



## BULLETIN OF THE INSTITUTE FOR WESTERN AFFAIRS

Special Series “The euro - opportunities and threats”

### ■ The national currency as a driver of Poland’s economic growth

Eryk Łon

#### The great value of independence

The year 2018 will mark the 100<sup>th</sup> anniversary of Poland’s regaining of independence. The anniversary should inspire reflection on the importance of independence. In today’s world, the sovereignty of individual states is constrained by a range of international regulations. There are, of course, areas in which states have retained full sovereignty. One such area of crucial importance for Poland is monetary policy. Thanks to the existence of a Polish currency - the zloty, Poland is fully entitled to pursue the policy independently, guided by its best national interests. Even Economics majors, and not only, are aware that monetary policy is one of the two basic pillars of economic policy. The other one, as is commonly known, is budgetary policy. It is worth noting here that the Polish constitution protects Poland’s right to pursue its own monetary policy. Undoubtedly, art. 227 of the Polish constitution forms a safeguard that prevents Poland from joining the euro-zone. However, a number of other reasons can be named that make it worthwhile to protect the national currency.

#### The advantages of monetary sovereignty

The central bank plays a key role in the economy. This is evidenced by the fact that the NBP’s assets account for roughly 20% of the GDP. Monetary sovereignty, i.e. the right to pursue one’s own monetary policy, offers a number of advantages. In 2007, I wrote the report “Why Poland should not join the euro-zone”, published on the NBP website. In it, I point out the three

Editorial Board:  
Radosław Grodzki  
Jacek Kubera  
(editor in chief)  
Piotr Kubiak  
Krzysztof Malinowski

No. 347/2018  
30.05.18

ISSN 2450-5080

The Bulletin  
is also available on:  
NEWSLETTER IZ  
FACEBOOK  
SCRIBD  
LINKEDIN  
TWITTER

fundamental advantages of monetary sovereignty. First, it enables the pursuit of monetary policy in line with the interests of one's own country. Second, it enables the country to define formally its actual policy goals and instruments. Third, it allows the state to best position the central bank within state authority structures.

## The eurozone - economic growth and unemployment rate

The eurozone was established in the early 1999. Thus far, it has only seen relatively modest economic growth. The average annual increases in the GDP posted by the mature economies that have retained the right to pursue their own monetary policies have been significantly higher than those observed in the eurozone member states. In addition, the eurozone is plagued by relatively high unemployment. As it turns out, the average unemployment in many mature economies that remain empowered to pursue their own monetary policies has remained below the eurozone average.

## Own currency at times of crises and prosperity

Furthermore, experience shows that a national currency is particularly useful during crises. The example of Poland's performance during the economic crisis of 2008-2009 supports this hypothesis. Amidst severe stock market collapses and deep recessions in many mature economies around the world, including those of the eurozone, Poland has experienced a relatively innocuous crisis. This was due to the fact that - during the crisis - the zloty declined significantly against other currencies propelling exports and domestic tourism. The depreciating zloty drove up the prices of imports, helping domestic producers to compete internationally on price and make their goods more marketable. Note also that national currencies usually appreciate during strong economic upswings. This eases inflationary pressures reducing the need for interest rate increases.

## The role of currency interventions

The right to pursue their own monetary policies enables states to make foreign exchange interventions. Such interventions are among the instruments of Polish monetary policy. Personally, I believe that currency interventions can be very useful. For example, on 9 April 2010, the weakening of the zloty helped improve the profitability of Polish exports. This particular intervention was made during the term of the late NBP President Sławomir Skrzypek.

## The banking union

In the context of the dispute over whether to keep the zloty or adopt the euro, it is worth noting that, given the current legislative framework, joining the eurozone would oblige Poland to enter the banking union. This would transfer some

of the supervisory powers over banks from the Polish Financial Supervision Authority to the European Central Bank, which would greatly constrain Poland's sovereignty.

## No eurozone exit procedures

No procedures for leaving the eurozone exist as of yet. Interestingly, such procedures are nevertheless in place in various other non-European monetary unions. Some of them contain contingencies for the possible break-up of the respective unions. The right to maintain a national currency may lead to the publication of various lists of benefits of having a national currency. The National Bank of Poland, for instance, has held a contest for school children to present what they believed were the most compelling benefits of the zloty, thereby highlighting the importance of monetary policy.

## The importance of non-standard instruments

The instruments used by individual central banks have changed significantly in recent years. Generally, non-standard instruments have been gaining importance. Certain central banks invest in corporate bonds or in the trust funds that themselves invest in domestic corporate stocks.

Personally, I am confident that non-standard instruments of this kind are set to gain popularity. One of the reasons for this is that, should interest rates be reduced to zero or below, new instruments (and non-standard instruments in particular) will be in high demand. It is also possible to use non-standard instruments in an environment of positive interest rates, although the observed interest in non-standard instruments has most likely been sparked by negative interest rates.

I believe that in the future, the NBP will also consider non-standard instruments related, for example, to the central bank's activities on the domestic stock and corporate debt security markets. Needless to say, Poland will only be able to decide for itself whether and in what manner to apply such instruments as long as it retains the right to pursue its own monetary policy.

The statements expressed herein reflect solely the opinions of its authors.

This article is part of Special Bulletin Series of the Institute for Western Affairs titled "The euro - opportunities and threats". The analyses and opinions featured therein concern the functioning of the Economic and Monetary Union, its possible transformations and the consequences of Poland's possible adoption of the single currency and of remaining outside of the eurozone. In its subsequent issues, the Bulletin will shed light on the above issues from a variety of perspectives.

**Eryk Łon** - habilitated doctor of economics, associate professor at the Department of Public Finance of Poznan University of Economics and Business, member of the Monetary Policy Council at National Bank of Poland.