

**POLAND AND THE EURO –  
THE STATE OF DISCUSSION**

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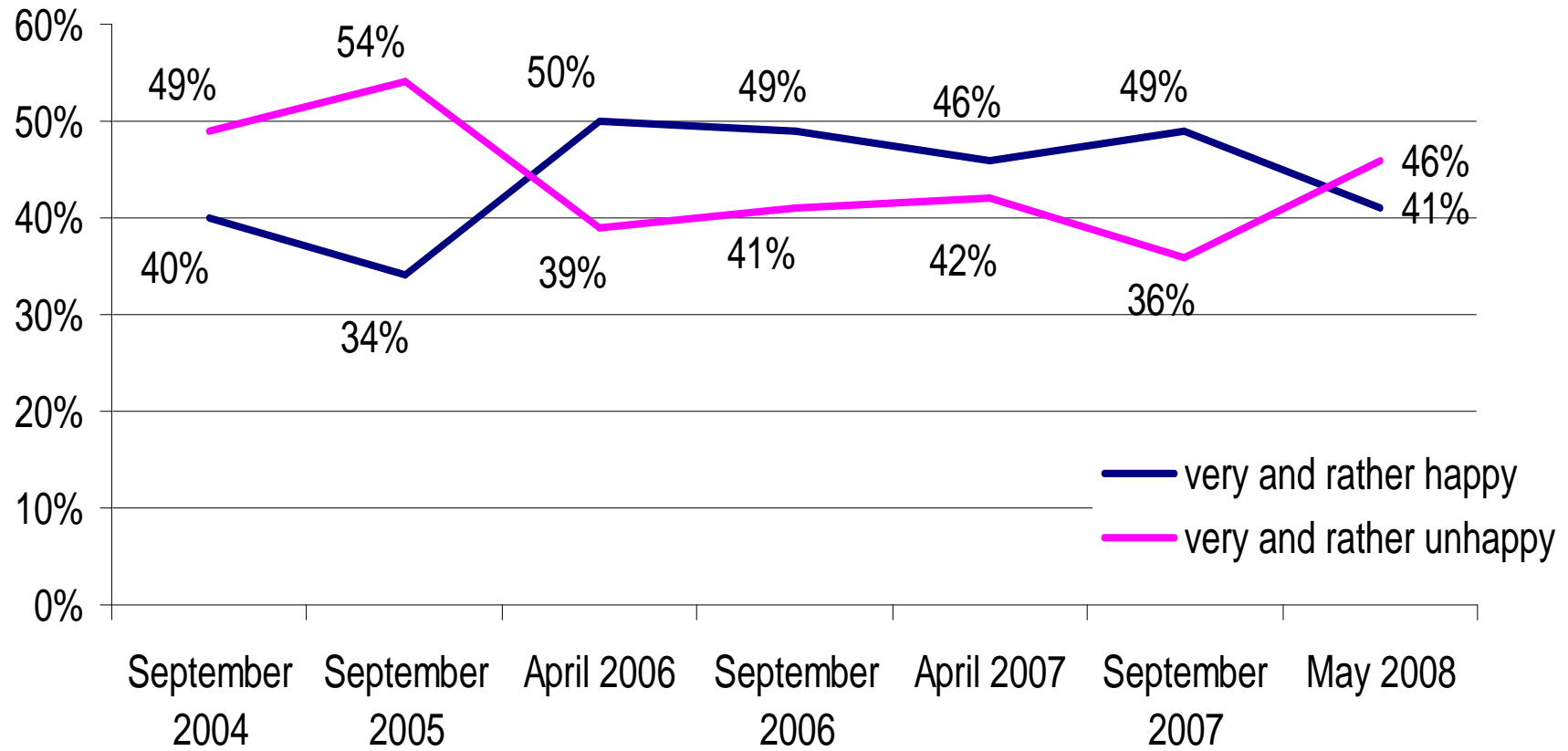
**Praha, 28 March 2009**

## Outline

- What do the Poles think of the euro adoption?
- What is the Polish Government's plan related to the euro? What does the opposition think of it?
- Does Poland meet the Maastricht criteria at present? What are the prospects for meeting them in the near future?
- Concluding remarks

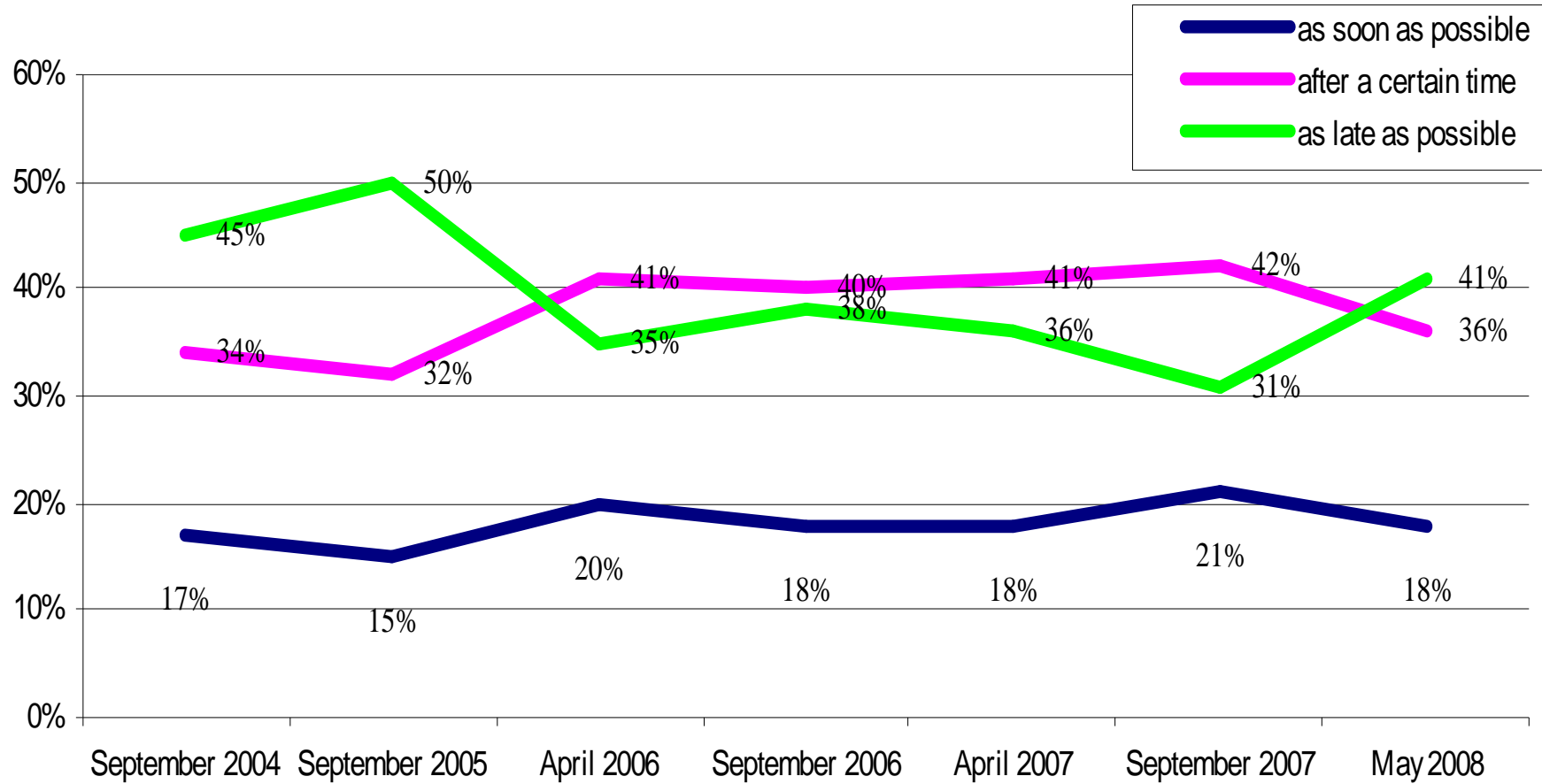
- We all know that Poland, just like the Czech Republic or any other New EU Member State, has to adopt the euro sometime in the future, because we committed ourselves to that in the Accession Treaty
- But **do the Poles want to adopt the euro** in the future?

QUESTION: Are you personally happy or not that the euro could replace the Polish zloty ?



Source: *Flash Eurobarometer, Introduction of the Euro in the New Member States, Analytical Report, July 2008, European Commission.*

## QUESTION: When would you like the euro to become your currency?



Source: *Flash Eurobarometer, Introduction of the Euro in the New Member States, Analytical Report, July 2008, European Commission.*

## Recent actions taken by the Polish government on the road to the euro

- On 10 September 2008, the Polish Prime Minister declared in public that Poland should be ready to join the euro area in 2011.
- On 28 October 2008, the Government adopted **the road map** of Poland's adoption of the euro. The document lists actions leading towards Poland's full membership of the euro area as of 1 January 2012, setting a timetable of the implementation of major tasks
- On 13 January 2009, the Government appointed its **Plenipotentiary for the introduction of the euro** (deputy minister of finance)

## **The road map of Poland's adoption of the euro – main provisions**

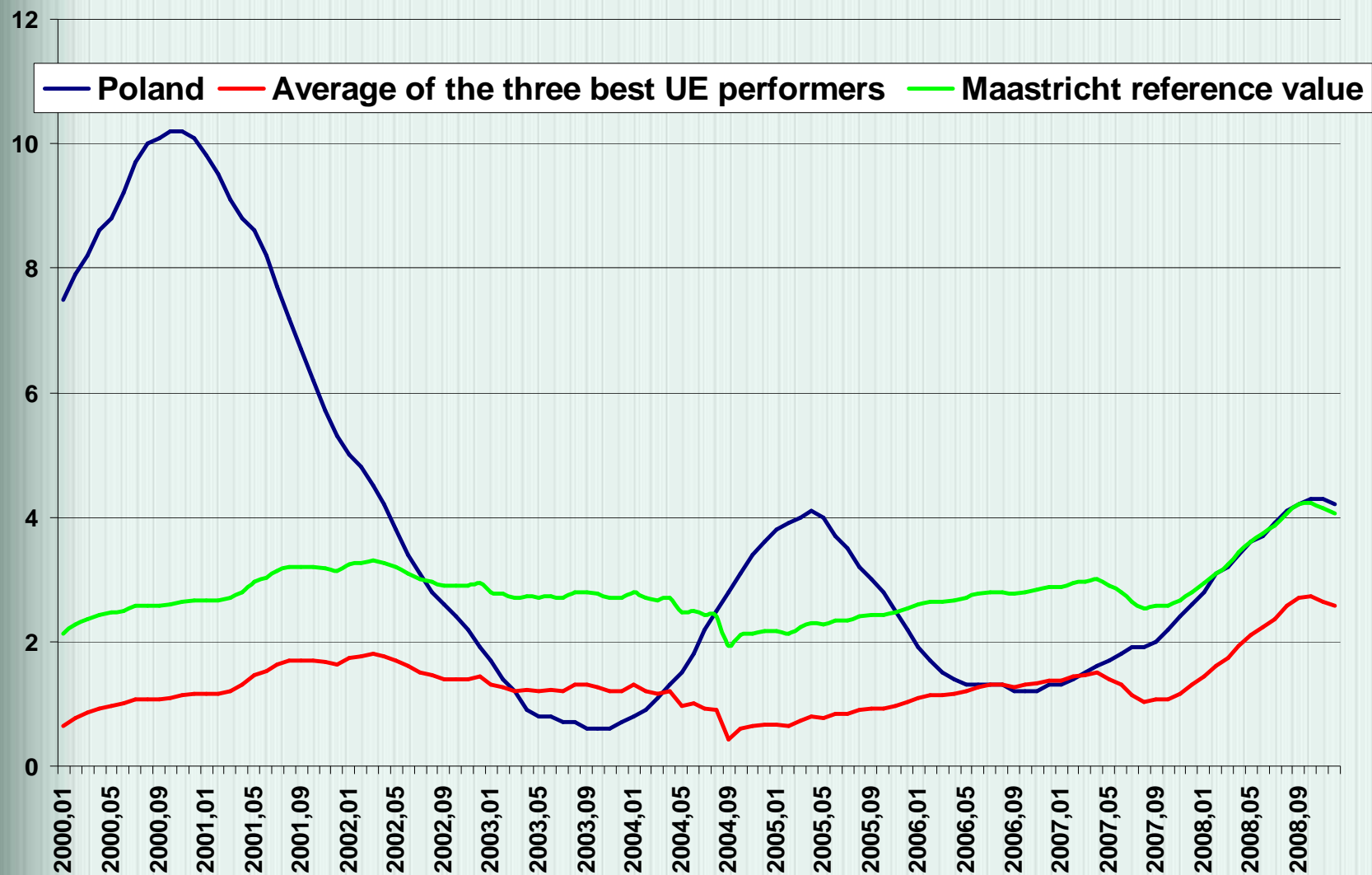
The road map of Poland's adoption of the euro provides for, among others:

- developing **the National Euro Adoption Plan** (Changeover Plan) and establishment of the National Coordination Committee for the Euro in the first quarter of 2009;
- initiating the procedure of **amending the Constitution** of the Republic of Poland in the first quarter of 2009.
- **including the zloty into Exchange Rate Mechanism II in the first half of 2009;**
- **preparing other legal acts** relating to the adoption of the euro (including the so-called umbrella law) in the second half of 2010.

## **The need to fast adopt the euro contested by the opposition**

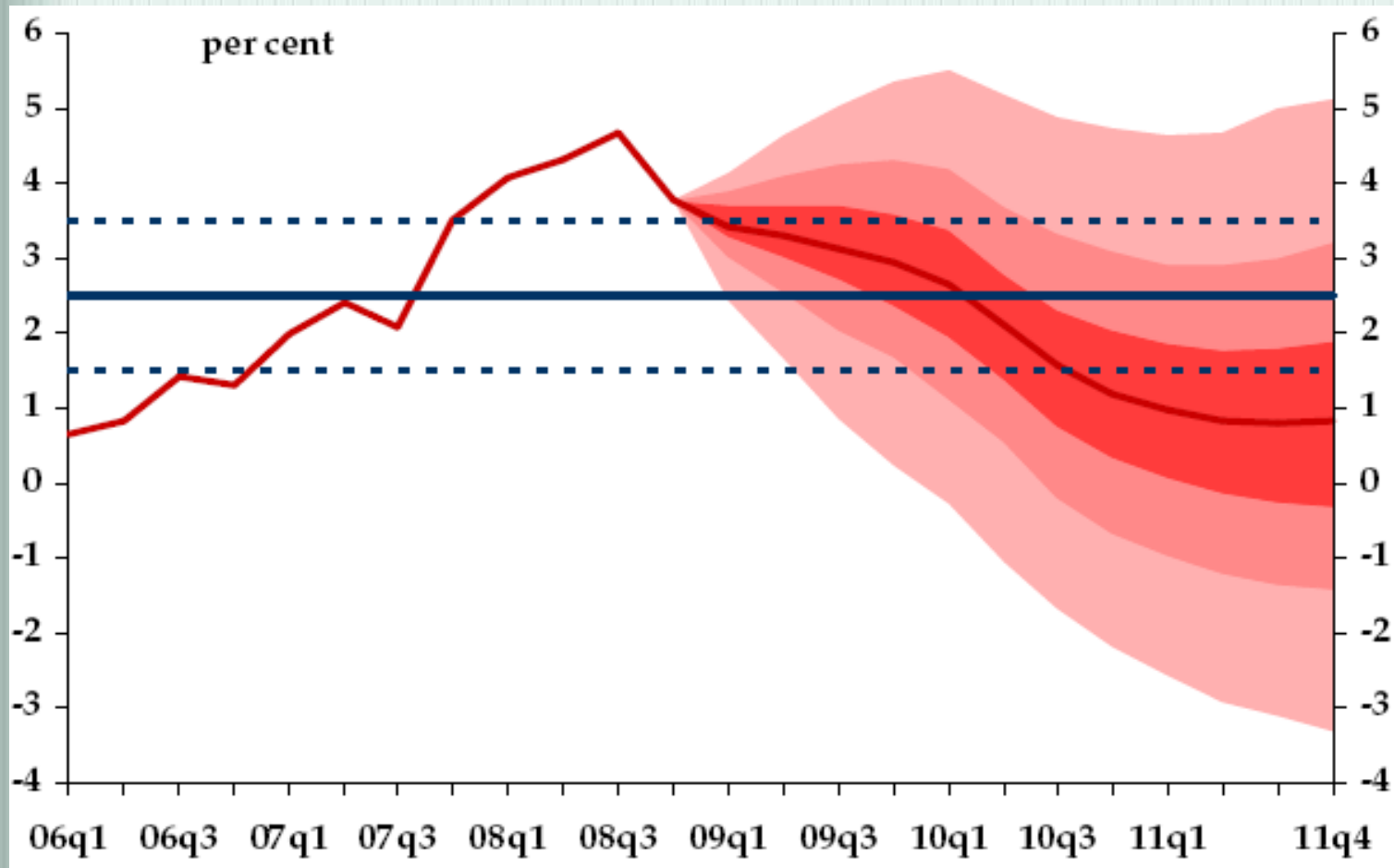
- The Government's intention to adopt the euro in 2012 is being contested by the main opposition party in the Parliament
- The opposition confirms the validity of the Accession Treaty, but does not agree with the Government's time schedule
- The opposition, as well as the President of the Republic, stress the need of stronger real convergence before adopting the common currency
- Without opposition's support, the required change of the Polish Constitution impossible

## The Maastricht price stability (inflation) criterion



## Will Poland be able to meet the inflation criterion in the near future in a sustainable way?

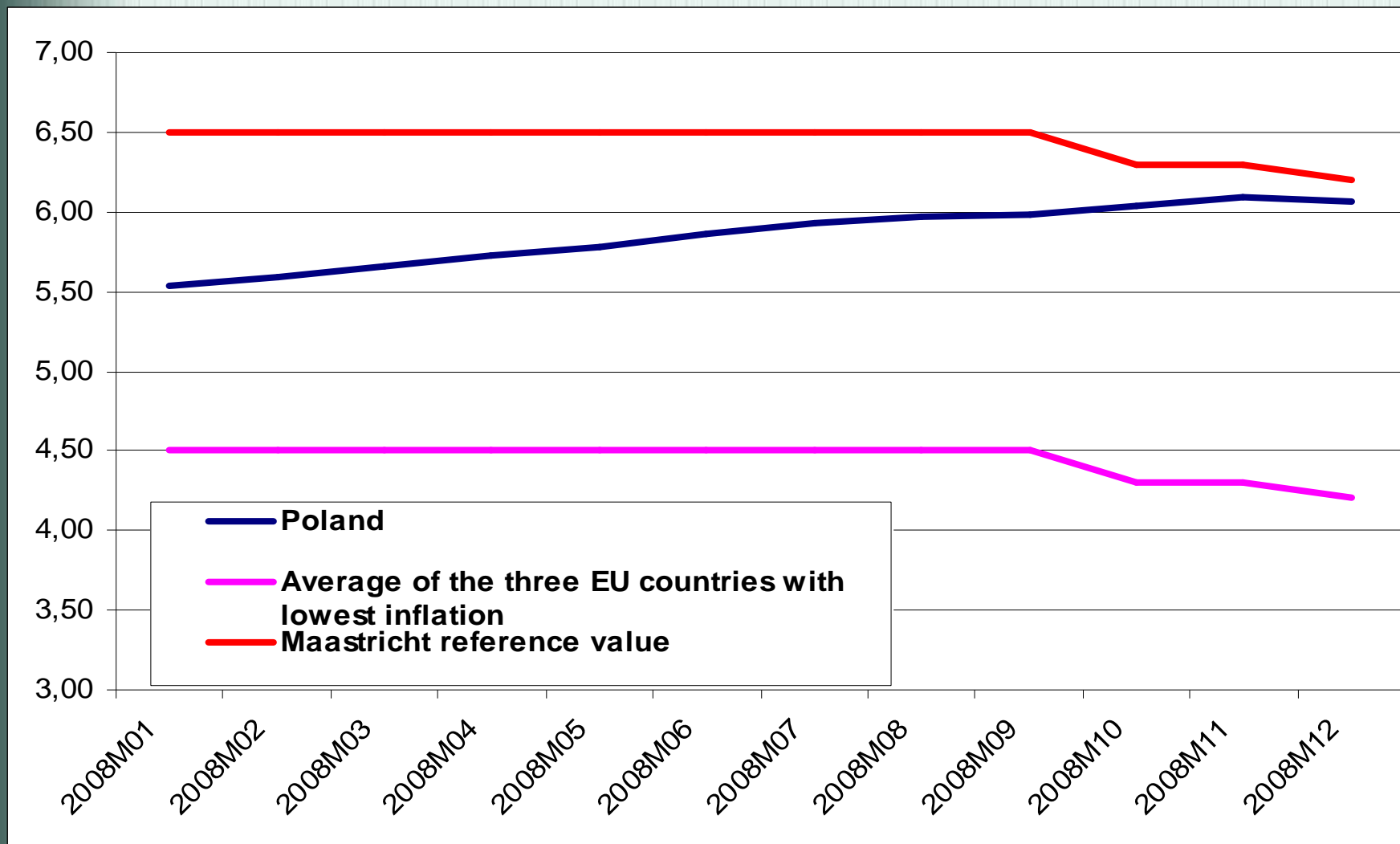
NBP inflation projection (February 2009):



## **Will Poland be able to meet the inflation criterion in the near future in a sustainable way?**

- The impact of the crisis on Poland's ability to meet the inflation criterion is ambiguous. The final answer will depend on the differences in inflationary processes within the EU.
- If the crisis has a milder impact on the Polish economy as compared to the euro area, then the scale of required monetary tightening may be relatively higher.

## The Maastricht long-term interest rate criterion



## **Will Poland be able to meet the long-term interest rate criterion in the near future in a sustainable way?**

- The criterion has been met over last years, but in the second half of 2008 the difference between Polish interest rate and the reference value has decreased.
- In the longer run the risk of non-fulfilment relatively low. This risk could materialise if there was a significant deepening of the financial crisis or a considerable deterioration in the fiscal situation.

## The Maastricht fiscal deficit criterion

General government balance (end of year, % of GDP):

	Reference value	General government balance
2006	-3.0	<b>-3.8</b>
2007	-3.0	-2.0
2008	-3.0	-2.7
2009	-3.0	-2.5
2010	-3.0	-2.3
2011	-3.0	-1.9

Source: *Poland's Convergence Programme, Update 2008, December 2008.*

## **Will Poland be able to meet the fiscal deficit criterion in the near future in a sustainable way?**

- According to the European Commission's forecasts of January 2009 Poland's budget deficit in 2009 and 2010 will breach the reference value: 3,6% of GDP and 3,5% of GDP respectively – the criterion may not be met, if policy does not change;
- Current estimated level of structural deficit (2,5% of GDP) deviates from the Medium-Term Objective (1% of GDP) – lack of fiscal consolidation may pose a threat for the sustainability of fulfilment in the future;
- On the other hand determination to meet the criterion under current economic circumstances may lead to procyclical tightening and subsequently additional costs for the real economy.

## The Maastricht public debt criterion

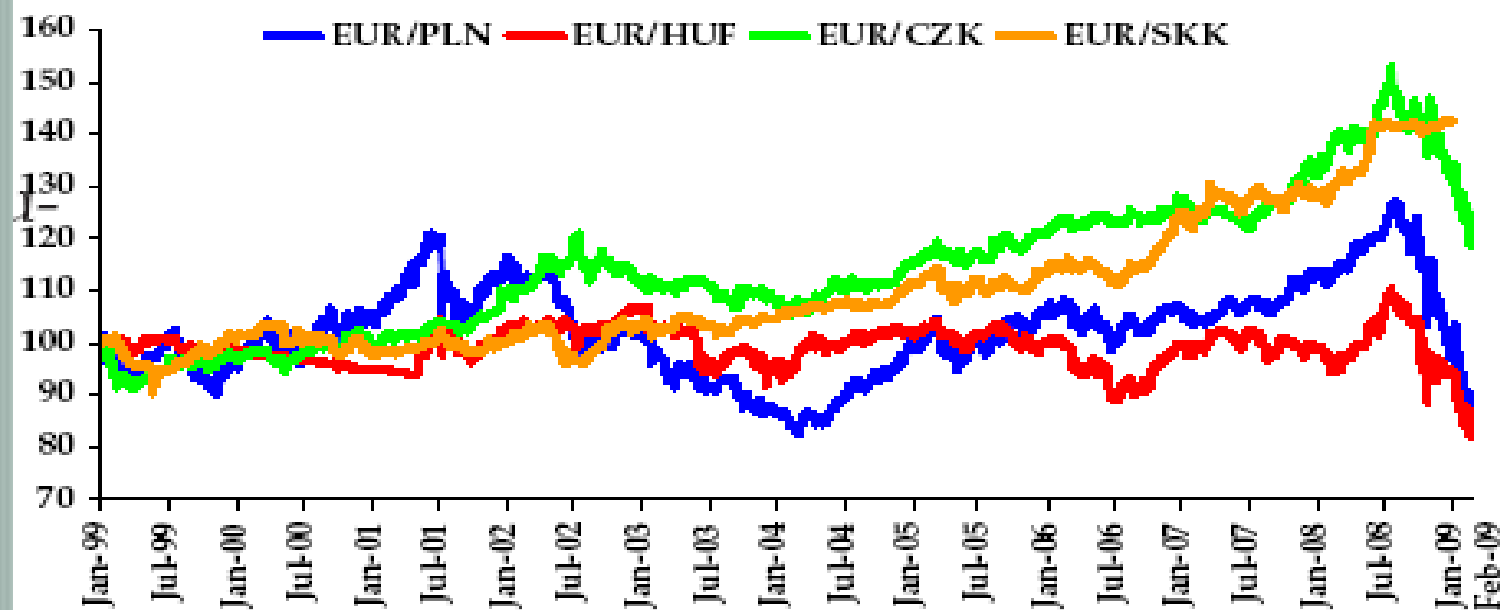
General government debt (end of year, % of GDP):

	<b>Reference value</b>	<b>General government debt</b>
2006	60.0	47.6
2007	60.0	44.9
2008	60.0	45.9
2009	60.0	45.8
2010	60.0	45.5
2011	60.0	44.8

Source: *Poland's Convergence Programme, Update 2008, December 2008.*

## What about the exchange rate stability? Poland has not entered the ERM II...

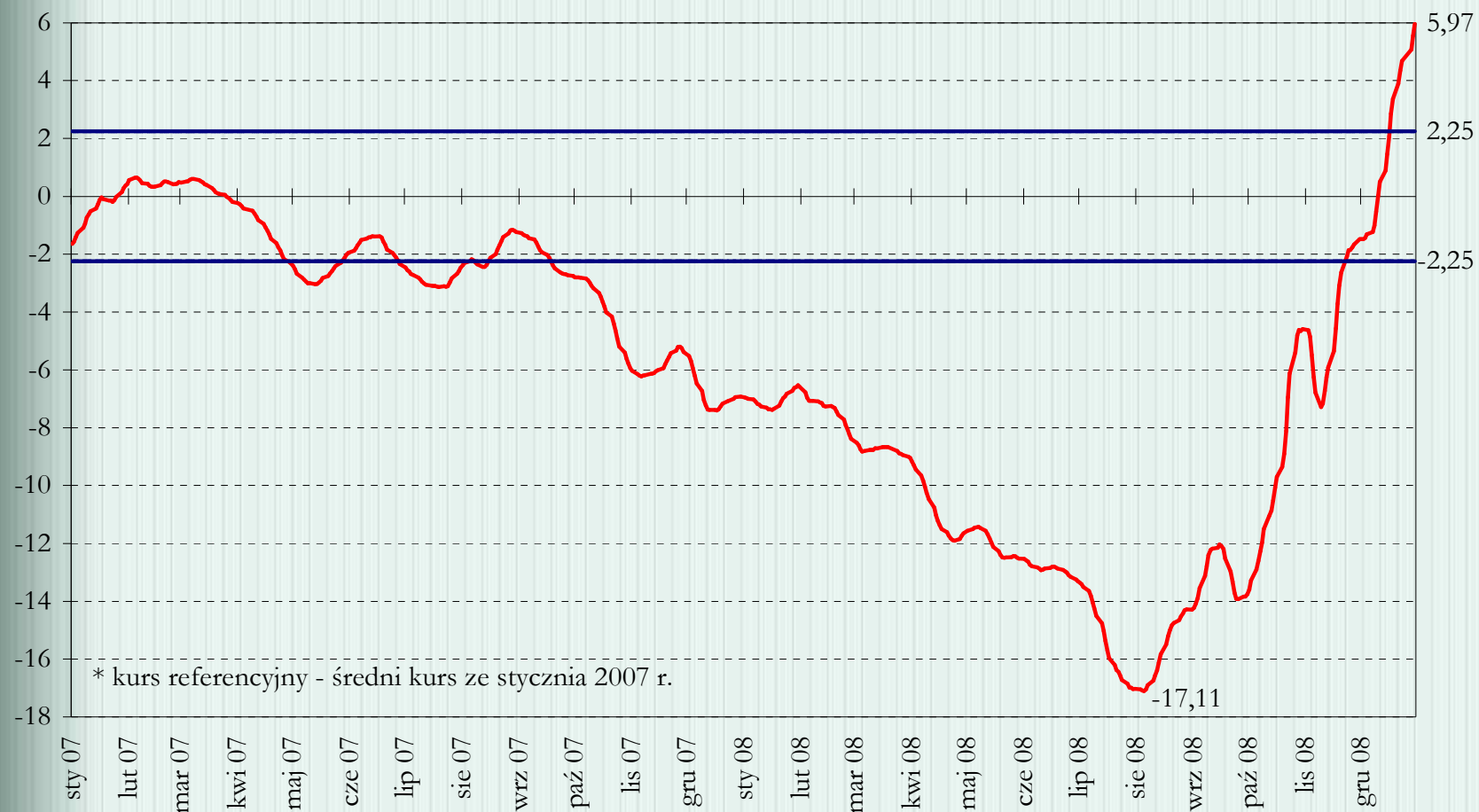
Nominal exchange rates of CEE-4 currencies against the euro (increase denotes appreciation).



Source: EcoWin data

## PLN/EUR rate variation from the avge Jan 2007 rate

Odchylenie kursu PLN/EUR od kursu referencyjnego\* (w %)



Source: Ministry of Finance

## **Would Poland be able to meet the exchange rate stability criterion in the near future in a sustainable way?**

- Volatility of the exchange rate of złoty over last months would complicate setting the central parity rate when entering the ERM II.
- Financial crisis (drying up of liquidity) leads to a higher volatility of the exchange rate. This in turn may adversely affect the ability to fulfil the criterion in the future

## Does Poland meet the legal convergence condition?

### Deficits of legal convergence –

In accordance with *The Convergence Reports 2008* of the ECB and the EC: the Polish legislation is not fully compatible the EC Treaty and the ESCB/ECB Statute

- **Areas of incompatibility:**
  - the independence of the central bank
  - the prohibition of monetary financing
  - the objectives of the monetary policy
- **Main regulations to be adjusted:**
  - the Constitution of Poland
  - the Act on the National Bank of Poland

## Concluding remarks

- **Poland is obliged to adopt the euro in future**
- **As the NBP report shows, in the long run benefits should outweigh costs**
- **Deep reflection on choosing an appropriate moment to enter ERM II is needed – the current crisis does not provide a good environment**
- **An important issue in preparing the economy and the society to adopting euro is to build a national consensus to ensure that the process is introduced efficiently and to minimize possible tensions. A consensus on changing the Constitution seems indispensable, if one wishes to minimize the risk of staying inside ERM II for too long**
- **Structural and fiscal reforms necessary in order to improve Poland's international competitiveness and the elasticity of shock-absorbing mechanisms. These reforms should help to make the euro adoption a successful story**