

There is life beyond Eurozone, isn't there?

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

Is there (a stable) life in the Eurozone?

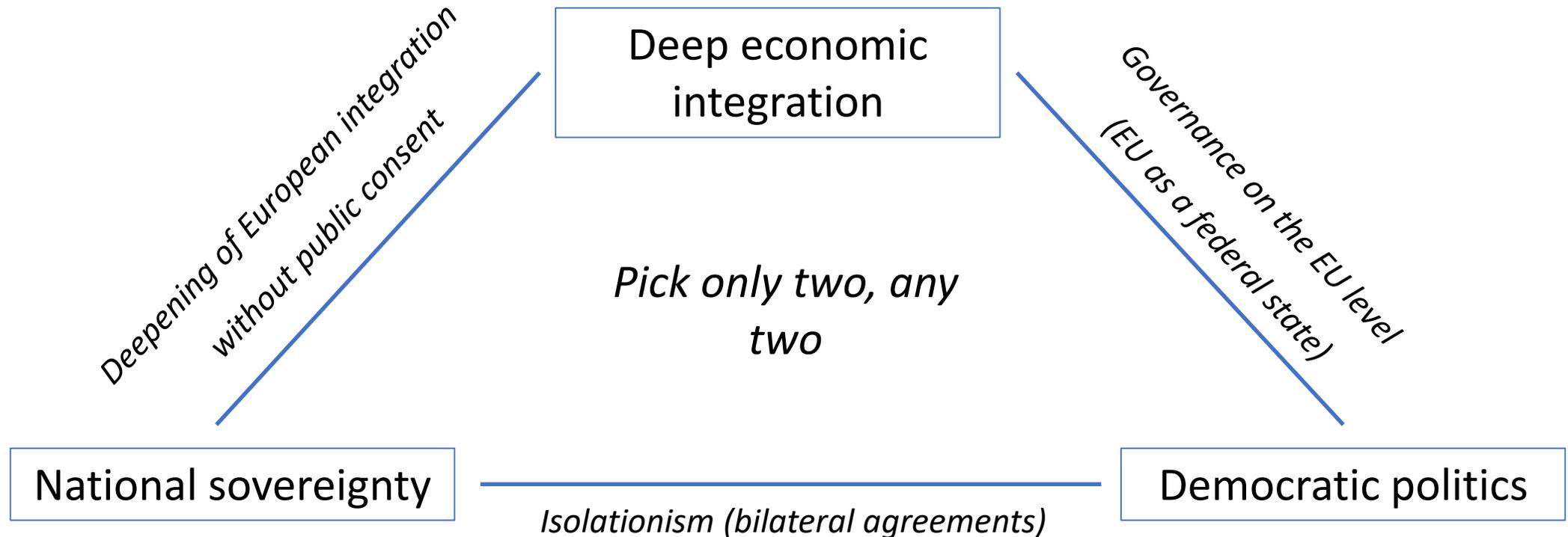
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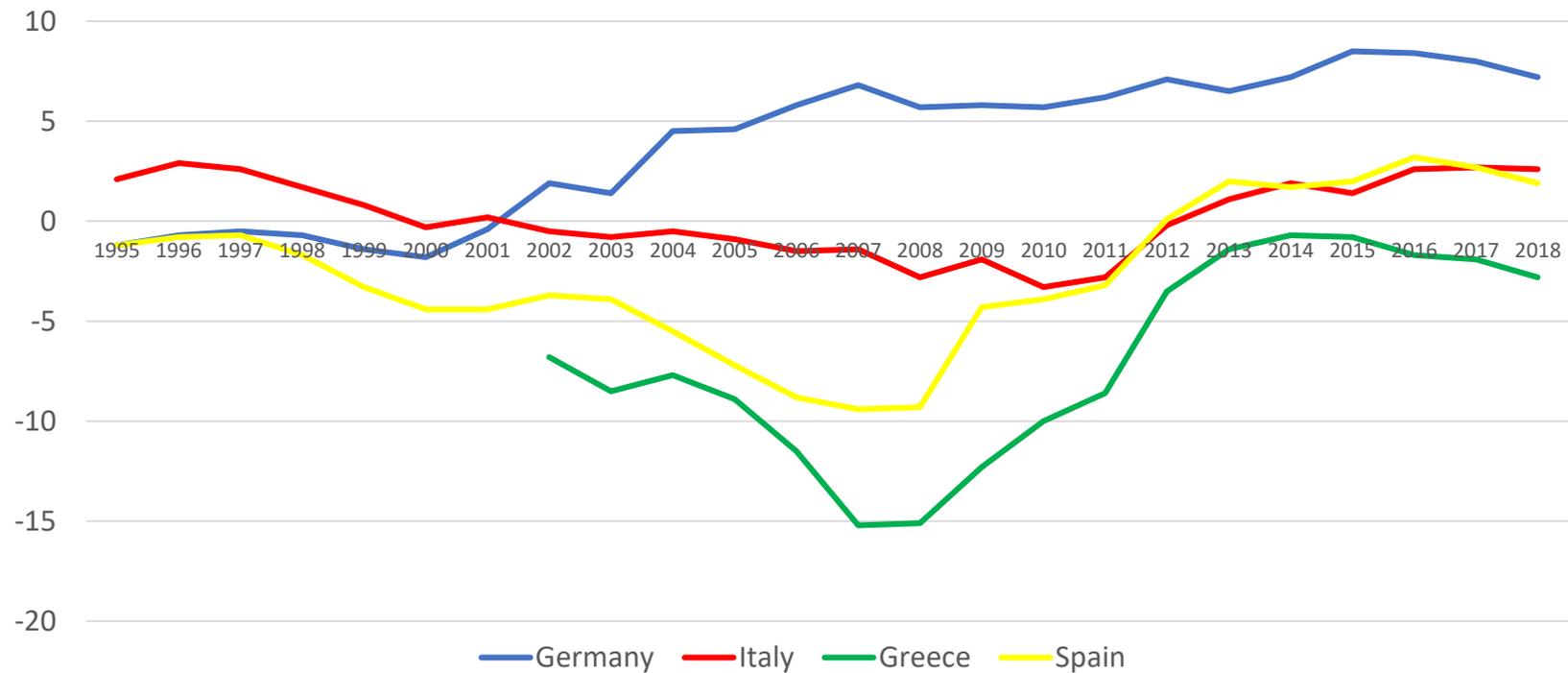
The Political Trilemma of European Integration



Source: Inspired by Rodrik (2011)

Instability of the Eurozone

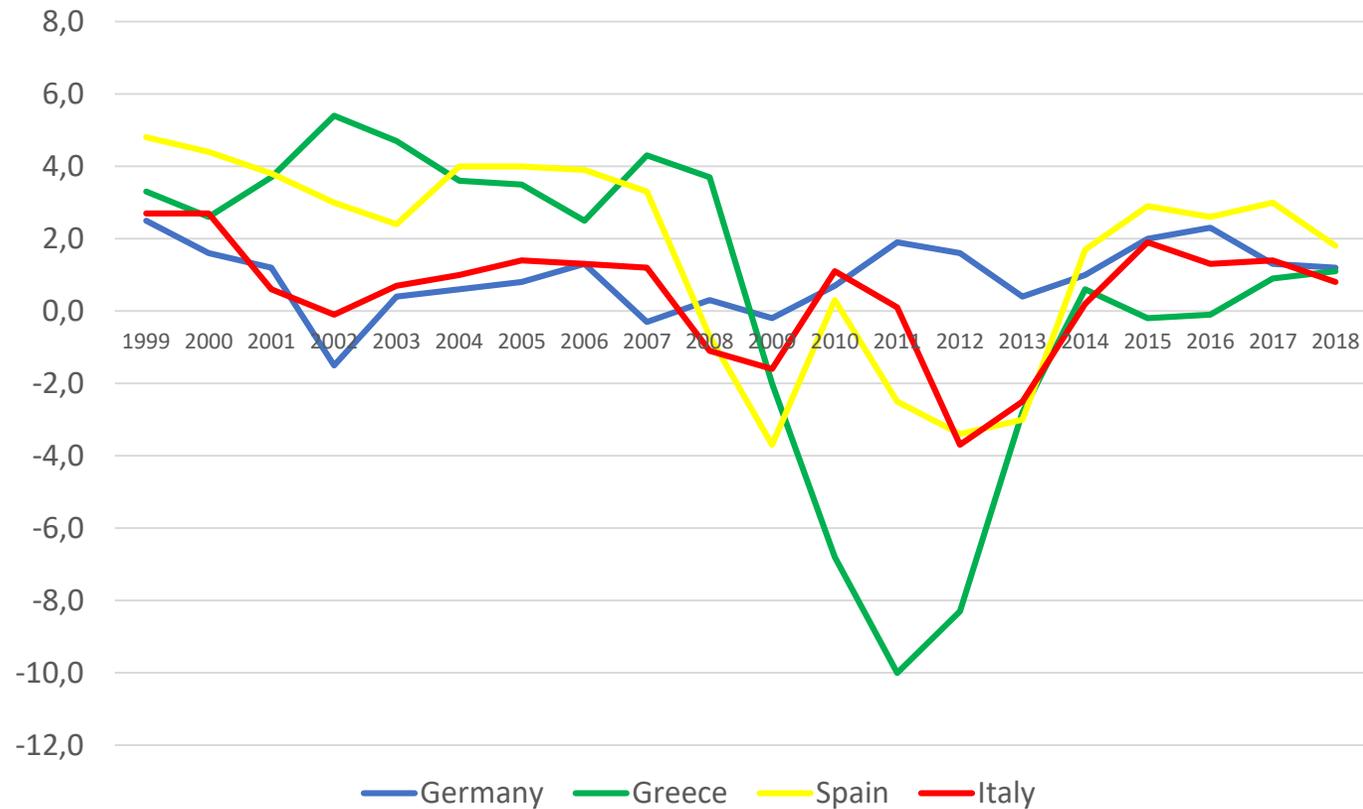
Current account balance (% of GDP)



Source: Eurostat

More on the Instability of the Eurozone

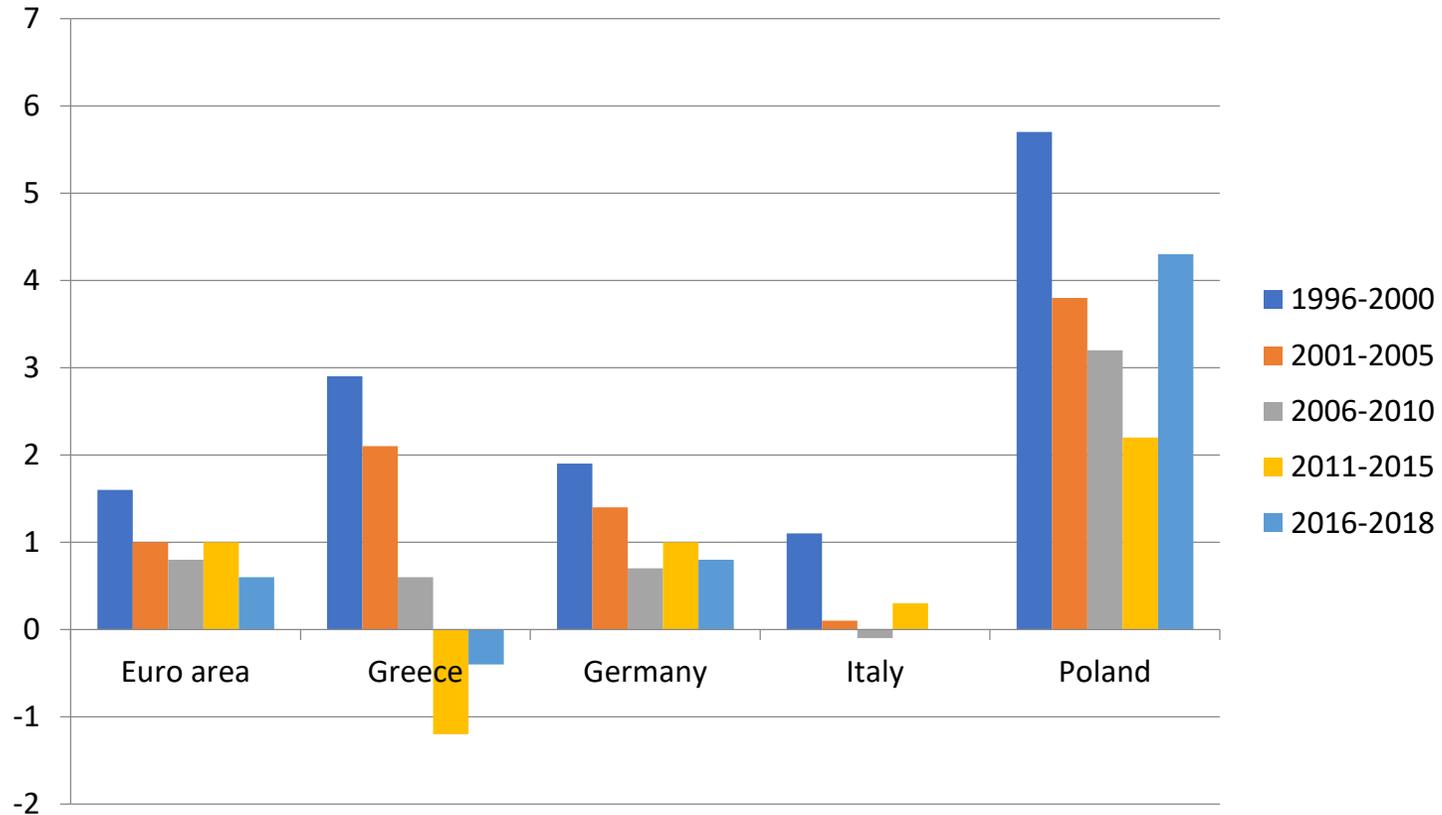
Final consumption expenditure of households (% change on previous period)



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)

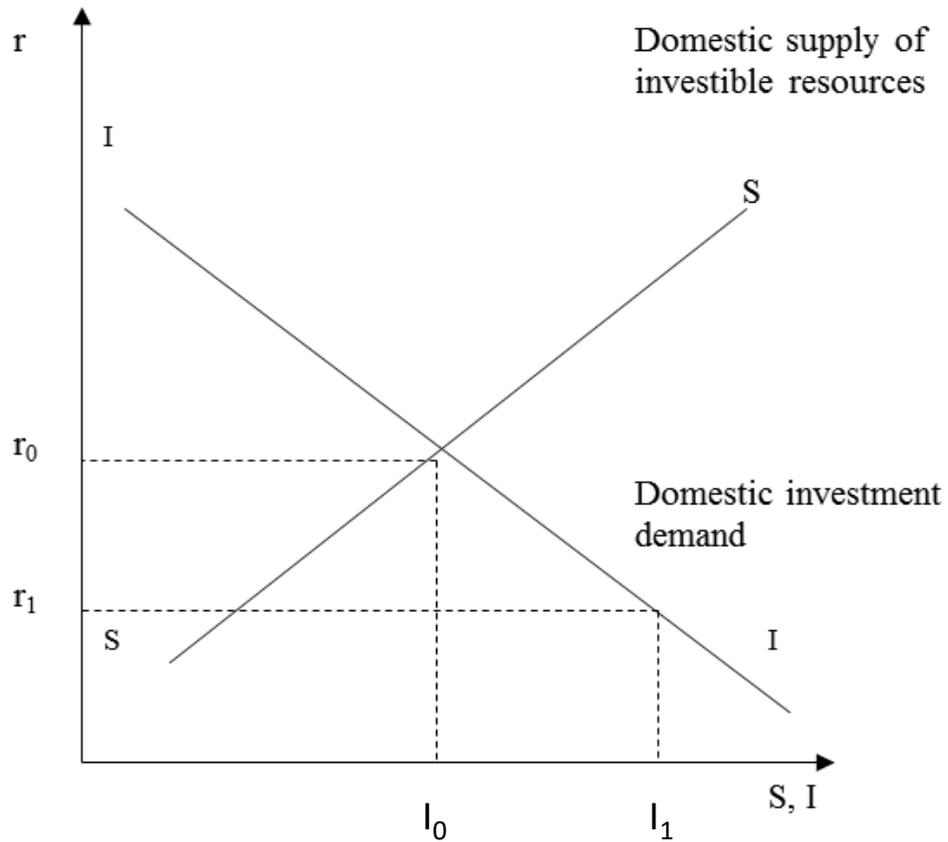
Financial Globalization and Growth

- “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:

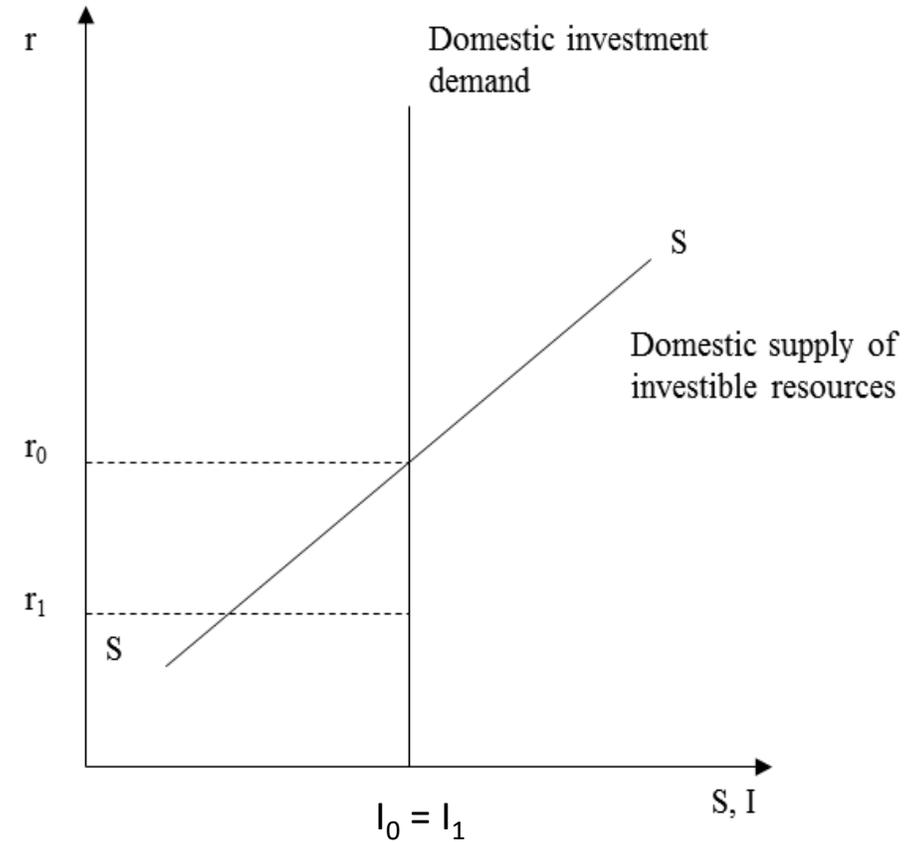
Ceteris normalibus, $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$

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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