Marta Götz[*]
Bartłomiej E. Nowak[**]
Witold M. Orłowski[***]

Poland and the Euro Zone. Three Possible Scenarios and Their Consequences

Abstract

The Euro zone has undergone profound institutional changes since the occurrence of its 2010 crisis. The EU countries which, due to different reasons, have not entered to the EMU, must rethink their calculus. Standard economic analysis should be now supplemented with political-institutional dimension. Under these circumstances the article sketches three possible scenarios for Poland, which should be taken into account by decision-makers: (a) fast accession to the euro zone. (b) laggard 'fence sitting', and (c) 'shutting the door'. Each of them raises important economic and politico-institutional consequences. The text argues that in overall assessment, the longer the accession to the euro area is delayed, the stronger the risk of Poland's peripherization in the EU. Therefore the comprehensive analysis of costs and benefits under new circumstances should be done fast.

Key words: Euro Zone, EMU, European Integration

Introduction

Membership in the Euro area is one of Poland's obligation having its roots in the Accession Treaty of 2003. Legally, it should only be the question 'when', not 'whether' to join the Euro zone. However, things are more complicated due to number of factors which have happened since 2004 EU enlargement. The Euro zone financial crisis of 2010 has revealed some evident fallacies of incomplete setup of the monetary union in Europe. Since that time the Euro zone countries made a number

[*] Prof. **Marta Götz**, – Vistula University, e-mail: m.gotz@vistula.edu.pl.
[**] **Bartłomiej E. Nowak**, Ph.D. – Vistula University, e-mail: info@barteknowak.eu.
[***] Prof. **Witold M. Orłowski** – Vistula University, e-mail: w.orlowski@vistula.edu.pl.

of far-reaching steps in order to build not only more resilient and up-to-date Economic and Monetary Union (EMU), but also to complete it with the missing political dimension. In the same time Polish public opinion remains skeptical towards the entry to the Euro area. Political elites are also divided – the key factor taking into account the demand to change Poland's constitution before eventual Euro accession.

For Poland each decision raises important implications. While thinking about the Euro zone, she must reassess both economic and political consequences. In this article we argue why it is so important to take into consideration these factors equally, what measures should Poland apply for her scenario-building exercise and what are their likely consequences. We introduce three options for future decision-makers: (a) fast accession to the euro zone; (b) laggard 'fence-sitting'; (c) 'shutting the door'. It is not the intention of the authors to state their support towards any of these scenarios. However, we conclude by saying that in-deep reevaluation of consequences of Poland's entry to the euro area, and subsequent decision should be made fast due to increasing role of political factors within the calculus.

Point of Departure: The EU and Poland Baseline Scenario

The Euro zone has undergone the crisis, which by many politicians was defined as 'existential' for the EU. Rightly or wrongly, if the euro zone had failed, that would be mortal for European integration – the argument implied. Today the Euro zone is miles away from the crisis years. It is characterized by moderate economic growth which seems to be resilient and sustainable. All bail-out countries, including Greece, had successfully completed their programs and are well on the way to recover, though their debt level is still high. Most importantly, the institutional architecture of the euro area has made a qualitative great leap forward. With hindsight of time, the post-crisis building of institutions, which happened within less than decade and without any treaty reform (or rather 'in the shadow of treaties') introduces rather an impressive picture. The Economic and Monetary Union (EMU) today is significantly different project than the one Poland promised to accede when she signed the Accession Treaty to the EU. It is today supplemented not only with new set of wide-raging regulations on economic governance of the EU, but also built up with additional set of institutions: the Banking Union, European Stability Mechanism, the Capital Market Union (currently under preparation), and the Union of Social Standards, that is already high on the future agenda. Taken together, we call it 'complex integration project', which is the biggest undertaking since introduction of the Single Market.[1] Later in the text we argue why the entry to this project bears profound political implications.

The process of the euro zone reform is ongoing, it is yet far from completed, and there are different options on the table. In the subsequent paragraphs we shortly sketch them, having in mind that there are many practical difficulties enmeshed in the process, the need for change of the treaty not being the last one. There are divergent visions among the main actors in the process. Although the speed, depth and scope of the reform may be – and is – the point of contention, nonetheless, there is little doubt that the direction towards deeper and stronger integration of the euro area seem to be one-way avenue. Even the differing Franco-German visions are recently coming much closer to one another.[2]

We draw this conclusion from the major documents which pave the way for euro area reform. All of them are characterized by a very complex and holistic approach. Obviously, it must be taken into account that the EU decision making-process is long and usually the lowest common denominator prevails. The political dynamic has its ups and downs, and can disappear when the crisis is not on the horizon. Obviously, one cannot take for granted what has been literally written in the documents. But worth mentioning is the level of general consensus among the key institutional players in the game, which creates some sort of 'path-dependency'.

The major document, the so-called 'Report of Five Presidents', introduced the reform of the euro zone in four key areas: economic union, financial, fiscal and political.[3] The political union is here considered as democratic accountability and legitimacy to act. The reform should be fully implemented until 2025. The report underlines that in order to achieve success, the EMU needs even more community decision-making and sharing of sovereignty, including joint decision-making on part of national budgets and national economic policies. The budget of the euro area and increased role of the European Parliament, according to the report, should also be on the table.

[1] J. Barcz, *Reforma strefy euro Unii Europejskiej. Na drodze do sanacji i konsolidacji*, (*The Reform of the Euro Zone of the European Union. On the Road to Sanation and Consolidation*), Elipsa, Warszawa 2013.

[2] See a common view by fifteen leading economists from Germany and France: A. Bénassy-Quéré, M. Brunnermeier, H. Enderlein, E. Farhi, M. Fratzscher, C. Fuest, P-O. Gourinchas, P. Martin, J. Pisani-Ferry, H. Rey, I. Schanbel, N. Véron, B. Weder di Mauro, J. Zettelmeyer, *Reconciling Risk Sharing with Market Discipline: A Constructive Approach to Euro Area Reform*, Policy Insight no. 91, January 2018.

[3] J-C. Juncker, D. Tusk, J. Dijsselbloem, M. Draghi, M. Schultz, *Completing Europe's Economic and Monetary Union*, European Commission, Brussels, 22.06.2015.

Similarly complex approach is presented in the reflection paper of the European Commission on the EMU deepening,[4] which was a follow up to the Commission's *White Paper on the Future of Europe*.[5] The report introduces four possible rules governing the EMU's deepening:

a) jobs, growth, social justice, economic convergence and financial stability;
b) accountability and solidarity, risk reduction and sharing;
c) openness for all EU members;
d) transparent, democratic and accountable decision-making.

The paper mentions both the euro area budget and strengthening the role of the European Parliament, so there is no point of contention with the 'Report of Five Presidents'. Additionally, it envisages creation of the EMU's minister of finance, including his/her chairmanship in the Eurogroup, and the single euro zone representation in the IMF. The paper reminds that according to the EU law, the euro should be the currency of all EU members except those who have legal opt-outs.

This view, which is not popular among Euro area non-members, was referred to by the president of the European Commission, Jean-Claude Juncker in his annual *State of the Union* speech. He has introduced it as the so-called 'six scenario', an addition to options which have been mentioned in the *White Paper*. Juncker again takes the euro zone as an ultimate aim of all EU member states. He is giving a helping hand to euro-area non-members by introducing the idea of pre-accession facility, including financial aid. Juncker thinks holistically as he considers the euro area as essentially linked to the single market, which should be supplemented by the social pillar with the so-called *Union for Social Standards* in the future, and the community decision-making in areas of tax base and financial transaction tax. According to him, the European Stability Mechanism should be replaced by the European Monetary Fund (EMF) while the Vice-President of the European Commission, responsible for economic and financial issues, should chair the Eurogroup and become EU Minister of Economy and Finance.[6]

After some disputes between key euro-area member states, the European Commission has officially proposed these ideas in its official com-

[4] European Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union*, European Commission, Brussels 2017.

[5] European Commission, *White Paper on the Future of Europe. Reflections and Scenarios for the EU27 by 2025*, COM(2017) 2025, Brussels, 1.03.2017.

[6] J-C. Juncker, *State of the Union Address 2017*, Brussels 13.09.2017, http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm (last visited 4.05.2018).

munication. The European Monetary Fund would replace the European Stability Mechanism and provide the common backstop to the Single Resolution Fund, which completes the Banking Union with its missing second pillar. The creation of European Minister of Economy and Finance will take place through merging of aforementioned positions from autumn 2019, when the new college of commissioners is finally elected.[7]

The names are rather symbolic and they do not radically change reality as one could expect from creation of a European Monetary Fund and a European minister. Clearly, this will not be a watershed moment. Nevertheless, these are important steps on the way to build the union (monetary) within the Union and thus to change the dynamics of European integration. The whole rationale of above proposals evidently tends to concentrate the power, energy and center of decision-making within the European Union on the euro zone countries. Both the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, which complements the EU fiscal framework and was signed by 25 EU countries, and the EMF, are or will be intergovernmental treaties. Although they are aimed to be incorporated into the EU law, there is little doubt that if – hypothetically – in the future the non-euro area countries are not committed to further integration, they will be simply left aside by another intergovernmental treaty.

For them the only good news is that the anticipated separate budget of the euro area within the new post-2020 Multiannual Financial Framework, has not been materialized. No doubt, this step would mean real institutionalization of a 'multi-speed Europe'. Although it is point of contention what form and aims should such a budget have and with what tempo the reform shall be pushed,[8] few doubts that the further steps will be taken.

The euro zone has always been creating a *de facto* multi speed Europe with different governance systems within the EU. Insofar as it is possible, the relation between 'ins' and 'outs' has always been carefully kept open and on a fair footing. But EU decision-makers are aware that it is no longer possible to keep that distance at relatively small level. "A sin-

[7] European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank. Further Steps Towards Completing Europe's Economic and Monetary Union: a Roadmap*, COM (2017) 821, Brussels, 6.12.2017.

[8] See for example: S. Płóciennik, *Macron must wait: Germany's Caution Towards Rapid EU Reform*, PISM Bulletin no. 67 (1138), The Polish Institute of International Affairs, 10.05.2018; *Three Visions, One Direction. Plans for the Future of Europe as laid out in President Juncker's State of the Union, President Macron's Initiative for Europe, and Chancellor Merkel's Plans for European Reform*, European Political Strategy Centre, Brussels, May 2018.

gle financial market should have one set of rules and all market participants should be able to operate freely within it. Yet that is not the case at present", and it prevents deep financial integration, as the ECB President Mario Draghi noted recently.[9] Within the last years there was growing differentiation and concentration of decision making in the Euro zone. There is an ever growing role of the so-called Eurogroup, an informal body of ministers coming from euro area countries. With the peak of economic crisis it started to take over the leadership of EU actions, while the rest (for example ECOFIN – Economic and Financial Affairs Council) had to follow. It was despite the fact that the Eurogroup is neither EU institution, nor it does have decision-making powers. Furthermore, it became apparent there were many situations in which the formal EU institutions – both the Council, Commission and the Parliament – had to take decisions that would only relate to the euro zone members. Such differentiation can create many tensions for the entire European integration process, as it leads to dual economic governance regime[10] or two-tier common market (closer for 'ins', looser for 'outs').[11] Nonetheless, both from theoretical standpoint and from pure practicality, the euro zone budget started to be seen as being a matter of time. The avoidance of this scenario in the next EU multiannual financial framework does not deny, that the groundwork has already been done practically. There are two new instruments proposed by the European Commission:[12]

(a) a Reform Support Programme of 25 billion EUR that will offer financial and technical support for countries undergoing structural reforms; within this Programme, a Convergence Facility will be created to support non-euro area members to join the euro zone;
(b) a European Investment Stabilisation Function of up to 30 billion EUR aimed at counteracting large asymmetric shocks of euro zone members economies.

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[9] M. Draghi, *Risk-reducing and risk-sharing in our Monetary Union*, Speech at the European University Institute, Florence, 11.05.2018.

[10] M. Dabrowski, *Euro-area Enlargement. A New Opening*, Bruegel Blog, 2.11.2017, http://bruegel.org/2017/11/euro-area-enlargement-a-new-opening (last visited 12.08.2018).

[11] A. Sapir, G.B. Wolff, *One Market, Two Monies. European Union and the United Kingdom*, Breugel Policy Brief 2016/01, http://bruegel.org/wp-content/uploads/2016/01/pb-2016_01.pdf (last visited 12.08.2018).

[12] European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, and the Committee of Regions. A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021–2027*, COM(2018) 321, Brussels, 2.5.2018.

Although the finance directed separately to the euro zone is not a large sum of money, nonetheless the entire philosophy behind creation of a new long-term budget suggests that sooner or later it will offer a smooth leeway for euro zone budget down the road. It has already been proposed by France and Germany in their joint statement on the future of reform in the EU. It is aimed to "promote competitiveness, convergence and stabilization", and invest in innovation and human capital. The so-called *Meseberg Declaration* does not specify whether the euro zone budget should be within the framework of EU new multiannual financial perspective or additional to it. However it is clear, that the two budgets should exist simultaneously.[13] All the official or non-official positions of countries or institutions underline the need for inclusive and open format of the EMU.[14] But for potential euro area members it is becomes apparent that the longer the process takes, the more difficult it is due to exponential grow of 'euro zone *acquis*' and set of new institutions. There will be no cherry-picking of which euro zone institutions the candidate wants to join. Furthermore, the experience of Bulgaria shows, that the invitation to the euro zone club is not automatic. It is issued first by the Eurogroup so it may become a matter of political decision, not just macroeconomic criteria. Admission to the ERM2 'waiting room' may also come with strings attached. For example, the European Commission wanted Bulgaria to join the Banking Union before entry to the ERM2. But the European Central Bank's position was reluctant as it had objections to the condition of banking sector in Bulgaria. Additionally, discrepancy in living standards (GDP per capita) between Bulgaria and average in the EU had become the problem although it is not an ERM2 criterion.[15]

[13] *Meseberg Declaration. Renewing Europe's promises of security and prosperity*, The Press and Information Office of the Federal Government, no. 214/2018, 19.06.2018 (last visited 14.08.2018).

[14] For the EU institutions it is principle to keep the EU cohesive. But countries also uphold that assumption. See both the *Meseberg Declaration* and the non-paper by Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden: *European Finance Ministers Joint Statement on the Development of the Economic and Monetary Union*, 6.03.2018, https://valtioneuvosto.fi/en/article/-/asset_publisher/10623/valtiovarainministerien-yhteiskannanotto-euroopan-talous-ja-rahaliiton-kehittamisesta (last visited 14.08.2018).

[15] *Bulgaria to launch joint application to euro waiting room and Banking Union*, Euractiv, 14.06.2018, https://www.euractiv.com/section/central-europe/news/bulgaria-to-launch-joint-application-to-euro-waiting-room-and-banking-union (last visited 14.06.2018).

All in all, we conclude that not being a member of the euro zone will become politically and economically less and less viable. The overwhelming dynamics, the center of power and the concentration of the EU resources will be increasingly taking place in the euro zone. The so-called 'Brexit' will additionally and profoundly change the EU geographic economy. After Britain's withdrawal from the European Union, 85% of whole EU GDP will belong to the euro zone countries. There will be no Great Britain able to defend the rights of 'outs' in decision-making process anymore.

The political significance of the euro zone for non-member countries can therefore be defined as participation (or not) in an advanced, grand and complex integration project that is underpinned by comprehensive set of institutions and that is well on the way to a political union. Remaining out of it will result in continuous marginalization of an 'out' country. Therefore the economic calculus based simply on monetary integration, must be rethought and supplemented with the political dimension.

Having in mind the need for such a complex reassessment, we sketch below three different scenarios and their likely consequences for Poland. The baseline assumptions are the following:

- Post-crisis stabilization, slow but sustainable economic grow in the euro zone.
- No single country withdraws from the euro zone. The enlargement of the euro zone is continuing and the subsequent countries will join or declare their wish to join. There will be no pressure on accession for non-euro area members, but *de facto* they will be systematically marginalized.
- Further strengthening of euro zone governance (the Banking Union, regulation of financial sector, effective fiscal discipline).
- Continuously increasing separation of euro zone budget at the expense of overall EU budget.
- Likely emission of low-interest Eurobonds, which will serve past debt restructuring, particularly of the countries which consequently comply with the fiscal policy rules.
- The institutionalization of 'complex integration project' of Euro zone is creating the 'hard core' of the EU. The non-members are almost excluded from decision-making in the euro-zone and – consequently – in economic and budgetary policies.

Scenario Building[16]

Fast accession to the euro zone

Economically, first and foremost, this scenario demands fulfilling the nominal Maastricht criteria including attendance in the ERM II for two years or introduction of the currency board. According to the recent ECB *Convergence Report*, Poland is well on the way to fulfill almost all the Maastricht criteria (except participation in the ERM II). It only slightly exceeds the interest rate criterion.[17] Many experts agree that it would be advantageous to remodel the ERM II including shortening the two year period due to risk of speculative attacks and potential costs of defense of the Polish zloty,[18] however chances for this kind of change are currently minimal. After the case of Greece there will not be lessening of criteria for EMU entrance, quite the contrary.

There are many potential economic advantages from accession to the euro zone. They are already well described in the existing literature.[19] In short: it reduces the costs of exchange rate (80% of Polish trade is accounted in EUR) and currency volatility. It would allow Polish companies for much stronger engagement in the supply chain of the core economic centre of Europe and larger benefits from the economy of scale – an important challenge and obstacle for domestic firms on their way to grow.[20]

[16] This part of article is partly based on earlier author's work published under the auspices of one of pro-European NGOs: G. Gorzelak, M. Götz, B.E. Nowak, A. Nowak -Far, W.M. Orłowski, *Co Dalej z Euro? Trzy Scenariusze dla Polski*, (*What's Next with Euro? Three Scenarios for Poland*), Polish Robert Schuman Foundation, Warsaw 2017.

[17] European Central Bank, *Convergence Report*, May 2018, https://www.ecb.europa.eu/pub/pdf/conrep/ecb.cr201805.pl.pdf?d9bdfc0cb29364a6aedb102a02457b47 (last visited 30.06.2018).

[18] P. Engler, M. Rieth, *Euro für alle: Viele Kandidaten erfüllen die Kriterien, es sieht derzeit aber nicht nach einem Beitritt aus*, DIW aktuell, 5.10.2017, http://www.diw.de/de/diw_01.c.566050.de/presse/diw_aktuell/euro_fuer_alle_viele_kandidaten_erfuellen_die_kriterien_es_sieht_derzeit_aber_nicht_nach_einem_beitritt_aus.html (last visited 12.03.2018).

[19] See for example: W. Orłowski, *Optymalna ścieżka do euro*, (*The Optimal Path to Euro*), Wydawnictwo Naukowe Scholar, Warszawa 2004; *Raport na temat korzyści i kosztów przystąpienia Polski do strefy euro* (*Report on the Benefits and Costs of Poland's Accession to the Euro Zone)*, Narodowy Bank Polski, Warszawa 2004; *Wprowadzenie euro w Polsce – za i przeciw* (*Implementation of Euro in Poland – For and Against)*, Wydawnictwo Sejmowe, Warszawa 2013; J. Gałuszka, *The Fiscal Union as a Remedy For the Economic and Financial Crisis in the European Union*, „Equilibrium. Quarterly Journal of Economics and Economic Policy", no. 1/2013.

[20] I. Morawski, *Mitteleuropa rośnie jak na drożdżach (Mitteleuropa Grows Like Yeast)*, 23.05.2017, http://www.obserwatorfinansowy.pl/tematyka/makroekonomia/mitteleu-

Euro zone accession would be an important encouragement for foreign investments. It may trigger the change of investment's profile towards more technological advancement and human capital related, instead of low-cost and cheap labor force model.[21] On the side of Polish companies it will offer them much better access to capital market of the euro area.

The economic downside of the fast accession to the euro zone is obviously the loss of national monetary policy and potentially costly consequences of lack of discipline in public finance (although one has to admit that these consequences are always costly). In the euro zone national policy-makers must avoid irresponsible economic policy in order not to follow-up the "trap of the Southern countries".[22] National economy must be really competitive already before the accession. The structural reforms must continue and make the labor and product markets flexible enough so as to absorb potential asymmetric shocks in future. Poland will have to be ready to participate financially in the EMF and join the other institutions, like the Banking Union, or participate in projects such as the Union for Social Standards. Polish National Central Bank (NBP) will be deprived of revenues from emission of currency. Setting the appropriate exchange rate of Polish zloty to the EUR will also be of paramount importance and will have long-term consequences for Poland's competitiveness.

In the economic-politico nexus, fast euro zone accession can trigger the needed economic reforms and to some extent play the role similar to that of 2004 'enlargement *acquis*', i.e. disciplining national political elites in their struggles for reform. It will give a more solid economic-politico anchor. Stronger political stability and institutional robustness create conducive environment for foreign investments.[23] Even the announcement

ropa-rosnie-jak-na-drozdzach (last visited 27.04.2018); M. Bukowski, A. Śniegocki, *Made in Europe: polityka przemysłowa wobec wyzwań XXI wieku (Made in Europe: Industrial Policy in the Face of the Challenges of the 21st Century)*, 24.04.2017, http://wise-europa.eu/2017/04/24/made-in-europe (last visited 27.04.2018); *Remaking Europe: the new manufacturing as an engine for growth*, ed. R. Veugelers, Bruegel Blueprint Series Volume XXVI, 2017, http://bruegel.org/wp-content/uploads/2017/09/Remaking_Europe_blueprint.pdf (last visited 18.03.2018).

[21] See: M. Gorynia, B. Jankowska, *Wpływ przystąpienia Polski do strefy euro na międzynarodową konkurencyjność i internacjonalizację polskich przedsiębiorstw (Impact of Poland's Accession to the Euro Zone on the International Competitiveness and Internationalization of Polish Enterprises)*, Difin, Warszawa 2011; D. Acemoglu, S. Johnson, *Unbundling Institutions*, "Journal of Political Economy", no. 113(5)/2005; E. Moretti, *The New Geography of Jobs*, Mariner Books, Boston–New York 2013.

[22] This possibility has been significantly reduced in the last years due to the reform of economic governance in the euro zone.

[23] See: M. Busse, C. Hefeker, *Political risk, institutions and foreign direct investment*, "HWWA Discussion Papers", no. 315/2005; G. Jackson, R. Deeg, *Comparing capita-*

of intention to join the euro zone by Polish government would strongly accelerate credibility and bargaining power in the EU negotiations. It will have implications in set of EU economic policies, including multiannual financial perspective, regional policy and structural funds, and most of all, participation in designing euro zone future reforms.

Worth remembering, the accession to the Euro zone may take much more time than in previous cases as it is also about accession to the new institutional setting. It must thus be much more comprehensive in scope. Realistically, with due preparations it may take not less than five years. Not least important is the domestic political obstacle coming from the demand to change the Polish Constitution in order to achieve legal compliance before the membership in the euro zone. It would need to secure 2/3 majority in the Parliament, which in foreseeable future will be missing. In the past there was already unsuccessful attempt, which failed even despite a very conducive political setting.[24] Undoubtedly, this decision must be the result of a large consensus among political elites. Otherwise it will remain the veto point without real chances to be overcome in parliamentary vote.

Laggard 'Fence-sitting'

This laggard scenario reflects the current state of affairs. As Dandashly and Verdun argue, this situation has happened partly by default and partly by choice.[25] It is mainly caused by domestic political factors: negative public opinion mood, veto points within the political system and general skepticism of political elites who abandoned the institutional preparation.[26] The public perception is still based on some economic myths coming yet from the time of eurozone crisis.[27]

lisms: Understanding institutional diversity and its implications for international business, "Journal of International Business Studies", no. 39(4), pp. 540–561; M. Brahim, S. Dupuch, *Foreign direct investments in Europe: are the East-West differences still so noticeable?*, "European Journal of Comparative Economics", no. 13(1)/2016, pp. 37–61.

24 The governing Civic Platform (PO) owned both the government (in coalition with PSL party) and the post of President of Poland although it lacked constitutional majority.

25 A. Dandashly, A. Verdun, *Euro adoption in the Czech Republic, Hungary and Poland: Laggards by Default and Laggards by Choice*, "Comparative European Politics" online publication, February 2016, https://link-springer-com.ezproxy.eui.eu/article/10.1057/cep.2015.46 (last visited 17.05.2018).

26 A. Dandashly, *The Political Impediments to Euro Adoption in Poland*, "Problems of Post-Communism", vol. 62, no. 5/2015, pp. 287–298.

27 D. Rosati, *Więcej Faktów w Dyskusji o Euro (More Facts in Discussion on Euro)*, „Rzeczpospolita", 12.03.2018.

Legally Poland is subject to temporary derogation from euro zone membership. However the lack of will by Polish government to determine the date of abandoning derogation, does not trigger any legal consequences.

Even the support of Polish National Central Bank (NBP) has been constantly waning,[28] up to the point when it ostentatiously closed down the Office for Euro Area Integration. Additionally, the Ministry of Finance has abolished the Plenipotentiary for Euro Area integration. Continuing this scenario means that Poland postpones the treaty obligation to join the euro zone into indeterminable future. There is no formal power on the side of EU institutions to enforce compliance. No one can imagine that Poland is taken to the Court of Justice of the EU for non-compliance with treaty obligation on that issue. Nonetheless there are number of informal triggers that may push countries like Poland into disadvantageous position. Taking into account Brexit and potential future euro zone enlargements, over time Poland will be increasingly marginalized in the EU. It will not be participating in ongoing advancement of euro zone complex institutional architecture, which will be followed by incremental concentration of funds in the countries of euro area. In fact, the EU budget will be increasingly projected as the budget for Euro area plus laggard countries, not the other way around. In consequence it will be focusing on the needs of Euro area members. The non-members will be on defensive and they will have to adjust. It will not be possible anymore to keep euro zone inclusive and non-discriminatory, which was Polish postulate for years.[29] As a result, Poland's bargaining power in the EU will diminish in range of economic policies. In few years time, the access to the euro zone will be even more difficult and demanding for Poland as the distance to catch up will be larger.

Poland will also have to take into account the missed opportunities from the entry to the euro zone in time of greater political and economic uncertainty. The EU and US may undergo a period of economic and political tensions under President Trump administration, while in the same time the EU will be more exposed to Chinese competition and thus it can become more protective. The idea of *l' Europe qui protégé*[30] and the social

[28] R. Riedel, *The evolution of the Polsih central bank's views on Eurozone membership*, "Post-Communist Economies", vol. 29, no. 1/2017, pp. 106–116.

[29] Particularly during the negotiation on the so-called 'six pack' which aimed to improve economic governance of the EU. Poland was holding the EU Council presidency that time.

[30] See: M. Leonard, *L' Europe Qui Protège: Conceiving the Next European Union*, European Council of foreign Relations, August 2017, http://www.ecfr.eu/page/-/LEUROPE_QUI_PROTEGE_%28ENG%29.pdf (last visited 14.08.2018).

turn in EU polices can pose a real challenge for economies like Poland, who compete yet on low-cost model. Staying out of the euro zone, Poland's argument will not gain strength in the debate of great importance for the EU internal market. The quarrel on 'posted' workers directive was already a good evidence and Polish view did not play a role in stopping unfavorable reforms.

The 'fence-sitting' scenario will also lessen the pressure for structural reforms in Poland, both on the labor market and in terms of inducements for abandoning the low-cost competitive edge. In the same time Poland will bear higher costs for access to the capital and transaction costs due to currency exchange. The open question is to what extent the still catching-up economy of Poland will be reducing the distance to the EU average in such a changed euro zone – centered EU?

'Shutting the Door'

The most immediate consequences of 'shutting the door' scenario would be the need to renegotiate Poland's accession treaty to the EU, with the ultimate aim to achieve an 'opt-out' from the euro area. This kind of negotiations would almost certainly trigger political dynamic, both on the national and European level, of which the consequences are difficult to predict. Domestically, it would cause a political backlash, in which Polish membership in the EU would be at stake

The negotiations will be costly for Poland and it would probably result in number of concessions, mostly connected to the EU budget. The geopolitical position of Poland would change negatively, taking into account the Brexit and likely accession to the euro zone of other non-member countries in the near future. Over time, Poland's influence over major economic decisions in the EU would suffer the most, which will contribute to feeling of being marginalized.

Under the definitive 'shutting the door' scenario the apparent freedom of maneuver to shape monetary policy and flexible exchange rate will over time result in petrifaction of the current place in global production chain if not degradation and marginalization. Poland would risk freezing her development model based on low-cost competitive edge. The labor market would most likely be characterized by a rigid wages. Poland would have higher interest rates on financial markets and it would have limited access to capital and to the solutions offered to the members of the Banking Union. It would be more and more difficult to defend Polish national currency and keep the inflation low. Poland would be then in a desperate need to define the model of development *vis-à-vis* the countries of the euro zone.

'Shutting the door' scenario will result in negative consequences for the flow of FDI due to growing uncertainty regarding future status of Poland in the EU, general lack of geopolitical safety of investments and the likely recurrence of protectionist tendency.

All in all, this scenario may result in a growing Poland's disappointment towards the EU with tremendous consequences both for Poland and for the future of the EU itself.

Conclusion and Recommendation

Overwhelming pessimism that surrounded the crisis years in the eurozone, sometimes described as existential, has subsided. The political will of European leaders towards survival of the EU had appeared decisive. Although the EU reform is frustrating and never ending venture, it is made with awareness that non-reform can be disastrous. There is solid enough bedrock to already assume that the Euro zone will develop and is/will be the core of the European Union. Poland's accession would add a great value to the Euro currency and would seat Poland in the heart of EU integrations.

Poland has already missed two chances to join the euro area. The first was immediately after her accession to the EU, in 2004–2005, when the Maastricht criteria were fulfilled. The second chance was shortly before the global financial crisis, when then-prime minister, Donald Tusk, announced the target date for accession. Later he changed his strategy due to occurrence of global and European economic crisis.

Having this in mind, Poland must profoundly reevaluate whether it wants to join the euro zone using a new set of criteria. They must contain not only economic consequences, but also political one, and include the forecast for euro zone development. If the problem is not taken on board, later may appear to be too late.

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