



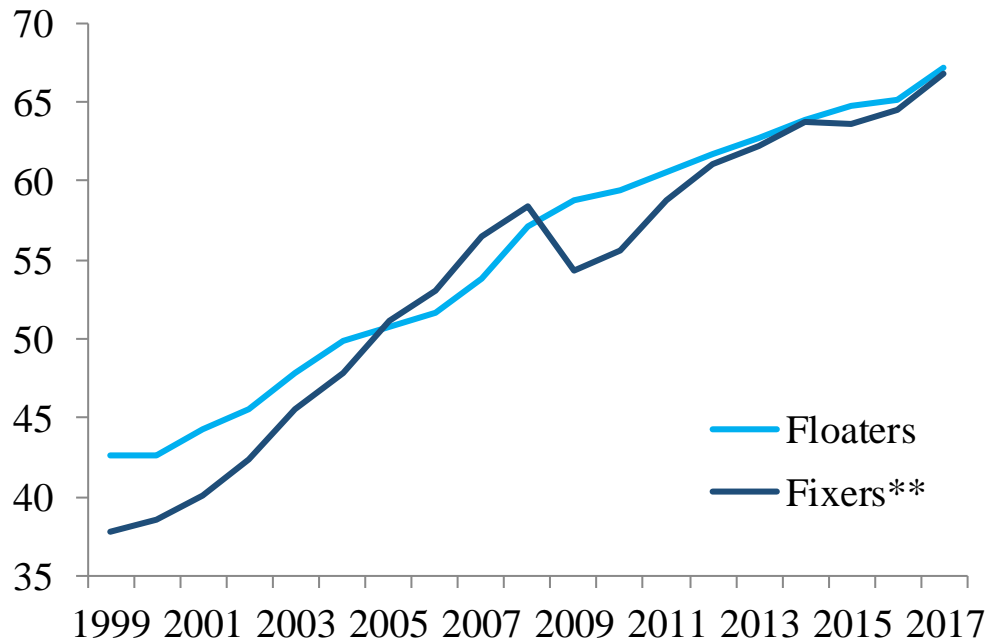
Convergence: what role for the macroeconomic policy mix?

**Presentation for The Danube
Triangle Conference in
Bucharest
October 25th, 2018
National Bank of Romania**

**Lucio Pench
Director Fiscal Policy and
Policy Mix
DG ECFIN, European
Commission**

Real long-term convergence

CEE10: GDP per capita in PPS (EA12* = 100)



Across the presentation

Floaters: CZ, HU, PL, RO

Fixers: BG, EE, LT, LV, SI

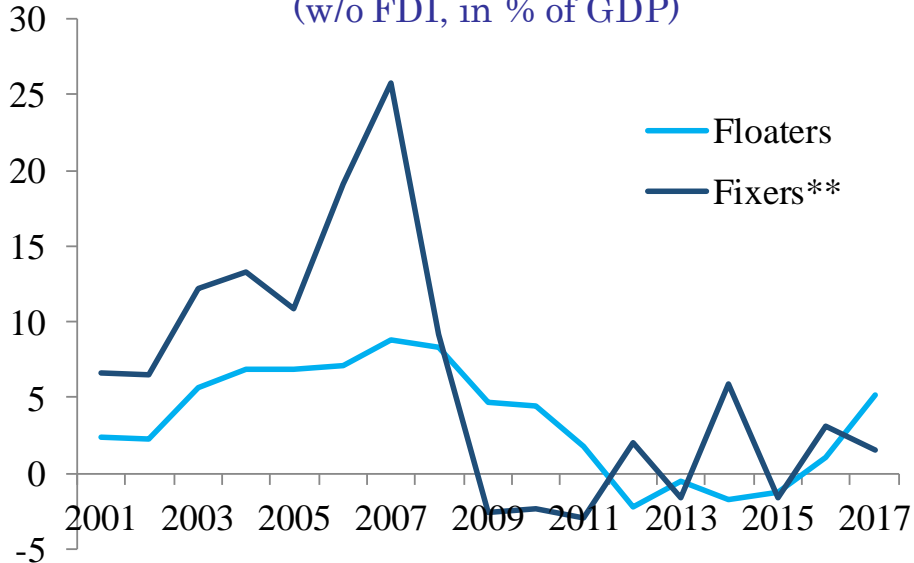
* weighted average

Source: Eurostat

** Slovakia was not included in either group

Sudden stops

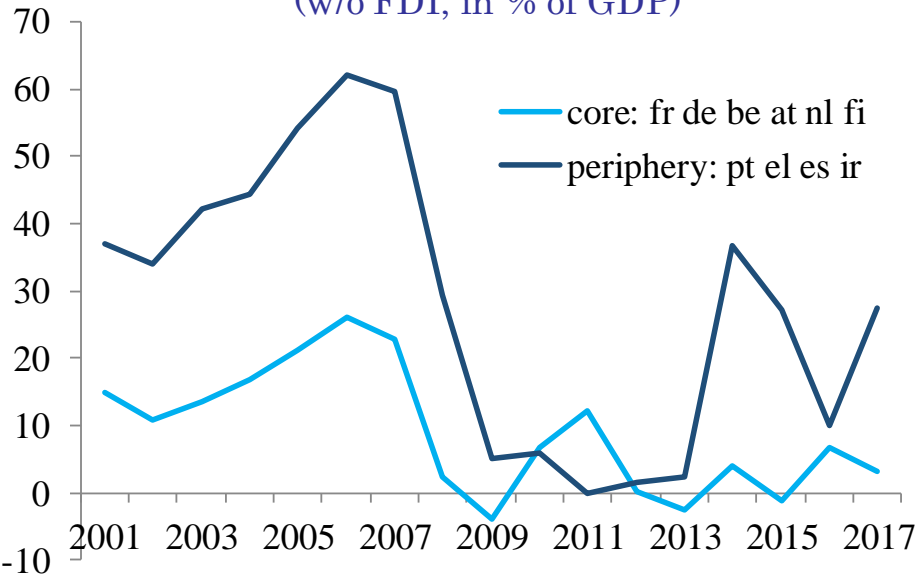
CEE10: Foreign Capital Inflows*
(w/o FDI, in % of GDP)



* Portfolio investment and Other investment liabilities
** Slovakia was not included in either group

Source: Eurostat

EA countries: Foreign Capital Inflows*
(w/o FDI, in % of GDP)

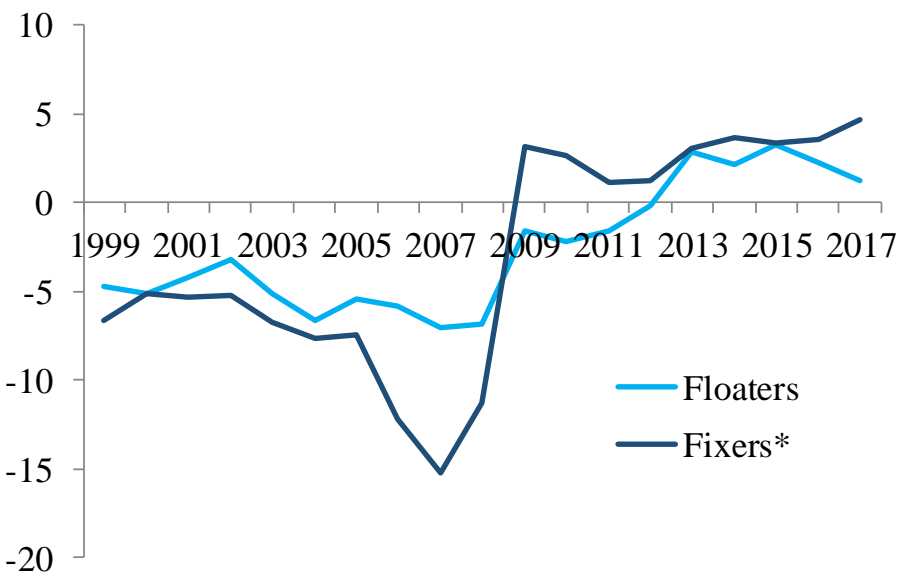


* Portfolio investment and Other investment liabilities

Source: Eurostat

Competitiveness issue?

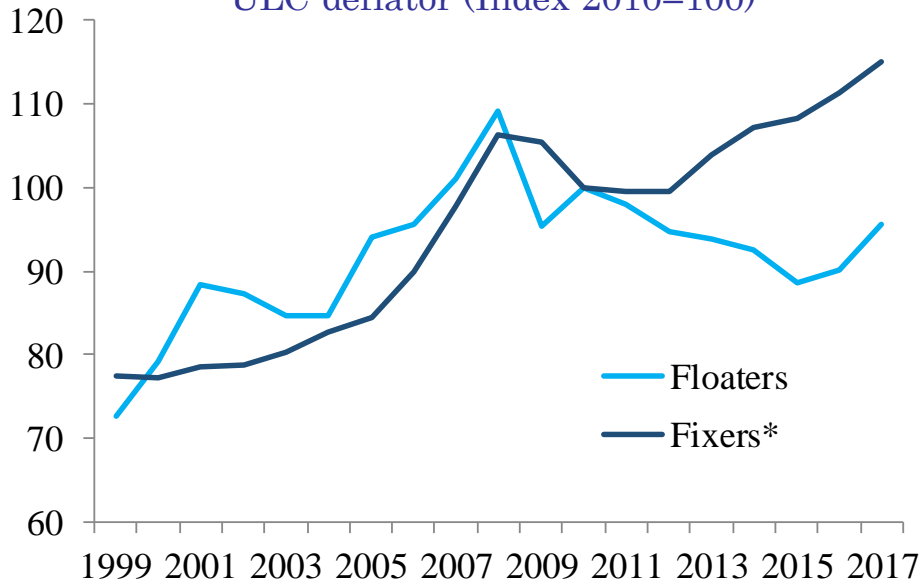
CEE10: Net external balance (in % of GDP)



* Slovakia was not included in either group

Source: Eurostat

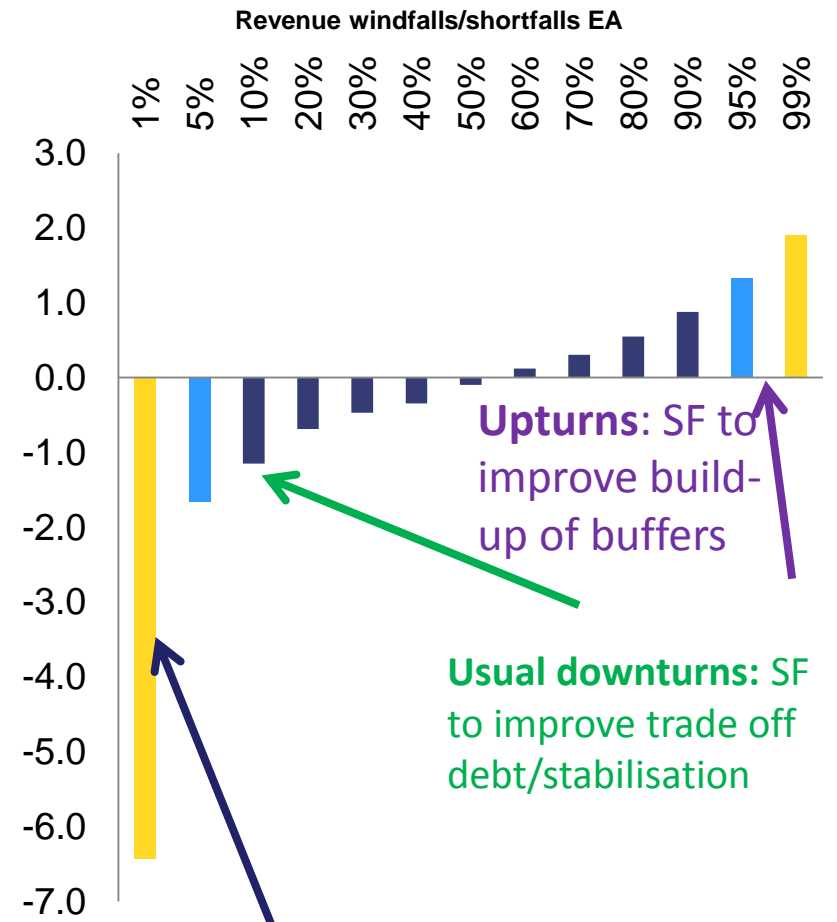
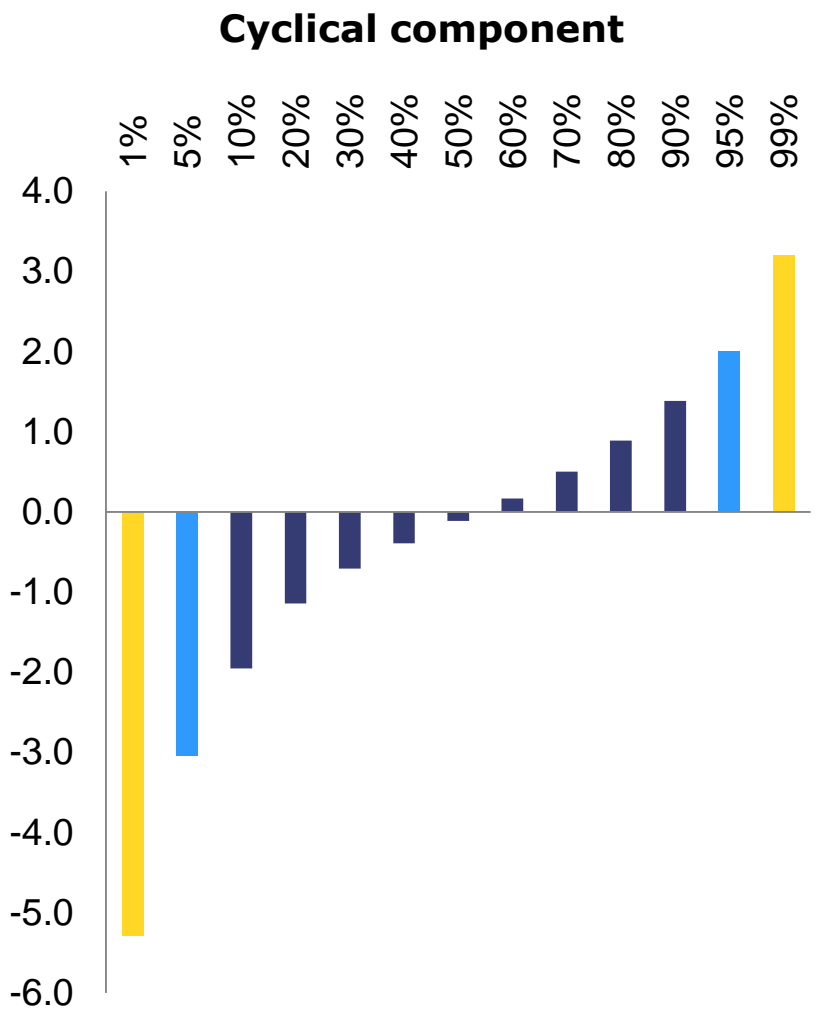
CEE10: Real effective exchange rates, ULC deflator (Index 2010=100)



* Slovakia was not included in either group

Source: Eurostat

Cyclical component of the budget balance and revenue windfalls/shortfalls (%GDP - *in addition to cyclical deficits*)



Source: Commission 2017 autumn forecast; authors' calculations

Use fiscal policy to lean against the wind?

- Macro
 - Difficulties with fine tuning (long-lag problems, knowledge in real time of cyclical position especially relevant for converging countries, financial cycles)
 - Build fiscal buffers (fiscal rules)

- Micro
 - Political feasibility (housing)
 - Necessity of weighing social benefits against induced uncertainty (financial market transaction levies)

Macroprudential policies

- Macroprudential policies are an essential complement of traditional macro policies:
 - Necessary complement of "leaning against the wind"
 - Increasingly in use in advanced and developed economies
 - Growing empirical evidence of their broad effectiveness
 - Claessens et al. (2014): Tighter policy lowers bank leverage and asset growth during booms.
 - Akinci, O. and J. Olmstead-Rumsey (2017): How effective are macroprudential policies? An empirical investigation
- But many remaining operational uncertainties:
 - Relatively new (especially in AE) so little tested in practice
 - Possibility of regulatory leakages (shadow banking)
 - Large set of possible instruments

A complex macroprudential toolbox

Vulnerability	Degree of effectiveness of instruments
<p>Excessive household and non-financial corporate leverage</p>	<p>Borrower-based measures: high (e.g.: Loan-to-income ratio cap)</p> <p>Capital-based measures: low (indirect effect) (e.g.: Countercyclical capital buffer)</p>
<p>Risk taking/excessive leverage of banks Improve shock absorption capacity of banks</p>	<p>Capital based measures: high (e.g.: Systemic risk buffer)</p> <p>Borrower based measures: low (higher, in the case of expanding cycle) (e.g.: Loan-to-value ratio cap)</p>

Annex

The macroprudential toolbox in the EU

	CRD IV Tools	CRR Tools	Other Tools
Capital based measures	<ul style="list-style-type: none"> • Countercyclical capital buffer (CCB) • Systemic risk buffer (SRB) • G-SII & O-SII capital buffer 	<ul style="list-style-type: none"> • Risk weights for real estate sector and intra-financial sector exposures • Capital conserv. buffers 	<ul style="list-style-type: none"> • Leverage ratio
Liquidity-based measures		<ul style="list-style-type: none"> • Liquidity requirements • Large exposure limits 	<ul style="list-style-type: none"> • Non-stable funding levy • LTD ratio caps
Borrower-based measures			<ul style="list-style-type: none"> • LTV ratio caps • LTI ratio caps • DSTI ratio caps • DTI ratio caps
Other measures		<ul style="list-style-type: none"> • Large exposure limits (incl. intra-financial sector) • Disclosure requirements 	<ul style="list-style-type: none"> • Margin and haircuts requirements

Can be used by national authorities and the ECB (for SSM countries)

Can only be used by national authorities

Source:
ECB