First shock: collapse in trade

Growth of Total Russian and EU Imports
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

US$ billions, quarterly

Latin America
Asia
Middle East
Europe

Sep-04 Mar-05 Sep-05 Mar-06 Sep-06 Mar-07 Sep-07 Mar-08 Sep-08 Mar-09
The same pattern occurred in this region

Bank flows to emerging Europe

- Ukraine
- Russia
- Romania
- Poland
- Moldova
- Hungary
- Bulgaria
- Belarus
- Kazakhstan
- Georgia
- Azerbaijan
- Armenia
Credit Booms and External Deficits Made Countries Vulnerable

Fund lending resumed on a large scale…

Access levels and growth declines in Fund arrangements

Percent change in real GDP 1/

Sources: WEO and staff calculations.
1/ Maximum cumulative decline in three years from program inception; projected changes for current programs.

= 100 percent of quota
…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...

Total cumulative net capital flows to EM
(proxied by net reserves – trade balance)
...as portfolio flows rebound...

Money is flowing into emerging market equity funds...

...and primary issuance is recovering strongly

Emerging Market Private Sector Gross External Issuance
(In billions of U.S. dollars)

Source: Dealogic, as of September 8, 2009.

- Latin America
- Asia
- Europe
...but recovery in bank flows may be sluggish

Cross-border bank lending stays low after crises
(Bank exposures relative to recipient GDP)

Asia (Sep 1997)
E Europe (Mar 2009)
Latin America (Dec 1983)

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

(billions of U.S. dollars)
Growth forecast (1)

Central and Eastern Europe

-10
-5
0
5
10
15
2006 2007 2008 2009 2010

Euro area
Russia
Belarus
Bulgaria
Hungary
Poland
Romania
Credit flows within Ems show signs of stabilizing.

Bank Credit to Private Sector
(6-month percent change, annualized rate)

- Latin America
- Asia excluding China
- Europe and CIS
- China
...although there has been sharp contraction in some countries.
EMs spared banking crises this time

Fiscal and Output Costs of Banking Crises
(Size of bubble = fiscal cost)

-20 -15 -10 -5 0 5 10


Tequila crisis
ERM crisis
Debt crisis
Asian crisis
Current crisis

Advanced economies
Emerging markets

Output cost

Output cost

Debt crisis
ERM crisis
Tequila crisis
Asian crisis
Current crisis
Reflecting that deposits have held up

Bank Deposits
(Sept. 08 - latest, change in percent)

Source: IFS.
1/ Adjusted for exchange rate changes.
External vulnerabilities have fallen due to sharp current account adjustments.

Current Account Balance (percent of GDP) 1/

-8 -6 -4 -2 0 2 4 6 8
Europe
Latin America
Asia
Middle East

1/ Regional averages weighted by GDP
Fiscal vulnerabilities have risen due to rising deficits (and debt)

<table>
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<th>Year</th>
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<th>Latin America</th>
<th>Asia</th>
<th>Middle East</th>
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<td>2008</td>
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</tbody>
</table>

Overall Fiscal Balance (percent of GDP) 2/
Financial vulnerabilities also on the rise

Non-Performing Loans 1/

Europe

Latin America

Middle East

Asia

1/ Unweighted regional outreach.
Thank you!