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

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## Abstract

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# Acknowledgments

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

<sup>1</sup> 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.

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

<sup>3</sup> 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.

<sup>4</sup> We have left out the countries that were strongly hit by the European sovereign crisis (Portugal, Italy, Ireland, Greece, and Spain), as they seem to have accumulated excess leverage in both the private and public sectors, which would bias the results.

<sup>5</sup> The Bank of England has argued that the current approach to monetary policy is not just bank-oriented but also takes account of the underlying economy. The Bank has also done only what is necessary to ensure that the banking system is sound.

<sup>6</sup> Based on the assumption that the MG is being an efficient market. The MG is not in the estimate of the Hausman test. The Hausman test is only those variables that are not in the estimate of the Hausman test (2001), so the inflation rate is not in the run part.

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

<sup>7</sup> [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.

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

## Additional information

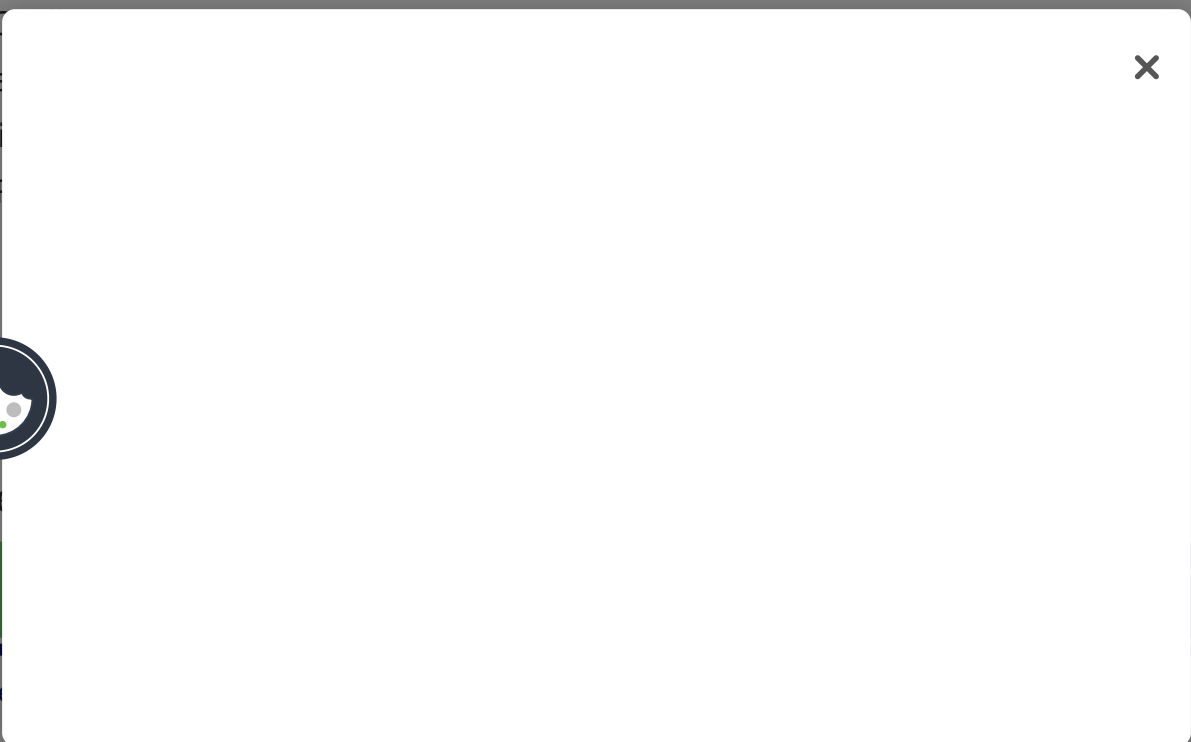
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