



conference

# FINANCE AND GROWTH IN CENTRAL AND EASTERN EUROPE

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## THE REAL EFFECT OF FINANCIAL CRISES IN THE EUROPEAN TRANSITION ECONOMIES

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### *Abstract*

The aim of this work is to assess the impact of financial crises on output for 11 European transition economies (CEECs). The results suggest that financial crises have a significant and permanent effect, lowering long-term output by about 12-17 percent. The effect is larger in smaller countries in which the banking sector presented more important financial disequilibria. We also found that fiscal policy has been the most efficient tool in dealing with the crises, while the effect of monetary policy has been rather modest. Flexible exchange rates are found to attenuate the impact of the crises in the short and medium-term, but to amplify the effect in the long-run. The IMF support is found to moderate the effect in the long-run. Finally, the effect in the CEECs is considerably larger than in the EU advanced economies.

*Keywords:* output growth, financial crisis, CEECs

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