

Capital flows, long term bond yields and fiscal stance: the Eurozone policy trilemma

Rosaria Rita Canale¹

Received: 19 October 2014 / Accepted: 2 November 2015 / Published online: 5 November 2015
ISEG 2015

Abstract The paper aims at estimating the existence of a trilemma in the Eurozone, i.e., to assess to what extent the net capital flows, the volatility of bond yields and the fiscal stance are strictly linked to each other constraining countries' ability to manage the internal policy goals. The existence of constraints on policy alternatives is estimated for 11 Eurozone countries from 2002 till 2012. The sample is then divided into pre-(2002–2008) and post-crisis (2009–2012) periods. A further division between the PIIGS and the non-PIIGS is then applied. The results show the validity of the trilemma for the whole Euro area and for the whole period but with some distinction between the pre- and post-crisis periods and between the PIIGS and the non-PIIGS countries. The existence of the trilemma underlines the presence of national constraints and suggests, for the future of the Eurozone, to push towards centralized fiscal policy instruments.

Keywords Eurozone trilemma · Policy goals · Capital flows · Fiscal stance · Bond yields

JEL classification E61 · F41 · C21 · C23

Rosaria Rita Canale
rorita.canale@uniparthenope.it

¹ Dipartimento di Studi Aziendali ed Economici, University of Naples Parthenope, Naples, Italy