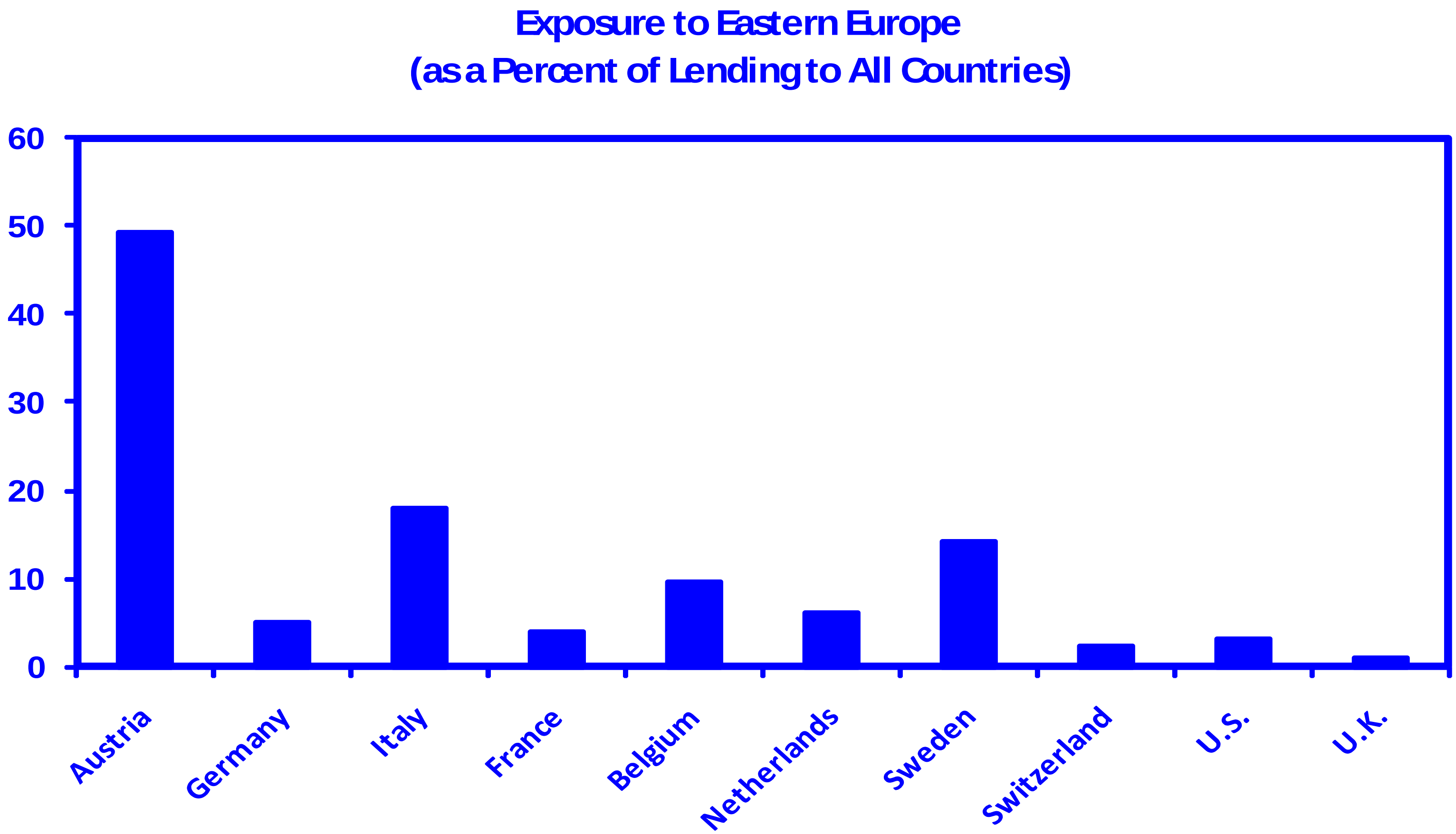

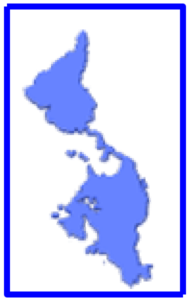

Looking Ahead

- **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?**