

There is life beyond Eurozone, isn't there?

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Monetary Policies in the New European Setting
9th NBP Annual Flagship Conference on the Future of the
European Economy (CoFEE)
Warsaw, 25 October 2019

Is there (a stable) life in the Eurozone?

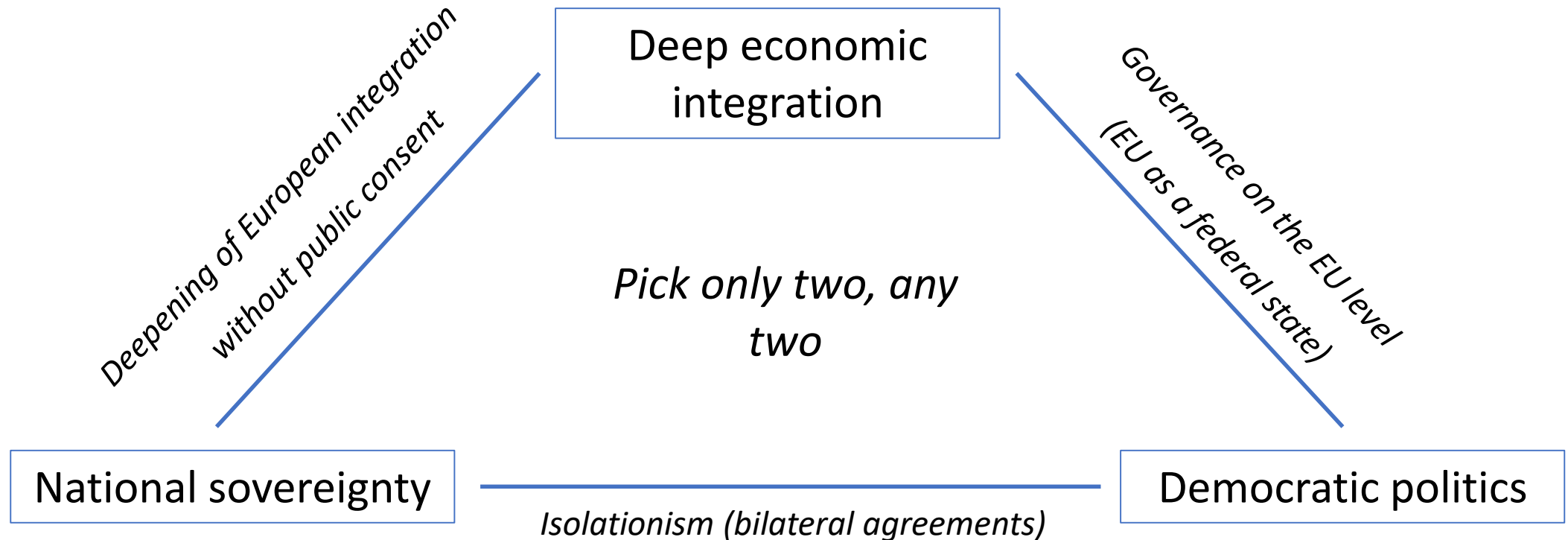
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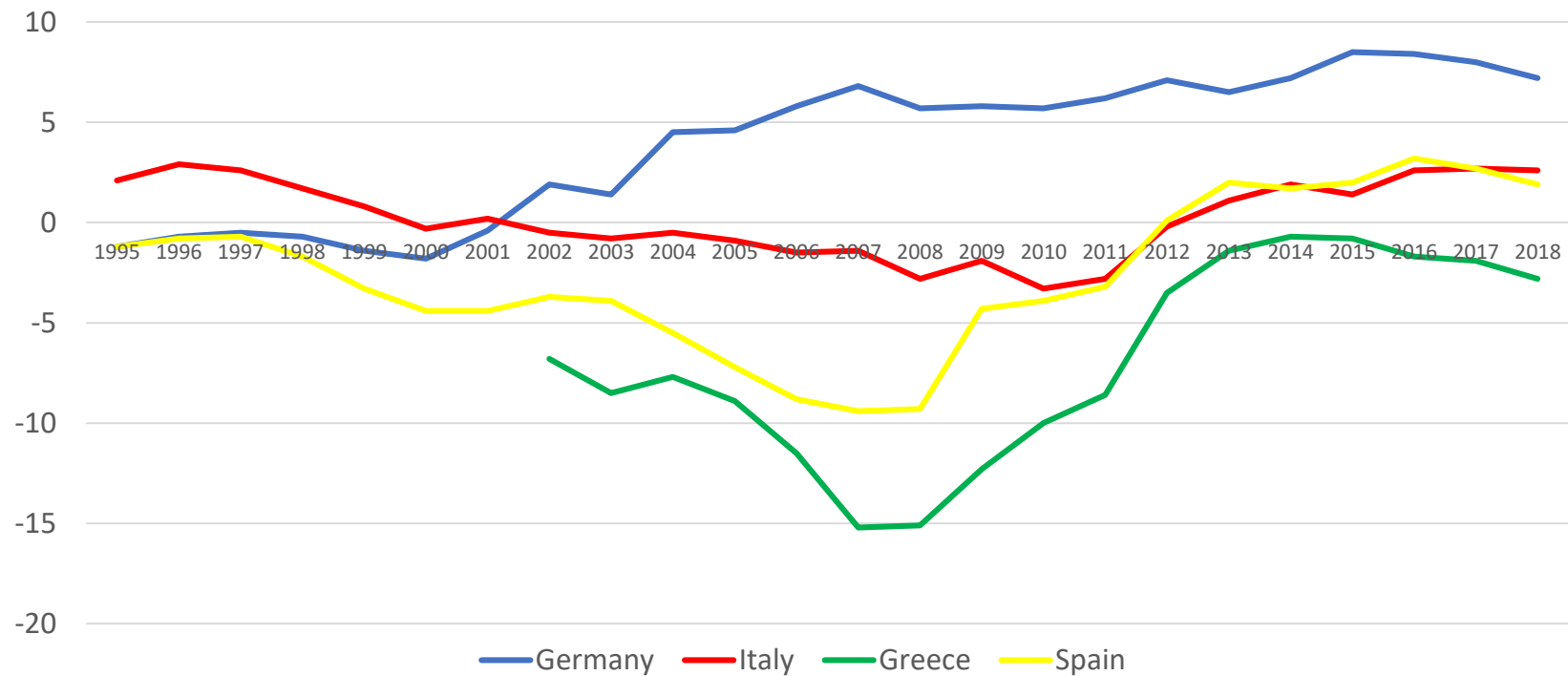
The Political Trilemma of European Integration



Source: Inspired by Rodrik (2011)

Instability of the Eurozone

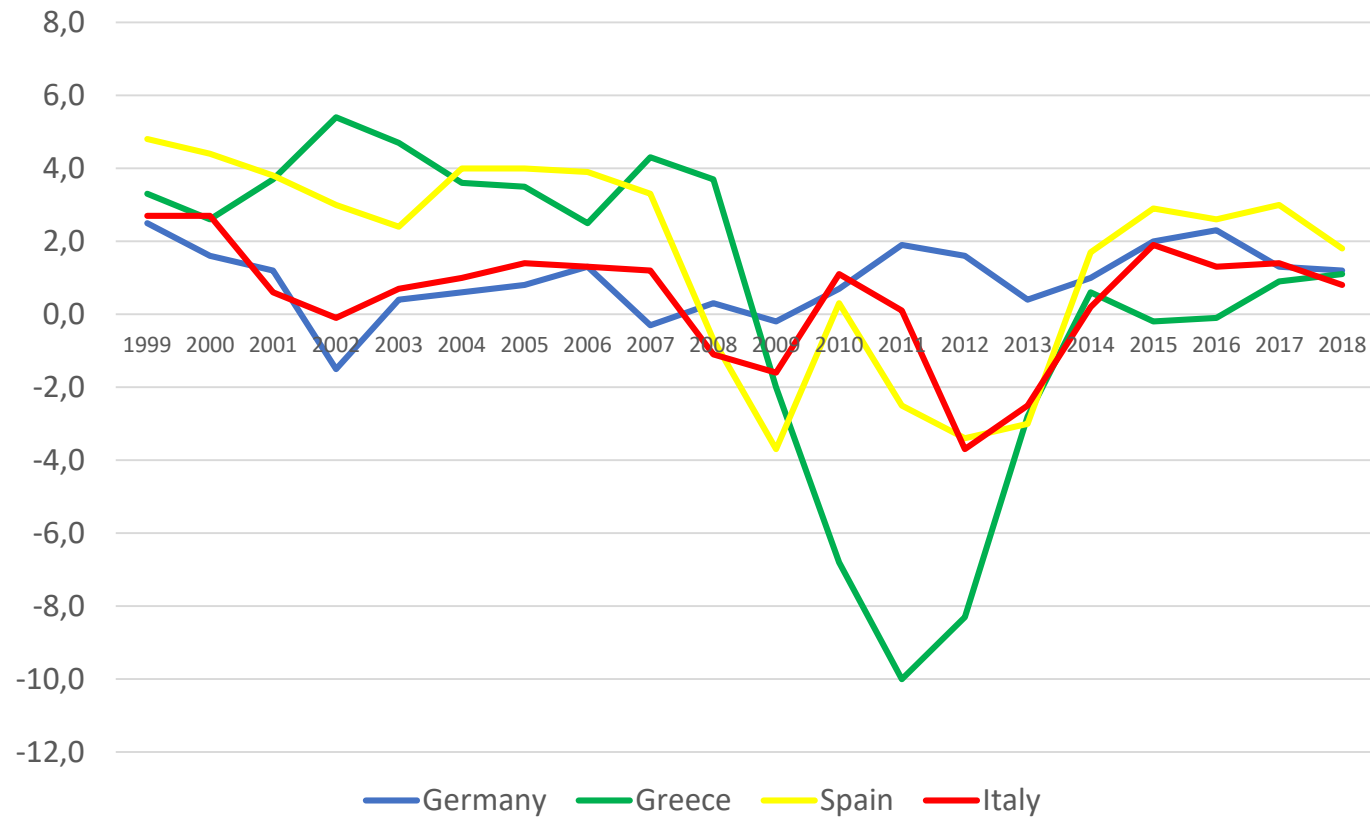
Current account balance (% of GDP)



Source: Eurostat

More on the Instability of the Eurozone

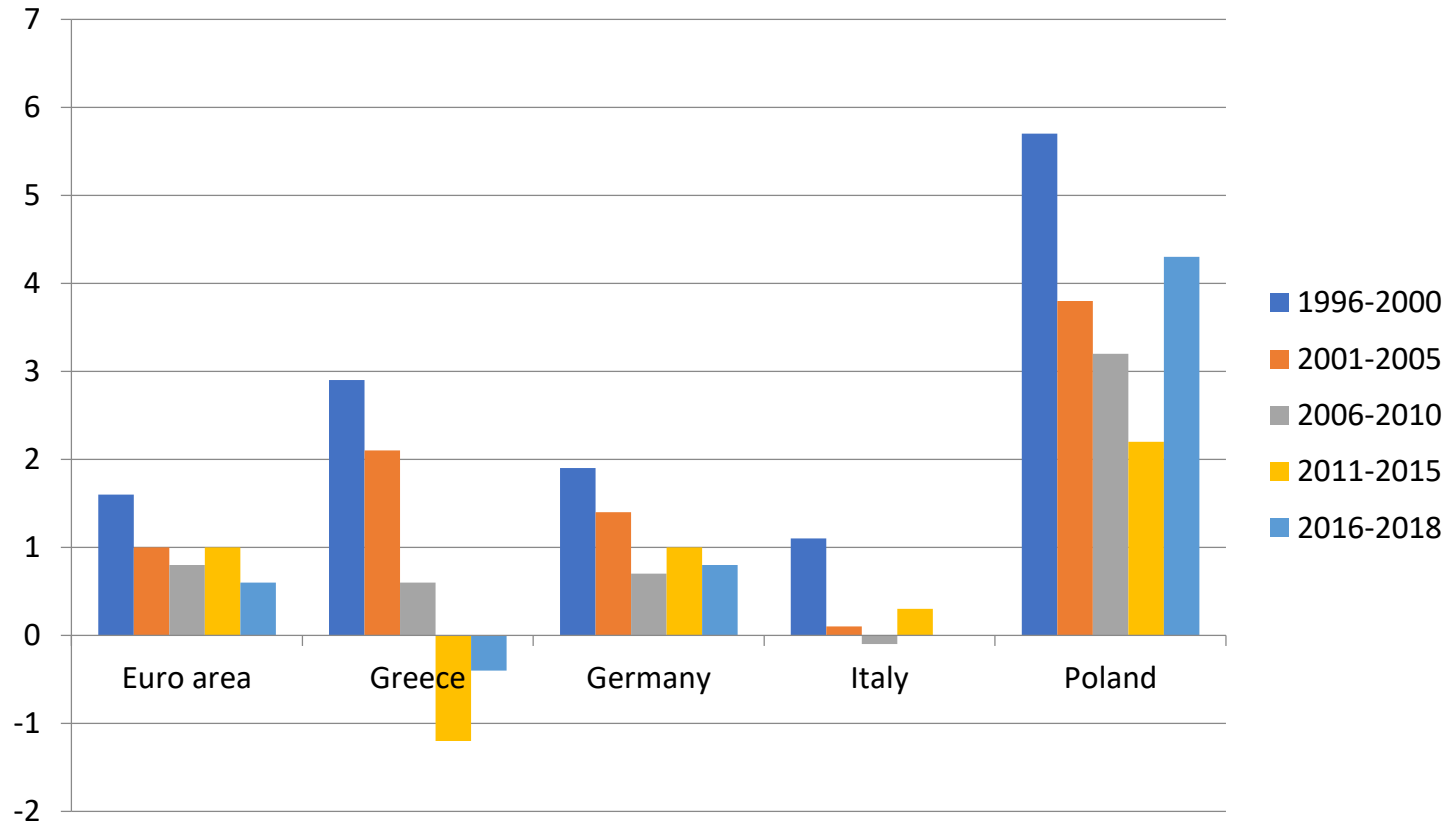
Final consumption expenditure of households (% change on previous period)



Source: Eurostat

What about Productivity Growth?

GDP per hour worked (constant prices, average annual growth)



Source: OECD

Not an Optimal Political Area?

Introduction of the euro was a huge move towards a more integrated European Union but without a mechanism compensating those who can lose ...

„A better way to assess the overall gains from trade is to ask a different question: Could those who gain from trade compensate those who lose, and still be better off themselves? If so, then trade is *potentially a source of gain for everyone*” (Krugman & Obstfeld 2006, 72)

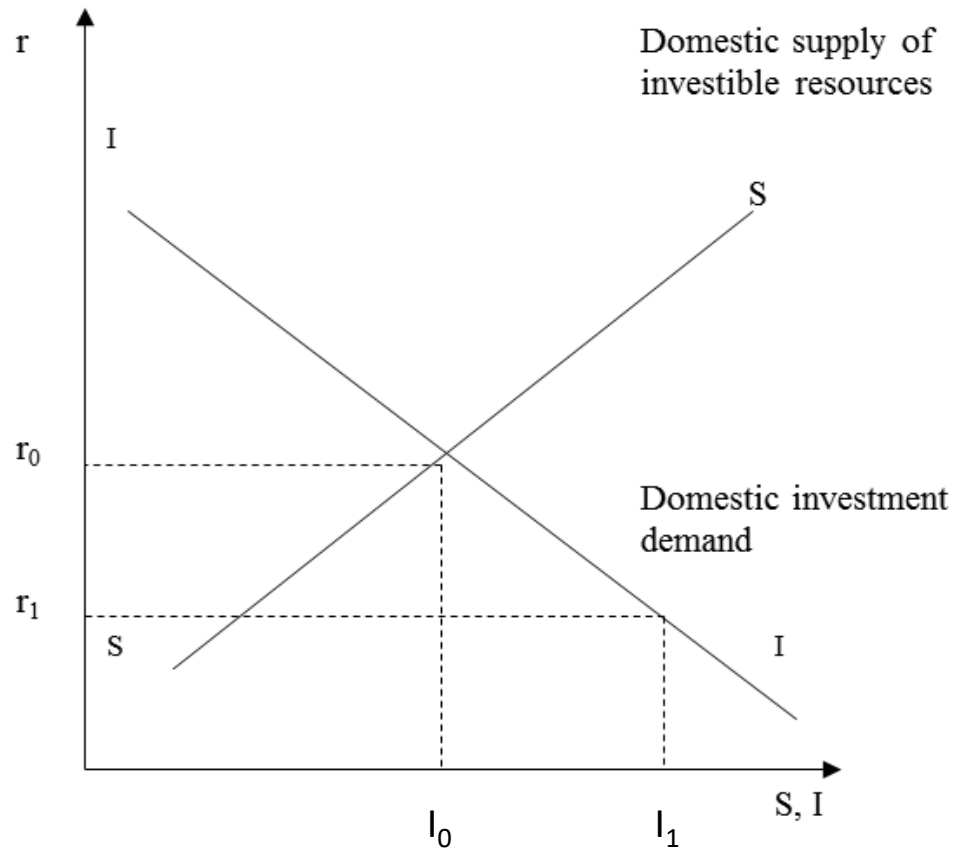
Financial Globalization and Growth

- “The correct answer to the question of capital mobility is that it ought to be unrestricted” (Dornbush 1998, 20)
- “The emerging countries to reach the next stage of development and get rich, financial globalization must go much further than it already has” (Mishkin 2006, ix)
- WHY? Because $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$. BUT economic „laws” are only *ceteris normalibus* laws. So, the above should be rewritten:

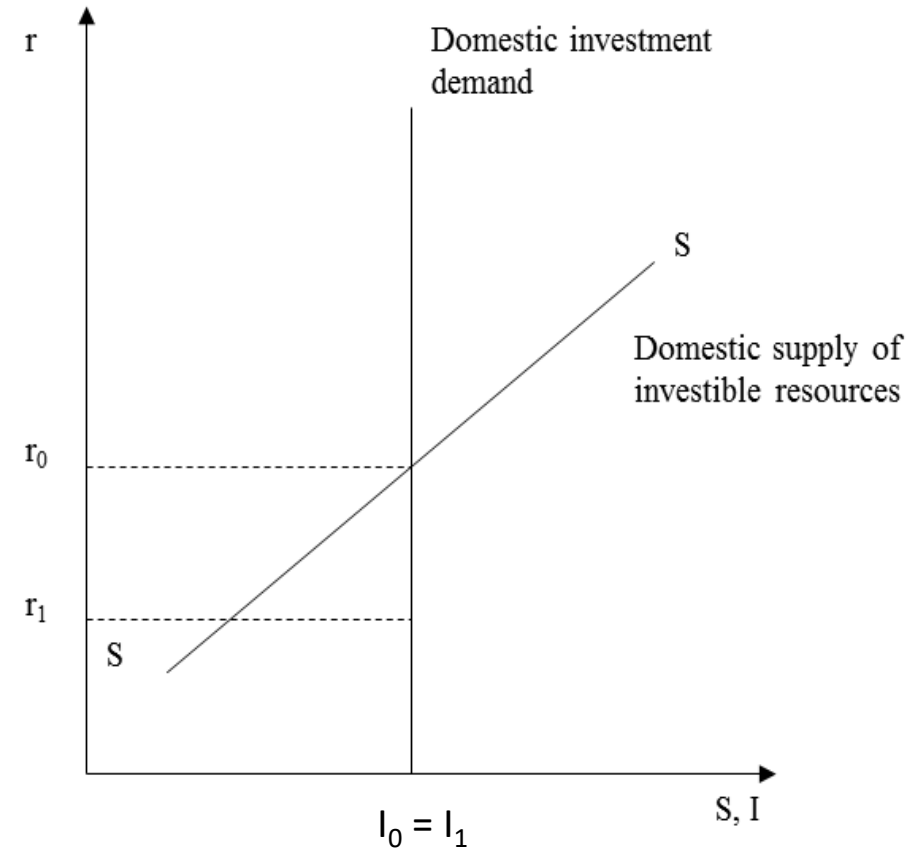
Ceteris normalibus, $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$

Cost of Capital and Investments

saving constrained economy



investment constrained economy



Lessons for Poland

- Strong and balanced growth in Poland without being a member of the Eurozone
→ ***There is life beyond the Eurozone***
- The possibility of external devaluation still matters
- A single monetary policy cannot fit different national economies (e.g., in PL we are very different from the ECB ... and it works well)
- Also, levels of reversal interest rates (RIR) are very different in EU countries (ECB acknowledges it recently by introducing tiering). In PL we are close to RIR
- If reasons for low productivity growth are non-monetary, then negative rates of the ECB by contributing to wrong allocation of capital may (paradoxically) negatively impact ... productivity
- More focus should be put on fiscal policy. E.g., if in PL nominal GDP growth is app. 6% and interest rate on PL 10y gov. bonds is app. 2%, then we have a fiscal space for more public spending. So, why not rethinking Maastricht debt criteria? Why not rethinking the mid-term spending rule (*reguła wydatkowa*) in Poland in order to make it more cyclically friendly?

Thank you for your attention!

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