

wiiw Spring Seminar 2013

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Slovenia, Slovakia, Estonia –
Implications of Euro Membership

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Main topics

- Public finance
- Financial sector
- Competitiveness and trade
- Labour markets
- Lessons and conclusions

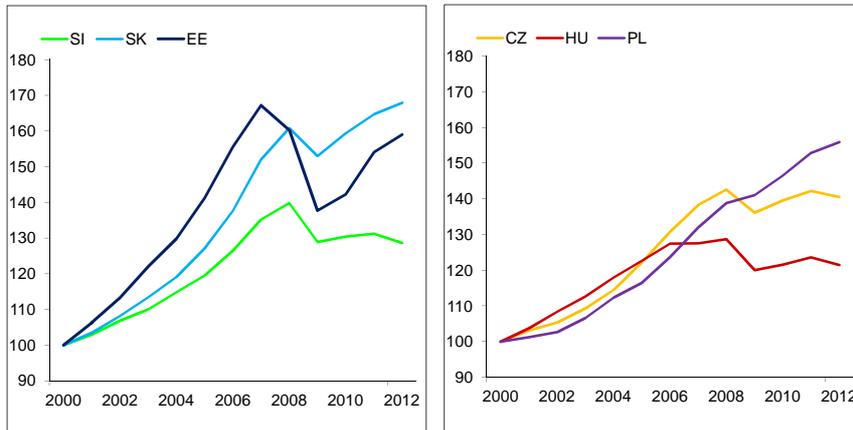
Main hypotheses on effects of euro adoption

- **Public finance**
 - stricter fiscal policy stance
 - lower borrowing costs for public debt
- **Financial sector**
 - stronger financial integration
 - ➡ higher financial inflows and private sector debt
- **Competitiveness and trade**
 - lack of exchange rate policy tool ➡ loss of price competitiveness
 - plus stronger internal demand ➡ higher external imbalances
- **Labour markets**
 - lack of exchange-rate policy ➡ higher output & employment fluctuations

Euro introduction

	ERM II participation	Euro introduction
Slovenia	2004 - 2006	1 January 2007
Slovak Republic	2005 - 2008	1 January 2009
Estonia	2004 - 2010	1 January 2011
Plans:		
Latvia	since 2005	application sent; 2014
Lithuania	since 2004	possibly 2016

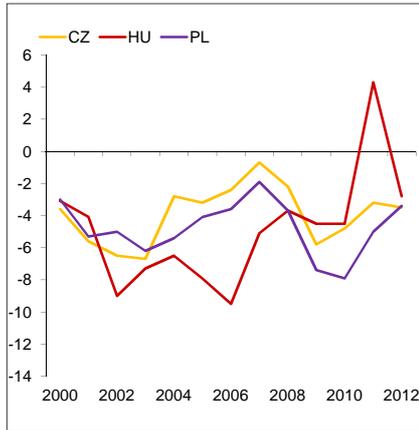
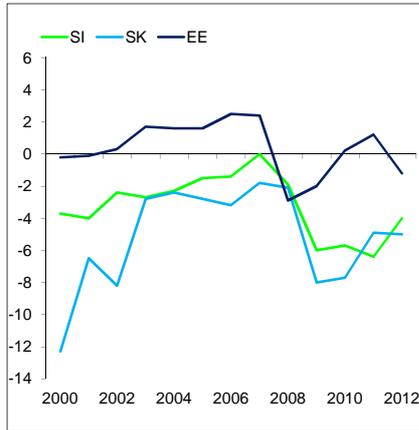
Gross domestic product real change, 2000 = 100



Source: wiiw Database incorporating national and Eurostat statistics.

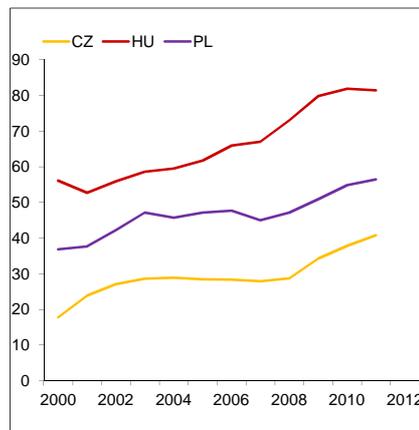
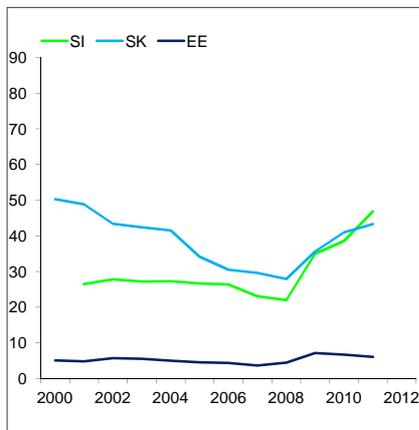
Public finance

General government deficit in % of GDP



Source: Eurostat, International Finance Statistics (IMF).

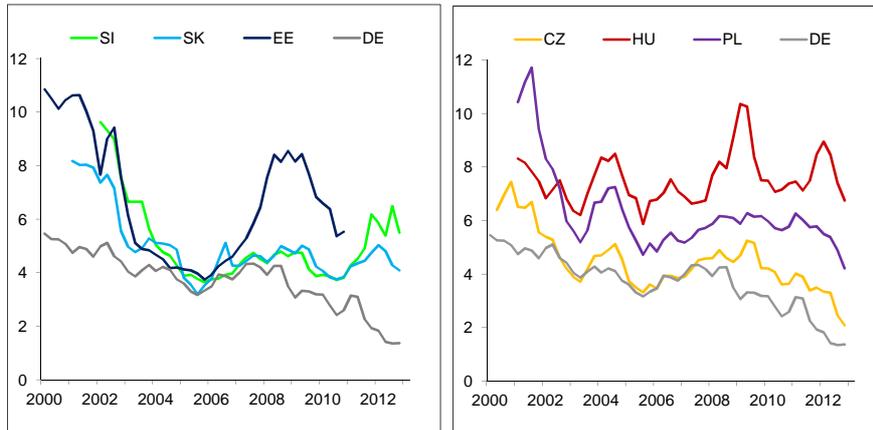
Public debt in % of GDP



Source: Eurostat, International Finance Statistics (IMF).

Interest rates on government bonds

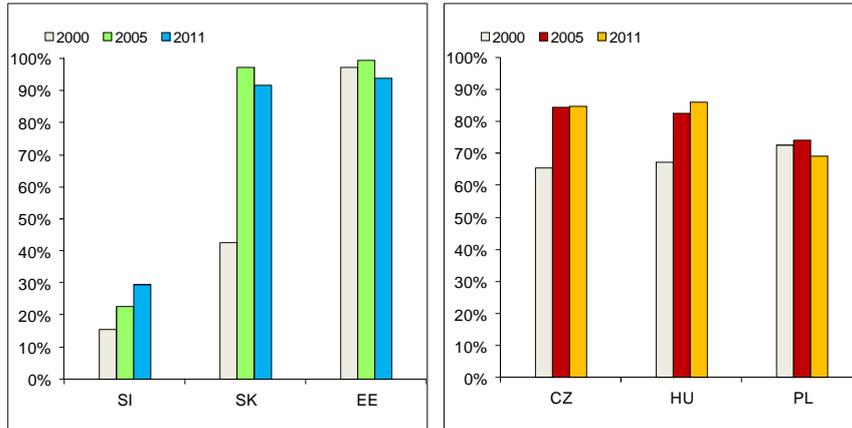
Maturity 10 years



Source: Eurostat, International Finance Statistics (IMF).

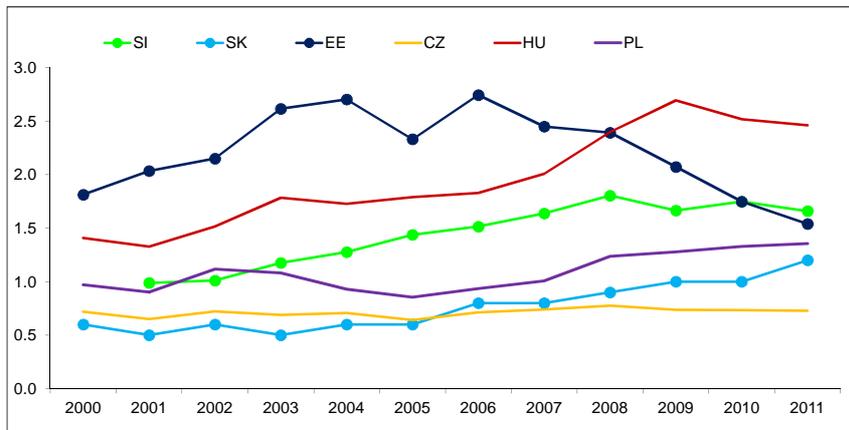
Financial sector

Share of foreign banks in % of assets



Remark: CZ data for 2011 refer to 2008.
 Source: EBRD.

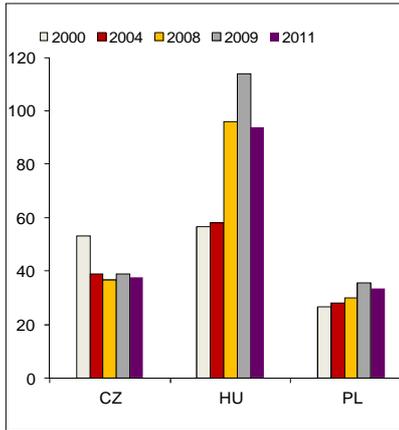
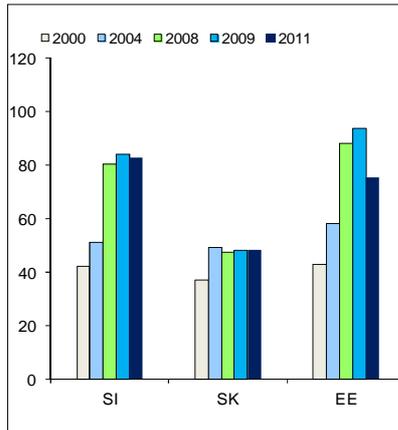
Loan/deposit ratio for total economy (non-consolidated)



Source: Eurostat, International Finance Statistics (IMF).

Corporate sector debt

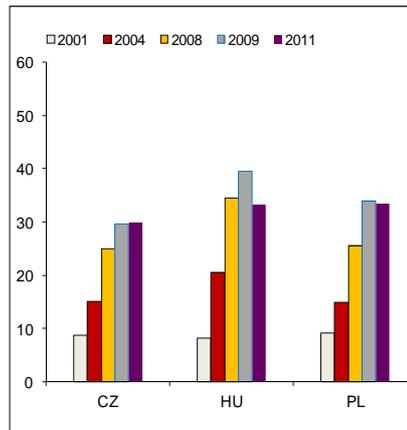
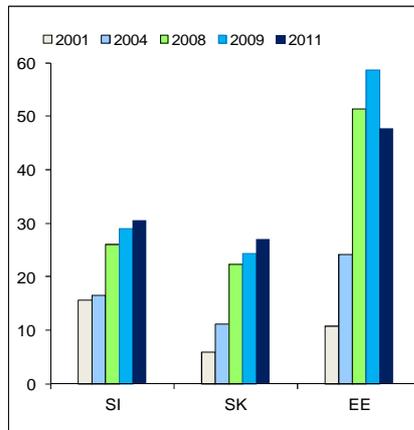
% of GDP



Source: Eurostat, National Banks and wiiw own calculations.

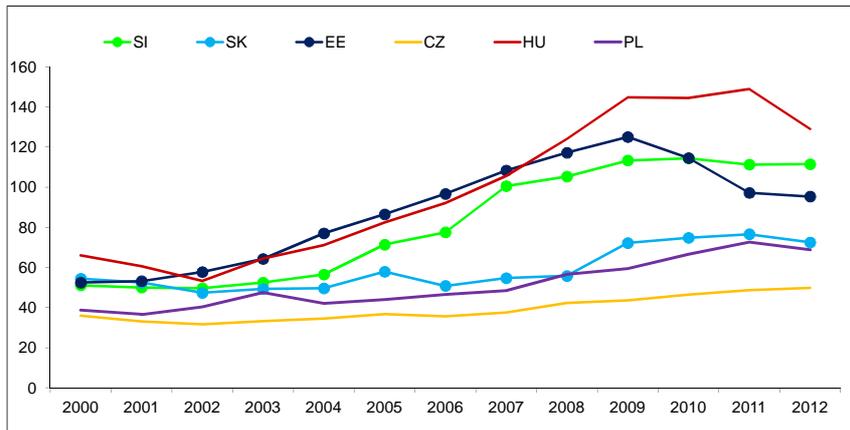
Debt of households (loans)

% of GDP



Source: Eurostat, National Banks and wiiw own calculations.

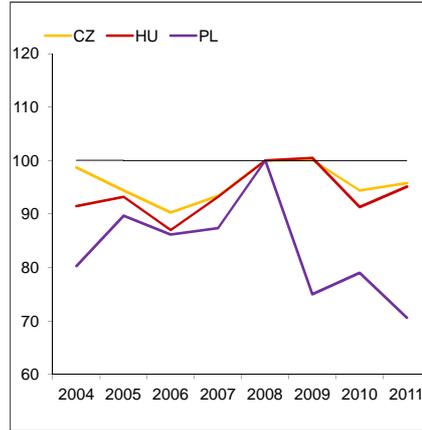
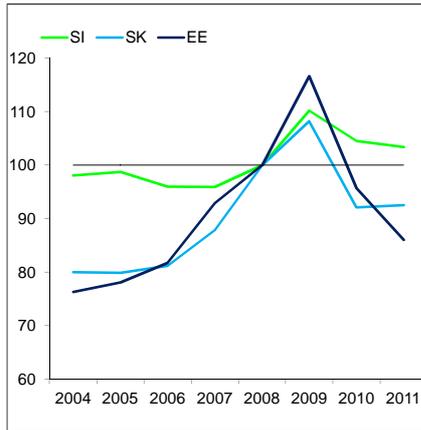
Gross external debt in % of GDP



Source: Eurostat, International Finance Statistics (IMF).

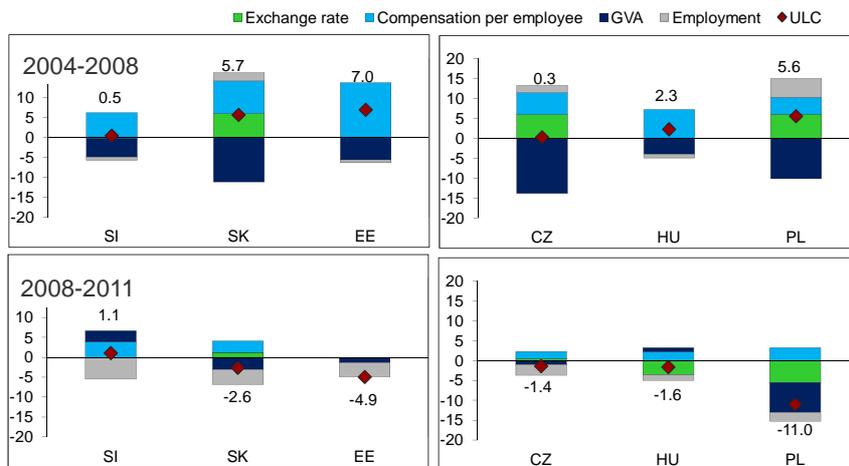
Competitiveness

Development of Unit Labour Costs (ULCs), manufacturing in euro, 2008 = 100



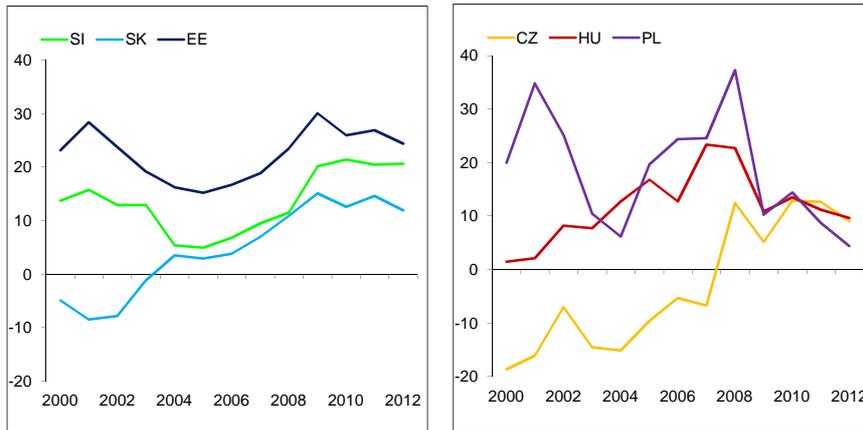
Source: Eurostat and wiiw own calculations.

Components of ULCs Manufacturing, average growth



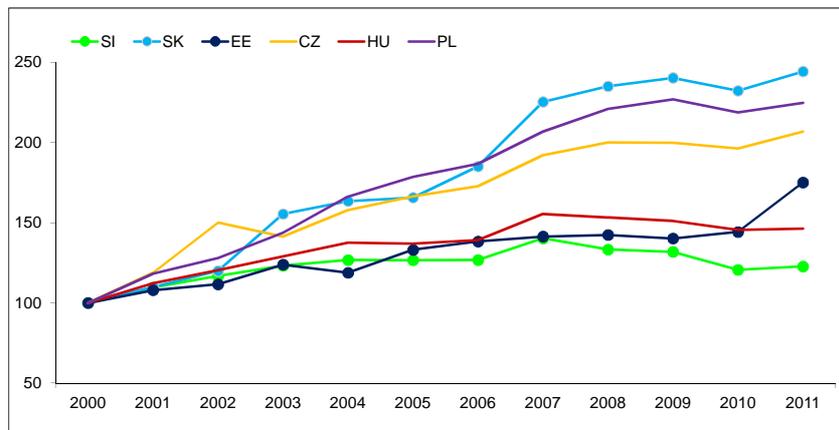
Source: Eurostat and wiiw own calculations.

Over-/Under-valuation of national currencies in %, estimated according to real convergence methodology (Podkaminer, 2010)



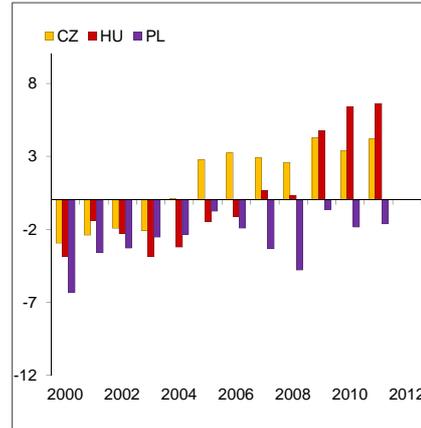
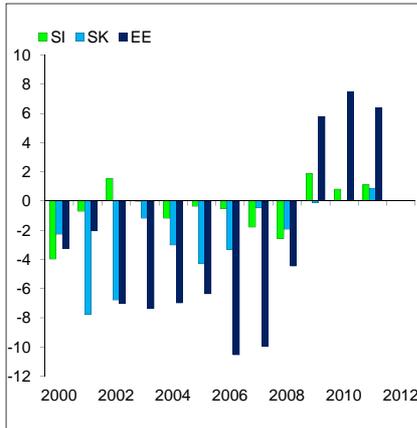
Source: Eurostat and wiiw own calculations.

World export shares 2000 = 100



Source: UN Comtrade.

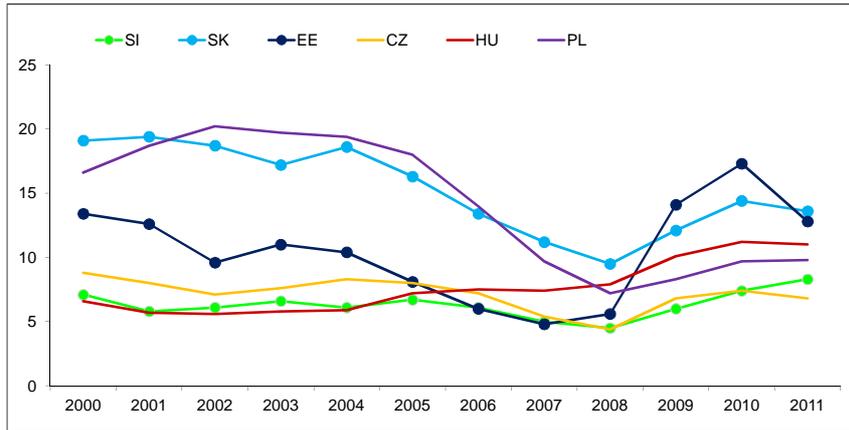
Trade balance of goods and services in % of GDP



Source: Eurostat and wiiw own calculations.

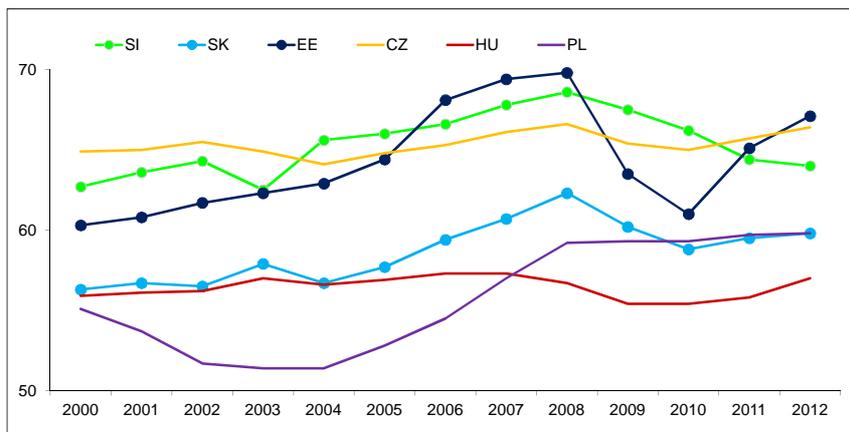
Labour markets

Unemployment rates annual average in %



Source: Eurostat.

Employment rates annual average in %



Remark: Data 2012 refer to 1-3q.
 Source: Eurostat.

Lessons and conclusions

■ Public finance

- stricter fiscal policy stance
- lower financing costs for public debt



■ Financial sector

- higher financial inflows and private sector debt



■ Competitiveness and trade

- loss of price competitiveness
- higher external imbalances



■ Labour markets

- higher output and employment fluctuations



Lessons and conclusions continued

■ Promises / benefits of euro entry

- Stricter fiscal policy stance and perception of lower risk due to euro entry lowered financing costs for public debt before the crisis
- In the crisis capital market agents returned to a case-by-case approach in assessing country risks. Euro-bonus got lost.
- Loss of exchange rate policy tool is then in some countries perceived as an additional risk.

■ Dangers and perils for transition countries

- High capital inflows and loss of price competitiveness are likely to trigger boom/bust-cycles especially in the period of catching-up – danger of high social costs in terms of higher unemployment and poverty.

■ Need for but insufficiency of supporting policies

- Countries experience rise in labour flexibility and intra- and international mobility
- Wage, income and welfare policies can somewhat cushion output fluctuations and their negative effects but cannot prevent them.