

The Impact of the Financial Crisis on CESE Europe

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discussion by

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The paper

- A very comprehensive report, it delivers what it promises. It shows i.a.:
 - Pre-crisis strenghts and weaknesses,
 - How the disease was spreading.
- Main conclusions:
 - Severe impact of the crisis on most CESEE economies,
 - Despite the turmoil bankig sector in good shape,
 - Fiscal burden may constrain EA membership in the near future.

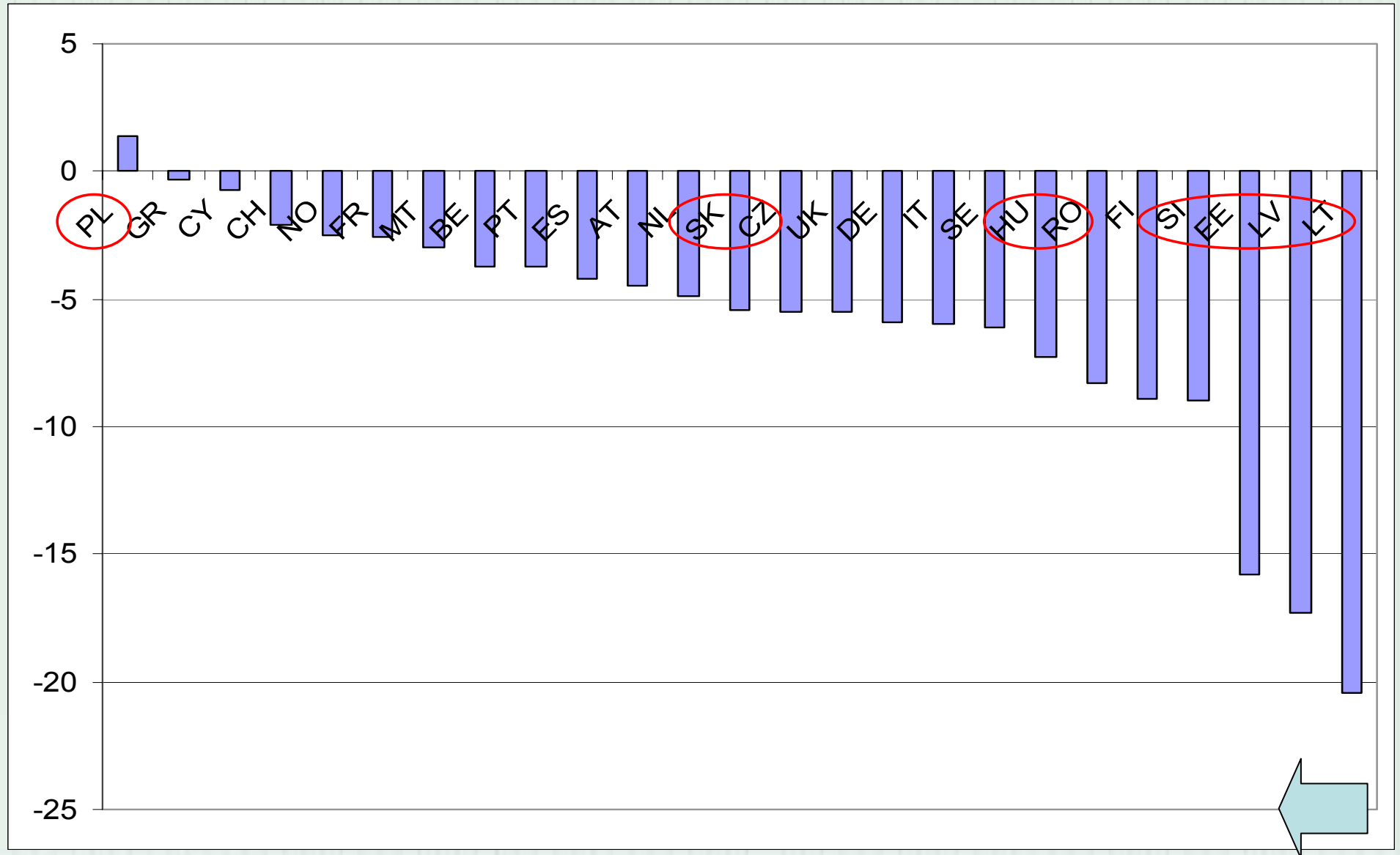
Some lessons from the crisis

- There are numerous questions and lessons from the crisis.
- The report pointed my attention to a few more:
 - Homogeneity of the region,
 - Monetary policy independence,
 - Euro area accession.

Homogeneity of the region

- For many years the region was treated as homogeneous by economists and investors,
- Reasons: common history, transition etc.
- But the crisis shows how heterogeneous the region has become:
 - Various approaches to monetary policy: Slovenia vs. Lithuania vs. Poland,
 - Various approaches to fiscal policy: Estonia vs. Hungary,
 - CESE countries on both ends of [growth distribution](#),
 - Baltic countries show more similarities with Spain or Ireland (overheating, housing market bubbles) than with Poland or Czech Republic,

GDP y-o-y in 2q2009



Monetary policy independence

- Standard monetary theory: floating ER - MP independence; fixed ER - no MP independence,
- Still true for fixed ER countries - Baltics show it clearly,
- But how much freedom did the floaters have in Autumn 2008?
- Rate reductions only possible because ECB lowered rates.
- This process will be progressing, questioning MP independence of SOE in the future.

Euro area accession

- Frequent conclusion: things would have gone better if CESEE were in the euro area. True?
- Worst performers - Baltic countries - overheating just before the turmoil.
- Reason? Quasi euro area membership.
- Best performers - PL, CZ, SK - relatively balanced growth before the turmoil (thanks to IT).
- Depreciation helped restore growth.