

Workshop on the Impact of the Crisis on New Member States

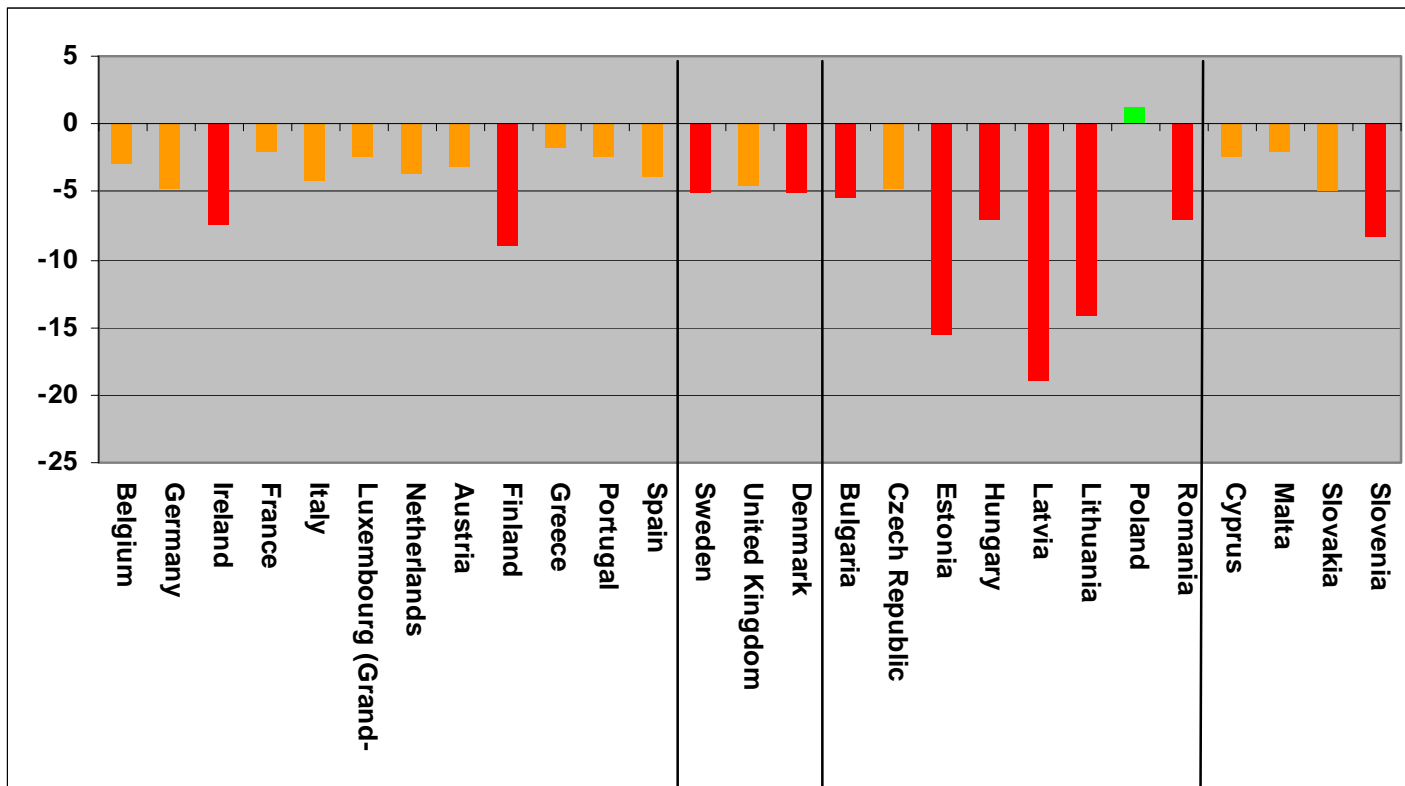
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Session I: Macroeconomic Impact - Monetary and Financial Policies

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Impact of the crisis at first glance



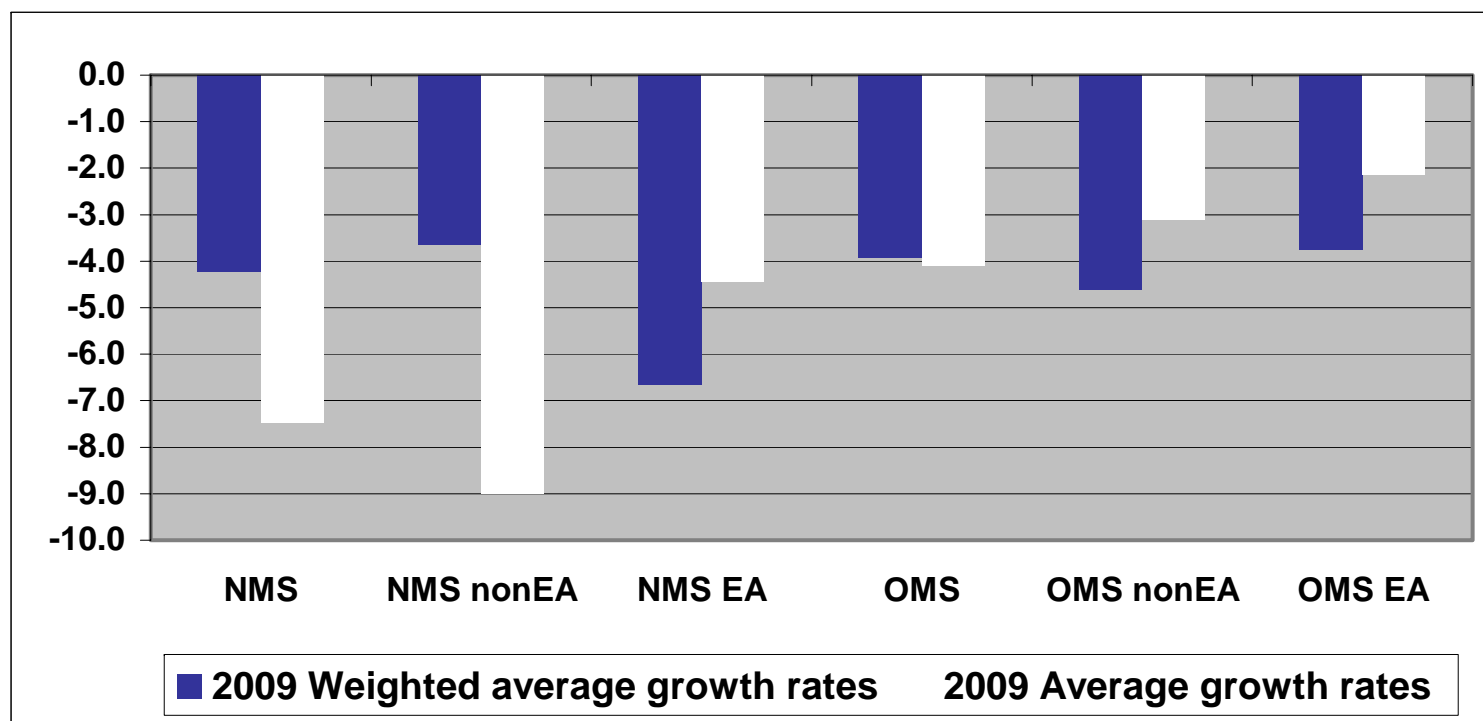
Average GDP growth in 2009

- **OMS : -4%**
(EA: -2%, nonEA: -3%)
- **NMS : -8%**
(EA: -5%, nonEA: -9%)

Source: Eurostat, own computations

Impact worse for NMS and non-EA group ?

Impact of the crisis at second glance



Population weighted averages

- **OMS : -4%**
(EA: -4%, nonEA: -5%)
- **NMS : -4%**
(EA: -7%, nonEA: -4%)

Source: Eurostat, own computations

There is no „the worst impacted group“

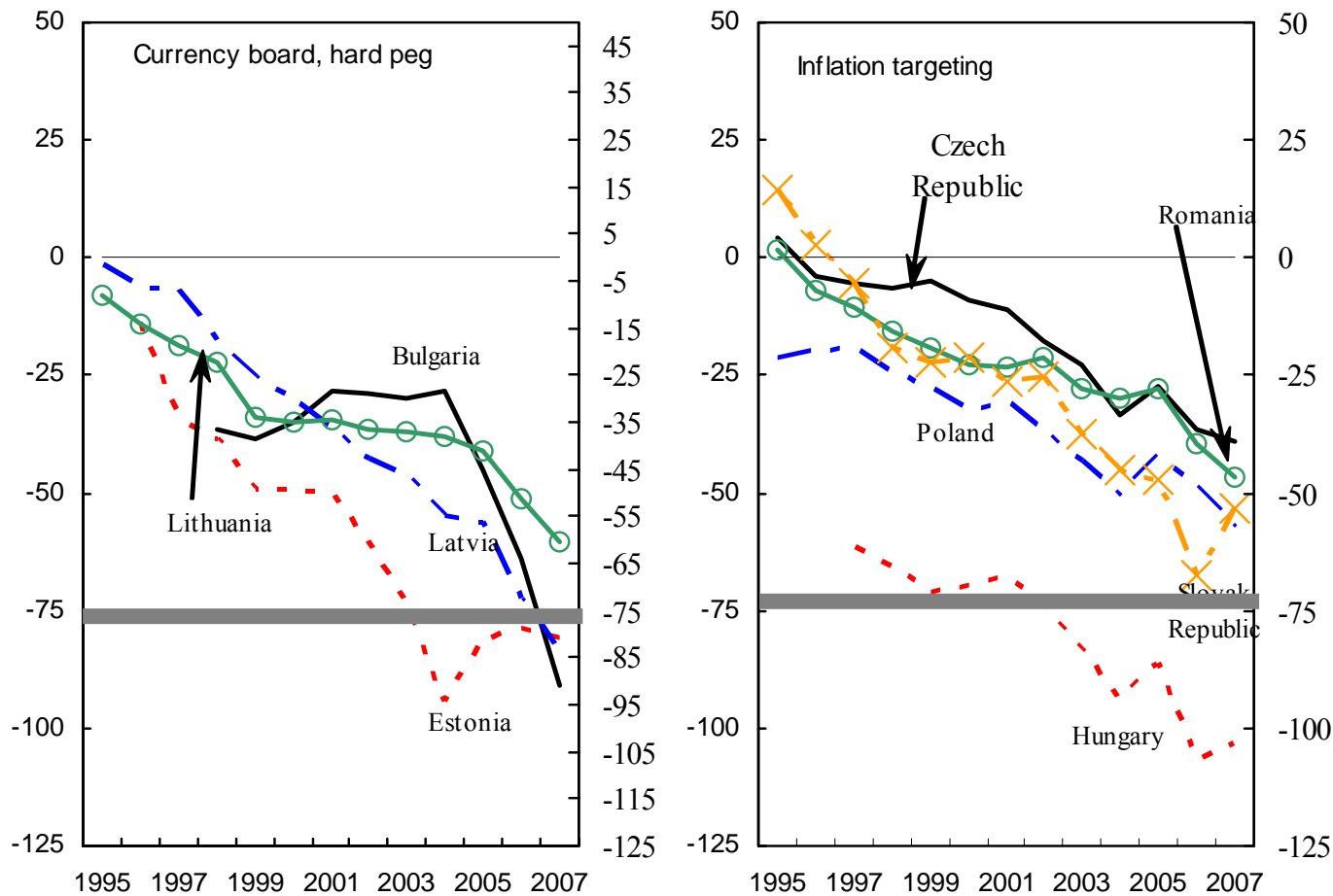
Heterogeneity inside „groups“

- **Population hit by the crisis similarly in OMS and NMS**
- **There is a heterogeneity inside these „groups“**
- **The terminology of „groups“ is already history**
- **It does not help with the analysis, moreover, it can hamper the recovery in the NMS (markets react to bad news in one country with a change in their investment decisions in all NMS)**
- **We need to dig deeper into facts, we will see interesting country differences.**

Reasons of heterogeneity

- **There are various reasons why countries reacted differently to crisis**
- **Some macroeconomic factors: large debtors more vulnerable (fiscal and foreign debt), floating exchange rate regime might have helped compared to hard pegs**
- **Some financial factors: households in some countries prefer domestic currency, some banking sectors do not depend on cross-border funding (impact of ownership unclear)**

Macroeconomic factors 1



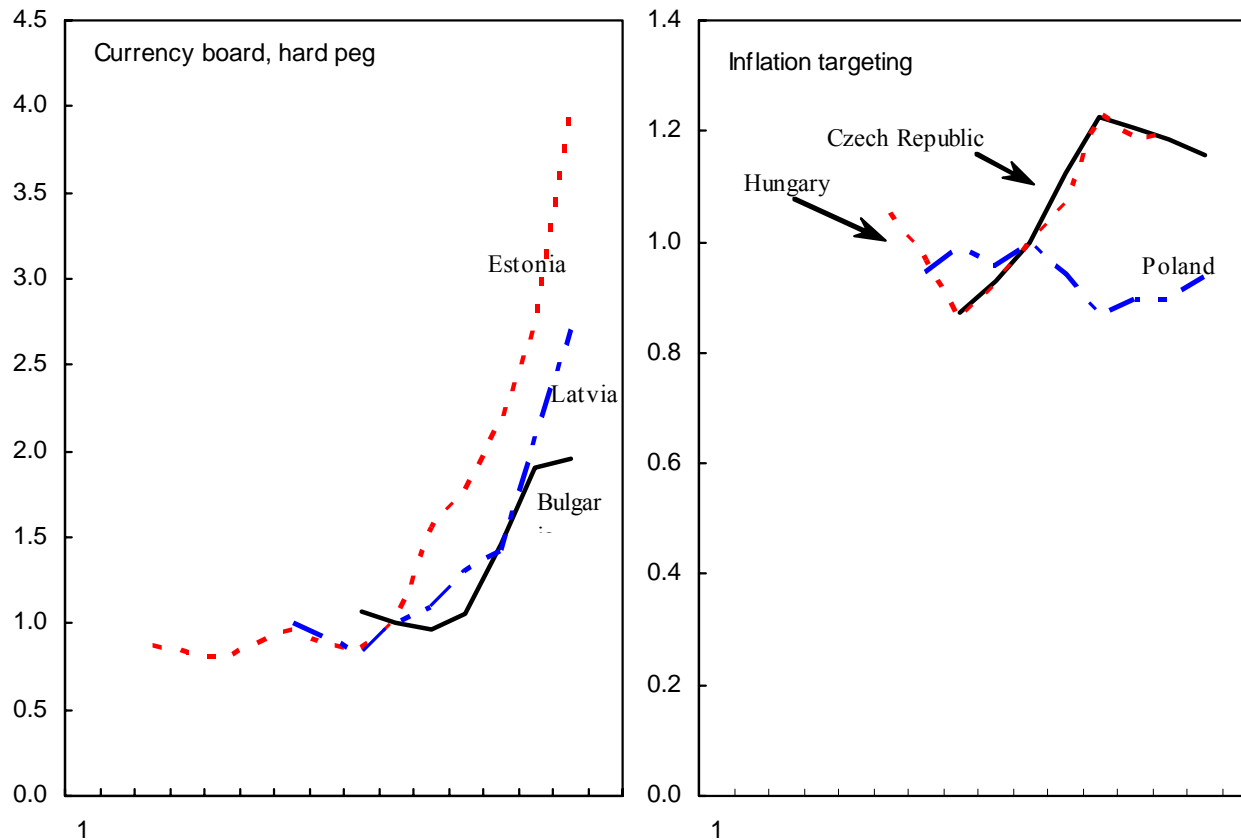
Source: Babetskii, Bulíř, Šmídková (2009) European Economy. Economic Papers. 368.

Differences in NFA positions

- **Hard pegs:** all above safety limit (60% of GDP)
- **Floater:** majority below limit (Hungary outlier)

Large net external debts increased vulnerability

Macroeconomic factors 2



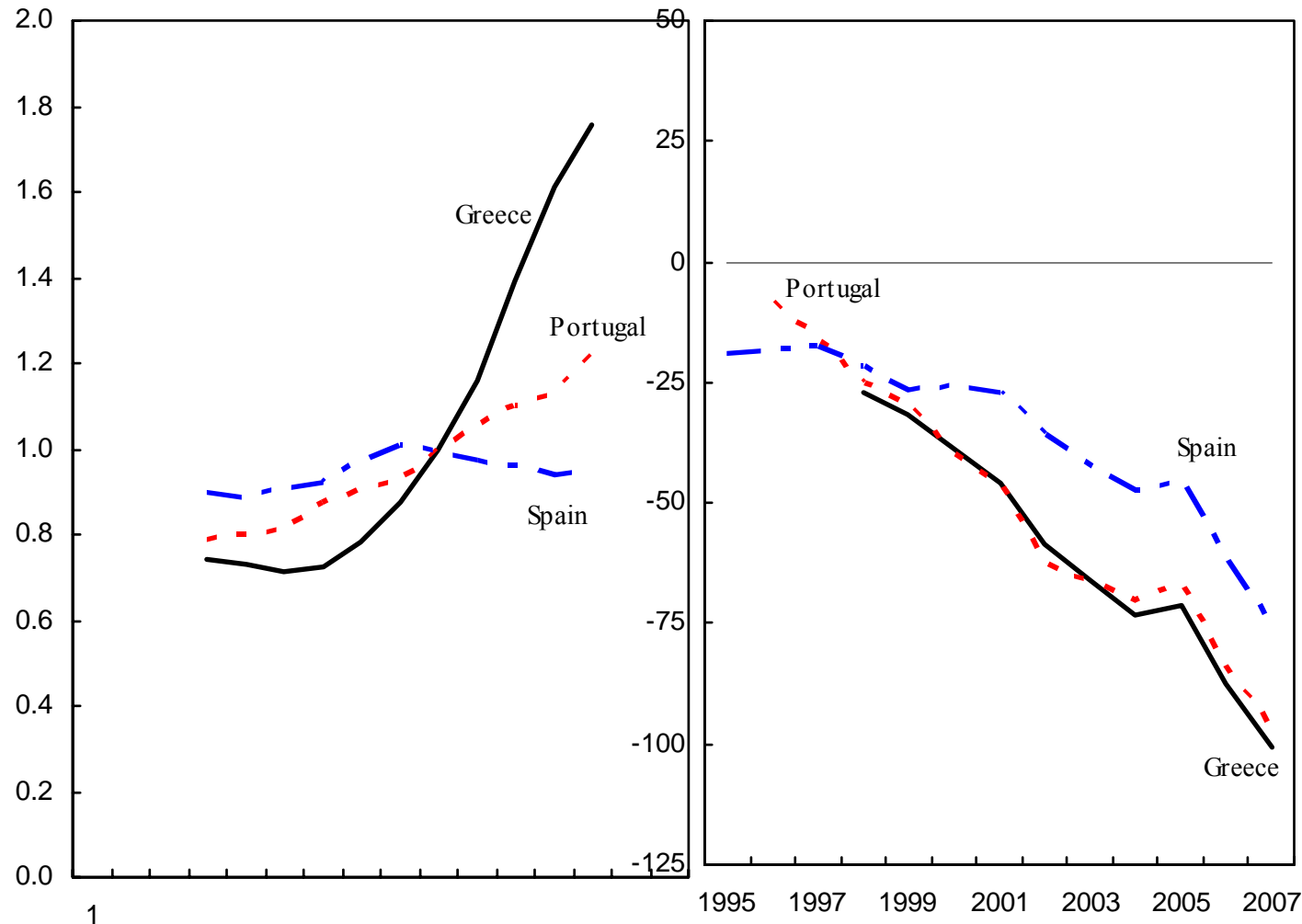
Source: Mihaljek, Égert (2007) Comparative Economic Studies, 49.

House prices (2000=1)

- **Hard pegs: housing bubble observed**
- **Floater: no rapid growth in housing prices**
- **Similar picture for housing loans**

Housing price bubbles increased vulnerability

Macroeconomic factors 3

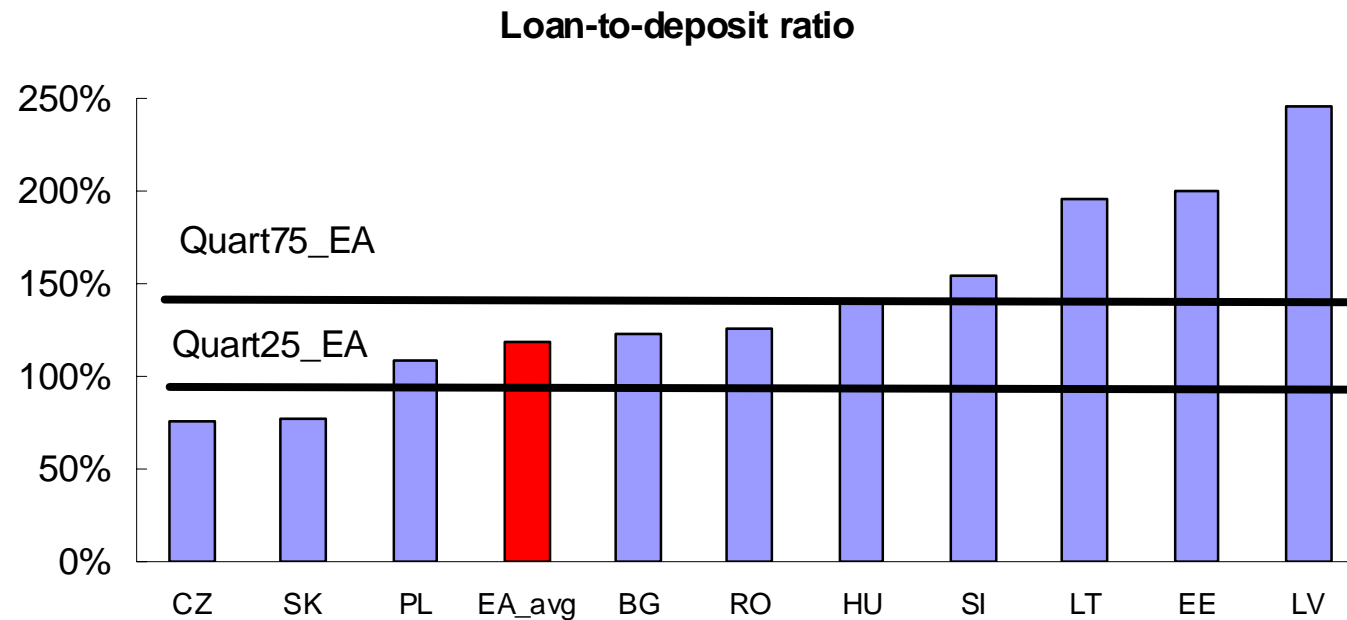


Some OMS also face problems

- **Housing prices: see Spain, Greece, Portugal**
- **Net external debts: again see Spain, Greece, Portugal**
- **Macroeconomic factors important in both groups**

The same story true for some OMS

Financial factors 1

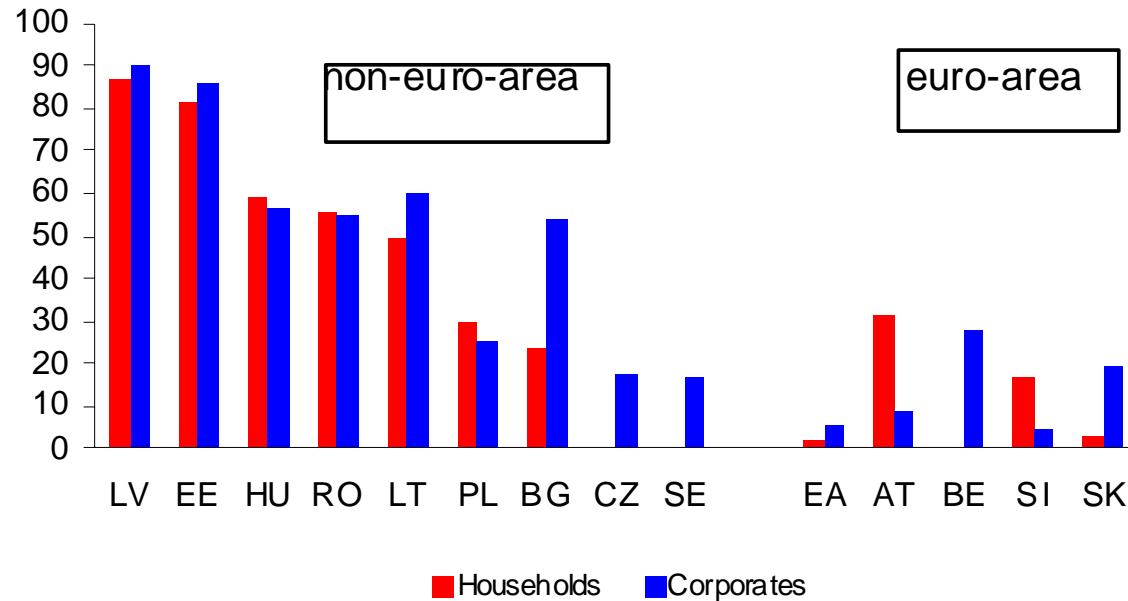


Data source: BIS, IMF

- Savings matter**
- EA average used as benchmark
 - Countries hit by crisis tend to have not enough deposits
 - Some NMS are above-average savers in domestic currency (see Czech Republic)

Countries-savers weathered crisis well

Financial factors 2



FX loans matter

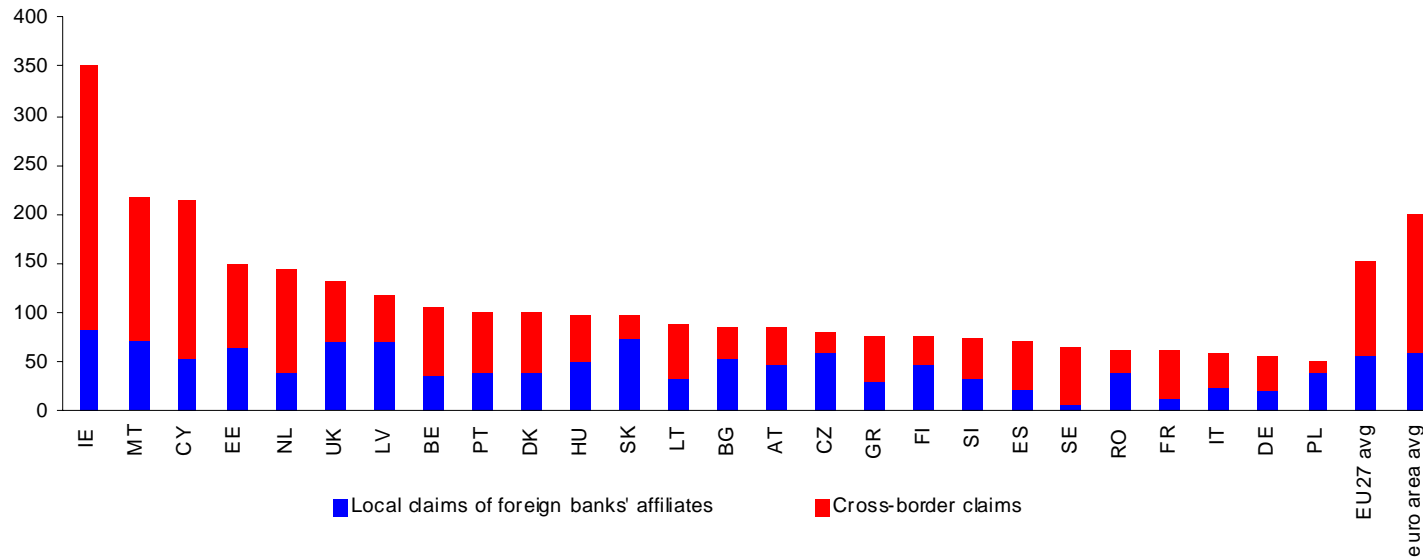
- In some countries, loans were taken in foreign currency
- In some countries, households do not use FX loans at all (See Czech republic and Slovakia)

Source: BIS, ECB, national central banks

Note: EA = euro area. SI - data as of February 2008; BE - households include only housing loans, corporates include all client loans excluding housing loans.

Countries with credible currency better off

Financial factors 3



Ratio of BIS defined foreign claims to GDP

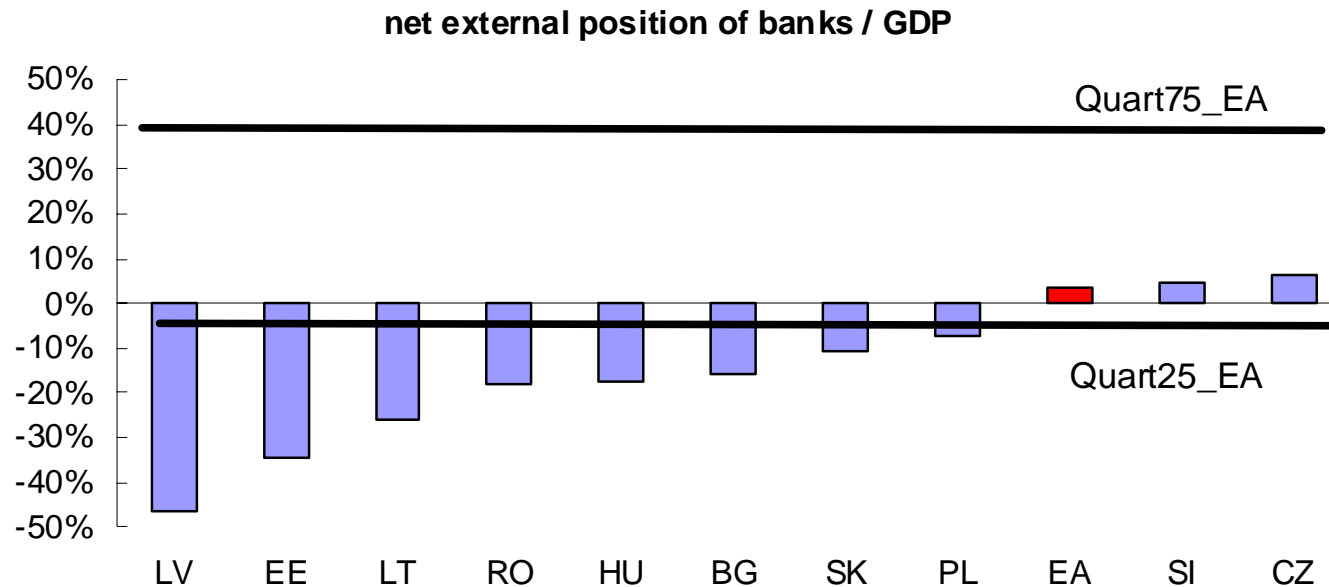
- Involvement of foreign banks in national EU economies is large in both groups (see Ireland, Cyprus)
- Luxembourg excluded (1300%)

Source: BIS, IMF, Eurostat, CNB calculation

Note: Calculation based on BIS data using both available bases. The data for the EU and euro area (EA) are not consolidated.

Cross-border claims differ in both groups

Financial factors 4



Data source: BIS, IMF

Exposure of banks

- EA average used as benchmark
- Some NMS comparable to benchmark
- Banking sectors in some NMS have large net external position
- Foreign ownership in both cases

Ownership does not seem to matter so much

Tentative lessons

- Sound and credible macroeconomic policies helped (low debts, households saving and borrowing in domestic currency, absence of significant housing bubbles)
- Sound management of banking sector aware of systemic risks and sound supervision helped (no large exposures, no large bubbles, traditional banking without complex products)

Challenges ahead

- To prevent large balance-of-payments imbalances to accumulate under hard pegs (floaters adjust faster, but have more volatile exchange rates)
- To internalize systemic risks into risk management (currency risk transforms into credit risk)
- To establish macro liquidity contingency planning within the Eurosystem and for other euro users (national policy tools not sufficient)
- To consider implications of fiscal rescue packages for euro adoption (will costs prevent countries to join?)

Thank you for your attention!

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