

Research

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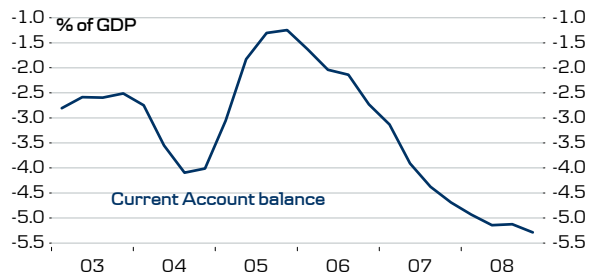
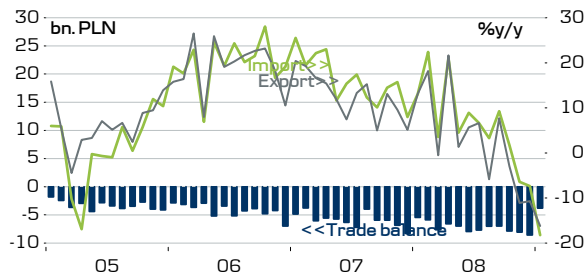
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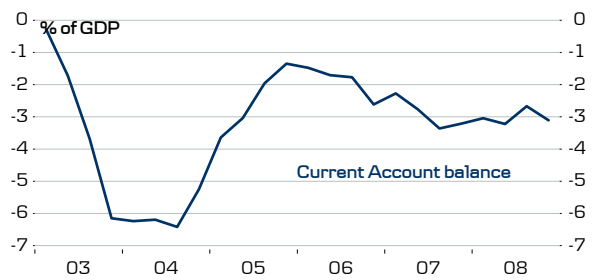
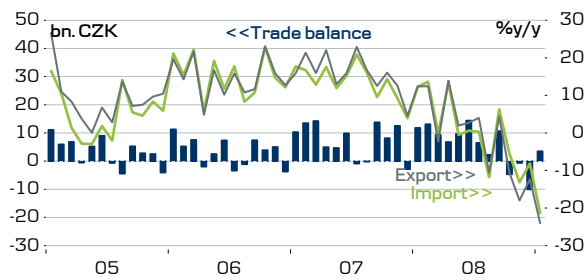
CEE: External balances are improving

- We have long argued that the large external imbalances in a number of Central and Eastern European economies would ultimately lead to a sharp drop in economic activity and a hard landing in a number of countries in the event of a “sudden stop” to the external funding of the CEE economies. Unfortunately this is what has been happening in these last few months.
- Hence, with the external funding of the CEE economies “drying” up a sharp correction in the external imbalances becomes unavoidable. This correction can happen in two ways – either domestic demand drops sharply and/or the CEE currencies weaken significantly. Both are materialising at the moment.
- The Baltic States were the first CEE economies to experience a sharp drop in economic activity. The imbalances were especially large in these economies and we are now seeing a vast improvement of their current account balance. Most notably the Latvian current account deficit has improved from -25% of GDP at the low point in mid 2007 to -13% of GDP in Q4 2008.
- The external imbalances have also been large in Bulgaria and Romania – in Bulgaria the current account deficit reached -27% of GDP in Q2 2008. However, in these economies correction of the external imbalances has begun to show in the last couple of quarters as the trade balances have improved. Furthermore, the Romanian Leu has weakened considerably in the last months.
- In Poland, Czech Republic and Hungary the external imbalances have not begun to correct yet. The current account deficits have, however, been the smallest in these countries at levels of -3 to -7% of GDP. However, with the significant weakening of the currencies in these countries in the last few months and the declining economic activity we expect an effect on the current account balance in the coming quarters.

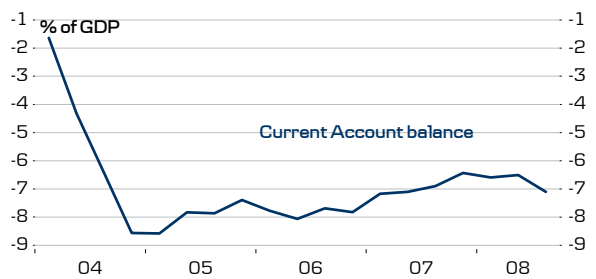
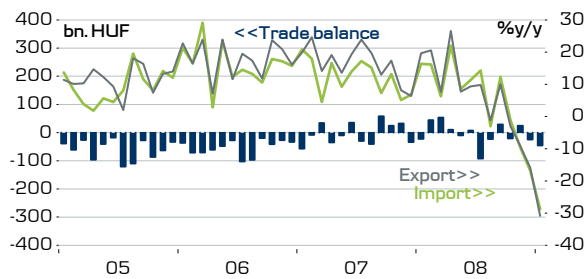
Poland



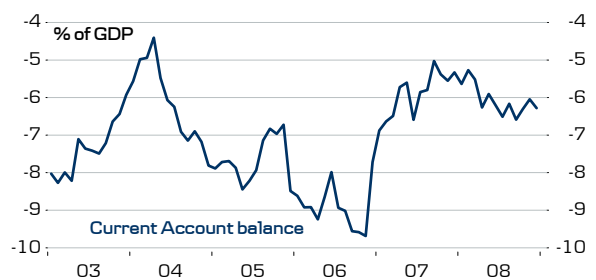
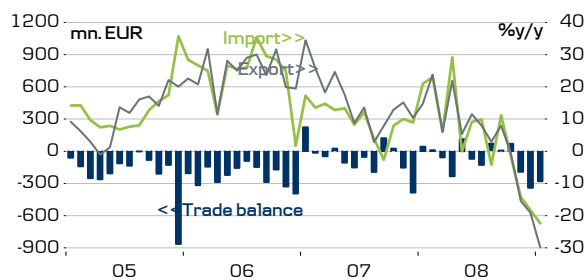
Czech Republic



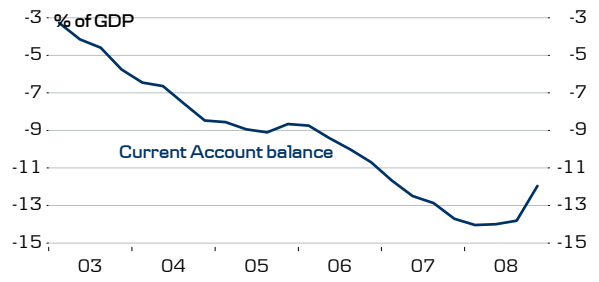
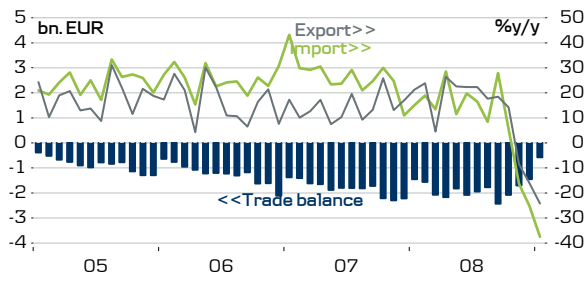
Hungary



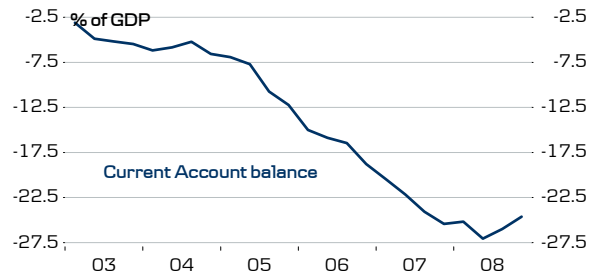
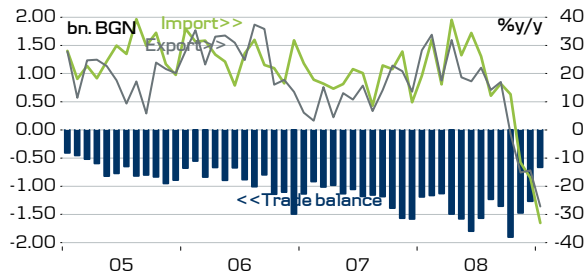
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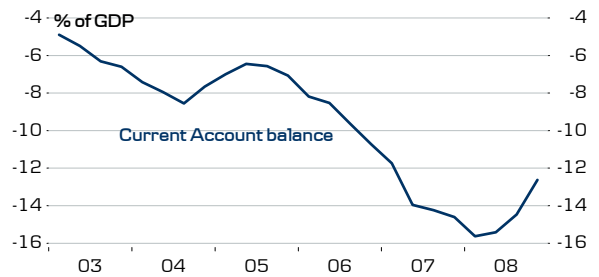
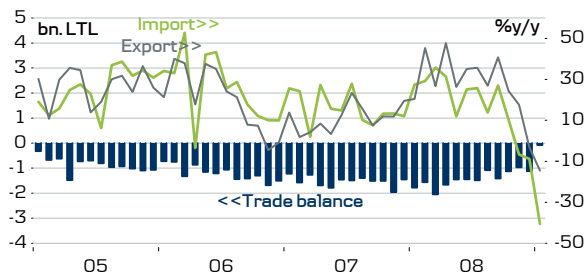
Romania



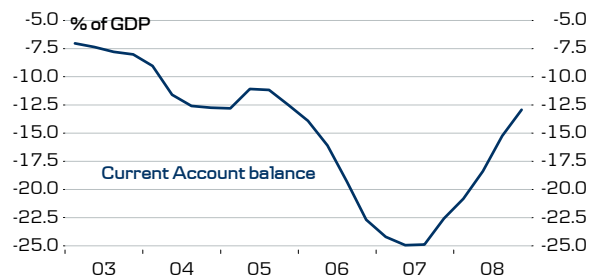
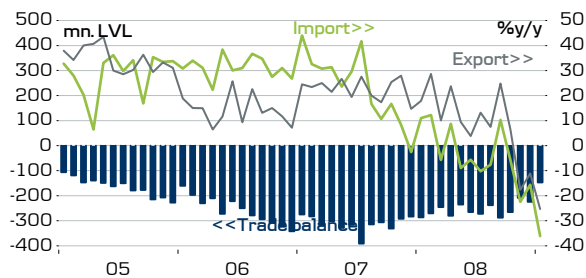
Bulgaria



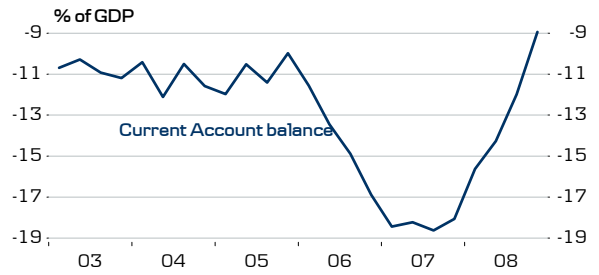
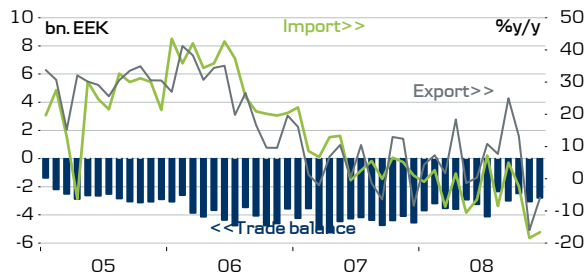
Lithuania



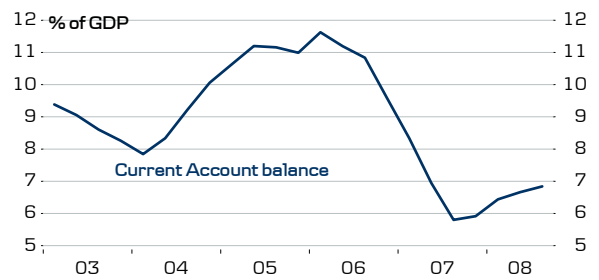
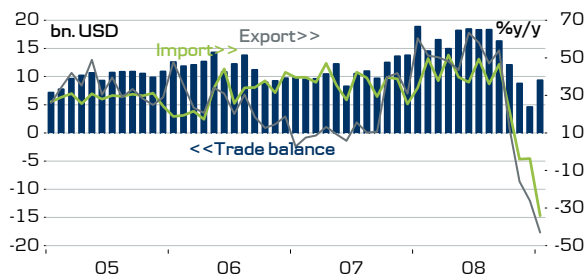
Latvia



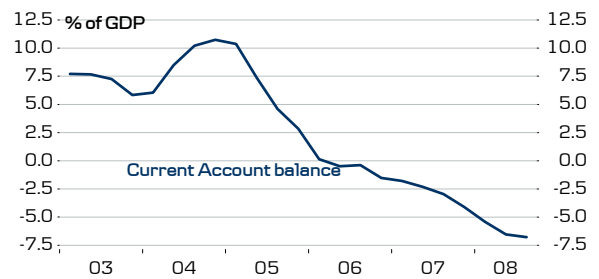
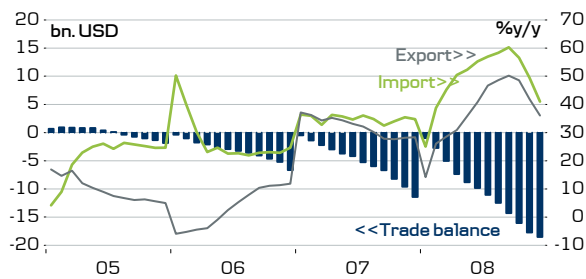
Estonia



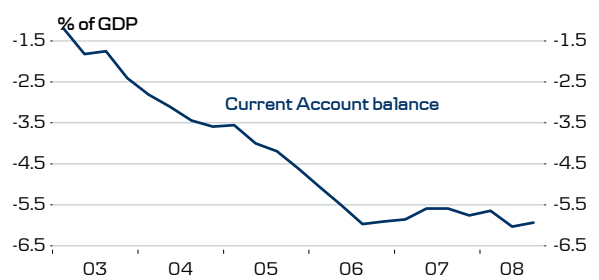
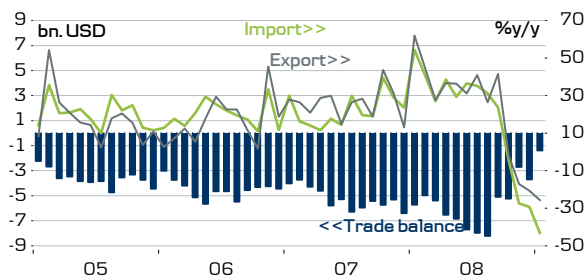
Russia



Ukraine



Turkey



Source: Ecowin

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