Greek debt crisis exacerbates problems in Eastern Europe and Balkans

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The debt crisis in Greece is placing Eastern European states under even more pressure. Although most East European countries are not in the eurozone, they are being directly affected by its crisis.

According to analysts at investment bank Morgan Stanley, the countries most at risk are Bulgaria and Romania. The fear is that the Greek banks will provide far less capital to their affiliates in the Balkans in the future and scale back on loans.

The four largest Greek financial institutions in the Balkans have a market share of 20 percent, rising to 35 percent in Bulgaria, according to financial magazine *The Banker*. In addition, Greek banks—such as the National Bank of Greece, Alpha Bank, Piraeus Bank, EFG Euro Bank and ATE—are strongly represented in Serbia, Macedonia, Albania, Ukraine, Croatia, Moldova and Turkey.

If the Greek banks pull funds from their Eastern European subsidiaries this could trigger a chain reaction. Economic analysts have pointed out that the Greek government had asked the country's banks not to use the state aid provided last year to recapitalize their foreign subsidiaries.

Analysts expect that Romania, which is awaiting further IMF payments, will be hit particularly hard by the scaling back of loans by Athens, since the Romanian economy is shrinking more than expected, according to the latest figures.

The Bulgarian banks are also dependent on capital from their parent companies, as ratings agency Fitch noted. According to Edward Parker, Eastern European expert at Fitch, "The country has a fairly large banking system for its low income level".

Bulgaria has postponed its application to join the eurozone because its 2009 budget deficit rose above the Maastricht criterion of 3 percent of GDP for the first time. Scepticism is growing in many Eastern European countries about the introduction of the euro. Many governments want to retain their ability to devalue their own currency if necessary.

"In the past week, we have seen a huge clearance sale in the bond markets in Eastern Europe," warns Juraj Kotian, Eastern Europe economist at the World Bank in Vienna. The consequences will be interest rate rises and rapid currency decline.

Eastern Europe was engulfed by the crisis a year ago. The International Monetary Fund and the EU supported Latvia, Romania and Hungary with billions to avoid a collapse in the region. Now the crisis in Greece could drive these countries into bankruptcy.

The exchange rates for many Eastern European currencies have fallen sharply in recent weeks. The Polish zloty has fallen by nearly 10 percent in the last two weeks; likewise the Hungarian forint and the Romanian leu.

Warsaw's central bank deputy chief Witold Kozinski announced that his country would postpone the introduction of the euro once again. The introduction of the single currency was said not to be "a top priority." Last year, Poland had already postponed accession to the euro zone, originally planned for 2012, because of the financial crisis.

The impact of the debt crisis can also be felt in the states of the former Yugoslavia, which have traditionally had close ties with Greece. The German conservative Konrad Adenauer Foundation said recently that the consequences of the economic and financial crisis were also being felt in Croatia, and raised the question of "whether a similar trend, i.e., a threat of state bankruptcy, was also possible".

Already in 2008, Croatia's economic growth had fallen below 3 percent. Last year, a drop of almost 6

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percent was recorded, and Croatian Bank analysts expect a further decline for the current year. The number of unemployed is officially put at almost 20 percent, suggesting an actual unemployment rate of around 30 percent. Foreign investment, another important indicator, fell last year by more than half compared to 2008.

Last year, Croatia's debts rose above €16 billion. This represents approximately 35 percent of gross domestic product. National debt has doubled in just 10 years, but rose by 17.9 percent in 2009.

As in Eastern Europe, banks in Croatia are mainly owned by Western European finance institutions. Austrian, Italian and German banks control about 90 percent of the Croatian banking system, and have been heavily involved in Greek government bonds. If these were cancelled, it would have a dramatic effect on the Croatian banking system. The same goes for Serbia, which is currently being seriously shaken by the economic crisis and where the local currency, the dinar, faces strong pressure.

In turn, the crisis in Eastern Europe has implications for the Austrian banks. "Of course, Austrian banks were again affected," said Eastern Europe expert Zdenek Lukas from the Vienna Institute for Comparative Economic Studies. Since the 1990s, the Alpine republic has been heavily involved in Eastern Europe and the Balkans. The three biggest Viennese banks—Bank Austria, Raiffeisen and Erste Bank—are the biggest lenders in the region. According to the Austrian National Bank (ÖNB), at the end of 2009, they had outstanding loans and other outstanding debts of about €35 billion in Bulgaria, Romania and Serbia.

Speaking on the risk of debt defaults, an ÖNB spokesman said a lot depended on how the Greek government implemented its austerity programme, and thus takes the banks out of the "firing line".

As well as Greece, the Eastern European countries have begun rigorously to saddle the population with the burden of the crisis in recent months. The International Monetary Fund and the EU are insisting on cuts in wages and welfare.

A good example is Latvia, where the social infrastructure is now collapsing as a result of the austerity measures. In Romania, Prime Minister Emil Boc has launched a new wave of cuts. In Hungary, budget consolidation stands at the top of the agenda of the new right-wing government of Prime Minister Victor Orban.

In the impoverished countries of the former Yugoslavia, the corrupt elite is also determined to make the population pay in blood for the rescue of the banks. Belgrade is negotiating over the strict austerity measures demanded by the IMF as a condition for the country receiving further aid. Croatia's Prime Minister Jadranka Kosor, already dubbed the Croatian "Maggie Thatcher", has announced deep cuts in all areas of social spending.

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