



ELSEVIER

Economic Systems 25 (2001) 215–231

**ECONOMIC
SYSTEMS**

www.elsevier.com/locate/ecosys

The convergence of monetary policy between candidate countries and the European Union

Josef C. Brada^{a,*}, Ali M. Kutan^b

^a *Arizona State University and The William Davidson Institute, University of Michigan, Michigan, MI, USA*

^b *Southern Illinois University – Edwardsville and Center for European Integration Studies,
University of Bonn, Bonn, Germany*

Abstract

We compare the convergence with German monetary policy of the transition-economy candidates for EU membership, of non-transition candidates, and of countries that have recently joined the EU. Significant linkages exist between German base money stock and that of recent members of the EU; the same holds true for non-transition-economy candidates. Among the transition economies, the ability to follow the policies of the Bundesbank is weaker or non-existent. Such weak policy coordination suggests the need for strengthening the financial sectors of these countries and for a period in which they tie their policies more closely to the ECB. © 2001 Published by Elsevier Science B.V.

JEL classification: E58; F15; F36; P52

Keywords: Convergence; Economic integration; Monetary policy; Transition economies

1. Introduction

The successful accession to membership in the European Union (EU) by the current transition-economy applicants, the Czech Republic, Hungary, the Slovak Republic, Slovenia, Poland and the Baltic republics, will depend to a large extent on their ability to align themselves with the institutions and the macroeconomic policies of the EU. Although structural change and institutional adaptation to EU norms will also be important in this process, in this paper we focus on the convergence of monetary policy between the candidate countries and the EU. The convergence of monetary policy between the EU and the candidate countries will be a necessary, though by no means sufficient, condition for establishing exchange rate

* Corresponding author. Present address: Department of Economics, Arizona State University, Box 873806, Tempe, AZ 85287-3806, USA. Tel.: +1-480-965-6524; fax: +1-480-965-0748.
E-mail address: josef.brada@asu.edu (J.C. Brada).

stability between the Euro-zone and the new members. We examine the prospects for such a convergence of monetary policies by investigating the extent to which the candidate countries have been able to achieve some measure of convergence between the evolution of their money stock with that of Germany, which we use as a historical proxy for the future monetary policy stance of the European Central Bank (ECB). We also compare the convergence achieved by the five most advanced transition-economy candidate countries to that achieved by countries that have recently become members of the EU, by several non-transition candidate countries and by some transition economies whose candidacy for EU membership has been deferred because they are making slower progress toward stabilizing their economies and introducing market mechanisms and institutions.

In the next section of the paper we motivate the inquiry and describe the exchange rate regime that is likely to govern the relations between the new members of the EU and the current members. We expect this exchange rate regime to display a tighter relationship between the national currencies of the new members and the Euro than is allowed under the conditions of ERM II. Based on this characterization, we argue that, if the candidate countries were successful in having Germany “dominate” their monetary policy in recent years in the way that Germany was alleged to dominate the policies of other EU countries under the EMS, then the transition economies should have the potential to conform to the monetary policies of the ECB. The statistical tests of this domination of candidate-country monetary policy by Germany are developed and presented in Section 3, and the implications of these findings and the inter-country comparisons drawn from them are set out in Section 4.

2. EU membership and monetary convergence

Much as the Maastricht criteria played a key role in the creation of a common currency among some of the EU member countries, macroeconomic performance will play a key role in determining which of the transition economies will join the EU and when. Indeed, the introduction of the Euro among a core subset of EU countries makes macroeconomic convergence a more pressing issue than it was for earlier entrants into the EU. As McKinnon (1999, p. 132) points out, the gains to the transition-economy candidates from joining the EU will be realized only if “trade takes place over an exchange rate regime that is mutually acceptable between east and west”. McKinnon argues that a regime of fixed exchange rates between the candidate countries and the Euro is the regime most likely to inspire such mutual confidence and to realize the full benefits of integration. In part this is so because fixed exchange rates between the currencies of these new member countries and the Euro will facilitate the rapid growth of the new members’ exports to the rest of the EU without raising fears of “beggar-thy-neighbor devaluations or unfair trading practices”. Moreover, a credible adherence to a Euro peg will serve as an important spur to the structural and institutional changes required of the transition economies, thus guaranteeing to the EU that its new members will not backslide in their efforts at structural and institutional reform. As for the non-transition-economy candidates for EU membership, although they do not face as great a task in creating economic and social institutions consistent with EU membership as do the transition-economy candidates, they too face the need to align their exchange rate closely to the Euro to realize the benefits of membership.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات