Prospects for the Region

OECD South Caucasus and Ukraine Initiative

Workshop on Financial Market Development

Warsaw, November 17, 2009

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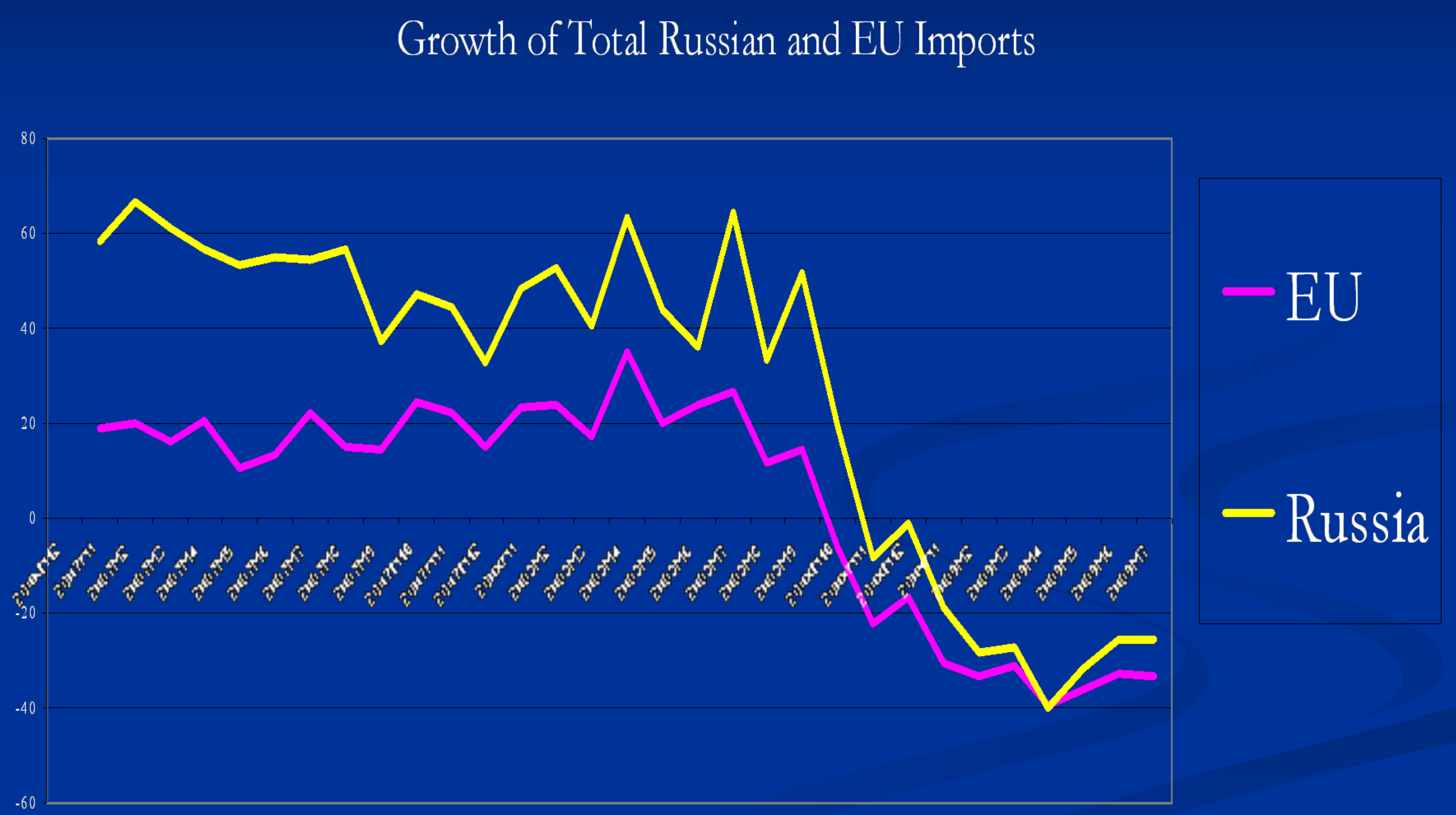
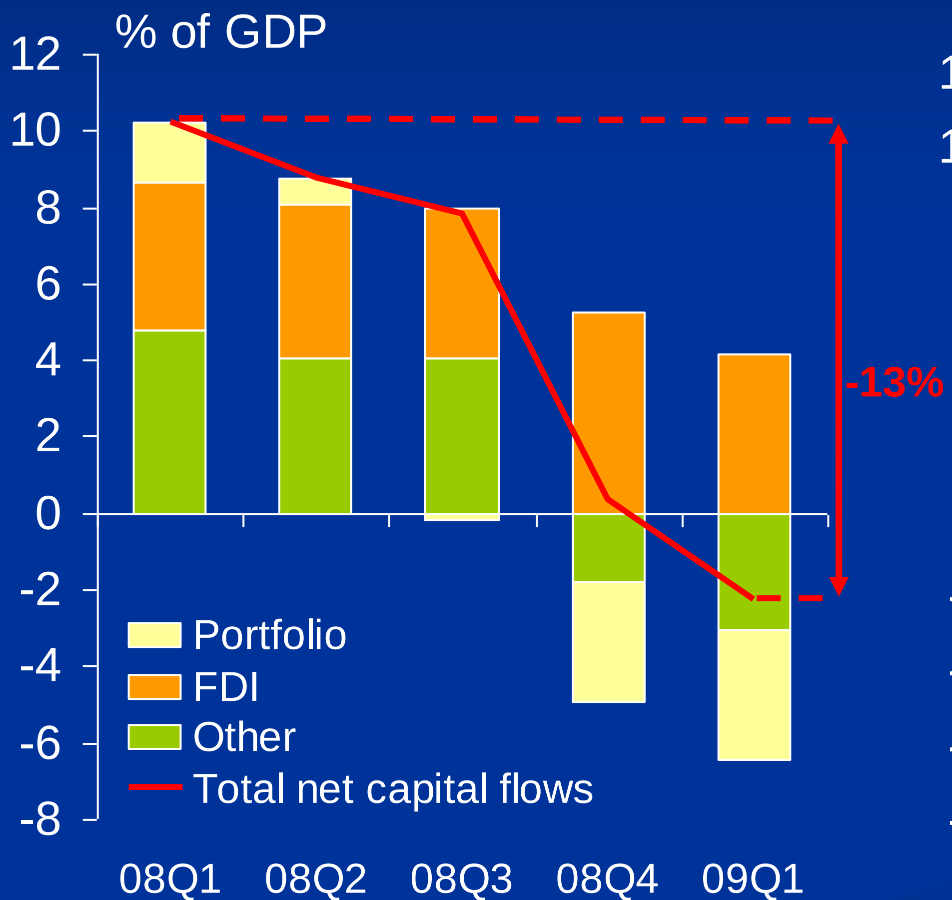
First shock: collapse in trade

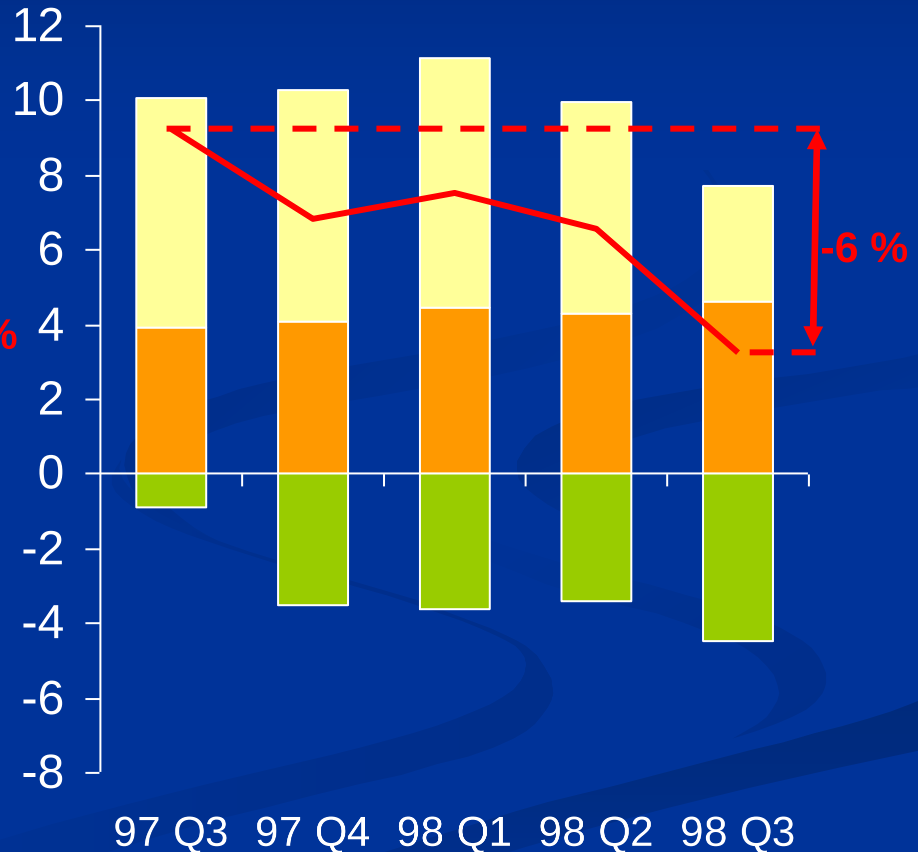


Second Shock: Sudden Stop of Capital Flows

This sudden stop



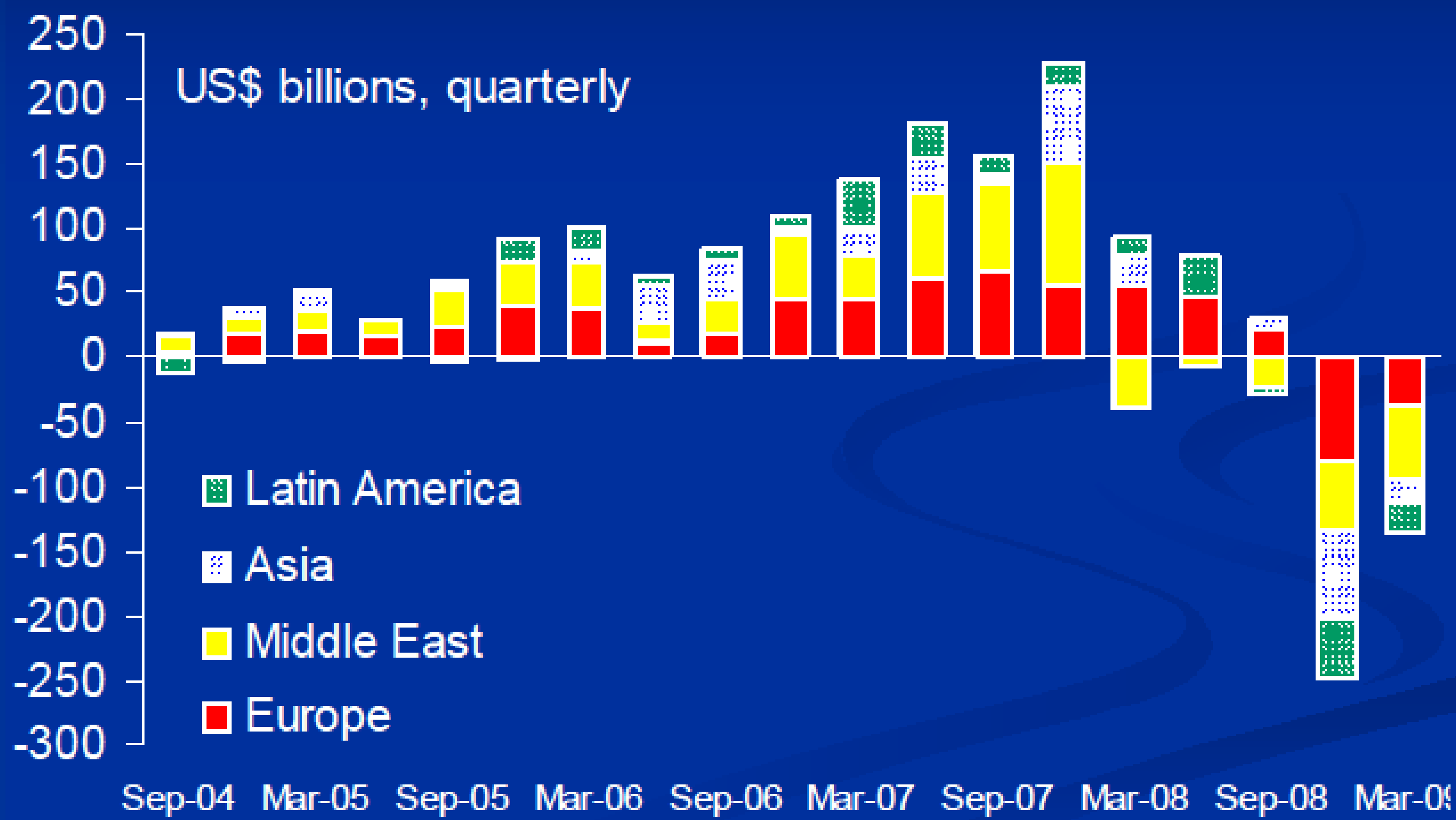
Sudden stop in 1997-98



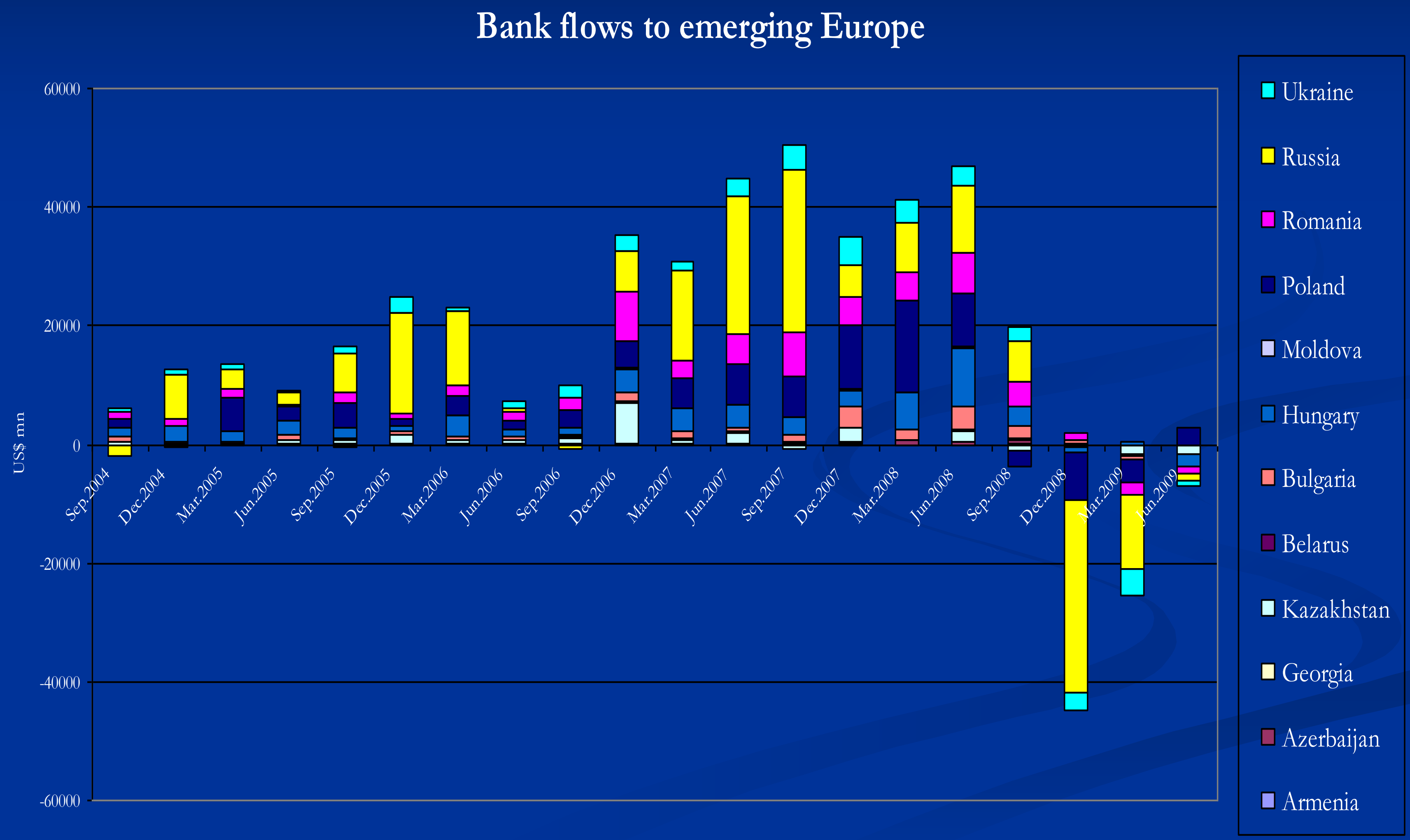
Covers 28 EM countries.

Reversal of Bank Flows

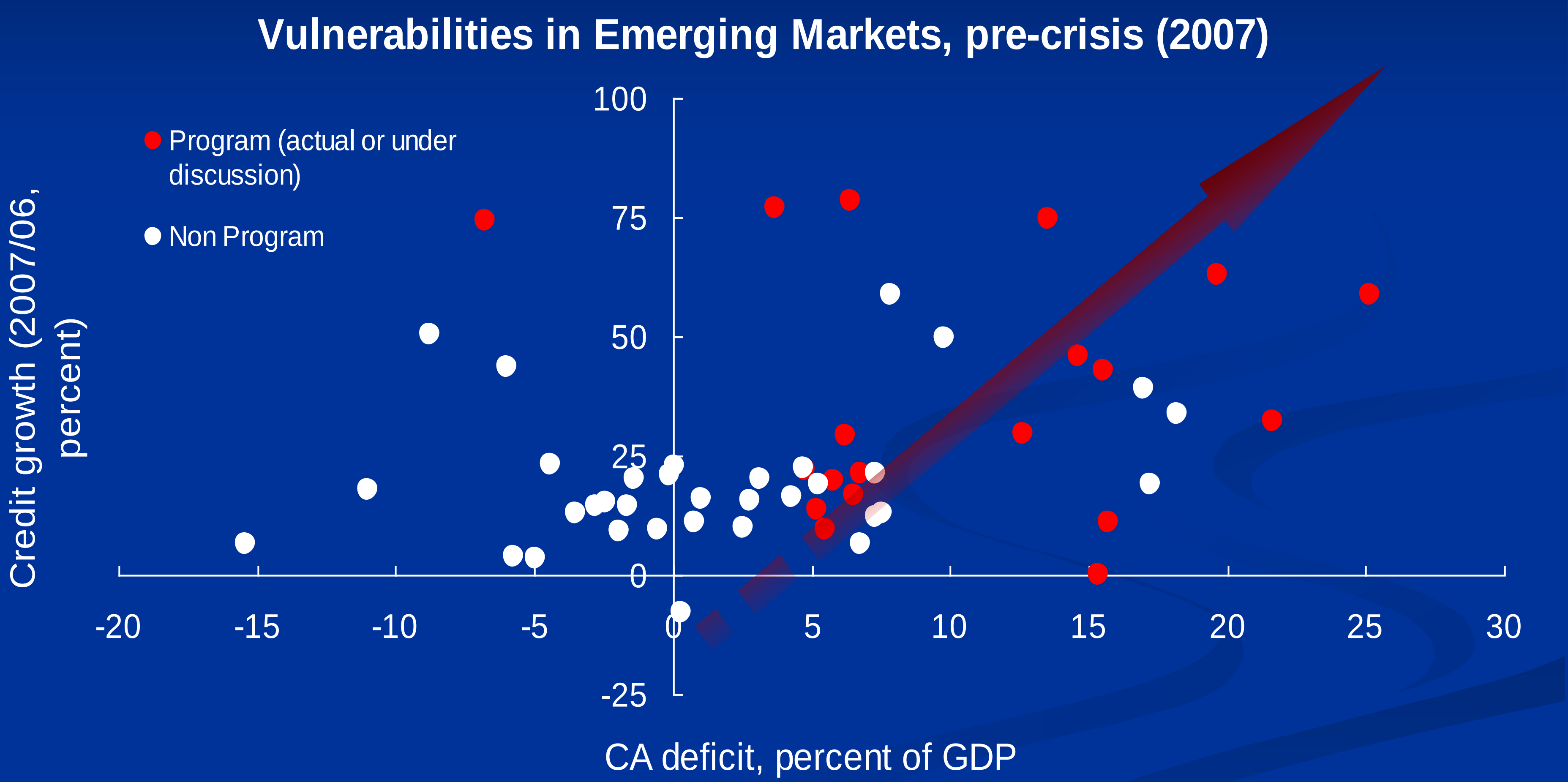
BIS-reporting bank flows to emerging markets



The same pattern occurred in this region

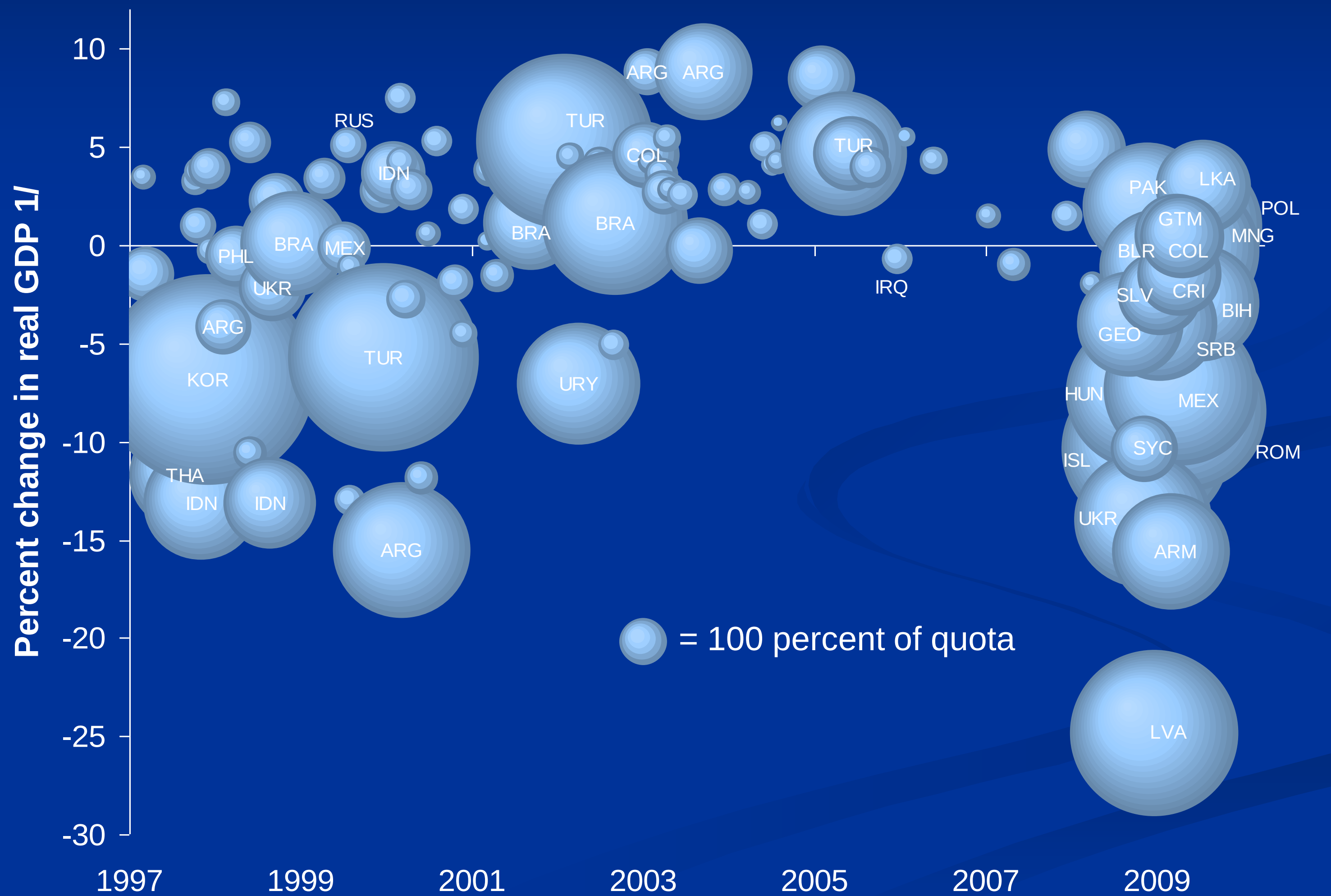


Credit Booms and External Deficits Made Countries Vulnerable



Fund lending resumed on a large scale…

Access levels and growth declines in Fund arrangements

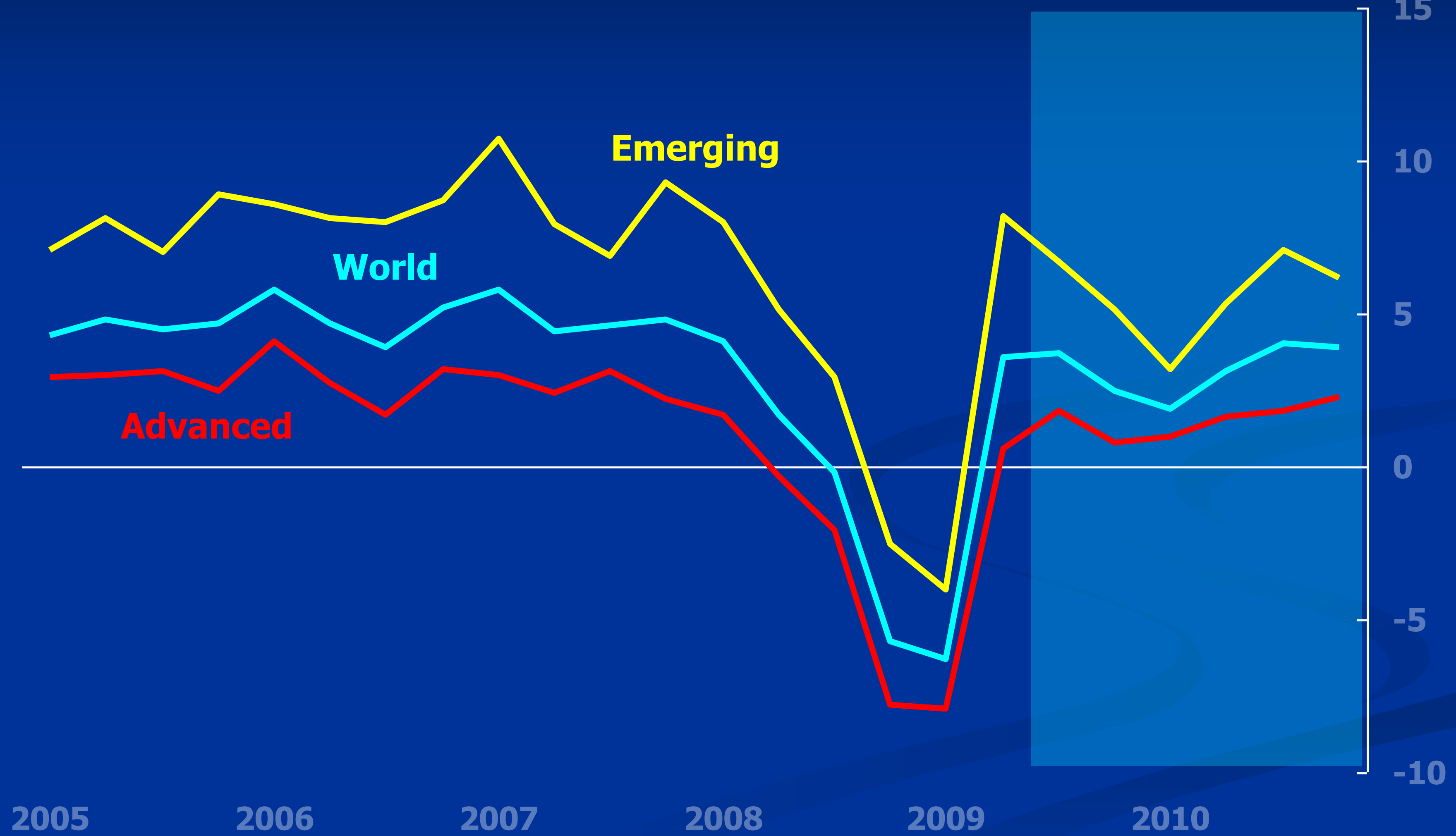


Sources: WEO and staff calculations.

1/ Maximum cumulative decline in three years from program inception; projected changes for current programs.

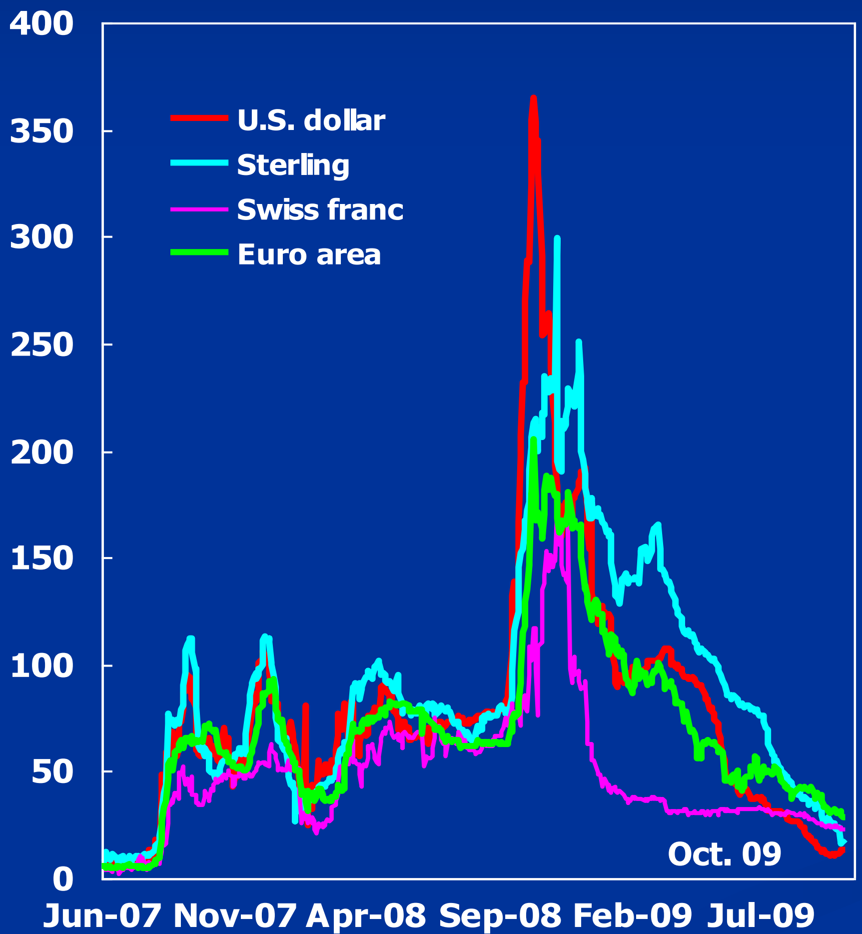
…with many standby arrangements in Central and Eastern Europe

Growth is recovering – but likely to be slow

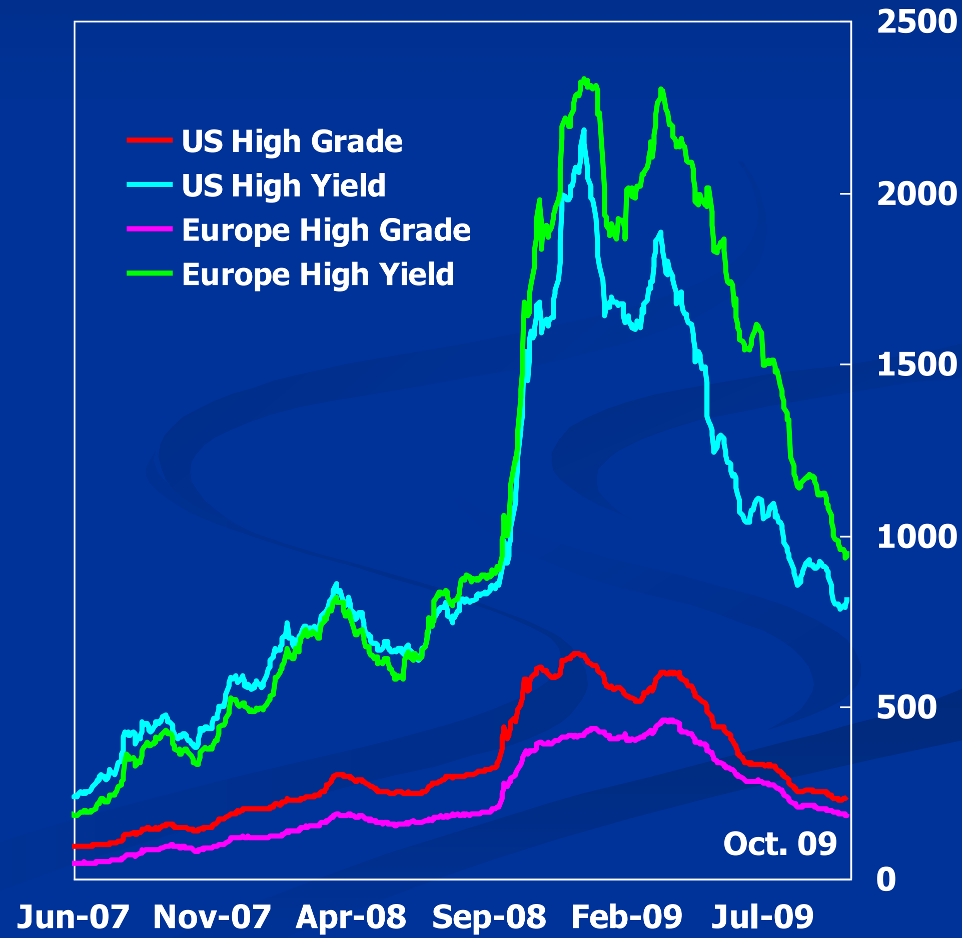


Credit market conditions are easing

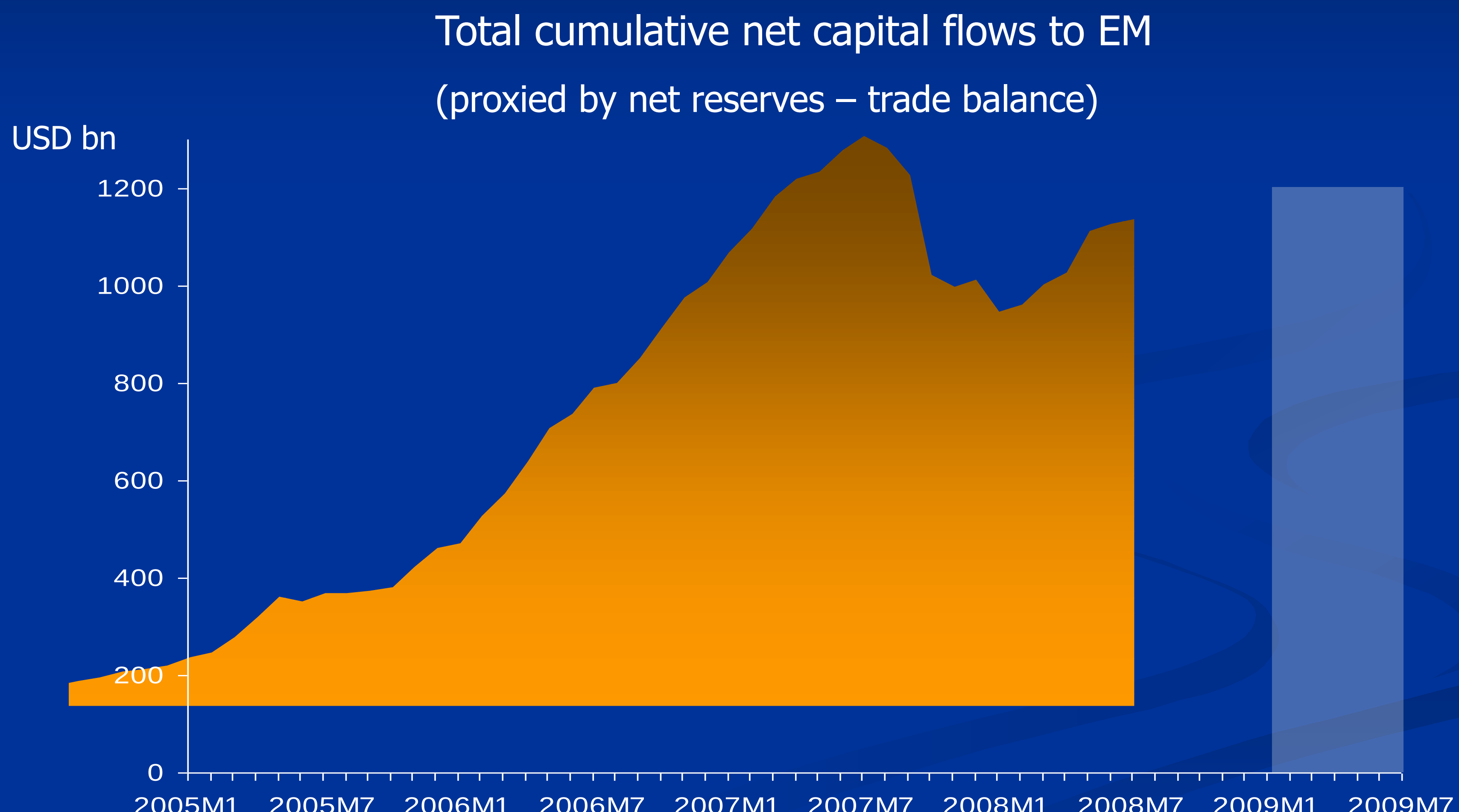
Three-month Libor – OIS Spreads
(basis points)



Corporate Spreads
(basis points)

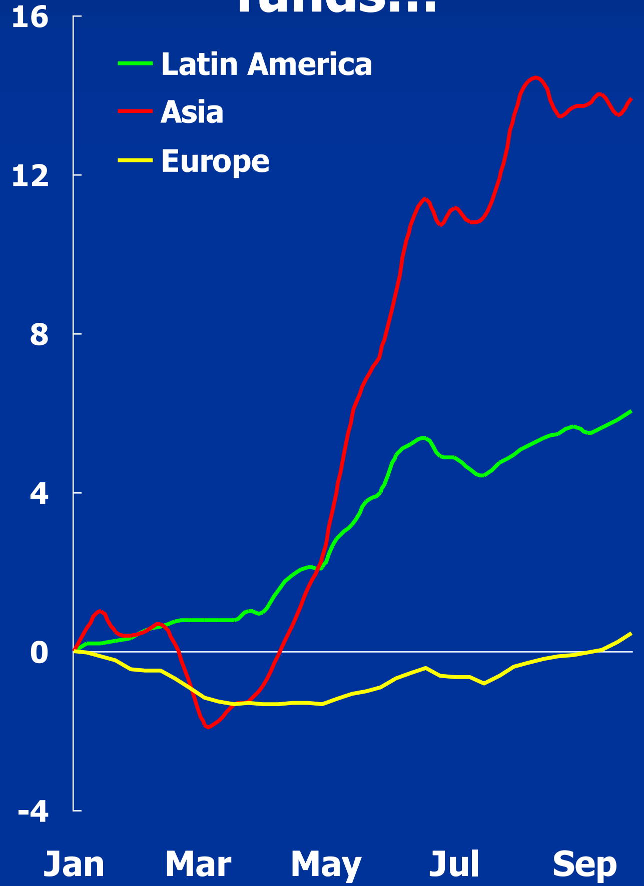


… and the sudden stop is partially unwinding…

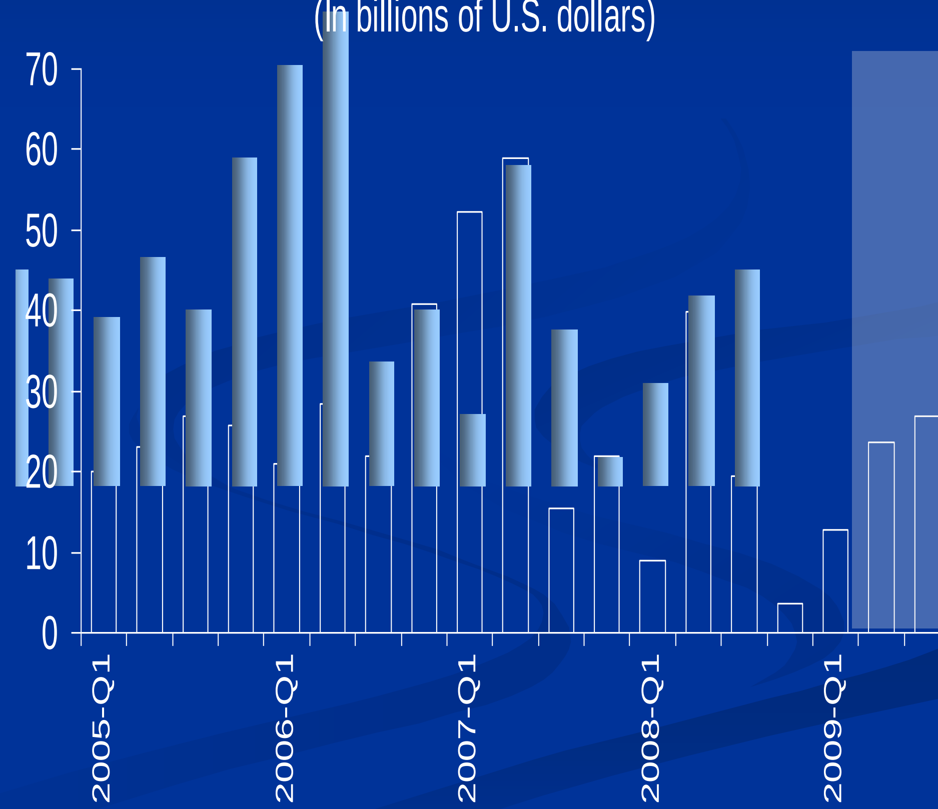


…as portfolio flows rebound…

Money is flowing into emerging market equity funds…

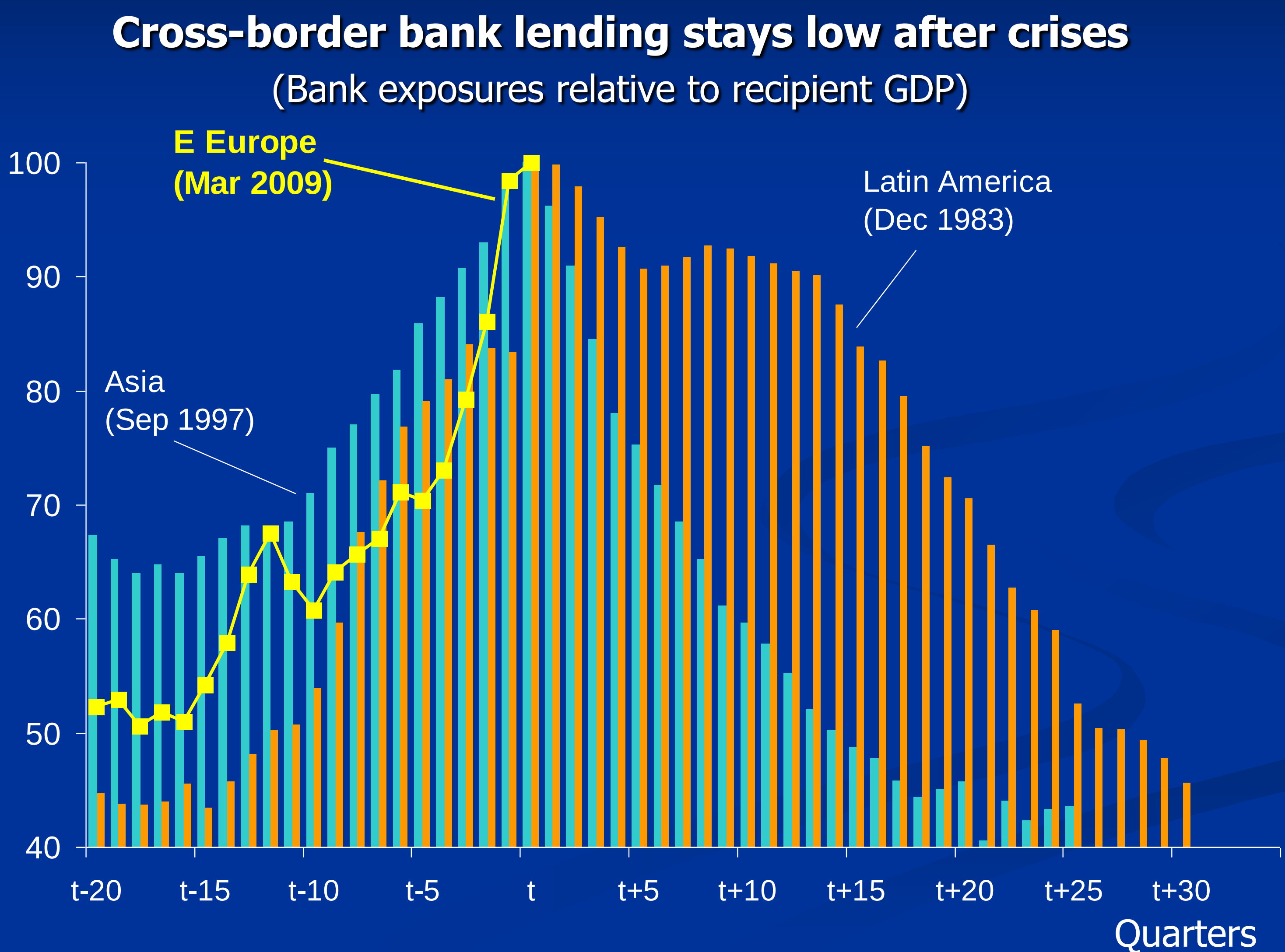


… and primary issuance is recovering strongly

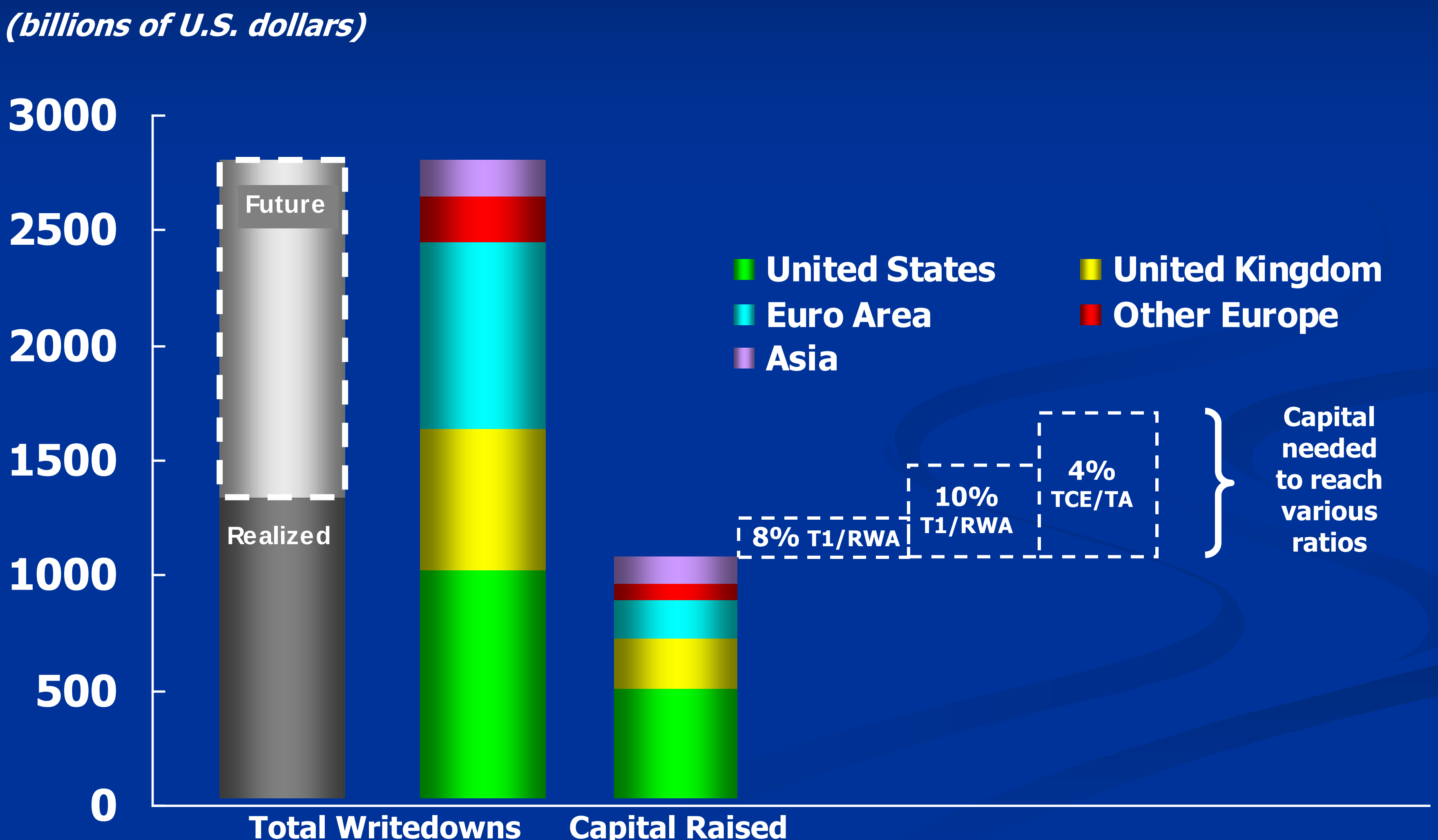


Source: Dealogic, as of September 8, 2009.

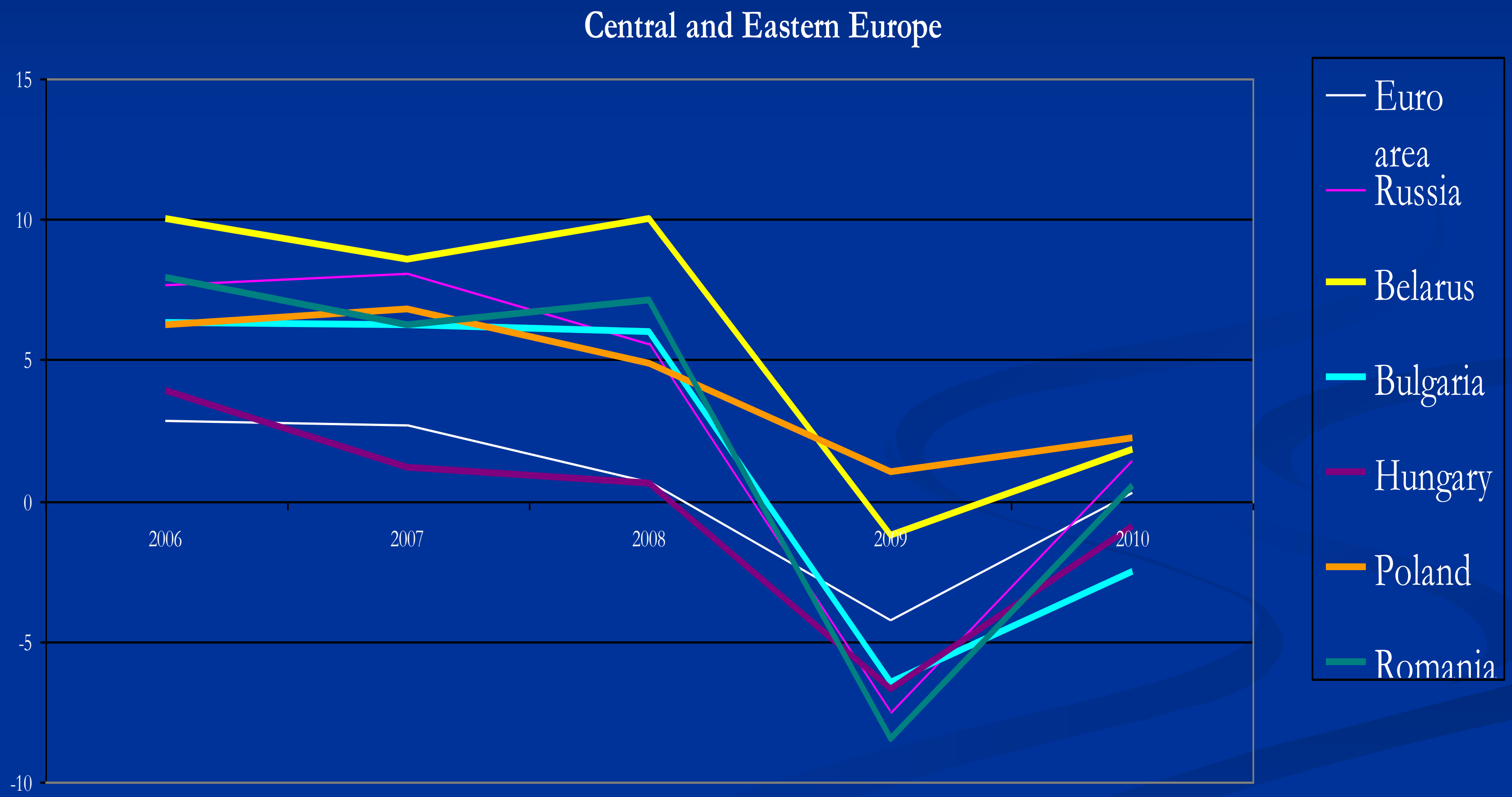
…but recovery in bank flows may be sluggish



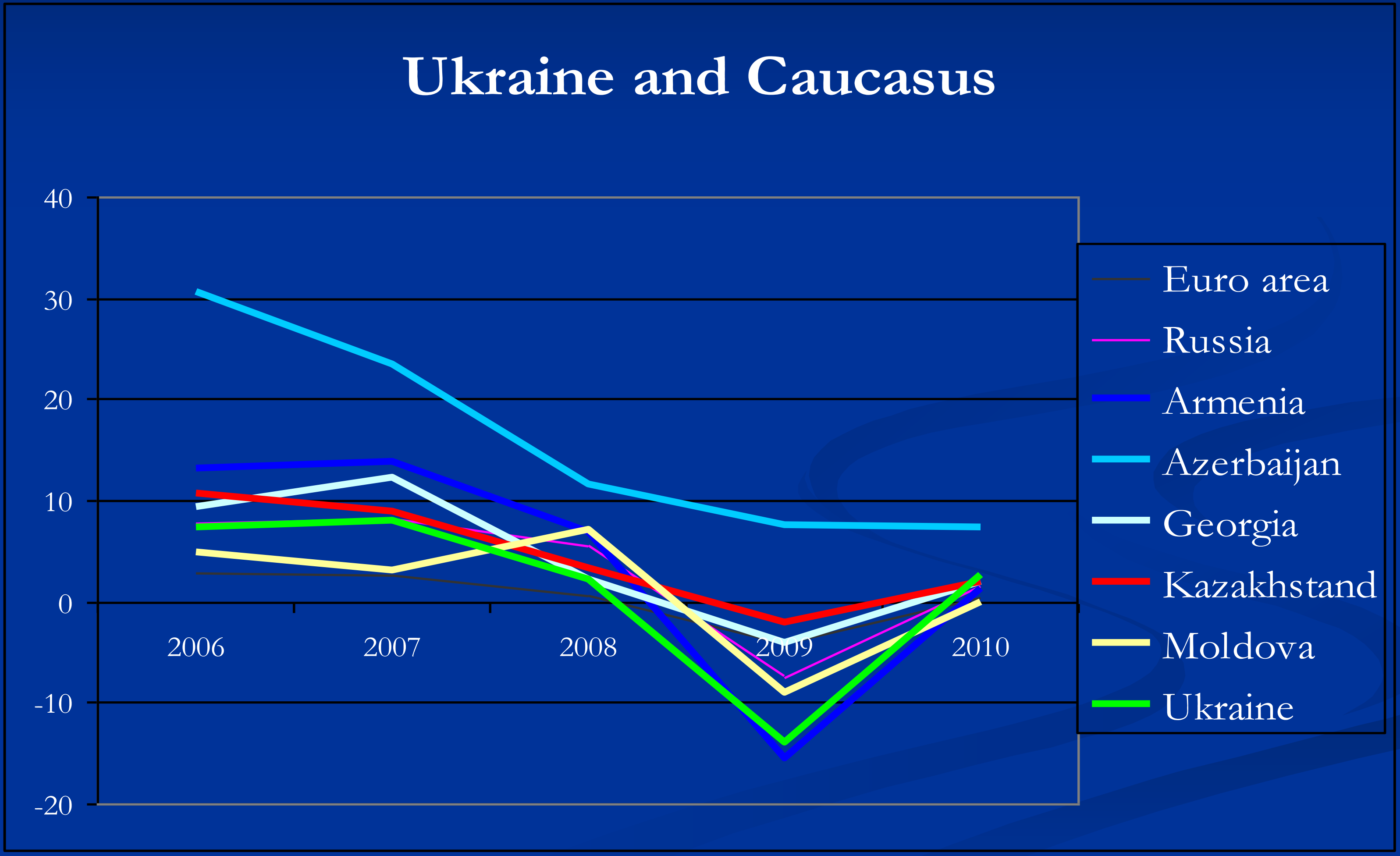
Half of bank write-downs lie ahead and more capital is needed



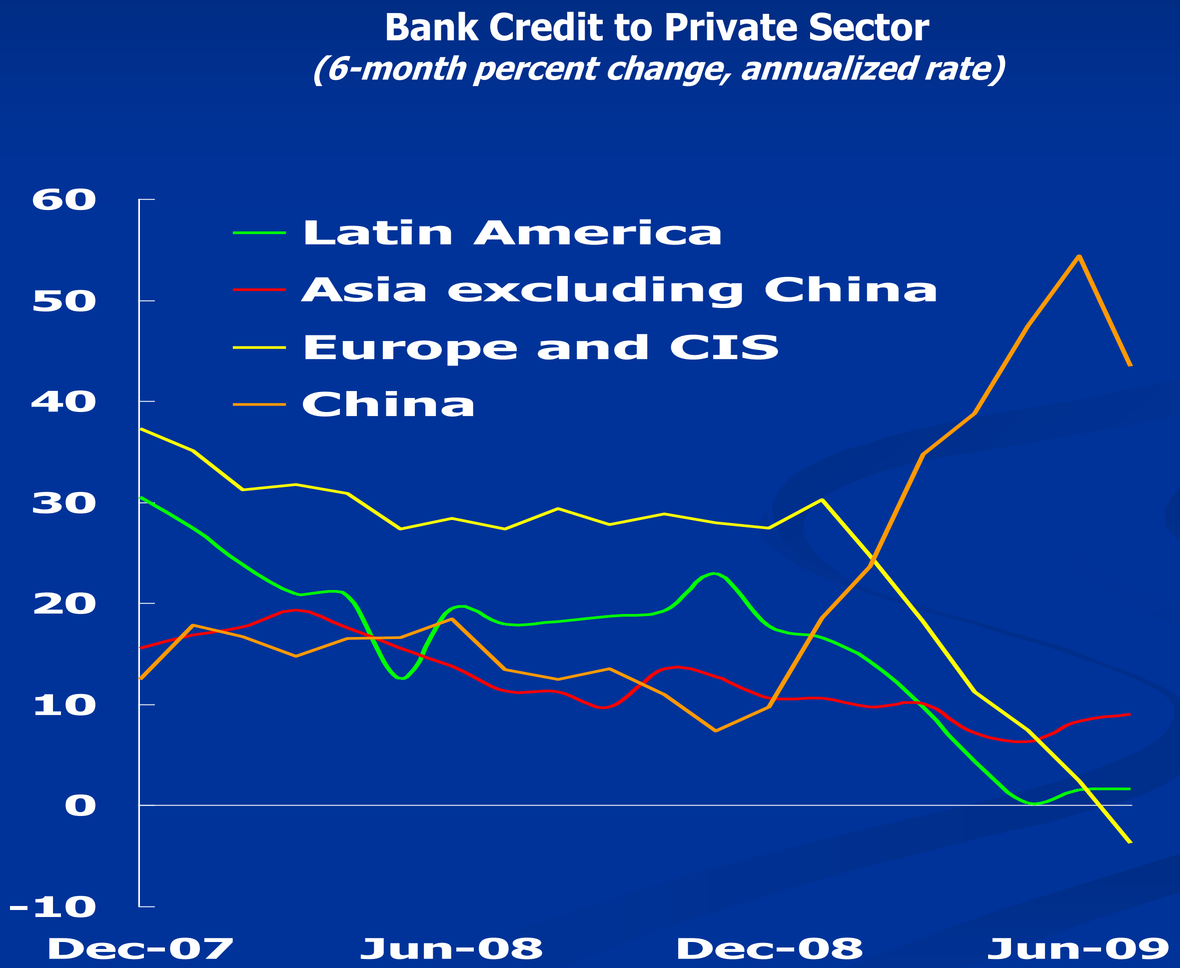
Growth forecast (1)



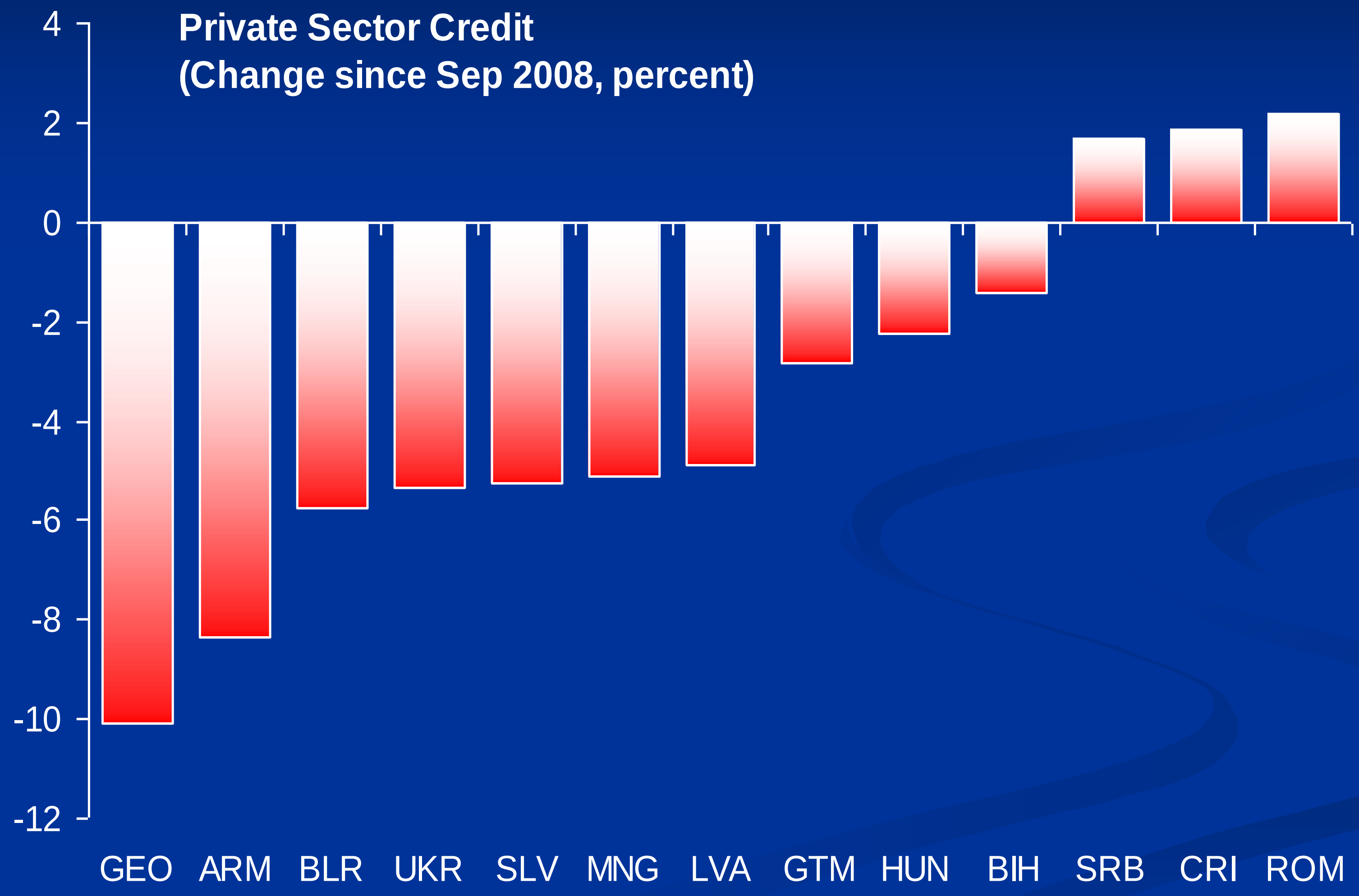
Growth forecasts (2)



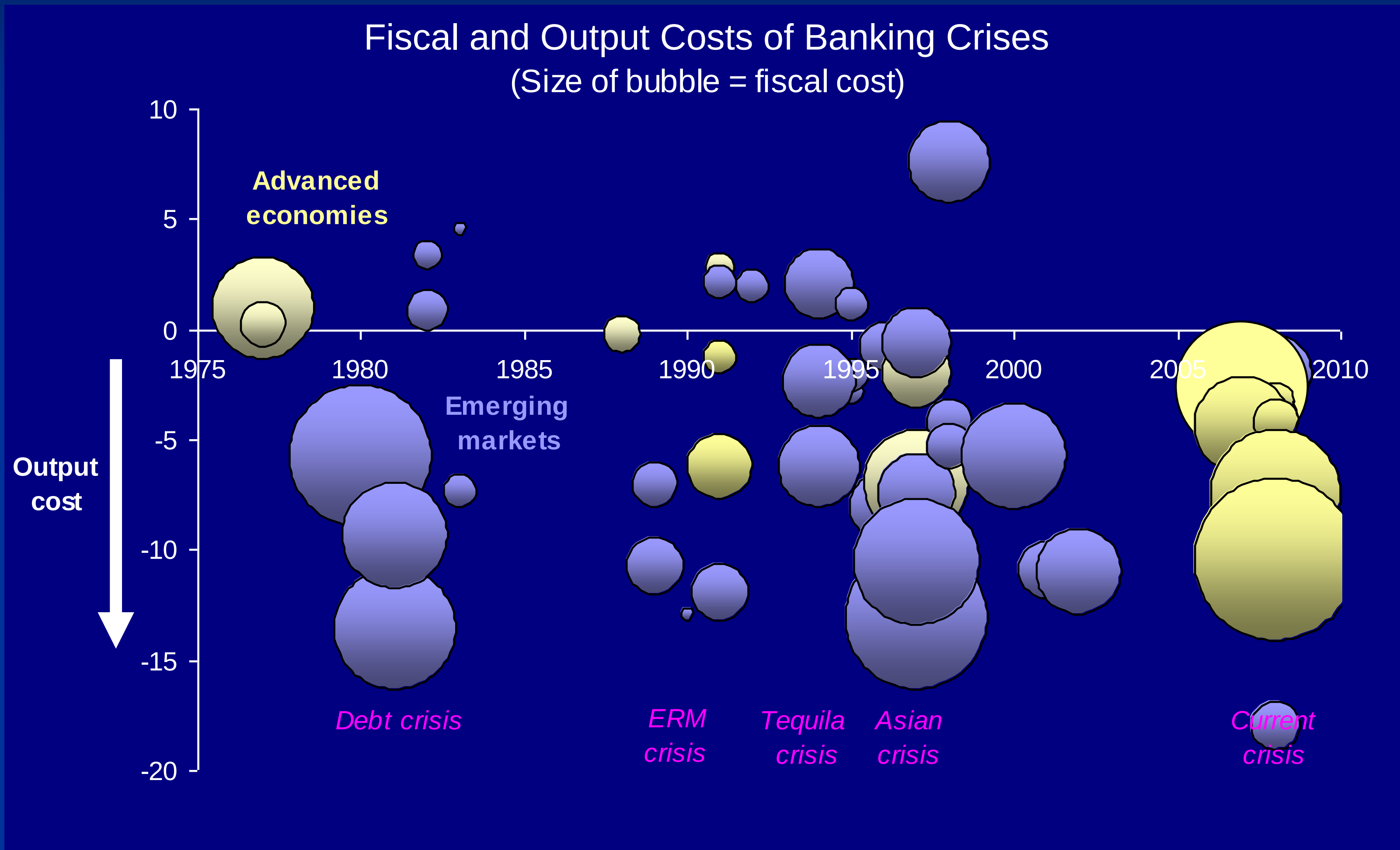
Credit flows within Ems show signs of stabilizing



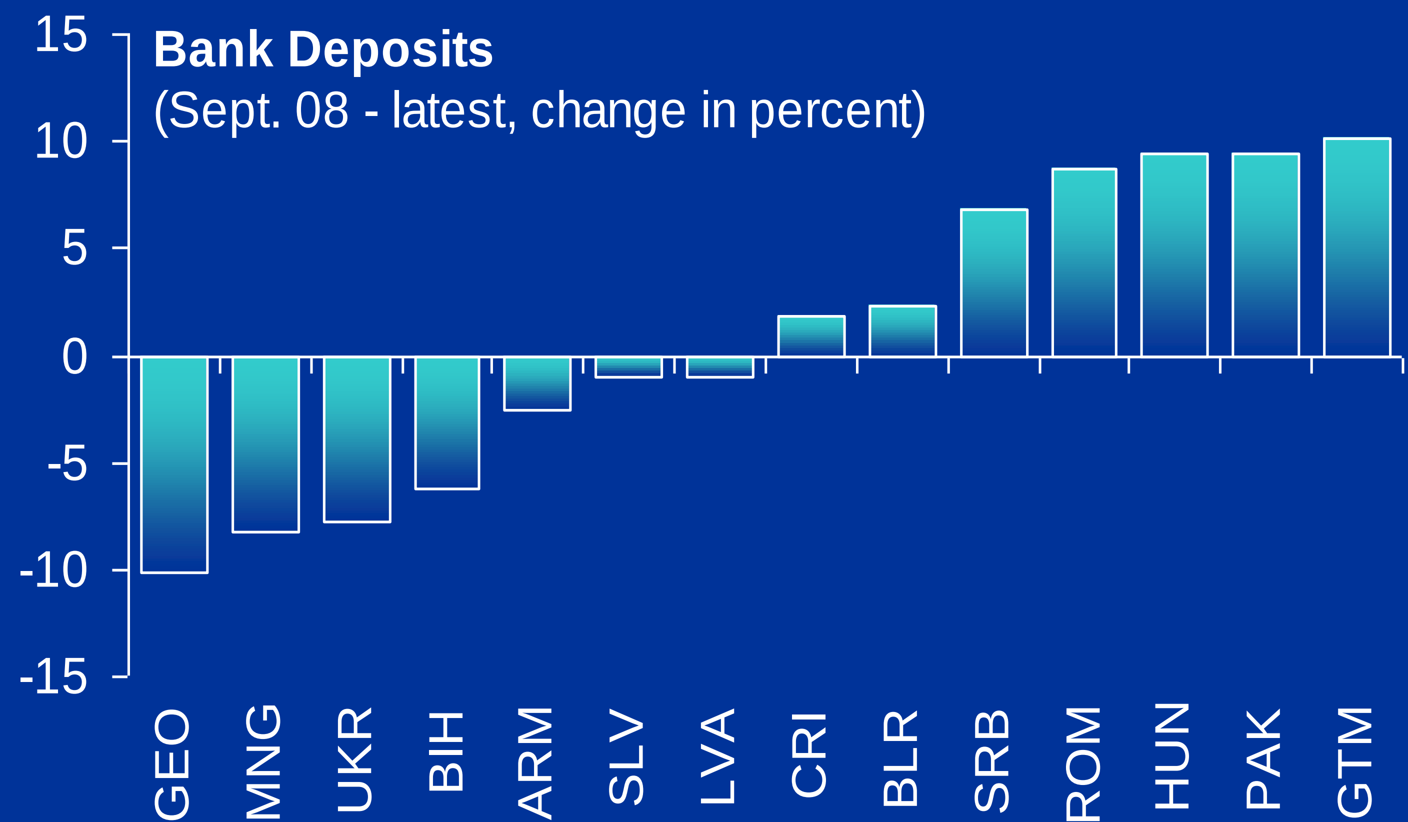
…although there has been sharp contraction in some countries



EMs spared banking crises this time



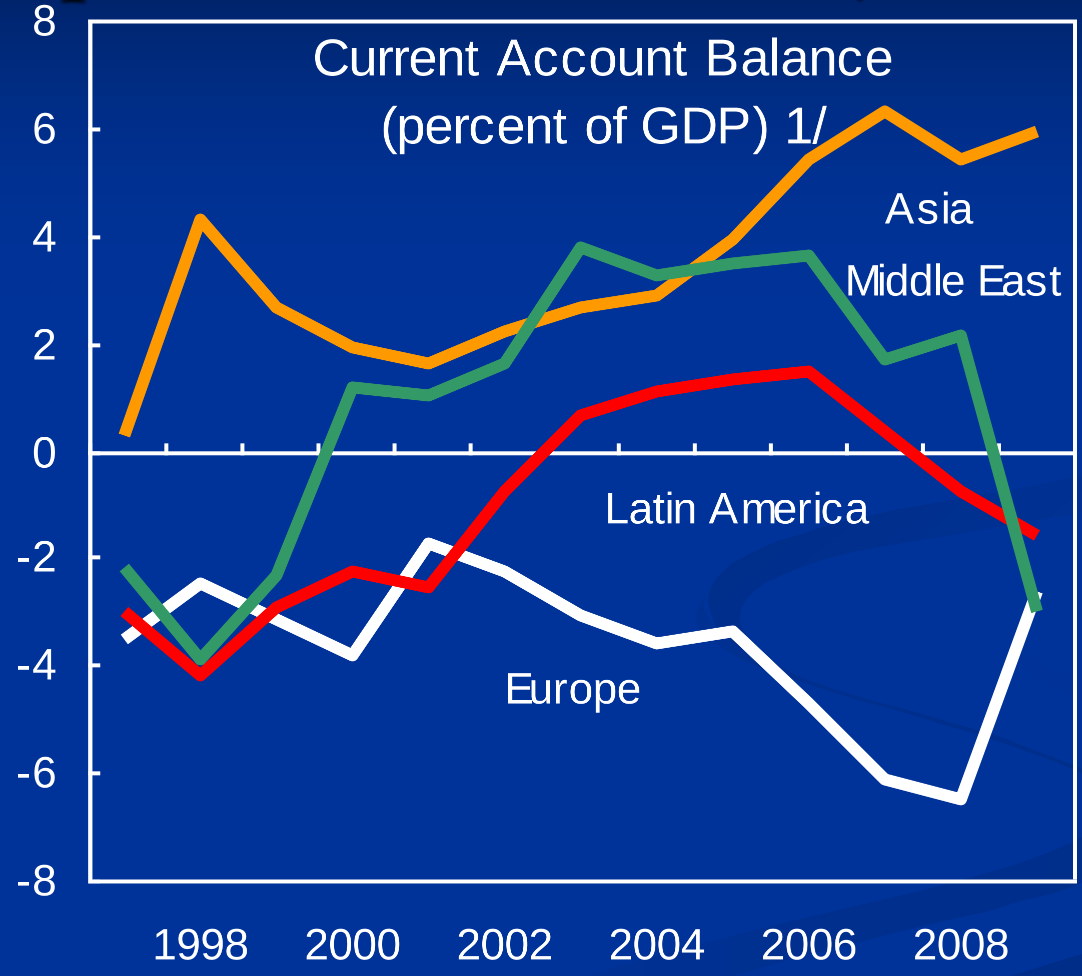
Reflecting that deposits have held up



Source: IFS.

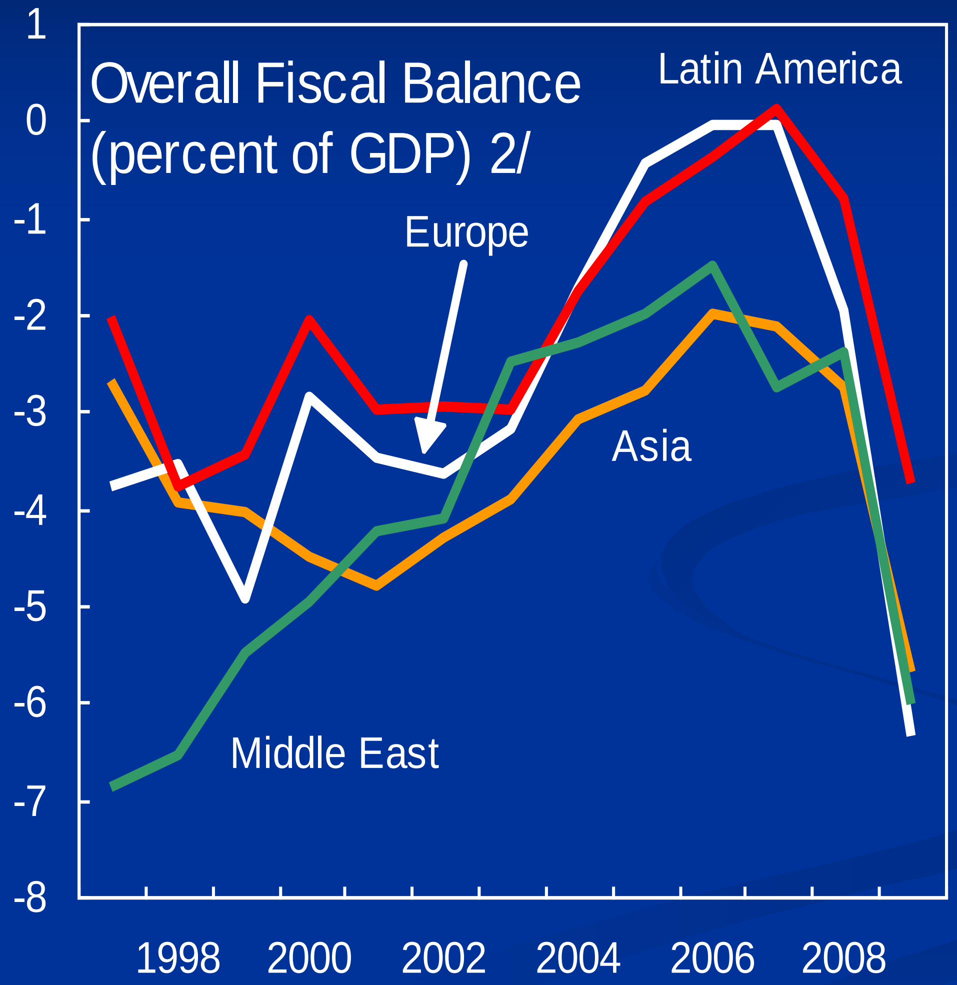
1/ Adjusted for exchange rate changes.

External vulnerabilities have fallen due to sharp current account adjustments

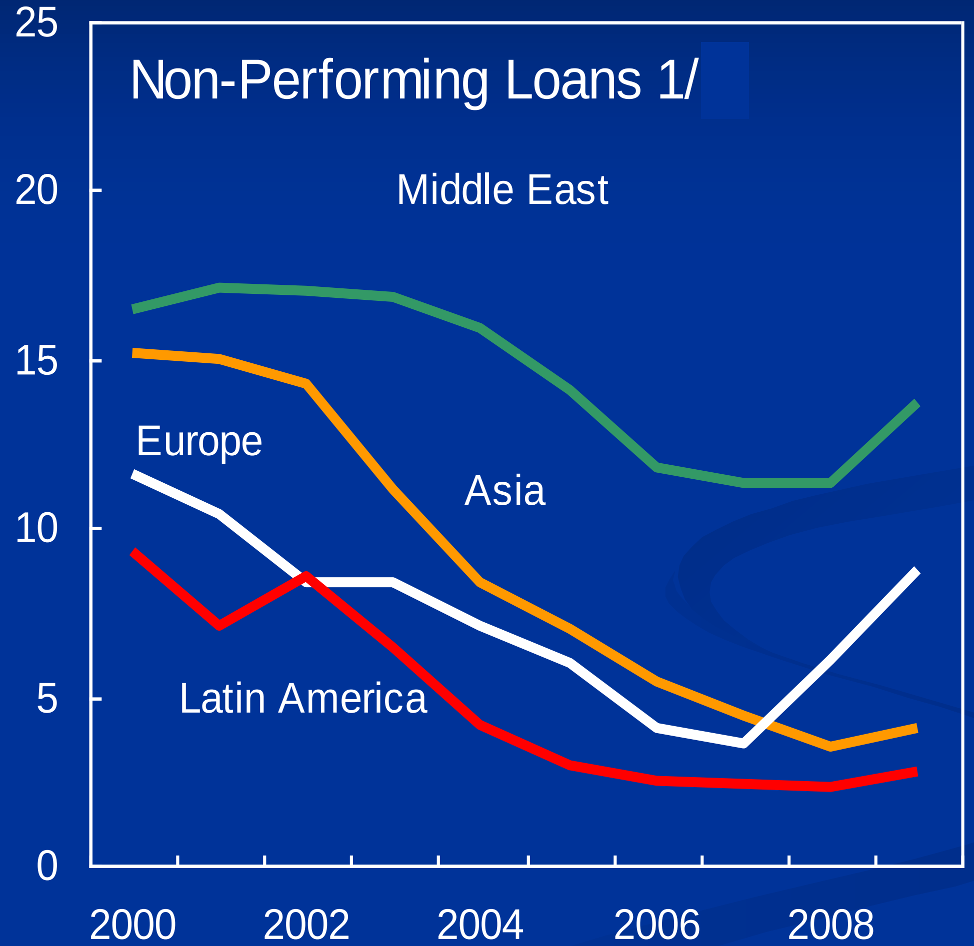


1/ Regional averages weighted by GDP

Fiscal vulnerabilities have risen due to rising deficits (and debt)



Financial vulnerabilities also on the rise



1/ Unweighted regional outreach.

Thank you!