IN THE THIRD QUARTER EASTERN EUROPE'S GROWTH PROBABLY FALTERED

Eastern European economic growth probably slowed in the third quarter as Europe's debt crisis damped all the demands for exports, the region's main driver for expansion, and stunted lending by banks. The Bloomberg surveys of economists show that the Czech and Hungarian economies probably grew at the slowest pace in 1 1/2 years, while Bulgaria's recovery ay have stalled after returning to growth a year ago and Slovakia's output may decelerate for a second consecutive quarter in the July-September period. Eastern Europe's export-led recovery is in a lot of danger as the deepening crisis in the euro area infects the region through trade and banking links. Recession risks in the euro region and weak domestic demand, which is unfortunately still trying to recover from the worst slump in two decades, have intensified the risks of the economic stagnation. ''We expect a slowdown of gross domestic product growth across the board as a result of weaker exports and tightening lending conditions,'' says Raffaella Tenconi, who is an economist at Bank of America Merril Lynch in London, by phone yesterday. ''The latter affects primarily Hungary at this stage.'' Lenders that bankrolled eastern Europe's boom before the 2008 credit crunch are being controlled by the deteriorating loan quality and slowing economic growth. The region was the world's worst-hot in the aftermath of the collapse of the Lehman Brothers Holdings Inc. almost three years ago and may face the threat of at least one more sharp slowdown as the euro area's troubles spread. Analysts at Morgan Stanley said in a note yesterday that the region's financial stability is at risk as western European banks trim their balance sheets by as much as 2.5 trillion euros ($3.4 trillion) to meet the capital requirements. The four biggest lenders in the former communist part of Europe are UniCredit SpA, Erste Group Bank AG, Raiffenisen Bank International AG and Societe Generate SA. All four of these banks fell short of a minimum threshold of 9 percent of risk-weighted assets as defined by the European Banking Authority. At the same time, many of the banking units in eastern Europe require wholesale funding because they have less deposit than loans. In the third quarter, Czech economic growth was 1.6 percent from a year ago, slowing from 2.2 percent in the previous three months, while Hungary's economic output decelerated to 0.8 percent from 1.5 percent, according to the surveys taken by Bloomberg. In the previous three months, Bulgaria's DP grew 0.2 percent, compared with 2 percent. A separate Bloomberg survey showed that Slovakia's growth eased to 3 percent in the third quarter from 3.3 percent, while Romania likely bucked the trend, accelerating to 1.9 percent growth from 1.4 percent. ''The exact magnitude of the hit depends on the slowdown in the euro area,'' says Annika Lindblad, who is an economist at Nordea Markets in Helsinki.