Eichengreen

- Starting point:
  - Decline in saving-investment correlations with EMU ⇒ more financial integration
  - Capital flows „downhill“ ⇒ „good“ imbalance
- But there is also evidence for „bad imbalances“ ⇒ capital flowing in countries with distortions
  - For instance: countries with more „corruption“ get more capital
- Difficulty: Distinguishing between „good“ and „bad“ imbalances
- Similar phenomenon exists in US ⇒ Focus on source of problem (distortions) and not symptom (imbalance)
- Bad imbalances are not more prevalent in EMU than elsewhere

Von Hagen & Schmitz

- Important to distinugish between aggregate and regional current account balances ⇒ they may not have the same sign
- Intra-EMU trade balances are a (+) function of per-capita incomes ⇒ capital flowing „downhill“
- EMU has intensified the relationship ⇒ allocation of capital has become more efficient
- Relative competitiveness (and other variables) play a lesser role
- Capital flows may induce distortions, but this is no reason to regulate them

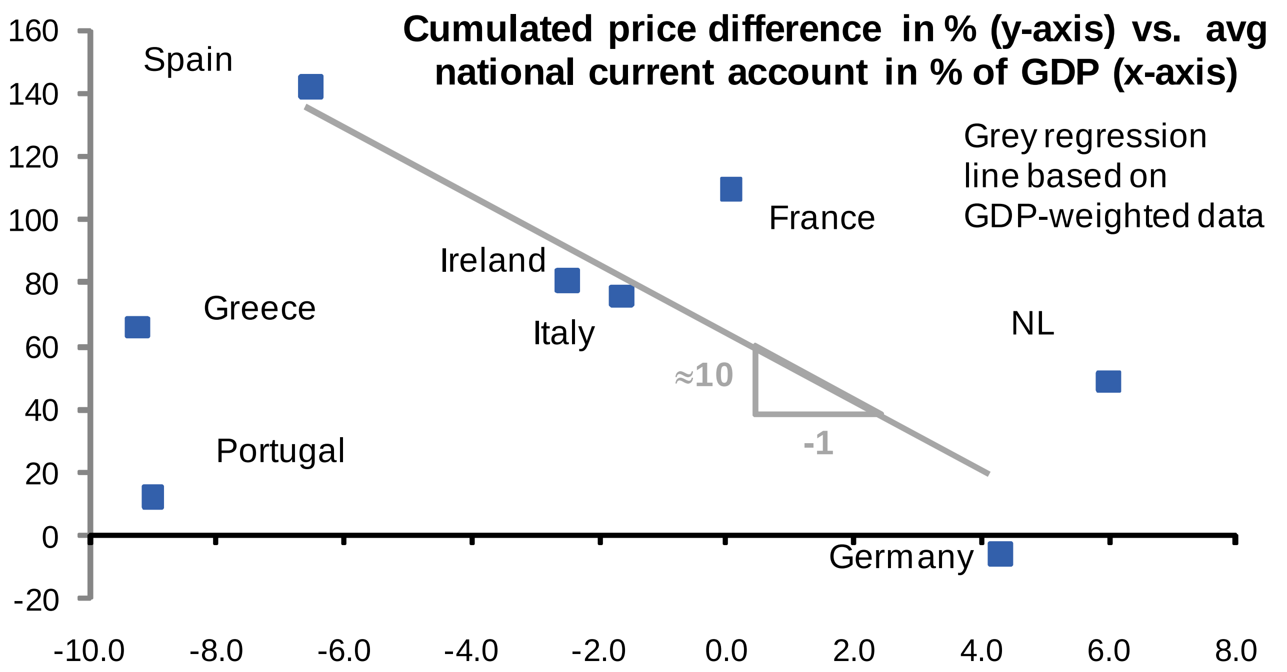
A few observations

- Neither paper discusses the role of interest rate convergence ahead of EMU in greater depth

- Neither paper discusses the role of the real estate market in the emergence of imbalances

Hamlet without the Prince of Denmark?

2001-2008: National current account and real estate prices



Source: OECD, DB Global Markets Research

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A few questions

- Sensible to focus on the source of imbalances and not the symptoms. But what are the sources?

- Do we need national macroprudential regulation (e.g. dynamic provisioning) to fine-tune the effects of the one-size-fits-all monetary policy?

- Do we need to remove the implicit mutual sovereign debt guarantees to allow the capital market to function efficiently?

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