Joining the Eurozone, A Jump in the Dark

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Eurosfat Forum

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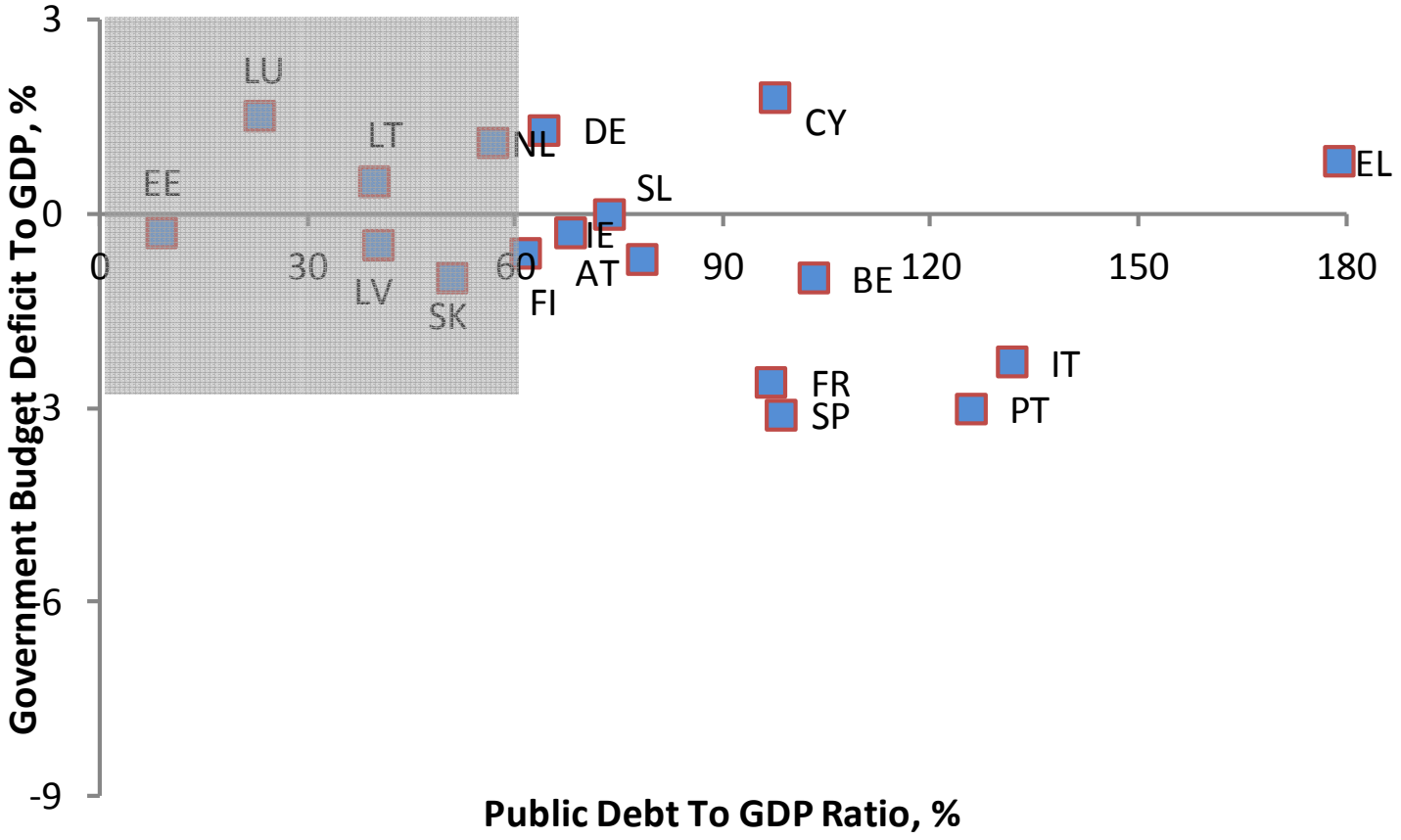
Introductory Points

- Joining EZ – reasons: economic, political and institutional.
- Cost/benefit analysis in the long run.
- There is more than fulfilling nominal convergence criteria – Romania's economy must become more competitive and be able to resist shocks inside the EZ.
- Price level convergence and interest rate cycle synchronization are paramount.
- What does the functioning of EZ tell us so far?

Stability Pact in EZ Countries, 2017



Source: Eurostat

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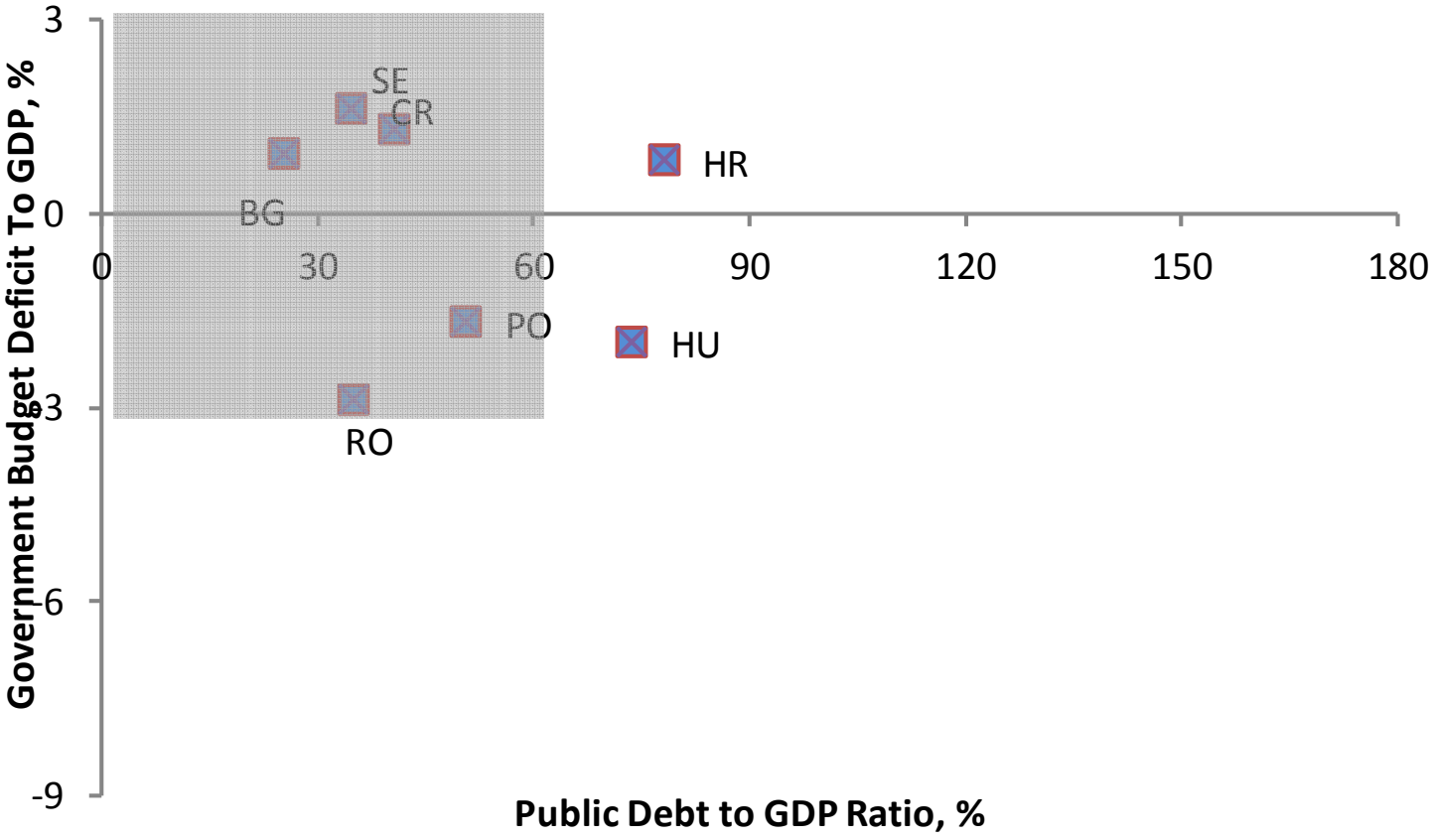
Stability Pact in EU, non-EZ Countries, 2017



Source: Eurostat

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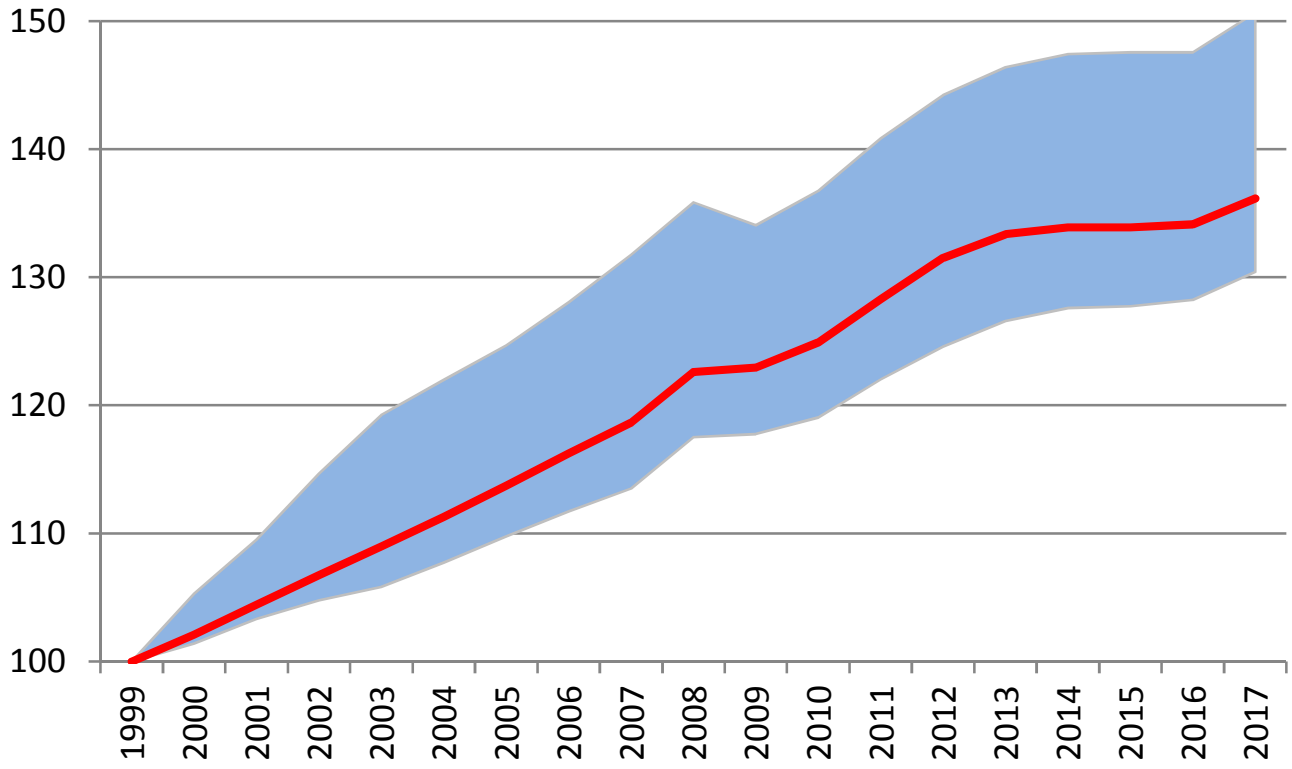
Inflation Divergence in Euro Area, 1999=100, ZE-11



Monetary policy "one-size fits all" is sub-optimal in the absence of a fiscal counterparty at the ZE level.

Source: Author calculations using Eurostat data

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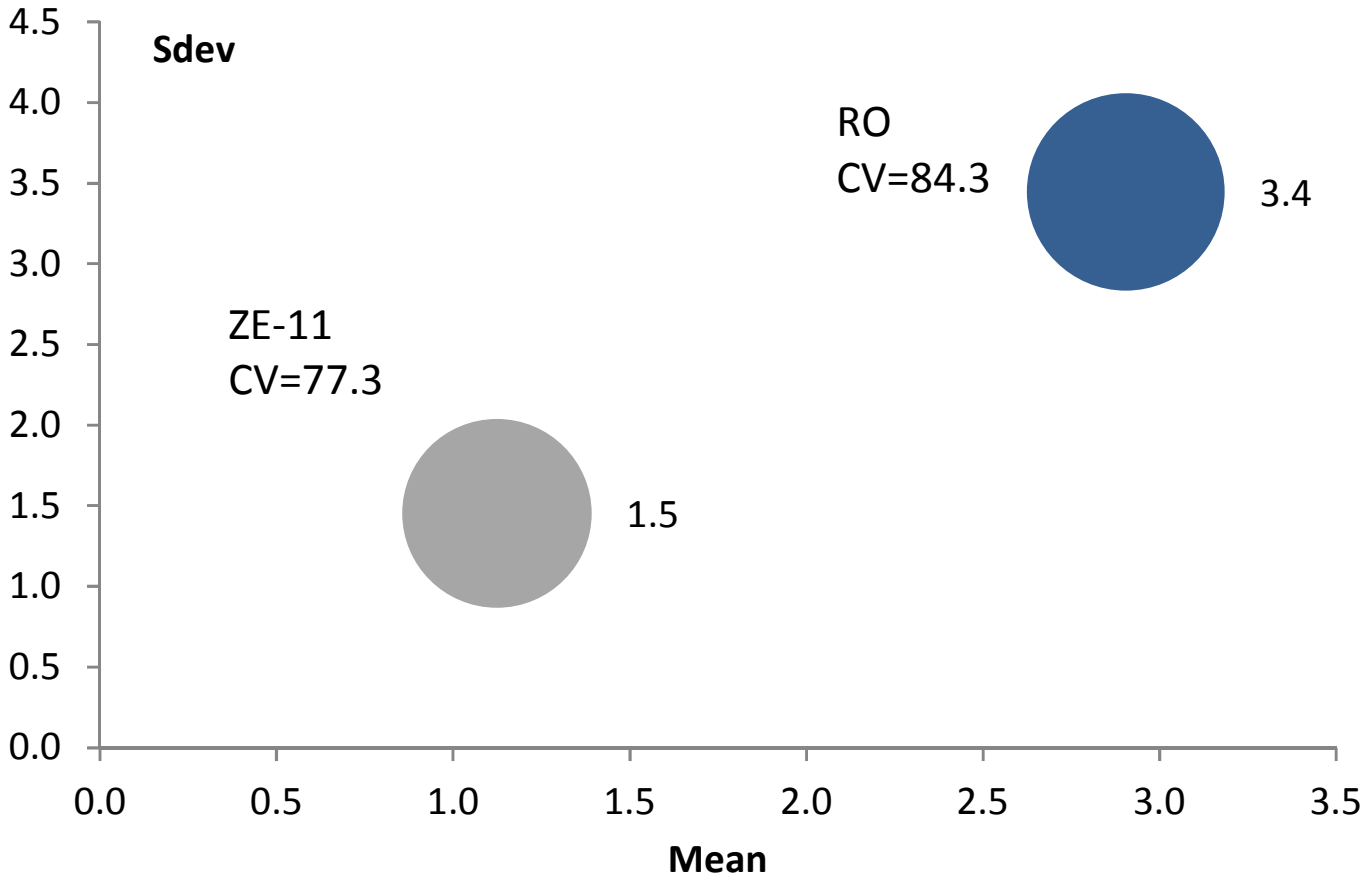
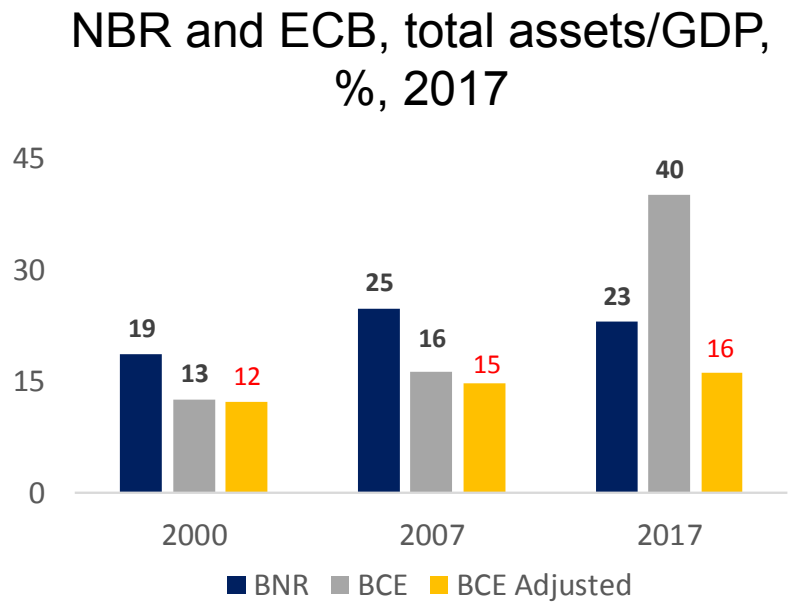
Inflation Volatility, Romania vs EZ-11, 2007-2017

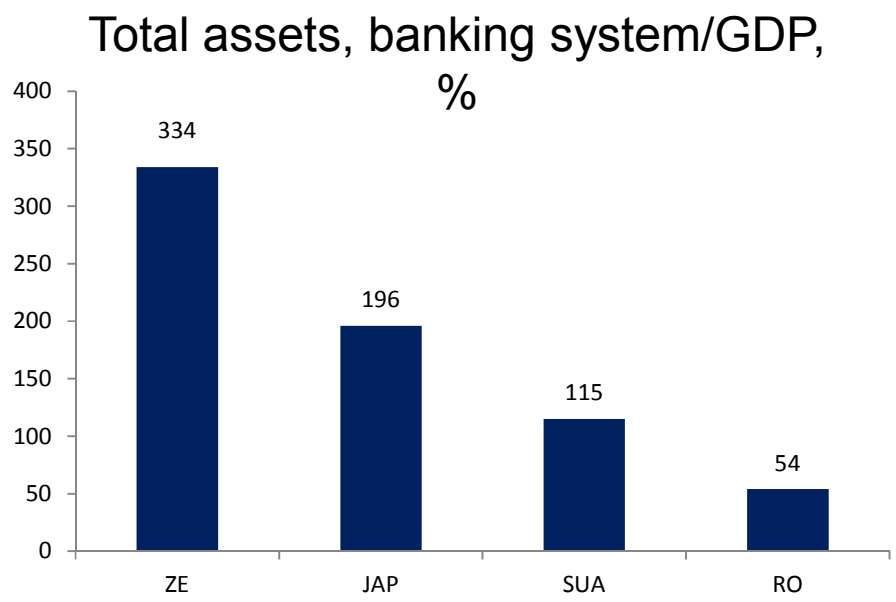


Source: Author calculations using Eurostat data

Future Differences in the Way Monetary Policy Operates, ECB vs NBR?



Source: author own calculations using data from NBR, ECB, INSSE, Eurostat



Source: European Systemic Risk Board (2014) and NBR (2017)

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Final Remarks

- EZ has architectural and functional deficiencies. The Banking Union, thought as a stabilizer element of the financial infrastructure, is incomplete.
- In current circumstances, even if Romania fulfilled conditions for joining the EZ and had a competitive economy, it would be better to adopt a ‘’wait and see’’ stance.
- However, the economy is not ready to join EZ in the medium-term (inflation volatility and persistence, low GDP/capita, discretionary fiscal policy, low level of financial deepening, etc.)
- An independent monetary policy is much more preferable for the moment.
- Through a better coordination between monetary and fiscal policies the Romanian economy could grow, for now, faster outside the EZ. It gives the EZ time to sort out its internal problems.

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