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2nd joint Magyar Nemzeti Bank and Oesterreichische Nationalbank workshop

Academic Session: Economic arguments for a common currency in an integrated Europe

Vienna, November 6, 2026

Economic and Monetary Union: What Kind of Convergence?

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- Independent states can "link" their economies to a greater or lesser extent in order to acomplish the **benefits** that come with the removal of obstacles and the size effects, such as greater internal efficiency and greater resilience to external events
  - But, (som) costs still exist…
- What is a monetary union? Which are its benefits, and costs?
- **Main question**: Is satisfying the Maastricht criteria sufficient for successful euro adoption?

Some introduction questions…

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- Why do some countries converge quickly while others stagnate?
- Is inflation convergence enough?
- Can countries with different productivity levels share one monetary policy?
- Can a country enter the euro area "too early"?
- Does euro adoption promote convergence, or does convergence have to come first?
- What happens when asymmetric shocks occur?

A bit of „theory”…

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- **Nominal convergence**
  - Good for: macroeconomic discipline, monetary stability
  - But it says little about: productivity, economic structure, labour mobility, resilience to shocks
- **Classical OCA theory**
  - **Key idea:** A country can safely give up monetary policy only if alternative adjustment mechanisms exist
- **Newer OCA literature**
  - Business-cycle synchronization, financial integration, endogeneity of convergence, fiscal risk-sharing, institutional quality…
- **Real convergence**
  - ECB → *Sustainable convergence requires productivity growth, institutional quality and shock absorption capacity*

A bit of theory…

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• Benefits

- Greater financial integration among member states
- Improved access to foreign capital
- More efficient allocation of capital
- A monetary union constrains governments' ability to use monetary policy opportunistically against creditors
- Potentially better international risk sharing
- „Micro level" aspects…

• Costs

- Losing monetary policy as an instrument of economic policy
- Exchange rate fixed, interest rates exogenous
- Loss of inflation tax and the possibility of devaluation
- Transitional instability
- Greater financial integration does not necessarily increase welfare
- Capital may flow in the wrong direction
- Greater difficulties during large fiscal shocks
- Vulnerability during financial instabilities
- Need for additional institutions

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- Progress existed before 2020
- After COVID-19, energy crisis, inflation shock… divergence increased again
- Czechia → arguably appears more structurally prepared than some existing euro-area members
- Poland: large economy, strong growth record, substantial real convergence, yet: weak business-cycle synchronization, concerns regarding asymmetric shocks, less convincing OCA preparedness → Could Poland satisfy nominal criteria and face significant costs?
- Bulgaria → nominally yes, really convergence?

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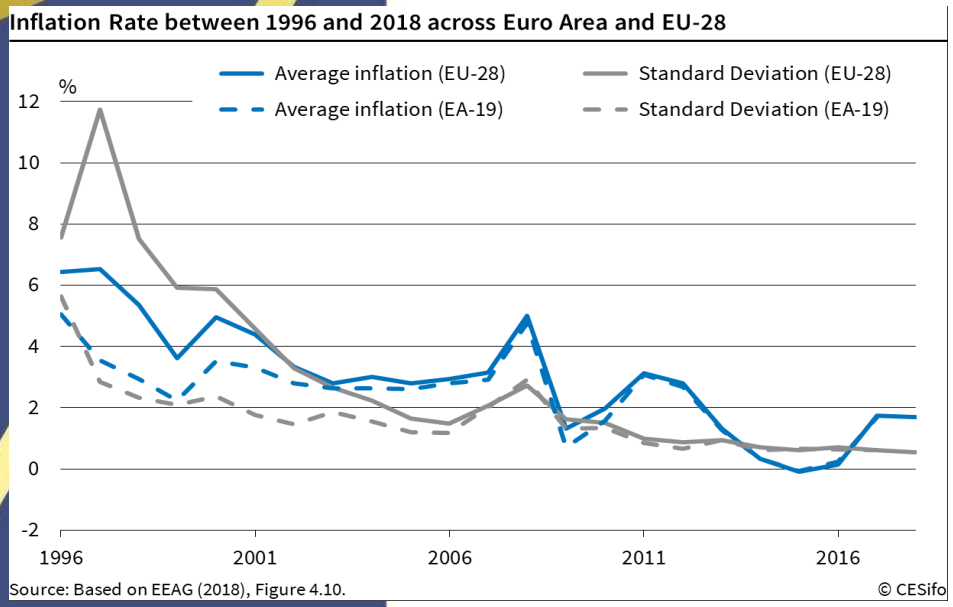
Table no. 3 – Exchange rates against the euro, 2014–24 (1 EUR = … national currency)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Bulgarian lev (BGN)	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Czech koruna (CZK)	27.536	27.279	27.034	26.326	25.647	25.670	26.455	25.640	24.566	24.004	25.120
Danish krone (DKK)	7.4548	7.4587	7.4452	7.4386	7.4532	7.4661	7.4542	7.4370	7.4396	7.4509	7.4589
Hungarian forint (HUF)	308.71	310.00	311.44	309.19	318.89	325.30	351.25	358.52	391.29	381.85	395.30
Polish zloty (PLN)	4.1843	4.1841	4.3632	4.2570	4.2615	4.2976	4.4430	4.5652	4.6861	4.5420	4.3058
Romanian leu (RON)	4.4437	4.4454	4.4904	4.5688	4.6540	4.7453	4.8383	4.9215	4.9313	4.9467	4.9746
Swedish krona (SEK)	9.0985	9.3535	9.4689	9.6351	10.2583	10.5891	10.4848	10.1465	10.6296	11.4788	11.4325

Source: Eurostat (2025a)

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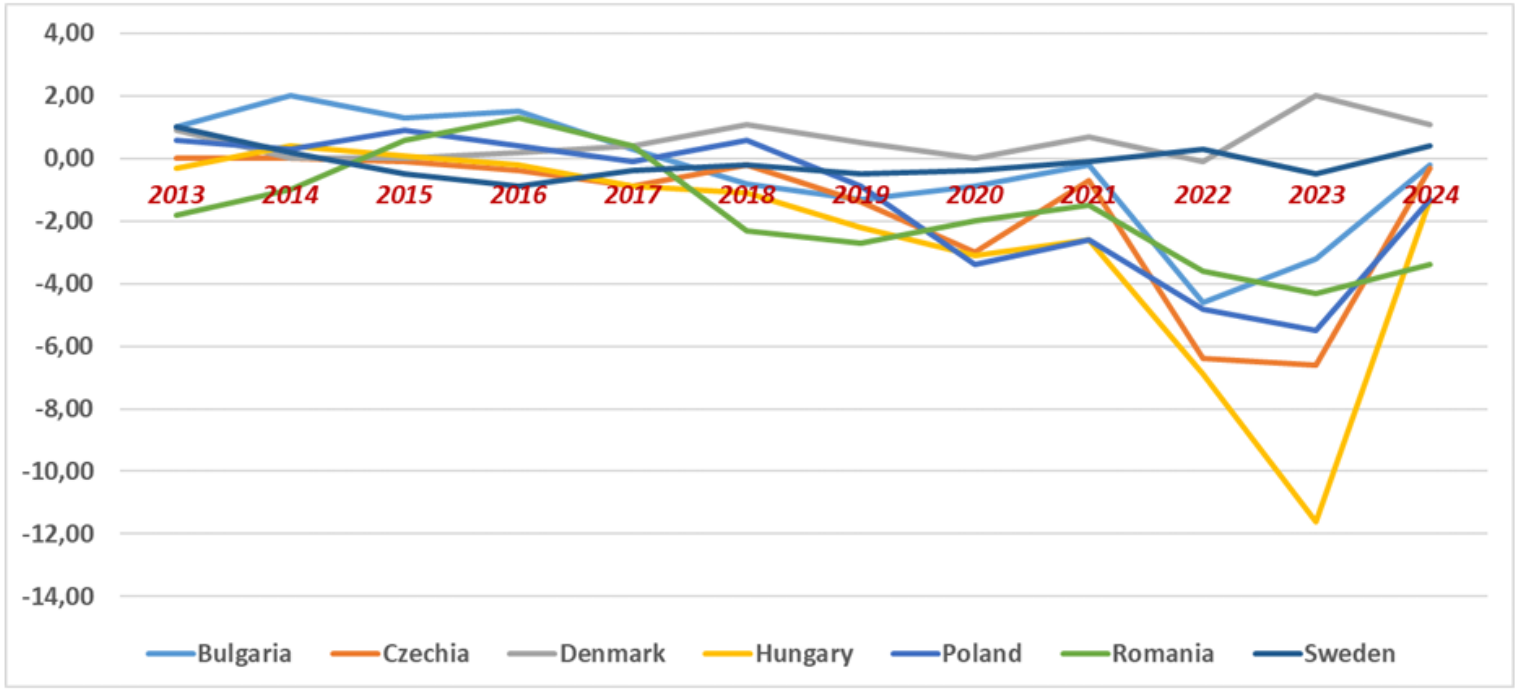


Figure no. 2 – Deviations in the average annual inflation rate in particular non-EMU countries from the average inflation rate in the Eurozone (percentage points)

Source: Authors' work, based on Eurostat (2025b)

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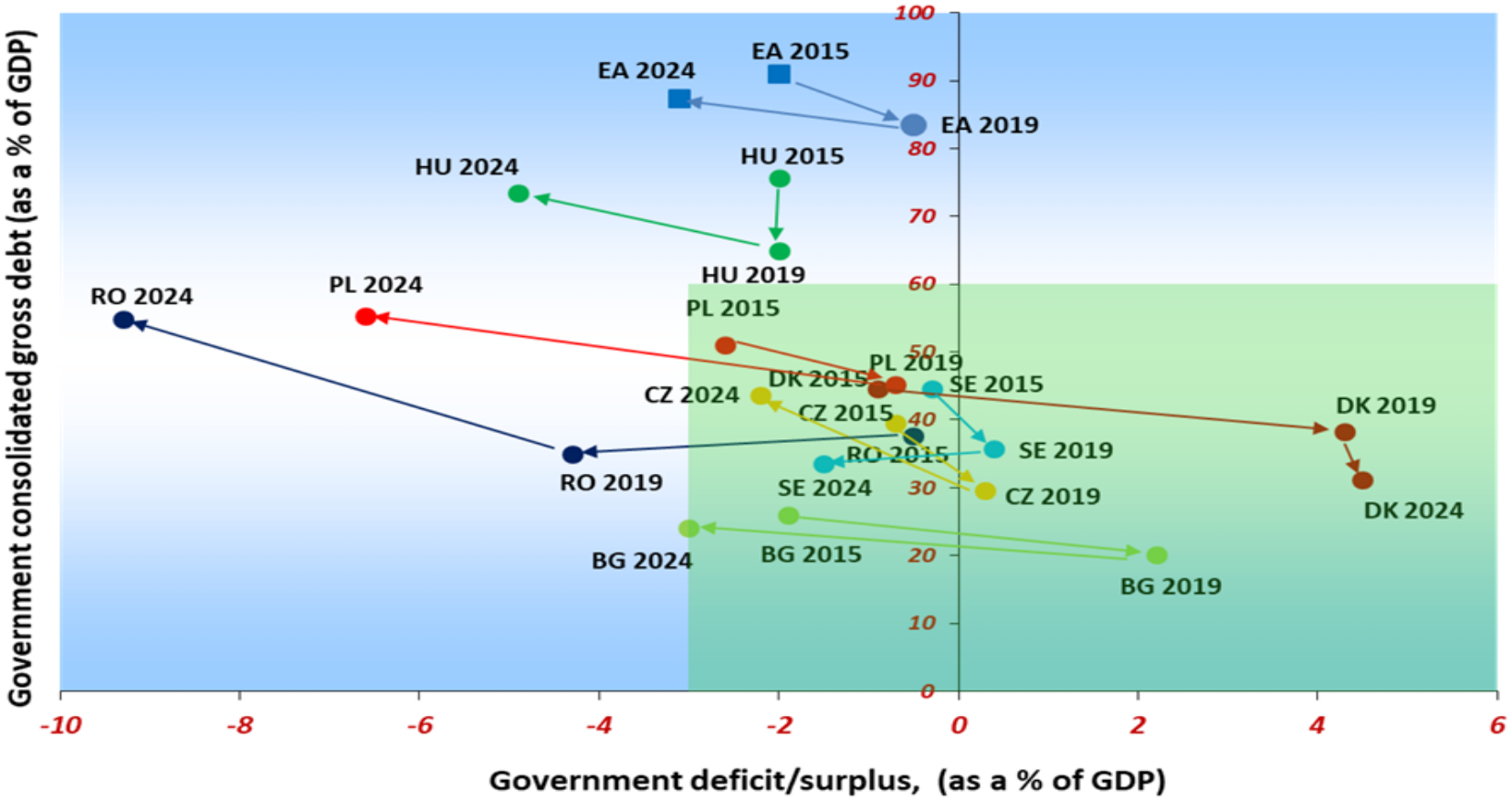


Figure no. 4 – Fiscal criteria of nominal convergence in particular non-EMU countries and the Eurozone (2015, 2019 and 2024)

Notes: The greenish quadrant on the lower right side (below 60% of GDP for the debt criteria, and below -3% of GDP for the deficit criteria) represents the area where both fiscal criteria are satisfied.

Source: Authors' work, based on Eurostat (2025d)

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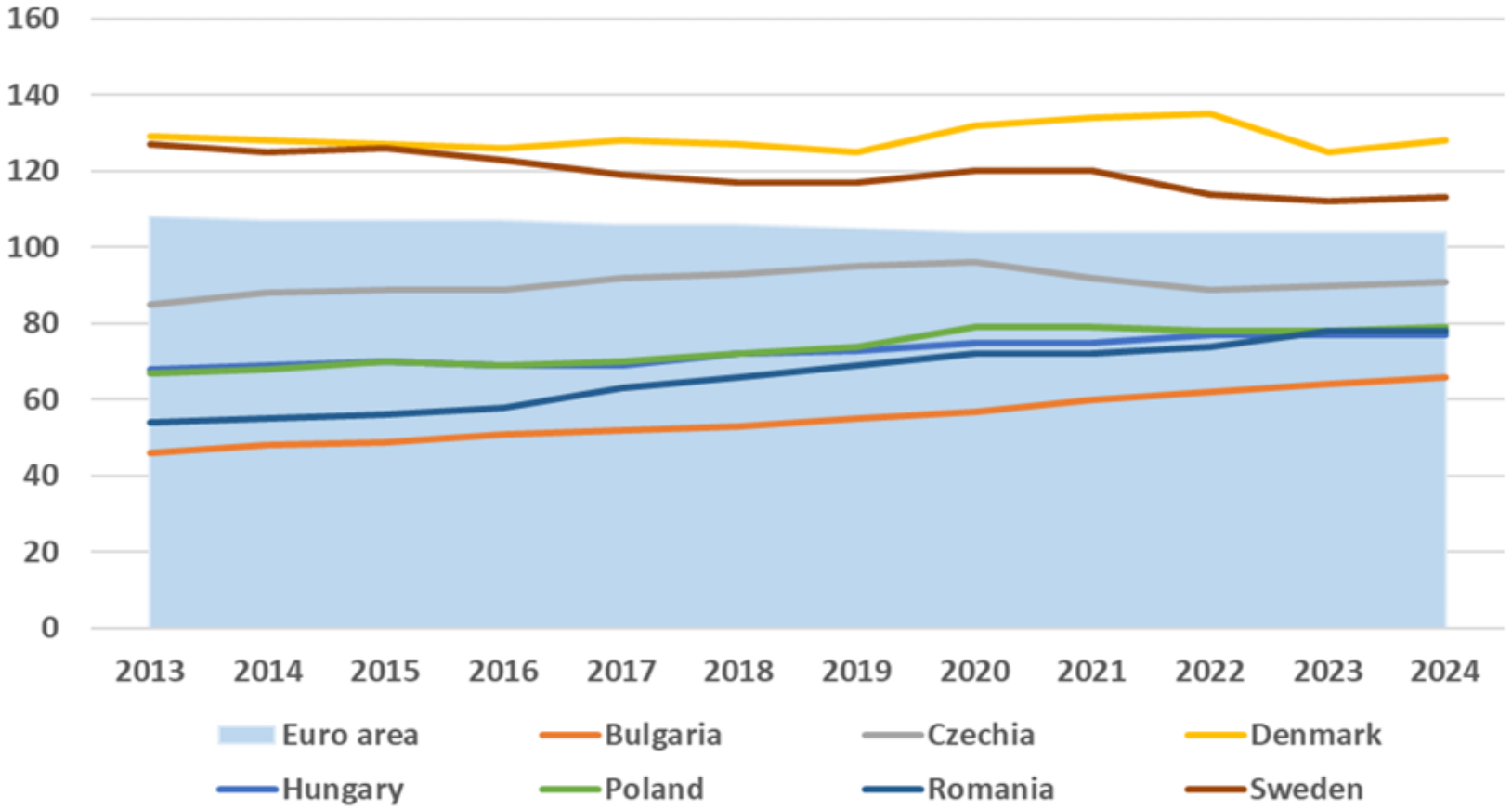


Figure no. 5 – GDP *per capita* in PPS for selected EU Member States and the Eurozone (2013-2024); EU27 = 100

Note: Volume indices of real expenditure per capita (in PPS_EU27_2020 = 100)

Source: Authors' work, based on Eurostat (2025e)

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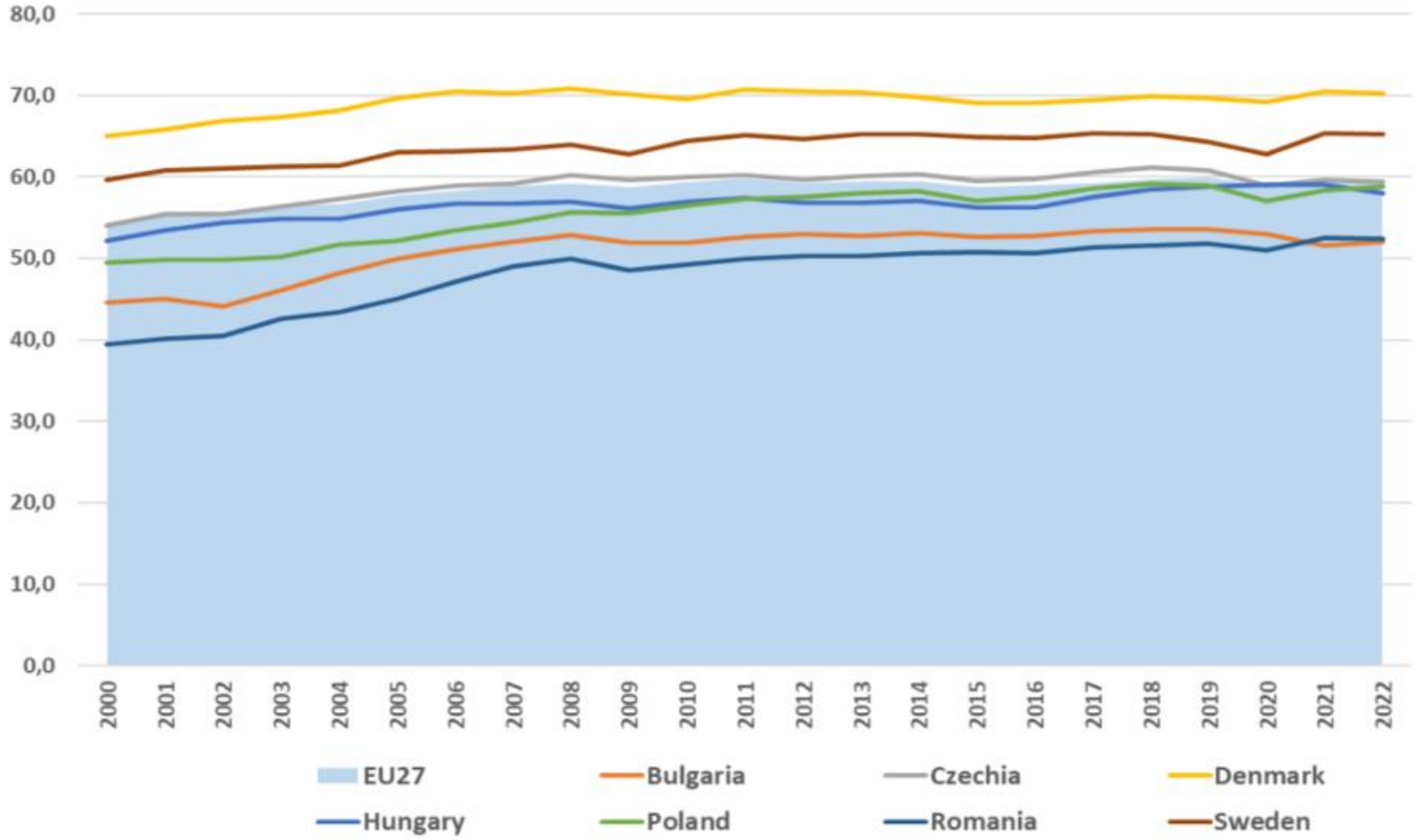


Figure no. 7 – Productive Capacities Index for non-EMU Member States of the EU (2000-2022)

Source: UNCTAD (2023)

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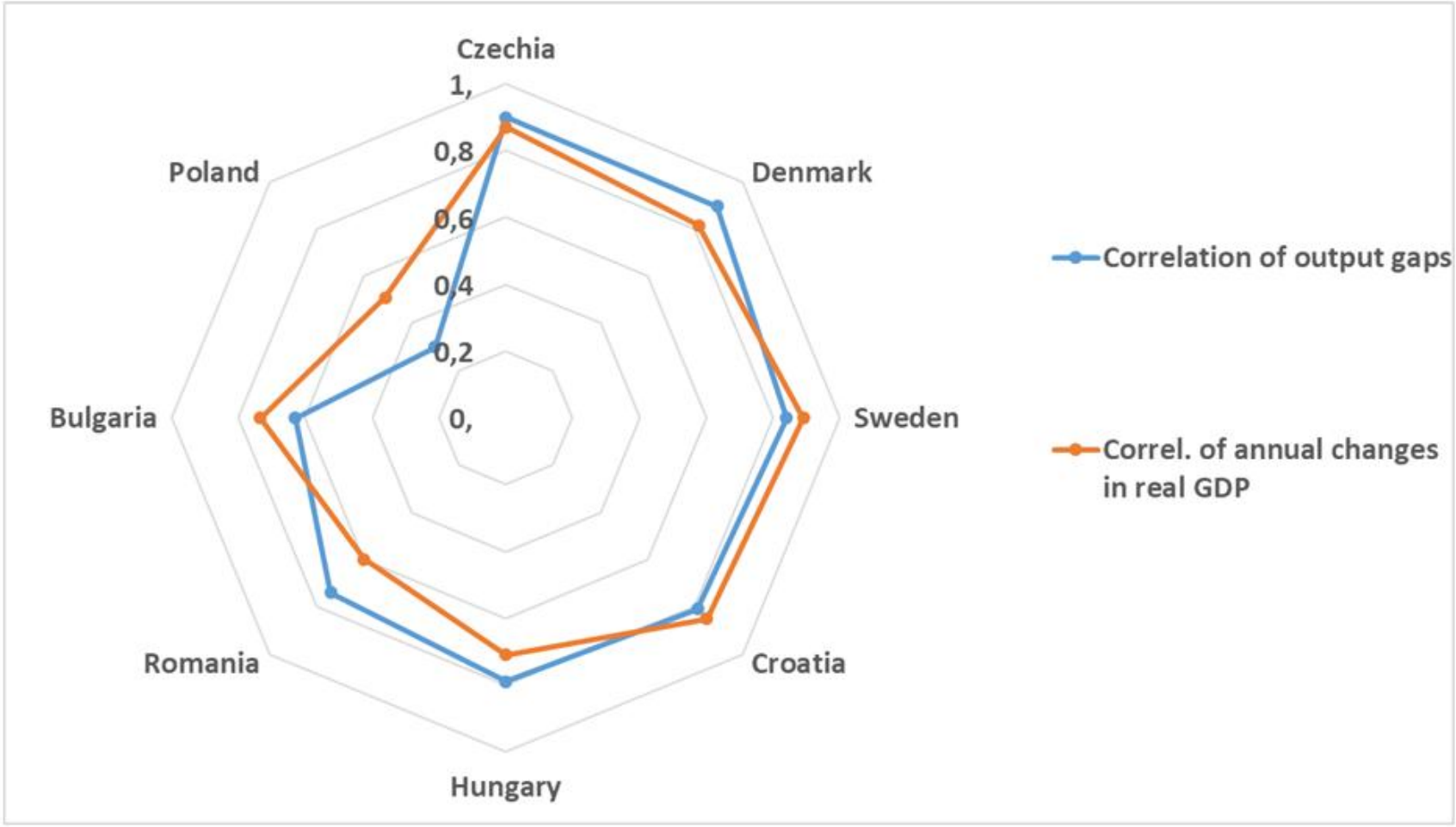


Figure no. 9 – Correlation of output gaps (a) and correlation of annual changes in real GDP (b) with the Euro-zone aggregate, for the period 2001-2020 for non-EMU countries

Source: Authors' work, based on Walko (2022)

A bit of discussion…

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- Has euro adoption become easier or harder since 1999?
  - Candidate countries must satisfy strict entry criteria, while many current euro members do not!

- Will we be facing (more) assymetric shocks in the eurozone?
- More fiscal transfers between countries?
- Mobility of capital and labour?
- Political considerations and „common interest"? Main causes of political reluctance to join?
- A smaller Eurozone?

Some conclusions

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- Convergence assessment suggests best candidates were DK; SE; perhaps CZ and maybe BG…
- Perhaps, the biggest **risk** is not entering the euro **too late**
- The biggest risk is entering **before productivity, flexibility, institutional quality and shock-absorption mechanisms have converged sufficiently**

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Thank you for you attention