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International financial markets and fragility in the Eastern Europe: “can it happen” here?

Özlem Onaran†,


Abstract — The aim of this paper is to analyze the fragility of the New Member States and accession countries in the Central Eastern and South Eastern European countries (henceforth Eastern Europe) to the turbulences in the global economy and the changes in the direction of the international capital flows.

Keywords: Financial fragility, Post-Keynesian, current account deficit, EU enlargement

JEL-Classification: E12, G15, G32, O52

* This is an updated and extended version of the article “Speculation-led growth and fragility in Turkey: Does EU make a difference or “can it happen again”?” (in Macroeconomics and Macroeconomic Policies - Alternatives Approaches to European Policies, ed. Hein, E., A. Heise, and Truger, A., Metropolis-Verlag, Marburg, 2006, 199-226), where the focus is the whole Eastern Europe rather than Turkey. The author is grateful to Joachim Becker and Engelbert Stockhammer for fruitful discussions.

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International financial markets and fragility in the Eastern Europe:
“can it happen” here?∗

Özlem Onaran

1. Introduction

The aim of this paper is to analyze the fragility of the New Member States and accession countries in the Central Eastern and South Eastern European countries (henceforth Eastern Europe) to the turbulences in the global economy and the changes in the direction of the international capital flows. The economies of Eastern Europe have been experiencing high growth rates since mid or late 1990s after the initial transition crisis. The international financial flows, particularly FDI, have played an important role in this period. Nevertheless this process has also resulted in an increase in the current account deficits of quite many countries like Hungary, the Baltic States, Bulgaria, Romania, and Slovakia. The paper assesses the sustainability of these conditions and compares the current state of fragility with former crises in Asia and Latin America. Turkey, being a candidate country as well as a country, which has already experienced the bitter taste of financial crisis twice since 1994, will also be analysed providing an interesting basis of comparison. The paper aims at discussing the fragility in the emerging markets in the Eastern Europe and the possible evolution of the risk perceptions of both the creditors as well as the debtors in this “speculation game” based on the post-Keynesian/Minskyan concepts of endogenous expectations and financial fragility.

Although everyone would agree that the current account deficit can not increase forever, mainstream economists as well as international investors are hoping that increased investment, which could increase productivity, will guarantee a smooth adjustment of the exchange rate

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and the deficit. An important part of this optimism is due to the positive expectations about foreign direct investment (FDI) and the EU-anchor.

This paper questions this optimism: First EU-wide integration is not a project that aims at overcoming the structural bottlenecks of the Eastern European economies. The domination of neoliberal policies reduces the project of integration to the expansion of markets, and to securing the mobility of capital under stable conditions. Second can an economy, which is ruled by the rationale of profit seeking private capital flows, be stable, or is it the logic of those activities that will create a crisis sooner or later within the normal and even successful functioning of the system? The second part of the title of this paper is inspired by a similar question, which was asked by Minsky (1982) in the context of US, where he discusses the possibility of recurrence of depression. The Minskyan, and more generally the post-Keynesian theory suggest that financial markets are prone to speculation and intrinsically unstable. Stable growth phases will cause more risky investment practices, shaky financial structures, and thus boom periods will be followed by a bust. In that respect EU also does not make a difference, and even the more advanced economies themselves are not immune to crisis. This paper attempts to show that the fact that the Eastern European Countries did manage to live with their current account deficits until today, does not mean that they can do so in the future without facing a major crisis.

The giant global imbalances led by the huge US current account deficit, the possibility of a sharp slow-down in the US growth and major global turbulences in the financial markets add further dimensions to our question today. These may affect the emerging economies through the contraction in export-markets, the decrease in the risk appetite and increase in the risk perceptions of international investors, the increase in the interest rates, and the decline in the private capital flows towards relatively riskier emerging markets. Emerging economies with high current account deficits, high ratios of short-term external debt, large share of foreign denominated or foreign currency-indexed debt, weak domestic banking systems would have particular disadvantages (Goldstein, 2005). Turkey, the Baltic countries, Bulgaria, Romania, and to some extent Hungary and Slovakia unfortunately have either all or parts of these vulnerabilities. Already in 2006 May-June Hungary and Turkey took their share of the global turbulences, and in August 2007 their stability is once again being tested by the financial panic in the global markets following the crisis of the hedge-funds and risky financial instruments. At the time of writing this article, it has been a month since the break of the hedge fund crisis. How the expectations of the markets evolve after the initial panic is a different issue and beyond the scope of
this paper. The important question for us is not “when will a crisis happen?”, rather “can it happen here as well?” and the answer of this article is “yes, it can happen here”. It suffices to say that the Wall Street Journal (Lahart, 2007) during the peak days of the rediscovery of the fragility in the global markets, wrote that Minsky’s views have become suddenly very popular, because his work indeed predicts the systemic crisis.

The rest of the paper is organized as follows. Section two defines the generation of cycles of the boom and bust from a post-Keynesian perspective. Section three discusses the leading indicators of fragility in Eastern Europe. Section four presents the effects of global turbulences up till now. Section five derives the conclusions.

2. Financial fragility and boom-bust cycles

The post-Keynesian perspective of boom-bust cycles is based on the insights developed by Keynes (1936) and then later by Minsky (1982, 1986) on the systemic financial fragility and instability hypothesis. This is an analysis of the linkages between financial and real variables. Systemic financial fragility develops endogenously out of the normal functioning of the economy. If good performance persists, investors become more optimistic and are willing to hold more risky assets or accept higher levels of debt. They engage in speculative financing patterns based on short-term financing of investment projects with long time horizons. In order to be able to speculate, investors invent new forms of credit and ‘kinds of money’ (e.g. junk bonds, growth of derivatives, swaps …). Thus it is hard to prevent speculation, because the means of financing speculation will change, and money is endogenously generated. This makes the firms vulnerable to credit availability and interest rate shocks, which leads to financial instability. A speculative growth pattern emerges in this process, where the payments of a firm may be larger than its expected income, and the difference can only be met by rolling over debt. In time, when there is a negative shock, and expectations evolve in a pessimistic direction, this fragility leads to a crisis through credit crunch, debt crisis, and bankruptcies. Skott (1995) develops a formal model of Minskyan cycle of boom and bust based on the endogenous development of “fragility and tranquillity.”

Endogenously evolving expectations play an important role in the formation of the financial fragility and the boom-bust cycles. Expectations are formed under fundamental uncertainty about the return/risk profiles of investment. Therefore, rational agents are influenced by conventional wisdom. Keynes himself argued that speculation on the stock markets is like betting on a beauty contest: You
try to predict what the majority of people will think. Everyone is trying to
guess what everyone else will guess. Thus it’s about investor sentiment,
not fundamentals. Conventional wisdom is not only expectations induced
but also competition coerced (Crotty 1993). Competitive pressures
among firms or fund managers push them to take similar risks, even
when they would rather be more conservative.

A speculative frenzy leads to evolving boom-euphoric expectations,
increasing the risk appetite of the investors. Thus conventional wisdom is
not static. Evaluations about what is reasonable change. Expectations are
mutually validated by the actions of market participants, which lead to a
self-propelling adventurism and financial fragility during good times. As
expectations of profits are realized over time, they become more
optimistic and more self-confident in reducing safety margins.

The fragility of the system is an outcome of the “success” of the system.
Sooner or later when there is a shock to the system, the built in financial
fragility leads ultimately to a crisis, and lower rates of real sector growth.
But the length and depth of both the boom and bust phases are variant,
and not deterministic. It depends on not only the size of the vulnerability
and the shock, but also on the evolution of expectations.

After crash and crisis, the investors will be cautious again for a while, but
eventually after long enough a time has passed, competitive pressures
and new search for profitable investment will start a new endogenous
cycle of stability, to be followed by instability. The ultimate conclusion
of the financial fragility hypothesis is that capitalist market economies
cannot lead to stable full employment equilibrium.

Capital account opening adds exchange rate risks to the financial fragility
generated by domestic financial liberalization. International financial
liberalization and capital inflows generate a fragile, foreign debt-
dependent, speculative growth pattern. In addition to cash flow and
maturity imbalances of the closed economy, another factor that adds to
fragility is exchange rate mismatches in the cash inflows and outflows of
the indebted countries. As capital inflows generate growth in a country,
boom euphoric expectations, conventional wisdom, and competitive
international pressures lead to further capital inflows, which in turn cause
the appreciation of the local currency and foreign trade deficit. As
currency appreciation increases and current account deficits and foreign
debt problems pile up, a shock in the neighbour country, in the world

1 See Arestis/Glickman (2002), Schroeder (2002), Foley (2003), Dymski
(1999), and Kregel (1998) for a Minskyan analysis of the 1997 Asian
crisis.
economy or in the domestic political or economic system sparks a shift in the conventional wisdom towards pessimism and leads to the reversal of capital flows. In the end an expected depreciation becomes a self-fulfilling prophecy. The resulting debt problem becomes magnified by economic recession and depreciation.

3. “Can it happen” here?

In this section we compare the values of some commonly accepted, major leading indicators of fragility and crisis\(^2\) for the Eastern Europe as of 2006 and 2007 (first quarter) with the values of the same indicators in ten Asian and Latin American countries before their crisis year (Turkey in 1993 and 2000, Mexico in 1994, Indonesia, Thailand, and Korea in 1996, Malaysia and the Philippines in 1997, Brazil in 1998, Argentina in 2000). The indicators that are discussed below are current account deficit as a ratio to GDP as well as international foreign exchange reserves, short term foreign debt as a ratio to total debt and international foreign exchange reserves, and appreciation rate of domestic currency. The comparison shows at times how close some Eastern European countries are to the ‘red zone’, but they also show that agents’ evaluation of risks do not follow a pre-determined rule of thumb.

Figure 1 shows the current account deficit as a ratio to GDP in the Eastern European Countries. The values of the current account deficit/GDP ratio before the crisis in ten other cases of crisis in Asian and Latin American countries are also shown in the graph on the left hand side. With their current account deficits the Eastern European countries are the exceptions among the emerging economies, along with South Africa\(^3\). Estonia, Latvia, Lithuania, Bulgaria, and Romania have record high deficit ratios. Although all of these ratios are beyond what can be perceived as sustainable, the case of Latvia is a record among the records with a ratio of 19.5%. The hard peg in these countries (except for Romania) resulted in high current account deficits (Becker, 2007). Croatia is also among the rather high deficit countries. Hungary had until 2007 a high deficit (6.9% in 2005 and 5.8% in 2006), which is estimated to come down to 4.6% in 2007\(^4\). Although the decline is certainly

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\(^2\) See Goldstein (2005) and Goldstein et al. (2000).

\(^3\) South Africa is expected to have a current account deficit/GDP ratio of 6.2% in 2007 (www.economist.com/indicators). Mexico and India are expected to have minor deficits (1.0% and 1.4% respectively).

perceived as a good signal for the markets, the ratio is nevertheless still high. Slovakia had also suffered from increasing current account deficit up to 8.3% in 2006, and a fall down to 4.7% is estimated (WIIW, 2007). Nevertheless these are still high numbers, compared to many of the previous pre-crisis levels. A rise is expected in the Czech Republic towards a level of 4.3% (WIIW, 2007). Finally Turkey has been experiencing high deficits since 2004, and in spite of a minor improvement the ratio is not expected to fall below 6%5. Indeed this deficit ratio is much higher than the same ratios in Turkey before the crises of both 1994 (3.6% in 1993) and 2001 (4.9% in 2000).

While the ratio of the current account deficit to GDP compares the deficit with the size of the economy, the ratio of the current account deficit to foreign exchange reserves of the Central Bank (see Figure 2) gives an idea about the ability of the country to finance capital outflow in case of a reversal in the direction of the international flows. According to this ratio the picture looks a little better, but not fundamentally different for the Baltic countries, Bulgaria, and Romania. Estonia and Latvia have the highest rates, going beyond any historical record.

In terms of the foreign debt related risk indicators, the turn-over risk, i.e. the ratio of short term foreign debt in total foreign debt, which can be seen in Figure 3, is highest in Slovakia followed by Latvia and the other Baltic States, Bulgaria, Romania. Even the Czech Republic is playing in this risky league according to the turn-over risk. All these ratios are well above the nine former cases of crises and close to the highest ratio that Thailand had experienced before the crisis. The prospects are not much better in the case of the ratio of short-term foreign debt to foreign exchange reserves6 (see Figure 4); the ratio is rather high in the Baltic States and Slovakia. Bulgaria comes next, approaching the ‘red zone’ of 100% (89.5%). Moreover it is also important, which agents in the economy are indebted. In these highly euroized economies of the East, private firms and households are expected to receive significant negative shocks in case of a sharp depreciation (see Becker, 2007) with important spill-over effects to demand and production.

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5WIIW (2007) estimate is 6.9%, and the Economist estimates (www.economist.com/indicators) 6.2%.
6 This indicates the hardship of the country to finance its short-term debt with its reserves.
Figure 5 shows the developments in the real appreciation of the exchange rate (trade weighted effective) as of 2007 July compared to 2004\(^7\). An overvalued currency increases the expectations for a correction, since the sustainability of the current account deficit becomes more and more suspicious. Goldstein et al. (2000) argue that real exchange rate overvaluation is one of the best performing leading indicators of a crisis. The appreciation in the real exchange rate is alarming in Romania (33.8%), and Slovakia is also approaching the alarm zone with 17.3%. Turkey, in spite of the strong depreciation during 2006 May-June turbulences, has experienced a strong appreciation once again due to capital inflows in 2007. In the other countries appreciation rates during 2007 July-2004 December ranged between 10% in Latvia, 9% in Bulgaria, and 6-7% in Estonia, Hungary, Poland, and the Czech Republic. However, in terms of the cumulative appreciation rates during 1995-2007, all countries other than Poland have experienced a major appreciation already.

The relevant question is whether these indicators are above the critical values that would be an invitation to crisis. In 2001 Dornbusch (2001, cited in Uygur 2001) had argued that the red region of crisis begins with 25% real appreciation and 4% current account deficit/GDP ratio. However we know that the critical rates can differ significantly depending on the conditions: for example 4.4% of real appreciation had been enough in the Korean case under the contagion effect.

In the case of Eastern Europe conventional wisdom in the market about what is risky seems to have changed. One important basis for the re-evaluation of the rule of thumbs is due to the contribution of imputed foreign profits to the current account deficit. As the foreign investors make profits, this is imputed as debit in the current account of the Eastern European countries. Therefore Brada and Tomsik (2003) argue that the old rule of thumb of 5% current account deficit as a ratio to GDP being risky is not valid in this case. Although the argument makes sense, and markets indeed have apparently valued that fact, the question is then how high a current account deficit will be alarming? Regarding the appreciation of the currency a similar optimism about redefining more tolerant critical values also apply. Here the argument is that in emerging markets, in particular the transition economies the appreciation of the currency is a natural catching up phenomenon (Balassa-Samuelson effect). However, would the markets care much if a couple of unlucky

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\(^7\) Slovenia has already made its way to the Euro zone, therefore it is not included in this figure.
events (like the global financial troubles) and a few of the not so favourable ratios coincide at a certain point in time?

Another important reason about the tolerance of the markets is the FDI optimism, which is forming an important part of capital inflows in these countries (Mencinger, 2007), and thereby financing the current account though the so-called safe means. In the case of Turkey this is also a point in which the FDI optimists expect that EU could make a positive impact on the dependency of Turkey on short-term capital flows until recently. Turkey has been attracting significant amount of FDI inflows particularly since 2006. The EU anchor, which guarantees the stability of the political regime, property rights, and the markets, is expected to keep FDI going. However, FDI inflow can also be interrupted when the country faces a severe crisis, or firms can even relocate. Moreover, other long-term problems in the absence of a systematic industrial policy remain to be valid, such as increased import dependency, which may generate further current account deficits. Mencinger (2003) reports that multinational enterprises contributed more to imports than to exports, and the spillovers from single firms to the sector does not seem to be relevant, which leads to a dual economy with significant productivity differentials. Another issue regarding the effects of FDI is the repatriated profits. After a certain phase, foreign investors start harvesting the fruits of their investments and transfer their profits back home, which may make the financing of the current account more problematic. The opportunities of the multinationals to invest in developing countries with even cheaper labor may further deter reinvesting profits in the initial affiliate (Mencinger, 2007).

In addition to FDI optimism, till now an important mechanism behind the changing perceptions of risk is the EU anchor. EU is a guarantee that the country will stick to liberal policies, fiscal discipline, and will avoid capital controls, which all secure the mobility of capital flight as well as the funds to finance debt payments. But ironically this anchor based on the integration to the EU economic zone creates another source of fragility. First more optimism and capital inflow leads to risky debt behaviour as well as the appreciation of the currency. Second these countries try to avoid depreciation because of preparing for the entry to the monetary union. But given the productivity and inflation differentials, this process invites real appreciation. Until now the Baltic countries had

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8 In the case of Turkey the anchor is the accession process and FDI inflows, although membership is a far future prospect full of uncertainties.
seen the Euro as an exit strategy (Becker, 2007), but since their entry to the Monetary union is delayed, they may face the market pressures to obliged a more bitter exit like Argentina had to do. However even if they achieve what they were hoping for, i.e. adopt the Euro without a major accident on the way, this time they will nevertheless experience the adverse effects of being an insider with huge productivity differentials with respect to the core countries. This has been the story of other peripheral countries like Spain, Greece, Portugal, and even Italy.

The Economist (2007a:29) resembles the situation of the ten East European member states of the EU to inexperienced drivers on a “smooth road in fine weather” and warns: “if the road gets slippery, bad brakes and bald tyres make a crash, even a pile-up horribly likely.” Latvia’s situation attracts particular attention. If Latvia has to abandon the hard peg the likeliest route for contagion will be Estonia, says the Economist (2007a:29) and adds to its list: “The other early candidate for a crash has long been Hungary.” Naturally Turkey has always been a part of this list of fragile countries (Onaran, 2007).

To sum up until very recently the investors’ risk appetite had seemed not to be disturbed only marginally by these ratios. But the question is for how long? The answer depends on recent history, and how recently and how badly investors were punished by volatility in the returns, and how long the recent boom has been continuing (Grabel 1995). A dealer cannot afford to be conservative for a long time, since no one can be sure when the accumulated fragility will lead to a crisis. He/she has to follow the conventional wisdom and try to invest the funds as profitable as the other dealers, if he/she wants to keep his/her job. However shocks that are not necessarily intrinsic to these economies may play an unpleasant role. Thus the developments depend a lot on how the issue of the US current account deficit and the fragilities regarding the hedge funds will be solved. Below we will discuss this issue in more detail.

4. Global Turbulences

In the global financial markets all these problems were seen much less relevant until May-June 2006, when the optimism in the East and elsewhere in the emerging markets was affected by the global turbulences in the world economy. This was a response to the rise in the interest rates in the US, and resulted in a massive flee of international investors out of the emerging markets. At the time the flight of international financial investors out of the emerging markets was explained mostly by the fear that rising interest rates and the slowdown in the US economy might ultimately upset the delicate harmony of the
global economy. Turkey, Hungary along with Brazil and South Africa were among the emerging markets, which were hit most severely. Poland and Slovakia were also affected slightly.

The May-June 2006 turbulences were short-lived and the investors soon started to enjoy the low asset prices even in the riskiest markets like Turkey after the initial panic. Aggressive risky investment behaviour looked for reasons to explain why the mechanism will not break down; the coercive competitive pressures led the conventional wisdom to shift again towards buoyancy (Onaran, 2007). Indeed it was defined as “a bit of profit-taking” and “a drama not a crisis” by The Economist (2006: 74). A kind of a consensus emerged that there is only real reason to worry if one believes that the world is going into a global recession and at that time this was a possibility that the market professionals have to rule out in order not to shift to overly conservative investment practices too early in time. Because that would then make them deliver lower profits to their customers compared to their competitor dealers, who have a higher risk appetite (Onaran, 2007).

However, soon other dark sides of the global financial markets emerged. In the past years “the absence of severe recessions or abrupt shifts in monetary policy had made investors more confident, and thus more willing to borrow” says the Economist (The Economist, 2007b: 59), almost reminding us of Minsky. This process brought together the invention of new risky financial instruments. Banks could bundle together risky assets with changing degrees of risk levels. That sounded good in theory. In the meantime hedge funds have relied on cheap credit to fund their risky investment across the globe as well as the huge takeovers and leveraged buyouts. Then in 2007 February the bad news from the US, in particular the subprime mortgage markets (loans to people without income and job assets) shook the markets for assets backed by these loans, but then the markets stopped worrying again (Dillow, 2007). On July 10 the chief executive of Citigroup had said: “when the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance” (in Elliott, 2007). Two weeks later the music stopped –apparently sooner than what Citigroup expected. As the defaults in the subprime markets (loans to people without income and job assets) have been much higher than expected, and as the riskiest mortgage backed securities’ prices have fallen, some hedge funds experienced serious problems of liquidity. Indeed the market for such securities had become suddenly very illiquid.

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9 See Onaran (2007) for a review of the business press at the time.
The markets started to realize that the global economy is in a credit crunch territory, where banks either reduce the amount they are willing to lend or make that lending so expensive that it deters borrowing (Elliott, 2007). But this will be big problem for some hedge funds. Furthermore banks themselves have vulnerabilities (The Economist, 2007c: 60): “Wall Streets five big investment banks have piled potentially illiquid risky assets…. Several European Banks and insurers are rumoured to be sitting on mortgage bombs-troubled assets linked to America’s subprime mess”. The Banks’ link to the hedge funds within their own group to which they may also have to supply rescue capital is a second source of vulnerability. As the risks of a credit crunch grew, the Central Banks have injected massive amounts of liquidity to the markets after July 26, but this did not calm down the financial investors; instead they thought “the ECB is bailing out banks – things must have been even worse than we knew” (Dillow, 2007).

The further implications for Eastern Europe are yet to be seen as the global markets go through shrinkage in liquidity. The result also depends on whether this process will be just a healthy “credit squeeze” (The Economist, 2007d: 9) or lead to a deeper crisis. Peripheral countries seem not to be affected more than the centre in the first month. Nevertheless there has been some turbulence in the financial markets in the Eastern Europe again: In the four weeks between July 25-August 22 the Turkish Lira depreciated by 6%, and the stock market index fell by 14.5%. The situation in Hungary was similar: a 5.7% depreciation of the Forint, and a 10.3% decline in the stock market. The Polish Zloty was not affected much, but the stock market fell by 9.7%. The Romanian and the Baltic Stock Market Indices also fell by 6.8% and 6.7% respectively. Overall the emerging markets share prices index fell 11.5%. As there are no safer heavens to go now, some Eastern European countries may remain stable. However some others like Turkey or the Baltic States may not be that lucky.

5. Conclusion

If the conventional wisdom of the markets shifts from optimism to pessimism, can the EU-anchor help Eastern Europe? Simply ignoring the possibility of a massive capital outflow, which will trigger deeper real effects in the future, seems to be gambling in policy making. This behaviour is like ignoring a gas leakage in your house, and choosing a “wait and see” strategy, rather than trying to fix the leakage (Onaran, 2007).

Sound policy requires taking the global turbulences and their consequences seriously and considering them as cases in defence of
financial regulation and international capital controls. Financial regulation along with industrial policy is the only long-run policy alternative to prevent financial fragility and the potential causes of a future crisis.

So the question is what makes this so obvious fact be ignored by the domestic policy makers and international organizations. The obvious measures like capital controls are not in the interest of the national and international capital that they are representing. Investors have to follow the short-term profit seeking motive and find innovative ways of making more profits without borders, even if they are risky.

The policy lesson of this analysis is that markets can not prevent systemic risk, but only postpone it and make it bigger. There is need for a democratic, but yet regulatory intervention to make the economy meet the needs of the people. Only then we can talk of a European enlargement project that can make a difference.
Figure 1: Current Account Deficit in relation to GDP (in %), 2007* for Europe and crisis years of others

Current Account Deficit/GDP (%)  
2007* for Europe & Crisis years for others

I: Indonesia 96, K: Korea 96, M: Malaysia 97; P: Philippines 97; Th: Thailand 96; A: Argentina 00, B: Brazil 98; Me: Mexico 94; Tur93 and Tur00: Turkey 93 & 00

Tur: Turkey; Cz: Czech Republic; Hun: Hungary; Pol: Poland; Sk: Slovakia; Sl: Slovenia; Est: Estonia; Lat: Latvia; Lit: Lithuania; Bul: Bulgaria; Rom: Romania

Source: WIIW estimations for Europe and for the other countries own calculations based on Economic Intelligence Unit Online Database (EIU).
**Figure 2: Current Account Deficit in relation to FX Reserves (in %), 2007-March for Europe and crisis years of others**

![Current Account Deficit/FX Reserves (%)
2007-I for Europe & Crisis years for others](chart.png)

Mexico 94 not in graph: -472.5
I: Indonesia 96, K: Korea 96, M: Malaysia 97, P: Philippines 97, Th: Thailand 96, A: Argentina 00, B: Brazil 98, M: Mexico 94, Tur93 & Tur 00: Turkey 93 and 00.

Tur: Turkey; Cz: Czech Republic; Hun: Hungary; Pol: Poland; Sk: Slovakia; Sl: Slovenia; Est: Estonia; Lat: Latvia; Lit: Lithuania; Bul: Bulgaria; Rom: Romania.

Source: Own calculations based on Economic Intelligence Unit Online Database (EIU).
Figure 3: Short-term Foreign Debt in relation to total Foreign Debt Stock (in %), 2006 for Europe and crisis years for others

I: Indonesia 96, K: Korea 96, M: Malaysia 97, P: Philippines 97, Th: Thailand 96, A: Argentina 00, B: Brazil 98, M: Mexico 94, Tur 93 & Tur 00: Turkey 93 and 00.

Tur: Turkey; Cz: Czech Republic; Hun: Hungary; Pol: Poland; Sk: Slovakia; Sl: Slovenia; Est: Estonia; Lat: Latvia; Lit: Lithuania; Bul: Bulgaria; Rom: Romania

Source: Own calculations based on Economic Intelligence Unit Online Database (EIU)
Figure 4: Short-term Foreign debt Stock in relation to FX Reserves (%), 2006 for Europe and crisis years for others

Short-term Foreign Debt Stock/FX Reserves (%)
2006 for Europe & Crisis years for others

Mexico 94 not in graph: 626%
I: Indonesia 96, K: Korea 96, M: Malaysia 97, P: Philippines 97, Th: Thailand 96, A: Argentina 00, B: Brazil 98, M: Mexico 94, Tur93 & Tur 00: Turkey 93 and 00.
Tur: Turkey; Cz: Czech Republic; Hun: Hungary; Pol: Poland; Sk: Slovakia; Sl: Slovenia; Est: Estonia; Lat: Latvia; Lit: Lithuania; Bul: Bulgaria; Rom: Romania
Source: Own calculations based on Economic Intelligence Unit Online Database(EIU).
Figure 5: Appreciation of the real exchange rate (trade-weighted basket, in %), 2007 July-2004 December for Europe and 24 month before crisis for others

Tur

Cz Hun Pol

Sk

Est Lat

Bul

Rom

P Th

Ma Ma

Tur90

I: Indonesia 96, K: Korea 96, M: Malaysia 97, P: Philippines 97, Th: Thailand 96, A: Argentina 00, B: Brazil 98, M: Mexico 94, Tur93 & Tur00: Turkey 93 and 00.

Tur: Turkey; Cz: Czech Republic; Hun: Hungary; Pol: Poland; Sk: Slovakia; Sl: Slovenia; Est: Estonia; Lat: Latvia; Lit: Lithuania; Bul: Bulgaria; Rom: Romania

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