



Convergence towards euro enlargement - The Danube Triangle Conference

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1. The Context

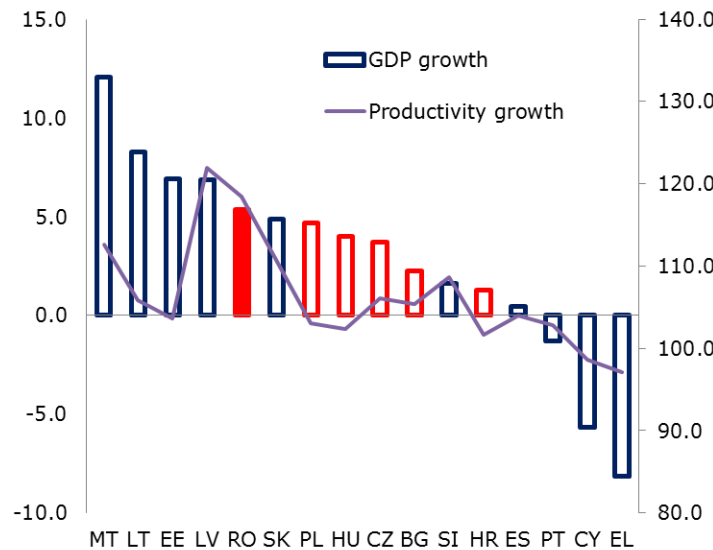
- (Maastricht) nominal convergence criteria.
 - price and exchange rate stability.
 - sustainability of government finances.
 - durability of convergence by participation in ERM II and long-term interest rates.
- Other relevant factors
 - integration of markets.
 - the situation and development of the balances of payments on current account.
 - examination of the development of unit labour costs and other price indices.
- Integration of the MIP convergence-relevant indicators from the In-Depth Reviews in the EC Convergence reports.

2. Beyond the Maastricht criteria: structural and institutional convergence

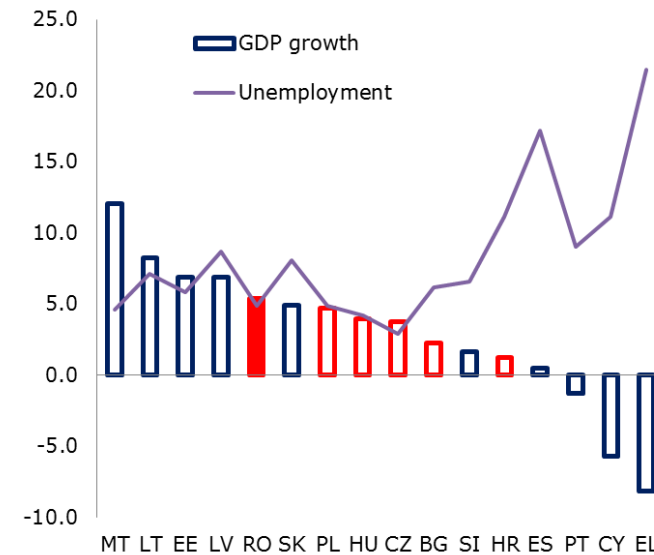
- Real convergence important for successful membership in a monetary union. In particular:
- Structural convergence
 - Convergence in the sectoral composition of the economies.
 - EMU countries cannot adjust by devaluing if imbalances build up and competitiveness is lost.
 - Structural convergence ensures that painful deflationary price adjustment to restore competitiveness is avoided.
- Institutional convergence
 - Convergence towards a higher quality institutional level.
 - Existence and proper functioning of such institutions is important to ensure the other types of convergence.
 - Creates conditions for a level-playing field when it comes to cross-border economic activities and eliminates uncertainty and other detriments to the convergence process.

3. The evidence – real convergence

Graph 1: Productivity and catching up



Graph 2: Unemployment and catching up

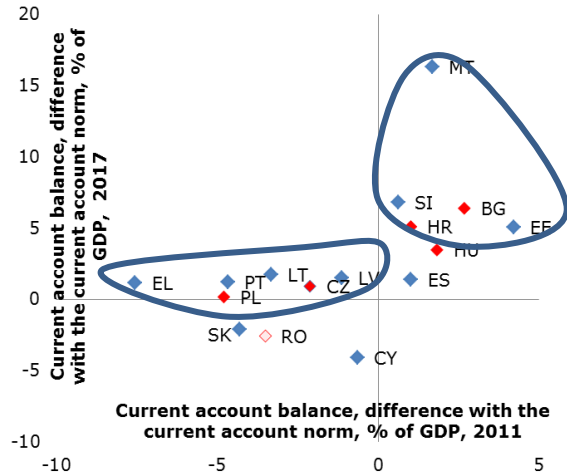


Note: The graphs show only the countries, which in 2011 had GDP per capita below EU average, growth is between 2011 and 2017. EMU accession countries are in red.

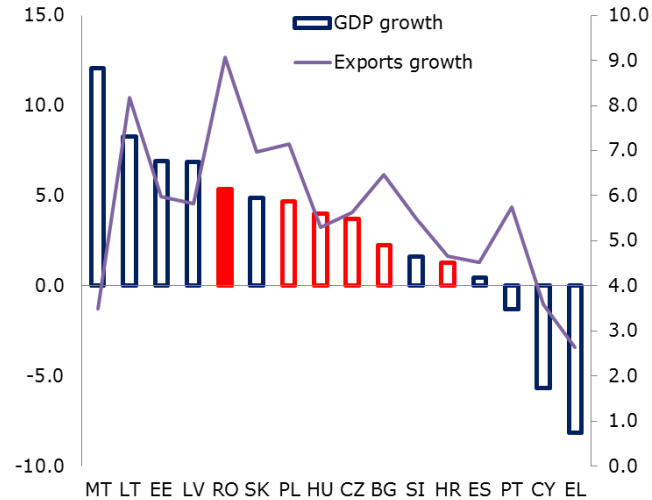
- Countries that caught up faster with the rest of the EU in the last 7 years had higher productivity growth and lower unemployment.
- Upward convergence is associated with adoption of a more productive production process and keeping the labour force at work.

3. The evidence – structural convergence

Graph 3: Current account rebalancing, 2011-17



Graph 4: Exports and catching up

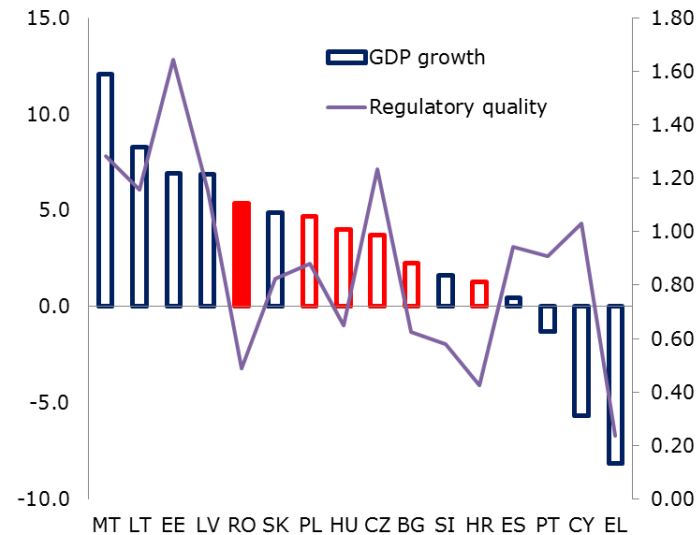


Note: The graphs show only the countries, which in 2011 had GDP per capita below EU average. EMU accession countries are in red. Current account norm is a measure of the current account based on its 'fundamental' determinants, such as resources and demographic factors.

- Between 2011 and 2017 rebalancing has taken place in most countries with deficits exceeding "norm". Some countries with surpluses have experienced further increases.
- Catching-up was faster where exports increased more. Export-driven rebalancing is more conducive for convergence.

3. The evidence – institutional convergence

Graph 5: Regulatory quality and catching up



Note: The graphs show only the countries, which in 2011 had GDP per capita below EU average. GDP growth is between 2011 and 2017. Estimates of regulatory quality, ranges from -2.5 (weak) to 2.5 (strong), are from the World Bank. EMU accession countries are in red.

- Higher regulatory quality is associated with faster convergence.
- Well-functioning public regulation supports the convergence process and improves resilience.

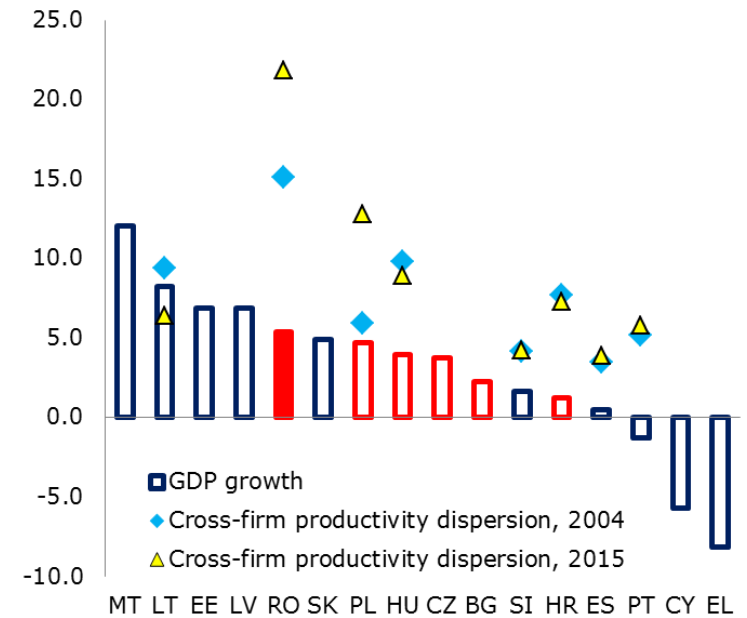
4. What policies foster convergence

- Structural reforms mean better functioning of the EMU.
- European Semester - reform agenda where both Member States and the European Commission take part.
- EMU Deepening process.
- New MFF:
 - Reform Delivery Tool.
 - A Convergence Facility.
 - The European Investment Stabilisation Function.
 - Structural Reform Support Service.
 - InvestEU.

5. New challenges for convergence

- Segmentation
- Digitalisation
- Globalisation
- Ageing
- How to address them?
 - Complete the Digital Single Market.
 - Structural and Cohesion funds and InvestEU.
 - Quality of institutions.
 - Human capital and inclusiveness.

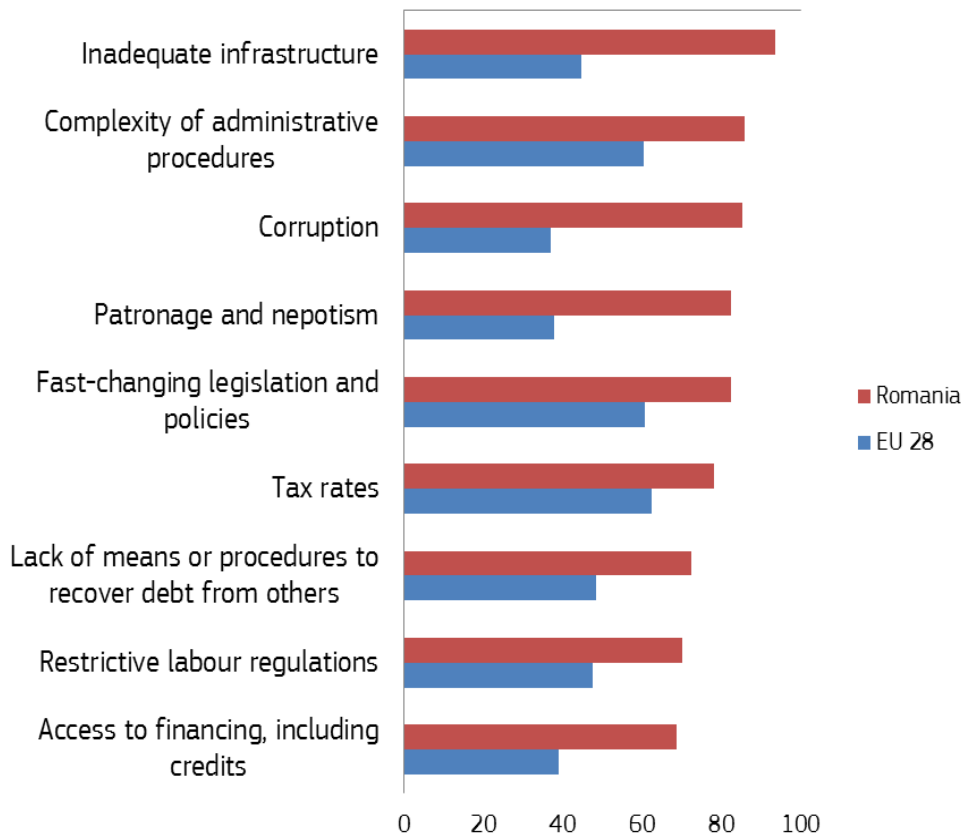
Graph 6: Firm segmentation, 2004 vs. 2015



Note: The graphs show only the countries, which in 2011 had GDP per capita below EU average. GDP growth is between 2011 and 2017. Cross-firm labour productivity dispersion comes from the COMPNet database.

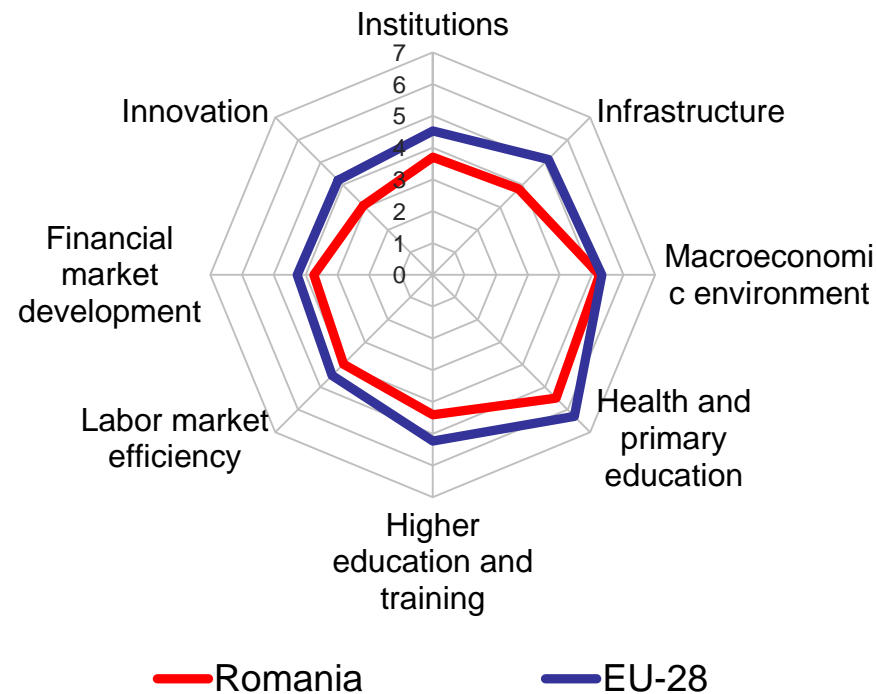
The case of Romania: business environment and competitiveness

Do you consider one of the following to be a problem, % positive responses



Source: Flash Eurobarometer 2017

Global Competitiveness Index 2017-2018



Source: World Economic Forum 2017



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Thank you for your attention!