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**From the Selected Works of Robert C. Shelburne**

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October, 2011

# The Economies in Transition: The Recovery

Robert C. Shelburne, *United Nations Economic Commission for Europe*



Available at: [https://works.bepress.com/robert\\_shelburne/69/](https://works.bepress.com/robert_shelburne/69/)



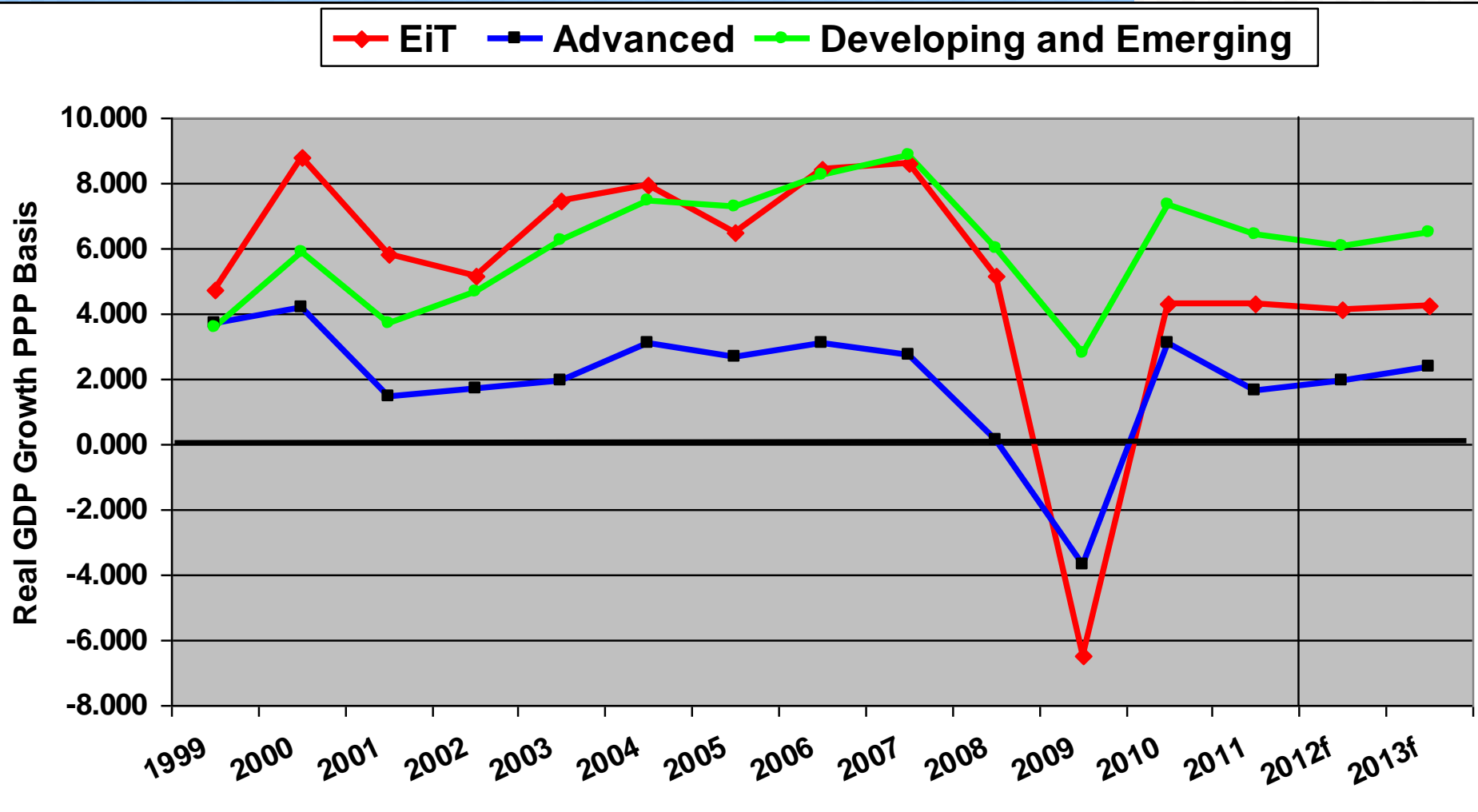
# **The Economies in Transition: The Recovery Project LINK, New York 2011**

**Robert C. Shelburne**  
**Economic Commission for Europe**





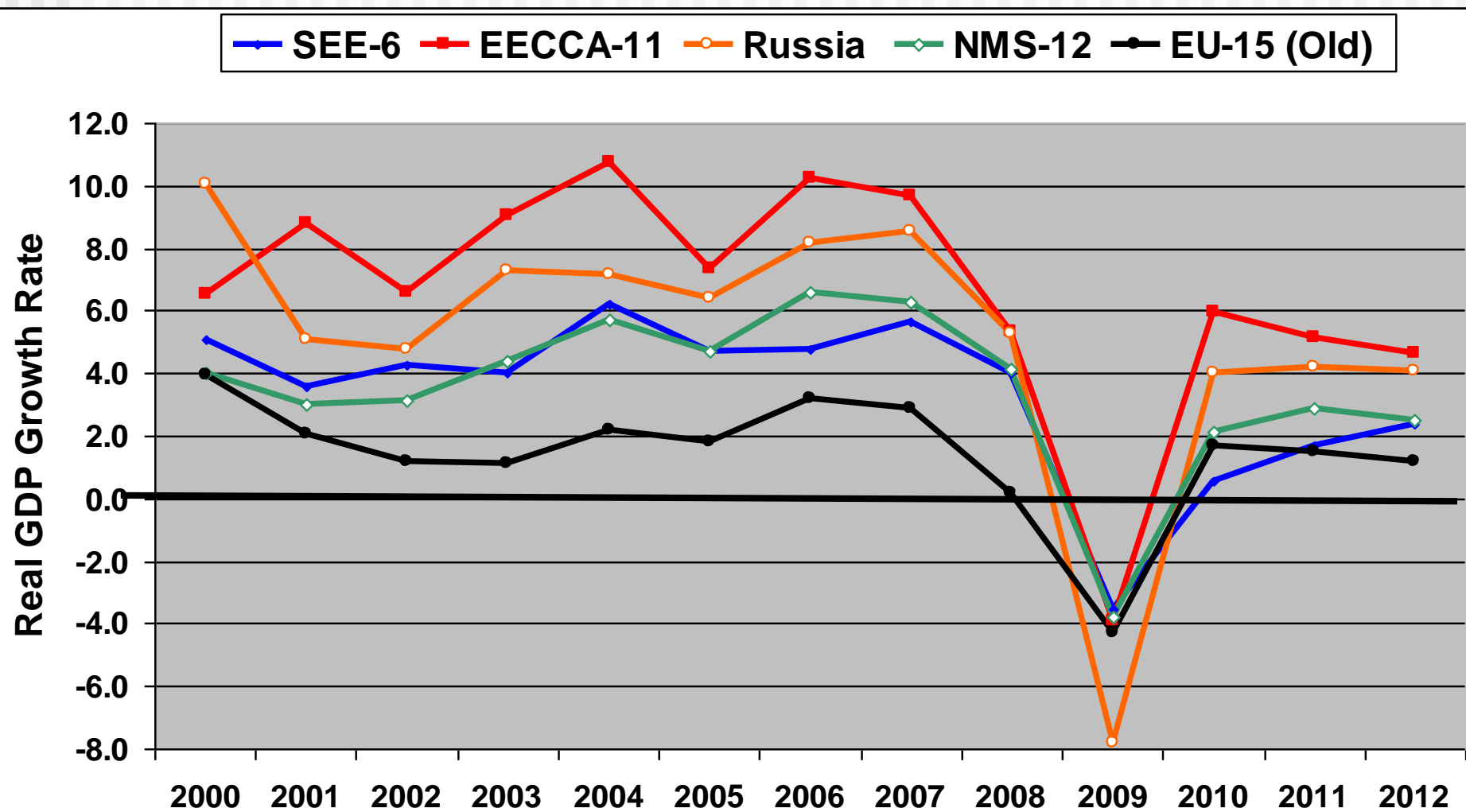
EiT growth was similar or above developing countries pre-crisis, but significantly below post-crisis. Downside risk: eurozone crisis





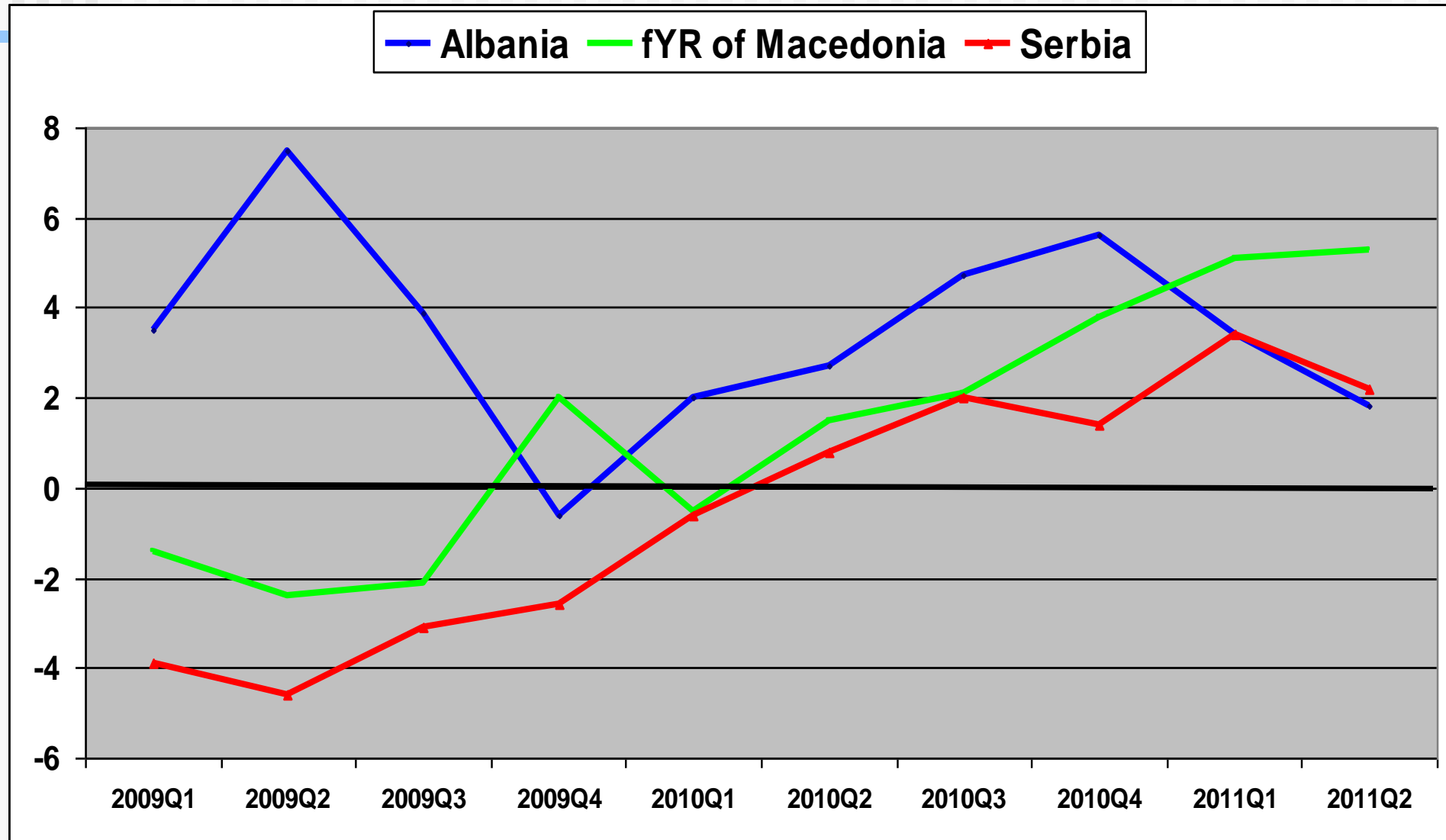


# Real GDP Growth in Europe, 2000-2012





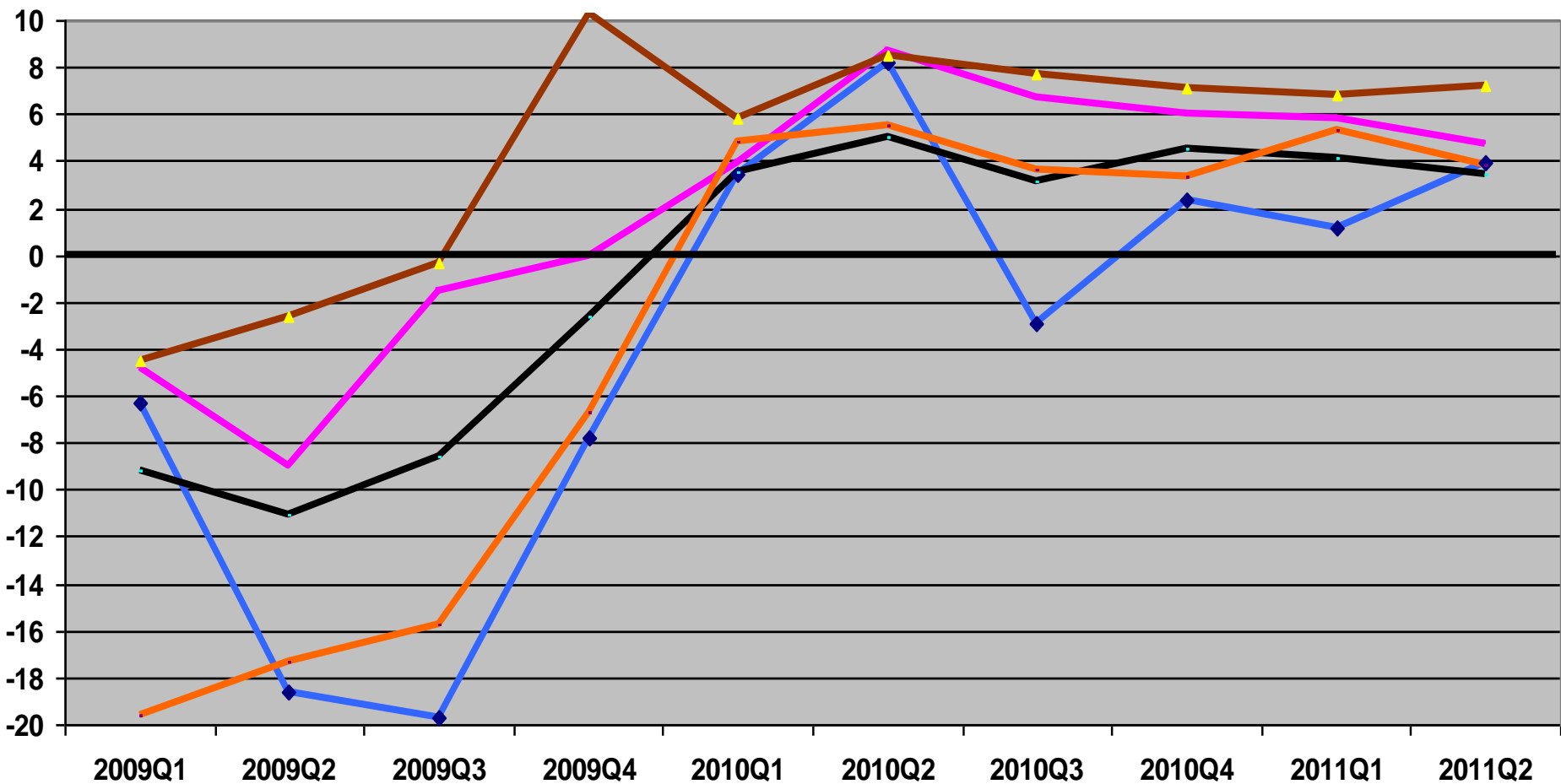
# SEE Quarterly GDP Y-O-Y





# CIS: Quarterly GDP Y-O-Y

◆ Armenia    ◆ Georgia    ◆ Kazakhstan    ◆ Russia    ◆ Ukraine



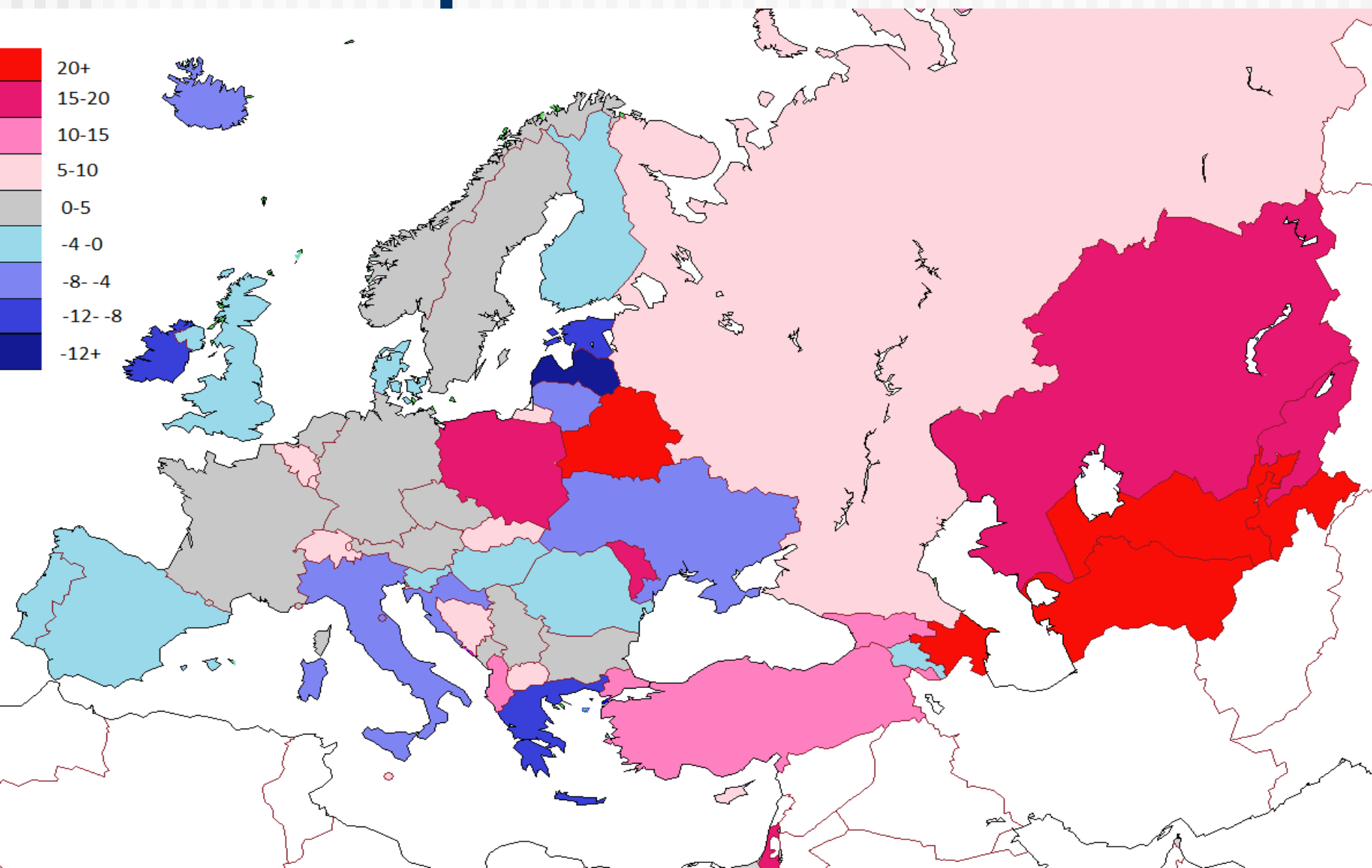


# Comparison of Severity of Crisis Using Time

	GDP Growth		Total 2007-2011	Years Lost due to Crisis
	Annual Average 2003-2007	Annual Average 2007-2011		
SEE-6	5.3	0.6	2.6	3.5
EECCA-11	9.5	3.1	12.8	2.67
Russia	7.6	1.3	5.2	3.33
EiT (-T)	7.8	1.9	8	~3 (2.9)
NMS	5.8	1.3	5.4	~3 (3.1)
ECA (-T)	7.2	1.8	7.2	3
EU (15 Old)	2.5	-0.3	-1.1	5
Emerging & Developing	8	5.6	24.5	~1



# Level of GDP in 2011 Compared to 2007

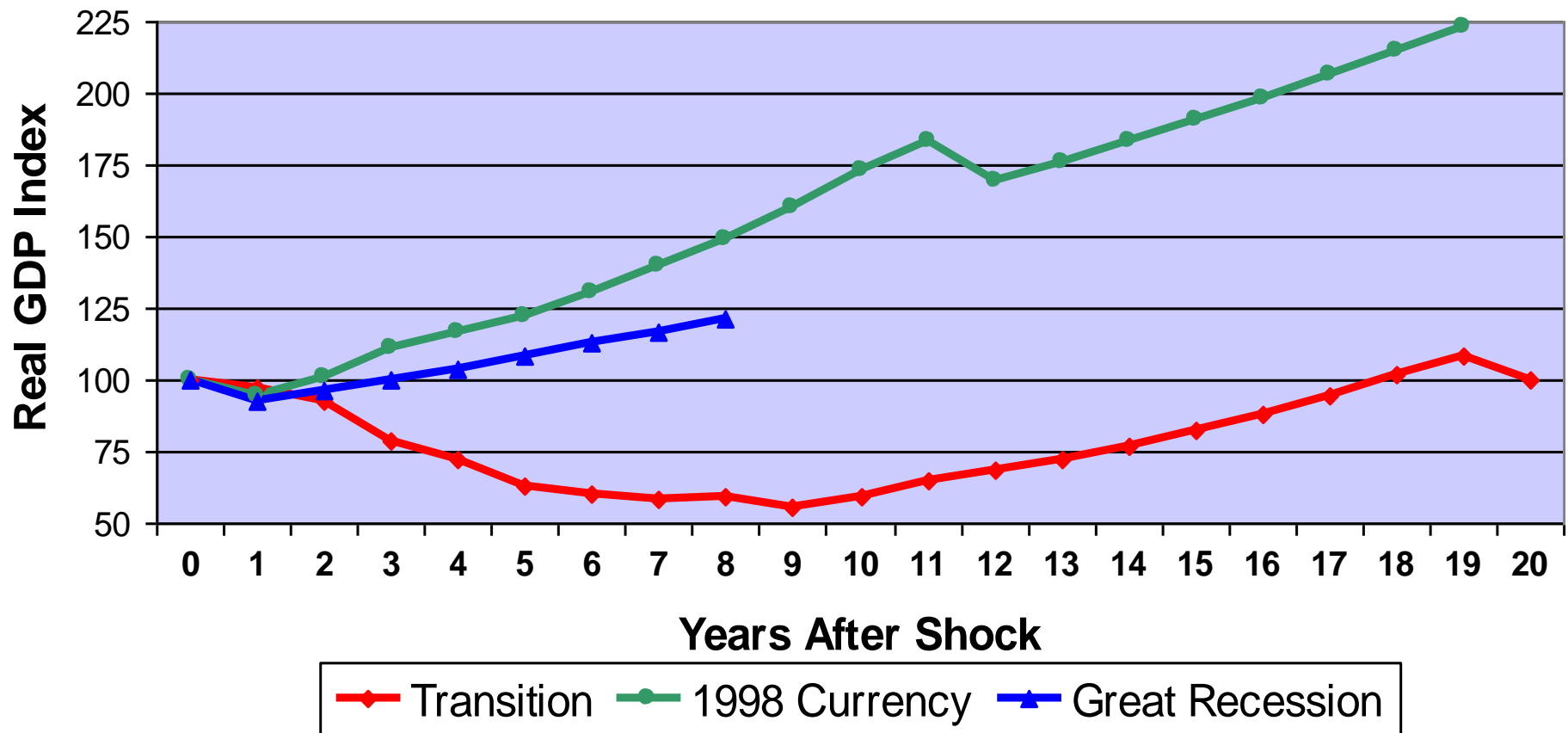






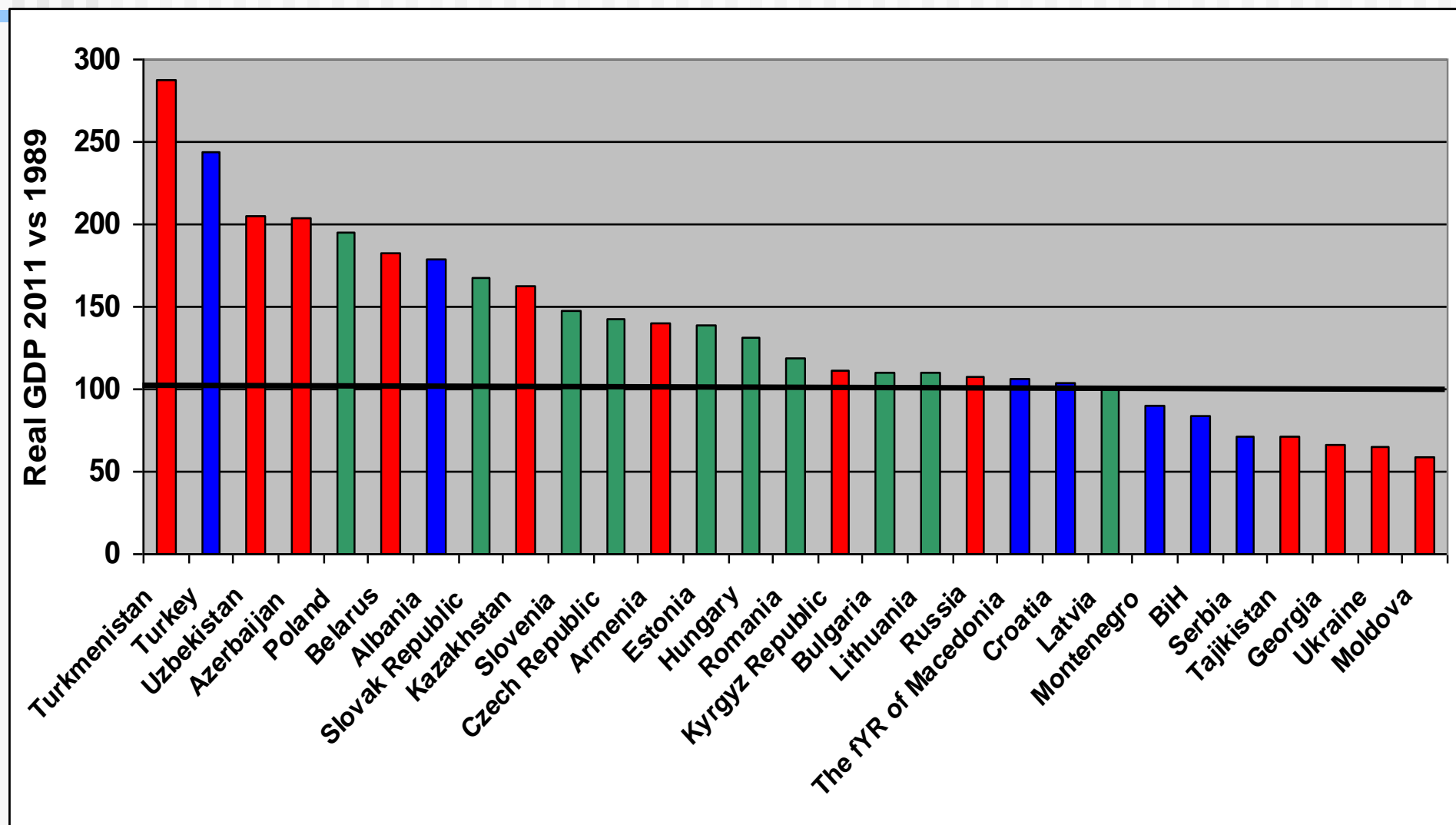
# The Great Recession: Bigger than 1998 currency crisis but insignificant compared to transition crisis

Russia- Crises Compared



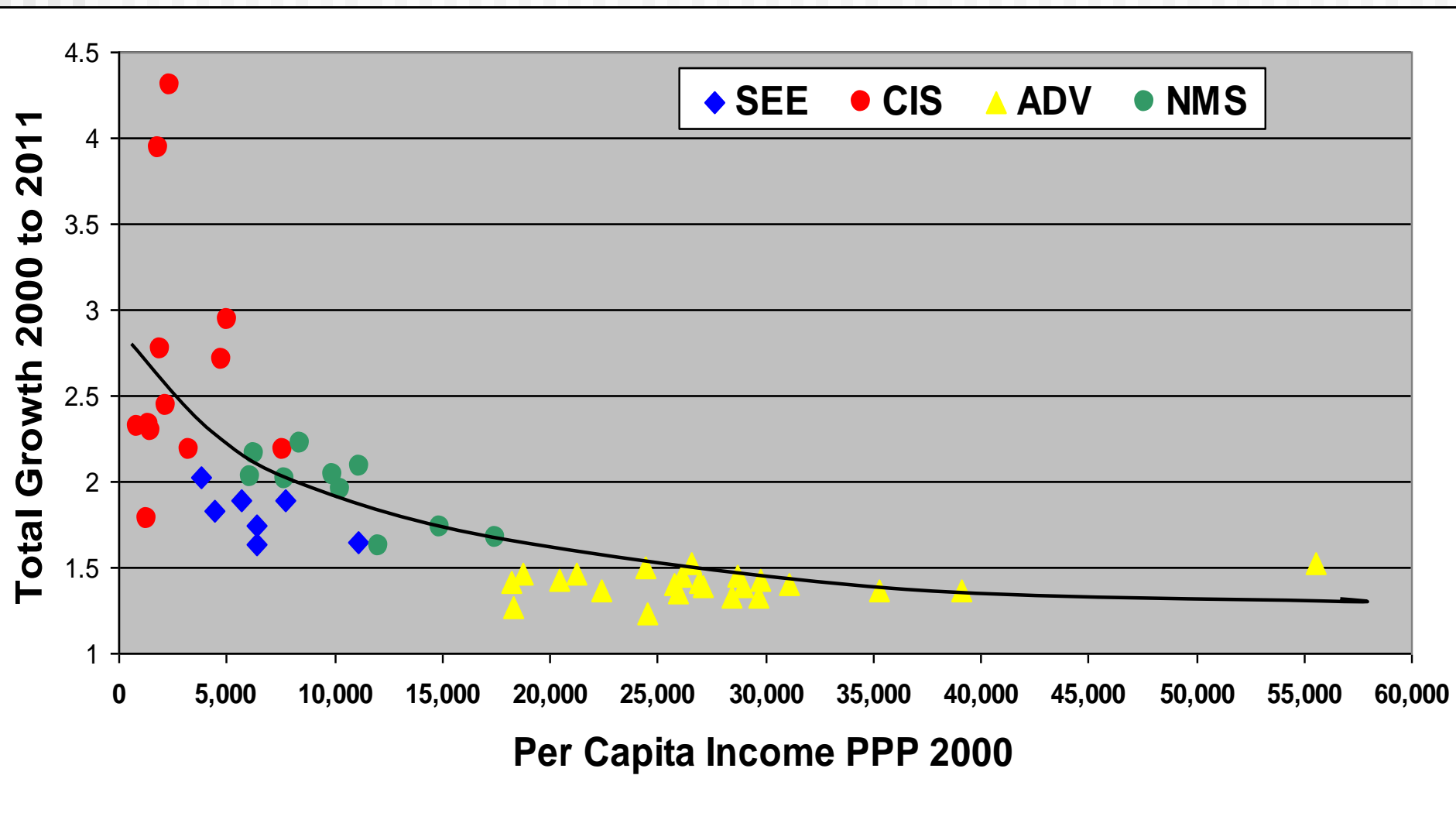


# Real GDP in 2011 Compared to 1989



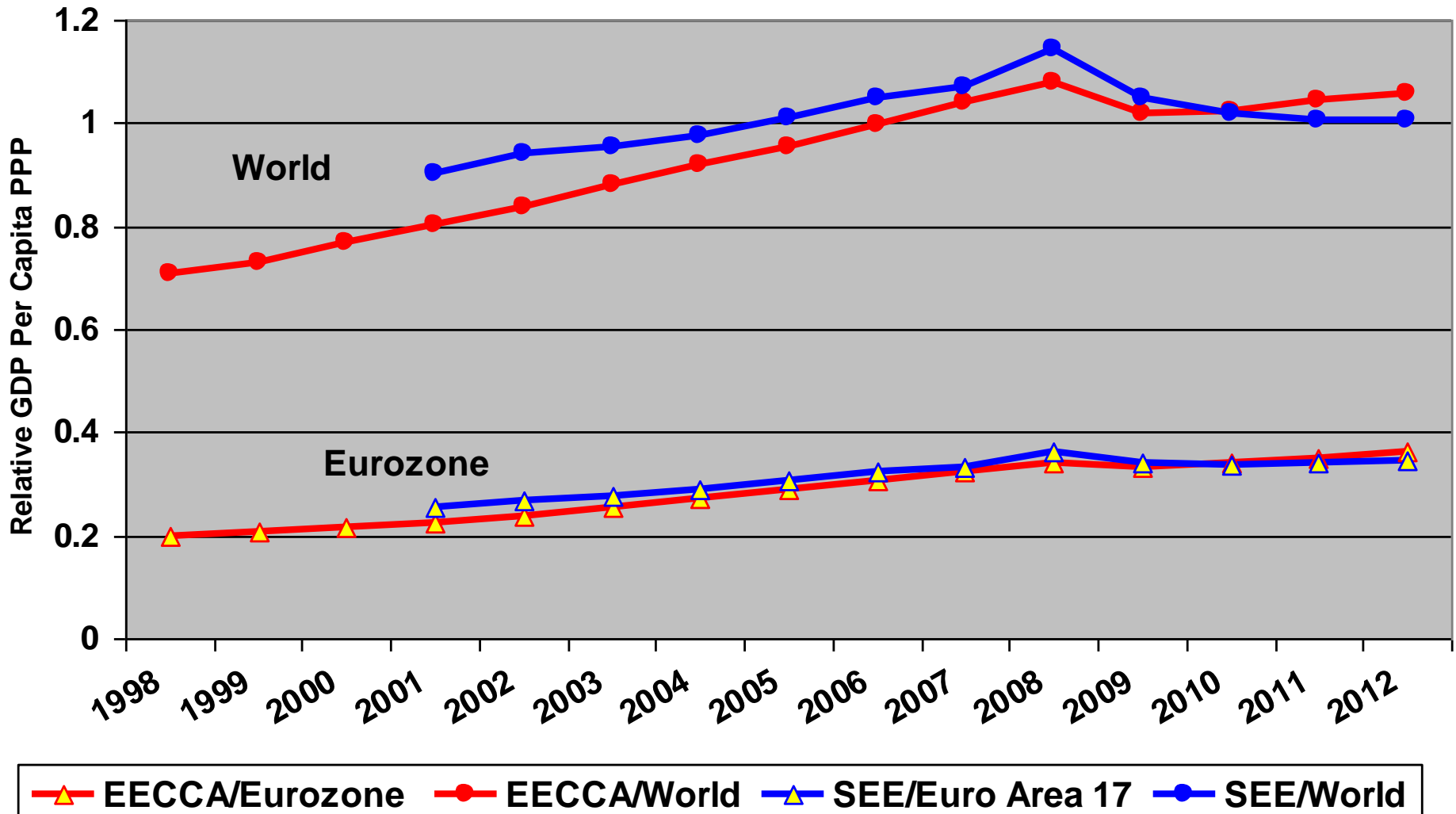


# Convergence in Wider-Europe 2000-2011



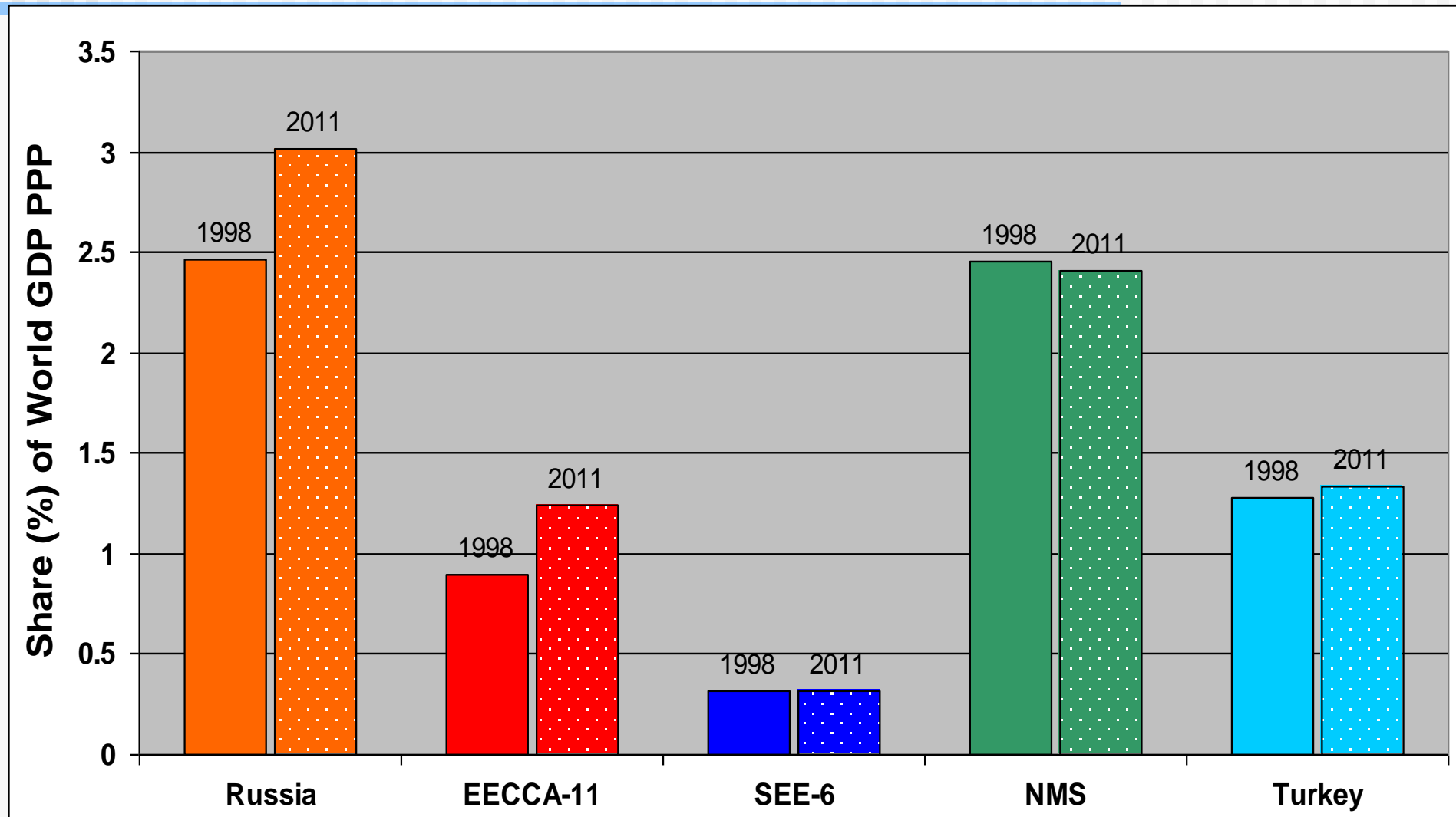


# EECCA (CIS) & SEE Are Slowly Converging to Eurozone Per Capita Income





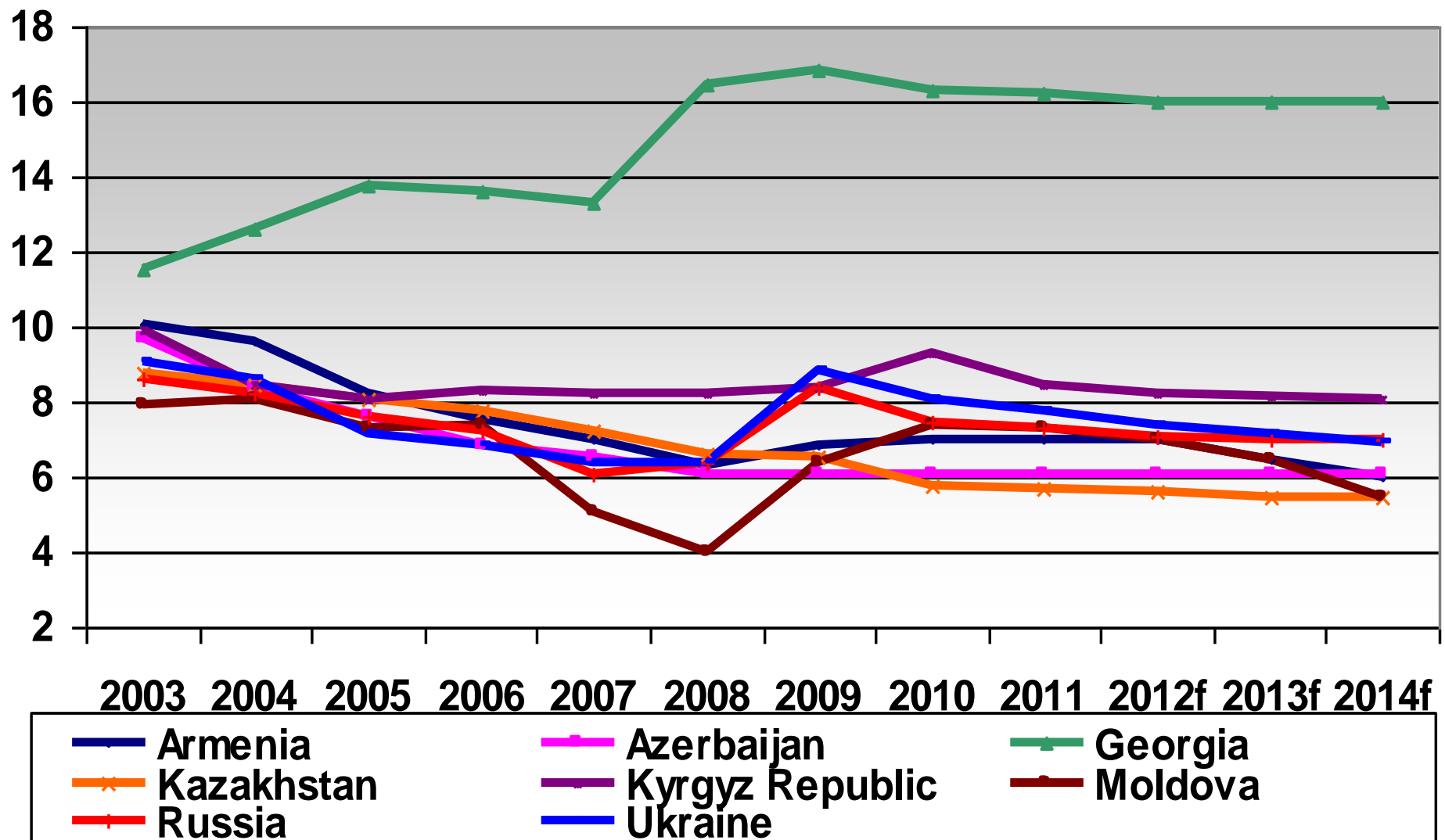
The EiT Account for 4.6% of  
World GDP, EiT+NMS+T=8.3%





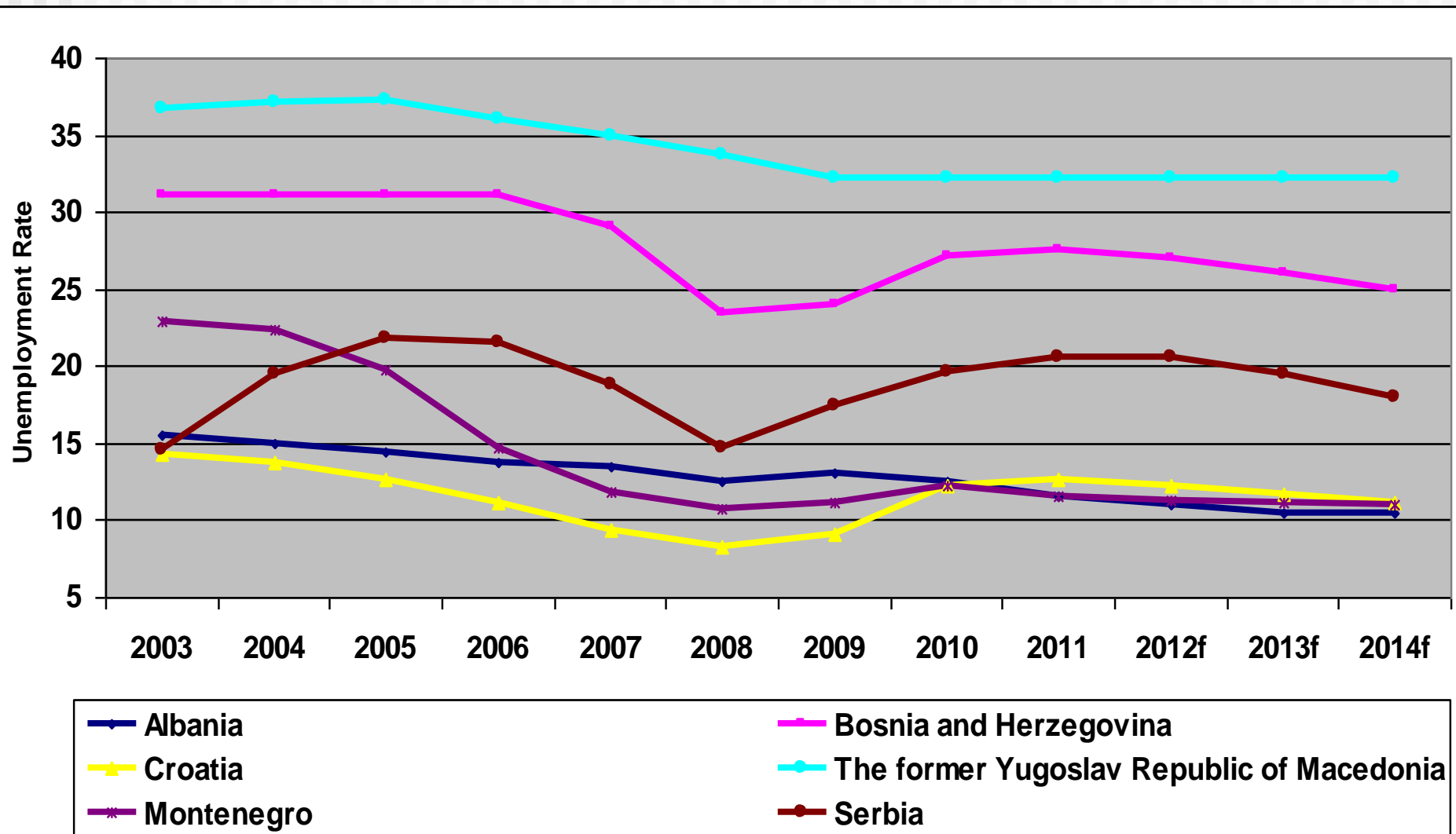


# Unemployment in the CIS





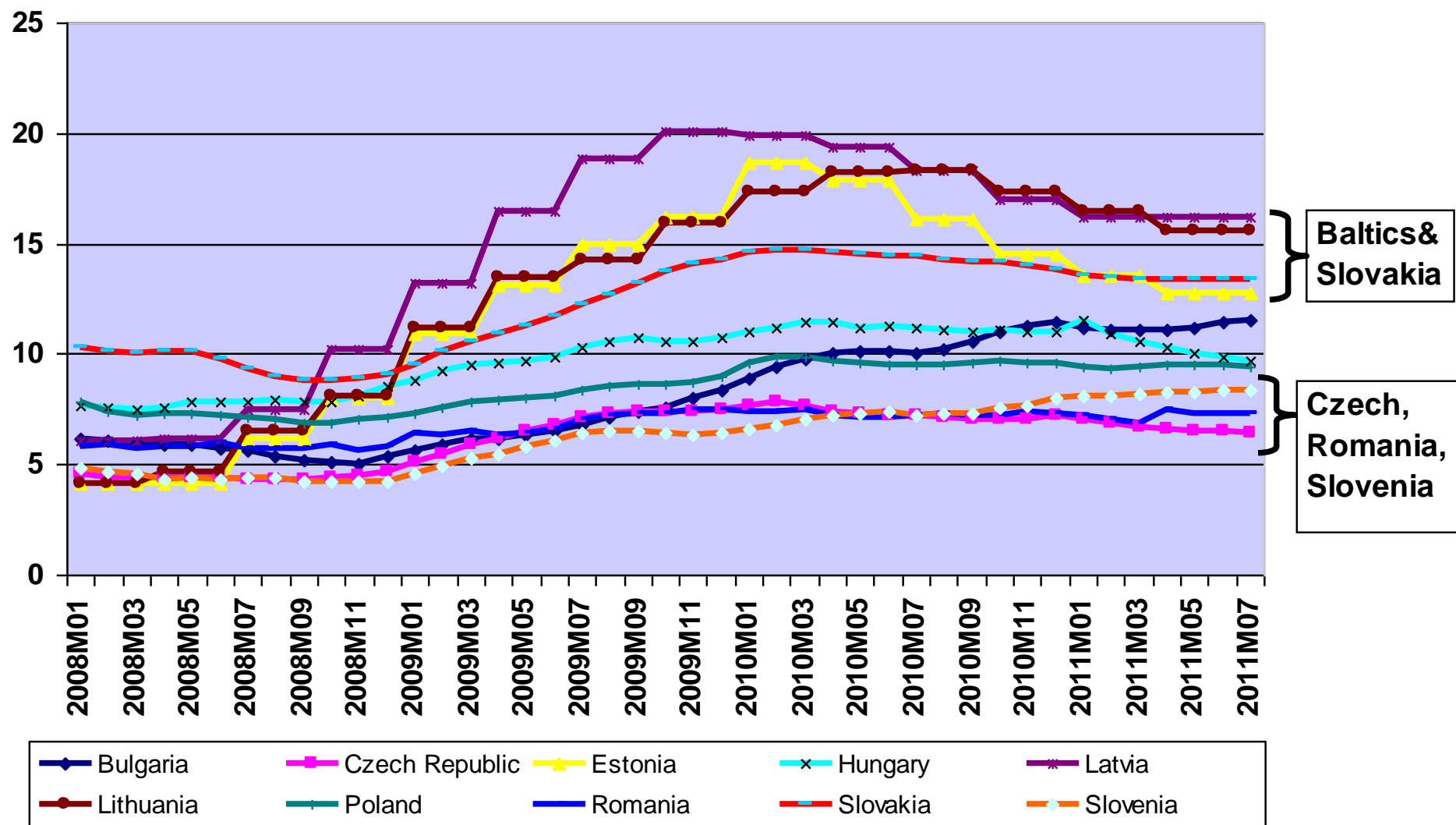
# Unemployment in South-East Europe: Over 10% in All, Largely Structural





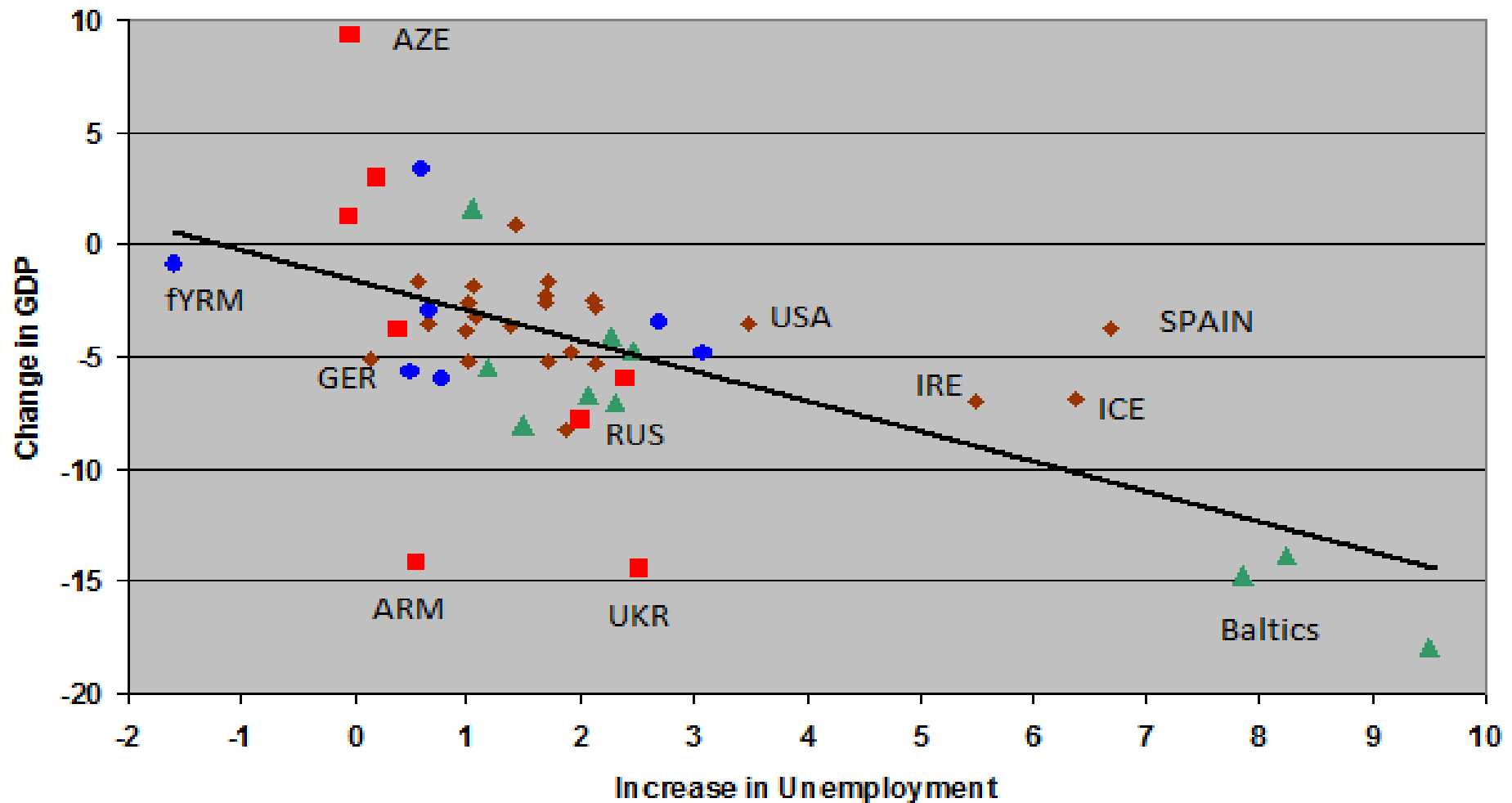
# Unemployment in the NMS

Monthly 2008-2011





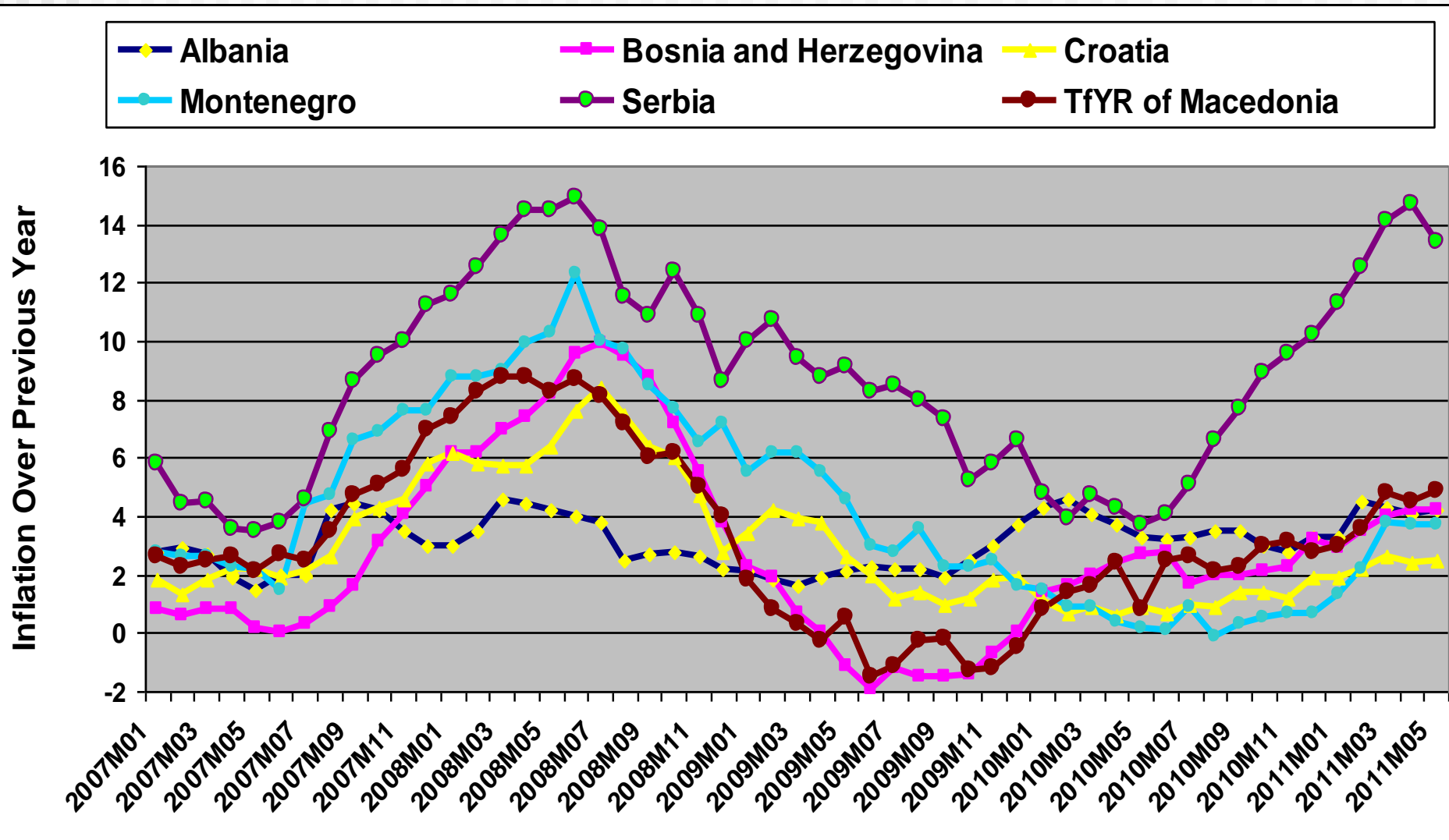
# Relationship between Change in GDP and Unemployment in ECE Economies, 2009 vs 2008





# Inflation in SEE

4 of 6 Fixed to Euro (solid), 2 flexible (mixed)

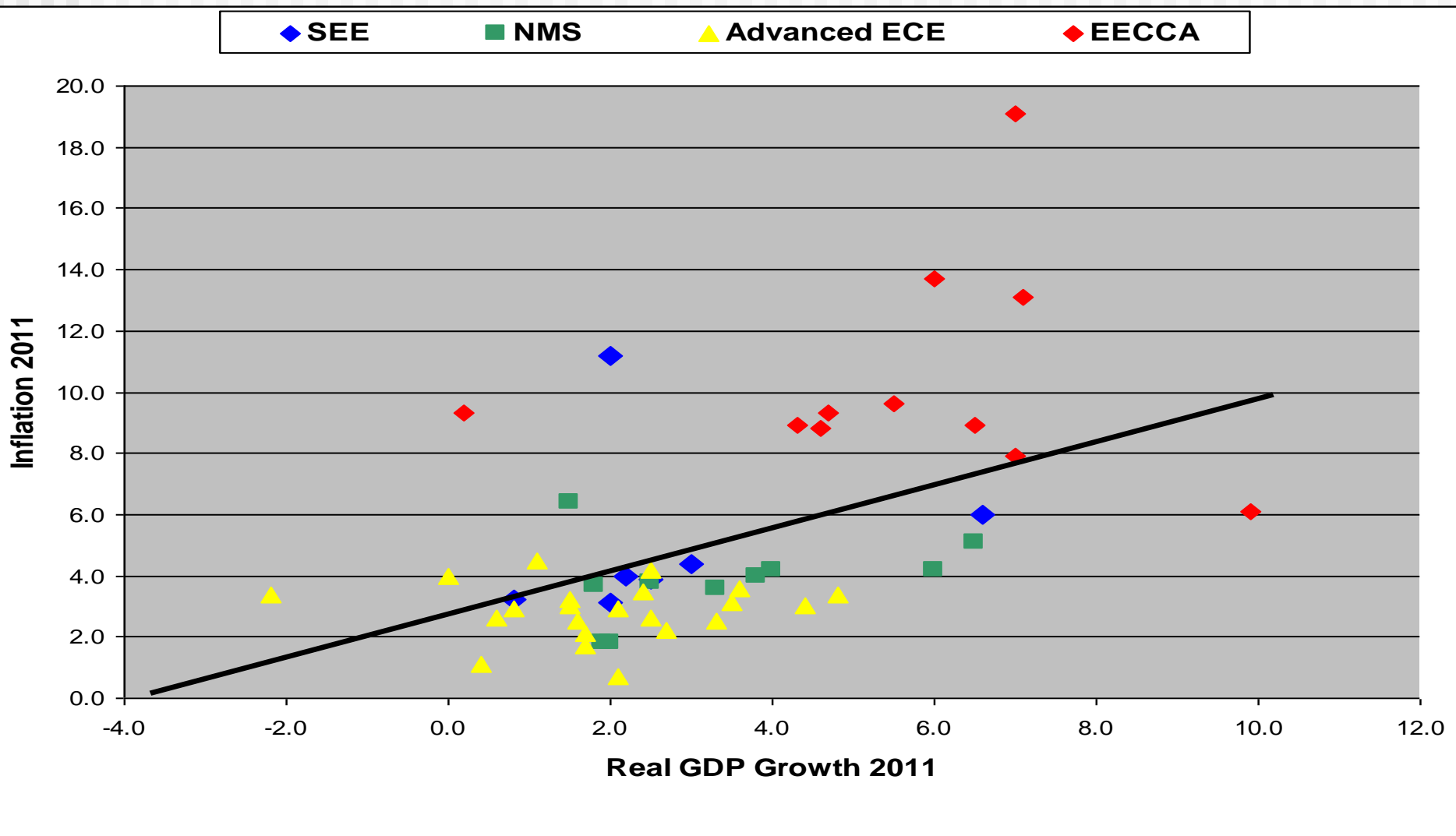








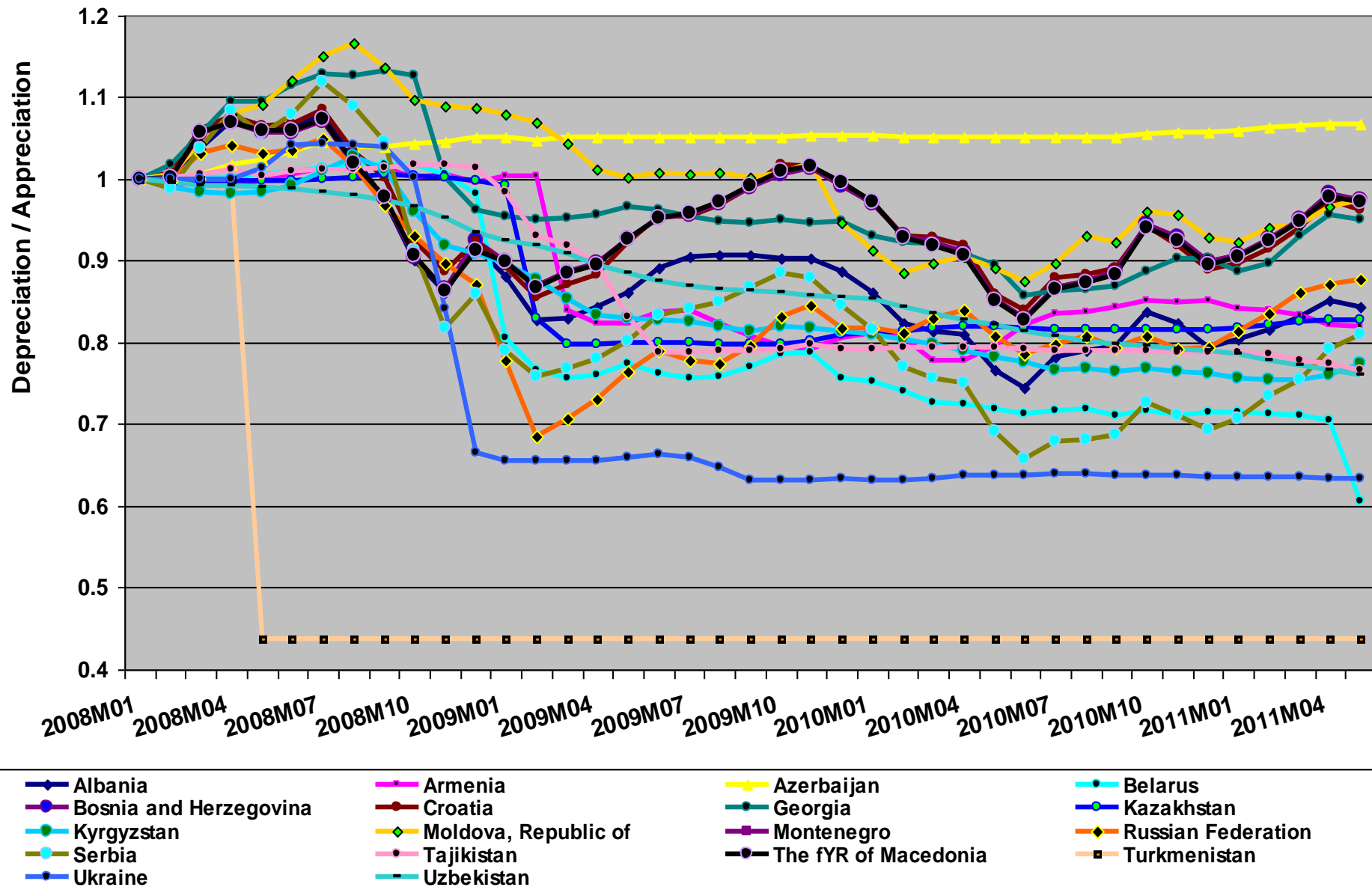
# Inflation in the ECE: Higher growth is associated with higher inflation





# Exchange Rates: General "Nominal" Depreciations vs US\$

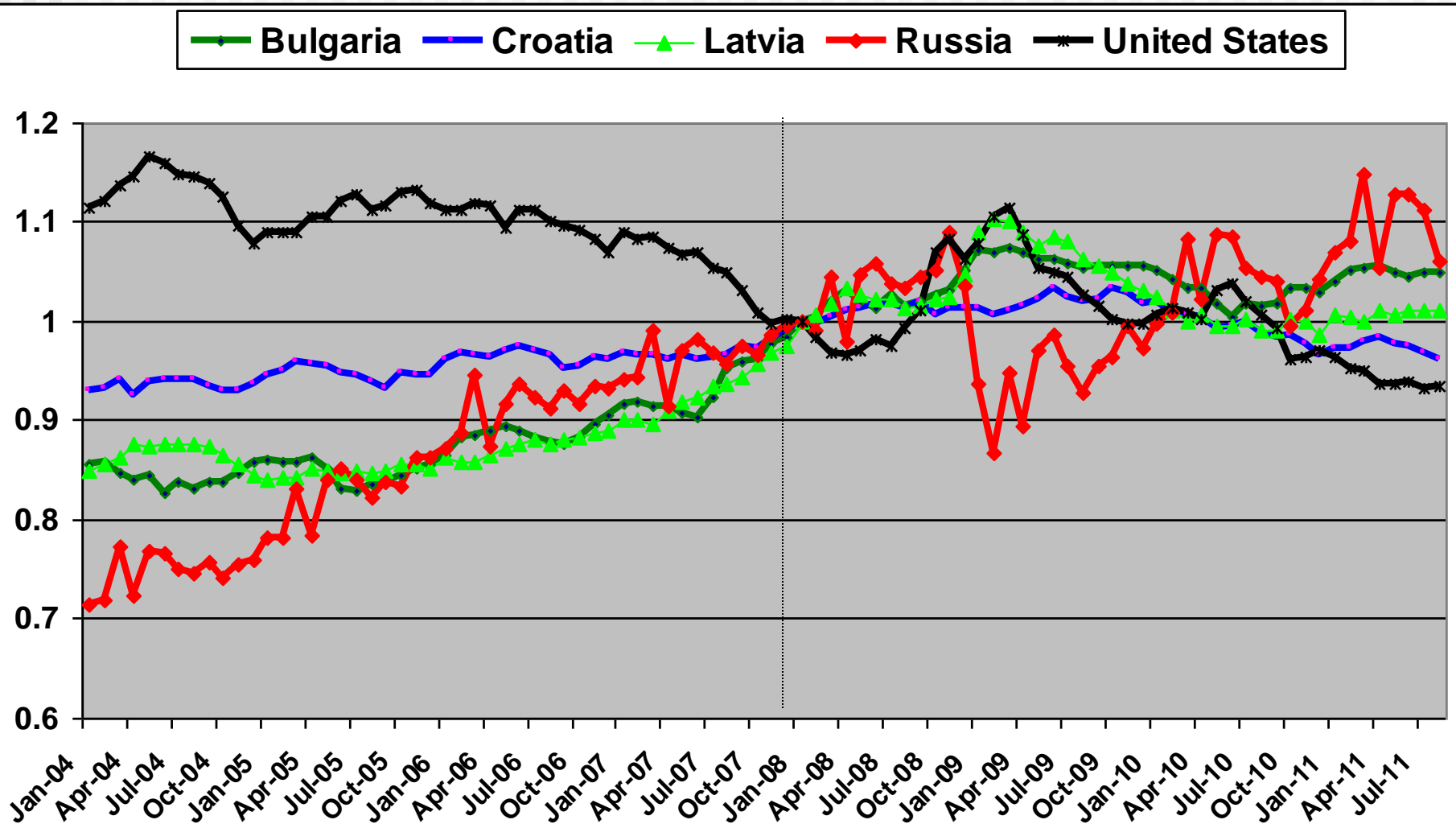
## But Russia has had inflation of over 30%





# Real Trade-Weighted Exchange Rates (BIS)

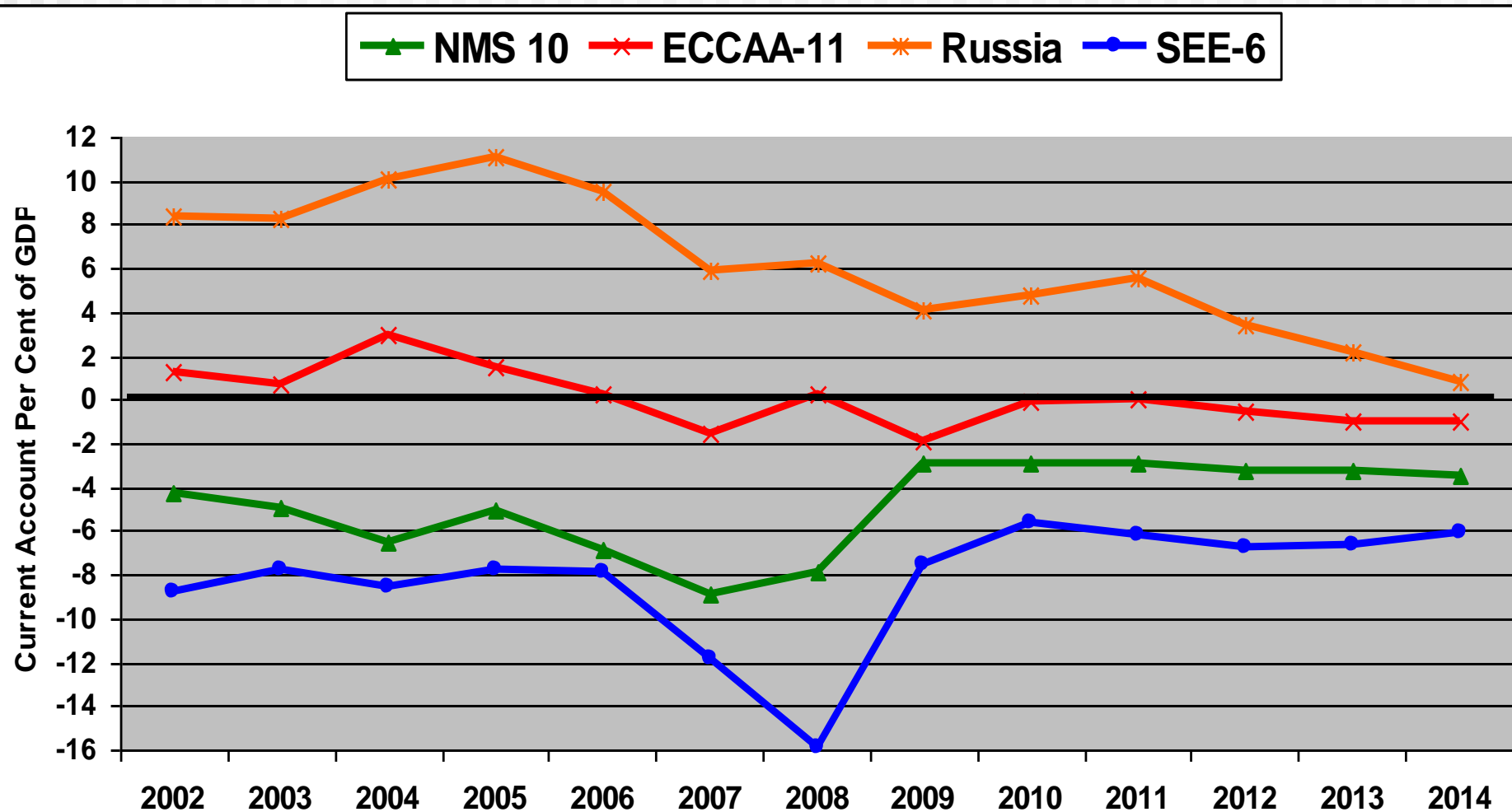
Jan 2008=1





# Current Accounts: Reduced Imbalances in the EiT & NMS

Russian Surplus & NMS/SEE Deficits Reduced





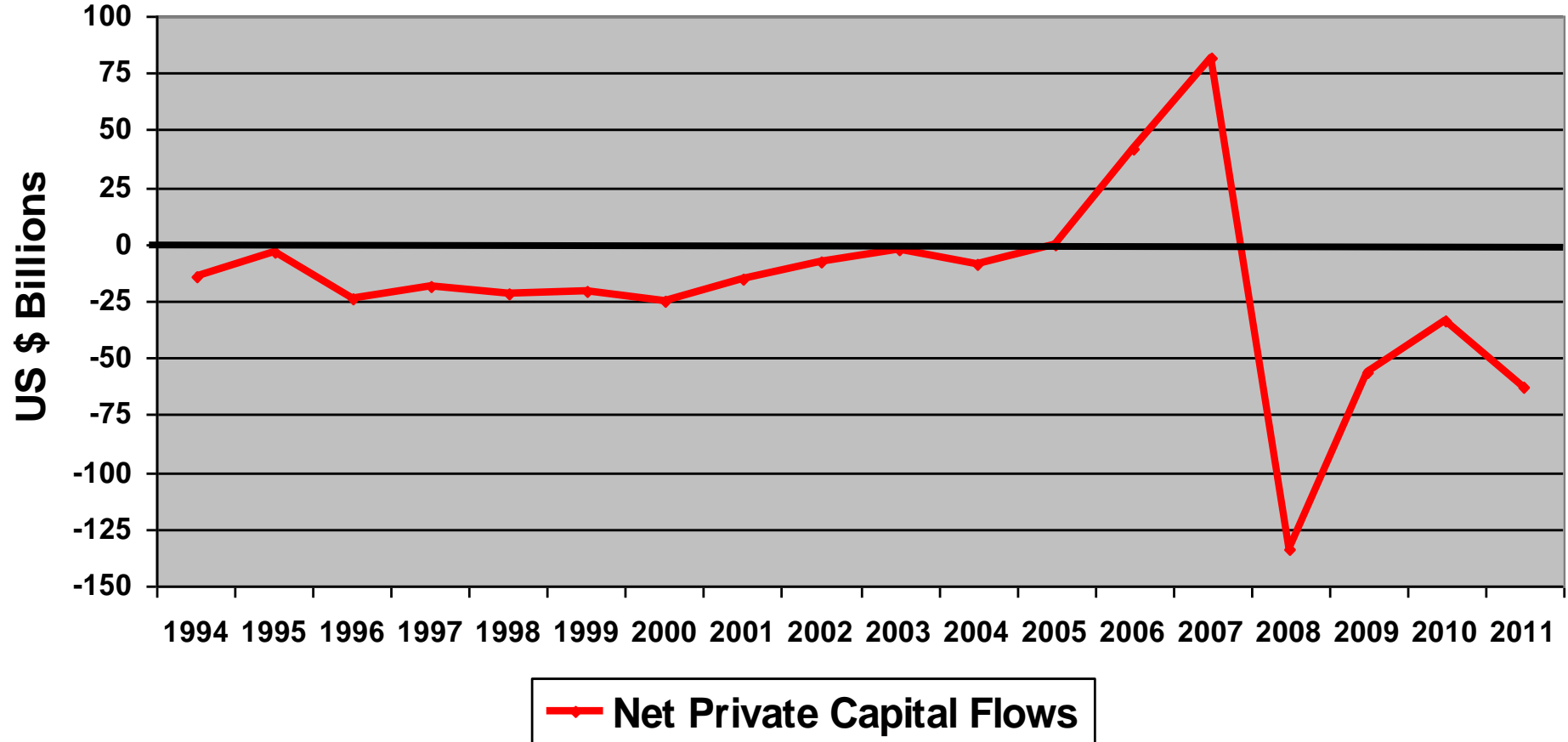


# FDI: Solid Growth Pre-crisis, But Down 50% Post-crisis

	FDI Inward Stock			FDI Inflows			Per Cent Change 2008 to 2010
	2000	2010	Per Cent Increase 2000 to 2010	2008	2009	2010	
SEE-6	5.7	76.4	1,245	12.6	7.8	4.1	-67
Turkey	19.2	181.9	847	19.5	8.4	9.1	-53
Russia	32.2	423.2	1,214	75.0	36.5	41.2	-45
EECCA-11	23.0	188.3	720	33.4	27.3	22.9	-31
EiT	80.1	869.7	986	140.5	80.0	77.3	-45
NMS	103.1	639.4	520	64.1	28.4	28.5	-56
ECA	183.2	1,509.1	724	204.6	108.4	105.7	-48

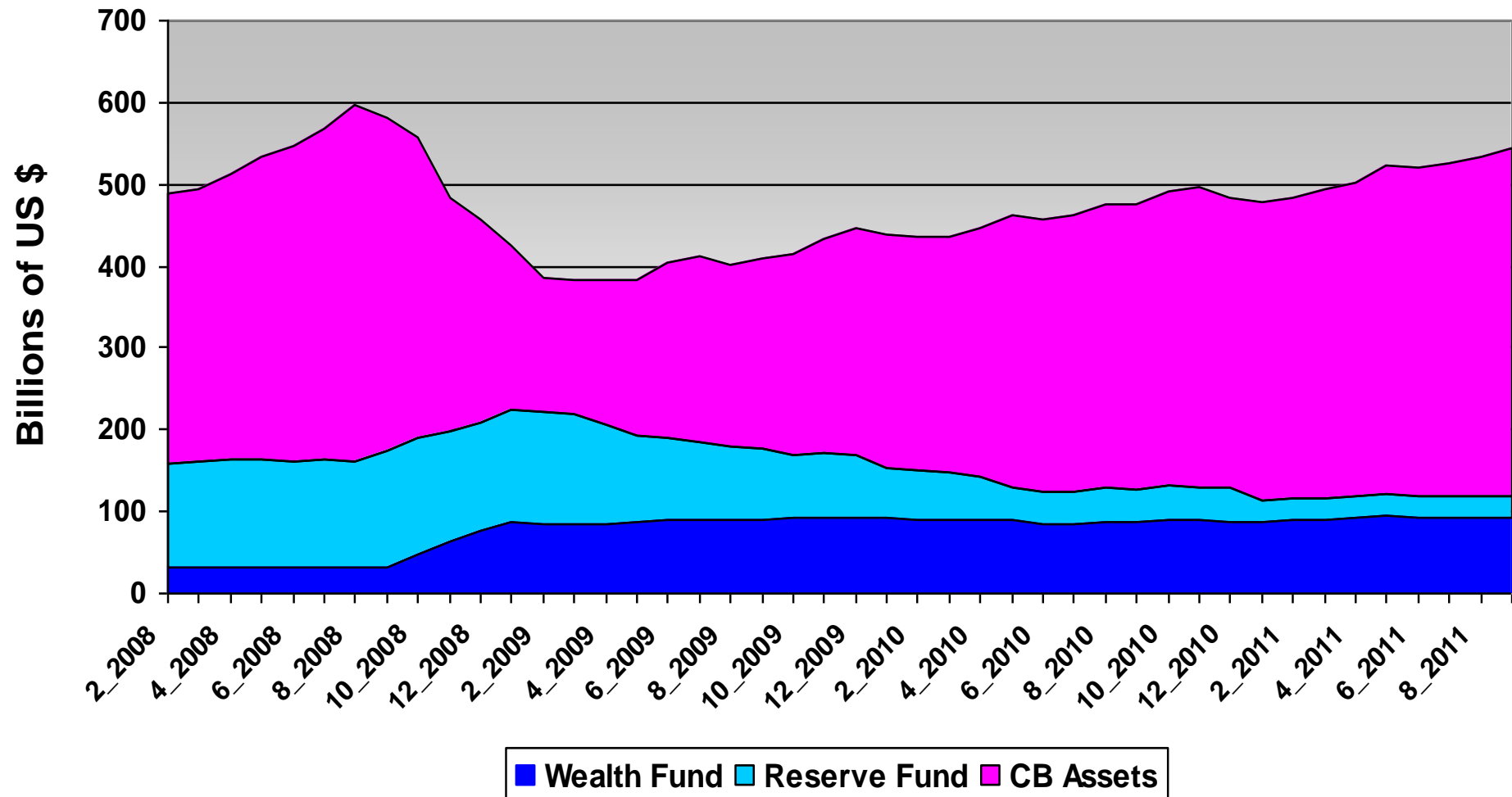


# Russian Capital Flight: Net Private Capital Outflows



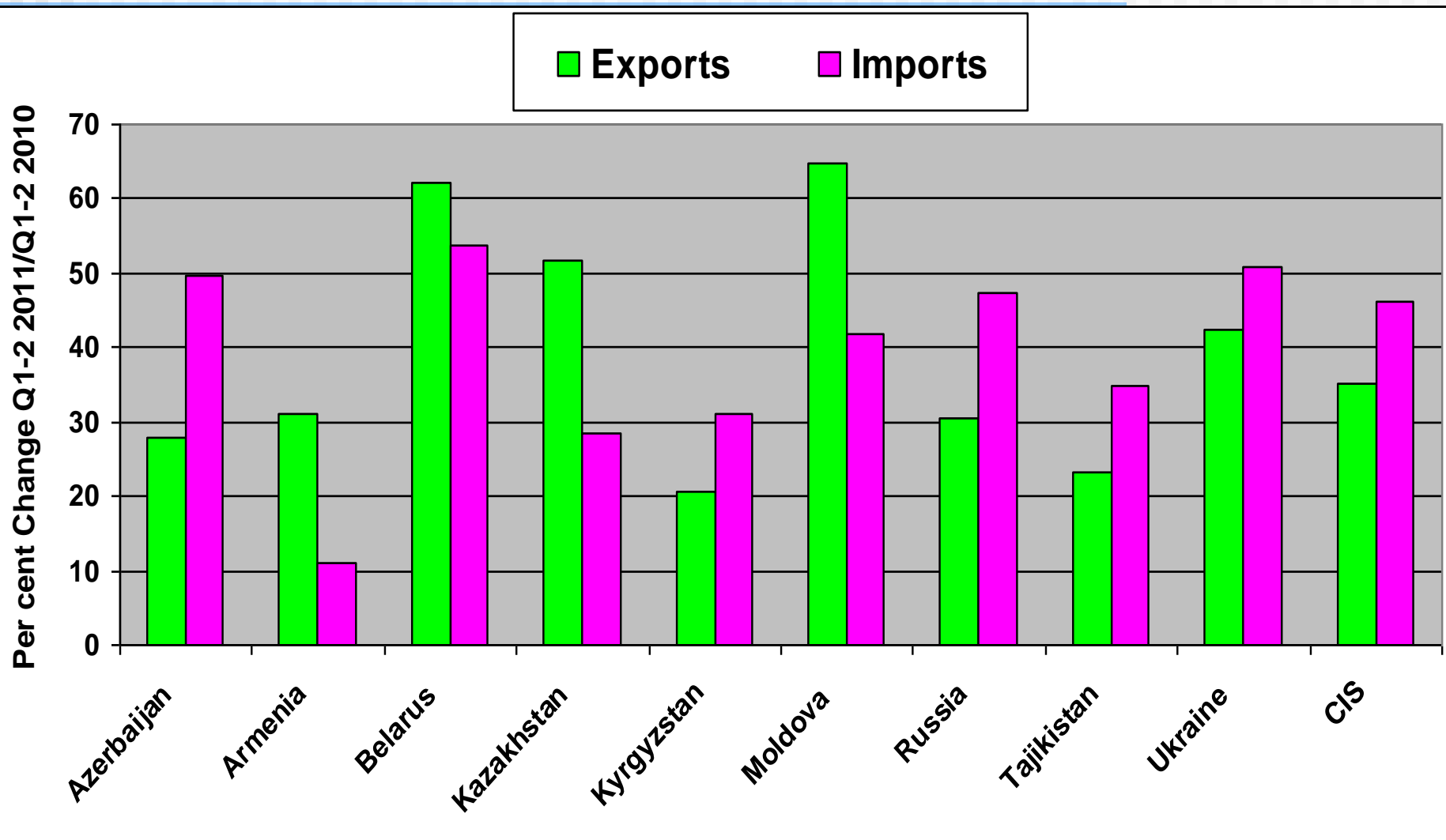


# Russia's International Reserve Assets





# Trade in the CIS: Solid Growth in 1st Half of 2011





# Geographical Distribution of Trade of ECA Economies

**Share of Exports Going to Each Sub-Region**

**Based upon 2008 Trade**

<b>Exports To (Across) \ From (Down)</b>	<b>Russia</b>	<b>CIS-11</b>	<b>SEE-6</b>	<b>NMS-10</b>	<b>Adv EU</b>	<b>ROW</b>
<b>Russia</b>		14.9	0.7	14.0	45.6	24.8
<b>CIS-11</b>	15.1	8.5	0.8	8.0	41.7	25.9
<b>SEE-6</b>	2.4	1.2	28.6	15.5	44.3	8.0
<b>NMS-10</b>	4.5	3.5	2.5	20.0	60.0	9.5





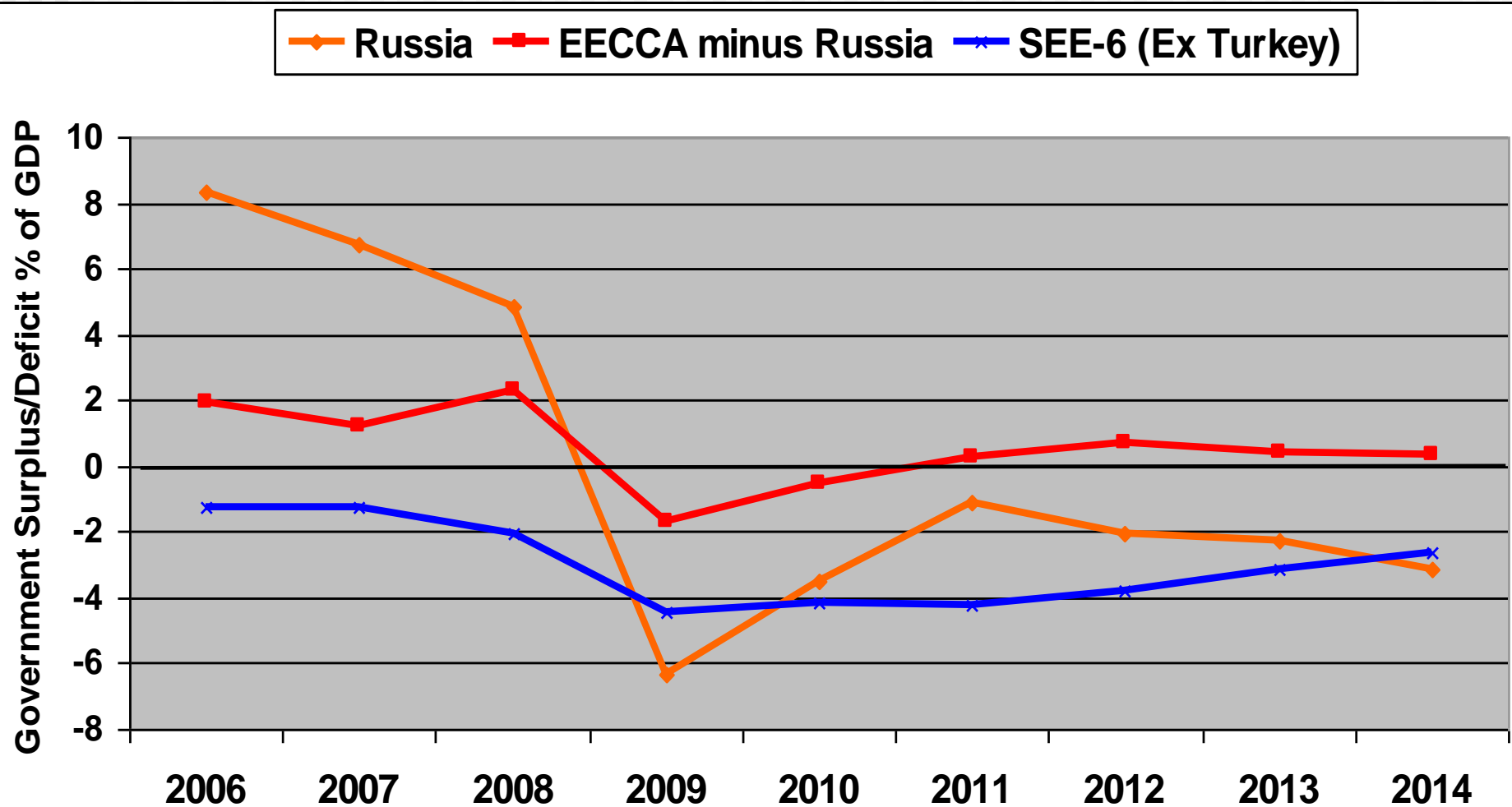
# Trade Developments

- **WTO Accession** (10 EiT not members)
  - Membership for Russia is imminent-the rush before Putin
  - Good progress is being made for BiH
- **EU-Ukraine Association Agreement** may be concluded by end of 2011
- **Belarus-Kazakhstan-Russia customs union** moving forth with additional initiatives, ie economic space
- **EU Eastern Partnership** (with Bel, Ukr, Mol, Arm, Aze, Geo) going nowhere; objective was to be trade and visa liberalization. Political problems as CIS becomes less democratic.
- **EU Accession**: Croatia in 2013, Montenegro & FYRM are candidates, Serbia maybe by year end. All have visa free travel to Schengen area except Kosovo.
- **CEFTA** increasing integration & promoting EU accession
- **Dependence on foreign capital** should/must decline. Promoting export-led growth requires supply-side policies (R&D, vocational education) and macro policies (raising domestic private savings, reducing public dis-saving, controlling credit growth and avoiding housing booms).



# Government Fiscal Position:

## The end of Russian surpluses and larger deficits in SEE





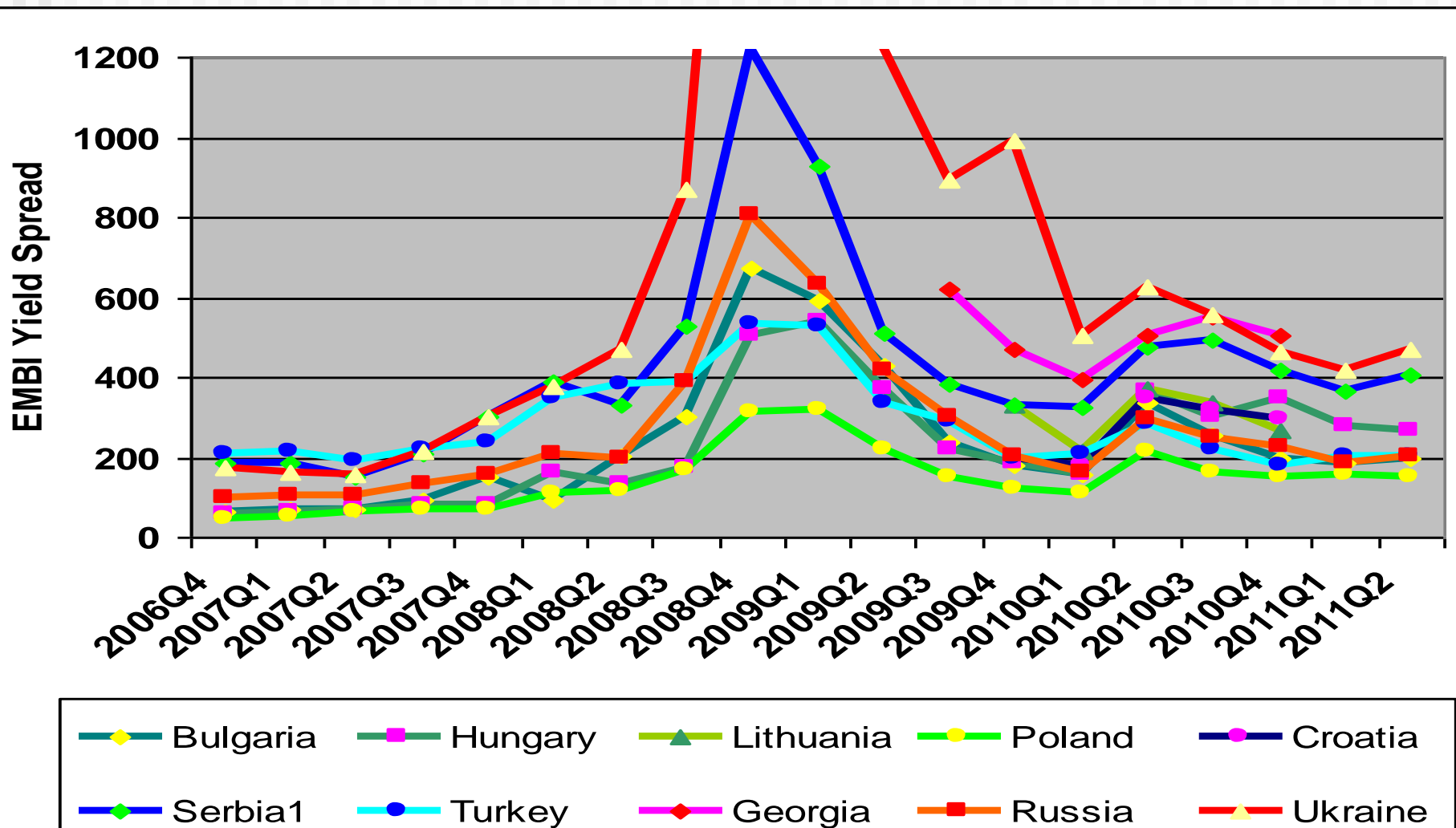
# Eurozone Crisis Has Not Infected the EiT

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- While the US and several Eurozone economies have recently had sovereign credit rating downgrades, there have been upgrades in the Czech Republic, Hungary, Latvia, Romania, Serbia.
- Nevertheless SEE likely to impacted by negative developments in Greece and NMS by financial turmoil in eurozone, as a result growth for 2012 likely to be lower

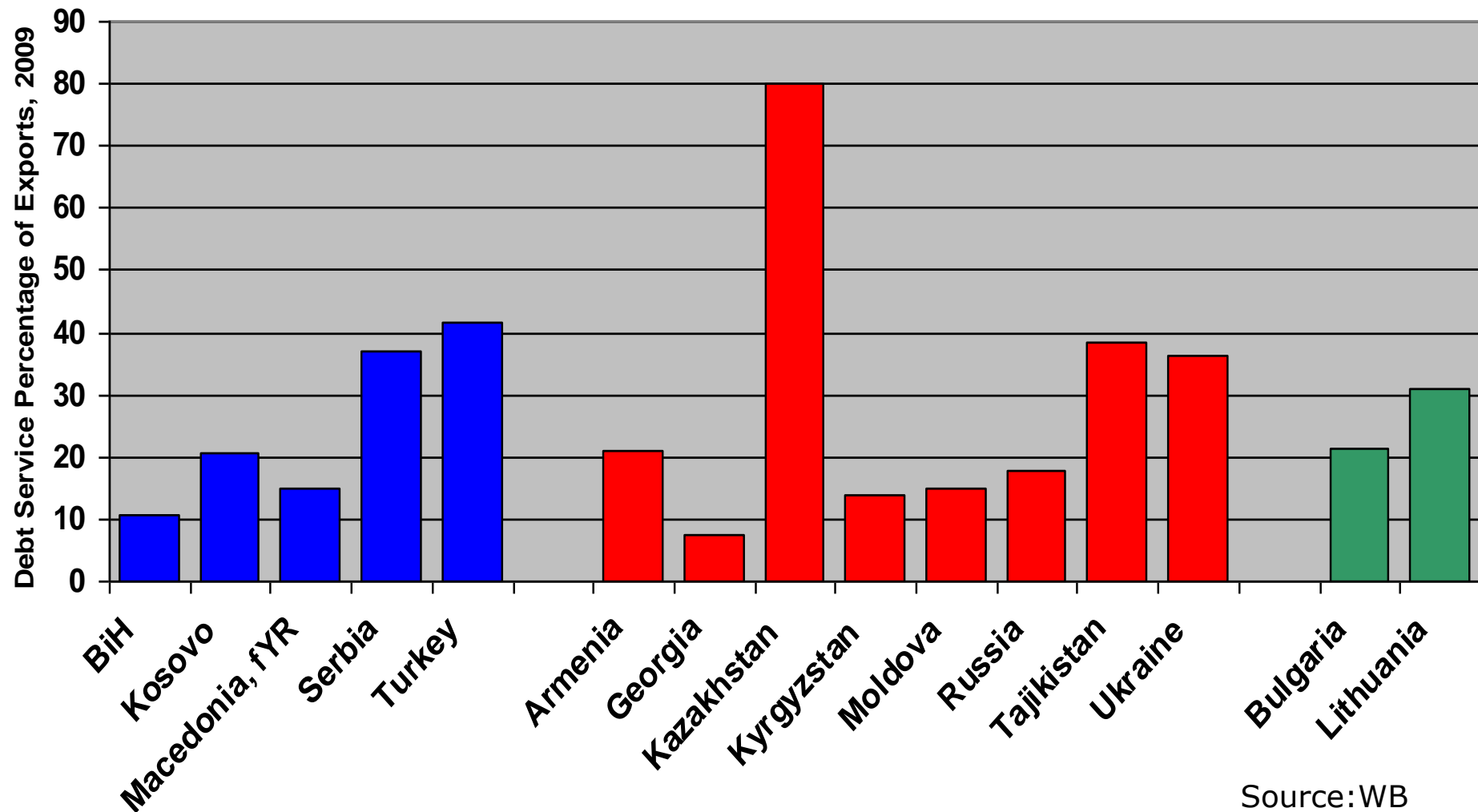


# Yield Spreads Have Remained Moderate Despite Eurozone Crisis





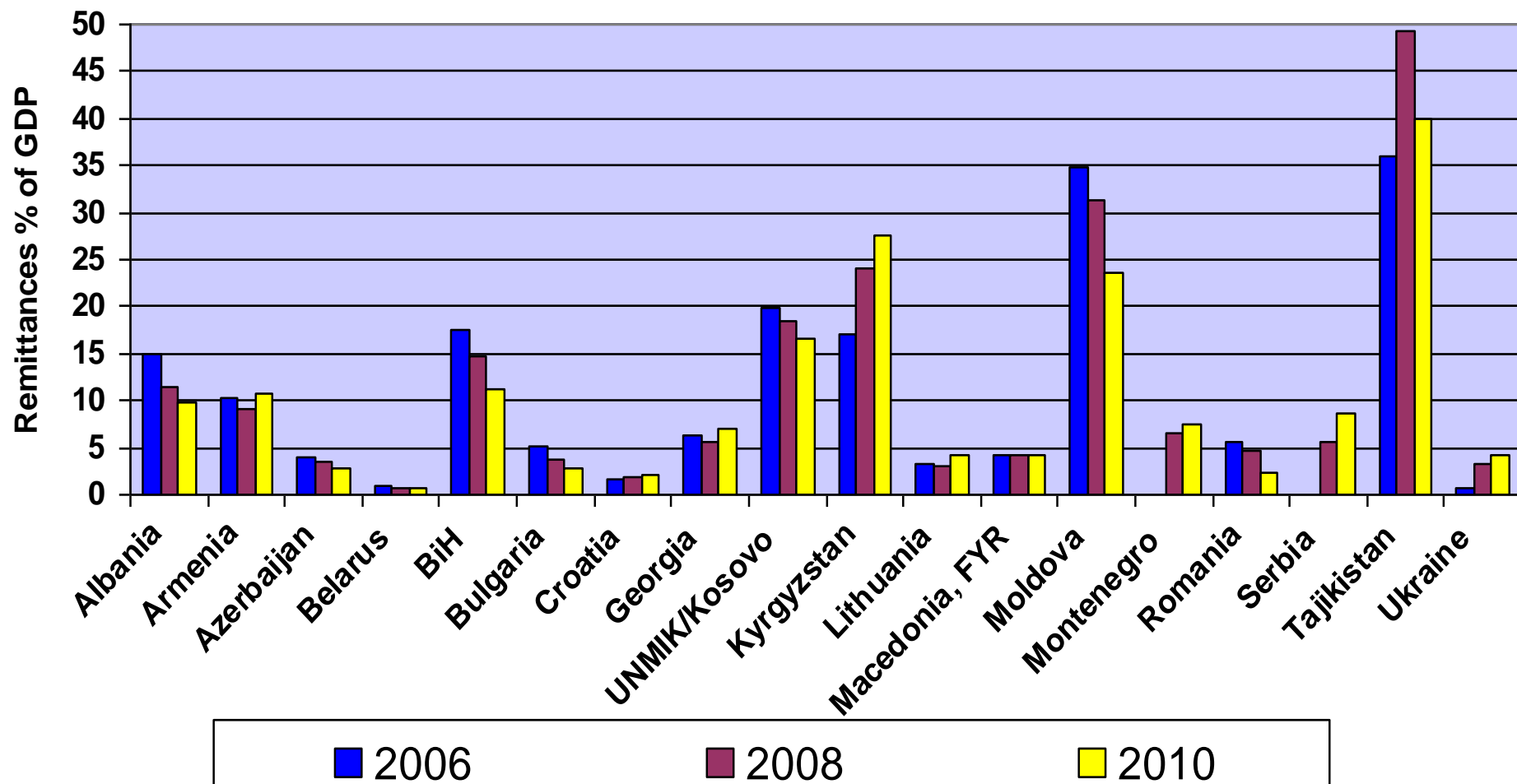
# Debt Service Percentage of Exports of Goods, Services, Income



Source: WB

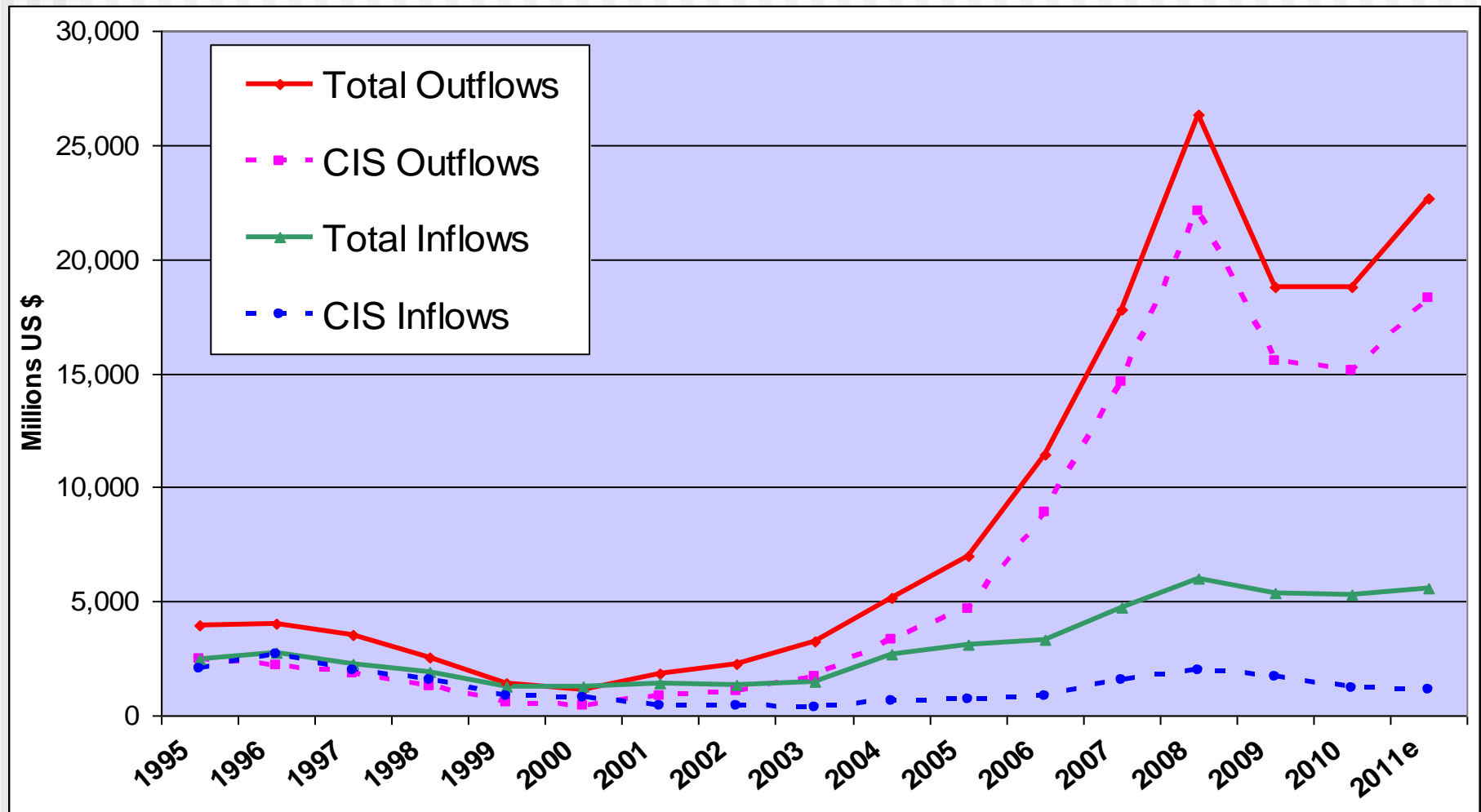


# Remittances: Percentage of GDP in 2006, 2008, 2010





# Russian Remittances, 1995-2011

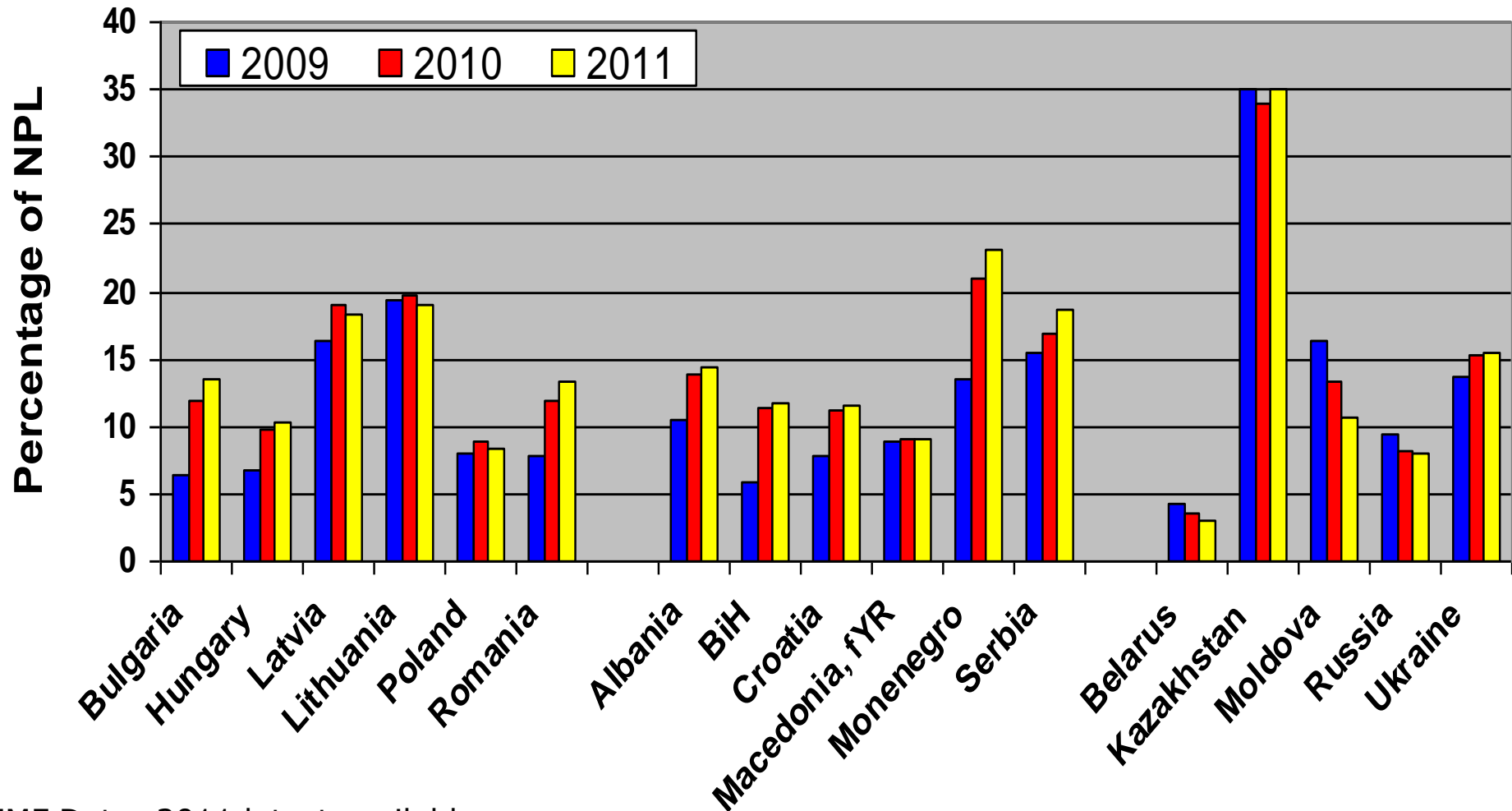




# Non-Performing Loans: Reasonable Threat and Little Improvement

What constitutes excessive NPL? Sweden in 1990s had NPL of 12% which required 5 of

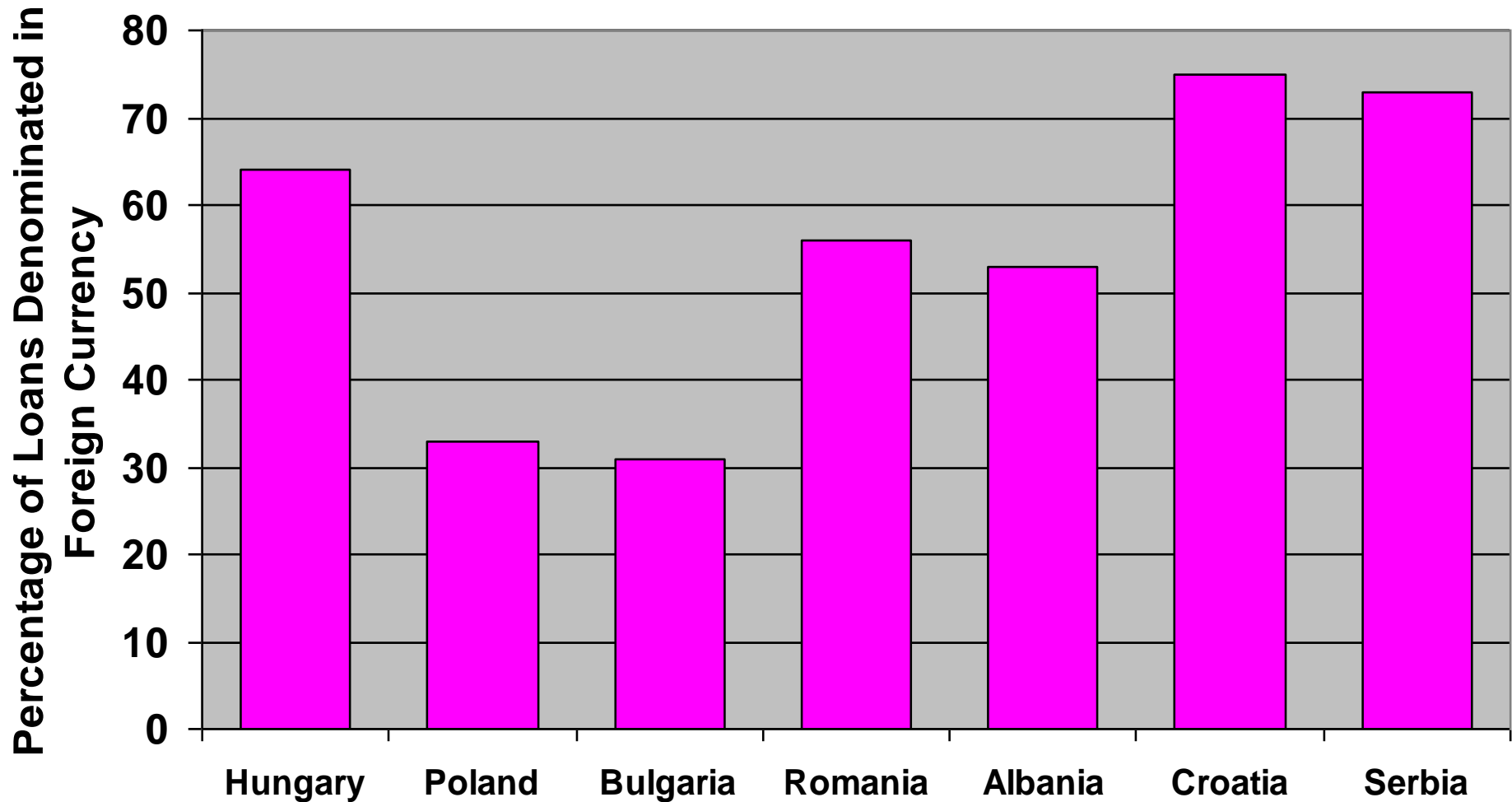
7 banks to be rescued





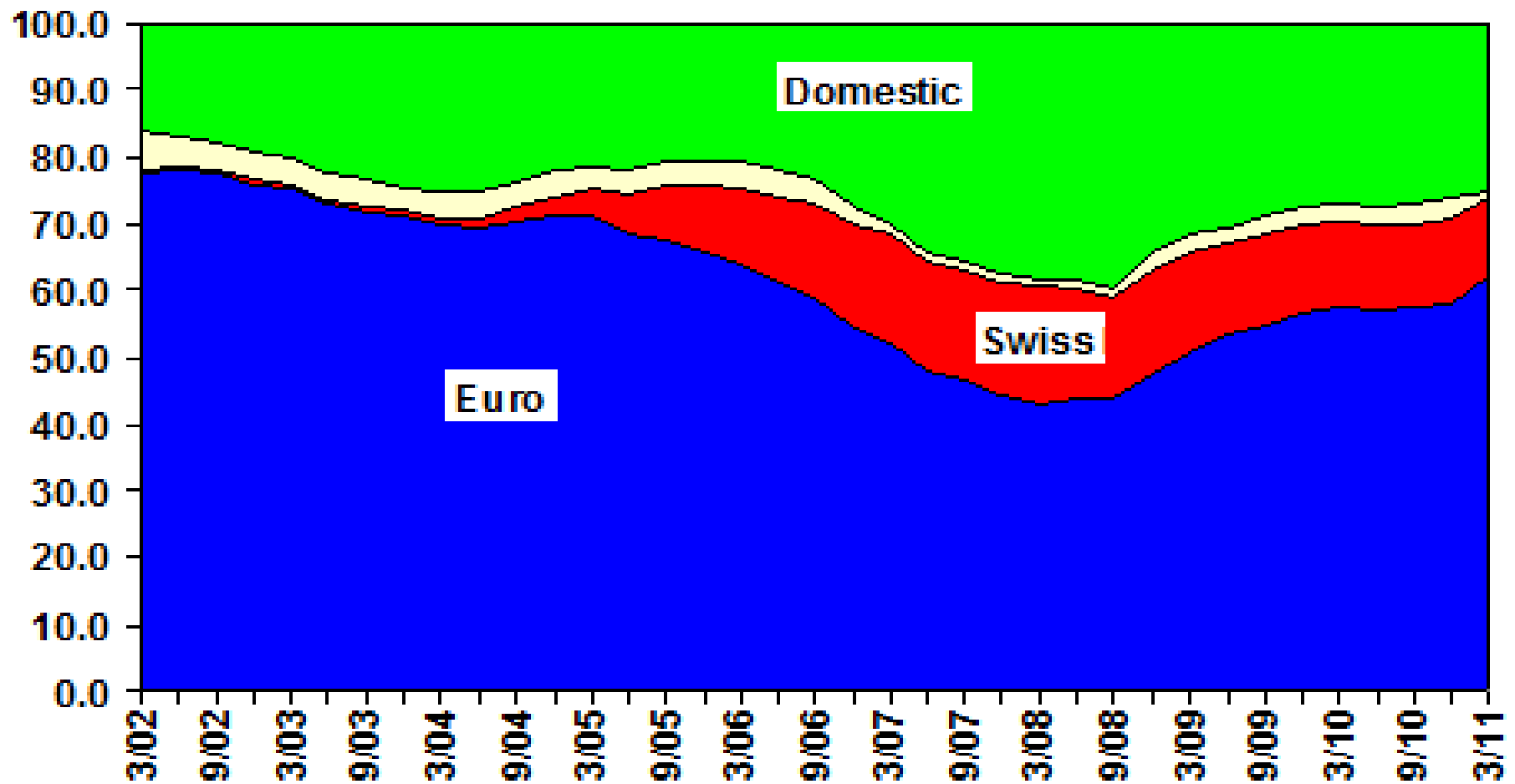


# Foreign Currency Loans Remain a Vulnerability





# Croatia: Bank Credit to the Private Sector: 3/4 in Foreign Currency

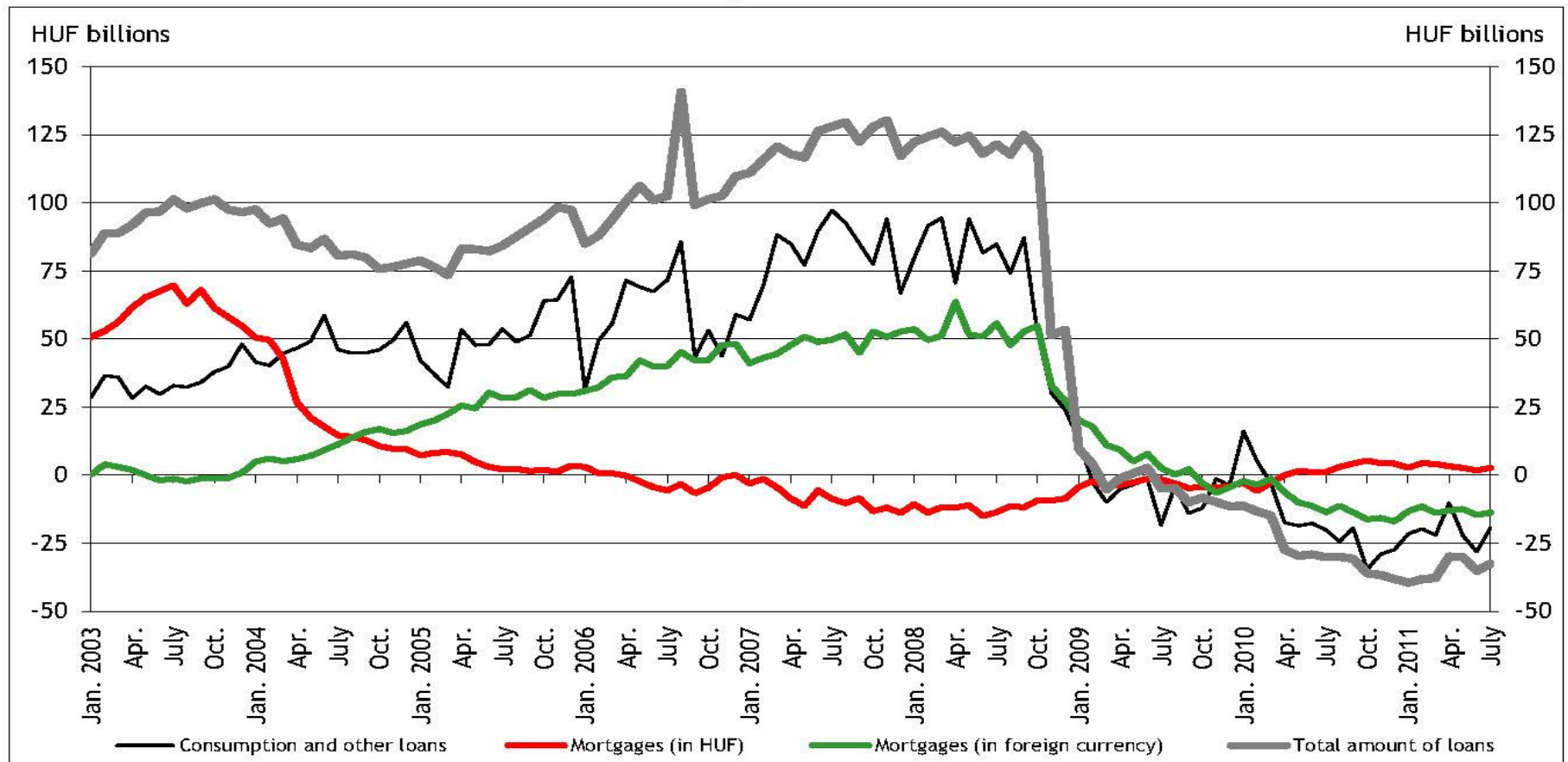




# Change in Net Borrowing of Household Sector in Hungary

16 September 2011

85. Net borrowing of the household sector



Source: MNB.

Notes: monthly change, seasonally adjusted data.



# Financial Sector Development

- Financial sector still underdeveloped in central Asia: many have no bank account
- Related party lending (RPL) has been and remains widespread in the CIS
  - Created problems during crisis as solvency of banking system was uncertain
  - Recent problem in Russia with VTB purchase of Bank of Moscow
  - 41% of all Russian loans in 2010 were RPL
- Bank lending is rebounding, but credit growth muted. As in the advanced economies, SMEs still not able to get credit



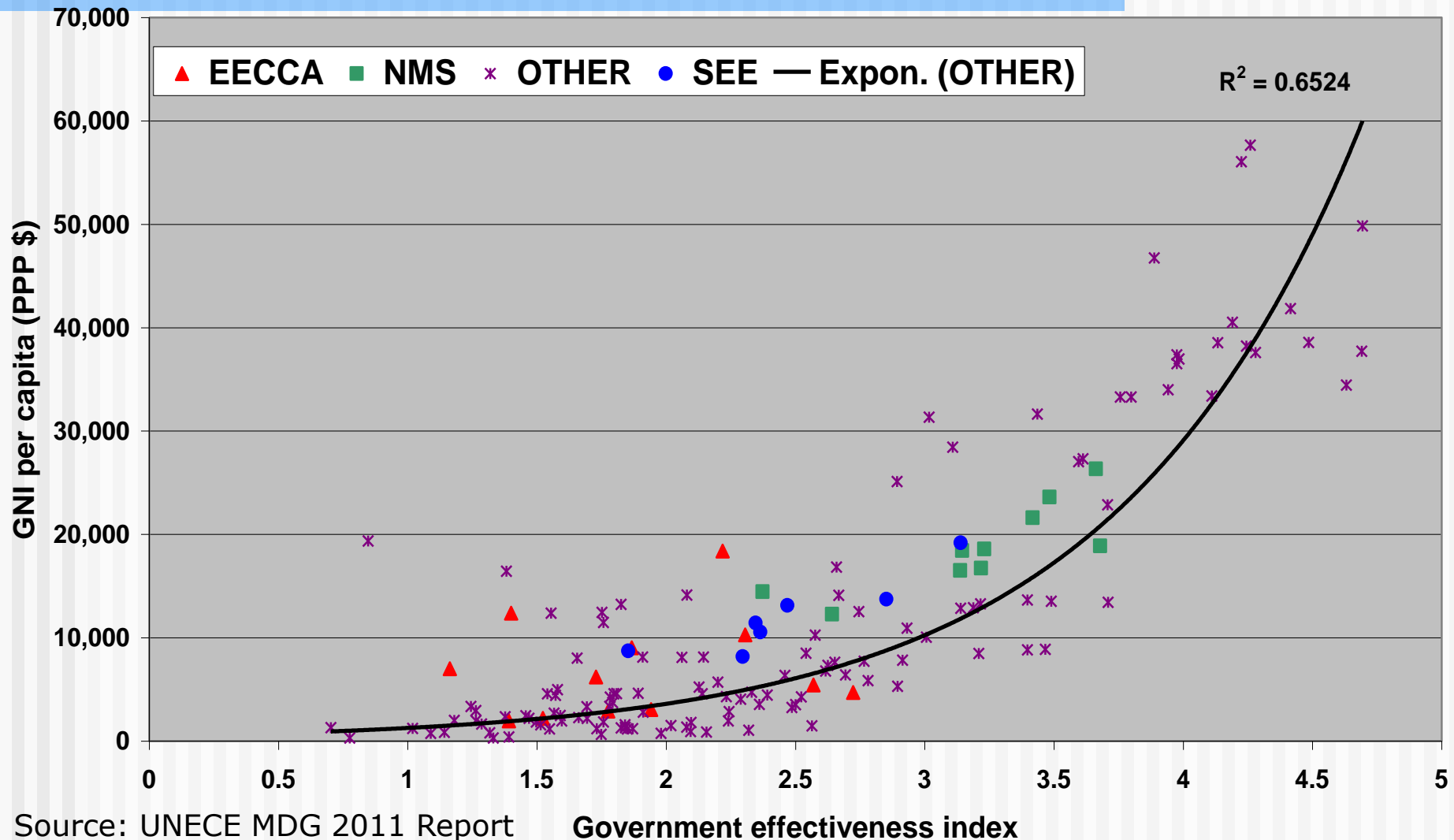
# IMF Credit, Outstanding and Undrawn for ECA

GRA-General Resources Account, PRGT- Poverty Reduction Growth Trust

	GRA	PRGT	Total Outstanding	Available Undrawn
<b>Albania</b>	8.1	24.1	32.2	0.0
<b>Bosnia &amp; Herzegovina</b>	338.2	0.0	338.2	676.0
<b>UNMIK/Kosovo</b>	18.8	0.0	0.0	74.0
<b>Serbia</b>	1,367.7	0.0	1,367.7	0.0
<b>The fYR of Macedonia</b>	197.0	0.0	197.0	216.0
<b>Turkey</b>	2,966.7	0.0	2,966.7	0.0
<b>SEE</b>	<b>4,896.5</b>	<b>24.1</b>	<b>4,901.9</b>	<b>966.0</b>
<b>Armenia</b>	402.9	106.7	509.7	158.0
<b>Azerbaijan</b>	0.0	22.2	22.2	0.0
<b>Belarus</b>	2,269.5	0.0	2,269.5	0.0
<b>Georgia</b>	577.1	92.2	669.3	0.0
<b>Kyrgyz Republic</b>	0.0	112.6	112.6	57.0
<b>Moldova</b>	80.0	229.8	309.8	150.0
<b>Tajikistan</b>	0.0	78.3	78.3	26.0
<b>Ukraine</b>	9,250.0	0.0	9,250.0	7,750.0
<b>EECCA</b>	<b>12,579.5</b>	<b>641.9</b>	<b>13,221.4</b>	<b>8,141.0</b>
<b>Hungary</b>	7,637.0	0.0	7,637.0	0.0
<b>Latvia</b>	982.2	0.0	982.2	539.0
<b>Poland</b>	0.0	0.0	0.0	19,166.0
<b>Romania</b>	10,569.0	0.0	10,569.0	3,091.0
<b>NMS</b>	<b>19,188.2</b>	<b>0.0</b>	<b>19,188.2</b>	<b>22,796.0</b>
<b>EiT Total</b>	<b>17,476.1</b>	<b>666.0</b>	<b>18,123.3</b>	<b>9,107.0</b>
<b>ECA Total</b>	<b>36,664.3</b>	<b>666.0</b>	<b>37,311.5</b>	<b>31,903.0</b>



# Per capita Income and Government Effectiveness, late 2000s



Source: UNECE MDG 2011 Report



# **EiT Longer Run Economic Objectives/Considerations**

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- Increase the size of high-technology sectors and innovation
- Increase foreign investment inflows
- Frozen conflicts in Caucasus and central Asia limits attractiveness of the regions
- Need to increase the size of the tradeables sectors
- Liberalization progress has slowed down
- Energy exporters need to diversify to Asian markets
- Demographic problems are especially acute for an emerging market



## Main Lessons for EiT from the Global Financial Crisis

- Limit the overall level of exposure to external capital markets, especially portfolio and bank loans
- Limit the domestic growth of credit to reasonable levels
- Limit the degree of foreign currency denominated loans
- Consider the benefits of exchange rate flexibility
- Minimize government fiscal deficits
- Diversity production and exports; develop manufacturing and services sectors
- Develop and improve the governance of domestic financial systems
- Although those economies with a large export sector were more exposed, limiting trade integration is not a recommendation