Avoiding new crises in the Euro Area: Public and private imbalances, capital flows and national policy responses

Russell Kincaid, St Antony's College, Oxford
Max Watson, St Antony's College, Oxford

December 2013
Avoiding New Crises in the Euro Area:  
Public and Private Imbalances, Capital Flows, and National Policy Responses  
Russell Kincaid and Max Watson¹  
St Antony’s College, Oxford  
December 2013  

Introduction  

When the euro projected was designed, there was a high level of concern about fiscal imbalances. It was feared by some that expectations of a “bailout” would give rise to moral hazard, and that this could trigger an expansion of public debts. This preoccupation dominated the way that the founders of the euro thought about the role of fiscal policy under monetary union, and the Stability and Growth Pact was devised to address these concerns. By contrast, the issue of private sector (corporate and household) deficits financed by banks—and the fiscal risks those can pose—was largely ignored. And the implications of greater access to funding by private borrowers (from a larger euro-area financial market without exchange rate risks), was not a central part of the design debate.

A number of critics of the EMU architecture focused on the possibility that economic shocks, affecting member economies in different ways, could lead to strong country-specific booms and downswings against the background of the common monetary policy. As a booming economy expanded, its inflation rate would rise, and for a while real interest rates at the national level would fall, intensifying “perversely” the national boom. Higher national inflation would also give rise to a loss of competitiveness within the currency union. Both factors would contribute to a larger deficit in the private sector, reflected in a wider current account imbalance. Economic modelling work in the 2000s—notably in Brussels and Oxford—explored whether these national booms and downswings could reach destabilising levels, and whether there was a role for “active” national fiscal policies to dampen such country-specific cycles in a monetary union. This work focused mainly on swings in competitiveness that could be costly to reverse in terms of output and employment, and might prove unstable.

This policy brief reconsiders these issues in light of the euro-area crisis, especially the role of financial markets. In particular, it explores how the euro-area experience with wide swings in competitiveness, and the persistence of large current account deficits, supports the case for

¹ Russell Kincaid (Russell.Kincaid@sant.ox.ac.uk) is affiliated with the Programme on the Political Economy of Financial Markets (PEFM) (http://www.sant.ox.ac.uk/pefm/) as is Max Watson (Maxwell.Watson@sant.ox.ac.uk), who is the Director. David Vines contributed, without implication, helpful conversations on fiscal analysis and risk premia. A preliminary version was presented at a roundtable, “Can the Euro Continue to Function in its Present Form?” on November 7, 2013 organized jointly by Chatham House and the Konrad Adenauer Stiftung. This version has benefited from comments by roundtable participants.
focusing on national fiscal policies to dampen such country-specific cycles. In addition, however, this policy brief concludes that developments in the financial economy during such country-specific cycles point to a need to use macroprudential policies to dampen financial sector booms and busts at the national level. Moreover, within the single financial market, such policies are unlikely to prove effective unless they are coordinated across the euro area. The ESRB, and the ECB’s new supervisory role, both offer scope for such coordination.

**Concerns about private sector imbalances that were raised ahead of the crisis**

A significant critique of the pre-crisis EMU architecture was mounted by economists who were concerned about the dynamics of adjustment within the monetary union when members were hit by country-specific economic shocks, which would result in an upswing or downswing that was ‘out of sync’ with the average cyclical position in the euro area:

- For example, one euro-area member (let us say Spain) might enter a country-specific boom. With no national monetary policy (and real interest rates falling with a rise in national inflation), the key market mechanism that could eventually slow the economy would be a loss of competitiveness. A loss of competitiveness would thus counteract the impact of a “perverse” fall in the national real interest rate. These forces would also work, albeit in reverse, during the downturn.

- The concern here was that the private sector would not understand quickly enough the nature of such a situation: the process of boom and bust (e.g. in Spain) would thus extend over a long period. The current account deficit would initially widen, and wage costs would potentially become very high: subsequently, a slowdown induced by a lack of competitiveness, would narrow the current account deficit and (via unemployment) put downward pressure on wages. However, this process could be protracted and difficult—that is socially and individually costly.

- Some economists who analysed this issue with modelling approaches thought that such swings in wages and current account balances would prove to be a stable process over the medium term. Others feared an overshooting, and perhaps a destabilising oscillation, in wage costs: they thought that it was urgent to use national fiscal policy to dampen such country-specific cycles. Among the sceptics about stability in the inter-country adjustment process under EMU were Allsopp and Vines (2008); while in 2006 the European Commission’s assessment (edited by McCarthy and Watson) considered the medium-term dynamics of the euro area to be stable.

**The lessons of the crisis concerning imbalances within the euro area**

The euro-area crisis has shed light on these particular concerns in four respects:

- The case of Greece illustrated that the founding fathers’ concerns about public debts, moral hazard, and bailout risks were not misplaced.
The existence of “perverse” real interest rate effects under the common monetary policy during a country-specific boom may tend to stimulate a national credit and asset price boom—or indeed a bubble (Charts 1 and 2). This boom would produce a widening in the current account deficit (Chart 3).

The experience in Ireland and Spain, which had low public debts before the crisis, revealed that private sector imbalances (specifically, banking and property booms) can result in the level of the public debt more than tripling, and in destabilising swings in wage costs and the current account balance.

The experience in Greece, Portugal, and Spain has confirmed the worries of those who feared that wage costs could move far out of line and then get “stuck” at a high level—reopening the question whether an active fiscal policy could usefully dampen such swings.

The long cycle in Germany’s competitiveness over the past two decades may raise questions about protracted oscillations in wage costs within the euro-area system.

But the experience of the euro-area crisis has also pointed to issues of a financial nature, concerning risk premia, capital flows, credit, and asset prices—which economic analysts had tended to ignore during and after the creation of the euro:

- Financial booms can flatter the fiscal position with very strong temporary revenues from banking, real estate, and private consumption, leading to a false sense that the budget is in underlying surplus when in fact it is in underlying deficit (as occurred in both Ireland and Spain).

- Capital inflows funding such a boom may be of a debt-creating nature, and may flow heavily to the real estate sector—rather than being, for example, direct investment that enhances productivity in exporting sectors and thus debt-servicing capacity (Chart 4).

- Risk premia should start to rise as the riskiness of private imbalances (or in a case such as Greece, the riskiness of national fiscal policy) becomes evident, but this mechanism occurred too late and abruptly, shutting off credit to some sectors.

- Weak risk management by private financial institutions coupled with inadequate official oversight were also contributing factors.

- In the downswing of such a cycle there are potentially very severe feedback loops between the deteriorating position of private and public sector balance sheets, which had not been identified or analysed before the crisis.

---

2 The authors gratefully acknowledge Gillian Edgeworth for preparing this chart, which derives from her forthcoming analysis of capital flows in the euro area.
In short, the behaviour of risk premia, credit, asset prices and capital flows—both prior to and after the crisis—has added a further dimension to earlier concerns about unstable country-specific cycles under EMU. It has broadened the questions about the appropriate national response to such booms or downswings. (For an in-depth discussion of these forces in the Irish context, which have wider applicability, see Regling and Watson (2010).) Specifically, the question needs to be asked where national macroprudential policies—as well as fiscal policies—fit in this picture, and whether policy coordination has a role to play.

**The role of national fiscal and macroprudential policies in light of the crisis**

The euro-area crisis and the wider global financial crisis demonstrated that financial stability could not be assured only by the efficient operation of private financial markets. The need for more intrusive financial supervision was one key lesson. In addition, the crisis spotlighted a conundrum for monetary policy; it was too blunt a tool to cope with sectoral—real estate—booms when general measures of inflation were well contained. Higher policy interest rates would dampen activity in the entire economy and not just the housing sector.

In the euro area an additional set of issues arose concerning the national impacts of the common monetary policy. Inevitably, ECB policy interest rates were too low for some national economies—Ireland, Spain and Greece, for example—that were experiencing rapid economic expansion financed by credit inflows, compared with the average cyclical position of the euro area. Raising policy interest rates to slow activity in these booming economies would dampen unnecessarily economic activity in the entire euro-area.

In principle, national fiscal policy was available to address country-specific cycles that were not in sync with the euro-area average. But this proved to be more challenging than anticipated. Why?

- Economic expansions yielded sizable fiscal revenues which created political pressure to increase spending; this pressure was redoubled in cases where lower interest rates on sovereign debt created room to expand non-interest public expenditures.

- Economists also underestimated the temporary component of these revenues, making the structural budget position appear much stronger than it really was. This undermined the economic rationale for strengthening the fiscal position.

- Moreover, there was no clear awareness that fiscal policy needed to be used actively to mitigate swings in members’ competitiveness, if large and prolonged imbalances were not to result.

Overall, national fiscal policies failed to dampen the upswing, which meant that the subsequent bust would be larger.

In light of these developments, how can financial stability in the future be achieved with greater assurance? And how can individual national economies within the euro area cope better with booms and thus mitigate the busts?
An initial answer begins by re-thinking the measurement of the underlying fiscal position. Recognition is needed of the case for ensuring that the measurement of the fiscal stance incorporates full information about the cyclical position and the durability of budget revenues. In this regards, harmonized statistical techniques provide a useful common benchmark. But such techniques do not adequately utilize country-specific information and thus can potentially measure the fiscal stance inaccurately.

Analysis of Spain at the European Commission, published before the crisis broke, illustrates that a careful country-level review can correctly identify measure countries’ underlying fiscal position during booms; these EC analysts rightly assessed Spain’s structural fiscal deficit, while standard techniques—used by the EC for official purposes—produced higher fiscal revenues, owing to the asset price boom. In particular, standard techniques were estimated to have overestimated structural revenues in 2006 by 2½-3.0 percentage points of GDP (Martinez-Mongay et al (2007)). Relatedly, recent IMF estimates of Spain’s structural fiscal position in 2006 were downgraded by 3.0 percentage points of GDP compared with earlier IMF estimates. This IMF revision corresponds with the earlier results by these EC analysts. While this represents huge revision in official estimates of the underlying fiscal position, it is still much smaller than the contemporaneous mis-estimation of the underlying fiscal position in Ireland—6.7 percentage points of GDP (see Chart 5)! Thus, fiscal policy in these economies was viewed in 2006 as being much tighter—after all they were running budget surpluses—than seen now in hindsight.

Even if the fiscal stance had been properly measured prior to the crisis, the focus of national fiscal policy under the SGP was on fiscal sustainability and not on national competitiveness or private sector imbalances. Thus, the relevance of national fiscal policies for moderating swings in competitiveness and private imbalances was neglected in the run-up to the euro-area crisis. Indeed, EUROSTAT stopped publishing national BOP data for individual euro-area members on the grounds that such data was no longer important, although national sources still prepared such data.

As one of the responses to the euro-area crisis, a Macroeconomic Imbalance Procedure (MIP) was established in late 2011 to identify emerging macroeconomic imbalances and monitor developments in competitiveness. The MIP was intended to operate alongside of the SGP and can trigger in-depth analysis and possibly corrective actions (see Appendix for further details). While the EC initially identified only countries with current account deficits for in-depth review, in November 2013, the EC made news by proposing Germany and Luxembourg—surplus countries—for in-depth imbalance reviews. (Separately, both the IMF and the U.S. Treasury have pointed to Germany as needing to boost domestic demand in order to shrink its current account surplus.) MIP is a first step in the right direction. However, its indicators are too backward looking and some thresholds are too asymmetric. Backward-looking indicators coupled with forward-leaning policy responses risks inducing an element of pro-cyclicality in the euro-area adjustment dynamics. Moreover, the MIP’s ability to induce meaningful policy changes, particularly in surplus economies, is as yet untested.
Nominal interest rate convergence, owing to the elimination of exchange rate risk, was an expected outcome of euro adoption. However at the same time, financial markets also priced sovereign/country credit risks within the euro area at near zero, which was unproductive. As a consequence, financing constraints were eased excessively for some countries—Spain and Greece notably—and some sectors—real estate. The prominence of financial market factors in the run-up to, and in the aftermath of, the euro-area crisis suggests a need for measures at the national level targeted at dampening directly swings in credit and in asset markets and notably to respond to the perverse real interest rate movements that can arise following country-specific shocks. (For a technical discussion see Brzoza-Brzezine et al (2013) and Quint and Rabanal (2013).)

The set of instruments that are relevant here go under the heading of macroprudential policies. What are these, and how are they different from microprudential supervision?

- Macroprudential policy aims to promote “financial stability” at the systemic level. This contrasts with the focus of microprudential supervision, which is on the financial health of individual financial institutions. Macroprudential has a top-down perspective, while microprudential takes a bottom-up perspective. Macroprudential tools are varied, overlapping at times with micro-prudential tools. Counter-cyclical capital buffers (CCCB), loan-to-value ratios (LTV), debt-to-income ratios (DTI), and capital flow measures (CFM) are examples of macroprudential tools; the first three tools are also in the hands of microprudential supervisors. One instrument with two hands on the lever creates a coordination issue, however.

- How do macroprudential tools operate? Essentially, they make it more expensive to borrow, reduce the availability of credit, and/or build up buffers to protect against losses. LTV and DTI ratios can target segments of the economy, such as housing. Raising these ratios makes it harder to qualify for loans, reducing spending pressures in the targeted sector. On the other hand, capital buffers and capital flow measures can act to limit national credit expansions; particularly those fuelled by foreign inflows in the case of capital flow measures.

- The effectiveness/calibration of various macroprudential tools remains an important area of uncertainty, requiring further research. In particular, macroprudential measures appear to be more effective during the boom when loanable funds are the binding constraint than in the bust when an absence of loan demand, owing to deleveraging by the private sector, is relative more important. The latter is often termed “pushing on a string.”

- Finally, the appropriate institutional and governance arrangements for macroprudential tools are still a matter of debate in part because of the distributional effects of some tools (e.g., LTV and DTI), which are more highly political.

With international financial market integration, effective conduct of macroprudential polices requires cross-border coordination. (A fuller treatment of coordination issues can be found in...
Cross-border coordination is especially needed in a currency union—a single financial market with no exchange risks. Why is this? Financial institutions, including their branches, are supervised on a consolidated basis by their home supervisor. Host countries supervise their domestic financial institutions, which includes subsidiaries of foreign financial institutions. Thus, macroprudential tools applied by a host country would not apply to branches located in the host country. Moreover, corporations and even households could borrow directly from financial institutions domiciled abroad. The latter is especially true in a currency union.

The Basel Committee on Banking Supervision (BCBS) has recognized this coordination issue in the context of the use of counter-cyclical capital buffers. Specifically, their guidance to national supervisors (see BCBS (2010)), established the principle of “jurisdictional reciprocity.” Under this principle, foreign supervisors must apply on their banks lending to the host country the same additional capital buffers posed by the host supervisor. All banks would be operating on a level playing field when lending to entities in the host country.

Unfortunately, this reciprocity principle only applies to counter-cyclical capital buffers and not to the entire range of macroprudential tools. Within the euro-area, counter-cyclical buffers for large banks would likely operate under the direction of the ECB, as the Single Supervisor. But banks face competition from capital markets and non-bank financial institutions. From a macroprudential perspective, this competition is a source of leakage, undermining the effectiveness of these tools. The European Systemic Risk Board (ESRB) monitors the entire EU financial system: it can issue warnings and recommendations to the relevant regulatory bodies should it deem that financial stability is at risk. It can therefore play a very important role in helping national authorities to dampen financial market swings that may accompany the inter-country adjustment process under EMU. Of course, coordination issues between the ESRB and ECB will also need to be addressed in due course.

National authorities can also introduce capital flow measures to stem foreign inflows that are contributing to a credit/economic boom that risks financial stability and economic vulnerabilities. Such measures can also be imposed after a crisis breaks to help the adjustment process as has happened in Iceland and Cyprus. Some national supervisors within the euro-area have limited bank flows to other euro-area members for prudential/stability reasons. Such official fragmentation of the currency union may be necessary to deal with fragmentation caused by the private sector. Macroprudential measures to dampen financial cycles within the monetary union should be seen in the same light: they bear resemblance to capital flow measures, but their intent is to prevent market-driven fragmentation of the single financial market and not to undermine the single financial market.

In sum, dealing with country-specific booms and downswings entails recourse not just to national fiscal policies but also to national macroprudential policies; these latter policies may prove ineffective unless there is cross-country coordination within the euro area. The ECB, as the Single Supervisor, and the ESRB, as the EU-wide macro-prudential agency, can contribute importantly to euro-area and EU coordination efforts.
Banking union needs to complement national fiscal and macroprudential policies

The case for stronger national policy responses to country-specific economic shocks within the euro area is complementary to the case for an area-wide banking union with a well-funded common arrangement for fiscal backstop. However, sole reliance cannot be placed on the timeliness and adequacy of national fiscal and macroprudential measures, even when coordinated across borders, to prevent financial stress arising under EMU. The political economy of such pre-emptive actions can be problematic, and the traction of fiscal and macroprudential measures in such a context remains unproven. Thus, development of an euro-area banking union is an indispensable complement to the kind of rethinking of national policies outlined above. Of course, the banking union can also subject to design deficiencies and may have its own political economy issues.

The euro-area crisis provides evidence of how quickly and severely financial integration can go awry. During the crisis, the single financial market became fragmented, dividing along national lines. This fragmentation was seen in widening interest rates on loans between the core (Chart 6) and periphery countries and reduced net cross border exposures. In some cases, national authorities had to bail out national banks to protect their financial systems, worsening their public debt positions. This deterioration in public finances caused their sovereign interest rates to soar and with that the funding costs for their national banks, which pushed up their lending rates. In other cases, the prospect of a bank bailout caused sovereign interest rates to rise. With banks holding large amounts of their government’s debt, a vicious circle resulted, which was reinforced by the depressing demand effects of higher bank lending rates. Private markets now seemed by some to be overshooting in the other direction, making recovery more difficult.

To address this fragmentation and break the sovereign-bank linkage, the ECB launched OMT and the instruments of the EFSF/ESM were extended—direct bank recapitalization. In addition, steps were taken to strengthen the euro-area’s banking union. A Single Supervisory Mechanism for the largest financial institutions will become operational in November 2014 under the ECB’s direction. In preparation, the ECB is conducting an Asset Quality Review to deal with “legacy” problems by ensuring that major banks are adequately capitalization.

The planned Single Resolution Mechanism would resolve ailing banks across the banking union in a harmonized way, with a focus on avoiding contagion and protecting taxpayers. The ESM may be able to recapitalise banks directly provided that private investors are “bailed in” and that the requesting country contributes financially alongside the ESM. Unanimous agreement by ESM members is required for the ESM to use the direct recapitalization instrument. This “wood-framed” structure is expected to be replaced in due course by a “steel-framed” one, including a euro-wide deposit insurance system with a euro-wide backstop. To varying degrees, these measures entail some mutualization of fiscal liabilities, albeit with layers of “bail-in” and national fiscal support to try to avoid adverse incentives.

The economic and governance reforms undertaken and underway will transform the euro architecture moving it from a loosely coordinated system predicated on the no-bail-out
principle, to a more tightly coordinated system that recognizes more collective responsibility. This new framework is not yet completed and it is untested. Untested as yet by adverse market pressures and by the political-economy forces that were the undoing of the excessive deficit procedure, for example. Moreover, this new framework still falls short of the fiscal union that some have long viewed as necessary to underpin a successful euro project.

Conclusion

The experience of the euro-area crisis has validated concerns that there can be destabilizing swings in competitiveness and in current account balances following country-specific economic shocks to euro-area members. Moreover it has become clear that these effects can be amplified in a destabilizing manner by developments in financial markets and in intra-euro-area capital flows.

It seems, therefore, that national fiscal policies should indeed be used actively to counter destabilizing cycles in competitiveness. In addition, macroprudential policy actions are needed to help dampen destabilizing swings in financial markets. Such macroprudential actions are unlikely to be successful unless coordinated across countries, given the context of the single financial market. For this reason among others, the current efforts to strengthen the financial architecture of EMU should be seen as complementary to a more active use of national fiscal and macroprudential policies.
Chart 1: Real short-term interest rates (in percent)

Sources: Regling and Watson (2010) and OECD *3-month interbank interest rates deflated by the harmonized index of consumer prices.

Chart 2

Credit Growth in Ireland
% change

Source: Central Bank of Ireland
Includes subsidiaries of foreign banks in Ireland
Includes securitized residential mortgages

Source: Regling and Watson (2010)
Sources: Regling and Watson (2012) plus OECD and European Commission
Chart 4

Capital Flows to the EMU Periphery

Source: Gillian Edgeworth calculations based upon data OECD and European Commission.
Chart 5: Underlying Fiscal Balance as a Percentage of GDP

Fiscal Measurement

<table>
<thead>
<tr>
<th>Structural Balance</th>
<th>Budget (% GDP)</th>
<th>2006 Seen then</th>
<th>2006 Seen now</th>
<th>2007 Seen then</th>
<th>2007 Seen now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>2.7</td>
<td>-4.0</td>
<td>0.7</td>
<td>-7.2</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>1.8</td>
<td>-1.2</td>
<td>1.2</td>
<td>-1.1</td>
<td></td>
</tr>
</tbody>
</table>

Chart 6: Long-term Government Bond Yields

Color code: Germany  Ireland  Portugal  Spain
Appendix—Macroeconomic Imbalances Procedure

In December 2011, as part of the “six pack” legislation, a new surveillance and enforcement mechanism was set up—the Macroeconomic Imbalances Procedure (MIP). This procedure relies on an alert mechanism to identify the EU member that shows signs of emerging macroeconomic imbalances so that timely corrective policy actions can be taken. The alert mechanism acts as a "filter" to identify countries for more in-depth study. The alert mechanism consists of an indicator-based scoreboard. This scoreboard has 11 indicators with thresholds; for example, the a backward 3-year moving average of the current account balance relative to GDP with a threshold of -4 percent and +6 percent. Two competitiveness indicators are also monitored. Surplus economies as well as deficit economies can come under scrutiny, albeit the thresholds are not symmetric.

The scoreboard is complemented by its economic reading in the annual Alert Mechanism Report (AMR). This reading implies that there is no automaticity involved in crossing any indicator’s threshold; other relevant information is taken into account. The economic readings are discussed by the Council and the Eurogroup. With this feedback, the Commission decides for which countries it will prepare country-specific in-depth reviews to assess potential imbalances. Spillovers within the EU are also taken into consideration.

If, on the basis of this analysis, the situation is considered unproblematic, the Commission will not propose any further steps. However, if the Commission considers that macroeconomic imbalances exist, policy recommendations for the relevant member will be made. If severe or excessive imbalances that may jeopardize proper EMU functioning are found, the Council may declare the existence of an excessive imbalance and ask the member to present a corrective action plan (CAP) within a specified deadline. The CAP sets up a roadmap and should be detailed with specific policy measures and an implementation timetable. As regards its content, the policy response should be tailored to the member’s circumstances and should cover, as needed, the main policy areas, including fiscal and wage policies, labor markets, product and services markets and the financial sector.

After submission, the Council assesses the CAP. If the CAP is considered insufficient, the Council asks the member to submit a new CAP. If the new CAP is still considered insufficient, a fine (0.1% of GDP) can be imposed. If the Council considers the CAP to be sufficient, it will endorse the CAP. Once a CAP has the Council’s endorsement, the Council will periodically assesses whether or not the member has implemented the CAP according to its deadlines. If the CAP is implemented as planned and the excessive imbalances are redressed, the EIP will be closed; however, if the imbalances are not corrected, the member will continue to be subject to periodic monitoring. On the other hand, if the CAP is not implemented as planned, the Council will, on the first occasion, set new deadlines and may impose an interesting-bearing deposit (0.1% of GDP). After a second noncompliance, the Council can convert the deposit into an annual fine.
References


About PEFM

The Political Economy of Financial Markets programme (PEFM) aims to shed light on the way in which institutions, including macroeconomic policy frameworks, interact with financial markets. In the wake of the global and euro area crises, it seeks to promote a better understanding of financial markets and to contribute to improved policy formulation in the future.

Its main activities are to carry out research, hold seminars, and publish findings in outlets that range from academic articles and books to policy briefings and op-ed pieces in the international press. Three initial research groups were set up at the outset, bringing together academics, officials and market participants:

- The first research topic is Financial Integration in Europe – why this has not lived up to expectations, and the implications for banking and fiscal union.
- The second research topic is Regulatory Capture. This explores how relations between the financial sector and regulators interacted with political and ideological influences in the ‘regulatory space’, during the run-up to the crisis.
- The third research topic is Macroeconomic Policies and Financial Stability – asking how monetary and fiscal policy regimes can respond to instability in the private sector, without jeopardizing policy transparency.
- Several future research priorities have been identified. These include shadow banking, and also the impact of advanced economy financial policies on emerging market countries.

European Studies Centre

The European Studies Centre at St Antony’s College is dedicated to the interdisciplinary study of Europe. It has particular strengths in politics, political economy, history and international relations, and also brings together sociologists, social anthropologists and students of culture. The Centre is a meeting place and intellectual laboratory for the whole community of those interested in European Studies at Oxford. Beside its permanent Fellows, the Centre has Visiting Fellows from several European countries, as well as graduate students from around the world working on European affairs. The Centre also participates in several collaborative international research projects. Seminars and workshops on a wide range of topics are held regularly at the Centre. These involve Oxford scholars from all disciplines and their counterparts from abroad, often with the participation of students. A number of special lectures and international conferences, bringing both leading academics and distinguished practitioners to Oxford, are offered to a wider audience under the auspices of the Centre.

www.sant.ox.ac.uk/pefm