

Coping with the Euro Crisis: Central Europe and the Euro

Presentation at the International Effects of EMU and the Sovereign
Debt Crisis' Conference (February 20, 2015)

College of Europe

Assem Dandashly
Maastricht University



Outline

- ◆ Introduction
- ◆ Similar Problems
- ◆ Different management of the Crisis
- ◆ Long term impact of the Crisis
- ◆ Conclusion and Future Prospect

Introduction

- ◆ The Euro from a Safe haven to crisis
- ◆ Common Problems caused by the Crisis
 - ◆ Slow down of economic growth and contraction of GDP
 - ◆ Increased unemployment
 - ◆ Decrease in Exports
 - ◆ Decline in industrial production and the construction sector
 - ◆ Outflow of capital

Similar Problems due to the Crisis

- ◆ There are a number of common features in the Central European (CE) economies that have brought about specific problems during the crisis.
 - ◆ highly export-oriented nature of the CE economies
 - ◆ the gradual integration of the banking system in Europe during the past two decades
 - ◆ Exchange Rates

Different Management of the Crisis: The Czech Republic

- ◆ Strong economic fundamentals
- ◆ Strong external and fiscal positions and the credibility of monetary and exchange rate policies
 - ➡ Contributed to the resilience of the economy and financial system at first
- ◆ Least indebted
- ◆ Healthy banking sector
- ◆ Despite all that, the recovery of the Czech Economy that went back into recession in 2012 has been slow due
 - ◆ Domestic factors
 - ◆ External factors

Different Management of the Crisis: Hungary

- ◆ Hit hard by the crisis
- ◆ Despite the reforms of the care-taker government, Hungary was hit again severely in late 2011 and early 2012
- ◆ Reasons for crisis' effect
 - ◆ History of poor economic performance prior to the 2008 crisis
 - ◆ Bad conditions for public finances
 - ◆ Centre Right government in power since 2010 with its un-orthodox economic policies
 - ◆ Major hopes on the export sector, but with the slow down in other EU countries , this is also affected negatively

Different Management of the Crisis: Poland

- ◆ Initial resistance to the crisis due to:
 - ◆ Already stable fiscal structure and banking sector
 - ◆ Flexible exchange rate – Depreciation of the złoty
 - ◆ Lower degree of openness in comparison to other CE
 - ◆ Size of the Polish economy
 - ◆ Role of policy making
 - ◆ Banking sector returned healthy and did not require help from the state treasury
- ◆ However, Polish exports witnessed decline especially in 2012
 - ◆ Increased Debt
 - ◆ Slow growth

Different Management of the Crisis: Slovakia

- ◆ One of the fastest growing economies in the EU
- ◆ With the crisis and decrease of external demand
 - ◆ Industrial production crashed
 - ◆ Deep recession and increase unemployment in 2009
- ◆ Fast recovery
 - ◆ Structural reforms of the 2000s
 - ◆ However, due to the expansionary fiscal policy, public debt has been increasing
- ◆ One major difference from the rest of the CEC is being EMU member
 - ◆ Double edged sword
 - ◆ Stable currency?
 - ◆ Prolonged Recession?

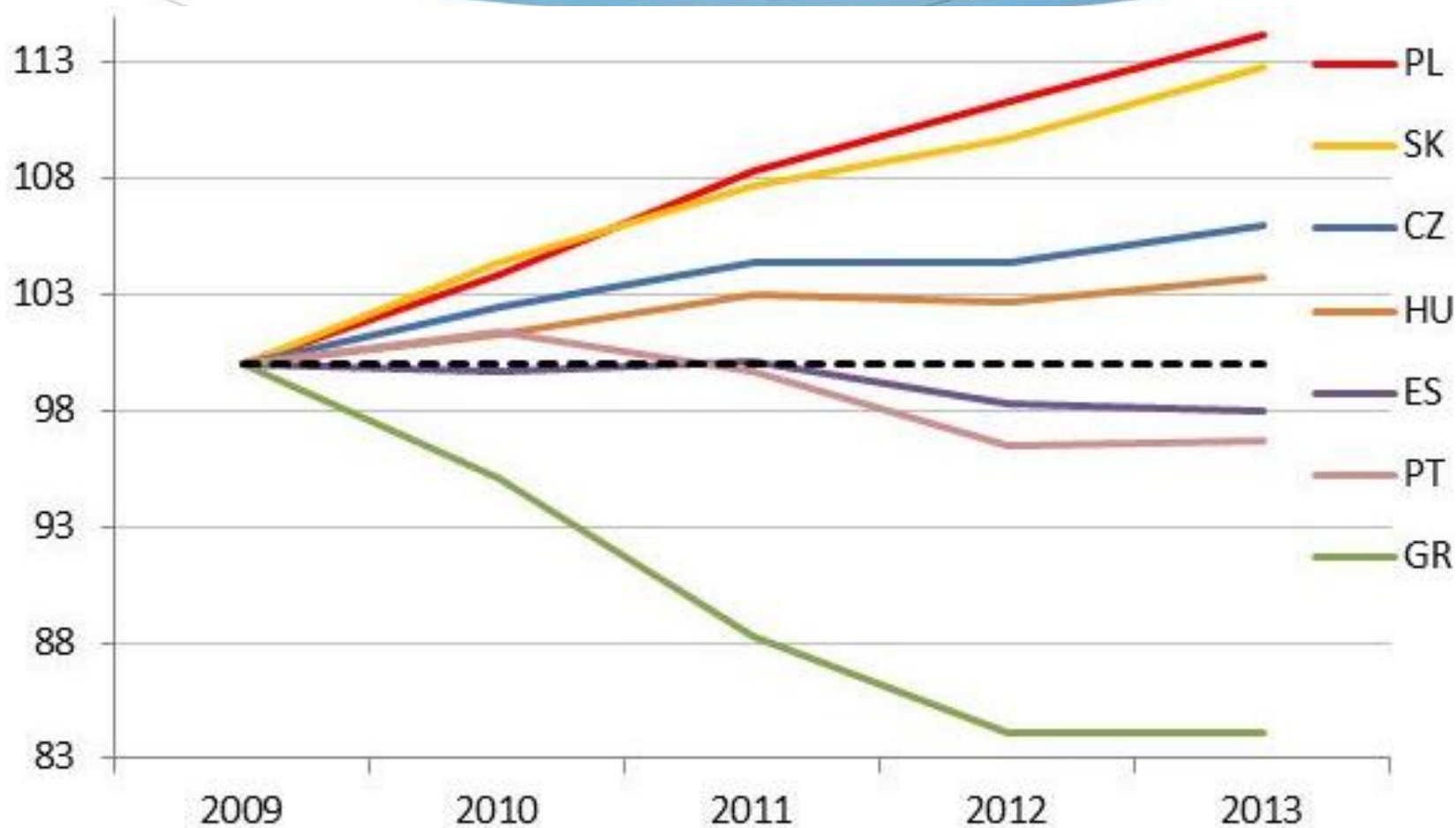
Impact of the Crisis on CE

- ◆ Intra-regional Reshuffle
- ◆ Multi-speed CE?
- ◆ Changes in the Economic Map of Europe

Real GDP Growth %

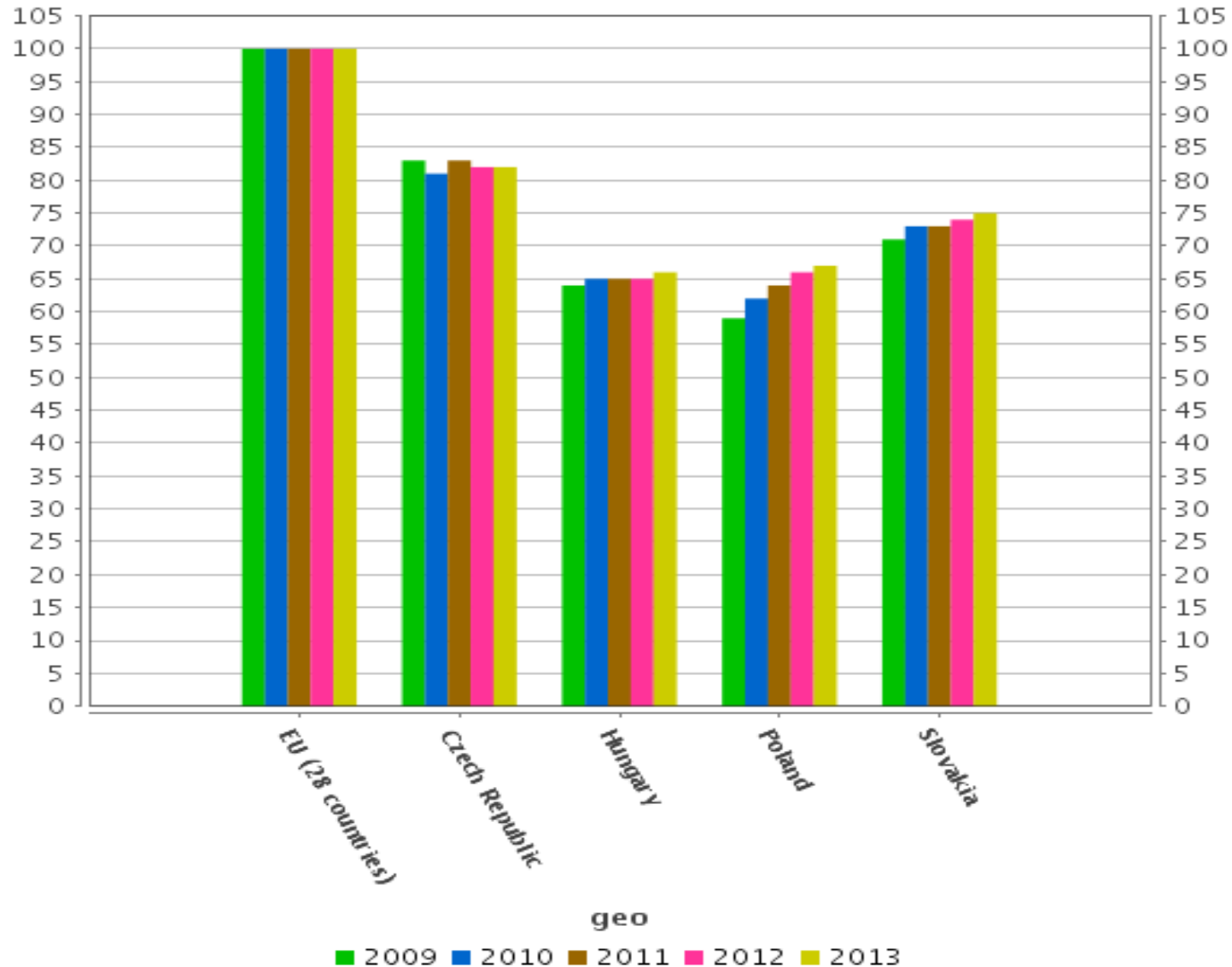
	2008	2009	2010	2011	2012	2013	2014*
CZ	2.7	-4.8	2.3	2.0	-0.8	-0.7	1.9
HU	0.9	-6.6	0.8	1.8	-1.5	1.5	1.3
PL	3.9	2.6	3.7	4.8	1.8	1.7	2.2
SK	5.4	-5.3	4.8	2.7	1.6	1.4	2.9
EU28	0.5	-4.4	2.1	1.7	-0.4	0.0	1.6

Divergence of V4 and GIPS countries in terms of real GDP growth (2009: 100%)



GDP per capita in PPS (as % of EU-28)

GDP per capita in PPS
Index (EU28 = 100)



Debt as % of GDP

	2008	2009	2010	2011	2012	2013	2014*
CZ	28.7	34.1	38.2	41.0	45.5	45.7	49.5
HU	71.9	78.2	8.9	81.0	78.5	77.3	77.7
PL	46.6	49.8	53.6	54.8	54.4	55.7	57.5
SK	28.2	36.0	41.1	43.5	52.1	54.6	63.4
EU28			78.2	80.8	83.5	85.4	

General Government Deficit

	2008	2009	2010	2011	2012	2013
CZ	-2.1	-5.5	-4.4	-2.9	-4.0	-1.3
HU	-3.7	-4.6	-4.5	-5.5	-2.3	-2.4
PL	-3.6	-7.3	-7.6	-4.9	-3.7	-4.0
SK	-2.4	-7.9	-7.5	-4.1	-4.2	-2.6
EU28			-6.4	-4.5	-4.2	-3.2

Conclusion

- ◆ Prospects for the future
 - ◆ CE facing two main risks
 - ◆ Possible further waves of financial instability
 - ◆ The strong links to the eurozone
- ◆ Facing these risks depends on the economies of CE
 - ◆ Most vulnerable is Hungary
- ◆ Euro adoption: Still on the agenda?

Thanks for your attention

Comments welcome

assem.dandashly@maastrichtuniversity.nl