

***The impact of the global
financial crisis on the industrial
sectors of Eastern European
countries and of Hungary. Main
aggravating factors of the crisis
and possible solutions***

by

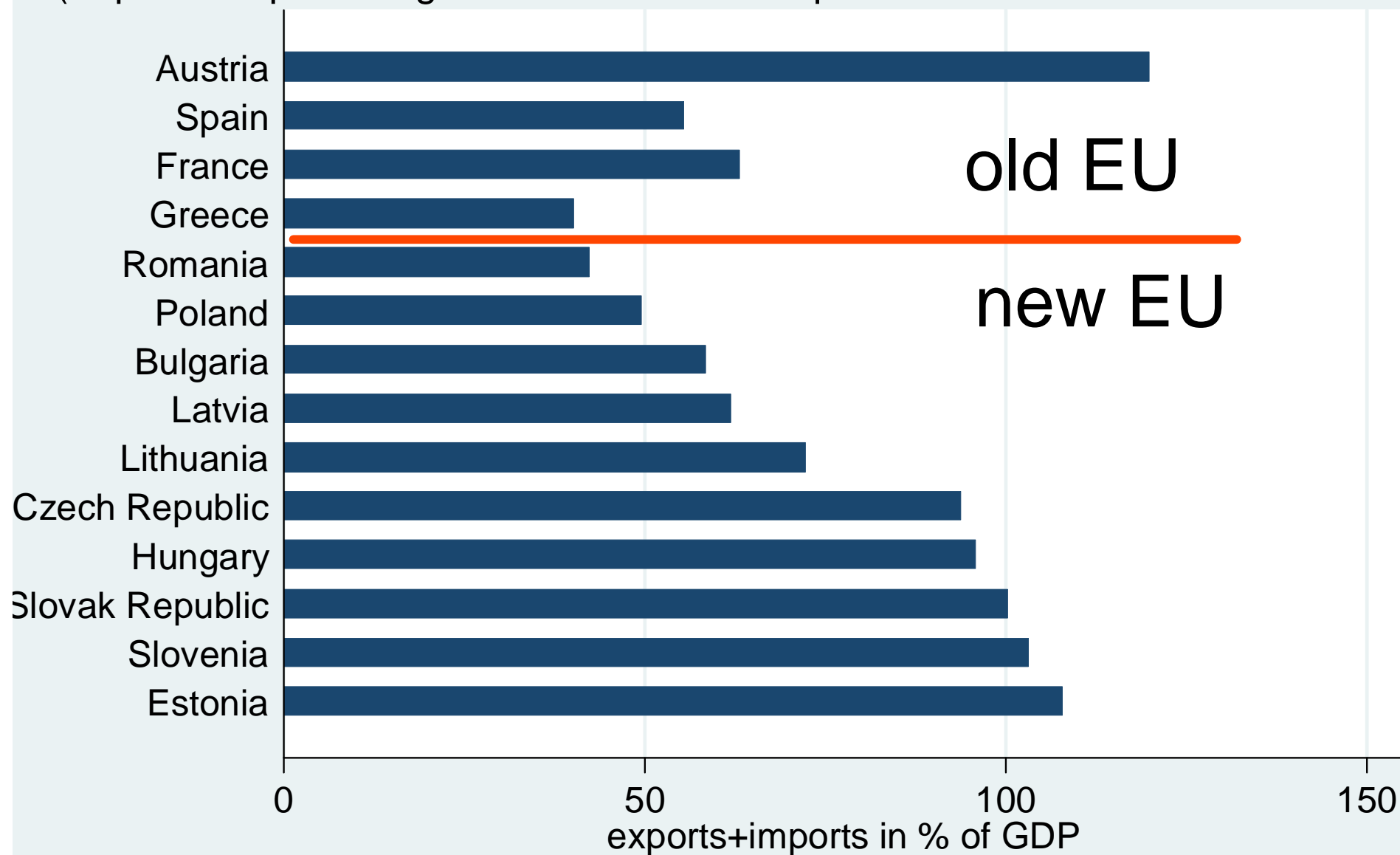
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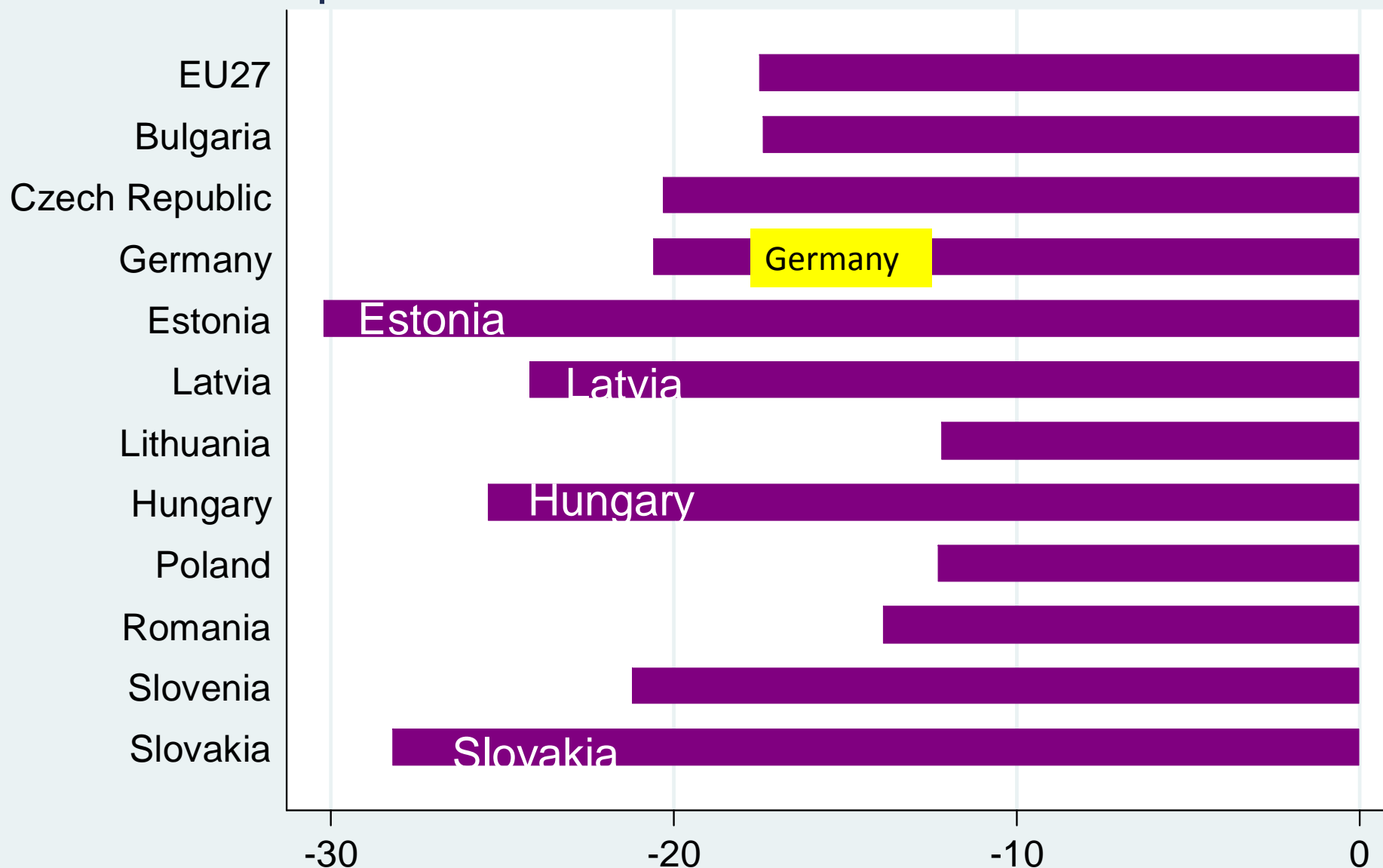
28 April 2009

Openness to trade in 2006

(Exports+imports of goods and services in percent of GDP measured at PPP)

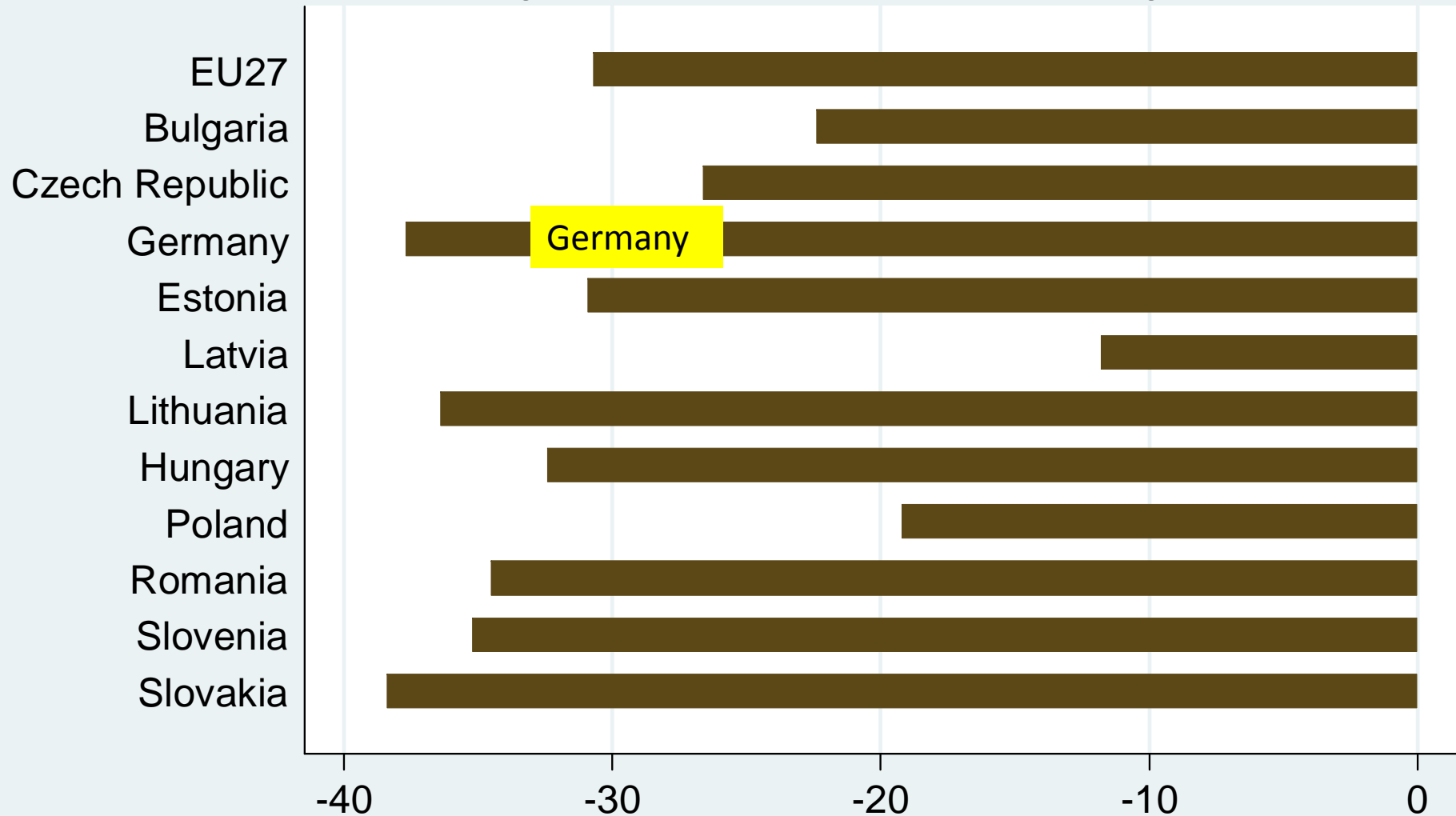


The collapse (change in percent) of total industrial production between Febr 2008 and Febr 2009



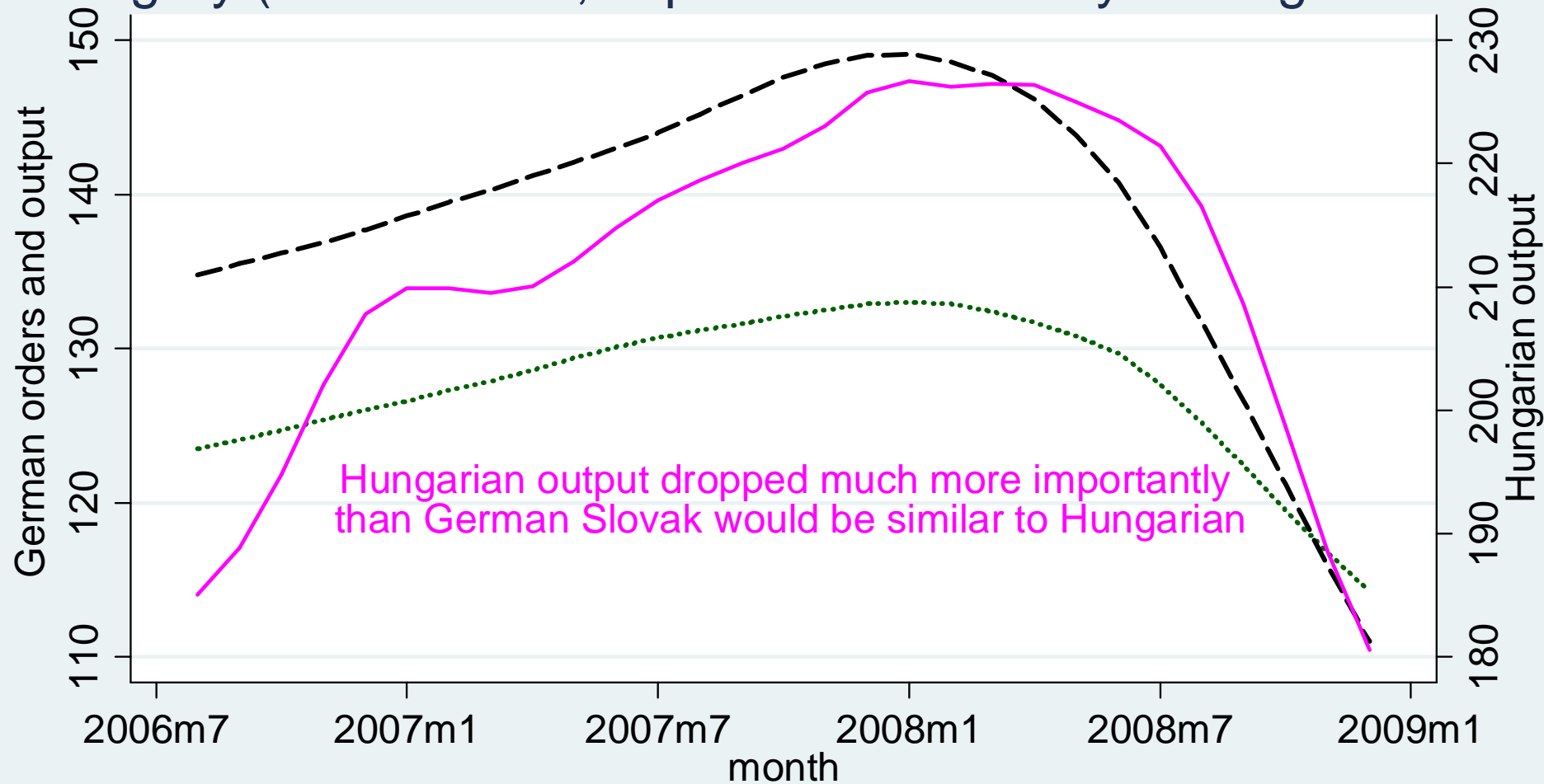
The collapse (change in percent) of orders between January 2008 and January 2009

Average of all industrial sectors working on orders



Note: December 2007 - December 2008 for Latvia and Slovenia

Transport equipment: orders and output in Germany, output in Hungary (trend values, in percent of monthly average of 2000)

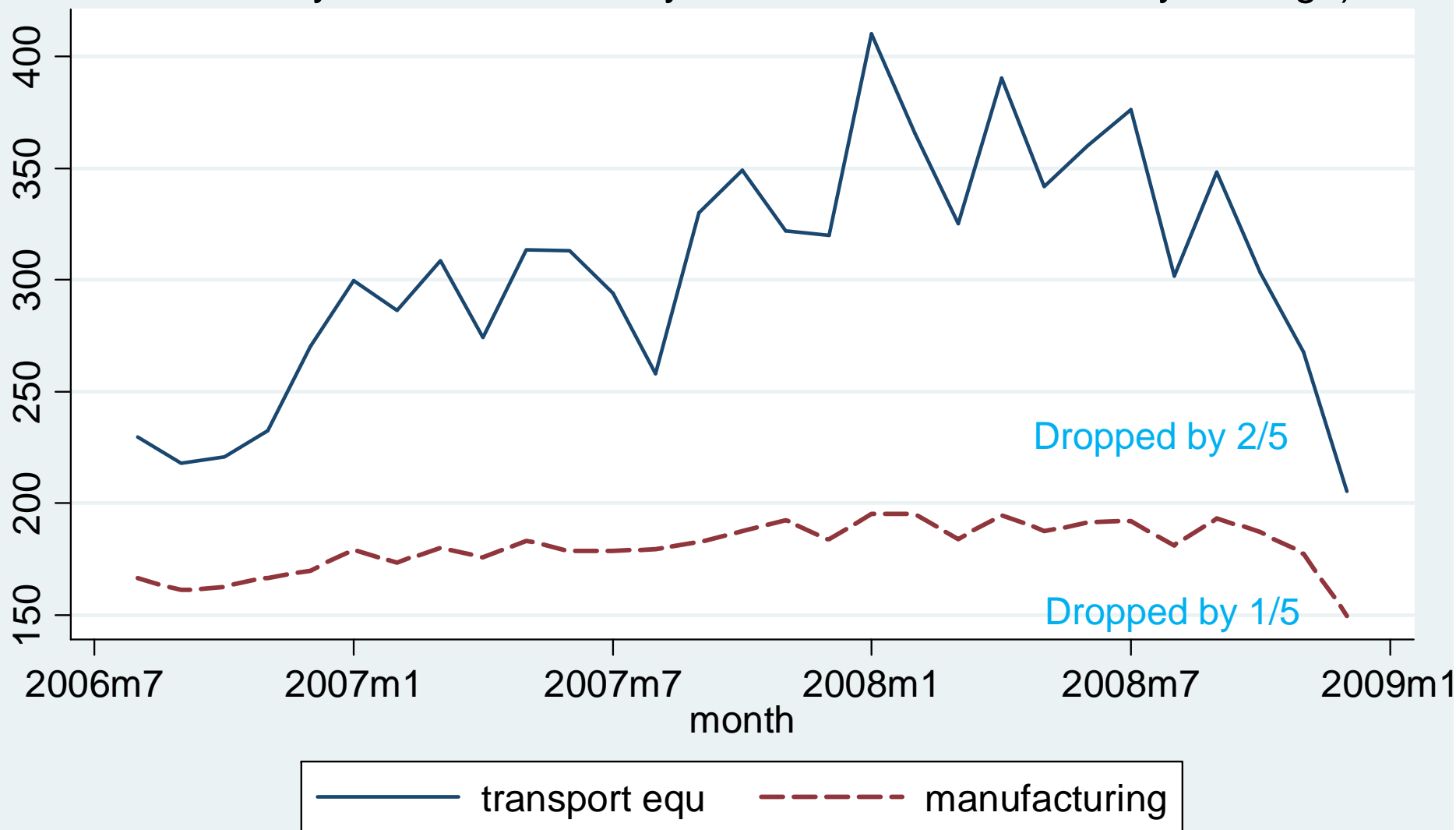


..... DE output
----- DE orders
—— HU output (right axis)

Hungarian output dropped much more importantly than German Slovak would be similar to Hungarian

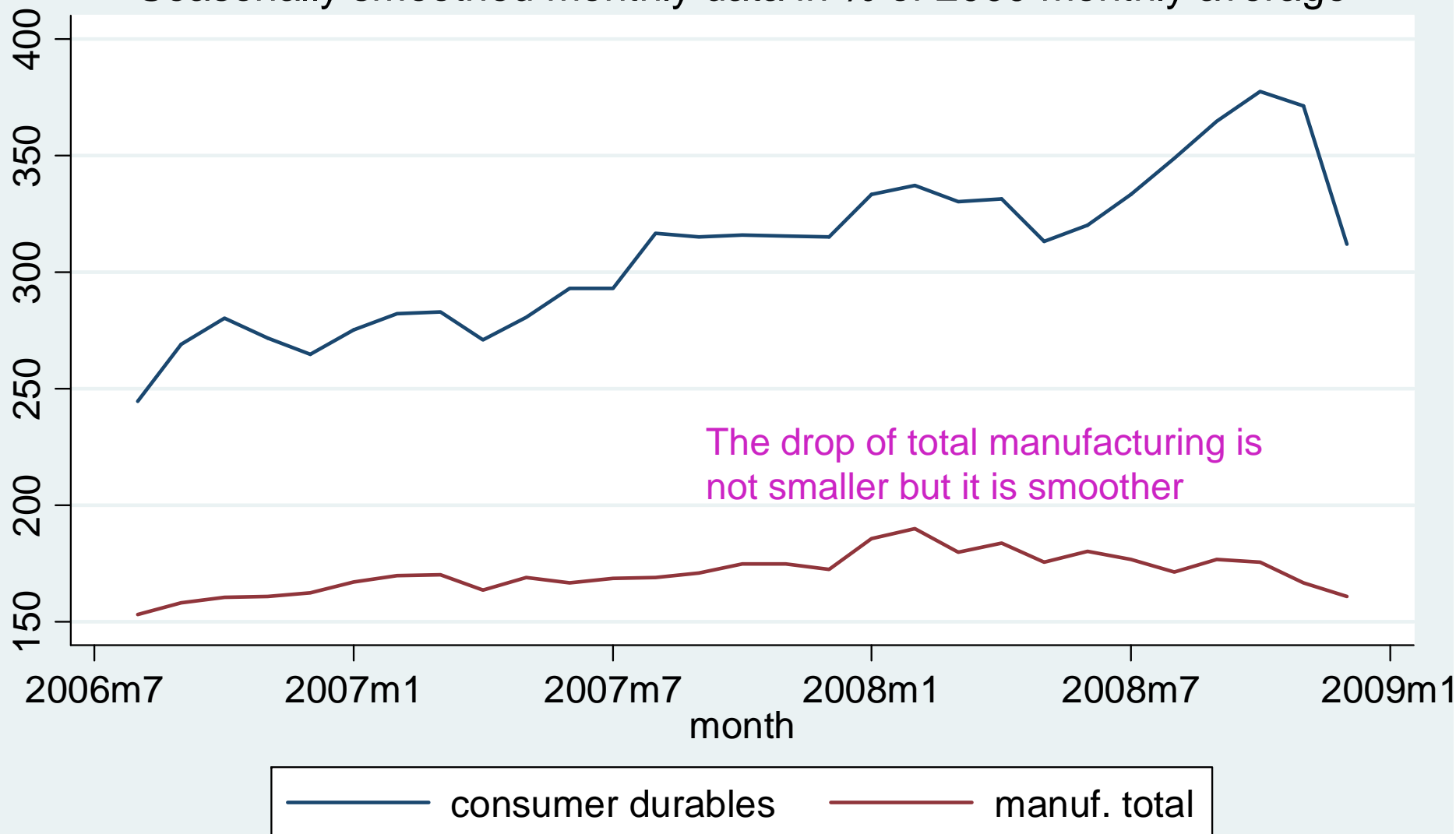
The collapse of the output of transport equipment and of total manufacturing in Slovakia

Seasonally smoothed monthly data in % of 2000 monthly average)



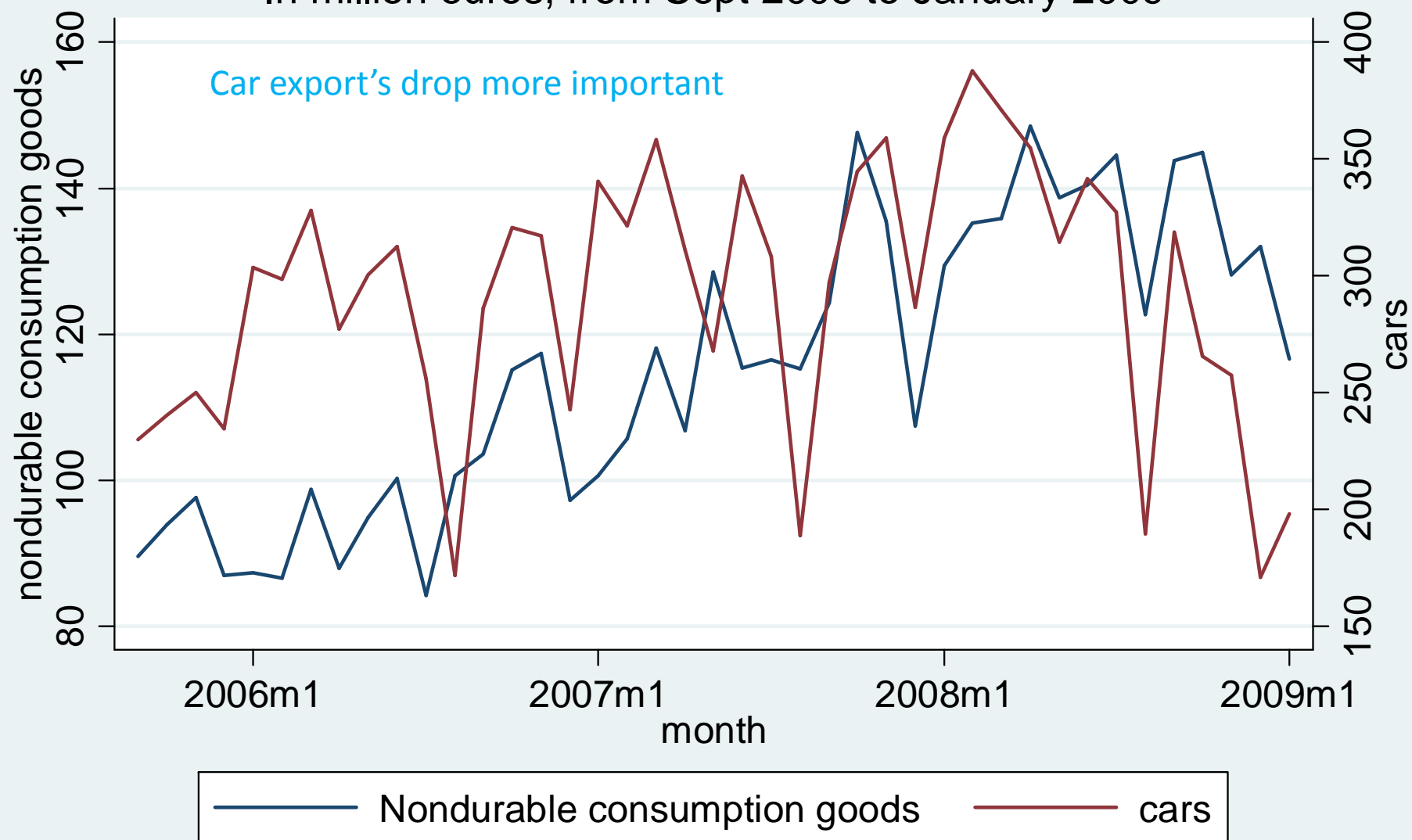
The collapse of the output of consumer durables and of total manufacturing in Poland

Seasonally smoothed monthly data in % of 2000 monthly average



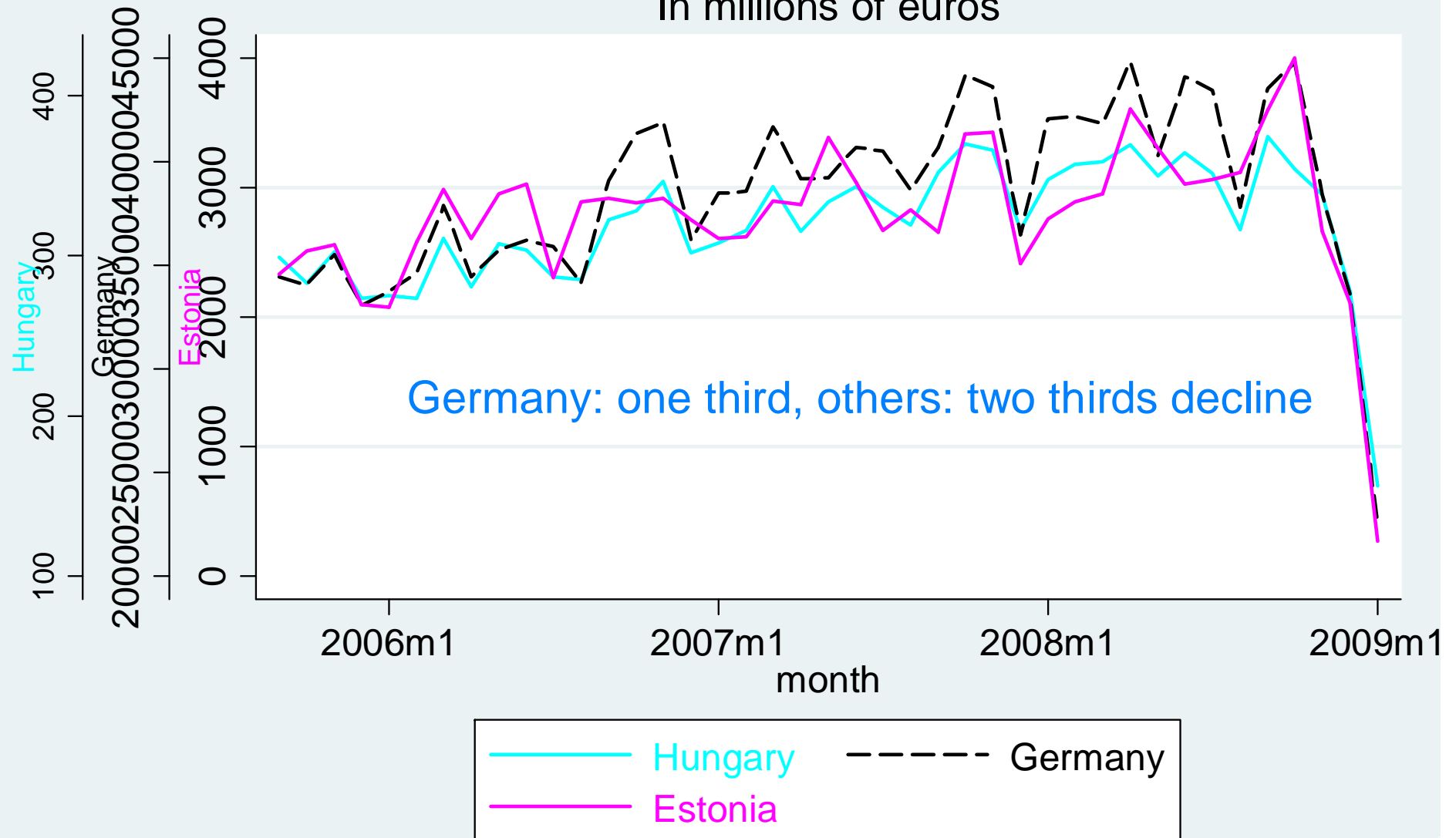
Nondurable consumption goods and car exports of the Czech Republic

In million euros, from Sept 2005 to January 2009



Monthly total exports of Hungary, Germany and Estonia

In millions of euros



Unfavourable trends in the whole region

- ❖ Factory closures,
- ❖ Reduced work weeks,
- ❖ Redundancies

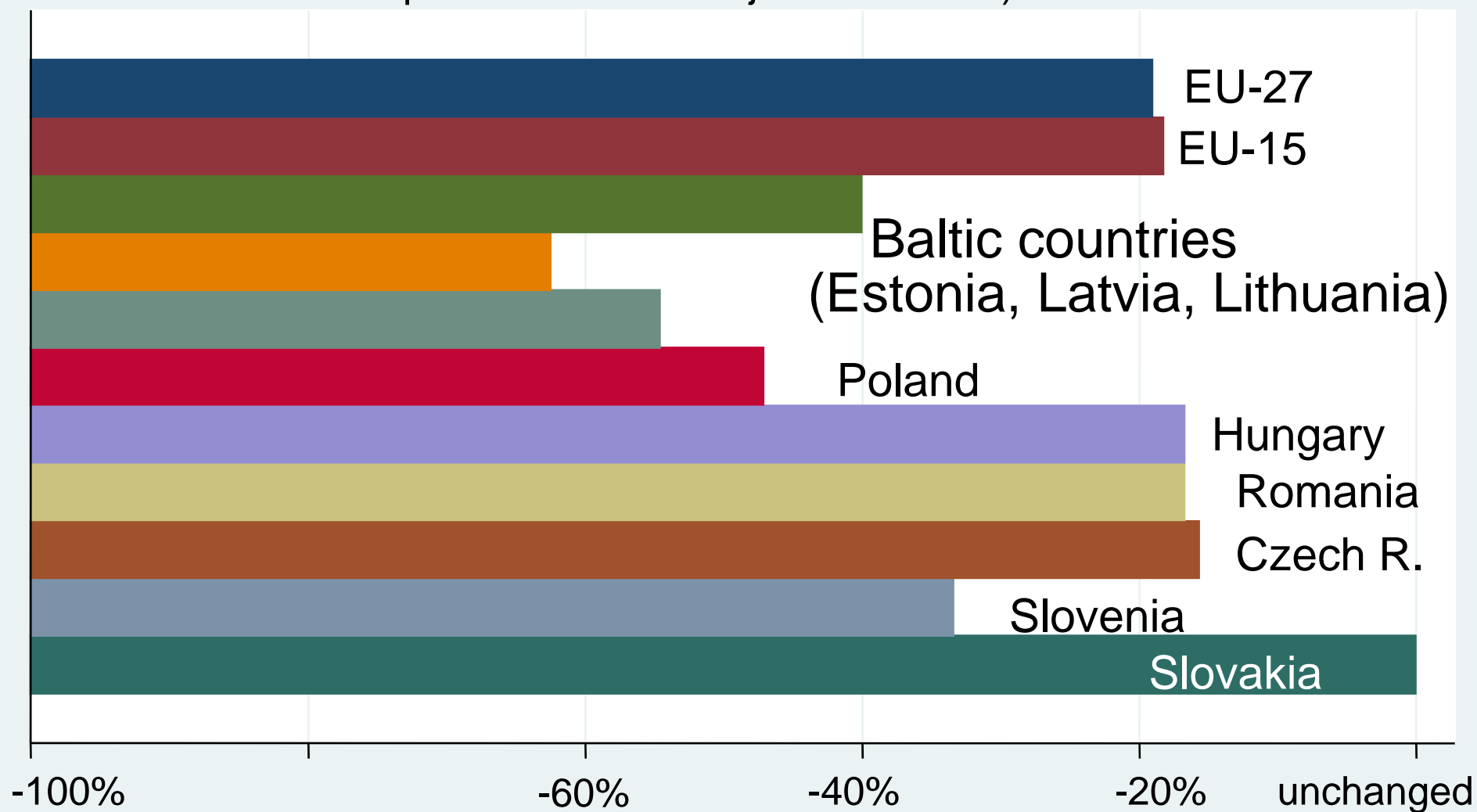
everywhere

But still some delocalisations:

- ❖ „Italian leftwing politicians are protesting the closure of the Indesit factory in None, northwestern Italy, and the decision to move all manufacturing to Radóm, central Poland.” (Polish radio news)
- ❖ Siemens continues its mega-investment in Wroclaw

Change in relative VACANCY RATEs: Q42008/Q42009

VACANCY RATE: number of job vacancies /(number of occupied posts + number of job vacancies)



Hungary, Slovenia, Slovakia

- ❖ In Hungary, business conditions were rather weak already before the appearance of the impact of the international financial crisis – thus, in every month of the year 2008, the number of people searching for jobs increased as compared to the previous year
- ❖ But from November on, the previous growth of 2-4% of the number of such people jumped to 6-7%
- ❖ In December the number of people searching for a job reached 10.8% of the economically active population, 0,7 %-point more than a year earlier.

(Main data on the labour market situation based on the administrative records of the Public Employment Service, December 2008, NATIONAL EMPLOYMENT OFFICE, Budapest, 2009.)

- In Slovenia, before the crisis the metal-working industry employed 100000 persons, at the beginning of April no more than 92000.
- Also difficult employment situation in the textile, food processing and construction industry, as well as in forestry.

(Delovna mesta izginjajo [Workplaces are disappearing], Delo, 16 April)

- ❑ In Slovakia, According to the Ministry of the Economy, until end-March, 6600 workplaces were lost because of the crisis, and another 24000 were in danger.

(Križa stále ohrozuje vyše 30-tisíc pracovných miest [The crisis continues to threaten 30 thousand workplaces], SME, 3 March.)

Government actions – stimulating demand

Car scrapping: French – German model

- ❖ Applied in Slovakia
- ❖ Not applied in Hungary because of difficult budgetary situation
- ❖ Not applied in Poland because, according to the Government, this is not an adequate tool

Government actions – improving regulation

- ❖ Hungary: The law on bankruptcy is being changed. Debtors will receive stronger protection, their restructuring and the rescheduling of their debts will become easier
- ❖ Slovakia: Social security contributions for SMEs reduced; four MPs proposed the reduction of labour market rigidities – more flexible working time and other changes

Government actions – greasing the wheels of the financial system

- ❖ Hungary: government lending in national or foreign currency to banks and legal authorisation of the government to contribute to banks' capital (with shareholder rights)
- ❖ Poland: The Central Bank widened the variety of government bonds accepted as collateral at lending to banks; the Bank also reduced its basic interest rate
- ❖ Slovakia: The government-controlled SZRB, a development bank, increased its lending to firms

Government actions – use of funds received from the EU

- ❖ Hungary: Restructuring of the National Development Plan 2007-2013, enhanced use of EU funds for treating the consequences of the crisis.
- ❖ Hungary: Credit line for SMEs, interest rate subsidies, credit guarantees, technical assistance to exporters.
- ❖ Poland: The European Commission proposes a demand-enhancing investment programme of € 5 billion, of which Poland receives €330 million.

Government actions –workplace-saving wage subsidies

Hungary program of temporary (from 3 months to a year) wage subsidies to

- ❖ Companies temporarily unable to pay full salary (and possibly reducing the working time of their workers;
- ❖ Companies employing workers who lost their workplace in relation with the crisis

Government actions – with more or less protectionism

- ❖ Nowhere any as harsh protectionist measures as those observed somewhere else in the EU, but
- ❖ Slovakia: law on strengthening the banking system by contributing to banks' capital, only with the purpose of supporting the Slovak economy.
- ❖ Hungary: „ethical codex”, elaborated under government coordination, for retail trade companies: 80% of the products supplied by them have to be Hungarian (of course, violators cannot be fined because that would contradict single market rules).

Conclusions 1

- ❖ The consequences of measures taken are **not yet known**.
- ❖ Economists like me were very critical about the Hungarian government's **irresponsible overspending policies** in 2002-2006, because of which our public and foreign debts became high. We were afraid of future negative consequences. However, ***for the time being*** we do not really see **any deeper crisis** in Hungary than in the neighbouring countries – **the international impact is very strong**.
- ❖ With the economies, and particularly the manufacturing industries, of the CEE new EU member countries being **rather open**, their governments can do little to ease the crisis. Their possibilities are also limited by their relative poverty. They are mostly restricted to mildening the economic and social consequences of the crisis.

Conclusions 1 continued

- ❖ This „restraint under duress” is partly good: the governments cannot waste much money on saving sunset industries.
- ❖ The propagation of protectionism is particularly dangerous for these countries (again, because their economies are rather open). To set the example, and also because their own possibilities for protectionist policies are very limited, these countries should refrain from such attempts.

Conclusions 2

- ❖ At the EU level, **vigilance against protectionist practices** should be strengthened. (All large member countries and also the EU as a whole have taken such measures since last October.)
- ❖ **Keynesian demand management policies**, widely used in the US, are very cautiously applied in the EU (by large and rich member countries and by the EU as a whole). More courageous demand management (with investments into R&D, energy efficiency, environmental protection, etc.) might be desirable.

Conclusions 3

- ❖ 8 of the 10 CEE new EU member countries are not yet in the Euro zone. With the crisis, monetary instability has become one of their most serious problems. Some of them would be interested in some „fast-track” entry to the Euro zone.
- ❖ Of course, admittance to the Euro zone without satisfying some conditions would not be appropriate. But, with the crisis, the Maastricht criteria are becoming absurd. The „low inflation requirement”, as formulated in the Treaty, may soon become a deflation requirement, and the budget deficit rule ($<3\%$ of GDP, in 2009 probably not respected by any Euro zone member country) is also becoming surrealistic under the conditions of the crisis.