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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Deep economic integration

National sovereignty

Democratic politics

Isolationism (bilateral agreements)

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 that 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:

  \[ Ceteris normalibus, \quad i \downarrow \Rightarrow I \uparrow \Rightarrow Y \uparrow \]
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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