"Financial stability in the new EU Member States"
Chatham House Workshop

Monday, 12 December 2005
9:00-12:30

The eight Eastern European economies that joined the EU in 2004 have sustained rapid growth with low inflation, graduating from IMF tutelage in the 1990s to the policy anchors of the *acquis communautaire*. As a group, they have an unusual track record in blending macroeconomic with structural reforms. And they have brought an element of much needed dynamism to the EU economy.

Can policy-makers maintain this performance, avoiding financial instability and moving smoothly to euro area membership, as incomes converge toward the EU average? Or could the road ahead could be bumpier? In some central European economies, there are signs of adjustment fatigue, and electoral perspectives in 2005-6 may not bring a reformist sweep. Credit is expanding at a rapid pace, though from a low base; and in some economies balance sheet risks are growing as banks lend in foreign exchange to unhedged borrowers.

In some of the EU Accession candidates could financial stability also prove an issue over the medium-term? In this region, there is the added concern that institutions typically are weaker than in the 2004 EU Member States. And the private sector is in many cases less competitive. The accession process in some of the West Balkan countries may also prove quite long drawn-out.

The workshop brings together experts from different institutional backgrounds to discuss the outlook for financial stability in Eastern European EU Member States and candidate countries – considering in turn the macroeconomic perspective, banking sector issues, and financial market risks. It is held under the Chatham House Rule.

*Chair: Willem Buiter, London School of Economics*

**Session I – A Macroeconomic Perspective 9:00 – 10:10**

Speaker: Max Watson, Wolfson College Oxford and European Commission

*Discussant: Paola Subacchi, Chatham House*

**Session II – Banking Stability  10:10 – 11:10**

Speakers: Piroska Nagy, EBRD and Richard Fox, Fitch Ratings

*Discussant: Christoph Rosenberg, IMF Warsaw*

**Coffee Break  11:10 – 11:20**

**Session III – Market Dynamics  11:20 – 12:30**

Speaker: Jens Nystedt, Director, Chief Economist (Emerging Markets), Deutsche Bank

*Discussant: Lionel Price, Chief Economist, Fitch Ratings*