Monetary and Fiscal Policy Options
CEE perspective

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For now, strong domestic demand outweighs negative spillovers from the EA in IT CEE countries.

Unemployment at multi-decade low

In IT CEE countries inflation at or above target

Source: Eurostat

CROATIAN NATIONAL BANK
Int’l reserves build up as a result of fight against appreciation – sort of a QE

In most countries international reserves stable or falling in last two years

Divergent exchange rate developments

International reserves (% of GDP)

Exchange rate versus the euro

Sources: AMECO, ECB, Eurostat, CNB

Note: An increase indicates depreciation and vice versa. Bulgaria has a currency board. Source: Eurostat
Despite EA spillovers, easing cycle in CEE unlikely due to robust growth and inflation

Source: National central banks
Why so much emphasis on monetary policy when companies don’t see it as a problem?

Monetary policy cannot solve the most important problems of SMEs in the EA...

... or Croatia

**Most pressing problem faced by SMEs**

- Fiscal and structural policies
- Monetary policy
- Availability of skilled labour
- Finding customers
- Competition
- Costs of production or labour
- Regulation
- Access to finance

**Considerable hindrance to business operations**

- Regulations – complexity and inconsistency
- Regulations – frequent changes
- Availability of skilled labour
- Competition
- Costs of production or labour
- Inability to collect claims
- Finding customers
- Access to finance

Note: Responses weighted by the number of employed persons.
Source: ECB Survey on the access to finance of enterprises (SAFE), 2018 H2

Source: Survey on the access to finance of SMEs, CNB and Ipsos, 2017
...nor do banks believe monetary policy can do any important difference.

Effects of further monetary easing in the EA likely very limited

Note: Averages for the 2018Q1-2019Q1 period. Responses weighted using country and bank shares in the total loan outstanding amount.
Source: ECB Bank Lending Survey
Fiscal could do a bit more, but room for fiscal response widely differs

Low debt „core” countries have more room for policy stimulus...

...while rule based fiscal space varies across new member states

Source: Deutsche Bank Research

Source: European Commission
More leeway for MP in CEE than EA

- Inflation targeting non-EA CEE countries show robust growth and inflation that is at or above target, despite spillovers from the EA slowdown
- Because of potential further negative spillovers from the EA on one hand, and strong growth and inflation on the other hand, substantial short term changes in central banks' policy rates are unlikely
- In some countries, notably Romania, there are strong arguments for tightening to prevent further overheating of the economy
However, important question is: why so much emphasis on monetary policy?

- Unconventional MP has helped the recovery, but marginal benefits of additional measures are likely to be modest.

- Central banks are shouldering ever-increasing policy burdens beyond their core mandate of stabilising prices which is worsening trade-offs for central banks and distorting the incentives of other policymakers.

- Structural policies should be the main instrument to support growth and improve long-term prospects, complemented by fiscal policies, in countries which have the most fiscal space.

- Monetary policy can only buy time and lower the cost of structural reforms, but cannot do so ad infinitum, and not without financial stability risks build up.
Thank you!