

[DOI: 10.20472/IAC.2018.037.014](https://doi.org/10.20472/IAC.2018.037.014)

SIMEON NANOVSKY

Nazarbayev University, Kazakhstan

MACROECONOMIC INDEPENDENCE AND OPTIMUM CURRENCY AREA IN THE EUROZONE: AN ALTERNATIVE ASSESSMENT

Abstract:

This paper attempts to investigate the degree of macroeconomic autonomy among the 12 original members of the eurozone. We develop a new measure of macroeconomic independence based on the concept of the desired policy interest rate each country would have chosen if it had retained its own currency and independent monetary policy. If it is detached from the centrally imposed policy rate and the two behave differently, we take it as an indication that the country should be constrained by the common central bank and has low degree of macroeconomic independence (MAI).

We find that the original twelve members have indeed enjoyed varying degrees of MAI. Austria, France, Germany, Italy, and Luxembourg retain highest degree of MAI while Ireland, Greece, and Spain seem to have suffered from the lowest degree of MAI. The newly proposed MAI performs well as an OCA index, if not better than existing indices. On the one hand, so called the “core” countries show up as those that have maintained high MAI. On the one hand, the “periphery” countries have retained low MAI in the currency union.

Keywords:

eurozone, optimum currency area, monetary independence

JEL Classification: F00, E40, E52