

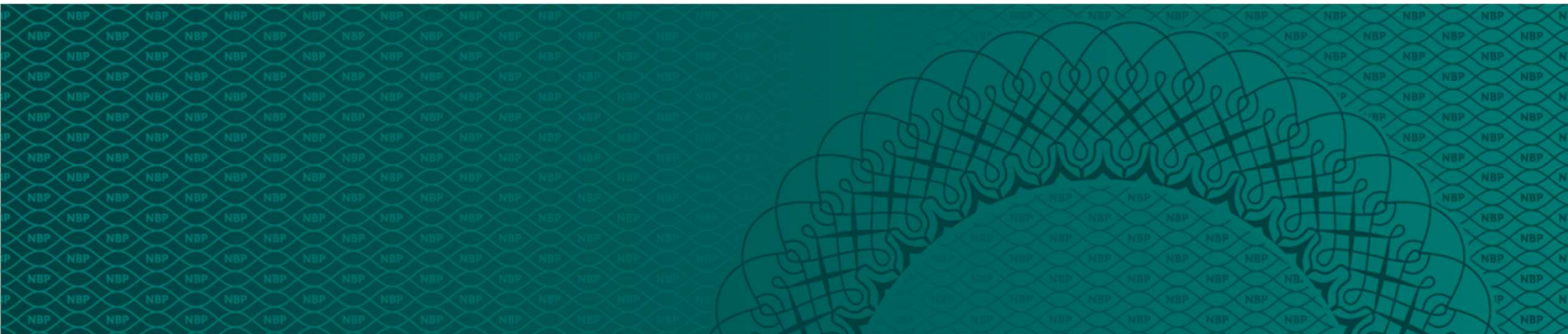
NBP

Narodowy Bank Polski

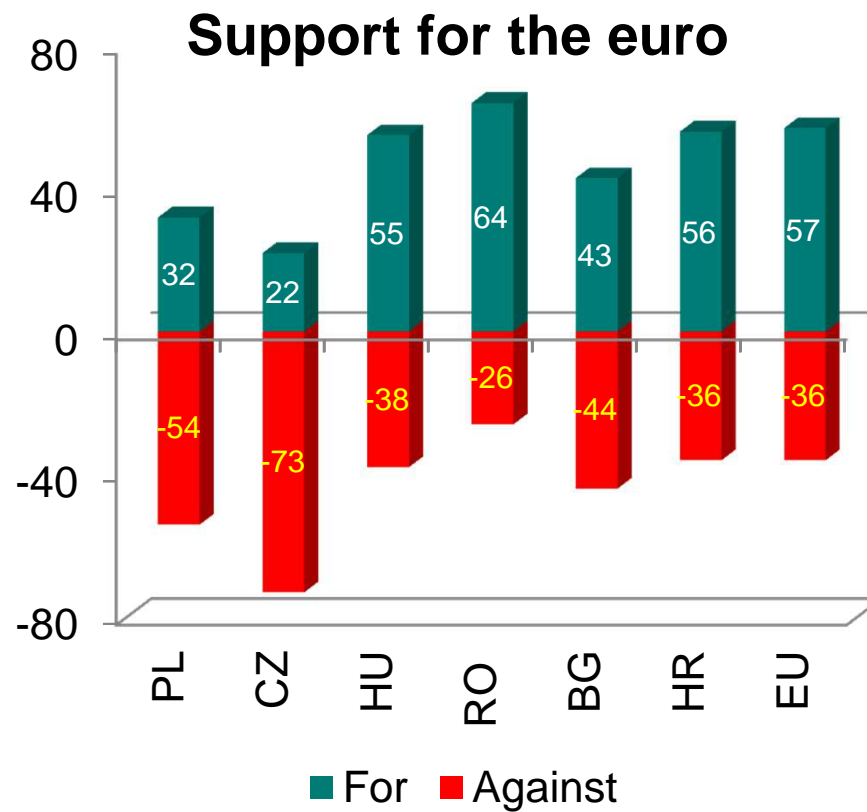
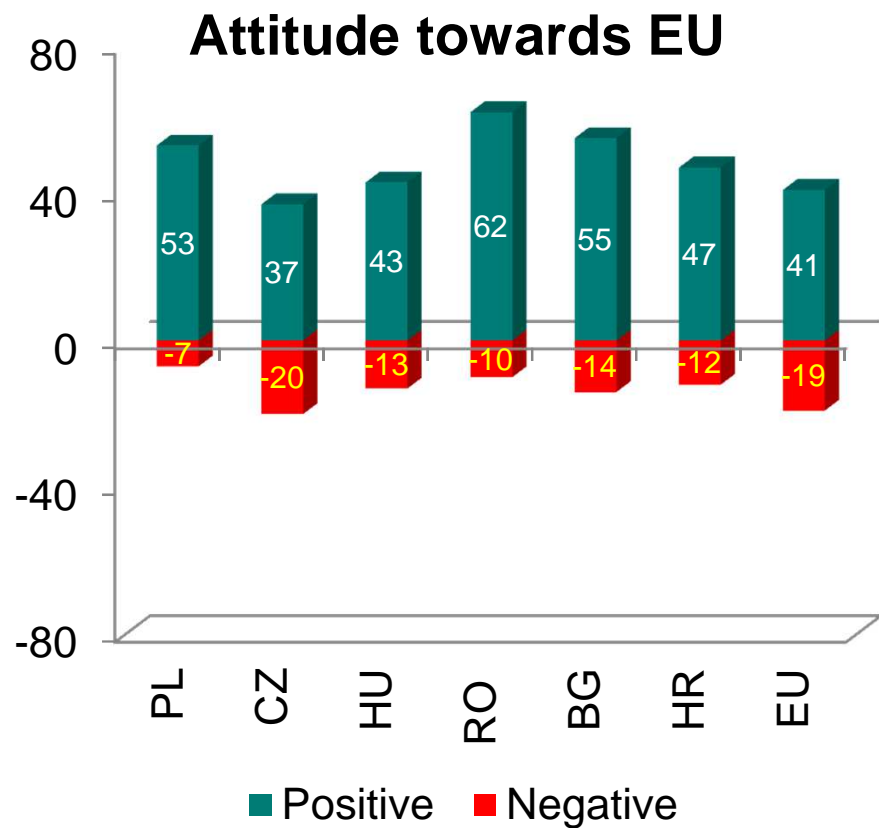
Michał Rubaszek, Economic Institute

EU structural policies and euro adoption in CEE countries

Warsaw / 15 October 2015



Attitudes towards EU and the euro: why are they so different?



Source: Eurobarometer, July 2015.

Narodowy Bank Polski

Framework analysis: recent NBP report

NBP Narodowy Bank Polski

Listopad 2014 r.

**Ekonomiczne wyzwania integracji
Polski ze strefą euro**



NBP Narodowy Bank Polski

Translation March 2015 – Polish version November 2014

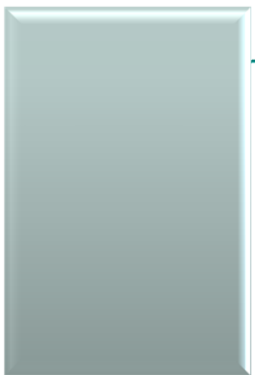
**The economic challenges of
Poland's integration with the
euro area**



The success of euro adoption depends on:



Institutional design of EMU



Fundamentals of domestic economy

Euro is a chance of growth acceleration ...

The Founders of EMU claimed that common currency area allows for synergy effects through:

- Specialization
- Better allocation of resources
- Lower transaction costs
- Lower risk
- Scale effect

The condition is cooperation and mutual trust between the Member States

... but also a risk of macroeconomic imbalances

The recent crisis modified prior expectations



- It was found that euro can contribute to a build-up of macroeconomic imbalances
- The adjustment within EMU (internal devaluation) is painful
- Few „solidarity” mechanisms during the crisis

Reform of EMU → putting it all back together

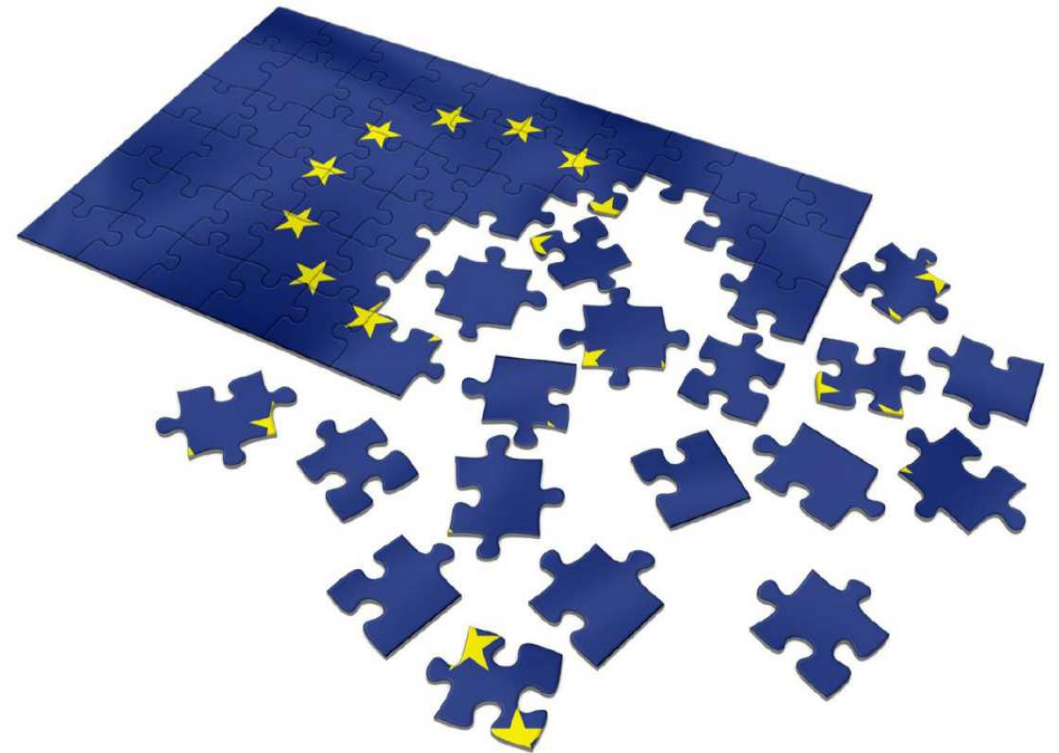
Already implemented or agreed:

- Banking Union (SSM, SRM)
- European Semester
- Six-Pack/Two-pack
- Fiscal compact
- ESM/OMT/ECB APP
- Country level reforms

On the agenda:

- Completing the Banking Union (SDIS)
- Capital Markets Union
- Fiscal union
- Political union

Based on Five Presidents' Report from 1 July 2015
„The Nature of a Deep, Genuine and Fair EMU”



EMU → where are we heading

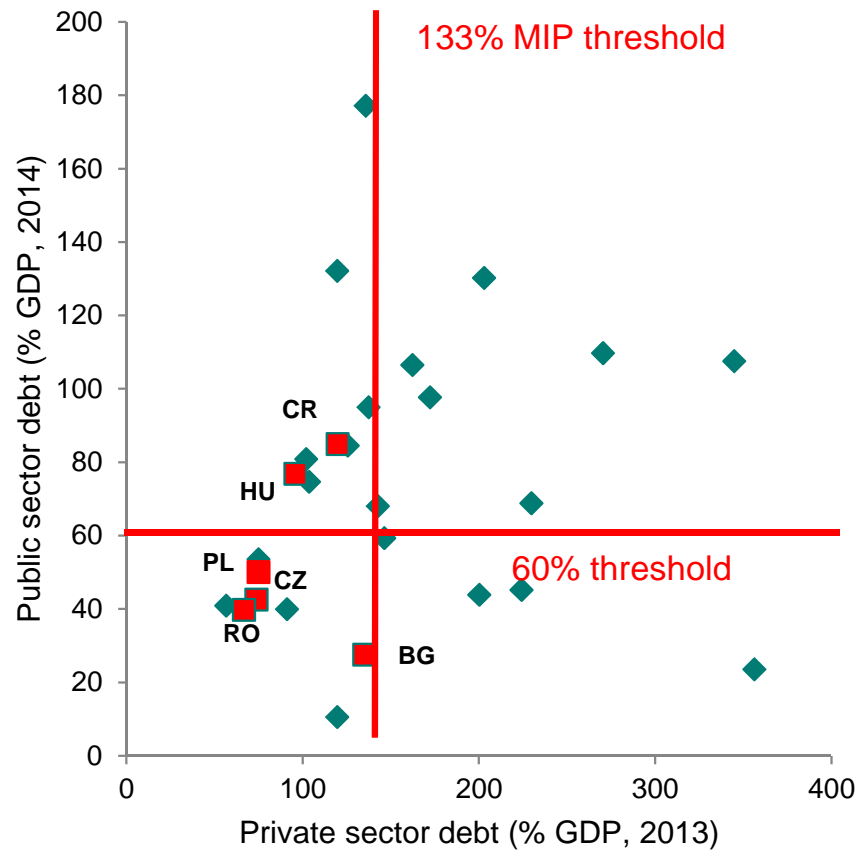
V1: Single currency EMU

- Responsibility enforced by **competition**
- Little room for the synergy effect. Only scale effect important
- **Good place for economies with strong fundamentals**

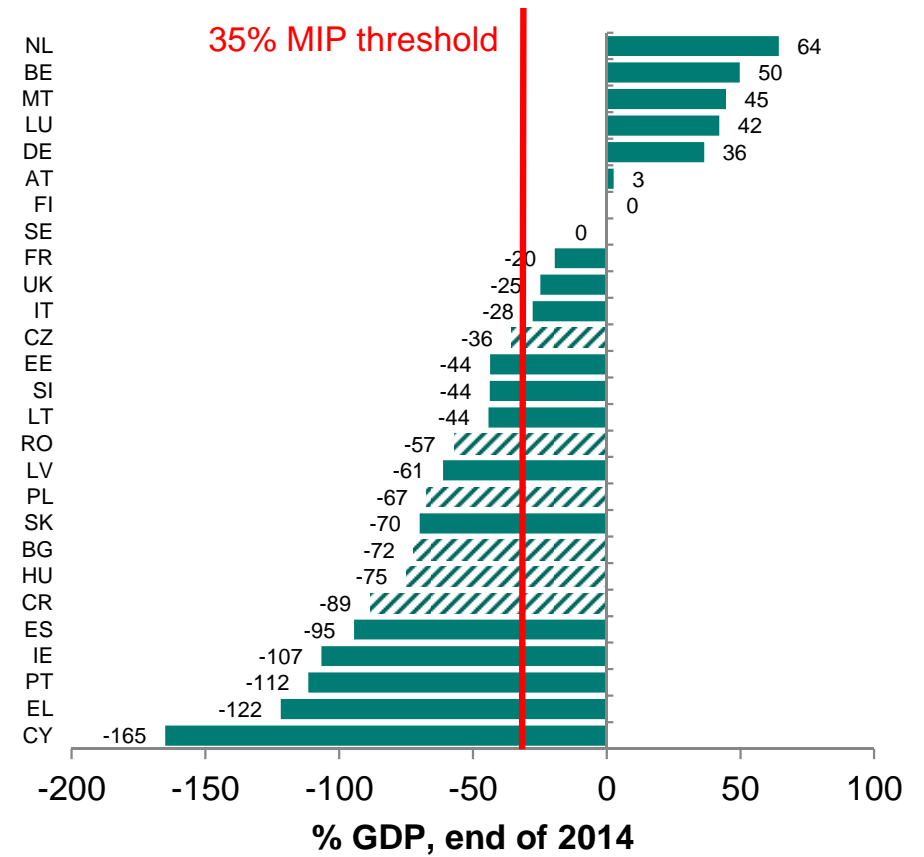
V2: Common currency Genuine EMU

- Responsibility based on mutual trust and **solidarity**
- Room for the synergy and scale effects, but moral hazard
- **Good place to enhance fundamentals**

Are fundamentals of CEECs strong enough?

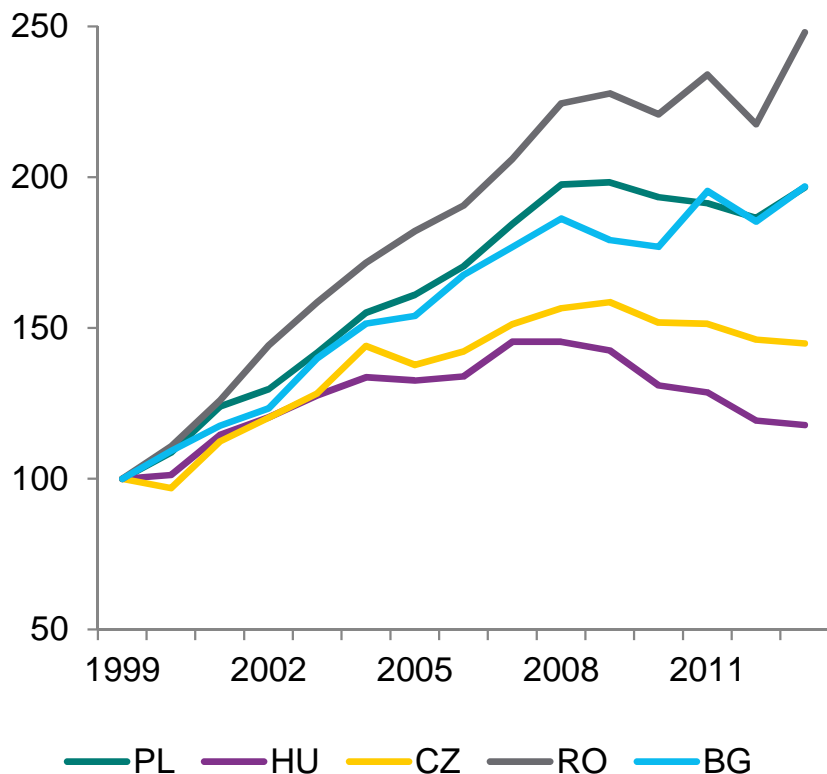


International Investment Position



Are fundamentals of CEE countries strong enough?

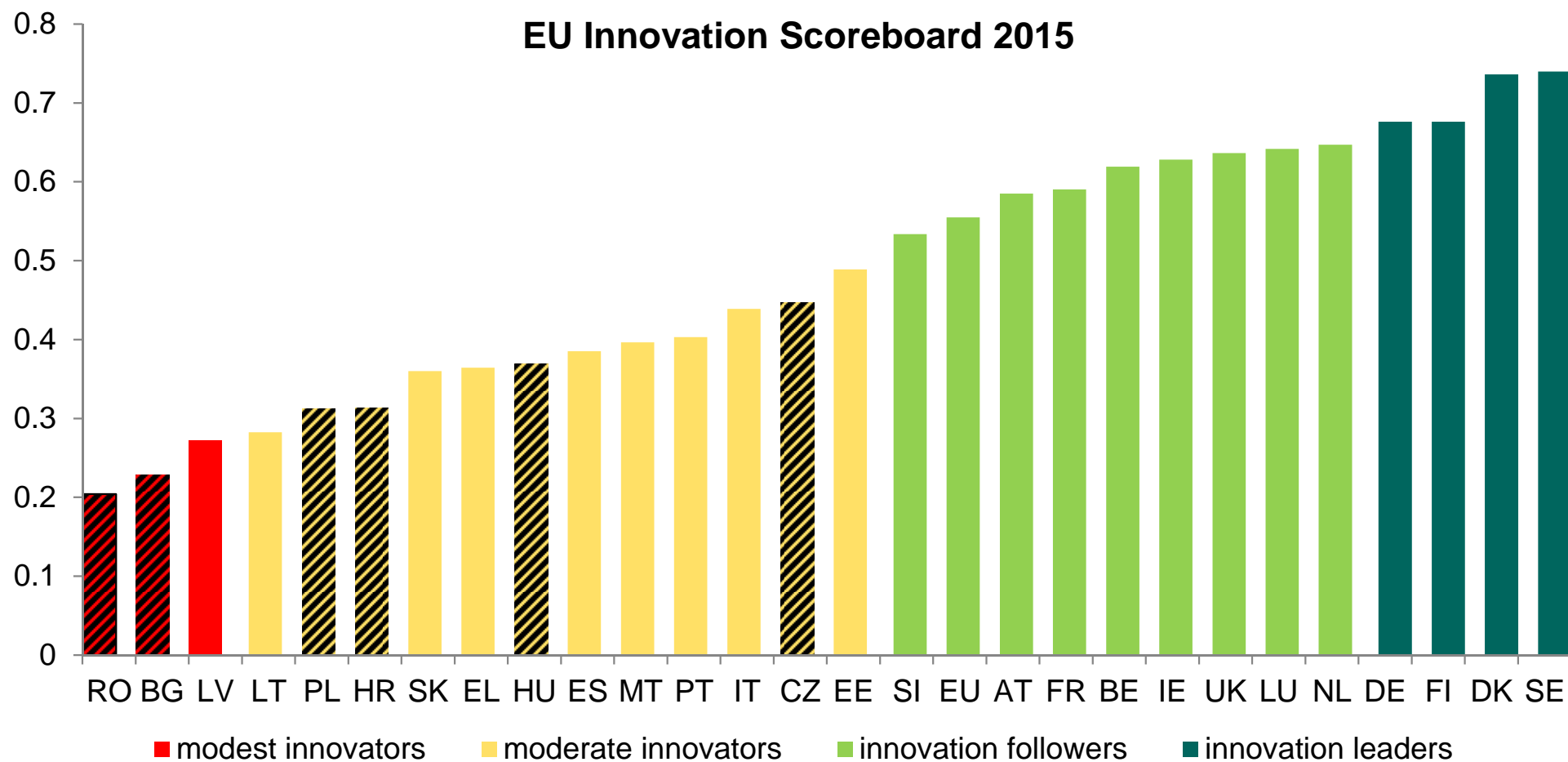
Export market share (1999=100)



Hourly labor costs (business economy, EUR, 2014)

Euro area	29.2
Poland	8.2
Czech Rep.	9.6
Hungary	7.8
Romania	4.8
Bulgaria	3.8
Croatia	9.3

Are fundamentals of CEE countries strong enough?



What can be done to convince CEECs to adopt the euro?



Progress towards Genuine EMU

Strengthen fundamentals of CEECs

How can we progress towards Genuine EMU?

To progress towards Genuine EMU we need to appreciate that EU/EMU has plenty of strengths:

- Highly educated workforce
- Well established, democratic institutions
- Developed financial system
- Large cultural diversity
- Strong linkages with all countries around the globe
- Relatively low level of inequality
- Large market of almost 350 million consumers

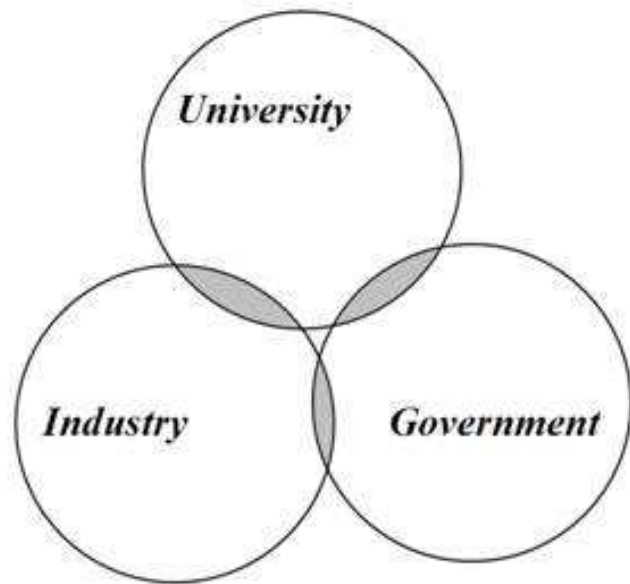
... and be brave enough to fully exploit the possibility of the synergy effect.

How can we strengthen CEECs fundamentals? EU-wide policy

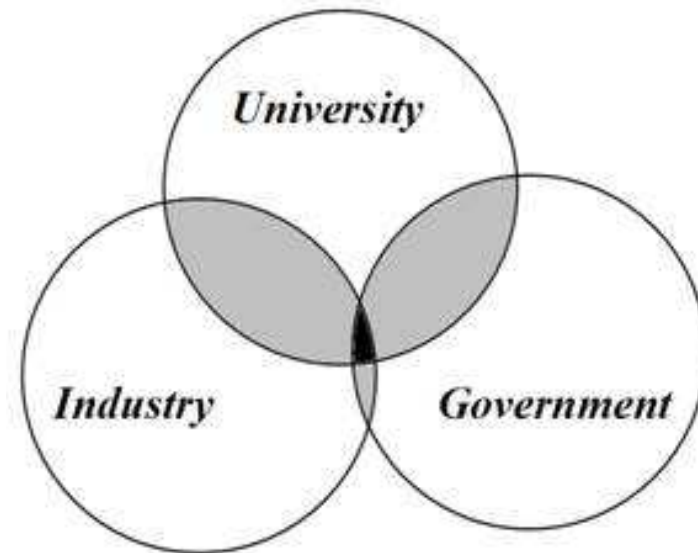
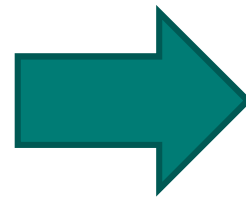
- EU integration supported by inflow of structural funds as important factors behind the real convergence process of CEECs. The convergence predominantly based on improving infrastructure, regulations and importing foreign technology
- Multiannual Financial Framework 2014-2020 is more focused on enhancing internal R&D rather than infrastructure projects
 - **A challenge:**
the governance of the innovation process more sophisticated than the governance of infrastructure projects
 - **A chance:**
MFF should accelerate transformation from „cost competitiveness model” into „structural competitiveness model”
- Other policies:
 - European Investment Fund
 - Single Market Act II / Digital Single Market

How can we strengthen fundamentals? Domestic policy in Poland

Triple Helix framework



2015



2020

How can we strengthen fundamentals? Domestic policy in Poland

Operational Programme Intelligent Development 2014-2020

(8.6 bn EUR of EU funds + minimum 1.6 bn EUR of domestic resources)

- to make enterprises more innovative
- to improve the competitiveness of Polish science
- to strengthen the role of science in economic development
- to increase the share of innovative products of the Polish economy in the international market

Still, there is a need for a more comprehensive Innovation Policy

- effective coordination and evaluation mechanisms
- better product market regulations (insolvency, contract enforcement)
- a clear mandate of universities to cooperate with business

Summary: four pillar strategy of euro adoption in Poland

1. Targeting **sustainable fulfilment of the convergence criteria**, with particular focus on fiscal discipline
2. Implementing additional measures aimed at **strengthening the potential of the Polish economy**
3. Preparation of the **technical and organizational aspects** of the process
4. Stabilization of the situation in the euro area, especially confirming the actual effectiveness of the adopted reforms and the **completeness of the institutional architecture of the euro area**

Source: CONVERGENCE PROGRAMME - 2015 UPDATE

We protect the value of money