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Poland in the Eurozone: better sooner or later?

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At the beginning of next year, the eurozone will count 19 members, two thirds of the EU member states. From the gang of the 2004 accession to the Union, only Poland, the Czech Republic and Hungary will remain outside the single currency. There are risks which come with staying outside the Eurozone.

What are those risks of staying outside the euro for too long?

One is a lack of impact in the decision-making process. Remaining outside the eurozone, we will not be effective in influencing the ongoing reconstruction of the eurozone. As a player on the inside, our impact could be decisive. Waiting for the eurozone to fix all its problems before we can join does not sound like a serious argument. Participating in the fixing process.

While staying on the outside, the only way we can get on board current and future new institutional mechanisms, which are created, is by opting-in. The opt-in status is however an uncertain one. A number of policies are put on the table with the a form of opt-in option already incorporated into the proposal (for instance the first pillar of the banking union, the single supervisory mechanism allows non-euro member states to opt-in, or the six-pack of economic governance applies selectively also to non-euro member states), for other pieces of legislation, non-euro member states need to fight to be included around the debating table with their ideas on opt-in mechanisms (they are for instance excluded from the ESM and two-pack). Even if we manage to create an opt-in status, as was the case for instance in the context of single supervision of the banking union, we receive a decision-making backstop, but no fiscal backstop. The opt-in status effectively delivers limited benefits in terms of impact, with potentially prohibitive costs. A fully-fledged membership of the eurozone would come with some costs, but would certainly offer a higher number of benefits.

By staying outside, we effectively deny ourselves access to the following Eurozone focused instruments:

-the ECB’s outright monetary transactions

-the ECB’s long-term refinancing operations and targeted long-term term refinancing operations

-the ECB’s programme for purchasing asset backed securities (ABS), covered bonds currently in the making

-bridge financing from the ESM: in the context of the single resolution mechanism (SRM), once the bail-in has been applied, and the resources in the single resolution fund exhausted, so called bridge-financing from the ESM will be available to the

banks of Eurozone member states; the same option will not be open to non-euro members as they do not have access to the ESM. (There is currently a debate taking place in the EFC, concerning the potential use of the BoP facility to provide bridge financing, this could come via an indirect bank recapitalisation instrument, which does not yet exist, but which is being discussed)

-no voice in the governing council of the ECB which has to approve the decisions taken by the supervisory board of the single supervisory mechanism (this is a problem if Poland decides to join the banking union before adopting the euro)

-lack of access to the ESM (non-euro member states only have access to an outdated BoP, which for instance does not have a direct recapitalisation instrument and is not adapted to the recent changes introduced by economic governance reforms such as the six-pack of the two-pack).

Additionally, staying outside could risk making us a different category of EU membership, which would impact the way we are perceived by investors and would weaken the confidence markets place in us. Our membership in the eurozone financial sector reforms is crucial here, with the banking union reform standing out in particular. While for a regular consumer, the membership of a country in the banking union would probably not be decisive for where he or she opens a bank account, banking union membership can be pivotal for bank bond market investors. We cannot ignore this consideration.

As more member states join the euro, the internal market becomes more and more dominated by euro area concerns. Lower transaction costs linked to the use of one common currency may put countries outside the euro area at a disadvantage when it comes to trade. The internal market will not be a level playing field anymore.

Let me also mention the monetary policy issue. The conventional line on this is that the use of the exchange rate tool can help increase competitiveness. We often hear that the loss of monetary policy independence is a major drawback when a country joins a currency union. I would like to reverse this argument. Monetary policy independence can be a risky tool in a member state that has to build its long-term competitiveness and go through deep structural reforms, especially if a government is tempted to use exchange rate policy to compensate for structural weaknesses.

If we accept this, then joining the euro area could actually bind us in a positive way and determine us to push towards deeper, genuine reforms, as opposed to relying on short-term fixes. We will need to look out for new growth factors and genuinely boost our competitiveness.

Additionally, the single currency can also cushion the danger of speculative attacks on national currencies, as these currencies might not be sufficiently strong to resist such episodes on their own.

Staying outside the euro area, at this stage of our development, given also our status of an emerging economy, when many factors, especially those related to the global world, can impact our competitiveness and stability, can lead to many risks. Globalisation is bringing new superpowers onto the world stage and exposing us to

the new waves of threats of global competition. The eurozone could shelter us from emerging risks and offer more stability.

The previous concerns are very important for the medium and long-term. Looking at the short-term horizon, our preparation for euro area accession is pivotal.

In this context, a very important decision when it comes to joining the euro area is the issue of timing. In particular, the time must be ripe for us to join the ERM II. This entails entering the ERM II at a moment when the risks of speculative attacks, which may force devaluations of the national currency, are at a minimum. We must avoid a devaluation episode during the ERM II phase. We could also consider committing to a narrower fluctuation band, than the standard one of +/- 15%.

The fact that we do not receive any reports from the National Bank of Poland or the Ministry of Finance most likely hides lack of argumentation against accession.

The argument of our capacity to maintain a high growth rate out of the crisis by staying outside is doubtful.

So the only argument which we genuinely have is that we do not meet criteria.

Let us say we do not want to join because our economy is not competitive enough, but let us not say we need a devaluation tool because this is dangerous.