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DOI:10.2298/EKA0981007N

THE IMPACT OF THE GLOBAL CRISIS ON TRANSITION ECONOMIES

ABSTRACT: *All forecasts for transition countries – the 29 EBRD countries of operation – since mid-2008 have been repeatedly downgraded. The latest forecasts (May 2009) envisage an average income decline of 5 per cent in 2009 and only a small recovery of 1.4 per cent in 2010; performance is very diverse.*

In general, transition countries faced two shocks: a sudden stop and reversal of capital inflows, and an exports collapse due to the global slump. More specific factors include: 1) Home made sub-primes (domestic loans to households, enterprises and governments originally denominated in foreign currency); 2) External imbalances; 3) Worsening terms of trade for primary products exporters; 4) Fall or reversal of FDI and portfolio investment inflows; 5)

Funds withdrawal by foreign banks; 6) External demand reduction; 7) Differences in initial positions and policy response.

Earlier membership of the Euro by the new member states through a relaxation of Maastricht rules might have been beneficial, but the current crisis is no time for changing or bending rules.

By comparison with the transition recession of the 1990s, the current recession is much smaller and shorter, it benefits from more generous assistance from the international community, and from the more enlightened fiscal and monetary policies now uncharacteristically recommended by International Financial Organisations.

KEY WORDS: *global crisis, transition economies, international financial organisations*

JEL CLASSIFICATION: E32, E44, F34, P27, P52

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1. INTRODUCTION

Initially, from mid-2007 to mid-2008 when the current global crisis was only financial, the transition countries of Central Eastern Europe – regardless of EU or EMU membership – seemed to be fairly resilient. The subprime loans crisis that hit the United States and global intermediaries did not affect them directly. Then, the indirect effects of the growing financial crisis on liquidity and on asset values began to be felt. A lagged slowdown began to reduce the sustained growth rates experienced until then. The crisis of mid-September 2008 triggered by the Lehman Brothers bankruptcy began to spread across countries, impacting exchange rates and investment in the corporate sector. By end-2008/mid-2009, when consumption also began to be affected, economic activity in transition economies deteriorated much faster, from slowdown to rapid decline.

2. PERFORMANCE AND FORECASTS: FROM BAD TO WORSE

On 7 May 2009 the EBRD – European Bank for Reconstruction and Development, founded in 1991 to assist the post-socialist transition of Central-Eastern Europe – published their latest forecasts for 2009-2010¹ for all the 28 transition countries where it operates, plus Turkey, which was added in October 2008).

On average, in these 29 countries the EBRD forecasts a 5 per cent contraction in real GNP. Such a nosedive comes after the growth slowdown from 6.9 per cent in 2007 to 4.2 per cent in 2008, and is followed by a modest recovery of 1.4 per cent in 2010, mostly in the second half of the year. The peak of unemployment is yet to come. These forecasts are much more pessimistic than the EBRD's own forecast of January 2009, of imperceptible but positive growth at 0.1 per cent, itself a significant deterioration with respect to the November 2008 forecasts of 3.0 per cent growth, which in turn had been slashed from 5.7 in May 2008.

The latest EBRD figures are also – on average but not for Central Europe – worse than the April 2009 growth forecasts by the IMF, in the *World Economic Outlook on Crisis and Recovery*². The European Commission Spring Forecasts 2009³ are much more optimistic about Russia (only -3.8 per cent in 2009) but more pessimistic about Hungary and Poland, and otherwise only marginally different.

1 <http://www.ebrd.com/new/pressrel/2009/090507gdp.pdf>

2 <http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/text.pdf>

3 *European Commission (2009) European Economy* 3/2009, 4 May 2009, http://ec.europa.eu/economy_finance/publications/publication15048_en.pdf

The forecasts of UN/DESA Monthly Briefing on the World Economic Situation and Prospects⁴, published on 7 May 2009, the same day as the EBRD forecasts, are consistently slightly more optimistic.

The EBRD is an institution suffering from three existential problems. It is supposed to lend to the private sector in transition economies, at commercial rates, but if it does this its existence does not make any difference. It is a public financial institution whose *raison d'être* is the inefficiency of public financial institutions. And we will know that it has fulfilled its mission only if and when it is liquidated. In fact, before the crisis, the EBRD government-shareholders (about 60 in number) were considering reducing the scale of its activity – perhaps also because of the EBRD's own over-generous assessment of transition progress in its yearly *Transition Reports*. Now the Bank “could be set for a big increase of its €20bn capital to help deal with the economic crisis” because of both the envisaged large scale of the recession in its countries of operation, and the need to fill the gap abruptly left by the drop in current capital inflows into the area⁵.

The case for capital increase was greatly strengthened by the publication – just before the EBRD Annual Meeting held in London on 15-16 May 2009 – of the forecasts reported above. But there is no reason to believe that the pessimism of those forecasts was exaggerated in order to strengthen the case for the Bank's capital increase. EBRD Chief Economist Erik Berglof says that „There are downside risks to these predictions. But now there is also upside potential. Our underlying outlook assumes continued external engagement, particularly from the western parents of banks in the region.”⁶ Such an engagement on the part of foreign parent banks in the area is an over-optimistic assumption (see below). If anything, the withdrawal of foreign parent banks from transition economies (see below, point 4.5) is precisely what strengthens the case for an EBRD major capital increase in the near future, before the review of the EBRD capital due in 2012. In any case, the latest set of forecasts available at the time of writing [24 June 2009], by the UN World Economic Situation and Prospects Update as of mid-2009, released on 26 May 2009⁷, are impressively close to EBRD forecasts: they confirm a decline of 5.1% in economies in transition, compared with EBRD's 5% decline for its countries of operation, and exactly the same baseline modest growth of 1.4% in 2010 (within a range of -0.5/+2.4 for pessimistic/optimistic scenarios).

⁴ http://www.un.org/esa/policy/publications/wespmbn/sgnote_8.pdf

⁵ Wagstyl (2009).

⁶ <http://www.ebrd.com/new/pressrel/2009/090507k.htm>

⁷ <http://www.un.org/esa/policy/wess/wesp2009files/wesp09update.pdf>

Within the aggregate forecasts given above, the 29 diverse EBRD client countries exhibit very different economic performances. In 2009 Poland fares best in Central Europe and the Baltics, with zero growth. At the other end of the range three Baltic countries are contracting by more than 10 per cent: Estonia (already in recession at -3 per cent in 2008) at -10.5, Lithuania at -11.8, and Latvia at -13.2 [-18% year on year in the first quarter of 2009]. Hungary is doing rather poorly: after stagnation at 1.1 per cent in 2007 and 0.5 per cent in 2008, its GNP is poised to fall by 5.0 per cent, with zero growth in 2010. On average in Central Europe and the Baltics GDP is expected by the EBRD to decline in 2009 at 2.9 per cent, and to resume growth at only 0.2 per cent in 2010. In the April 2009 *World Economic Outlook* the IMF was even more pessimistic, with a 3.7 per cent GNP decline, but more optimistic for Russia and the rest of the Commonwealth of Independent States.

EBRD forecasts for South-Eastern Europe show a slightly better performance: on average growth rates in 2007-2010 follow the pattern (in per cent): 6.3, 6.6, -2.2, 0.4; in 2009 Romania is worst with -4.0. In the same years Eastern Europe and the Caucasus (meaning the non Asian members of the Commonwealth of Independent States, not counting Russia) exhibit actual and predicted growth of 9.9, 5.0, -6.2, 1.3; Ukraine is expected to contract by 10.0 per cent this year and grow at a zero rate next year. Central Asia is the least affected area, with GNP growth rates of 9.2, 5.0, 0.4, and 3.0 in 2007-2010. Finally, Russia is seriously affected: 8.1 and 5.6 in 2007, 2008; - 7.5 in 2009, the result of an even deeper fall in the first quarter and an expected improvement in the rest of the year. The EBRD forecasts green shoots of recovery in Russia at a growth rate of 1.0 per cent in 2010.

3. THE GENERAL FRAMEWORK

All these countries have either completed their transition to the market economy and their re-integration into the world economy and especially Europe (with the ten new member states of 2004 and 2007, and Slovenia and Slovakia already members of the Eurozone), or have made steady and very substantial progress in that direction. *What makes them so vulnerable to the pandemic financial and real crisis?*

In general the current financial crisis confronted all emerging and developing countries – including transition economies – with two shocks: “a ‘sudden stop’ of capital inflows driven by global deleveraging, and a collapse in export demand

associated with the global slump”⁸. But there are different aspects and intensities, specific to country groups, discussed both in the IMF Staff Position Note just quoted and in other papers⁹.

4. SPECIFIC FEATURES

4.1 Home made sub-primes

The USA sub-primes crisis of August 2007 touched only marginally the transition economies. But a large amount of domestic loans, mostly for house-purchase finance but also in the enterprise sector – and in the government sector – were originally denominated in foreign currency because the national currency a) involved much higher interest rates and b) had been stable or (with the exception of countries with a successful Currency Board: Bulgaria, Estonia and Lithuania) appreciating. All these loans, amounting to \$250 billion in Central Eastern Europe¹⁰ promptly *became* sub-prime, as soon as the domestic currency began to depreciate for the reasons indicated below. Thus Polish borrowers in Swiss Francs in the last quarter of 2008 and the first quarter of 2009 have seen their zloty liabilities rise by 31 per cent due to the revaluation of the SF with respect to the Polish zloty.

Auer and Wehrmuller¹¹ estimate that in the 10 EU member states from Central Europe total losses from private and public debt re-valuation amount to about \$60bn, under 5 per cent of GDP in most countries but as much as 18 per cent and 8 per cent in Hungary and Poland respectively. The expectation that the state will ultimately bear the cost of bailing out the debtors, plus the cost born by the state on its own debt, has dramatically raised the spread on Credit Default Swaps for the eight out of the ten new Member States for which data are available.

The problem is serious: in 2007 in eight countries - Ukraine, Romania, Bulgaria, Lithuania, Hungary, Georgia, Estonia, Latvia - the foreign currency-denominated debt in the non-financial private sector exceeded 50% of total non-financial sector debt. In Hungary, Georgia and Estonia it was over 60% and in Latvia almost 90%¹².

⁸ Ghosh et al. (2009)

⁹ See for instance: Richard Connolly (2009).

¹⁰ Auer and Wehrmuller (2009).

¹¹ Ibid.

¹² Connolly (2009), p.23

4.2. External imbalances

Connolly (2009, cit.) considers twenty countries which he labels “Emerging Europe” (the EBRD 29 minus Turkey, Albania; Bosnia & Herzegovina, Macedonia, Montenegro, Serbia; Tajikistan and Turkmenistan; Mongolia). He notes: “Emerging Europe is the only emerging market region to collectively run a current account deficit”. Apart from Azerbaijan, Kazakhstan and Russia in 2008 all the other countries in this group have current account deficits, of which seven are over 10 per cent of GDP: Bulgaria at -21.2 per cent, Georgia -20.6, Moldova -15.3 Lithuania -13.9, Romania -13.3, Latvia -12.1, and Estonia -11.2.

Sustained current account deficits lead naturally to higher external debt. But it cannot be argued that the current account deficits were the result of fiscal profligacy. Between 2000 and 2008 the number of countries running a government surplus increased from one (Russia) to five (with the addition of Azerbaijan, Belarus, Bulgaria, Kazakhstan), while the deficits of another 13 countries out of the twenty reviewed by Connolly fell below 3 per cent. Thus on average growth of external debt is clearly due primarily to the private sector. Yet the expected emergence of contingent liabilities and costly bail-outs reduces governments’ credibility anyway. Darvas and Pisani-Ferry¹³ establish a significant correlation between the cost of credit default swaps (CDS), the insurance against default on government debt, and current account deficits. Moreover, non-Eurozone members pay a higher insurance cost, rising very much faster over time: “the crisis management in the euro area has had the unintended consequence of putting non euro-area new member states at a disadvantage”. Probably, without the credibility bestowed by the euro, floating rates lead to overshooting devaluation, while fixed rates lose competitiveness to the country that maintains them and provide adverse shocks when the peg sooner or later has to be altered.

4.3. Terms of Trade

Primary product exporters – primarily Russia, Azerbaijan and Kazakhstan – were in position until mid-2008 to run current account surpluses and accumulate foreign reserves. But in 2008 oil, gas, cotton and metals fell in price. Foreign reserves were used – to some extent wasted, we could say – to support overvalued exchange rates and to bail out financial institutions and productive enterprises. The Central Bank of Russia foreign reserves (including gold) fell from \$476.4bn in 2007 to \$427.1bn in 2008 and \$383.9bn at the end of April 2009¹⁴, though

¹³ Darvas and Pisani-Ferry (2009).

¹⁴ http://www.bof.fi/bofit_en/seuranta/venajatilastot/index.htm

other sources report larger losses). The EC Spring Forecasts 2009 (cited) are more optimistic than the EBRD yet expect a Russian budget swinging sharply from a hefty surplus to large deficits, of respectively 6.5% and 2.7% of GDP in 2009, due to the reduction in commodity prices and in economic activity, plus the large fiscal stimulus packages. Russia is also forecast to see major falls in both its trade and current account surpluses, respectively to 5.1% and 6.3% of GDP in 2009, and 1.4% and 2.7% in 2010. Recovery in the price of oil in the second quarter of 2009 does not seem to have succeeded in improving the prospects of Russian financial markets and economic growth.

4.4. Fall or reversal of FDI and portfolio investment inflows

“With net private capital flows to emerging market (and developing) countries projected to decline from an *inflow* of US\$600 billion in 2007 to an *outflow* of US\$180 billion in 2009, EMEs (Emerging Market Economies) are facing a severe credit crunch. Particularly affected are the countries with large current account deficits – many of which had asset price and credit booms”¹⁵. Transition economies had been able to attract large and growing capital inflows thanks to privatisations at attractive prices, high interest rates net of devaluation cover or even plus revaluations, and production de-localisation thanks to low wages. These attractions have weakened, and the recession has made inflows even less attractive.

“The region [i.e. Connolly’s Emerging Europe defined above] faces an aggregated adjusted gross external financing requirement of approximately \$460bn, or around \$930bn if short-term is added... The deterioration in the outlook for private capital flows to emerging markets makes ‘roll-over’ of these loans extremely unlikely, with the Institute of International Finance (IIF) projecting a fall in private capital flows to the region from around \$254bn in 2008 to only \$30bn in 2009”¹⁶.

In these circumstances devaluations are unavoidable but steering a course between floating and pegging is hard, as we have seen above. Higher interest rates are unlikely to bring back capital in a recession. Controls on capital flows will at best stop capital flight but not bring it back, and can be counterproductive. Official financing is therefore badly needed, by the IMF in the first instance with doubling access limits, Flexible Credit Lines, and Stand-By arrangements. With

¹⁵ Ghosh et al. (2009), p.6.

¹⁶ Connolly (2009), p.4.

additional resources, support for debt re-structuring can come from national governments, for instance by converting foreign currency loans to domestic currency and compensating banks for losses, maybe only partly.

4.5. Foreign Banks withdrawing funds

At the inception of the transition an under-capitalised and largely insolvent state banking system was partly cleansed of what today are labelled toxic assets, re-capitalised, privatised mostly to foreign banks, and new banks were promoted, also mostly foreign. By 2006, foreign ownership in the ten New Member States, excluding Slovenia (at 22 per cent), ranges from 74 per cent in Latvia to 98 per cent in Estonia¹⁷. Foreign banks were to provide capital and know how, and through access to foreign parent banks provide foreign exchange and access to lending of last resort in the country of origin.

Today the EBRD Chief Economist still relies on “the continued external engagement, particularly from the western parents of banks in the region” (cited above). And Darvas and Pisani-Ferry¹⁸ still argue that “Several factors have mitigated the impact of the crisis on non euro area NMS [New Member States]: ... [among other things] western European ownership of NMS banks (*by indirectly stabilizing their NMS subsidiaries*)...” (emphasis added).

Yet the *EC Spring forecasts 2009*¹⁹ tell a different story: “*The repatriation of capital by foreign banks has been particularly abrupt in some cases*. For instance, in Ukraine real GDP growth is projected to decline by 9½% in 2009, due to a severely curtailed access to external financing, which has triggered the conclusion of a stand-by arrangement (SBA) with the IMF...” “The significant and broad-based slowdown in the CIS could have direct growth effects in Central and Eastern Europe, and *the presence of EU banks in the region creates further potential negative spill-overs via the financial channel*” (emphasis added). “Paradoxically, it is precisely this characteristic – strong foreign banking presence – that renders EE countries (except for the CIS) region, much more vulnerable to the present financial turmoil”²⁰. In turn, foreign parent banks risk downgrading as a result of the declining profitability and the losses on their operations in Eastern Europe. while, conversely, EE countries depend on their continued financial health.

¹⁷ EBRD, *Transition Report 2006*, <http://www.ebrd.com/new/pressrel/2006/152nov14.htm>

¹⁸ Darvas and Pisani-Ferry (2009).

¹⁹ European Commission (2009).

²⁰ Uvalic (2009), p. 4.

Recently the EBRD made one of its larger investments, worth a total of €432.4 million, in UniCredit subsidiaries across eight Eastern European countries, to provide medium and long-term debt and equity financing through UniCredit subsidiaries in support of SMEs, lease finance and energy efficiency projects.²¹ This is precisely the kind of contribution that the EBRD can make to the region's recovery, especially if its relatively modest resources of €20bn were to be raised by 50-100 per cent.

4.6. Reduction in external demand

Current projections for 2009 indicate for the first time since the last World War a decline in world output (-2 per cent according to the IMF) and a much larger decline in world trade, by as much as 13% (WTO), thus reducing for the first time since WWII the most common measure of globalisation, the ratio between world exports and world GNP. A sizeable de-globalisation episode is taking place. Output contraction and trade are larger in the EU, with which transition economies have grown to be increasingly integrated, with EU trade shares of the order of 60-90 per cent for the New Member States and South-Eastern Europe, all characterised by high foreign trade openness, higher than that of most old members of the EU (see the table below, penultimate column). Such openness makes the transition economies' opportunities of "de-coupling" from downturns in the EU rather limited²². Lower trade shares involve a slowdown in manufacturing and extractive industries and in internal demand, especially in construction and financial services.

4.7. Differences in initial positions and policy response

"Some [countries] were ripe for a home-grown crisis associated with the end of unsustainable credit booms or fiscal policies; others were just bystanders caught in the storm"²³.

Uncharacteristically, the IMF has recommended easing monetary policy and lower interest rates to advanced economies experiencing the global recession. It has also

21 "UniCredit is the largest banking group in the central and eastern European region, with over 4,000 branches in 19 countries. The group has invested around €10 billion of equity in central and eastern Europe and has around €85 billion of total customers loans in the region. Beside its own funding programs to its subsidiaries, it cooperates with international institutions including the EBRD in order to ensure continuing support to the local economies during these challenging times.", <http://www.ebrd.com/new/pressrel/2009/090507g.htm>.

22 Connolly, op. cit., p.5

23 Ghosh et al (2009), op. cit., p.3; "... the majority were just innocent bystanders", p.2

“called for a timely, large, lasting, diversified fiscal stimulus that is coordinated across countries with a commitment to do more if the crisis deepens”²⁴. The IMF is now forced to recommend the same policies to transition economies in crisis, though with stronger warnings about the possible side effects: “Much of the spending and revenue policy advice for advanced economies remains relevant for EMEs [Emerging Market Economies], *once scaled down for their small fiscal space*” (Ibidem, emphasis added).

Thus transition economies and other EMEs are reminded that looser monetary policies involve dangers of exchange rate devaluation and consequent adverse effects on balance sheets and that it is dangerous to exceed the “policy space” and especially the “fiscal space” of a country, jeopardizing policy credibility and sustainability. Changes should be *gradual* (however strange this may now sound coming from the IMF, especially as regards transition economies) and sustainable; abrupt and non-sustainable changes can be particularly costly and disruptive²⁵.

Clearly an expansionary fiscal policy “is likely to be more effective in stimulating aggregate demand if the economy is relatively closed to trade flows, uses monetary policy to prevent or limit the appreciation of the currency, has substantial spare capacity, has a high proportion of credit-constrained households or firms, and has a sustainable public debt position”²⁶. Which is fair enough, except that transition economies and other EMEs are most unlikely to satisfy these ideal preconditions.

5. A SHORT DIGRESSION ON THE EURO

The question arises whether early membership of the Eurozone might assist recovery in the New Member States, of which only Slovenia and Slovakia are already members. The IMF now recommends it – speaking out of turn as it is not for the IMF to recommend anything to Europe other than possibly an application to join the Eurozone on the part of those new members that meet the Maastricht conditions for membership.

Small open economies would probably gain from being part of a large currency area in times of crisis, although Slovakia (where the euro only became legal tender on 1 January 2009) and the Czech Republic have done rather well outside of it. The EU rules out unilateral adoption of the euro for both members and candidates.

²⁴ Ibid, p.19-20

²⁵ See Ghosh et al. (2009)

²⁶ Ibid, p.21

Currency Boards reduce the probability of a crisis at the cost of making the crisis catastrophic if and when it happens (as in Argentina), and European Currency Boards are not yet out of the danger zone, especially in Latvia where the Central Bank acts as a Currency Board and the lat has been on the brink of devaluation for the first two quarters of 2009. The European Central Bank role as Lender of Last Resort is remarkably undetermined and left to informal arrangements with the Central Banks of Eurozone member states; non-members with hyper-fixed links to the euro (unilateral euroisation or Currency Boards) might very well be left high and dry in times of crisis.

The EU could well have admitted at least a few other New Member States to the Eurozone by loosening the Maastricht criteria for fiscal and monetary convergence, and the additional condition of two-year membership of the Exchange Rate Mechanism II. The Maastricht criteria for fiscal convergence are in theory looser than those of the so-called Growth and Stability Pact (GSP, which involves not only a 3% ceiling to government deficit but a stricter zero per cent over the cycle) and apply to all EU members regardless of Eurozone membership. In practice however the GSP strictures and the associated penalties were considerably relaxed in March 2005 and further loosened during the current crisis, whereas Maastricht criteria for joining the euro have been very strictly enforced. It is unreasonable to subject countries that grow much faster than the Eurozone members and have relatively low ratios between public debt and GNP to the same fiscal stringency as stagnant and highly indebted Eurozone members (like Italy): a fiscal stringency which is, moreover, only applied rigidly and inflexibly to prospective members.

Lithuania was left out of the euro only because its inflation exceeded the average inflation of the three least inflationary EU members by 1.6% instead of the 1.5% prescribed by the Maastricht Treaty – not exactly enlightened or rational behaviour, especially considering that two of those three least inflationary countries were not Eurozone members.

“The EU can certainly be criticised for clinging to criteria ill-suited to catching-up countries and the case for reforming them is strong” (Darvas and Pisani-Ferry, 2009, cited).²⁷

Be that as it may, the middle of a recession is not the best time to change or, worse, bend the rules as drastically as it would be required by early admission of all or most New Members to the Eurozone.

²⁷ See also Nuti (2006).

Table 1. Fourteen ways to slowdown (*italics=pegged to euro; underlined=in euro area*)

Country	GDP per person*	S&P credit rating #	Financing requirements % of GDP ^o	Exports\$	In a nutshell
Belarus	12,344	B+	7.3	62.1	Autocratic, isolated, gained surprise IMF bailout
<i>Bulgaria</i>	12,372	A	29.4	61.0	Strong finances back currency peg; sleaze rampant
Czech R.	25,757	AA	9.4	0.1	Thrifty and solid but hit by export slowdown
<i>Estonia</i>	20,754	AA	20.0	72.0	Star reformer squeezes spending to stay afloat
Hungary	19,830	A	29.9	80.2	Currency crush could topple debt-heavy economy
<i>Latvia</i>	17,801	BBB	24.3	46.6	Clinging to currency peg amid turmoil & downturn
<i>Lithuania</i>	18,855	A+	27.1	59.0	Painful spending squeeze to avoid worse
Poland	17,560	A+	13.2	42.3	Regional heavyweight speeds up euro bid
Romania	12,698	BBB+	20.2.	36.4	Spendthrift policies meet solid reality
Russia	16,161	BBB	2.2.	31.7	Energy-based kleptocracy in denial about crisis
Serbia	10,911	BB-	23.5	22.2	Seeking more IMF help
Slovakia	22,242	AAA	12.5	90.5	Smugly in euro-area, hit by car-factory slowdown
<u>Slovenia</u>	28,894	AAA	-	70.5	Self-satisfied, rich and still growing
Ukraine	7,634	CCC+	16.1	45.0	No end in sight to political and economic chaos

* PPP\$, 2008 estimate.

Standard & Poor's, latest.

^o Current account balance, principal due on public and private debts plus IMF debits, 2008 estimate.

\$ Goods and services, % of GDP, 2008 estimate.

Sources: IMF; Moody's; Economist Intelligence Unit; *The Economist*.**From:** Sarah Hanson, *The whiff of contagion*, *The Economist*, 26 February 2009. (Corrected in the 5 March 2009 issue).

6. HETEROGENEITY

The heterogeneity of country experiences is pithily and efficiently synthesised by one-liners from two sources. The first is a table on *Fourteen ways to slowdown* from *The Economist*, 26 February 2009²⁸, (Table 1).

The second source is the *EC Spring Forecasts 2009* (cited), whose country chapters for transition economies (EU member states, candidate states and Russia) have the enlightening subtitles listed below:

Bulgaria	Vanishing budgetary surplus, external deficit remains large.
The Czech Republic	Output falls sharply driven by collapse in external demand.
Estonia	Adjusting to face gloomier years.
Latvia	Domestic demand and trade implode.
Lithuania	Deepening recession leads to wider fiscal deficits.
Hungary	Domestic financial crisis magnifies recession.
Poland	Mild recession knocking at the door. Romania: Growth contracts sharply.
Slovenia	Sharp falls in exports and investment point to competitiveness challenges.
Slovakia	Global downturn weighs on exports.
Croatia	A declining economy creates important fiscal challenges.
The Former Yugoslav Republic of Macedonia	Joining the general trend ... albeit with a delay.
Turkey	Manufacturing faltering as exports decline.
Russian Federation	The first recession in a decade.

7. CONCLUSIONS

In the 1990s an unexpected, deep and protracted recession characterised the post-socialist transition of Central-Eastern Europe and the Former Soviet Union, with GNP decline ranging from 18 per cent over three years in Poland, to 65 per cent over ten years in Moldova. The decline may be slightly exaggerated especially at the top of the range, for well known reasons, but a reliable and unbiased observer, Bob Mundell, reckons that the transition recession was not only deeper than the 1929 crisis but also deeper than the recession that accompanied the Black Death in the 14th century, because then income fall was matched by population fall and living standards were preserved.

28 http://www.economist.com/world/europe/displaystory.cfm?story_id=1318459

By comparison the current recession must be barely perceptible to the populations of transition countries. And at least this time they are benefiting not only from more generous assistance from the international community, but from more enlightened policies of monetary easing and low interest rates, fiscal subsidies and expansion, large scale state intervention – all policies *diametrically* opposite to the draconian hyper-liberal policies that contributed so much to aggravate the transition recession and the other costs of transition in the 1990s. Only two things have really changed since then: today the hyper-liberalism that inspired the course of transition in the 1990s has been thoroughly discredited by the global crisis associated with it, and the predicament of transition economies is vastly improved simply because they happen to share it with the advanced countries that control international financial organisations.

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