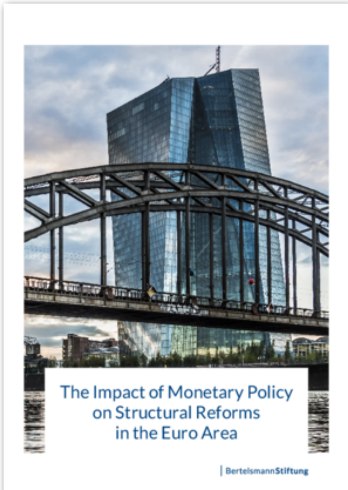

Bertelsmann Stiftung (ed.)
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The Impact of Monetary Policy on Structural Reforms in the Euro Area

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Since the euro area crisis, there has been an intense discussion about the potential side effects of ECB policy on reform efforts of euro area countries. This discussion is set to become even more intense in the wake of the corona crisis and the ECB's forceful intervention. Opponents of expansionary monetary policy contend that it reduces reforms, whereas proponents argue that it spurs reforms. We test these arguments empirically by studying the effect of monetary policy shocks on structural reform adoption in the euro area. Using an event study approach, we find that surprise monetary expansions causally increase the likelihood of structural reforms significantly: For the period between 2006 and 2016, a monetary surprise expansion of 25 basis points by the ECB increased on average countries' reform rate by roughly 20 percentage points after two years. This effect is stronger for countries with weaker macroeconomic fundamentals or tighter public budget constraints. The findings are consistent with the 'room-for-manoeuver hypothesis' that

expansionary monetary policy spurs competition-friendly supply-side policy by reducing the shortrun costs of reforms and increasing governments' financial leeway. More research will be required to establish whether the results are applicable in a post-corona economic environment.

Project

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CONTACT

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