Social and political crisis intensifies in eastern Europe

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Last year, a broad consensus of politicians and analysts concluded that eastern Europe had largely overcome its problems resulting from the economic and debt crisis of 2008 and 2009. Recent reports, however, make clear that the debt crisis is far from over and is generating a huge social and political crisis in many eastern European countries.

The Vienna Institute for International Economic Studies (WIIW) has significantly revised downward its growth forecast for central and eastern European countries. The Institute notes in a new report that the "collapse of the euro zone poses the greatest of dangers to the countries of Central, Eastern and Southeastern Europe".

The authors of the WIIW report have sharply lowered their expectations for most states in the region and draw particular attention to growing the discrepancies in Europe between Poland, the Czech Republic and Slovakia and a number of other east European countries.

In November, the analysts had predicted that the economies of the 10 EU members in the east would grow by 2.4 percent in 2012. In July 2011, they had even predicted 3.7 percent. In the meantime, such expectations have been dashed.

In 2008, Romania and Slovakia were on target for an economic growth of more than 7 percent, but now, like the majority of their neighbouring countries, they are sliding into recession. The euro crisis has also slowed growth rise in Estonia. Its economic performance shrank in the last quarter of 2011 by almost 1 percent, and the debt problems of the rest of Europe have dampened demand for the country's exports. The Estonian central bank has warned of the danger of recession this year.

A few days ago, the German business newspaper *Handelsblatt* noted: "The economic downturn which begun at the end of 2011 in Western Europe has now clearly reached the East in 2012".

The shift towards recession is a direct consequence of the harsh austerity measures imposed in the region, which have only served to drive up public and private debt. The increase in unemployment and reduction in wages has denied authorities valuable tax revenues. Youth and long-term unemployment has risen sharply in the 10 eastern EU member states, and this trend is likely to intensify.

The situation of the financial sector in central, eastern and southeastern Europe is also alarming, according to economic analysts. "In many countries we are witnessing an increase in non-performing loans. The debt situation is precarious", declared WIIW chairman Michael Landesmann at the launch of the report. The interest rates on government bonds in Hungary and Bulgaria are currently hovering around 10 percent. As a result, German and Austrian banks have been reducing their involvement in eastern Europe.

Austrian banks have issued more than €200 billion (US$260 billion) in loans in the region. This represents about 70 percent of the country's gross domestic product. No other nation is so exposed in eastern Europe, and the worsening crisis has led to fears in the Austrian finance community that the country could take a large hit on its loans. In addition to Austria, banks in Sweden, Italy, Belgium and France have also invested extensively in eastern Europe.

Austria has already paid a high price for its eastern investments. In the past, investors had rated Austrian government bonds almost on a par with those of Germany. Now, the risk of default in Austria is rated even higher than ailing Italy.

Many analysts argue that Austria could soon find itself in considerable financial difficulties due to the exposure of its banks. At the end of January, the government in Vienna called for an internationally coordinated aid plan for eastern Europe. The region needed to be “calmed down” with the support of an aid program, declared Economy Minister Reinhold Mitterlehner of the ruling Austrian People’s Party (ÖVP).

The social consequences of the brutal austerity policies of recent years are manifold and widespread. Twenty years after the collapse of the Stalinist system, social decline is accelerating in eastern Europe. In particular, there has been a marked decline in population levels, caused by declining life expectancy and birth rates, combined with high levels of emigration.

Romania, the second-poorest EU member after Bulgaria, is hardest hit in this respect. The country’s population has declined by 12 percent in the past 10 years. In Latvia, the population has fallen by 13 percent. The majority have emigrated because many see no future in their countries of birth. Romania and Latvia have both implemented drastic austerity measures at the behest of the International Monetary Fund, resulting in mass layoffs, wage cuts and the dismantling of social standards.

A similar decline in population has taken place in Lithuania (12 percent), Bulgaria (7 percent) and Serbia (5 percent).

Economic and social decline is also expressed in the dismantling of democratic rights and the growth of authoritarian structures. The current “Transformation Index” of the German Bertelsmann Foundation, which regularly assesses the democratic and economic development of 128 countries, records “backsliding” with regard to democratic rights, particularly in eastern Europe. “Most of the East Central and Southeastern Europe have seen a qualitative deterioration in their democracy, market economy and political leadership in recent years,” the study concludes.

According to the report, in many regions, “populists dominate and are deliberately weakening democratic institutions in order to undermine the existing division of power and strengthen their own position.”

Between 2009 and 2011, the so-called quality of democracy has declined in 13 of the 17 east and central European countries. Hungary is the best example. Since May 2010, the Hungarian government has systematically worked to undermine the country’s democratic institutions. The right-wing government led by Victor Orban (Hungarian Civic Union, Fidesz) has restricted the freedom of the press and curtailed the powers of the constitutional court.

But Hungary is not alone in this respect. The same study also names Slovakia, Albania, Kosovo, Macedonia and Montenegro, which have all suffered a “significant degradation in the quality of democracy”.