Abstract
Inflation differentials within a monetary union translate into differentials in real interest rates. Consequently, their effect (either direct or indirect, through the wealth channel) on the GDP is pro-cyclical in the short term. In the long term, accumulated inflation differentials worsen the real exchange rate and so after some time their anti-cyclical effect will prevail. Concerning the dynamics of the GDP, longer and stronger cycles can be expected. After a theoretical description of the mentionned mechanism this paper quantifies individual effects for the EMU. It also deals with expected changes in cycles' properties after the adoption of Euro. GMM and Kiviet estimates of the panel data model generally prove the statistical significance of the considered effects. Subsequent results show positive relationship between the absolute magnitude of the inflation differentials on the one hand and the growth of the amplitude of the cycles, increase in their length and increase in time needed for the economy to return to the equilibrium after a demand shock on the other hand.