

Global Economic Crisis in E&E update
Program Office
April 30, 2009

- (1) macro overview update & the hardest hit countries
- (2) greatest vulnerabilities by sector
- (3) gender differentiations
- (4) people's attitudes going into crisis
- (5) Lessons learned from other crises and other times
- (6) Democracies, autocracies, the resource curse, and economic crisis

(1) ***Macro overview update***. Impact on the economies (*Figures 1-4*). April 24, 2009 IMF projections (vs. January 28, 2009 projections.).

Significant revisions downward (once again). Almost all the E&E countries are now forecast to have contracting economies in 2009. (The exceptions are: Albania at 0.4% growth; Azerbaijan at 2.5%, Georgia at 1%, Kyrgyzstan at 0.9%, Tajikistan at 2%, Turkmenistan at 6.9%, and Uzbekistan at 7%).

Greatest contractions projected in 2009 in E&E: Latvia at -12%, Lithuania and Estonia both at -10%, ***Ukraine at -8%***, ***Russia at -6%***.

Updating our economic impact vs. social vulnerability matrix, 7 countries have been upgraded to being more detrimentally affected by the crisis and one country (Uzbekistan) downgraded to a lesser impact. Most problematic are the two countries which have had severe detrimental macroeconomic impacts from the crisis and are highly socially vulnerable (i.e., among the lowest in per capita income): ***Armenia and Moldova***. Also problematic are those countries highly severely impacted economically and characterized in our matrix as having a medium level of social vulnerability: ***Ukraine, Serbia, Belarus, Bosnia, Macedonia, Montenegro, and Kazakhstan***.

(2) ***Greatest vulnerabilities by sector*** going into the global crisis (i.e. where are the salient gaps as identified by MCP #11?). Where should we be concerned?

Democracy trends (particularly in Eurasia) have been very problematic. FH assessed that there were no gains in democratic freedoms in 2008 in E&E; and 8 countries experienced a decrease in such freedoms: 2 in the Southern Tier (Macedonia and Bulgaria), and six in Eurasia (Georgia, Armenia, Moldova, Kyrgyzstan, Russia, and Azerbaijan). Democracy backsliding in Eurasia has been ongoing since the early transition years. From FH's NIT, all democracy sectors in Eurasia have been regressing since at least 1999. The most significant regression has occurred in ***public governance*** followed by ***independent media***. While civil society is the most advanced aspect of democratization in Eurasia, it has not been immune to some backtracking in recent years either.

Economic sector. Why has the region been so vulnerable to financial and economic crisis? **Dependence on foreign capital** has been very high, as manifested in huge current account deficits, and in some countries high and growing external debt. For CEE countries, large dependence on Western Europe to buy their exports, and very large proportion of W. Europe bank ownership within CEE (whether the latter is good or bad on balance). In Eurasia, there has also been a **high dependence on energy and metal exports**. **Energy security** is very low throughout most of E&E. Countries which are both dependent on energy abroad and inefficient in energy use include Moldova, Belarus, Bulgaria, Ukraine, the Kyrgyz Republic, and Tajikistan.

Human capital. **Very high unemployment rates** in many countries, particularly in the Balkans and Armenia. **Highest life expectancy gender gap** in the world in a number of E&E countries (Russia, Ukraine, Belarus, Baltics, Kazakhstan). **Non-communicable diseases** very problematic and contributing significantly to life expectancy trends. Trends over time in **infectious diseases** also troubling, in TB (particularly in Eurasia) and in HIV. Highest adult HIV prevalence rate in E&E in 2007 was in Ukraine, Estonia, Russia, Latvia, and Moldova. The most **significant declines in population** in the world forecast to take place in E&E (Bulgaria, Moldova, Ukraine, Russia, Romania, Latvia and Belarus).

Education gaps. **Very low tertiary enrollment rates** in many Eurasian and Southern Tier CEE countries (particularly in CARs, Caucasus, Moldova, Albania, Macedonia, and Kosovo). **Secondary school enrollments** in Eurasia remain much lower today than what they were at the outset of the transition and there is still no clear trend in Eurasia that these rates are recovering. **Functional literacy** or how well students and adults can function in a market economy, is likely problematic in some countries. Nine countries all lag significantly behind OECD norms in at least one functional literacy survey: Albania; Macedonia; Serbia; Montenegro; Romania in the Southern Tier and Moldova; Azerbaijan; the Kyrgyz R., and Armenia in Eurasia.

(3) **Gender profile.** We pulled data together from the UNDP's *Human Development Report* to get a profile of gender characteristics in the region (vs. elsewhere), focusing on the ten most vulnerable E&E countries from the global economic crisis. Health: life expectancy gender gap and maternal mortality; education: combined enrollments by gender, and female to male ratios in secondary and tertiary enrollment; economic conditions: female to male earned income ratio; and female professional and technical workers as % of total workers; and political empowerment: seats in parliament held by women as % of total. (see tables attached).

Where are the areas of concern in regard to gender considerations going into the global economic crisis? Briefly some preliminary highlights that might be worth exploring: (a) one implication from the largest life expectancy gender gap in the world in some of these countries is that there are presumably a lot of widows in these countries. How are they coping? What can we do to help? (And any discernable or anticipated trends in adult male mortality? And what can be done to mitigate that?).

We provide some population pyramids and health demographic data for the ten most vulnerable E&E countries, 2008 vs. 2025. There are potentially many things to look at here, but the impetus for providing them for now is to get a more exact picture of the female to male ratio per age group, with a specific focus on the elderly population. The elderly female population in most of these countries is very large; i.e., greater than 10% of the total population. Similarly, the female to male ratio among the elderly is very high: in Russia it is 2.2 females to 1 male, 64 years old and above in 2008; in Ukraine it is 2 elderly females to 1 elderly male.

(b) There is greater female enrollment than male in the region, more striking in tertiary education than in secondary. There's also a relatively high proportion of female professional and technical workers in E&E. Others things equal, these trends suggest that female earnings should be greater than male. Yet that is not the case: female to male earned income ratio is no higher than 0.63 in the vulnerable E&E countries identified. (c) Political empowerment ranges widely among the vulnerable E&E countries. Less than 10% of parliament seats are filled by women in Armenia, Ukraine, Kazakhstan and Russia vs. almost 30% in Belarus and Macedonia (vs. 32% in Iceland, 16% in the U.S., 15% in Sierra Leone, and 0% in Saudi Arabia).

(4) ***A possible role of attitudes in facilitating change.*** The E&E region has been hit disproportionately hard; it has had the most significant turnaround in macroeconomic conditions of all the global regions. The first round effects (from financial and commodity markets) have been very severe in these countries. And so too the second round effects (from a fall in demand from trading partners, and falling remittances and investments). In many respects, however, the E&E countries may likely be able to absorb and/or respond to the third round effects (i.e., the social and political ramifications) more ably than the much poorer developing world.

Still, the uniqueness of the E&E experience is an important consideration in this regard: here's a region that suffered a severe and in most cases a long transition depression in the 1990s and many people have not yet recovered from that. In other words, subjective considerations may be key in assessing the impact of the global crisis on social and political dimensions.

Drawing from MCP #11 (December 2008): The World Bank and the EBRD produced the *Life in Transition Survey* in 2006 that included assessments of how people feel they are doing today relative to times prior to the onset of the transition from communism to capitalism. The EBRD notes that "in most countries (and on average over the whole sample) a majority of respondents think that their living standards have improved since 1989." However, a closer look reveals that it is not a large majority. Similarly, the split by countries is roughly equal; i.e., in thirteen countries, there are more people who viewed a deterioration in living standards since 1989 than those who saw an improvement, while in another thirteen transition countries, the opposite held true. In Russia, the negative and positive responses virtually balanced out. (No data were available for Turkmenistan and separately for Kosovo).

Moreover, the responses by sub-regions varied substantially. The majority of persons in seven of the eight Northern Tier CEE countries felt their living standards were better in 2006 than in 1989. Hungarians were the salient exception: more than 60% of Hungarians felt their living standard was worse in 2006 than in 1989 vs. only slightly more than 20% who felt living standards were better.

In striking contrast, the majority of persons in seven of the eight Southern Tier CEE countries felt their living standards were worse in 2006 than in 1989. In parts of the former communist Yugoslavia, the imbalance of negative views over positive views is very large. In Bosnia-Herzegovina, more than 65% of persons viewed their living standards in 2006 as less favorable as what it was in 1989, while slightly less than 20% viewed their living standards in 2006 better than in 1989. Responses in Serbia and Montenegro were very similar. The Southern Tier CEE outlier is Albania where almost 80% of the population surveyed felt that their living standard was better in 2006 than in 1989 and only slightly more than 10% felt it was worse. In fact, no where else in the E&E region was the response so favorable as in Albania.

In Eurasia, the results are more mixed. More persons in the Central Asian Republics felt their living standards in 2006 were better than what it was in 1989 as compared to those who felt it was worse. However, perceptions were decidedly more negative in the Caucasus as well as in Ukraine and to a lesser extent Moldova. In Ukraine, e.g., slightly more than 50% of the population surveyed felt their 2006 living standard was worse than their 1989 living standards, while roughly 30% felt it was better. As previously noted, the negatives and positive perspectives roughly balanced out in Russia: 42% positive vs. 41% negative. Finally, many more Belarusians felt their living standards in 2006 were better than in 1989 (65%), than the reverse (15%).

In general, these findings on perspectives do not seem to correlate closely with *levels* of development or per capita income or social conditions across countries. To what extent do they correlate with objective measures of *change* within countries?

Assessing the current level of GDP relative to pre-transition GDP provides some evidence as to why so many people in the transition region have viewed living standards, then vs. now, so unfavorably. Bearing in mind the clear data limitations of comparing economic output over this time period (and recognizing that output and incomes are likely underestimated some in these measures), it is nevertheless striking to observe that on average, the Southern Tier CEE countries and the Eurasian countries (less the oil producers) have only very recently obtained pre-transition levels of income. Economic output in seven transition countries was still below 1989 levels by the end of 2008. In the Balkans, this includes Serbia (2008 GDP is 73% of 1989 GDP), Bosnia-Herzegovina (85%), and Montenegro (86%). In Eurasia, this includes Moldova (54%), Georgia (62%), Ukraine (72%), and Tajikistan (90%). These GDP trends are certainly consistent with the observation that many people in the transition region have suffered considerable hardships and still today may be worse off economically (objectively as well as subjectively) than in pre-transition times.

According to the World Bank/EBRD *Life in Transition Survey*, support for democracy (vs. authoritarianism) is quite strong in the region. In most countries, support for democracy is above or around 50% of the surveyed population. Russia has the lowest support with just over 36%. Support for authoritarianism is everywhere much lower than support for democracy; it is generally below 20% except for Russia (33%), Romania (27%), Ukraine (24%), and Kazakhstan (22%).

(5) Lessons learned from other crises and other times

Much of what we've found so far in the way of studies examining the lessons learned unfortunately violates the “tell me something I don't already know” rule. This includes the World Bank's *Lessons from the World Bank Research on Financial Crises*, Working Paper 4779 (November 2008). Still, there are a couple points from this study worth repeating: (1) “It should not be presumed that the poorest will be hit hardest [at least not at first]; indeed, some of the same (undesirable) factors that have kept a significant share of the developing world's population in deep and persistent poverty—including a lack of connectivity to markets, and consequent lack of opportunity for economic advancement—will protect them to some degree from the crisis.” (2) “Our research suggests that, amongst the sources of external finance to developing countries, only foreign aid tends to be stabilizing [or counter-cyclical], in the sense that its volume rises when economies contract. Private sources tend to be destabilizing, but some more than others; remittances are the least destabilizing, followed by FDI, while other private capital flows are the most destabilizing.”

Perhaps the most enlightening section of the World Bank's November 2008 study focuses on the impacts of crisis on human development, that is, on health and education. Much of that analysis, in turn, is drawn from an August 2008 World Bank Working Paper by F. Ferreira and N. Schady, *Aggregate Economic Shocks, Child Schooling and Child Health*. Salient findings of this study include: (1) the effect of crises on both schooling and child health is theoretically ambiguous; i.e. while there are some factors that contribute to decreasing school enrollments and child health as a result of an economic crisis, there are also factors that have the opposite effect (e.g., the opportunity cost of going to school can decrease in a crisis if you can't find a job and/or if wages fall. Also, while recessions can have an ambiguous effect on health because they tend to lower private and public expenditures on health, they also increase the time allocated to child care by family members). Given opposing effects, the aggregate effect of a crisis on education and health outcomes cannot be determined *ex ante*; i.e., it is an empirical matter.

(2) This study reviews the large body of literature which attempts to empirically assess the impact of economic crises on health and education in 20 countries or so. They find and conclude that the impact depends on the wealth and level of development of the country. In rich countries, education and health and nutrition outcomes are favorably

affected by economic crisis; in poor countries, the opposite: economic crises have a negative impact on both education and health outcomes. Among the middle income countries (ranging in per capita income from around \$6,000 in Peru and Colombia to \$12,000-\$13,000 in Mexico and Russia), results are mixed or ambiguous, though on balance (in 4 out of 5 countries), economic crisis had a positive impact on education enrollment, and on balance (in 3 out of 4 countries) economic crisis had a negative impact of health and nutrition outcomes. One possible program implication for E&E middle-income countries? If the choice is between the education and health sectors, a presumption might be justified to favor health rather than education.

(6) Democracies, autocracies, the resource curse, and economic crisis

Finally, some speculative thoughts on what the economic crisis might do for democracy. Marc Plattner (co-editor of the *Journal of Democracy*, VP for research at NED) in a *Washington Post* January 13, 2009 piece argues that democracy may have a competitive edge over the nondemocratic alternatives, that “on balance, the economic crisis could bring global gains for democracy, largely because of its impact on democracy’s competitors (i.e., the authoritarian capitalist regimes, such as China, Russia, Iran, and Venezuela), countries that until late last year had been riding high. Today’s authoritarian regimes are likely to be more vulnerable than their democratic counterparts. ..regimes such as those in Russia and China are propped up by what political scientists call “performance legitimacy”: as long as they deliver the economic goods, most of their citizens may be willing to accept the accompanying limits on their political freedom.” With delivery of the economic goods now in jeopardy, perhaps the authoritarian regimes in Eurasia will likewise be more vulnerable.

Maybe a key part of the equation is the dependence on commodity exports (energy in particular). With prices which have plummeted, primary product exporters have taken a severe hit. Drawing in large part on the work of Michael Ross, a political science professor at UCLA, we found strong econometric evidence in the transition region to support the claim (in some political science literature) that dependence on energy and metals for export adversely affects democracy.¹

We also looked at different channels through which this causality might occur and found evidence that the “rentier effect” is likely an important mechanism. This effect largely stems from fiscal policy dynamics: governments with large coffers from booming resource exports don’t need to tax the population for revenues and are able to spend liberally on public works without taxing. This presumably has the effect of essentially decreasing the demand for democracy and government accountability (and increasing the prevalence of corruption).

What will happen now given the very significant decrease in energy prices and in dependence on primary product exports and in revenues?

¹ Monitoring Country Progress in E&E, #11 (December 2008), pages, 24-25.

Real GDP Growth, %

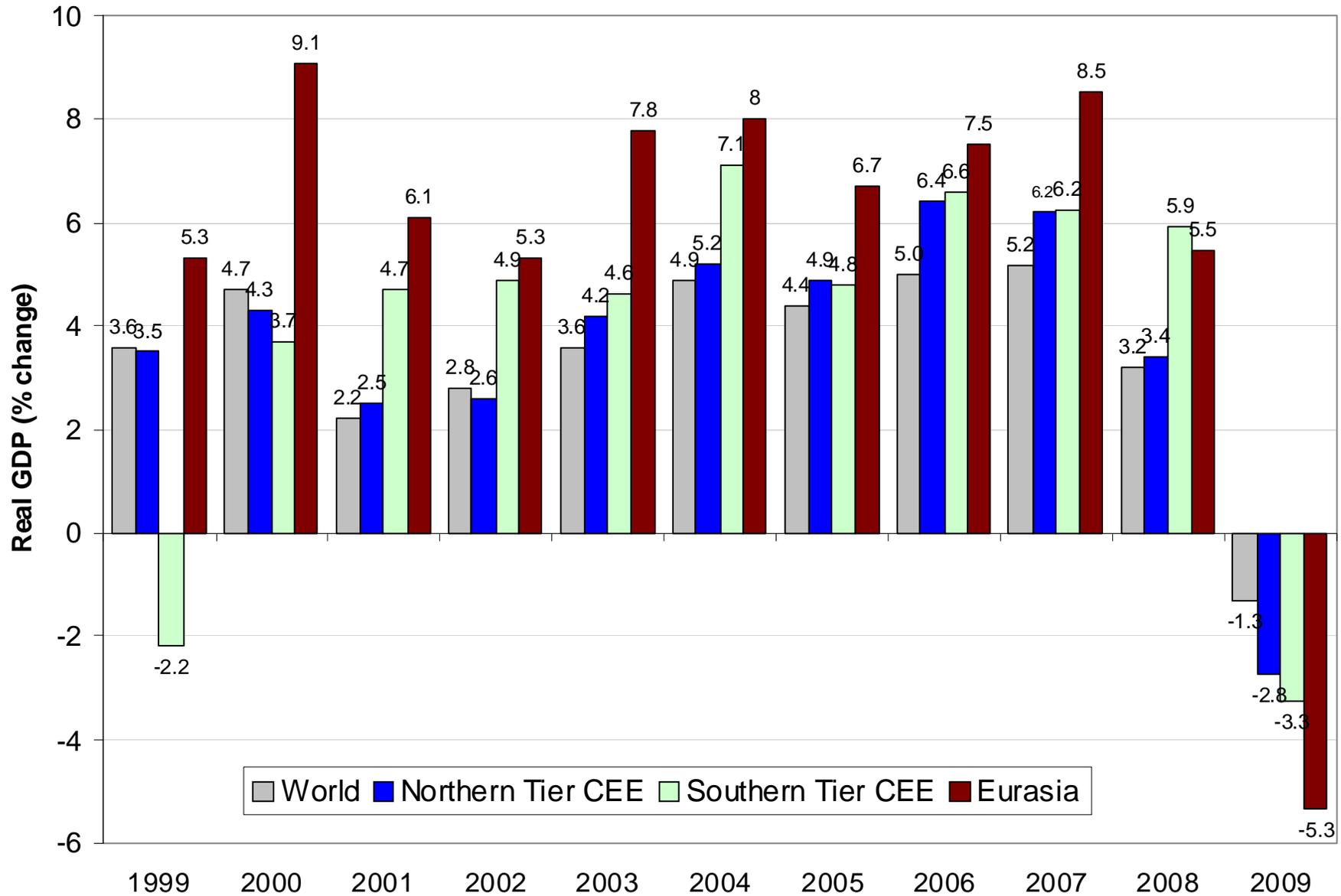
	2007	2008	2009	2009-2007
Latvia	10.0	-4.6	-12.0	-22.0
Azerbaijan	23.4	11.6	2.5	-20.8
Lithuania	8.9	3.0	-10.0	-18.9
Armenia	13.8	6.8	-5.0	-18.8
Estonia	6.3	-3.6	-10.0	-16.4
Ukraine	7.9	2.1	-8.0	-16.0
Russia	8.1	5.6	-6.0	-14.1
Montenegro	10.7	7.5	-2.7	-13.4
Belarus	8.6	10.0	-4.3	-13.0
Slovakia	10.4	6.4	-2.1	-12.6
Georgia	12.4	2.0	1.0	-11.4
Kazakhstan	8.9	3.2	-2.0	-10.9
Romania	6.2	7.1	-4.1	-10.3
Bosnia	6.8	5.5	-3.0	-9.8
Slovenia	6.8	3.5	-2.7	-9.5
Czech	6.0	3.2	-3.5	-9.5
Croatia	5.5	2.4	-3.5	-9.0
Serbia	6.9	5.4	-2.0	-8.9
Bulgaria	6.2	6.0	-2.0	-8.2
Macedonia	5.9	5.0	-2.0	-7.9
Kyrgyzstan	8.5	7.6	0.9	-7.6
Poland	6.7	4.8	-0.7	-7.4
Moldova	4.0	7.2	-3.4	-7.4
Albania	6.3	6.8	0.4	-5.9
Tajikistan	7.8	7.9	2.0	-5.8
Turkmenistan	11.6	9.8	6.9	-4.7
Hungary	1.1	0.6	-3.3	-4.4
Uzbekistan	9.5	9.0	7.0	-2.5

IMF, *World Economic Outlook Update* (April 22, 2009).

	2007	2008	2009	2009-2007
Transition Region	7.5	4.9	-4.3	-11.8
Central & Eastern Europe	6.2	4.1	-2.9	-9.1
Eurasia	8.5	5.5	-5.3	-13.9
World	5.2	3.2	-1.3	-6.5
Euro area	2.7	0.9	-4.2	-6.9
EU27	3.1	1.1	-4.0	-7.1
OECD	2.7	1.1	-2.8	-5.5
United States	2.0	1.1	-2.8	-4.8
Latin America & Carib	5.7	4.6	1.1	-4.6
Developing Asia	10.6	7.7	4.8	-5.8
Sub Saharan Africa	6.9	5.5	1.7	-5.3
Advanced economies	2.7	0.9	-3.8	-6.5

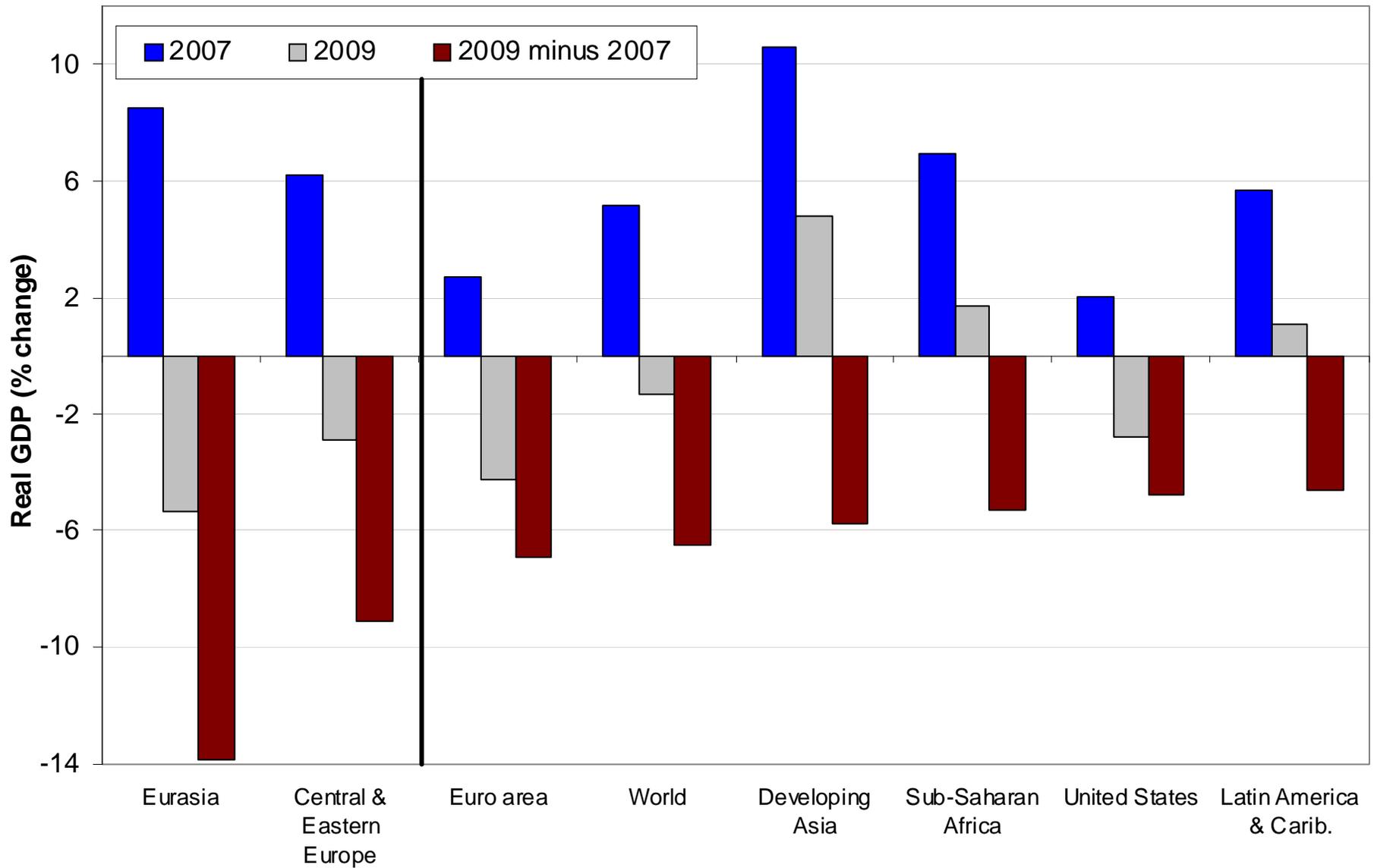
IMF, *World Economic Outlook Update* (April 22, 2009).

Economic Growth Trends Worldwide



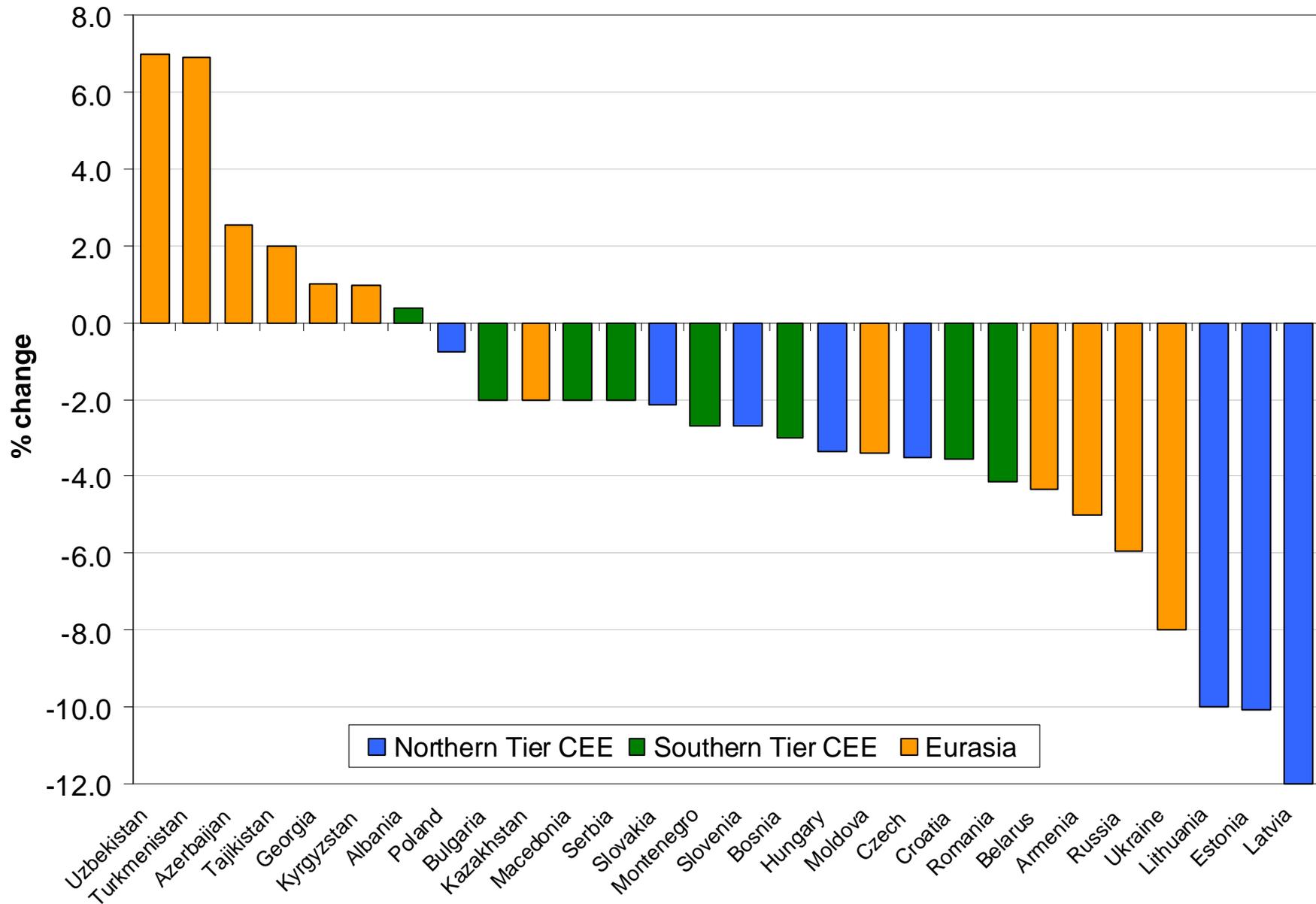
IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008). Regional averages are weighted by nominal GDP.

Economic Growth: 2007 vs. 2009



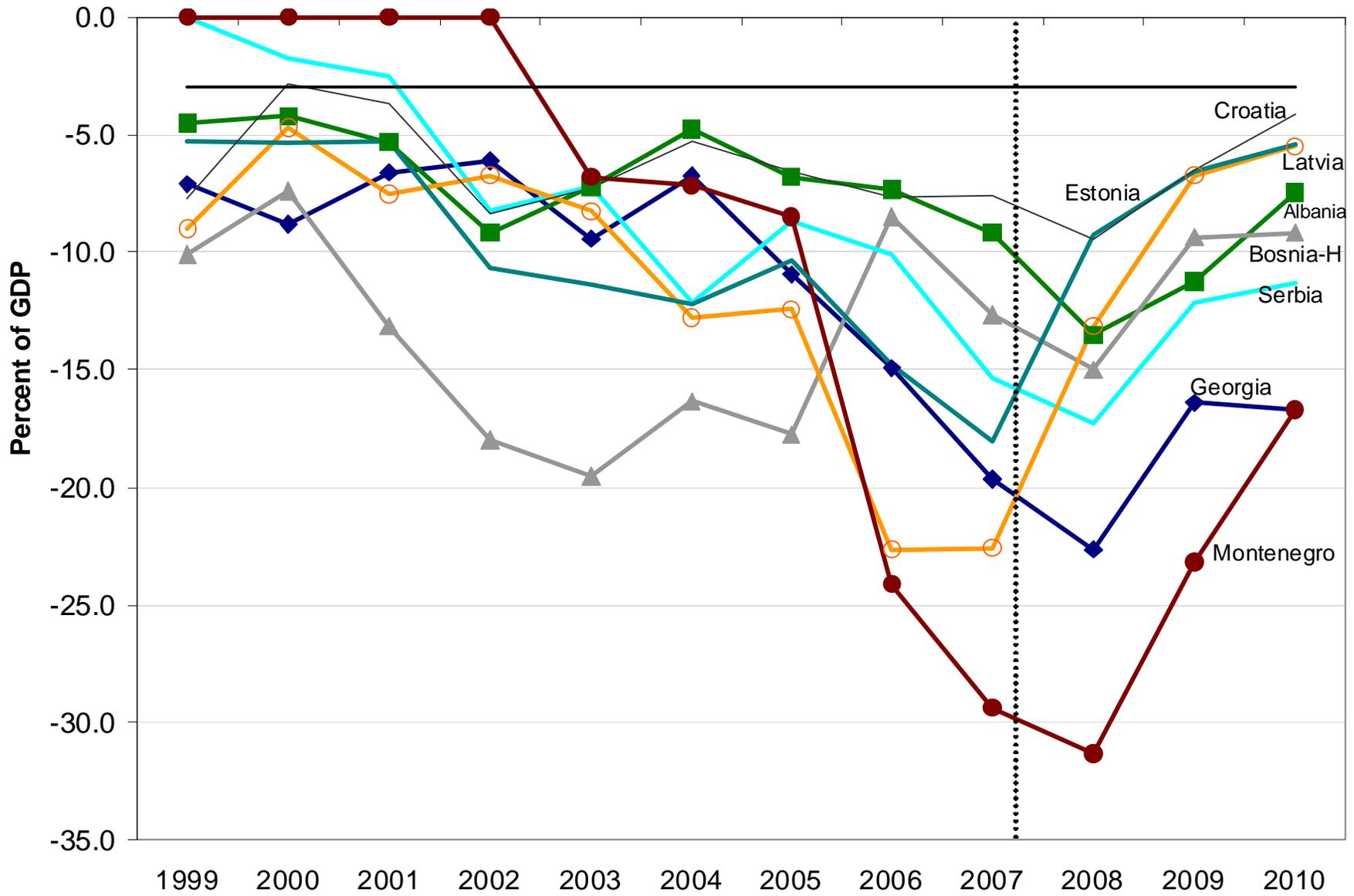
IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008). Regional averages are weighted by nominal GDP.

Real GDP Growth, 2009 Projections



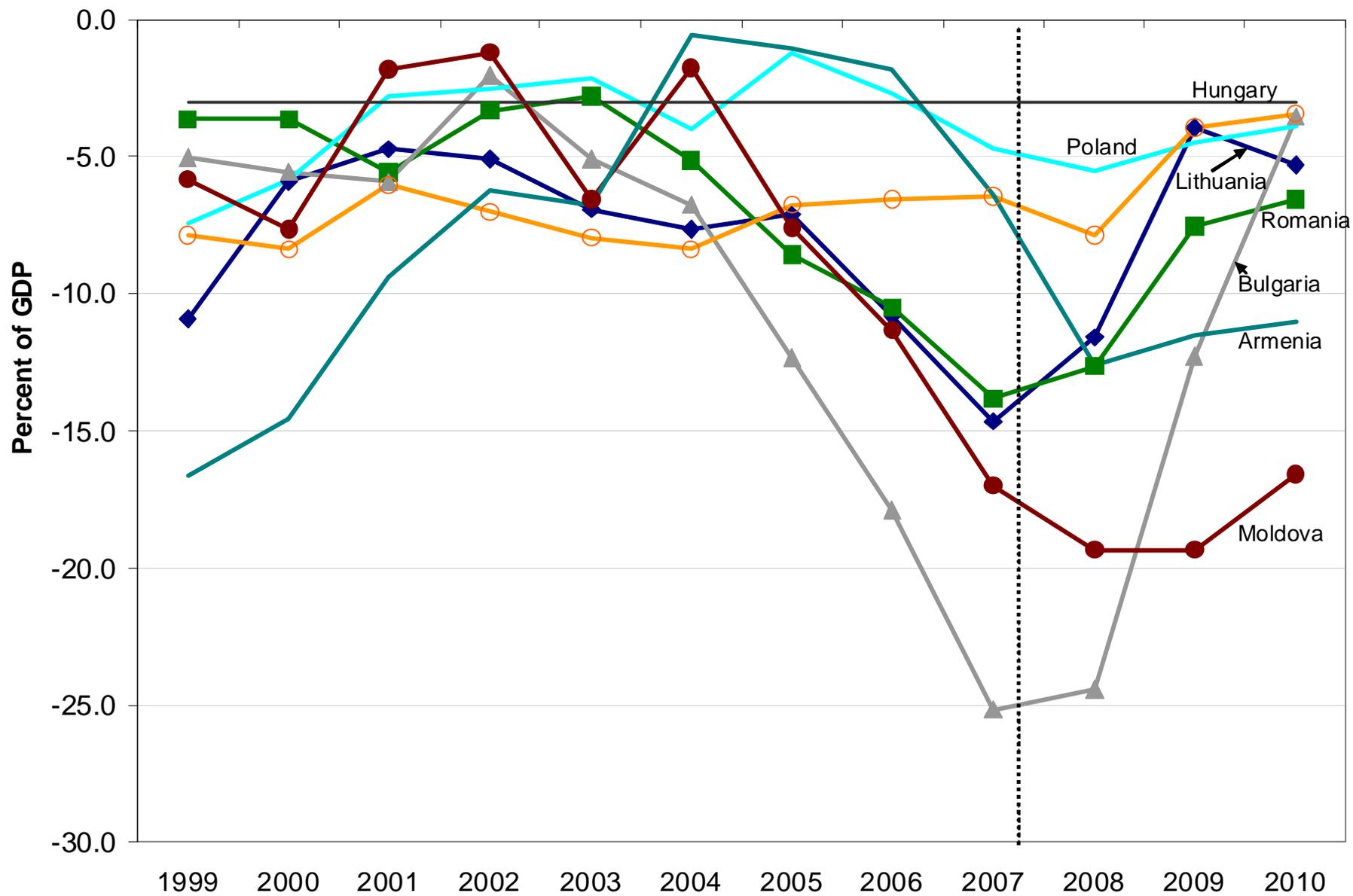
IMF, *World Economic Outlook* (April 22, 2009).

Current Account Balance



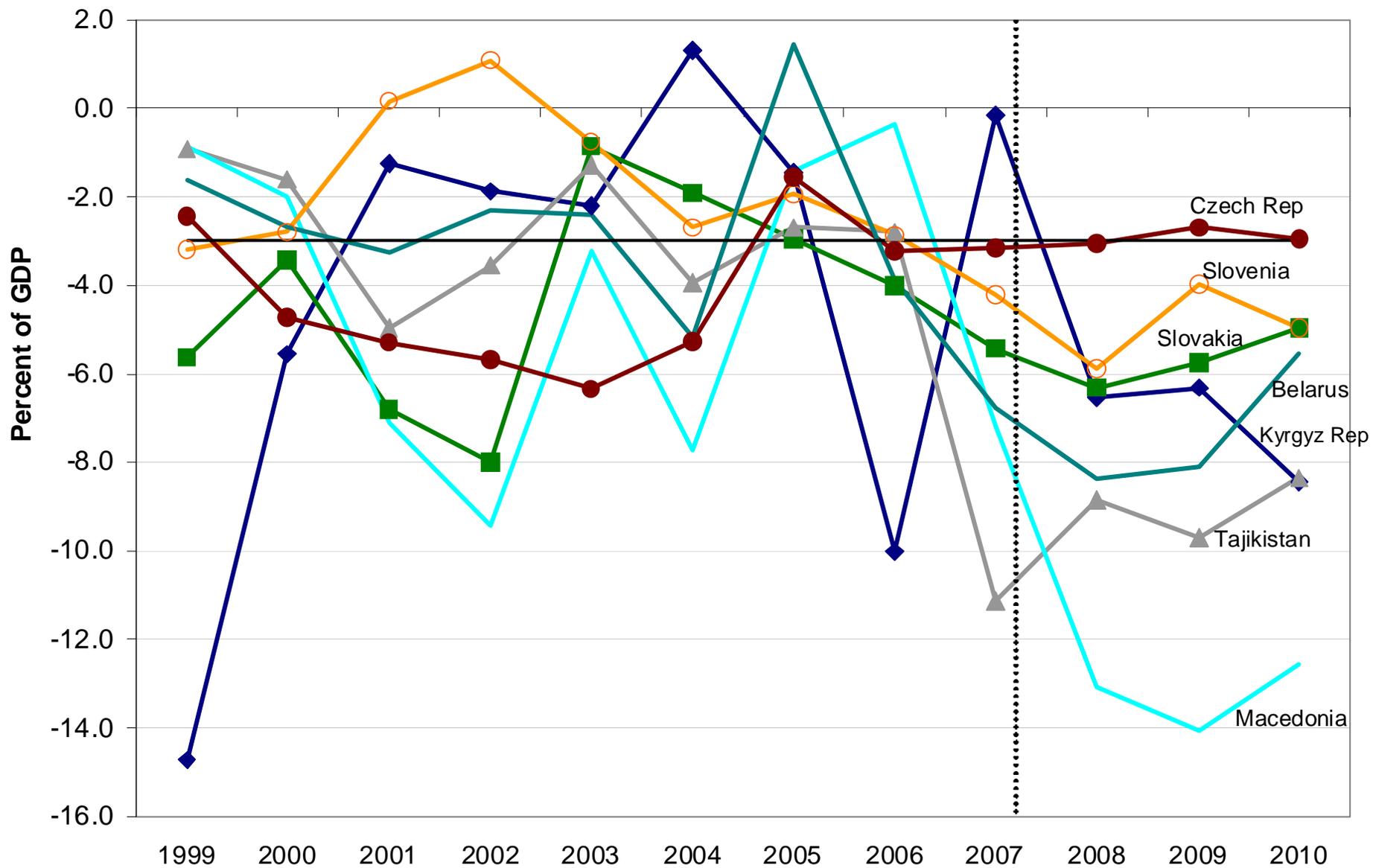
IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008).

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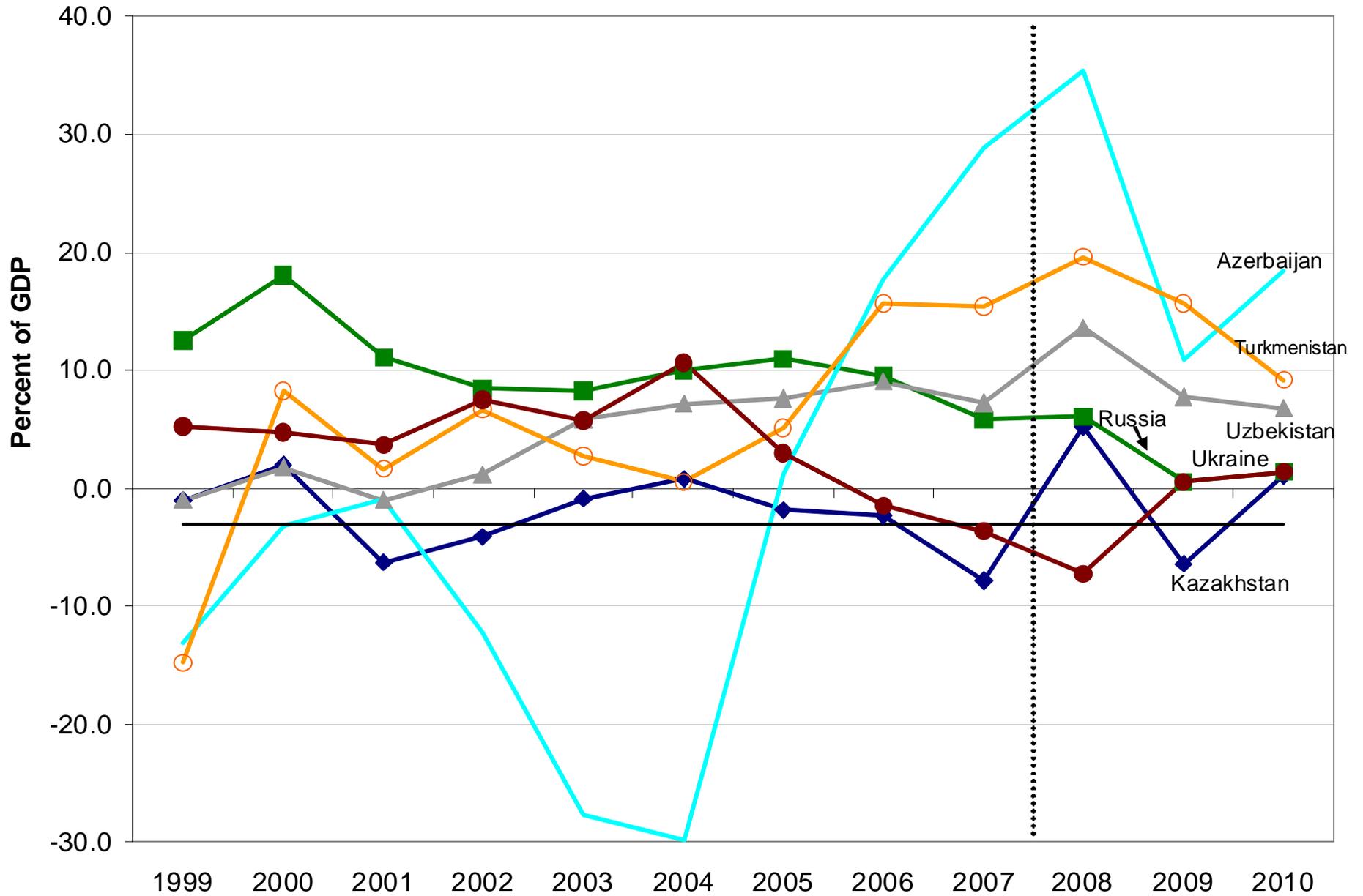
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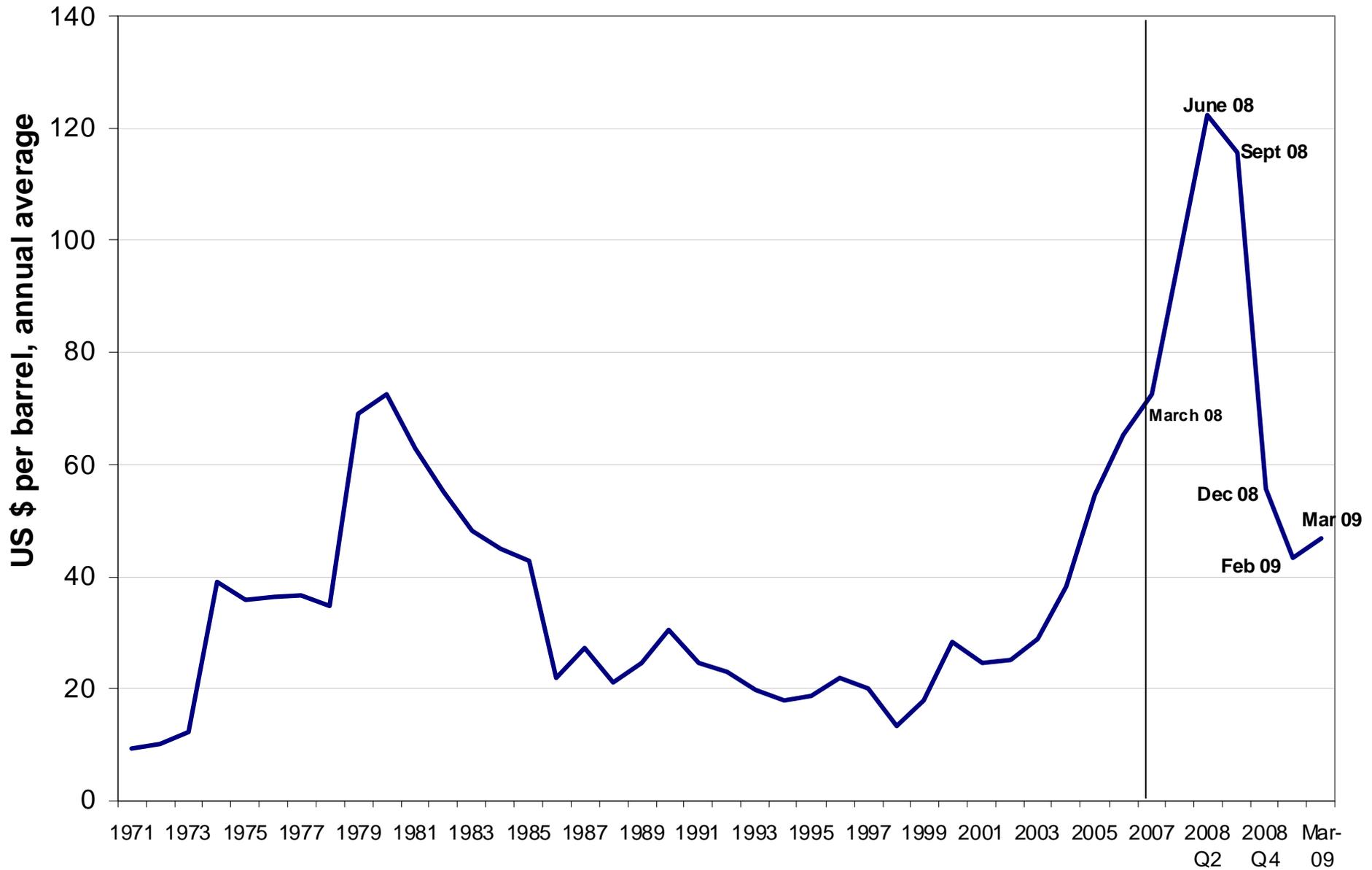
IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008).

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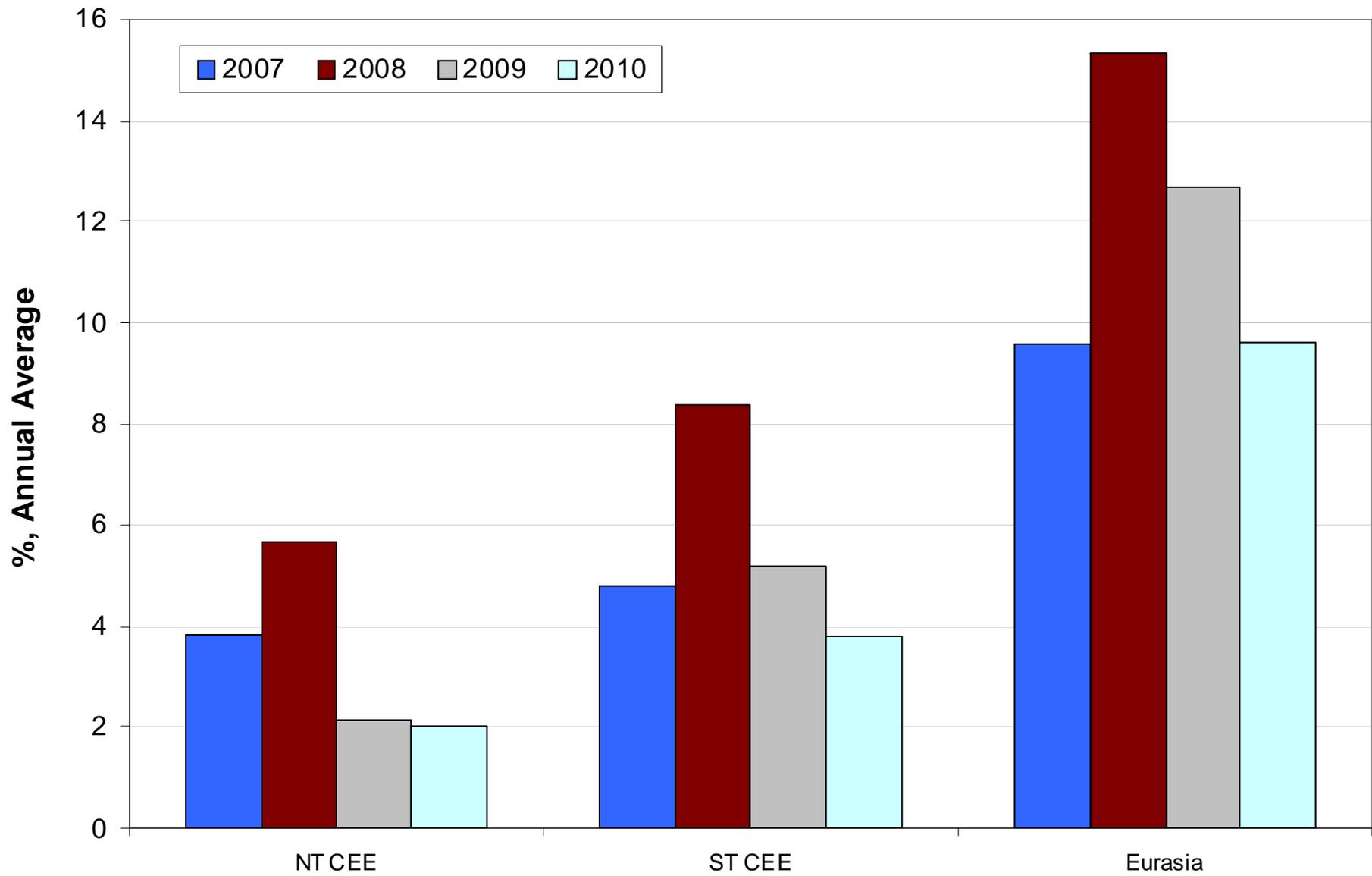
IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008).

Oil Price



World Bank, *Commodity Price Data, Pink Sheet* (April 2009).

Inflation



IMF, *World Economic Outlook* (April 22, 2009) and World Bank, *World Development Indicators 2008* (April 2008). Regional averages are weighted by nominal GDP.