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In autumn 2008 the state default durable or provisional insolvency threatened more East-Central-European countries which belong to the group of the relative developed countries considering the level of global development.

Since then the concern about these states has changed. Nowadays not the Central-European countries mean the problem of the Economic and Monetary Union, but some older EU-members in the Southern periphery of the European integration: first of all Greece, Ireland, Portugal and Spain. It is worth examining the situation of those countries which asked IMF's and/or EU's help more than two years ago. The question is whether they managed to get over their economic difficulties.

Key words: IMF, crisis, state default, bailout, state debt, budget deficit, repayment.

Latvia

From the North towards the South the first country is Latvia. Riga has already used €4,4 billion from the €7,5 billion credit amount of IMF and EU. The help was absolutely necessary, because before the crisis the Latvian budget deficit had been between 0-2 percent, but it exceeded over 4 percent in 2008 then over 10 percent in 2009. Though Riga had currency reserve for 3 months to finance itself but it would have given out at the end of June in 2009.

After the beginning problems – the Latvian gross domestic product fell by 18 percent in 2009 – we couldn't hear about this small Baltic state. And it can be favorable for Riga, because after the drastic administration decisions the international investors have considered Latvia as a great goal country for their capital. Even the government doesn't want to draw more so called stand-by credits in 2011. It is possible for Latvia to have more favorable growing data than having been forecast.

The solution of Latvian economic situation is due to internal and external factors. On the one hand the government made an austerity plan with a drastic cut of the expenditures: decreased the wages by 20 percent in the public sector, and lowered the value of pensions by 10 percent. Furthermore the decreasing of the expenditure of bureaucracy by 30 percent and of the minimum wages from 180 lats to 140 lats (about €197) succeeded. In the macro level the insolvent problems cancelled.

If we consider the external affects, we have to mention the improving economic achievement of Germany and the Scandinavian countries as the most important partners of Latvia.

Romania

Romania had had a vigorously growing and very favorable labor market process before the beginning of the crisis. But since then they have had to suffer the forth largest recession in the European Union. Of course it meant serious problems by itself, but the negative sequel just accumulated in autumn 2008 and the Romanian political élite didn't have willingness to decrease the painful influences of the crisis.

As the financial crisis expanded on the whole Europe and it infected firstly the building industry that's why a part of the Romanian citizens worked abroad in this sector tried to go home. But at the same time the investments in Romania were restrained considering whether the direct capital or building a normal family house. So the Romanian labor market couldn't absorb the domestic employees and workers either. Who came home, had less chance to find work.

On the other hand the public sector was very expanded with permanent increasing of wages. And the third reason was the president election in 2008 which had a rather bad influence for Bucharest to avoid the prompt management of crisis. That's why the request of the IMF-help was understandable, because by February 2009 there wasn't chance for Romania to finance itself from the financial market. And it was understandable that IMF had to cost the price of the Romanian crisis (a half year later than in the case of Latvia or Hungary) and sent €5 billion from the €19 billion whole aid.

Romania could find its feet difficulty in accordance with GDP data in the new member states – it is only the country whose gross domestic product still went down last year.

Though the PD-L – RMDSZ (*Partidul Democrat Liberal – Romániai Magyar Demokrata Szövetség* [*Democratic Liberal Party - Democratic Union of Hungarians in Romania]*) coalition achieved an austerity plan as in value as the Latvian government. Due to the thrift there have been some results. Whether the volume of internal consumption of the demand for import fell down and the budget deficit decreased below 6,5 percent was expected by EU and IMF. Concurrently Romania struggled with high deficit and passive balance of payment (however the value of balance of payment has improved by closely 46 percent and of deficit has showed a favorable tendency).

But to tell the truth Romania still needs to use and to draw new amounts from IMF-EU-WB aid, and by now only 15 percent of the whole package stays as stand-by aid for Bucharest.

First of all the government should save money on the expenditure of the bureaucracy. For example the prefect-system can be needless which has one of the primarily goals to represent the interests of the state definitely in those counties where Hungarians live in majority.

Finally it is worth pondering whether the more developed areas (the capital, Bucharest and Transylvania) help the underdeveloped regions (*Wallachia and Moldavia*). There aren't any ways from the poverty and crisis in those two regions.

Hungary

Before the financial crisis the Hungarian economic achievement presented the negative record in Central-Europe. His economic growth was the weakest in 2006 and 2007 considering the new members: the 3,6 and 0,8 percent were a very modest result. The Hungarian budget deficit (-9,3 percent and -5 percent in ratio to GDP) was exceeded only by Greek deficit which wasn't a so called success story to tell the truth. Simultaneously these statements are true considering the government debt too. In addition to Hungary has the second worst employment rate in the EU27: it is less by 8 percent points below the average of EU and during the prosperity period in the first decade of 2000s Budapest could be better than just Malta ad Poland (since then Warsaw has been able to overtake Hungary). Not necessary to say there are closely 300 hundred thousand families with their credits denominated in foreign currency (exactly 2800 billion HUF credit denominated in foreign currency to buy flat/house, it is 10,5 percent of the Hungarian GDP). Because of this amount the government can't devalue the Hungarian Forint though it can be favorable for the export.

After these conditions, no wonder that the solvency of Hungary was in danger in the second part of 2008. Since then it has been proven that Hungary could have been in a state default without the help of international institutions (the Hungarian National Bank grew the interest rate onto 11,5 percent in vain it couldn't lure foreign capital to finance the Hungarian debt and deficit till March 2009).

That's why Budapest had to ask the IMF-EU-WB's help. They gave €20 billion bailout package for Hungary (This was the largest one in the Central-European region). Until April 2011 Budapest drew €14,3 billion: €12,5 billion from the IMF help and €8,8 billion from the part of EU while Hungary hasn't used the money from World Bank yet.

Nowadays Budapest needn't use the remainder which is 28,5 percent of the total amount, about €5,7 billion. Irina Ivascsenko, the delegate of IMF in Hungary told praise to Budapest who wants and is able to hold his budget in balance. Because after a long time exactly firstly after the enlargement in 2004 Budapest could fulfill the 3 percent limit in ratio to GDP considering the Maastricht criteria. So we can evaluate it a Hungarian success that Budapest could cut his deficit in spite of the crisis and recession.

In the immediate future the Hungarian government debt can also moderate because of more than 2700 billion Forint amounts (about €10 billion, 270 Ft/€) which have been taken back from the private pension funds. If the Orban-government wants to finance with this money the Hungarian debt, as stock obligations, it can be a good decision because the money from the pension funds are stock goods as well. So Hungary will be able to attain the necessary Maastricht criteria.

All things considered Hungary seems to find his own way. Of course due to these economic and political steps Hungary hasn't adopted the single currency the euro yet, but Budapest can increase the confidence of the investors. First of all and that is why Hungary must repay the IMF and EU's credit as quickly as they can. Hungary and Latvia have a good chance to do it.

Ukraine

At the same time with the decision of Hungarian and Latvian bailout package Kiev could be given his own package to hold his solvency. It was absolutely necessary because the annual gross domestic product of Ukraine hurtled by more 15 percent down in 2009 while the budget deficit went up over 15 percent in ratio to GDP. We have to mention that Ukraine had had a permanent budget deficit before the crisis. Simultaneously the Ukrainian inflation was between 9 – 25,2 percent so Kiev hasn't been able to cover his lack with so called seigniorage-revenue either since 2004.

Despite these data however the main problem is the bad economic and social structure of Ukraine. The economy still uses the spendthrift Soviet technology. The ratio of the employees in the agriculture sector is rather high (15,8 percent) and this sector can still produce 9,8 of the GDP. In parallel the mentioned spendthrift heavy industry is less value added and demands raw-material goods very much. The mining presents more than 15,8 percent of the industrial production (they are being built down in the Western part of Europe continually). Ukraine can find markets for his goods because they are raw-material intensive and/or labor intensive products that's why they can't compete with the very cheep labor force from the Far-East. This tendency was just amplified by the crisis.

The other problem is the demographic change of the population. Since 1993 the number of the citizens in Ukraine has decreased by closely 6,5 million. Of course considering the structure of the demographic situation we can see the overrepresentation of the elders which can grow the size of the social expenditure very much (17 percent of the Ukrainians is over 65 ages). Additionally the heritage of nuclear disaster in Chernobyl still exists and has been destroying the quality of the human resources.

Probably that's why to say Ukraine has to face the largest problems from all presented countries in this paper, the deepest crisis will be here in long term.

Kiev got $16,4 billion (about €12 billion) to avoid the insolvency and to be able to begin to decrease his budget deficit from the level of 15 percent of GDP. But the Ukrainian situation was very similar than the Romanian, because of the president election. There weren't any remarkable steps immediately after the beginning of the crisis.

Of course there was a big price of the procrastination. The government had to increase the price of the natural gas by 50 percent in August 2010. It affected every citizen. Even in 2011 we can expect a similar rise in the gas price as well because the Naftogaz Ukrajin gas monopoly with state interests is on the verge of the total bankruptcy.

In the short run Kiev can preserve the confidence of markets but in middle term even in long term there will be many concerns about the sustainability. Ukraine has already used $10,6 billion from the whole amount but it is question when the next installments will arrive and what kind of conditions with. One of the main conditions is the pension reform. That's why the government has grown the pension age limit of women from 55 ages.

Serbia

Serbia is in a special situation. Belgrade received just a small part of the average size of IMF package as help. The bailout for Serbia is €3,9 billion which is only about 20 percent of the bailout amount for Hungary or Romania. On the other hand it is special too because the Serbian government can draw it in relative small installments.

The economy of Serbia was in acceptable status in 2008. The economy is organized as an export-orientated economy as well as any economies in the Central-European region. That is to say Serbia couldn't avoid the recession either. However the four percent sinking shouldn't have explained the help of IMF. My opinion is that we have to look for the explanation of the problem: the external conditions of the foreign direct investment have changed since the second half year of 2008: it fell down drastically. Why is it problem in case of Serbia?

The government had fear from the internal insolvency (and this is different from the other countries in the region). They faced two obligations at once. Simultaneously the government had to finance the pension system and the public sphere and their maturities but by the end of 2008 the reserve denominated in foreign currency decreased by 9,1 percent in ratio to GDP (at the same time the GDP also decreased!). In parallel the credits need refinancing are about 10 percent of the GDP since 2007. Thus a finance gap was born because of the difference between the decreasing of the reserve by about 9 percent of the Serbian GDP and the refinancing claim which is about 10 percent. This gap wasn't disinclined to finance by markets especially at the beginning of the crisis. Belgrade had to ask help from the IMF to hold their solvency.

Serbia could draw the installments of the credit: the first one was €800 million, the second was €350 million, the third was €360 million and last one was €380 million. In exchange for them the Serbian government had to approve a law about financial responsibility. It has pegged that budget deficit in 2011 won't exceed the 4 percent of the GDP. Due to this step IMF allowed the government to increase the nominal value of pensions and salaries in the public sector by 6 percent (they have been frozen since 2008.) In addition to the pensioners will be given about 3000-3500 Serbian dinar (about €34-48) allowance.

There can be a more serious danger in the economy, the inflation. The rate of the Serbian inflation is urged by foreign, world economic effects and the internal weakness. The foreign problem is the expensive energy and foods which arrived from abroad. The inflation affects the exchange rate so the Serbian currency is weakening. It is strange but true that the weak currency can raise the price of export, because the significant part of the export builds on import. As a weak exchange rate usually increases the price of import in this case the weak Dinar doesn't mean considerable advantages for Serbia (or we can think of the transfer price in the case of multinational companies where the level of exchange rate of Dinar appears neither.

If Belgrade wants to hold some competitiveness and to avoid an accelerating inflation the Serbian National Bank has had to grow the level of the interest rate. No wonder it is 12 percent next to 10,3 percent inflation. But such a high interest rate like this one may reduce the volume of the investments. And the cycle closes: inadequate volume of investment will obstruct the production and the salesmanship (and of course the realization of the budget revenue) which can lead higher budget deficit because of the missing tax revenue.

Poland

You can ask why we want to discuss about Poland in this report. Though Poland didn't sink into recession, even Warsaw was the only country considering the EU27 which could produce positive GDP growth during the crisis. Additionally Poland can keep the confidence of the investors because the Polish Constitution declared the limit of the debt: it mustn't exceed over 55 percent of GDP. It is a really strong limit.

The answer for this question is found in the world economic insecurity. The export and import from the group of the new members have grown by 150 percent considering the trade partners of Poland. Some of the most important countries are the Baltic States, Hungary or Romania (needles to say Ukraine could improve the trade relations with Poland too). And negative process from these countries can affect the Polish economy.

But we can see another similar dangerous or more dangerous situation if we think of the financial relationships in the Central-European region. The main country can finance these transforming countries is Austria. The Austrian financial institutes have the largest outstanding credits especially the amounts have been invested into the Central-European economies are about 60 percent of the Austrian GDP (it was €169,8 billion in 2008 in comparison with the total Hungarian GDP is €106,4 billion!). 44 percent of the credits was invested in Visegrad countries and Romania: 14 percent was invested in Hungary and closely 16 percent in Romania and the rest amounts are in two other countries: Czech Republic and Slovakia which also sank into recession. Thus the Austrian banks have to face liquidity problems it can appear in the economies of new members immediately. Though the share of Austrian capital is only 7 percent in the Polish financial markets, notwithstanding it can thrust the Polish economy into recession.

That's why Warsaw applied for a so called Precautionary Credit Line from IMF which was established by the Monetary Fund. Poland wants €30 billion to prevent a potential danger in 2011 (they were already given a less precautionary credit in 2010). But probably this special help won't be used.

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