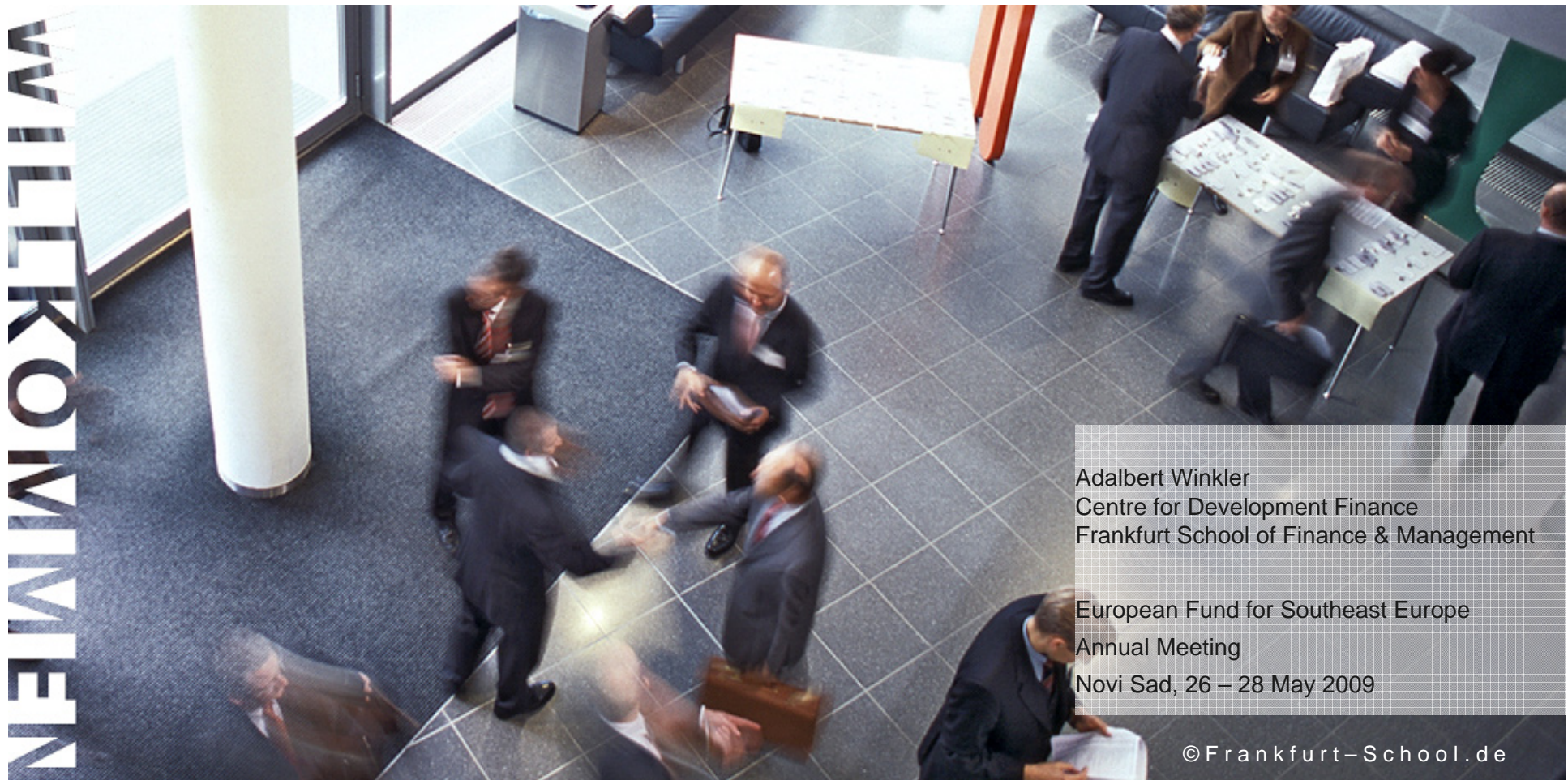


Financial crisis and Southeast Europe:
Off the Cliff or Out of the Woods?

Panel 2: Banking Sector Perspective



Are there any lessons to be learnt
from previous crises and crises responses for today?



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Global crisis versus emerging market crisis

SEE after Lehman Brothers:
like a traditional emerging market crisis
(but against the background of global crisis)

Emerging market crisis:

- Rise in interest rates
- Exchange rate depreciation
(or exchange rate depreciation pressures)

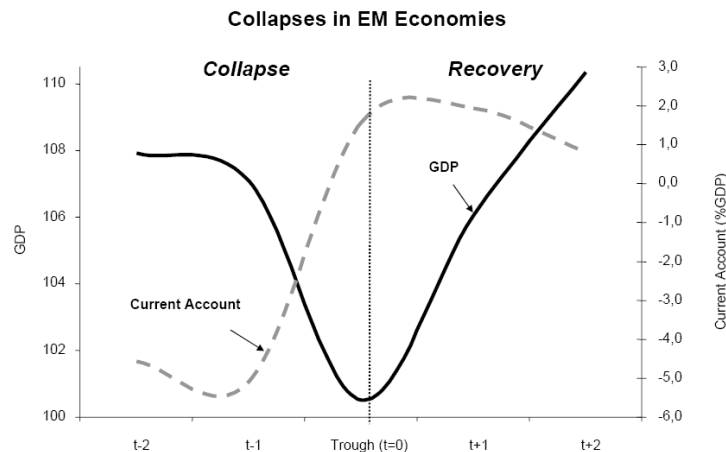
Are there any lessons to be learnt from previous crises and crises responses for today?

Traditional emerging market crisis:

Recovery via export-led growth and not via credit

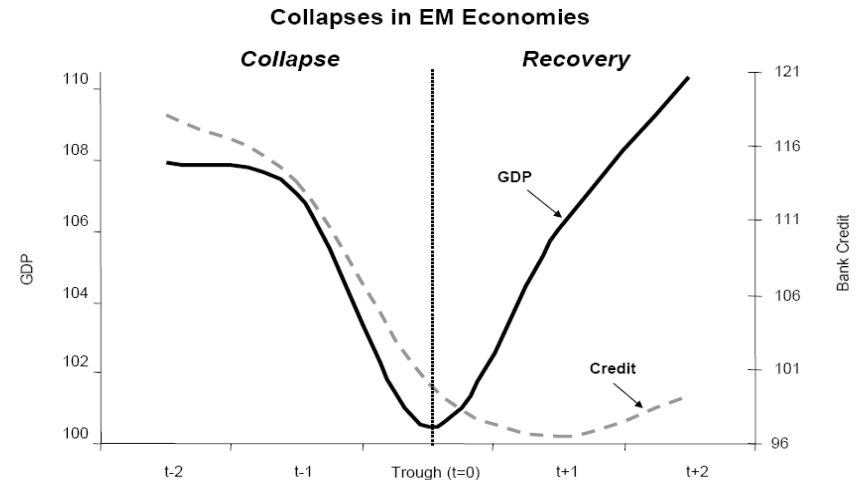
Current Account Dynamics

(in % of GDP, average 3S episode)



Bank Credit Dynamics

(deflated by CPI, average 3S episode)



Source: Calvo, G. A., Izquierdo, A. and E. Talvi (2006), *Phoenix Miracles in Emerging Markets: Recovering without Credit from Systemic Financial Crises*, BIS Working Paper No. 221, Basle.

Presentation by G. Calvo at the IMF Seventh Jacques Pollack Annual Research Conference, 26 Nov 2006

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Are there any lessons to be learnt
from previous crises and crises responses for today?



Problem for SEE (and EMEs in general):

- Who will provide the outlet for export-led growth, given the global crisis?
- Euro area / EU-15 outlook
- Domestic demand stimulus basically excluded due to exchange rate regime and lack of fiscal tightness in boom years

In terms of crisis impact and mitigating activities undertaken, how does SEE compare to other regions?



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Macroeconomic dimension

Recession has arrived (industrial production, retail sales, exports, inflation (except countries with strong currency depreciation))

General trend, but countries differ in terms of steepness of decline

Comparison with other regions: On average downturn is less severe than in CIS, but more severe than in southern Mediterranean countries (CIS: raw material prices, Southern Med: less integration)

In terms of crisis impact and mitigating activities undertaken, how does SEE compare to other regions?



Mitigating activities:

Measures taken to limit capital inflows have been abolished or reduced

Macropolicies basically not available (due to exchange rate regimes and lack of counter-cyclical fiscal policies in boom)

Support by IMF and other IFIs

In terms of crisis impact and mitigating activities undertaken, how does SEE compare to other regions?



Banking sector dimension

Deposits:

Spill-over of the liquidity shock. Deposit withdrawals and individual bank failures triggering government intervention. In some countries absolute decline of deposits.

Credit:

In some countries substantial reduction in growth rates

Parent banks, subsidiaries and activities of home country governments and central banks



Key issue:

Will subsidiaries of euro area banks stick to the region or will they (be forced to) withdraw?

Baseline scenario:

no (forced) withdrawal of subsidiaries of euro area banks

(Orderly) consolidation likely

Risk aversion will remain for a long time

Growth model of the past cannot be relied on for recovery