



CROATIAN NATIONAL BANK

Monetary and Fiscal Policy Options CEE perspective

16 October 2019

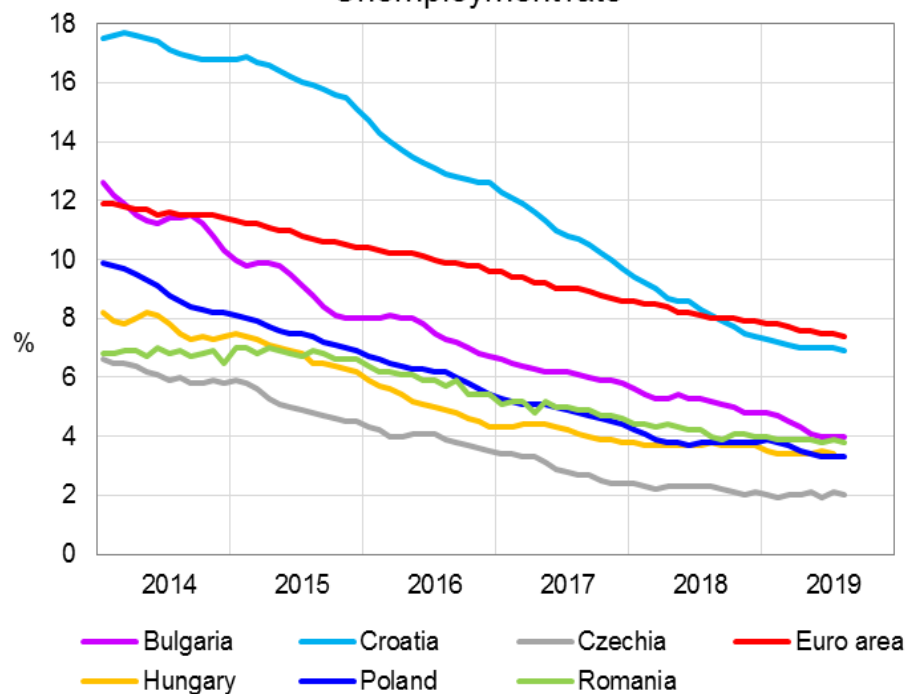
New York

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

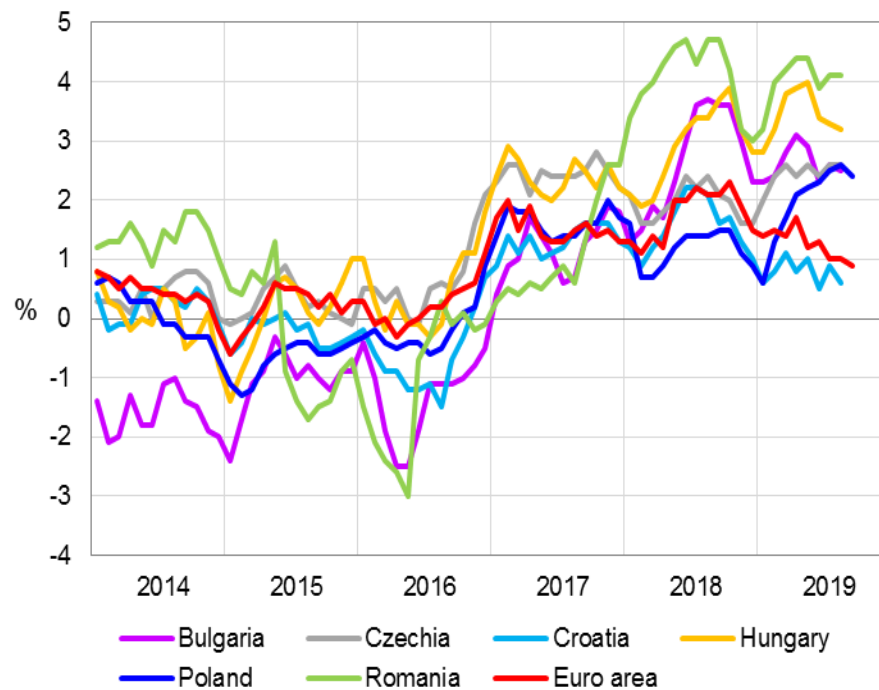
Unemployment at multi-decade low

Unemployment rate



In IT CEE countries inflation at or above target

YoY HICP inflation



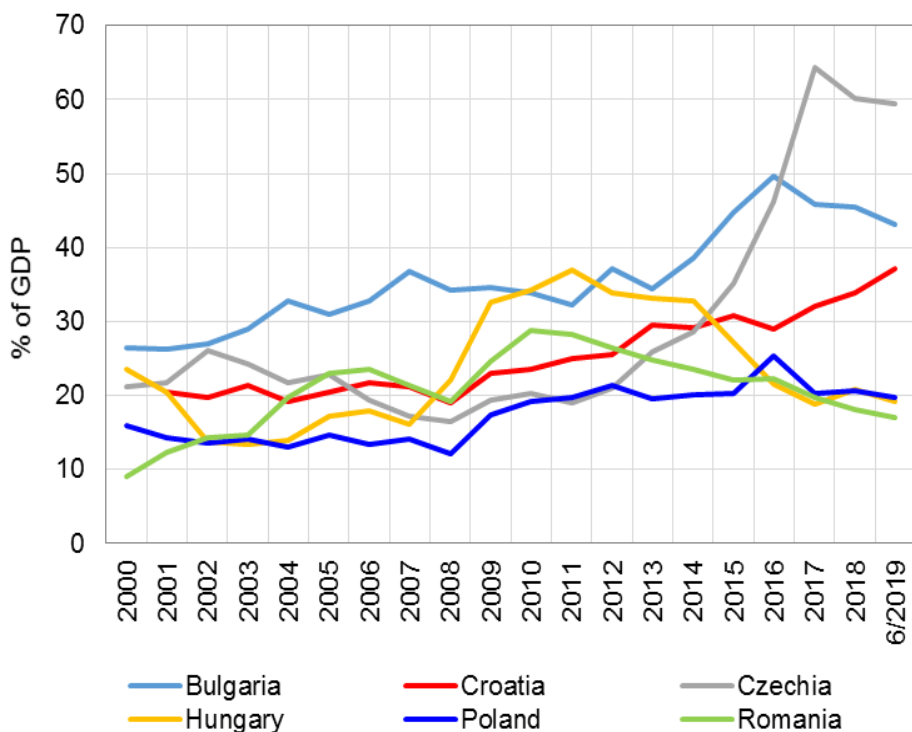
Source: Eurostat

Source: Eurostat

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

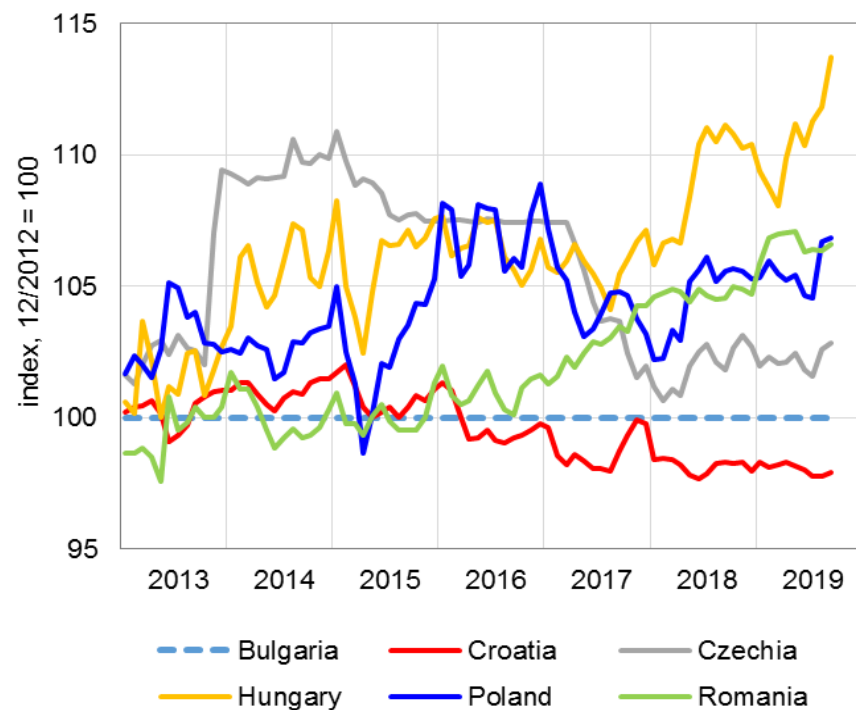
International reserves (% of GDP)



Sources: AMECO, ECB, Eurostat, CNB

Divergent exchange rate developments

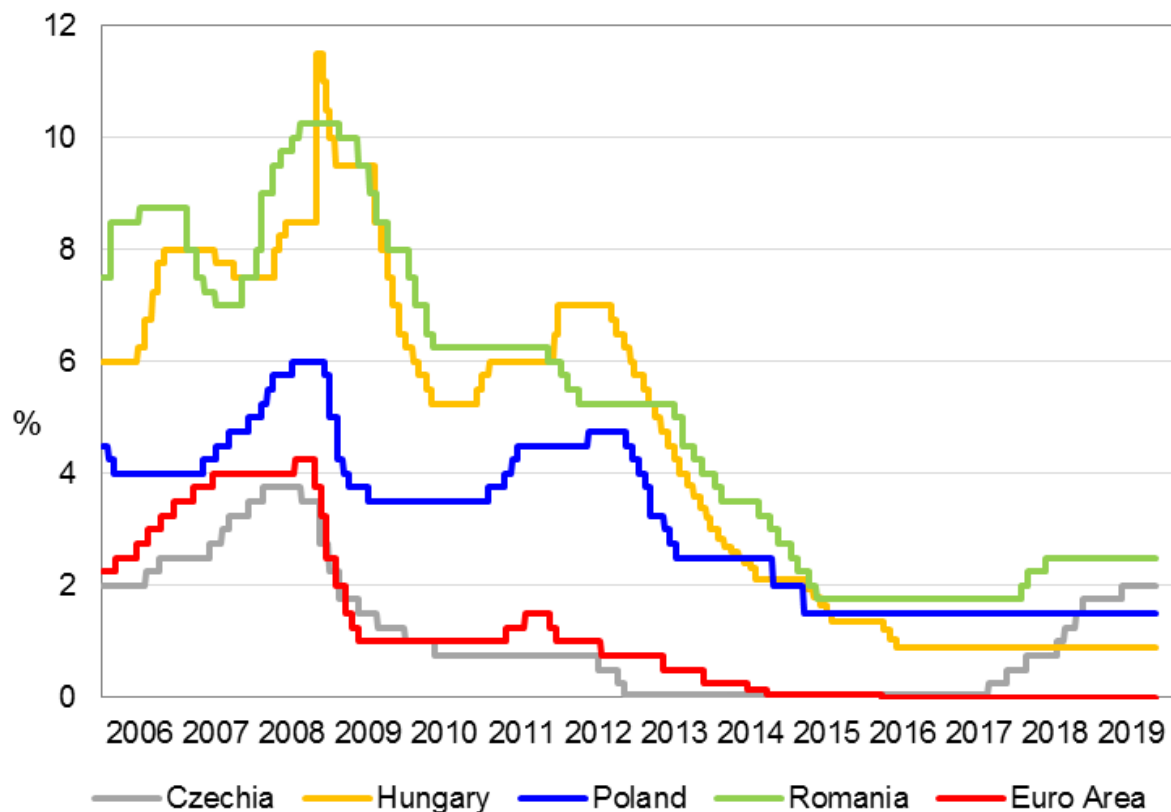
Exchange rate versus the euro



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

Monetary policy reference rates

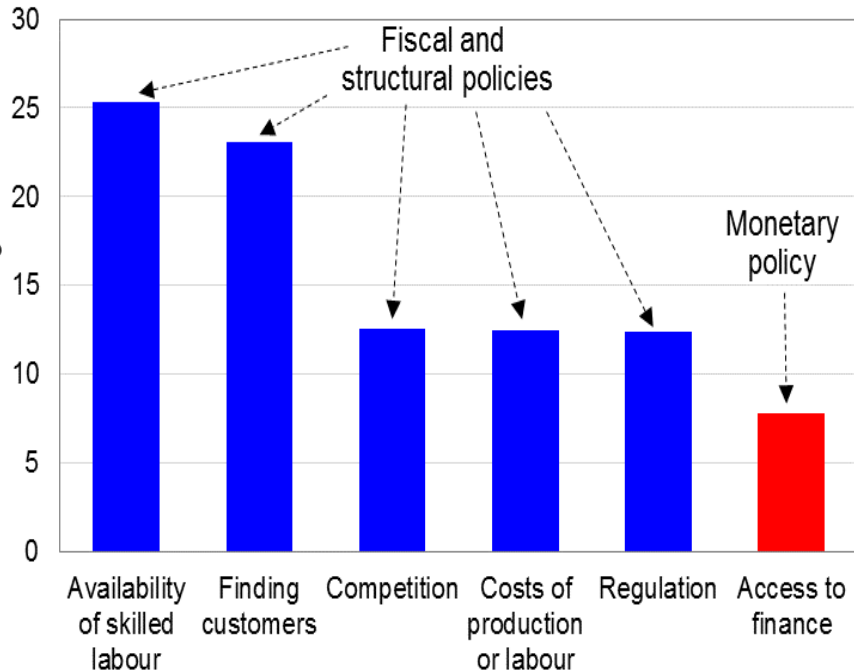


Source: National central banks

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...

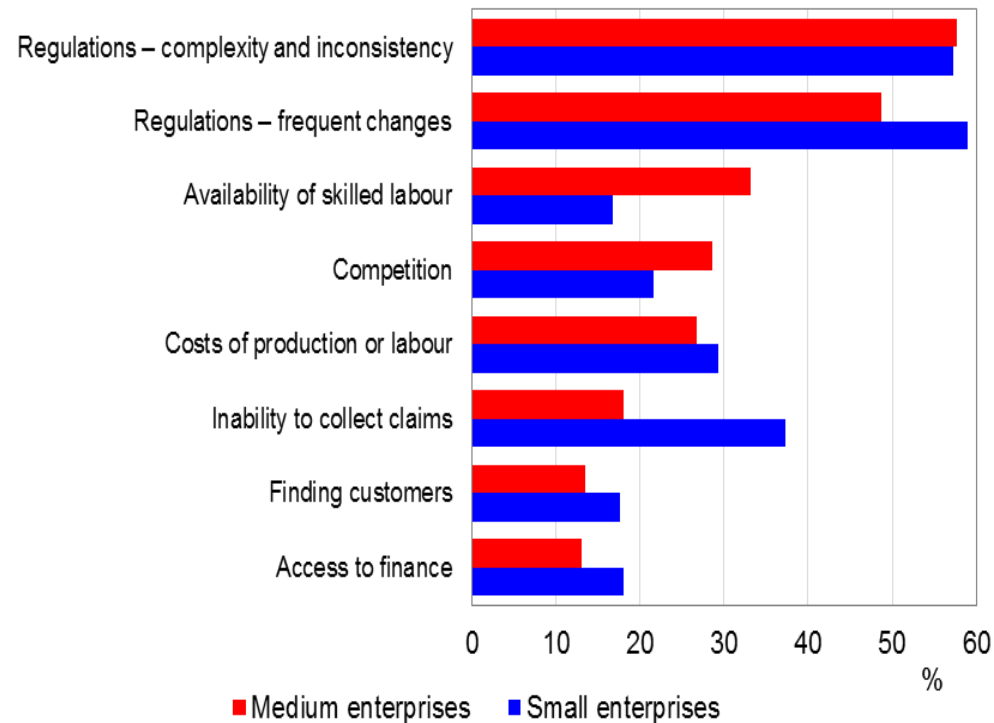
Most pressing problem faced by SMEs



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

... or Croatia

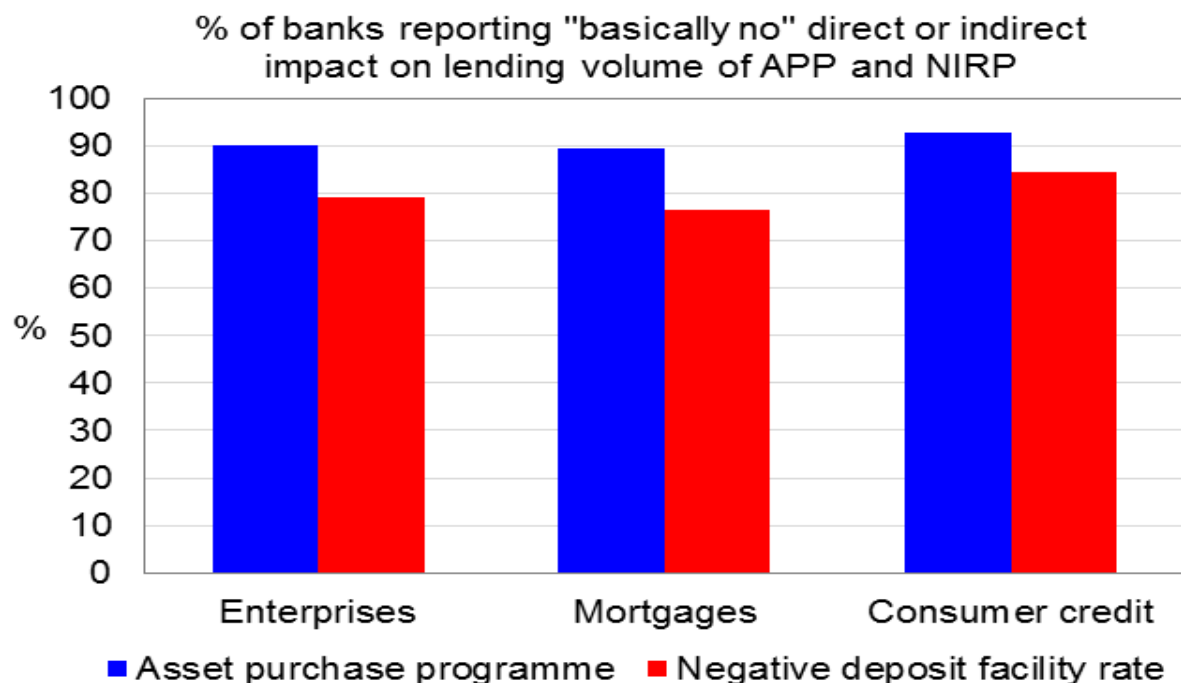
Considerable hindrance to business operations



Note: Responses weighted by the number of employed persons.
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



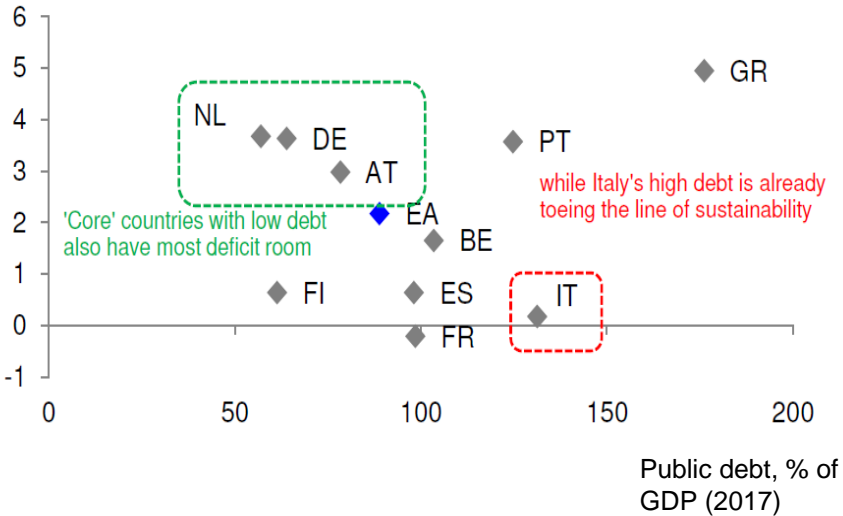
Note: Averages for the 2018Q1-2019Q1 period. Responses weighted using country and bank shares in the total loan outstanding amount.

Source: ECB Bank Lending Survey

Fiscal could do a bit more, but room for fiscal response widely differs

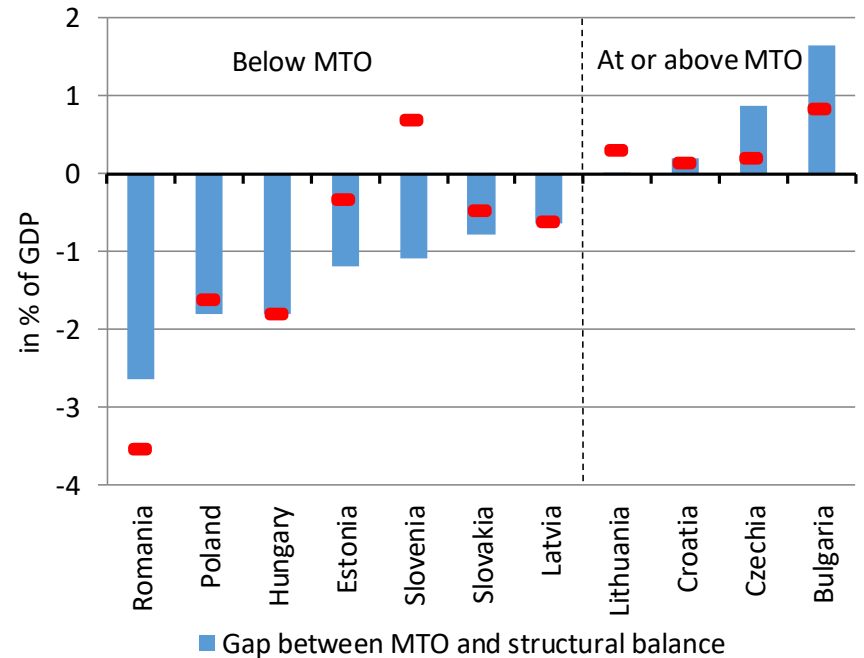
Low debt „core” countries have more room for policy stimulus...

Debt stabilising primary balance gap (2018)



Source: Deutsche Bank Research

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



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!