

## Euro in Poland after 2035 at the earliest

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"The euro is approaching" - that's how the National Bank of Poland (NBP) entitled one of its publications in 2004. It specified a wide range of advantages related with introducing the common currency. Companies could count on bigger development possibilities, cheaper loans, no costs of currency exchange or a changing rate risk. Optimistic perspectives were also rolled on the employers. They were tempted by stable and real salaries, and more working places, thanks to the foreign investments.

Due to this atmosphere of underlining the positive aspects of adopting the euro, it is not surprising that until 2009 the majority of Poles supported the exchange of the zloty for the common currency. Everything changed after the world's economic crisis, and to be more precise, its pouring over the weakest economies of the eurozone.

The support for adopting the euro among Poles has dramatically decreased, since the moment when Greece found itself at the edge of bankruptcy five years ago. According to the survey made by CBOS in October 2014, only 24 percent of those surveyed were for adopting the euro, and 68 percent were against it.

### **Economists warning**

Even economists have started to speak more sceptically about Poland's membership in the European Monetary Union (EMU). They have noticed, how strongly diverse are the levels of competitiveness of particular economies. Also they see, that performing a uniform monetary policy for every country, can overstimulate development in some of them, and "cool it down" in others. The experts also remind us that a lot of countries were bending the rules of fiscal discipline during the process of monetary integration, as well as after entering the eurozone structures.

The common currency and monetary policy, have become obstacles in achieving economic ba-

lance. Especially for those countries that were supposed to gain the most out of joining the EMU. Lower costs of financing were driving the prices on the real estate market, instead of improving efficiency. Instead of being a permeable “blood circulation” for Spain or Ireland, the bank sector almost caused bankruptcy of those countries. Many countries have also lost the ability of improving their economies effectiveness, due to decreasing the value of currency. It was one of the reasons for the dramatic increase in unemployment, which has crossed the level of 25 percent in Spain or Greece.

One needs to add here the withdrawal of the investors from the treasury bonds market, which only deepened the problems. As a result, the unemployment in Ireland increased from 4 to 15 percent. Also, the country’s debt in relation to GDP is on a level of 110 percent, while before the crisis it was in the area of 25 percent. A similar thing happened to Spain.

The approach towards the euro presented by the NBP, has also clearly changed. It is visible especially in the report entitled “Ekonomiczne wyzwania integracji Polski ze strefą euro”. This document was published in November 2014. It consists of almost twenty pages, on which it’s difficult to find any advantages of joining the EMU. However, it contains many challenges.

Claiming that all the problems are the effect of adopting the euro, would be of course abusive. The economists agree that on one hand the common currency allowed the above mentioned disturbances to grow in the prosperity period. On the other hand, the euro made it more difficult for some economies to adjust to the new reality in times of downturn.

According to the respected research centres (e.g. IMF, Bruegel), a deeper integration might be a solution to at least part of the previously mentioned problems. In order to improve the work of the common currency area, a creation of the Bank Union and the Fiscal Union is required.

The works on introducing all elements of the Bank Union have clearly accelerated in few recent quarters. Its aim is to supervise the crucial financial institutions, international rules of banks’ restructuring, and common deposit guarantees. The first mechanism has already been introduced. Since November 2014, the EBC supervises the most significant banks of the eurozone.

Orderly closure of banks (which means a possibility of a part sale or e.g. the cancellation of debts) is also in the final stages. It will allow creating a fund, which will guide the bankruptcy or a process of reconstruction of a financial institution, in case of its insolvency. It should prevent the situation, in which bankruptcy of a big bank endangers the stability of some country, or even the whole eurozone.

Also the works in order to create the Union’s deposits security are being held. It would decrease, among others, depositors’ anxiety, who transfer the means from country to country, as it is now in the case of Greece. However, it is currently difficult to say when the deposit guarantees will be brought to life.

## **The Fiscal Union**

The introduction of the Fiscal Union will be a much more difficult task. Its sketch was presented four years ago by the former chairman of the European Council Herman Van Rompuy, in the work “The full Economic and Monetary Union”. According to this theory, it would be based on a bigger share of the whole Union in establishing the basic budget parameters for particular countries.

According to Van Rompuy, the mid-term aim of the Fiscal Union is also the possibility of common issue of bonds, and the introduction of a central budget. As a result, it would lead to conducting a coherent economic policy for the whole eurozone. In order to make things more simple, we can compare the above plans with what we are already observing in the United States. Just like in that case, this solution in Europe would be related with the part redistribution of profits, which means their transfer from the central budget to particular countries.

The task of the above mentioned actions, would be to stabilize the economic situation in the whole region, and also to share the responsibility for the macroeconomic hazards. However, when looking at what is currently going on in the eurozone, it is very difficult to imagine the practical action of the mentioned mechanisms.

Greece is the best example. Only a change from the government in Athens would be enough for this country to withdraw from the majority of its obligations towards the EU, and attack its work at the same time. It is also difficult to believe that the southern countries (Spain, Italy, Portugal) would agree to the constant interference of the European minister of finance in their local budget. On the other hand, Berlin and Amsterdam can find the idea of taking common responsibility for the debt issued by Athens and Lisbon, as equally abstract.

An introduction of a uniformed pension system, or a second language, which would be obligatory parallel to one country's national language – those elements would also support the mentioned processes, and deserve much more attention. Both of these matters would improve the use of available working places, and influence the improvement of potential employees' mobility.

Even if, one would omit the above paragraph which goes far into the future, it is worth to notice that so far not much has been done about deepening the fiscal integration. Apart from a general discussion, not even one official document has been presented. Thus, it can awake anxieties that we will have to wait many years for some specific solutions.

### **When should we join the eurozone?**

The main advantages mentioned by the supporters of joining the eurozone, have clearly lost their meaning in recent years. Lesser obstacles related with investment and easier travelling, fade out the arguments of maintaining financial stability, thanks to the monetary and fiscal policy co-ordinated with the national cycles.

The comfort coming from the common currency, appears to be unworthy when compared with the serious risk of overheating the economy, unemployment in the millions, or a recession lasting for a few years.

Does this mean that it is not worth joining the eurozone? Not at all! However, it needs to be done at the proper moment, which is when we will observe that the area of common currency is heading towards full integration. One could say, that waiting for the situation to improve without actively participating in the fixing process and avoiding the risk, is egoistic.

The recent years, however, have shown that the more well prepared the country is for the integration with the eurozone, the lesser risk is involved for both sides. It also prevents the situation, in which a particular member requires constant help, and reduces the probability of a lack of inner balance. After all, it was the latter factor, which has clearly increased the current crisis.

## **Unnecessary haste**

Experiences of recent years indicate, that adopting the common currency is related with many problems for the country performing it, as well as for the whole eurozone. Considering relatively low competitiveness of the Polish economy, “choking” with cheap and easy money, could bring some serious problems to our country in the moments of business cycle’s cool down.

In order to make adopting the euro by Poland advantageous for our country, as well as for the eurozone, it needs to be conducted at the proper moment. One should also remember, that the eurozone is currently undergoing some serious changes. If they will end successfully, they will allow further work. The failure however, will impact its weakest members very negatively.

One should also not forget about the serious discussion regarding the effects of adopting the euro. The anxiety of the prices’ increase mentioned by many respondents, indicates that only stereotypes are being repeated, without mentioning the real dangers. Most often a vision of higher prices, is caused by “the euro illusion” effect.

An unreal perception of inflation’s growth was a result of the necessity of introducing the new psychological prices, e.g. the change of a sweet bun’s price from 0.99 PLN to 0.29 EUR, would mean a real increase by the rate of 4 PLN per euro. Society will remember this. However, the fact that bread would cost 0.69 EUR, and now costs 2.99 PL, after the changes is omitted. As a result, according to the Eurostat’s survey introduction of the euro caused the inflation to increase to a level between 0.12 and 0.29 percent. Additionally, this relatively small problem can be limited very easily, by presenting the prices in both currencies many months before, as well as after adopting the euro.

The last argument holding us from integration with EMU, is the fact that leaving it is really impossible. Exiting the area of common currency, despite the undertaken scenario, would be related with a serious economic shock. Especially if the whole operation would have been conducted in the conditions of a crisis.

## **The euro in a decade, two, or more**

Considering the current development of our country, and assuming a fast tempo of structural changes in the eurozone, we should adopt the common currency in ten years at the soonest. However, looking at the transformations in the countries of “the nineteen”, a realistic time needed for conducting the crucial reforms, may amount to over 20 years.

## INFORMATION ABOUT THE BRAND

Cinkciarz.pl provides online FX services, using state-of-the-art FX technology for everybody, including individuals, entrepreneurs, travelers and those repaying loans in foreign currencies.

Cinkciarz.pl presents the most favorable rates of all the 24 currencies in its offer. Categories of services offered are: online currency exchange (in three transaction models) and currency cards. The transactions can be concluded via internet transfers from any bank account 24/7. Cinkciarz.pl is the first FX company in Poland to join the SWIFT organization which includes only the largest banks and financial institutions.

The company is also amongst Bloomberg data and analysis suppliers. Cinkciarz.pl EUR/PLN forecasts have been awarded first place in the world for four consecutive quarters in Bloomberg's rank Best EMEA Currency Forecasters Q3 2013 and the first place for the CZK/EUR and ZAR/USD forecasts for the first three quarters of 2014. The forecasts of Cinkciarz.pl's analysts for the currency pair CZK/EUR have also been awarded the first place in the world for 2015 Q1.

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