

# Crisis Management: Policy Response and Support

6<sup>th</sup> Vienna Economic Forum

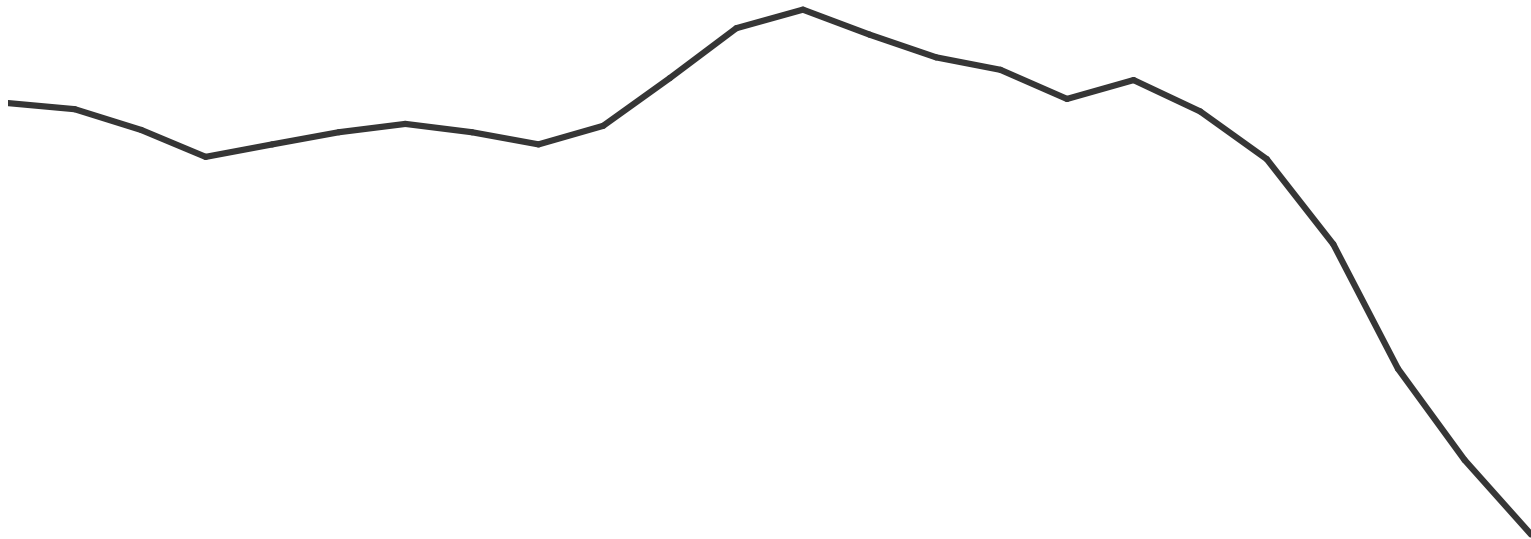
Mark Allen

Senior IMF Representative for Central  
and Eastern Europe

# Outline of Presentation

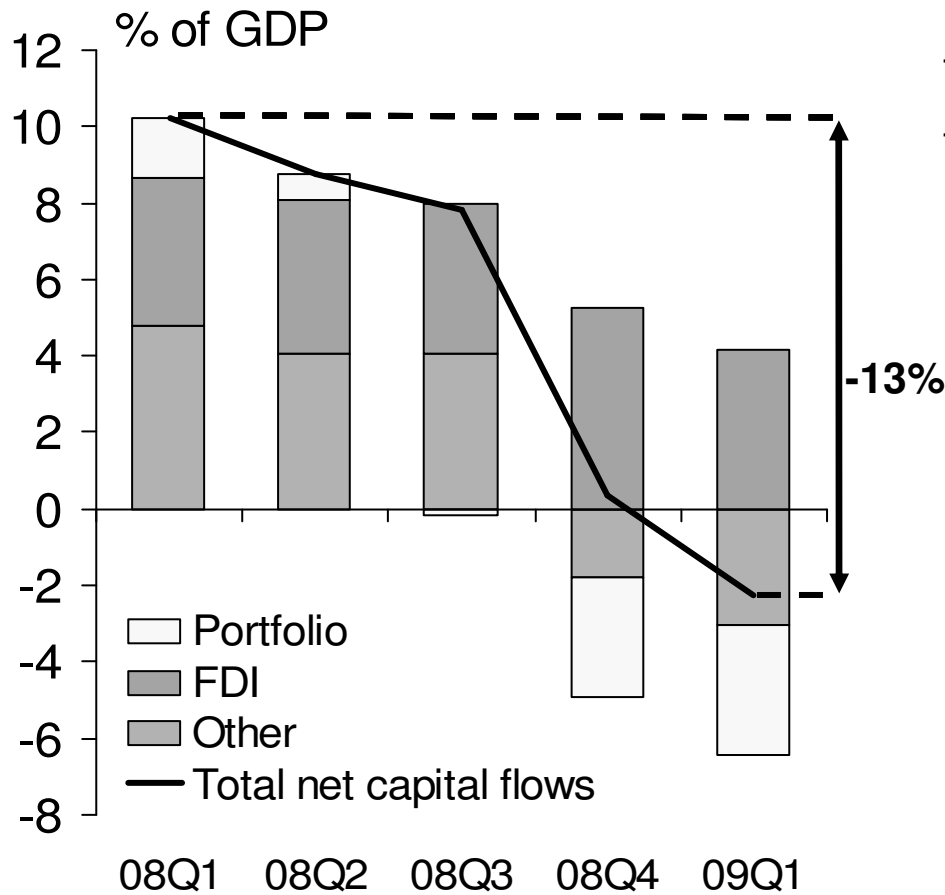
- Why did the crisis hit this region so hard?
- How did the IMF respond?
- How does adjustment in this crisis compare with other crises?
- What are the prospects for the region?

# First Shock: Collapse in Trade

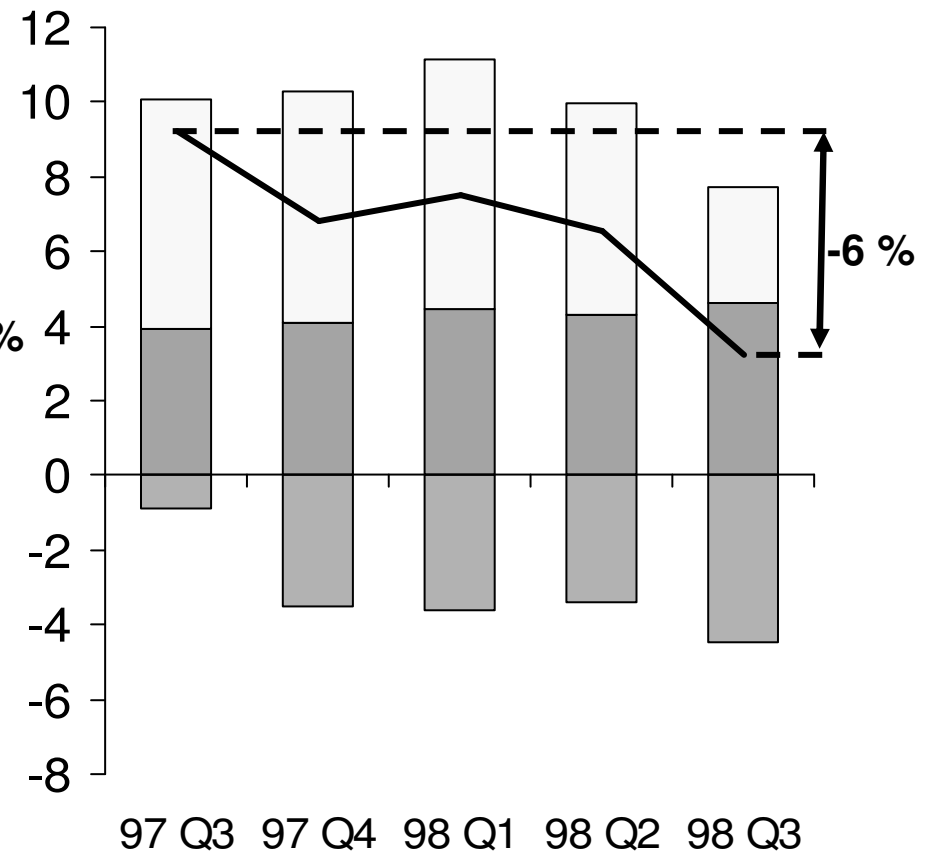


# Second Shock: Sudden Stop of Capital Flows

**This sudden stop**



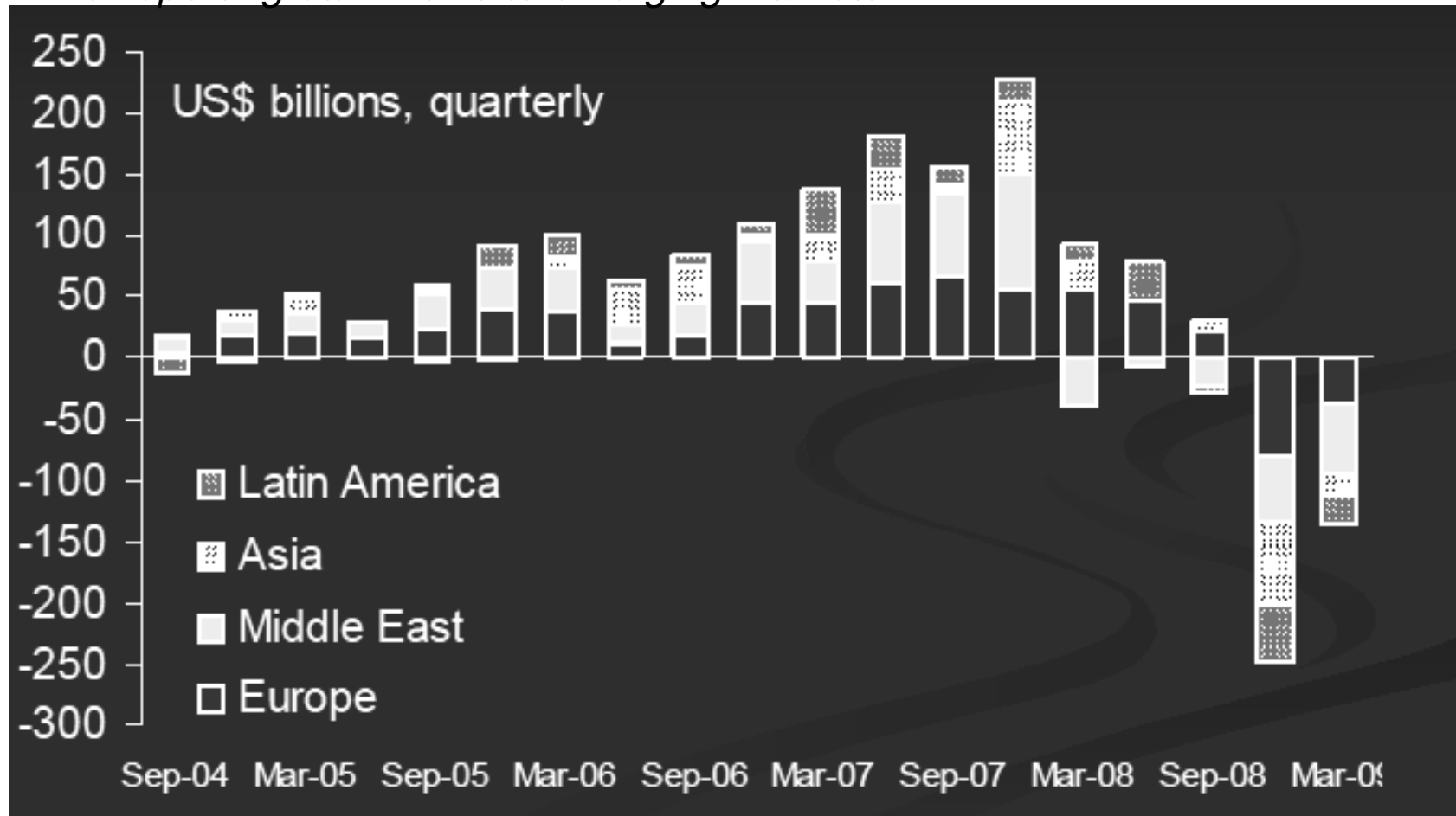
**Sudden stop in 1997-98**



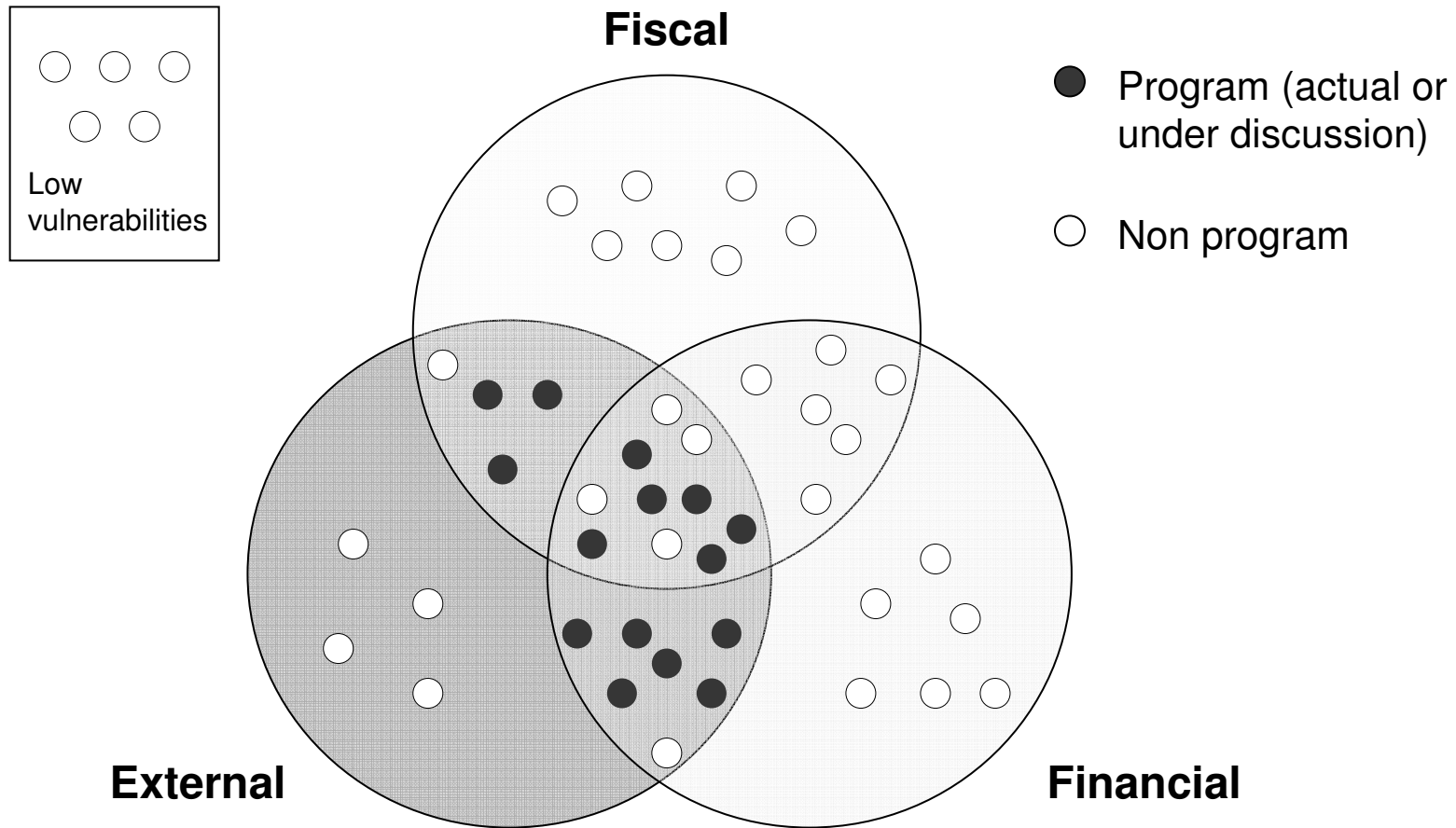
Covers 28 EM countries.

# Reversal of Bank Flows

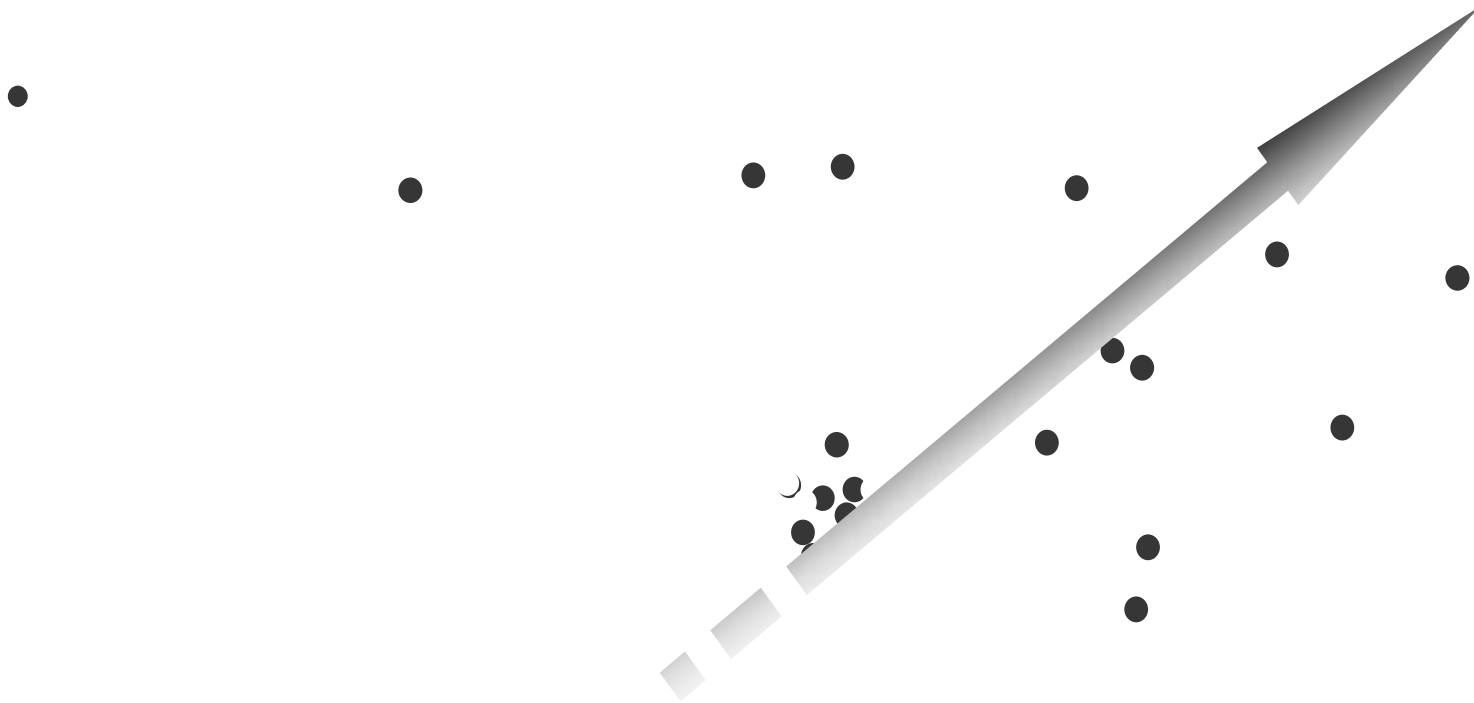
*BIS-reporting bank flows to emerging markets*



# Many Vulnerable Countries Turned to the IMF



# Credit Booms and External Deficits Made Countries Vulnerable



# IMF Resources And Lending Framework Improved

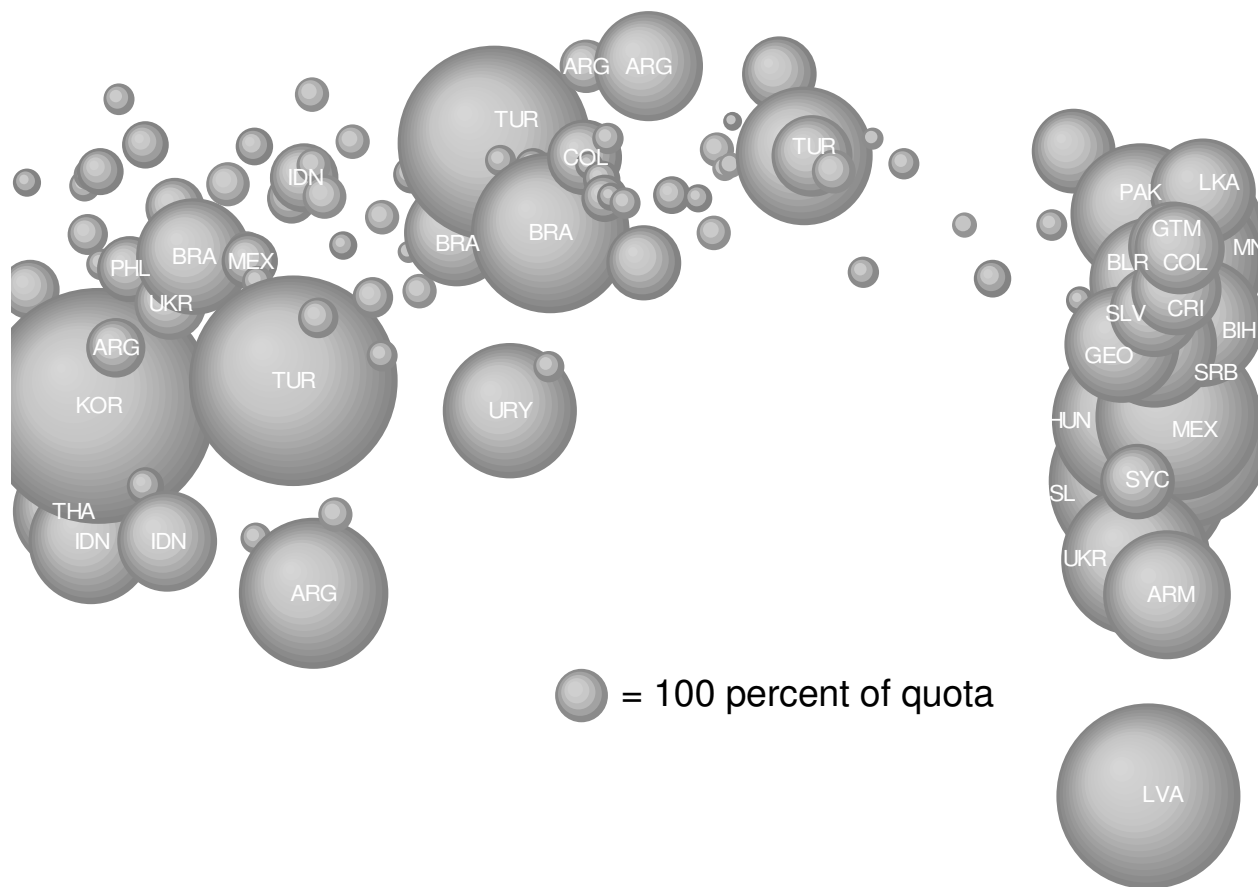
- Additional resources:
  - \$500bn ultimately available through NAB
  - \$250bn through additional SDR allocation (\$100bn for EMEs)
  - More than doubling resources for Low Income Countries
- March 09 reforms to lending framework:
  - Flexible Credit Line (FCL)
  - Modernization of conditionality framework
  - Standby arrangement (SBA) made more flexible
  - Increase in access levels

# European Bank Coordination Initiative (Vienna Initiative)

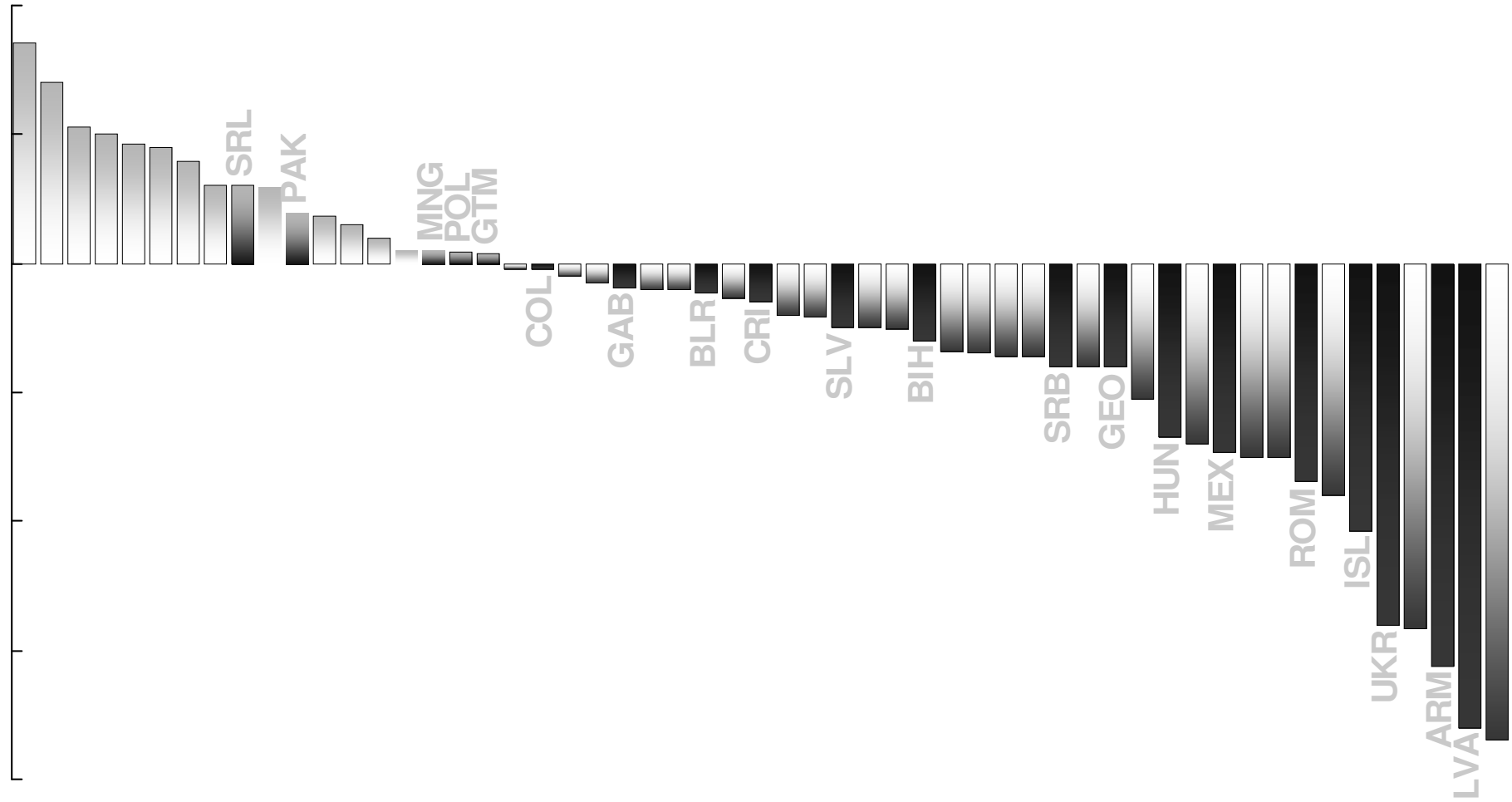
- Agreement by parent banks to maintain exposure and capital
  - Bosnia and Hercegovina, Hungary, Latvia, Romania, Serbia
- Stress testing of banks
- MDBs to provide financing to support continued engagement
  - EBRD, IFC, EIB



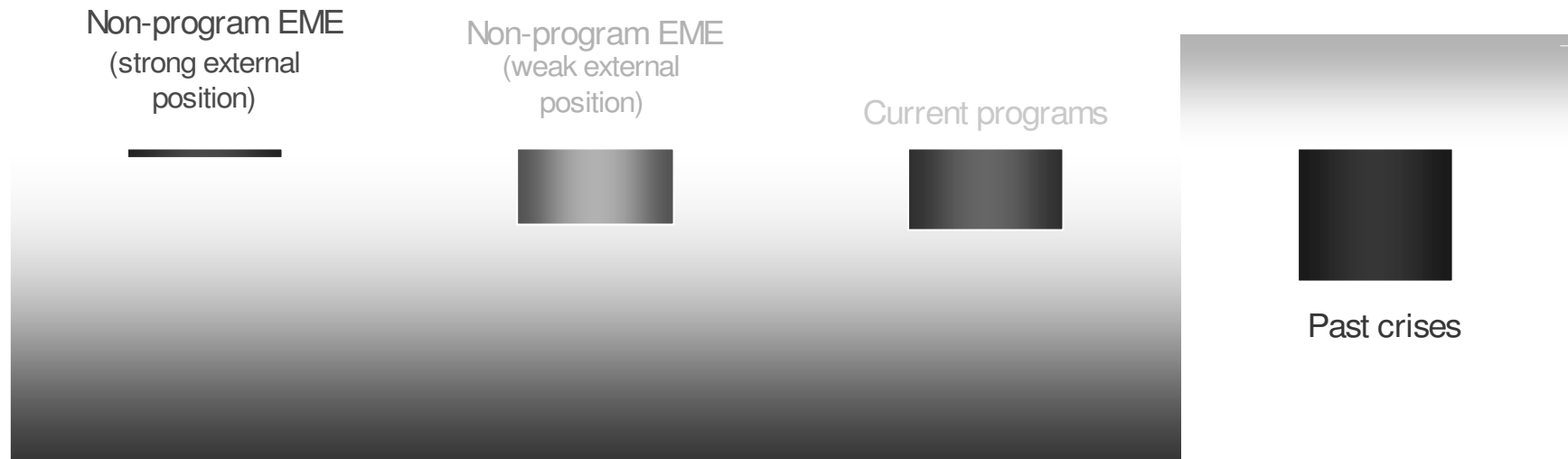
# Large Arrangements, Simultaneous, Large Output Losses



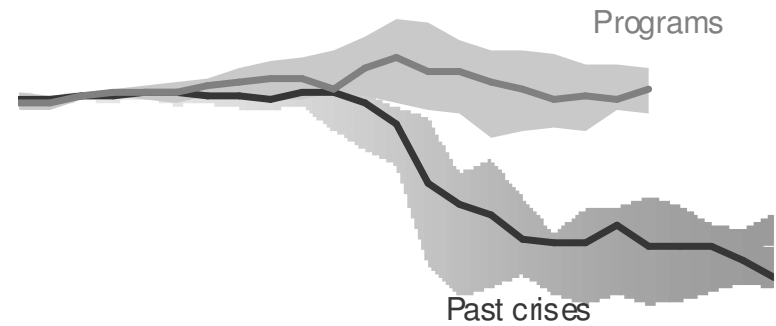
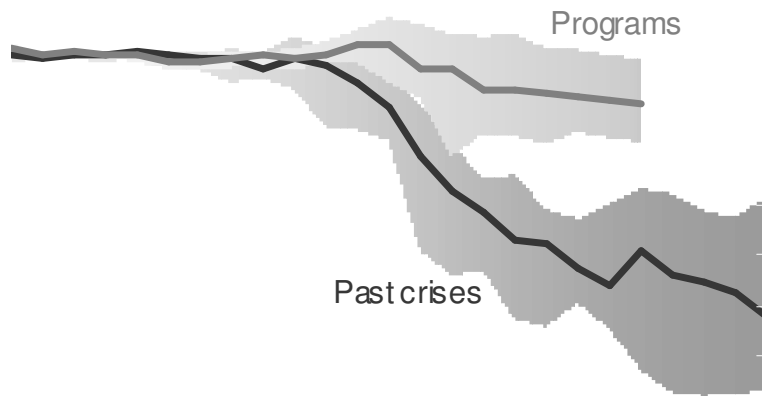
# Output Losses not Surprising, Given Recession



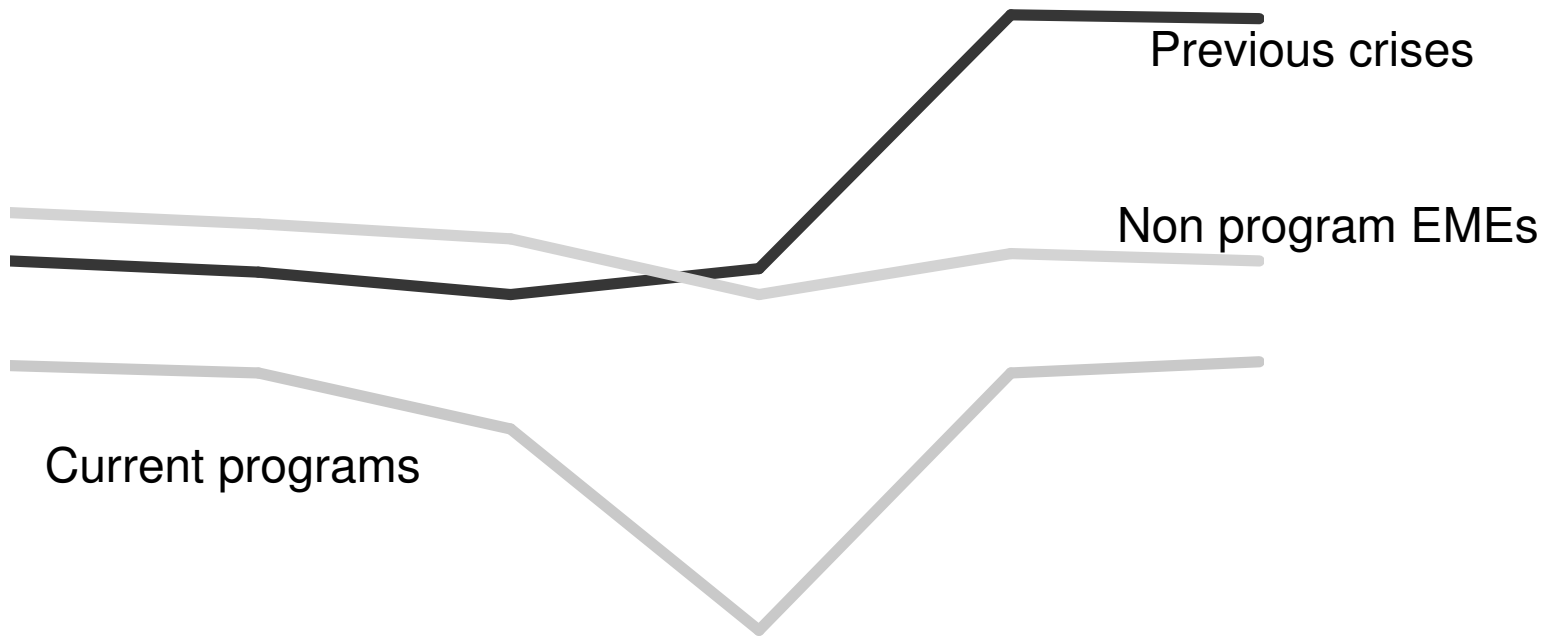
# But Smaller than in Past, Despite Recession



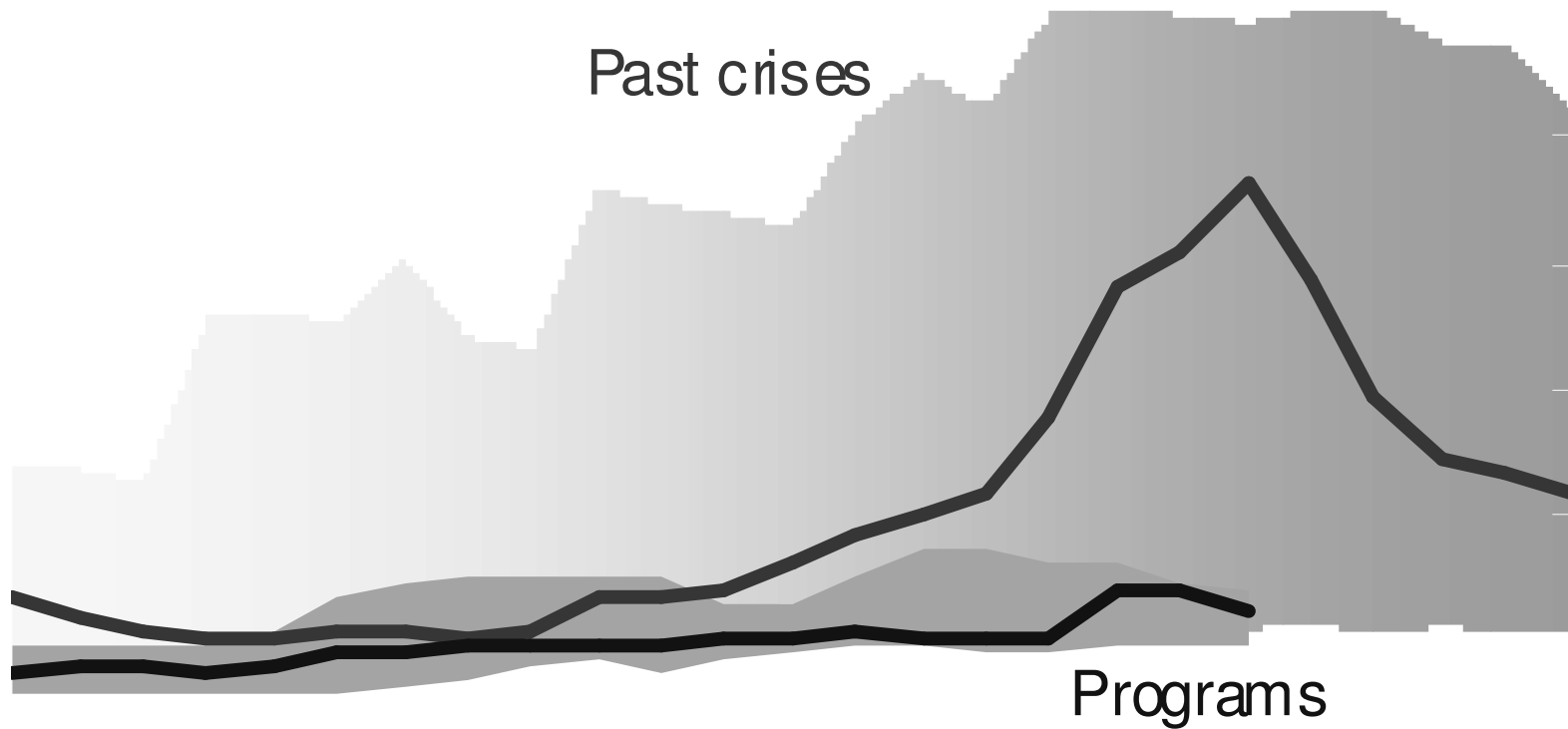
# Reduced Overshooting of Exchange Rate



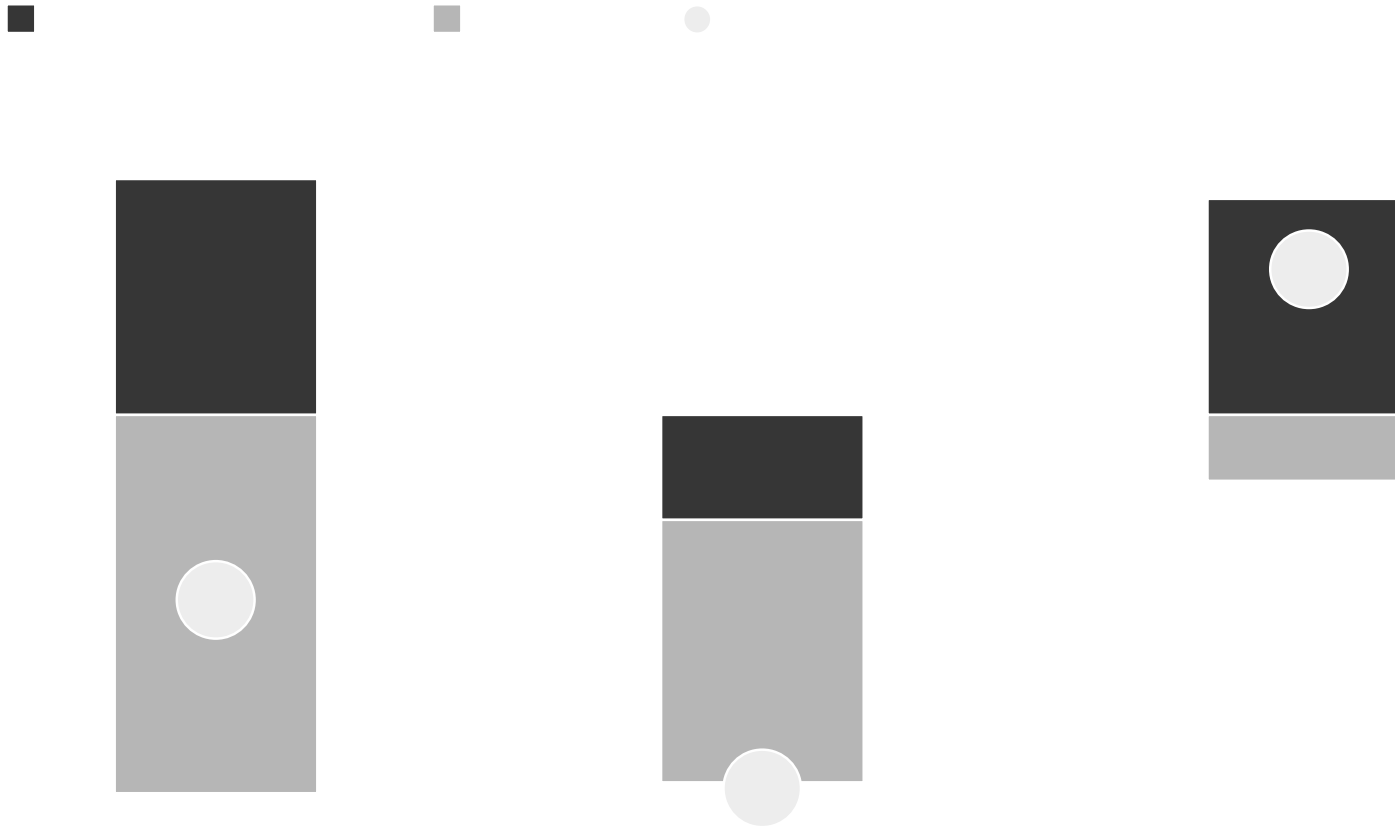
# Less Severe External Adjustment



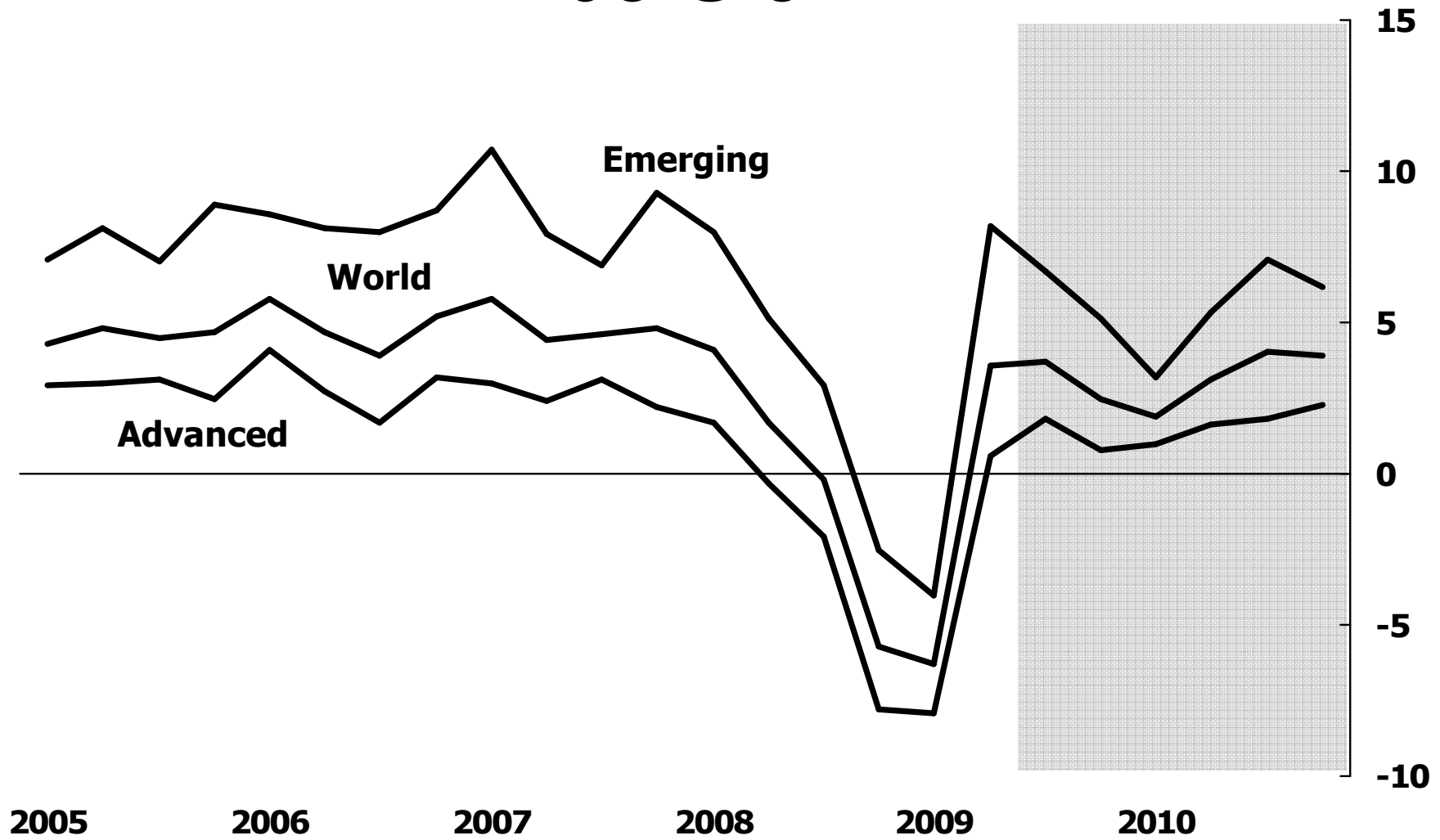
# Interest Rate Spikes Avoided



# Little Fiscal Retrenchment



# Growth Recovering – but Likely to be Slow



# Serious Risks but Good Prospects

## ■ Risks

- Slow recovery in industrial countries
- Lethargic recovery of bank inflows
- Poor implementation of adjustment programs
- Fragility in domestic financial systems
- Growing public debt

## ■ Opportunities

- Region well placed for European investment
- Well-educated labor force
- Poised to continue convergence to West European levels
- IMF and others willing to continue support

Thank you