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Countercyclical Capital Buffers and Credit-to-GDP Gaps: Simulation for Central, Eastern, and Southeastern Europe

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The findings, interpretations, and conclusions expressed in this article are entirely those of the authors and do not represent the views of the institutions with which the authors are affiliated.

Notes

¹ In this article, the group of CESEE countries includes the following sixteen countries (ordered alphabetically): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

² In exceptional circumstances, the authorities can also set the buffer rate above 2.5%.

³ One way of dealing with end-point bias is to extend the time series into the future by means of prediction. This, however, can introduce further uncertainty into the estimate linked with the quality of the prediction.

⁴ We have also considered the possibility of including a variable for the foreign crisis (Portugal) in the model. However, the results show that the inclusion of this variable does not improve the model's performance. In fact, the inclusion of this variable increases the leverage ratio.

⁵ The Bank for Social Transitions (BST) has been established as a part of the EBR. The BST is a joint venture between the EBR and the World Bank. The BST is a not-for-profit organization that is dedicated to providing technical assistance and financing to countries in the Western Balkans and the Caucasus region. The BST is also doing only

⁶ Based on the results of the Hausman test, we conclude that the MG estimator is more efficient than the FE estimator. The Hausman test results are as follows: $\chi^2(1) = 1.12$, $p = 0.29$. The Hausman test results indicate that the MG estimator is more efficient than the FE estimator.

being an important part of the MG estimator. The MG estimator is only those countries that are not in the sample (2001), so inflation is present in the short-run part of the equation but not in the long-run part.



Moreover, the low value of the correlation coefficient between cons/gdp and gdp/pop indicates that there is no possible multicollinearity problem.

⁷ [Appendix 2](#) includes figures for all sixteen CESEE countries, showing the development of the credit-to-GDP ratio since the mid-1990s, the estimated (one-sided) HP-trend credit, the equilibrium credit, and both alternative measures of the credit-to-GDP gap.

⁸ As a robustness check, we have also tested the signaling power of the 2006 levels, and the results do not differ substantially.

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