

European Department

Monetary and Financial Spillovers to CESEE



by

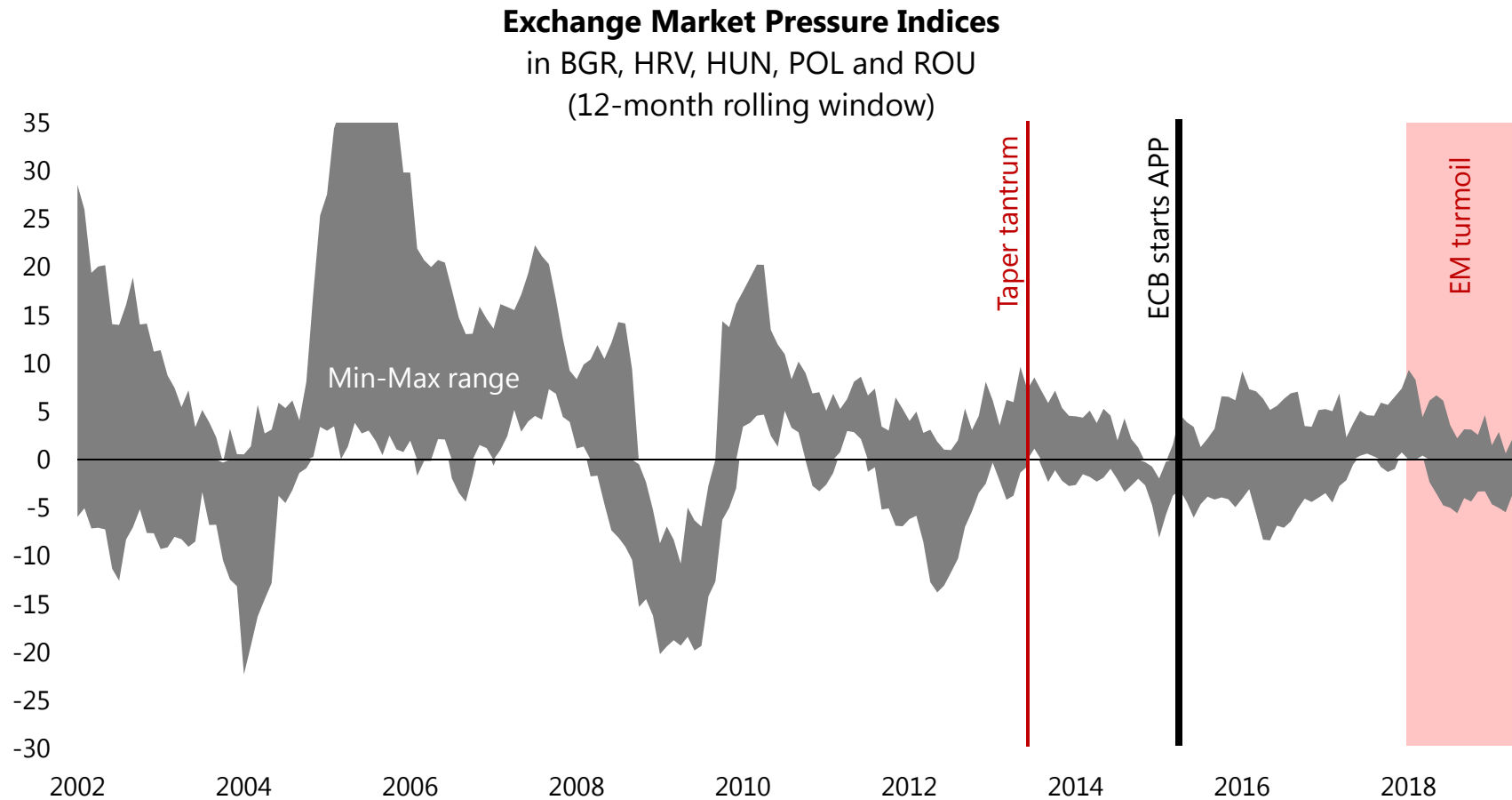
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*8th ECB conference on CESEE countries
June 12, 2019*



Spillovers of ECB policies on key exchange markets in CESEE appear muted

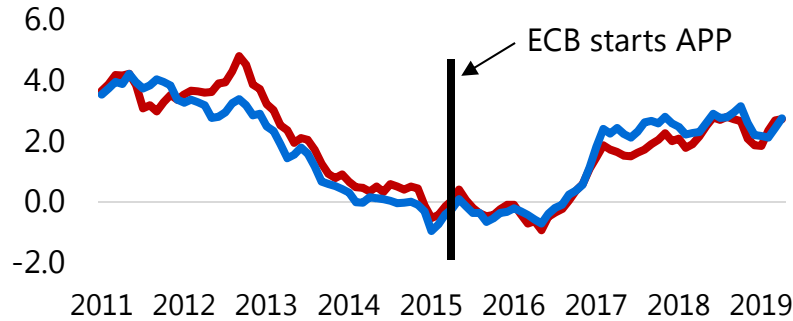


Note: Exchange Market Pressure index measure the intensity of pressures on country's exchange rate, and quantify channels through which that pressure is absorbed – namely, changes in reserves, exchange rate and/or policy rate.



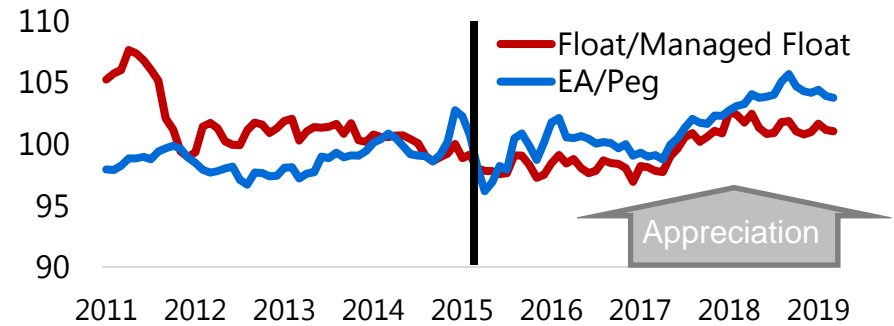
Post APP: ER regime does not seem to matter for inflation and house prices, but floaters-managed floaters had slower credit growth and slightly less REER appreciation

Inflation
(percent y/y)

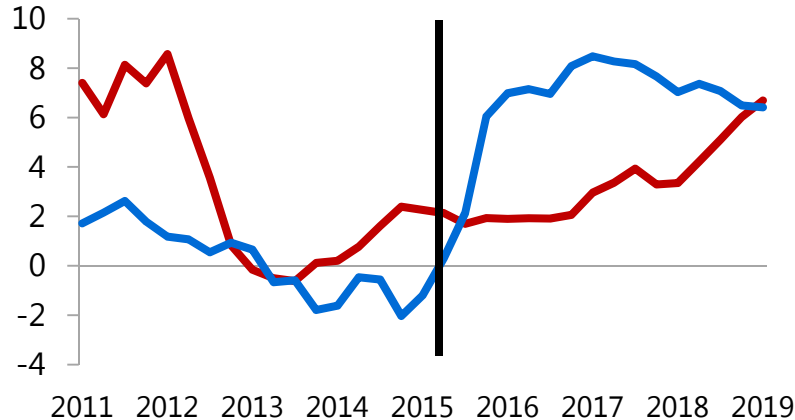


REER*

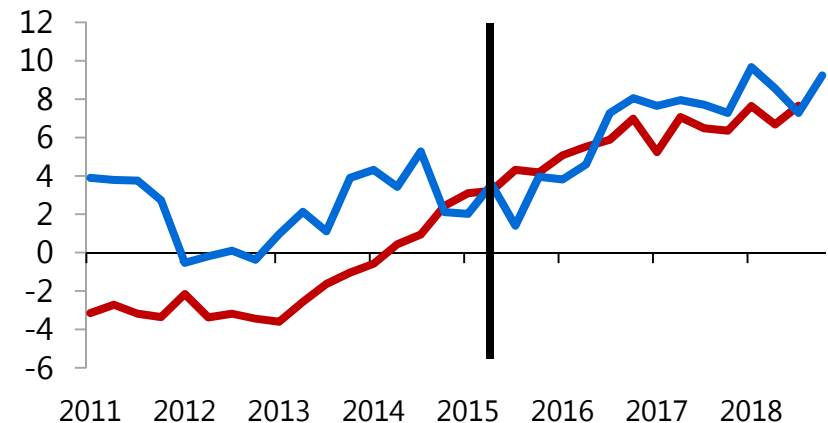
(index, 2014=100)



Nominal credit growth to private sector
(percent y/y)



Residential property prices*
(percent y/y)

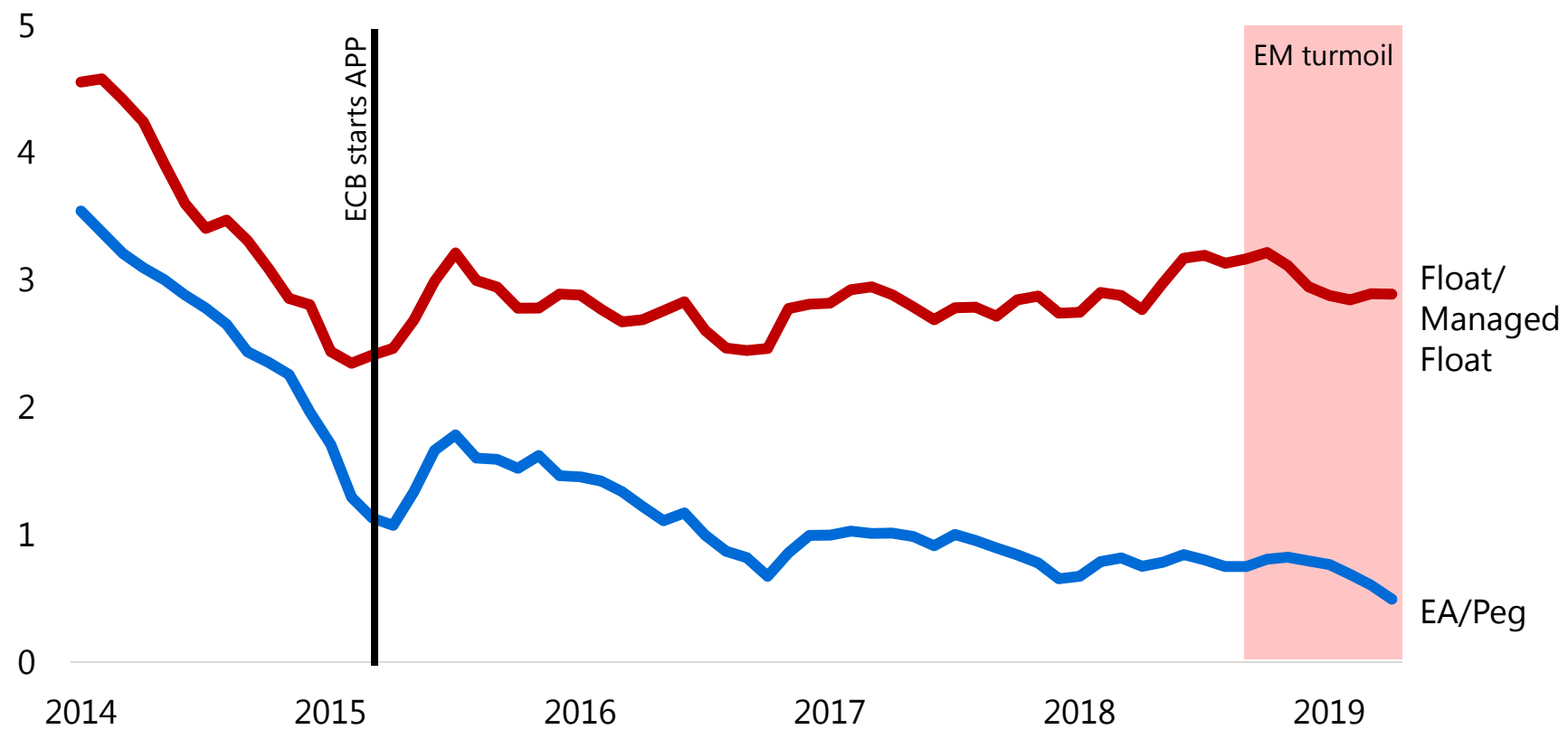


EA/Peg: BIH, BGR, EST, UVK, LTU, LVA, MNE, SVK, SVN;
Float/Managed Float: ALB, HRV, HUN, MKD, POL, ROU, SRB.
* Excluding non-EU countries



Yields of CESEE sovereigns with float/managed float were unchanged after APP, while those for EA/euro pegged countries fell slightly

L-T government bond yields (percent)

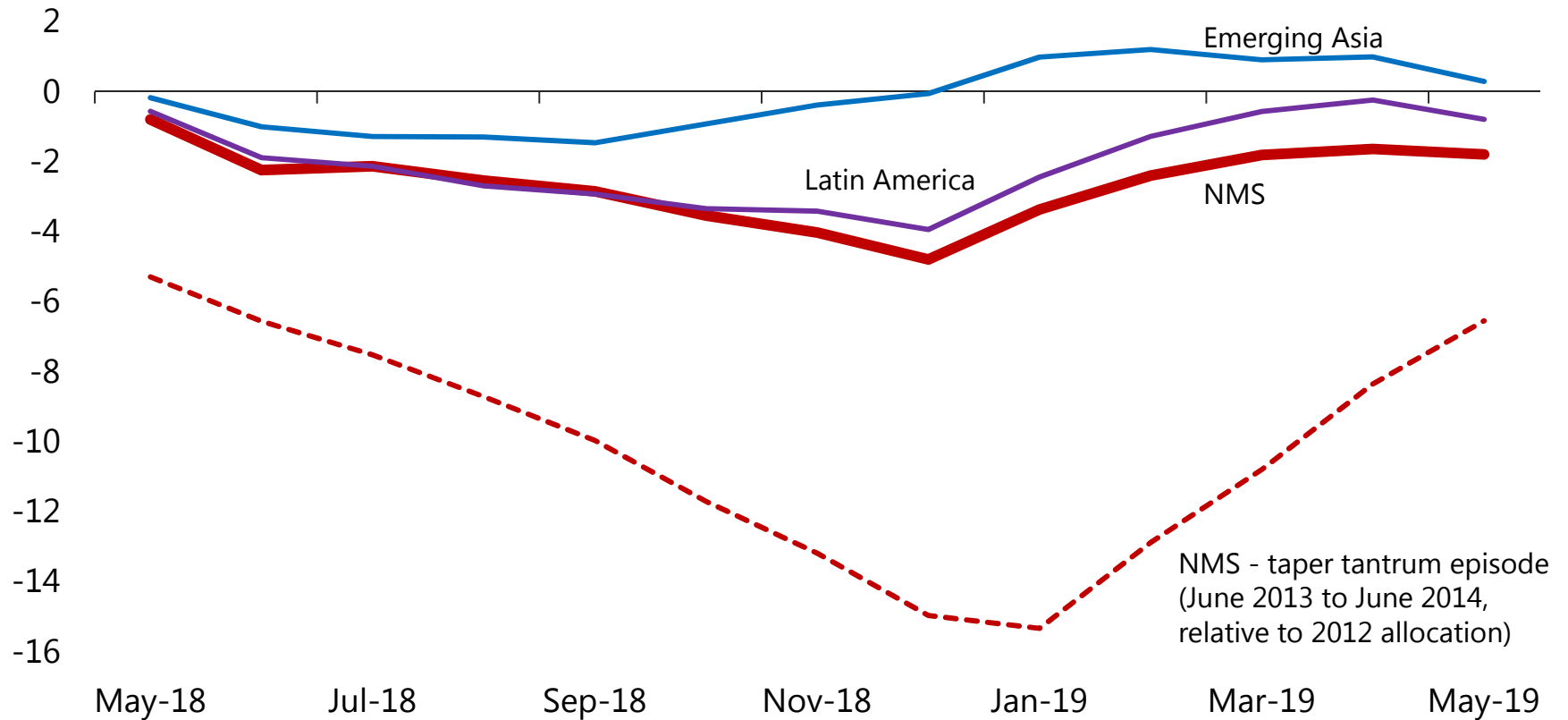


EA/Peg: BGR, LTU, LVA, SVK, SVN;
Float/Managed Float: HRV, HUN, POL, ROU.

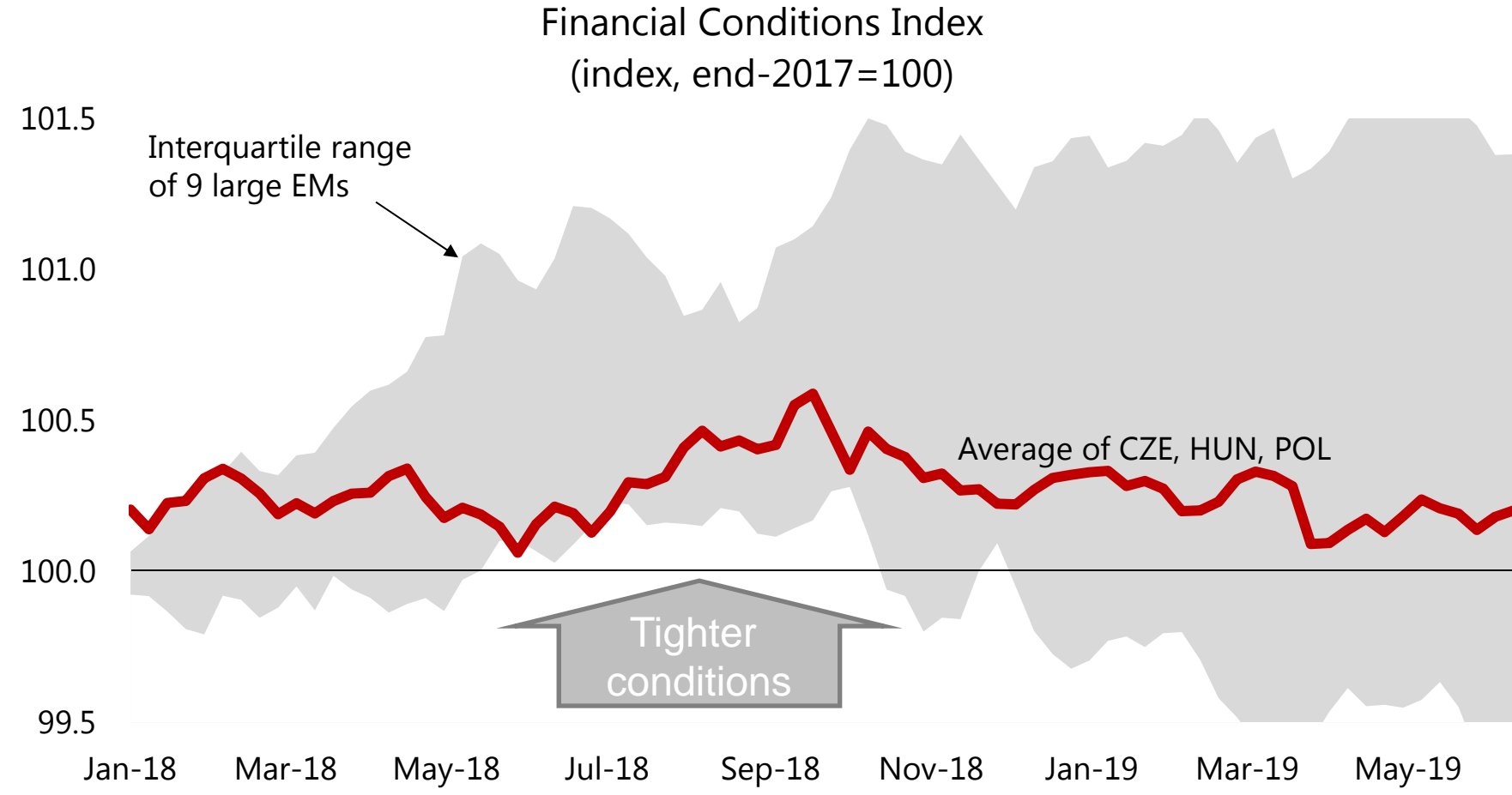


The 2018 EM turmoil resulted in smaller outflows by historical standards

EU Newer Member States: Cumulative flows during recent EM turbulence (percent of 2017 allocation)



Financial conditions in Emerging Europe tightened with EM turbulence in mid 2018, broadly in line with other major EMs

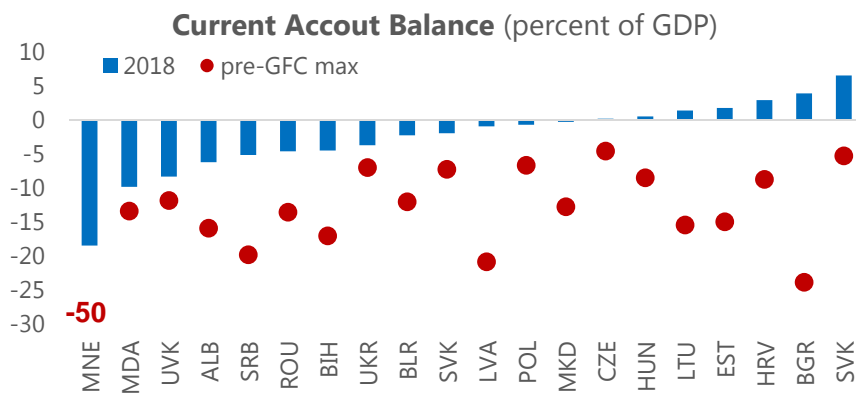


Note: FCI consists of domestic financial variables such as corporate, interbank, and term spreads; equity and house price returns; equity return volatility; and credit growth. See April 2017 IMFGFSR for details. Large EMs: BRA, CHL, IDN, IND, MEX, MYS, PHL, THA, ZAF

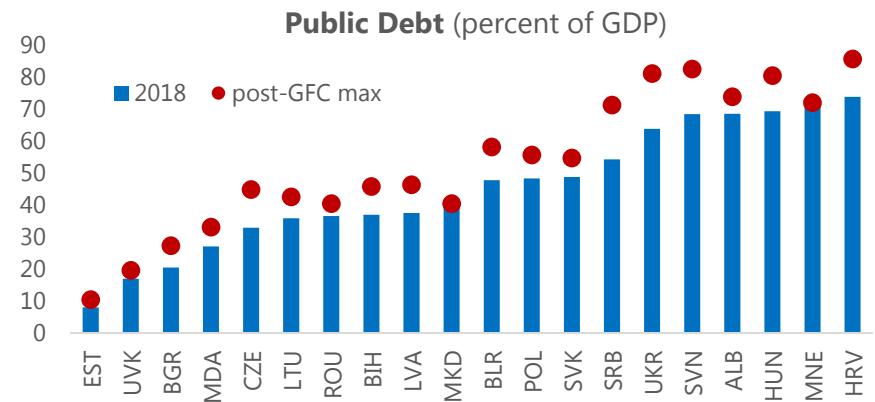


Prudent post-GFC policies in CESEE countries' have lowered vulnerability to external spillovers

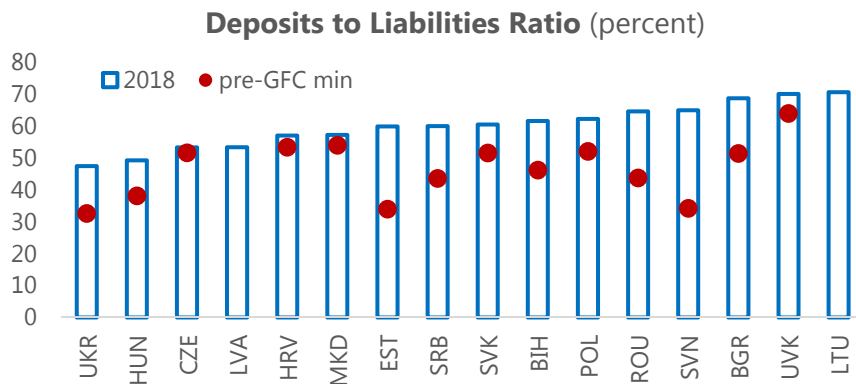
External imbalances are minimal (CA chart)



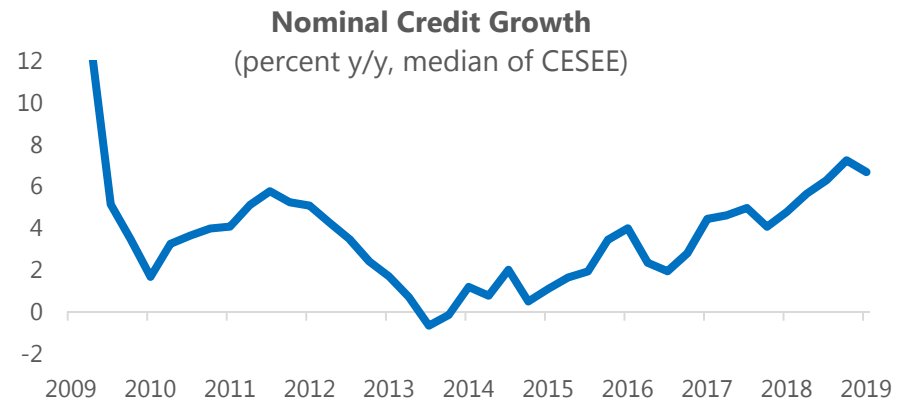
Fiscal buffers have been built back up after GFC lows (perhaps not by enough)



Banks are more dependent on domestic deposits rather than external funding



Credit growth is generally muted and...





CESEE countries have increasingly introduced macroprudential measures to restrain risky lending

Use of LTV and DTI
(Number of countries)

