

THE COMPETITIVENESS DISPARITY BETWEEN CORE AND PERIPHERAL EU COUNTRIES: AN EMPIRICAL ANALYSIS WITH PANEL ARDL APPROACH

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ABSTRACT

Purpose- This study empirically investigates whether there is an asymmetry between the competitiveness of the core and peripheral EU countries in the post-monetary union period, which includes the public debt crisis.

Methodology- This paper analyzes the long and short-term effects of the interest rate for public bond yields and real effective exchange rate on public debt in core (Germany, Austria, Belgium, Denmark, and the Netherlands) and peripheral (Greece, Ireland, Italy, Portugal, and Spain) EU countries using the panel linear Autoregressive Distributive Lag model. In the study, second-generation unit root tests, Westerlund's (2007) cointegration test, and short and long-term MG, PMG, and DFE panel econometric methods are employed.

Findings- According to the primary findings of the study: (i) while the interest rate for public bond yields is not effective on public debt in core EU countries, it has an increasing effect on public debt with a high positive coefficient in peripheral EU countries. (ii) The long-term coefficient of the real effective exchange rate in the peripheral EU countries is higher than in the core EU countries. According to this conclusion, the increase in the real effective exchange rate augments the public debt of the peripheral EU countries at a higher level than the core EU countries.

Conclusion- Contrary to the monetarist approach that relies on the role of one last funder, these findings contribute to the literature by supporting the first two conditions of the Optimum Currency Area, the Varieties of Capitalism, Comparative Political Economy, and Fundamentalist approaches, which reveal the asymmetrical structure between the competitiveness of the core and peripheral EU countries.

Keywords: EMU public debt crisis, core EU countries, peripheral EU countries, panel ARDL model, competitiveness differences

JEL Codes: C45, F45, N14, N24

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