Abstract

This dissertation thesis consists of three essays on macroeconomics and finance. In these essays, I focus on events which adversely affect emerging markets and present challenges to economic policy and central bank thinking. My aim is to contribute to the existing empirical literature by providing new evidence on the role of private credit, effects of macroprudential policies and understanding of the exchange-rate pass-through.

The first essay evaluates policy measures taken to curb bank credit growth in the private sector in the pre-crisis period 2003–2007. The analysis is based on an original survey conducted on central banks in Central and Eastern Europe. The findings reveal substantial policy intervention and indicate that certain measures - particularly asset classification and provisioning rules; and loan eligibility criteria - might have been effective in taming bank credit growth.

The second essay contributes to the existing literature on early warning indicators as well as to the discussion on the appropriateness of credit-to-GDP gap as a leading variable for any country for activation of the countercyclical capital buffer instrument in Basel III. We exploit long-run credit series for 36 emerging markets and evaluate their quality to signal a crisis by using receiver operating characteristics (ROC) curve and area under the curve (AUC). The results show that nominal credit growth and the change in credit-to-GDP ratio have the best signaling properties and significantly outperform the credit-to-GDP gap in almost all specifications for policy-relevant longer horizons in EMEs.

The third essays studies how exchange rate pass-through to inflation has changed since the global financial crisis. The main findings can be summarized as follows: First, exchange rate pass-through in emerging economies decreased after the financial crisis, while exchange rate pass-through in advanced economies has remained relatively low and stable over time. Second, the declining pass-through in emerging markets is related to declining inflation. Third, the findings highlight the importance to control for non-linearities when estimating exchange rate pass-through.