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**The Financial Crisis in Central, Eastern and  
Southeastern Europe:  
What is to be Done?**

**WIIW**

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Financial crisis in the Czech Republic?

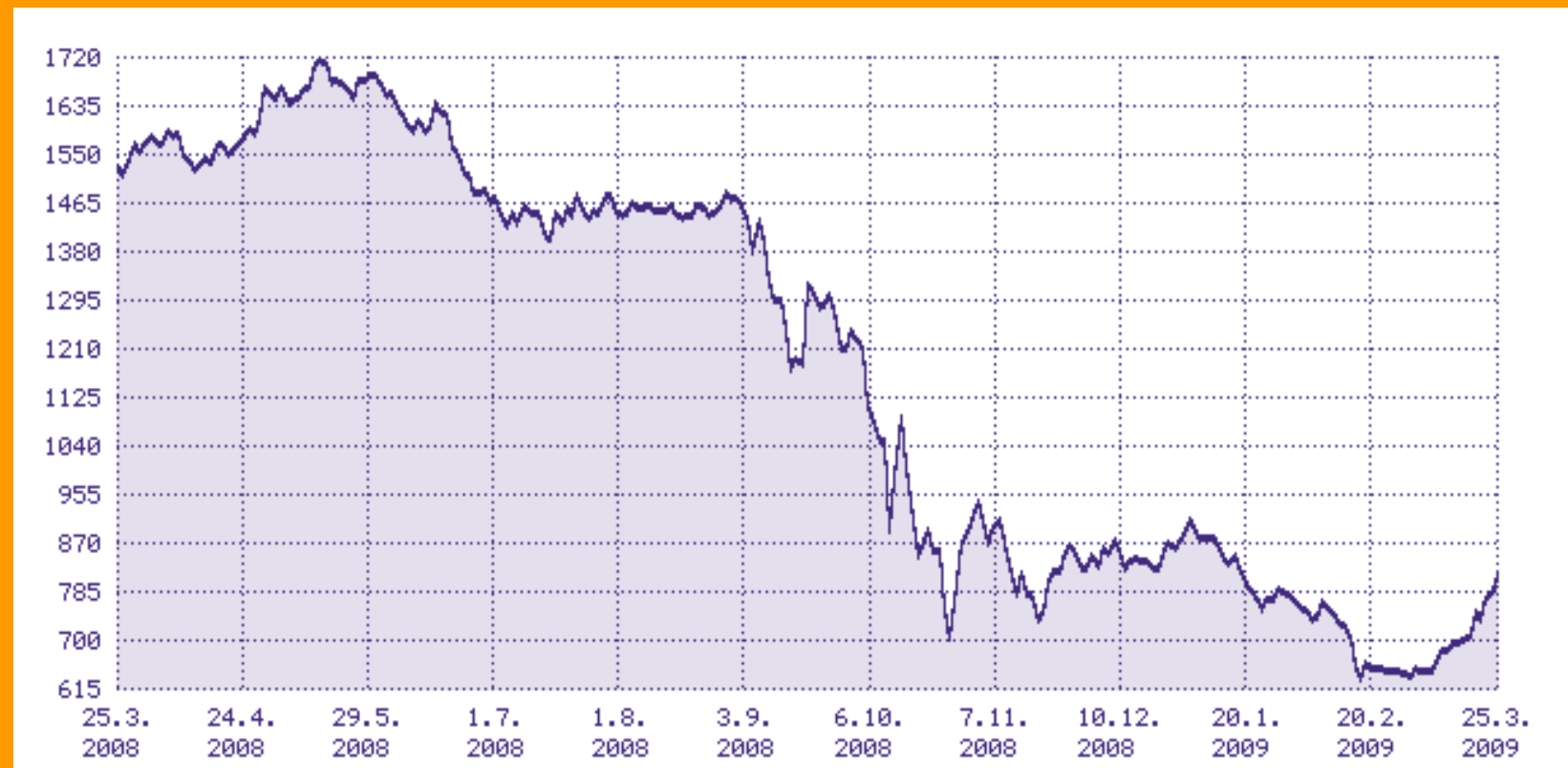
What we are talking about?

Profits of major Czech banks in 2008:

Česká spořitelna (Die Erste)	Euro 564 m
Komerční banka (Societe Generale)	Euro 496 m
ČSOB (KBC)	Euro 38 m
UniCredit Czech Republic	Euro 185 m

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PX – Index is falling and who cares?



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Název	Váha [%]
<a href="#">ČEZ</a>	22,61
<a href="#">TELEFÓNICA O2 C.R.</a>	21,79
<a href="#">ERSTE GROUP BANK</a>	20,78
<a href="#">KOMERČNÍ BANKA</a>	14,46
<a href="#">ZENTIVA</a>	7,23
<a href="#">UNIPETROL</a>	3,74
<a href="#">NWR</a>	3,04
<a href="#">VIG</a>	2
<a href="#">PHILIP MORRIS ČR</a>	1,8
<a href="#">CETV</a>	1,69
<a href="#">PEGAS NONWOVENS</a>	0,35
<a href="#">ORCO</a>	0,28
<a href="#">ECM</a>	0,23
Celkem	100

# CONSLUSIONS:

## **Czech financial sector:**

### **SO FAR SO GOOD!**

- However outlook is gloomy. Why?
- Declining real economy.
- The region of Central Eastern Europe
- Secondary wave of problems from USA.

Crisis came with strong Koruna

Appreciation by 20% and many were happy

It was short-sighted

Czech right wing government was claiming  
that crisis is non-existent or will go around  
Czech Republic

They had chance to do it, because of so far  
stable banking sector

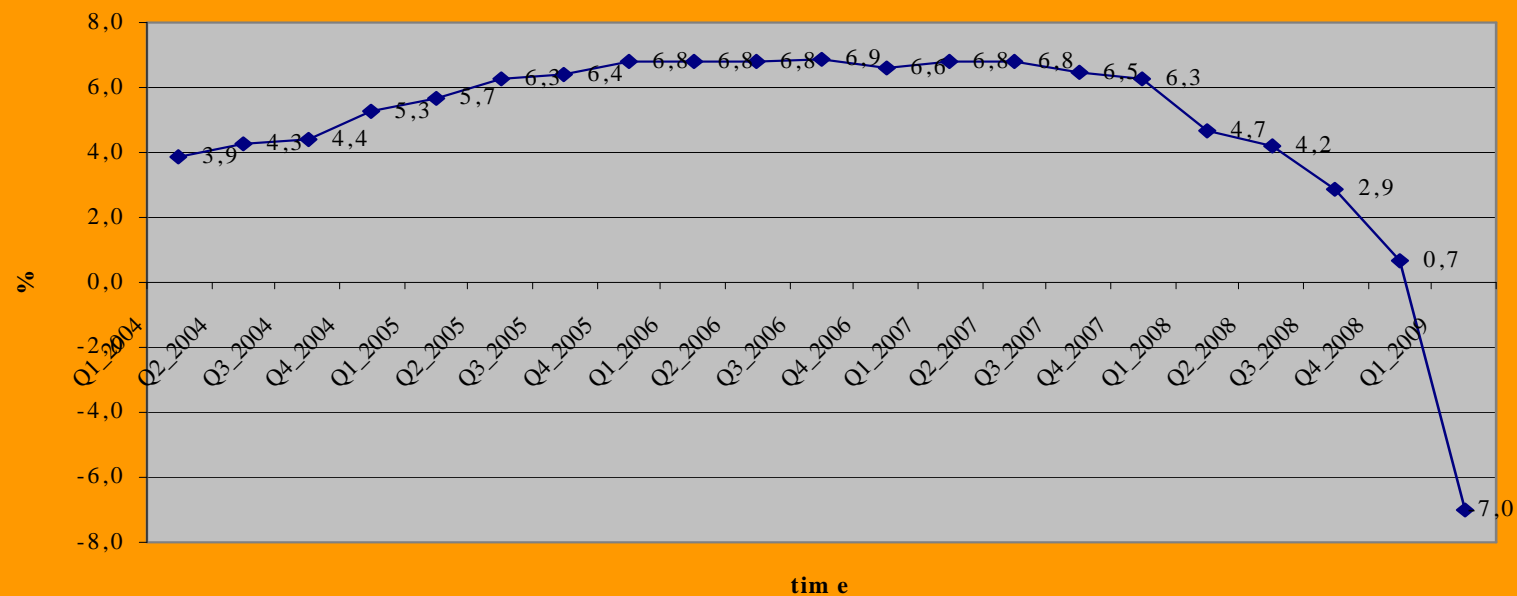
## 4 Reasons for Stability of Czech Banking Sector

- I. Around 2000 privatization and bail out of Czech banking sector.
- II. Mortgages 18% of Czech households
- III. Derivatives traded in headquarters
- IV. High savings of Czech population

# www.FONTES-RERUM.cz Czech

Republic Approaching Recession:

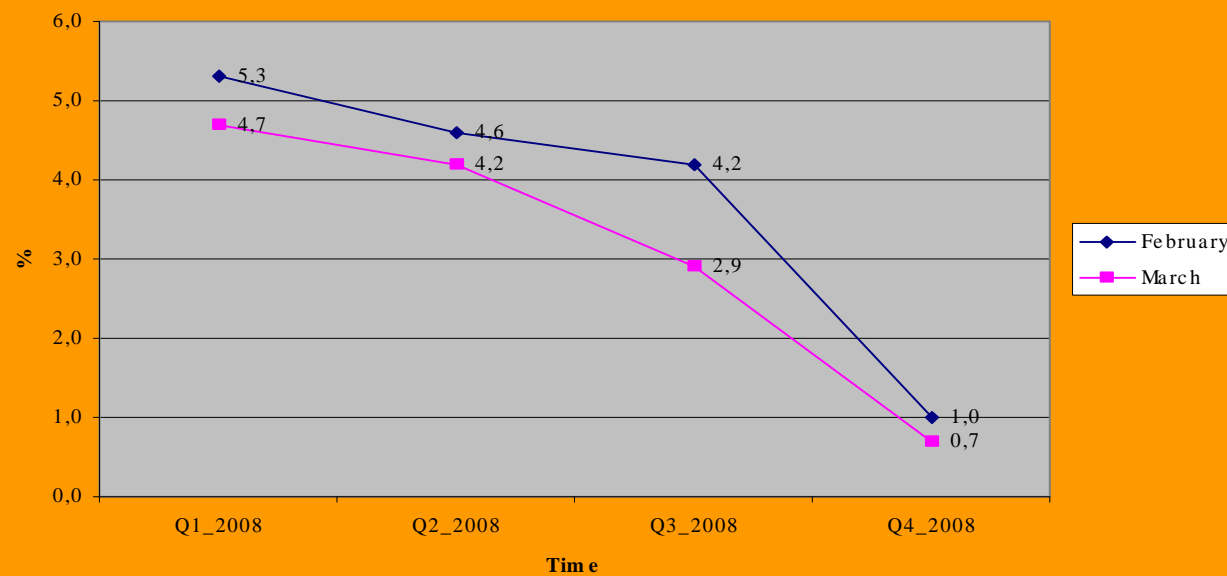
## Czech GDP Growth: Q1\_2004 - Q1\_2009





# So far, so growth ...

**GDP Growth in 2008 Estimated in February and March 2009**



# Czech GDP in 2009

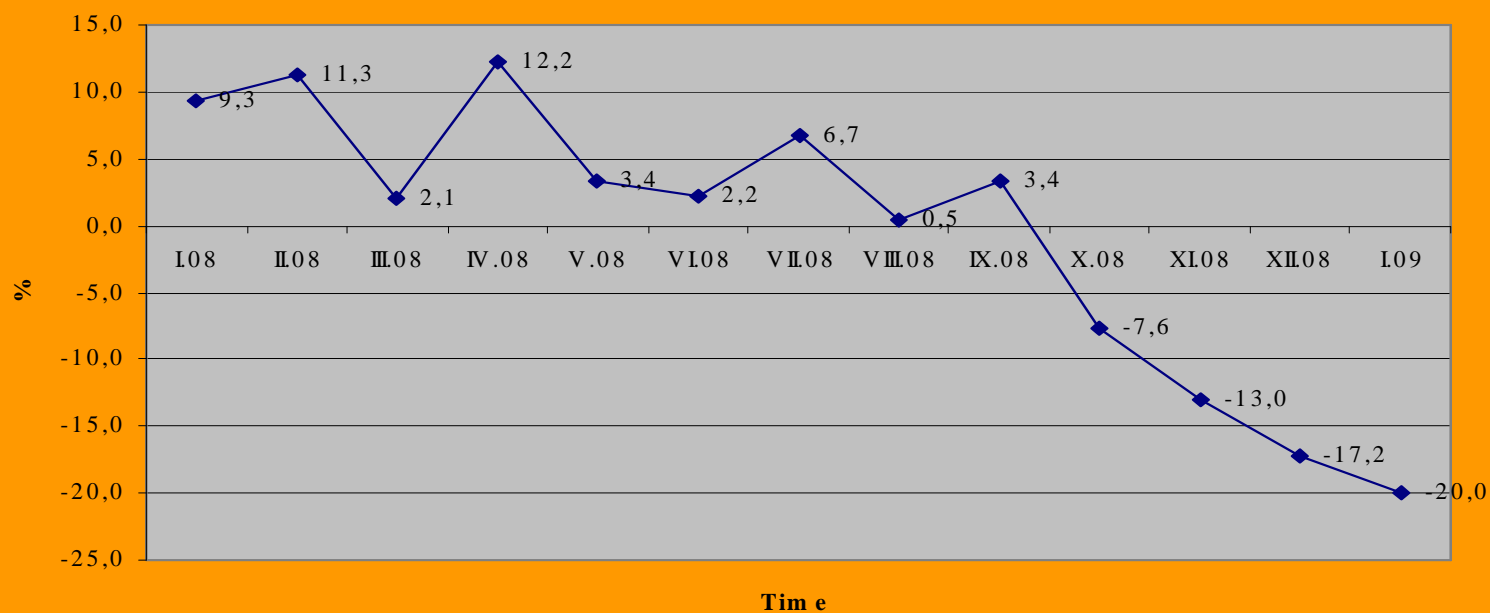
## **Forecasts of GDP growth in 2009 in the Czech Republic:**

Finance Ministry in State Budget	4.8%
Finance Ministry in March 2009	-2,0%
UniCredit Bank	-3.5%
Czech Trade Unions	-5.0%

# Our Social Europe – A New Direction for a Fair Society

## Free Fall of the Czech Industry ...

### Czech Manufacturing: January 2008 - January 2009



# Beside the real economy Czech problem is CEE !!!

- Global financial crisis moving quickly to Europe
- Problems for CEE countries started shortly after fall of Lehman Brothers when private sector refused to buy Hungarian state bonds and Hungarian government was forced to approach International public sector (IMF, EU)
- From that moment the trust of private sector to CEE failed dramatically.

# Share of Banks Credits on Primery Deposits

Podíl poskytnutých bankovních úvěrů na primárních vkladech v bankách (v %)					
ke konci roku	2003	2004	2005	2006	2007
<b>SE</b>					
<b>ČR</b>	59,7	59,8	59,8	69,8	75,4
Maďarsko	95,9	104,0	111,8	118,6	128,5
Polsko	124,9	126,4	123,8	113,8	96,3
Slovensko	50,5	53,2	67,1	72,2	76,4
Slovinsko	76,4	86,3	64,8	67,0	77,5
<b>JVE</b>					
Albánie	16,0	18,6	29,2	37,4	46,3
Bosna a H.	79,0	78,9	80,4	80,8	78,5
Bulharsko	66,3	68,3	69,8	66,6	97,7
Chorvatsko	81,9	85,6	93,0	96,5	96,4
Rumunsko	75,2	72,1	80,0	95,4	114,8
Srbsko	109,7	119,7	123,9	102,8	98,0
Kosovo	45,1	53,7	61,0	69,0	72,7
<b>SNS</b>					
Rusko	151,3	147,9	144,5	148,0	163,2
Ukrajina	112,9	108,9	107,2	134,1	152,4
Bělorusko	111,7	123,2	119,9	135,0	144,3
Kazachstán	36,3	68,9	113,9	150,4	179,9
<b>SNS</b>					
<b>eurozóna</b>	.	.	.	.	86,7

Zdroj: Raiffeisen RESEARCH

## Short-term external financing requirement (end Q2 2008, % of avg 2008e and 2009f GDP)

	CE				SEE					CIS				Baltics			
	PL	HU	CZ	SK	HR	RO	BG	RS	MK	RU	UA	BY	KZ	EE	LV	LT	TR
Short-term debt (o. mat.)	11.0	15.1	13.2	19.9	9.1	11.9	34.0	3.7	12.6	4.8	12.8	11.6	7.2	36.9	40.5	16.3	5.2
Maturing long-term debt*	5.3	11.9	3.7	4.6	10.9	4.9	8.6	7.2	5.0	2.9	4.9	1.1	9.0	9.6	10.8	7.2	3.5
<b>Short-term debt (r.mat)</b>	<b>16.2</b>	<b>27.1</b>	<b>16.9</b>	<b>24.5</b>	<b>20.0</b>	<b>16.8</b>	<b>42.6</b>	<b>10.9</b>	<b>17.6</b>	<b>7.7</b>	<b>17.6</b>	<b>12.7</b>	<b>16.1</b>	<b>46.5</b>	<b>51.3</b>	<b>23.5</b>	<b>8.7</b>
C/A deficit (avg 08e -09f)	5.6	6.5	1.8	3.7	9.6	13.7	18.4	18.2	17.2	-2.2	10.2	8.8	-2.6	9.9	15.6	13.4	6.0
<b>Financing requirement</b>	<b>21.8</b>	<b>33.6</b>	<b>18.7</b>	<b>28.2</b>	<b>29.6</b>	<b>30.5</b>	<b>61.0</b>	<b>29.1</b>	<b>34.8</b>	<b>5.5</b>	<b>27.8</b>	<b>21.4</b>	<b>13.5</b>	<b>56.4</b>	<b>66.9</b>	<b>37.0</b>	<b>14.7</b>
Gross international reserves	13.1	15.3	14.9	18.0	22.9	18.8	38.1	25.2	25.8	26.3	16.0	7.4	31.2	13.0	16.4	14.8	7.9
<b>External financing gap**</b>	<b>8.7</b>	<b>18.3</b>	<b>3.8</b>	<b>10.3</b>	<b>6.7</b>	<b>11.7</b>	<b>22.9</b>	<b>4.0</b>	<b>9.1</b>	<b>-20.8</b>	<b>11.8</b>	<b>14.0</b>	<b>-17.6</b>	<b>43.4</b>	<b>50.5</b>	<b>22.2</b>	<b>6.8</b>

\* assumption of 15% due of long-term debt in next 12-month

\*\* Financing requirements not covered by reserves; neg. sign = reserves exceed financing requirements

Source: Local central banks, wiiw, Raiffeisen RESEARCH

# BLACK SCENARIO

The Fall of one Country with Currency Board and  
Mortgages in Euro

The Wave is reaching Banks in Vienna ...

Czech Republic is Falling into Troubles as well ...

What to do?

International Assistance to any EU country in need  
(old or new member) Done by EU and IMF.