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A RECONFIGURATION OF EUROPE – THE CENTRAL AND EAST EUROPEAN PERSPECTIVE

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After the advent of the euro zone, it was believed that the introduction of the common currency would enable rapid convergence of the members states' economies towards a single, fully integrated European economy due to lower interest rates and easy access to markets and savings of the surplus countries. It was expected that the real convergence would be accelerated by the large trade-creation effects. It was also assumed that competition in such a fully integrated European economy would be strong enough to secure a natural coordination of member states' economic policies, including wage policies.

In reality, the euro zone economies did not converge into a single, fully integrated economy. Thus, competitiveness channel was not strong enough to shield the euro zone from divergences in competitive positions of its member states. The build-up of such differentials was accelerated by unsustainable lending booms in several euro zone economies. This process of divergence in competitive positions might be reverted by increased coordination of economic policies within the euro zone. However, such coordination faces the conflict between the "deep integration" and democratic politics, as was highlighted by Dani Rodrik. This conflict turns the reconfiguring of the institutional structure of the euro zone into a difficult challenge.

The catching-up countries of the Central and Eastern Europe could be the powerhouse of economic growth in the EU. Many of these economies have been severely hit by the global recession and the busts of unsustainable lending booms resulting from the massive foreign-exchange mortgage lending. Nonetheless, the CEE economies still represent a potential that could help to reinvigorate economic growth in Europe. Their strategies of joining the euro zone are different. Some of them have already joined the euro zone. Some plan to do it relatively quickly as they have currency boards. Some decided to preserve for some time the floating exchange rate regime which they regard to be the best mechanism for solving the natural conflict between the nominal and real convergence.

Before the global banking crisis it was assumed that stabilizing inflation was sufficient to stabilize the economy. It was also believed that current account deficits within the euro zone were temporary and reversible as it was assumed that they reflected merely the ongoing real convergence in some member states' economies. However, the crisis illustrated clearly that external imbalances matter also in a monetary union as they influence prospects for economic growth. This produced a change in the European governance system. Also the experiences with unsustainable lending booms called for using macro-prudential policy as a tool for achieving macroeconomic stabilization. In 2011 the EU adopted the Excessive Imbalances Procedure targeted to cope with macroeconomic imbalances within the euro zone and the EU. However, the procedure is tailored mainly for the developed EU members. The open question remains how the characteristics of the catching-up CEE economies can be accounted for in the process of its implementation.

The euro zone crisis makes it difficult to predict the future course of events in the European economy. Thus, what is needed is a discussion on conditions that should be fulfilled to close the gap between the future of Europe and our previous hopes and expectations.