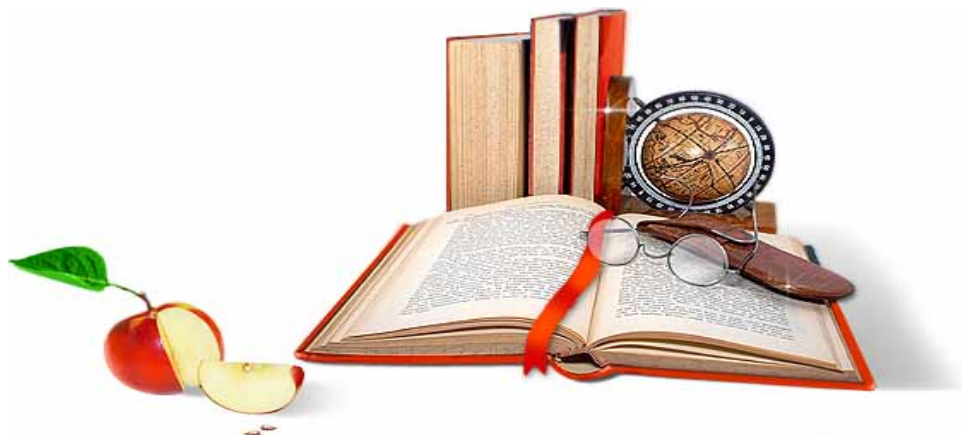


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THE IMPACT OF THE ECONOMIC CRISIS ON THE COUNTRIES IN TRANSITION - MEMBERS OF THE EU

Abstract

By 2009 two decades will have passed since the fall of the Berlin wall and the beginning of the transition of ex-socialist countries. For the majority of these countries transitional walk through pains was not easy, but in 2004 and in 2007 some of the most successful countries became members of the European Union. This is the confirmation that these countries have managed to adjust to the requirements and criteria of the European Union in a fairly short period of time. "Over night", joining the EU has considerably improved the standard for the majority of citizens of these new member states. Celebration and exhilaration due to the fact that they belong to the union of European democratic people has decreased a little when they realized that membership in the EU, apart from significant advantages, implies considerable renunciations.

Foreign investments brought different rules of conduct. In a short period of time transition has contributed to sharp polarization between a small number of immensely rich and extremely powerful individuals and a great number of pauperized citizens, who worked hard to keep their jobs and decent salaries. Transitional laid-offs who stayed out of former positions and workplaces found themselves in extremely bad situation. Over the years, the dynamic development of these countries had been weakening, and the employees' discontent had been getting louder.

The global and severe economic crisis will probably strike this group of countries gravely, which is predictable, seeing that foreign investments in these countries had the key role in stimulating the total economic development. Since developed countries are facing serious crisis as well, it is certain that foreign capital inflow will significantly decrease in the next few years. Moreover, due to the policy to preserve jobs, the companies from the developed countries will be closing their branches in other states first. The fact that these countries are going through the crisis is supported by the requests from IMF and the World Bank for relief funds, which are, for instance, in case of Hungary incredible 24 billion dollars.

Due to the fact that Serbia is in a similar position, and that it is serious about applying for the membership in the European Union, this paper will analyze the most important aspects of these countries' previous development, the effects of the current economic crisis and measures suggested for overcoming it efficiently.

KEY WORDS: crisis, transition, effects of development, forecast

INTRODUCTION

Ten ex-socialist countries became members of the European Union on May 1, 2004 and on January 1, 2007. In about fifteen years they have more or less successfully gone through the thorny path of transition. To overcome transitional crisis, to provide macroeconomic stability and to execute major structural reforms was a demanding task, having in mind that these countries had been creating a rigid bureaucracy of the state's socialism, in which there were not market institutions which function in the countries within the European Union.

Have these countries succeeded? Two years ago, the answer of the majority of these states would certainly have been affirmative, considering that they have achieved their most important goal,

defined as the entrance into the European Union. The analysis of the most important developmental performances of these ten countries¹ confirmed that the point is in the economies which realize very dynamic economic development based on foreign capital and very rapid export growth. This obvious advantage in the period of boom became a restraint in the economic development with the emergence of the financial crisis, which is the reason why most of these countries faced the negative effects of the current economic crisis rapidly and dramatically.

Euphoria of millions of people from Central and Eastern Europe about a better life after entering the European Union has partially worn off even before the beginning of the present economic crisis. New market rules were merciless. European dream came true for the small number of the rich, while the majority had to work very hard. The economic crisis has led to the loss of thousands of work places, which opened up a new and more disagreeable front for millions of workers from these countries.

Present estimates on the gravity of the crisis and its duration are highly discordant. However, almost everybody agrees that it will severely, if not mostly, affect no other than Central and Eastern European countries. Having this in mind, in this paper we will try to assess the (negative) impact of the financial crisis on the development of the ten countries in transition that are members of the European Union today. At the same time, the measures undertaken for its faster overcoming will be analyzed in detail as well. The paper consists of three parts. The first one estimates the effects of the global financial crisis, the second one examines its impact on the development of the ten countries in transition, which are members of the EU (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia), whereas the third part will thoroughly analyze the global measures to surmount it, with special reference to the action plan enacted at the London Summit in April this year by the group of 19 most developed countries of the world and the EU, known as the G-20.

GLOBAL RECESSION – CAUSES AND EFFECTS

The current economic crisis emerged in the USA first, and then it spread very quickly on the rest of the world. The power and the deepness of the crisis are much greater than they were assessed at the beginning. Many people think that this is the severest crisis that struck the world since the Great Depression of the 1930s. Initially, the crisis hit the mortgage market in the United States of America. It happened as a result of erroneous judgement of creditworthiness of the American people². Functional mechanism of a mortgage market was quite simple. A great number of American citizens not having apartment of their own and not being financially capable to buy it, easily got into bank debts and took, as it seemed to them, favourable housing loans. The guarantee for the loan was an apartment or a house they intended to buy. Credit crunch was relatively low at the beginning of payments, but it gradually started to increase. At the beginning, the planned mechanism functioned well, since even the citizens with poor income bought houses and apartments, while banks and hedge funds gained enormous profits. It seemed that everybody got benefit. As a result of a growing demand, numerous funds offering more and more houses and apartments appeared with their solvency never being controlled. Real-estate market flourished. At the same time, share prices of hedge funds were rocketing on the secondary market. In contemporary globalized world, shares of these funds and banks were bought in abundance around the world. This happened because of huge profits from the shares of these funds and apparently naïve trust in the power and vitality of the American economy and the responsibility of financial institutions of the US. This is why the whole world is pulled in the crisis which should have been solely American.

¹ Savic Lj. Collapse of the serbian industrialization – message for the future, (2007). International conference „Contemporary Challenges of Theory and Practice in Economics“ – Economic Policy and the Development of Serbia, the Faculty of Economics, Belgrade, pp. 169-179.

² In his short historical review of crisis, Fernando Lopez D’Alexandro refers to famous attitudes of Paul M. Sweezy, who explained the mechanism to manipulate financial instruments. These instruments create speculative non-existent money, which ultimately led to the burst of the overblown financial bubble. http://www.balkanmagazin.net/kolumna/novosti_i_politika/ekonomska_kriza_u_sjedinjenim_drzavama.shtml

First signals of the crisis appeared in 2007. At that time, only small number of people understood what might happen in just a year. One of the rare who foresaw the crisis quite well was Marks Ote³, a prominent German economy professor. Neither did American economy possess the planned strength and vitality, nor were the mortgage loans so favourable. It turned out very quickly that a great number of clients were unable to return the loans they requested. At the beginning, the funds were not alarmed, because they believed that by selling mortgage, that is houses and apartments, they will easily be able to cover the losses that occurred. The problem escalated when 9 million people failed to return their loans, which resulted in the same number of houses and apartments appearing on the market and facing poor demand. Investment funds generally went bankrupt. The government of the United States made an attempt to save the biggest players on the mortgage market by purchasing uncollectable claims and contaminated securities. Thus, the state became the owner of a partial capital of collapsing funds and banks, which did not halt the crisis. With the mortgage crisis, the confidence crisis in total financial system of the United States was increasing as well. First, the prices of the mortgage shares plummeted, because, practically overnight, big players around the world wanted to free themselves from the “papers” which were rapidly losing their value. The ebb on the mortgage market led to liquidity crisis in the entire financial system, which is why share prices on the stock markets throughout the US started to plunge dramatically. Due to the losses that major banks and individuals from the EU, Japan, Russia and China suffered, the crisis spread very rapidly on the whole world. Leading indices on the stock exchange all over the world were falling daily.

Owing to general uncertainty, contractions of financial resources and losses which appeared on the mortgage and financial market, the economic crisis reduced the level of international trade and direct foreign investments very quickly. This led to difficulties in business and later to the bankruptcy of major world banks⁴, investment funds and insurance companies. Although drastic measures were taken to control it, the crisis expanded from the financial to the real economic sector. Initially, it struck car industry and then it spread to almost all fields. According to the current situation, out of three big world car producers with their headquarters in Detroit, it seems that only Ford will overcome the present economic crisis. General Motors⁵ announced its bankruptcy just as Chrysler did recently. American government repurchased 60 % of bonds whereas Canadian repurchased 12.5 %, giving General Motors a second chance to survive. This 100-year-old car manufacturer dismissed 21 thousand employees and ended its cooperation with 2600 dealers. Total GM debt stands at 173 billion dollars and the assets of the company are estimated at roughly 82 billion dollars. According to the state administration, the nationalization of GM is temporary and the US government intends to resell its share to the company, when GM becomes profitable. To all appearances, this will not happen soon, since the first financial injection weighing 20 billion dollars obviously lacked the outcomes expected. New reorganization plan anticipates investment of additional 30 billion dollars from the US government and 9.5 billion dollars from the Canadian government.

After the period of prosperity in the last decade, the world faced the slowdown of GDP growth and industrial production in the last quarter in 2008, owing to the economic crisis. The downfall of the world economy has continued in 2009 as well, and it is probable that the recession will possibly extend into 2010. According to the assessments of the European Commission⁶, world GDP will fall by 1.4 % in 2009, whereas the experts of this institution predict recovery, that is, the rise in world GDP by 1.9% in 2010. Prognoses of the International Monetary Fund are similar to the prognoses of the European Commission, with the IMF's⁷ prediction of fall in the world output by 1.3 % in 2009, and also rise by 1.9% in 2010. Several times estimates of the EBRD on the fluctuation of the GDP in 2009 within 30 countries this bank cooperates with went under considerable changes. Chief Economist

³ Ote M. (2009), Slom dolazi, Romanov, Banja Luka

⁴ Lehman Brothers was the first of three major banks that went bankrupt. The American government nationalized the biggest insurance company in the world, AIG and two biggest mortgage institutions, Fannie Mae i Freddie Mac.

⁵ <http://www.capital.ba/bankrotstvo-gm-dovodi-drzavu-na-kormilo-kompanije/> (Accessed 03.6.2009)

⁶ European Commission, Economic Forecast, Spring 2009, p. 11

⁷ IMF(2009), World Economic Outlook, Crisis and Recovery, April 2009, p.10

EBRD Erik Berglof⁸ predicted the rise by 2.5% in November 2008 first. In January 2009, growth rate decreased by 0.1%, whereas Berglof foresaw the fall by 2.4% in spring 2009.

Table 1 International environment – real GDP growth

	Real annual percentage change			Spring 2009 forecast		
	2005	2006	2007	2008	2009	2010
USA	2.9	2.8	2.0	1.1	-2.9	0.9
Japan	1.9	2.0	2.4	-0.7	-5.3	0.1
Asia (excl. Japan)	8.3	9.1	9.7	6.9	3.3	5.6
of which China	10.4	11.7	13.0	9.0	6.1	7.8
CIS	6.7	8.4	8.5	5.6	-3.8	1.4
of which Russia	6.4	7.7	8.1	5.6	-3.8	1.4
Latin America	4.6	5.4	5.6	4.2	-1.6	1.6
Sub-Saharan Africa	5.6	6.5	6.6	5.2	2.5	3.5
World	4.5	5.1	5.1	3.1	-1.4	1.9

Source: European Commission, *Economic Forecast, Spring 2009*, p. 11

According to the European Commission Forecast, the greatest GDP fall in 2009 will be noted by Japan (negative rate in 2008 at 0.7 %), while the greatest GDP growth rate will be realized by China, although the rate will be lower by a third with respect to decennial average. As reported by the European Commission, beside Asia (excluding Japan) positive GDP growth rate in 2009 will have Sub-Saharan Africa, while all other countries and regions are predicted to have more or less negative GDP growth rate. The European Commission forecast identical GDP fall rate by 3.8% for Southeastern Europe and Russia, whereas the fall by 2.9% is supposed to stand for the US. GDP fall expected in the European Union will stand at 4%, while within the euro zone, they expect a reduced fall, which is 2%.

Within five biggest countries of the European Union, the greatest GDP fall by 5.5% is predicted to strike Germany; negative GDP growth rate from 4% to 4.5% will hit Italy and Great Britain, whereas France and Spain will probably face somewhat less GDP fall by 3%. It is assumed that four of five biggest countries of the EU will recover in 2010, with Spain still expected to deal with the negative GDP growth rate at 1% in 2010.

European Commission 2009 Annual Report predicts the surprising 12.5% fall in export and the 10.5% fall in total investments. It is expected that the employment rate will decrease by 2.5%, which means that 8.5 million people across the EU will lose their jobs. Although the recovery of the economic growth is predicted for 2010, it is likeable that total employment will decrease further by 1.5%. After explicit and long tendency to reduce unemployment rate in the EU, the rate is expected to rise this year and the following year. The unemployment rate in 2010 will be in double figures, that is, 10.9%, while the countries of the euro zone are expected to reach 11.5%. The biggest unemployment increase will face Estonia, Ireland, Lithuania, Latvia and Spain.

Owing to recession and contraction of the economic activities, the inflation rate is expected to fall on the EU level and it will be only 0.9% in 2009. On the contrary, the inflation rate in the Baltic states and in Bulgaria will double. As a response to the rising economic crisis, the European Union has prepared a very ambitious plan (European Economic Recovery Plan) for increasing the state spending and public investments, aiming at faster economic recovery and job preservation. In 2009, this will raise the deficit of the state budget in the countries of the EU to surprising 6% of the GDP, which is a remarkable increase in comparison to 2.8% in 2008.

Table 2 Main features of the spring 2009 forecast – EU

	Real annual percentage change			Spring 2009 forecast		
	2005	2006	2007	2008	2009	2010
GDP	2.0	3.1	2.9	0.9	-4.0	-0.1
Investment	3.6	6.2	5.4	0.1	-10.5	-2.9
Unemployment (a)	8.9	8.2	7.1	7.0	9.4	10.9
Inflation (b)	2.3	2.3	2.4	3.7	0.9	1.3

⁸ www.ebrd.com/new/pressrel/2009/090127.htm

Government debt (% GDP)	62.7	61.3	58.7	61.5	72.6	79.4
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Source: *Economic Forecast, spring 2009*. European Commission, p. 3

(a) percentage of the labour force (b) harmonised index of consumer prices, nominal change

This is twice as more than 3% determined by the so-called Maastricht criteria. In 2009, only 6 countries will realize the state budget deficit below 3% of GDP, whereas in 2010, the state budget deficit will reach 7% all. At the same time, the total public debt will rise to 79.4% of GDP, which means that the EU is getting closer to the line of severe indebtedness.

THE WEAKENING OF DEVELOPMENTAL PERFORMANCES OF THE COUNTRIES IN TRANSITION – SIGNS OF CRISIS

There have always been considerable differences between ten ex-socialist countries of Central and Eastern Europe, which are countries in transition and members of the EU today. Three Baltic states (Estonia, Latvia i Lithuania) excelled at undertaking reforms quickly. The Visegrad group of countries, to which we can add Slovakia as well, are treated as the most successful countries in transition. Romania and Bulgaria were the last to enter the European Union, which might denote that they were the slowest to recover from the transitional crisis, in which all these states were pulled in at the end of the 20th century.

These conclusions are confirmed even by data on GDP growth rate. Between 1994 and 2004, among five most successful countries in transition, Poland had the highest average GDP growth rate at 4.4%, and then Slovenia 3.2%, Hungary 3% and Czech Republic had a somewhat less rise at 2%. Romania achieved a modest GDP growth rate at 1.6% and Bulgaria had a low growth rate at only 0.9%. In this period, the Baltic states in transition realized the slowest GDP growth – Latvia 0.5% and Lithuania only 0.3%.

Table 3 Gross domestic product – annual percentage change (at previous prices)

Country	1992-04	2005	2006	2007	2008	2009	2010
Bulgaria	0.9	6.2	6.3	6.2	6.0	-1.6	-0.1
Czech R.	2.1	6.3	6.8	6.0	3.2	-2.7	0.3
Estonia	-	9.2	10.4	6.3	-3.6	-10.3	-0.8
Latvia	0.5	10.6	12.2	10.0	-4.6	-13.1	-3.2
Lithuania	0.3	7.8	7.8	8.9	3.0	-11.0	-4.7
Hungary	3.0	4.0	4.1	1.1	0.5	-6.3	-0.3
Poland	4.4	3.6	6.2	6.6	4.8	-1.4	0.8
Romania	1.6	4.2	7.9	6.2	7.1	-4.0	0.0
Slovenia	3.2	4.3	5.9	6.8	3.5	-3.4	0.7
Slovakia	-	6.5	8.5	10.4	6.4	-2.6	0.7

Source: European Commission, *Economic Forecast, spring 2009*, p. 53,55,62,79,81,85,95,99,101,103.

According to numerous studies⁹, what influenced the economic growth were: initial conditions, undertaken structural reforms and building market institutions and effective economic policy, which can provide the necessary macroeconomic stability. At the beginning of transition, initial conditions¹⁰ were significant, but the macroeconomic stabilization and the progress in market-oriented reforms neutralized the negative effects of the initial (unfavourable) conditions, which was especially relevant to the Baltic states. Some people overestimated the initial conditions and some thought that they were irrelevant. However, almost everybody agreed on its contribution in the initial transitional recession and on the fact that gradually, their influence notably weakens.

Between 2005 and 2007, the Baltic countries achieved the most dynamic GDP growth. In all three years, Latvia noted the growth rate in double figures (12.2% in 2006), Estonia noted the double figures in one year, while GDP growth in Lithuania was between 8 and 9%. Among five countries of

⁹ Mervar A., (2002), *Ekonomski rast i zemlje u tranziciji, Privredna kretanja i ekonomska politika* 92/2002., Zagreb, strana 79.

¹⁰ De Melo M. at al, (1996), *Patterns of Transition from Plan to Market*, The World Bank Economic Review, 10(3), pp. 397-424

Central Europe, Slovakia realized the most dynamic GDP growth rate, while Hungary realized the most modest one. Within the third group, which was last to enter the EU, Romania's GDP was between 4 and 8%, and Bulgaria's GDP was about 6%. Hungary¹¹ was the first to be struck by the first signs of recession, which is noticeable by almost fourfold GDP growth fall in 2007. Even some other countries (Estonia, Lithuania, Romania and Czech Republic) entered the period of the falling GDP growth rate, but the fall was much more modest in comparison to Hungary's. Four of ten countries (Lithuania, Poland, Slovenia and especially Slovakia) went on with the tendency to continuously rise their GDP in 2007.

In 2008, severe recession with negative growth rates hit Latvia and Estonia first, while the majority of other countries had a severe fall in GDP growth rate. Romania was the only one to realize impressive growth rate at 7.1%. According to the predictions of the European Commission and other relevant world institutions (IMF, IBRD, EBRD etc.), all ten countries will have a negative GDP growth rate in 2009. Three Baltic countries, whose GDP growth rate is expected to fall from 10 to 13%, will face the lowest fall and the severest financial crisis in 2009. A somewhat more modest GDP is expected to be achieved by Hungary, 6.3%, and Romania 4%. If the predictions come true, the present economic crisis will mostly strike these five countries. The rest five countries will also suffer a significant GDP fall, but the decline will be considerably more modest. It is probable that Poland will suffer the economic crisis least. The overcoming of the crisis expected in 2010, does not apply to three Baltic countries, Hungary and Bulgaria, which are going to have negative growth rates in 2010 as well, with the GDP significantly lower than in 2009.

Among other things, high GDP growth of these 10 countries was the result of the dynamic export rate. Over the last few years, most countries have noted double figures in export growth rate. By entering the EU, these member states became attractive for the dislocation of factories from the old and more developed member states. Products and services of the new factories from the latest EU members generally went on the broader EU market.

Table 4 Exports (goods and services) – annual percentage change

Country	1992-04	2005	2006	2007	2008	2009	2010
Bulgaria	-	8.5	8.7	5.2	2.9	-11.1	2.2
Czech R.	9.9	11.6	15.8	14.9	6.9	-11.6	0.7
Estonia	-	20.9	11.6	0.0	-1.1	-14.1	0.4
Latvia	-	20.2	6.5	10	-1.3	-12.9	0.5
Lithuania	-	17.7	12.0	4.3	11.3	-15.1	-0.2
Hungary	12.6	11.3	18.6	15.9	4.6	-11.9	0.8
Poland	10.9	8.0	14.6	9.1	5.8	-11.0	0.2
Romania	11.2	7.6	10.4	7.9	19.4	-16.9	0.6
Slovenia	3.8	10.6	12.5	13.8	3.3	-11.8	-0.3
Slovakia	-	10.0	21.0	13.8	3.2	-10.2	0.2

Source: European Commission, *Economic Forecast, spring 2009*, p. 53,55,62,79,81,85,95,99,101,103.

Following a very high growth rate at more than 20% in 2005, Estonian and Latvian export has suffered a massive fall in recent years, and then it faced negative export rate at 1.1% and 1.3% in 2008. In comparison to 2007, Romania and Lithuania realized a significant export growth in 2008. The rest six countries had a substantial decrease, but they didn't go through negative export growth rate. In 2009, the European Commission assumed that all ten countries would reduce export drastically and note it in double figures, as a consequence of decrease in demand for products and services from these countries caused by the recession in their main export markets, that is, in the developed countries of the EU. Eight countries are expected to make moderate export recovery in 2010, whereas Slovenia and Lithuania will still face moderate export decline and negative export growth rate.

Between 1992 and 2004, in ten countries of the EU, the unemployment rate was 6.5% in Romania and 15% in Bulgaria and Poland. As a result of a very dynamic development, based on huge foreign capital inflow and spectacular growth in export, unemployment in these ten countries was

¹¹ Ministry for National development and Economy, Overview of the current situation and prospects of the Hungarian economy, (2009), <http://www.nfgm.gov.hu>

substantially reduced. In six countries, the lowest unemployment rate was in 2008, while the three Baltic countries and Hungary achieved the minimum point in 2007. Lithuania had the lowest unemployment rate at 4.3% in 2007, while Poland had the highest one at 17.8% in 2005. In 2008, unemployment rate fluctuated from 4.4% in Czech Republic and Slovenia to 7.8% in Hungary.

Table 5 Unemployment rate - Eurostat definition

Country	1992-04	2005	2006	2007	2008	2009	2010
Bulgaria	15.1	10.1	9.0	6.9	5.6	7.3	7.8
Czech R.	-	7.9	7.2	5.3	4.4	6.1	7.4
Estonia	-	7.9	5.9	4.7	5.5	11.3	14.1
Latvia	13.2	8.9	6.8	6.0	7.5	15.7	16.0
Lithuania	9.9	8.3	5.6	4.3	5.8	13.8	15.9
Hungary	8.1	7.2	7.5	7.4	7.8	9.5	11.2
Poland	15.0	17.8	13.9	9.6	7.1	9.9	12.1
Romania	6.5	7.2	7.3	6.4	5.8	8.0	7.7
Slovenia	-	6.5	6.0	4.9	4.4	6.6	7.4
Slovakia	-	16.3	13.4	11.1	9.5	12.0	12.1

Source: European Commission, Economic Forecast, Spring 2009 p. 53,55,62,79,81,85,95,99,101,103.

Although all estimates predict that the financial crisis will notably abate in 2010, unfortunately, this does not refer to employment, that is unemployment, since it is expected for the unemployment rate to increase in 9 of 10 countries in 2010. Romania is the only one to be counted on moderate unemployment decrease. The fact that job preservation and employment growth will be hard to attain in the next few years is very clearly confirmed by the situation that the unemployment rate planned for 2010 is much higher than in the period of transitional recession for most of the countries we have data for. Why is that so? The answer is quite simple. Due to smaller wages, taxes and other facilities, foreign investors mass moved their factories to the countries in transition in the previous period, which was favourable for their total development, export and employment. Owing to the economic crisis, which struck all the countries of the EU, governments of these countries set the preservation of jobs as their prime goal. If the reduction of employees had to be carried out, it happened in the branches across the border first, which inevitably led to recession and increase in number of the unemployed in the countries in transition.

In the first decade of the transitional development, six countries had moderate and relatively acceptable level of trade balance deficit. Only Latvia's trade deficit (we do not have data for other countries) was notably above average of this group of countries. From 2005 to 2007, in some countries to 2008, trade deficit was rapidly increasing. Import was significantly reduced because of the decrease in direct foreign capital investments and harder indebtedness abroad, and due to decrease in demand, export was seriously cut back as well. Thus, the total level of foreign trade of these countries was remarkably lowered. This reduction was sharper than the fall of GDP, which led to considerable decline in relative participation of foreign trade balance deficit in GDP.

Czech Republic was the only one of ten countries to realize the surplus in foreign trade balance. From 2007, Hungary joined Czech Republic as well. The European Commission for 2009 and 2010 mostly predicts that the noticed tendencies will continue, which means that Czech Republic and Hungary will maintain modest surplus, Estonia will increase current deficit for a bit, whereas the rest seven countries will continue with the tendency to reduce foreign trade deficit drastically.

Table 6 Trade balance - as a percentage of GDP

Country	1992-04	2005	2006	2007	2008	2009	2010
Bulgaria	-6.2	-20.2	-22.0	-25.5	-25.8	-19.9	-19.2
Czech R.	-4.5	2.0	2.0	3.4	2.8	1.7	1.7
Estonia	-	-13.9	-18.3	-17.6	-11.9	-8.4	-9.6
Latvia	-12.5	-18.9	-25.6	-23.9	-17.0	-10.5	-9.7
Lithuania	-	-11.3	-13.9	-15.1	-11.9	-2.8	-1.2

Hungary	-4.7	-2.5	-2.3	0.2	0.4	1.0	1.2
Poland	-3.1	-0.9	-2.0	-4.0	-4.3	-4.6	-3.9
Romania	-7.0	-9.8	-12.0	-14.4	-13.3	-9.1	-8.0
Slovenia	-2.7	-3.6	-3.8	-4.9	-7.3	-5.9	-5.7
Slovakia	-	-5.4	-5.2	-1.7	-1.7	-2.8	-2.1

Source: European Commission, *Economic Forecast, Spring 2009*, p. 53,55,62,79,81,85,95,99,101,103.

Decrease in SDI, the liquidity crisis and difficult access of private companies and banks to the world capital markets affects on considerable increase in some countries' public (state) debt.

This refers especially to Hungary and partly to Poland, whose public debt was 73% and 47.1% of GDP in 2008. Ovo se pre svega odnosi na Mađarsku u kojoj je javni dug u 2008. godini iznosio 73.0 odsto GDP-a, dok je učešće poljskog javnog duga u GDP-u (47.1 odsto) znatno iznad proseka ove grupacije zemalja.

Looking at the participation of public debt in GDP, the country which is least debt-laden is Estonia, whose public debt does not go over 5% of GDP. Other countries had the public debt lower than 30% of GDP.

Table 7 General government gross debt - as a percentage of GDP

Country	1992-04	2005	2006	2007	2008	2009	2010
Bulgaria	-	29.2	22.7	18.2	14.1	16.0	17.3
Czech R.	-	29.8	29.6	28.9	29.8	33.7	37.9
Estonia	-	4.5	4.3	3.5	4.8	6.8	7.8
Latvia	-	12.4	10.7	9.0	19.5	34.1	50.1
Lithuania	-	18.4	18.0	17.0	15.6	22.6	31.9
Hungary	-	61.7	65.6	65.8	73.0	80.8	82.3
Poland	-	47.1	47.7	44.9	47.1	53.6	59.7
Romania	-	15.8	12.4	12.7	13.6	18.2	22.7
Slovenia	-	27.0	26.7	23.4	22.8	29.3	34.9
Slovakia	-	34.2	30.4	29.4	27.6	32.2	36.3

Source: European Commission, *Economic Forecast, Spring 2009*, p. 53,55,62,79,81,85,95,99,101,103.

In case of crisis, it seems that only a state with its authority and guarantees is capable to fill the missing financial gap fairly well. All these countries developed more or less with the support of the foreign capital¹² and the long-lasting absence of greater inflow would especially bring to much more serious fall of GDP, export and unemployment. Owing to this, the governments of these countries are hurrying to strike agreements, especially with IMF, whose loans will help to sustain their highly necessary macroeconomic stability¹³. In this respect, in 2009 and in 2010 the European Commission expects significant increase in the total state debt of these countries, which is measured by its participation in GDP. According to this, Hungary will be classified among profoundly debt-laden countries in 2009 and Poland will be on the line of moderately indebted countries. If we are to join the debt of companies and banks to the state debt, we will probably be able to conclude that the total

¹² Mrdaković Cvetković R., (2006), *Privredni razvoj i priliv inostranih sredstava u zemlje u tranziciji*, Ekonomski anali broj 171/2006., Beograd, strana 81.

¹³ Hungary received a loan of 26.2 billion dollars from the IMF, the EU and the World Bank; Romania is expecting a loan of 24 billion dollars from the IMF, whereas Poland has already got a loan of almost 21 billion dollars. Beside the IMF, these countries will receive relief funds from EBRD, EIB and the World Bank being 24.5 billion dollars all. These funds are intended for the banking sector, infrastructure finance, trade recovery and for small and medium enterprises.

foreign debt will be a heavy burden for the majority of the countries analyzed, which will considerably strain their future development.

MEASURES TO OVERCOME THE CRISIS

Since the beginning of the crisis, all the countries have taken very energetic and various measures to restore its extremely destructive consequences.

U okviru grupacije 10 zemalja u tranziciji, članica EU, drastičan pad GDP-a je najpre (2007) pogodio Mađarsku.

Right after the emergence of the crisis, the Hungarian government took appropriate measures by which they expect to save 4 billion euros per annum. Hungarian Prime Minister made a firm commitment to work for 1 forint a month, and the ministers' salaries were reduced by 15%. Thirteenth salary was cancelled for the workers in the state administration, and taxes for all the salaries were reduced by 5%. Family allowances were cut by 10%, and state subsidies for purchasing flats and houses and for paying bills for gas and central heating were called off. VAT was increased from 20% to 25% but it was reduced by 18% for foodstuffs. With the aim to support the package of measures, international financial institutions authorized the loan of 25.2 billion dollars to Hungary (the IMF¹⁴ 15.7 billion dollars, the EU 8.2 billion dollars and the World Bank 1.3 billion dollars). The arrangement with the IMF is focused on the rationalization of public finances, the reduction of pensions and salaries, public debt and budget deficit, and it is centred on the recovery of financial sector by improving its liquidity and the level of the total capital.

Među najrazvijenijim zemljama, the most comprehensive stimulus package was brought by the United States of America and it weighed astonishing 700 billion dollars. It sounded almost incredible that the United States, as a bastion of the liberal capitalism, started to apply a little bit forgotten measures from the arsenal of the state interventions. This indirectly confirmed that the current crisis is hundred years old and that it is grave, and that even the measures which are deeply discordant with governing economic logic have to be used. Although the European Union was not in the centre of the financial crisis, due to strong connections with the economy of the US, it planned to appropriate 2 thousand billion dollars very quickly in order to stop the fall in economic activity and the rise of unemployment. Measures and instruments, which gather ten new EU member states, are determined in the European Economic Recovery Plan. All other states, China, Russia, Japan, countries in transition, fast growing countries and developing countries were forced to apply the whole arsenal of measures in combating the severe economic crisis.

Although it emerged primarily in the United States, the crisis has very rapidly spread across the whole world. Due to the global danger, the leaders of the most developed countries have realized quickly that the overcoming of the current economic crisis requires mutual engagement. In this sense, the G20 Summit¹⁵ was held in London, on April 2nd this year and it gathered the most developed countries of the world. Although they show considerable differences in approach, the leaders of the 19 countries and the EU have agreed to take the most important measures with the aim to recover the world economy efficiently. This is the most comprehensive action programme on surmounting the current economic crisis and we will pay special attention to it because of that. Beside this programme, all ten countries have taken numerous measures individually in order to ease the burden of the crisis and to accelerate the recovery of their economies¹⁶.

¹⁴ <http://www.imf.org/external/pubs/ft/survey/so/2008/car110608a.html>

¹⁵ The Group of 20 comprises 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and United States) and European Union.

¹⁶ Hungary was one of the first to publish stabilization programme, whose aim was to increase competition and productivity and the macroeconomic stability needed, Updated Convergence Programme of Hungary, 2007-

The leaders of the G-20 have concluded that the crisis was global and thus requires global solutions and high responsibility of the most developed states for the entire development of all the people of the world, no matter where they live. The leaders of the G-20 committed themselves to do whatever it takes to¹⁷:

- Reestablish self-confidence, growth and employment
- Enable financial system to recover loan function
- Strengthen financial regulations with the aim to reestablish confidence
- Reform international financial institutions for solving the present and preventing future crises
- Promote global trade and investments and reject protectionism
- Accomplish necessary ecological and sustainable revitalization

In order to reach expected goals, the leaders of the G-20 agreed to increase IMF's resources by 500 billion dollars, to provide additional 250 billion dollars for Special Drawing Rights (SDR), to appropriate 250 billion dollars, which will help faster recovery of the world trade¹⁸ in the next few years, and to support at least 100 billion dollars of additional finance via Multilateral Development Banks (MDB). They agreed to sell 6 billion dollars of the IMF in monetary gold, which will be used to help the poorest countries which are struck by the crisis. All these funds are a mutual programme consisting of 1100 billion dollars support for the renewal of loans, growth and employment in the world economy. Together with the measures taken on the national level, this represents a global plan for world trade recovery which has never been undertaken before.

In order to restore growth and employment, the leaders of the G-20 planned tremendous and coordinated, and sustainable and fiscal expansion as well, which will reach 5 thousand billion dollars next year. Thanks to this, more than million work places will be preserved or opened around the world and the world output will increase by 4%. Interest rates were drastically reduced in most of the countries and central banks are determined to lead expansive monetary policy as long as it takes to recover the world economy. Leaders of the G-20 are aware of the need to restore the confidence in financial system, which is why they will take the most serious measures to ensure its liquidity, recapitulation and to save its financial property.

As the leaders within the G-20 agreed, the economic crisis emerged because of the absence of effective financial regulation and control. That is the reason why the International Monetary Fund, as a world financial institution, has a mission to inspect economies and financial sectors of all the countries around the world correctly, objectively and independently. This will lead to the international standard coordination, veracity of reports, transparency and reduction of danger which causes excessive reliance on too risky sources of finance. With this aim, the new Financial Stability Board was founded with the task to provide early warnings on macroeconomic and financial risks and to suggest the necessary actions in cooperation with the IMF. Its mission is also to monitor and regulate financial institutions and used instruments, with special emphasis on following the practice of hedge funds. The regulation has to prevent excessive leverage without fail, but it also has to insist on forming sufficient reserves for "a rainy day" in the period of prosperity. Special and important mission of the FSB is to unveil the "bank secrecy" and to cancel "tax havens". Not the least mission is to ensure unique international harmonization of accounting standards and to increase the quality, professionalism and responsibility of agencies for credit rating. Special attention will be paid to the reformation of international financial institutions, so that they can be the key factor in solving the current and preventing future economic crisis.

Due to severe decrease of the world trade and investments, which have been the trigger of the world development in the past 50 years, the G-20 leaders emphasised the importance of restraining from new protectionist barriers. At the same time, to stimulate the export, all countries should

2011, Government of the Republic of Hungary, Budapest, [http://www2.pm.gov.hu/web/hoe.nsf/\(PortalArticles\)/.../\\$File/Convergencce+programe%101007_en.pdf](http://www2.pm.gov.hu/web/hoe.nsf/(PortalArticles)/.../$File/Convergencce+programe%101007_en.pdf)

¹⁷ London Summit – Leaders' Statement, http://www.g20.org/documents/g20_communique_020409.pdf

¹⁸ <http://www.nspm-rs/hronika/samit-g20-hiljadu-milijardi-dolara-za-borbu-protiv-krize.html?alphabet>

especially use all instruments available, which stand in accordance with the World Trade Organization (WTO).

CONCLUSION

The current economic crisis in which the world stands today is estimated as the worst one since the Great Economic Depression dating from the third decade in the 20th century. This crisis is maybe more destructive, considering the global connection in which the world happens to be. The European Commission and the IMF expect GDP to fall by 1.4% and 1.3% in 2009. Within the EU, export is expected to fall by 12.5%, investments by 10.5% and employment by 2.5%, meaning that 8.5 million people will lose their jobs. The crisis started on the mortgage market in the US. In a very short time, it struck all countries and all fields. The first measures against the crisis were undertaken by the United States and the EU by planning stimulus packages weighing 700 and 2 thousand billion dollars. All other countries brought their own stimulus packages for fighting the financial crisis.

Ten ex-socialist countries, that is, countries in transition have undoubtedly made a step forward, considering the fact that they have become the members of the European Union only recently. It means that their economies are market, that they can survive cut-throat competition against efficient EU companies and that they have achieved satisfactory level of democracy and respect of mutual European values.

In economy, all these countries had a very dynamic growth and sufficient development. After overcoming inevitable transitional recession, all 10 countries noted a very high growth in GDP, which was from 0.3% in Latvia to 4.4% in Poland between 1992 and 2004. In the last few years, GDP growth was the fastest in the Baltic countries, and it was the slowest in Hungary, which was hit by the crisis first, considering that the GDP growth rate already fell drastically in 2007. Beside Hungary, the crisis struck the Baltic countries as well, especially Latvia and Estonia in which the negative GDP growth rates were set at 4.6% and 3.6%. The European Commission predicted negative GDP growth rates for all ten countries in 2009, which stand from 1.4% in Poland to amazing 13.1% in Latvia. In 2010, recovery is expected for most of the countries, whereas the negative GDP growth rates will continue in the Baltic countries, Hungary and Bulgaria.

Even all other performances of development indicate that all these countries are in the severe economic crisis after a decade of the economic prosperity. Very dynamic export growth, which was the most important engine of the economic development for many years, radically plunged in most of the countries in 2008. The lowest export fall is expected in 2009 when the negative growth rate is assumed to be noted in double figures (Romania 16.9%). Reduction of the foreign capital inflow and massive export fall will lead to slow GDP growth, unemployment increase, deficit in the state budget and total public debt.

Due to the global feature and the gravity of the crisis, the G-20 leaders have introduced the most comprehensive action programme in London Summit in April. This programme provides restoration of growth and employment, recovery and strengthening of the financial system, raising the level of financial regulation and establishing confidence that has weakened, reforms of international institutions and motivation of global trade and investments. In order to reach these ambitious goals, they have planned 1100 billion dollars, which are generally intended for the countries that suffer the crisis most.

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