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Václav Brož, Evžen Kočenda

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Dynamics and factors of inflation convergence in the European Union

Václav Brož^a and Evžen Kočenda^b

Abstract

We analyze inflation convergence in the whole European Union (EU) over 1999–2017. We provide comprehensive evidence that the process of inflation convergence among the countries of the EU was not permanently disrupted during the global financial crisis, the European sovereign debt crisis, or the period of zero lower bound interest rates. Specifically, the convergence process did not noticeably weaken after the crisis and the occurrence of inflation convergence became more widespread compared to the pre-crisis years. Our results are robust with respect to the use of three inflation benchmarks (the cross-sectional average, the inflation target of the European Central Bank, and the Maastricht inflation criterion), structural breaks, and a core inflation measure. Our main findings imply that further enlargement of the euro area is feasible from the perspective of inflation convergence among EU countries.

Keywords: inflation convergence, European Union, global financial crisis, zero lower bound

JEL Classification: C32, E31, E58, F45, G01, K33

a Institute of Economic Studies, Charles University, Opletalova 26, 110 00, Prague, Czech Republic. Czech National Bank, Na Příkopě 28, 115 03, Prague, Czech Republic. Phone: (+420) 224.414.399, E-mail: 51682260@fsv.cuni.cz

b Institute of Economic Studies, Charles University, Opletalova 26, 110 00, Prague, Czech Republic. CESifo, Munich; IOS, Regensburg. Phone: (+420) 222.112.321; Fax: (+420) 222.112.304; E-mail: evzen.kocenda@fsv.cuni.cz

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