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Polish zloty as an instrument to support the economy in the era of coronavirus

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ABSTRACT

The article presents arguments in favour of maintaining monetary sovereignty by Poland. The author expresses the view that having Poland's own currency and its own national monetary policy helps to alleviate crisis phenomena in the economy. The article shows the positive role of the NBP in counteracting the economic crisis caused by the coronavirus epidemic. The NBP lowered interest rates to the lowest level in history and purchased debt securities. The Polish monetary and budgetary authorities managed to stop the decline in GDP and the rise in the unemployment rate. Moreover, the easing monetary policy of the NBP prevented excessive strengthening of the domestic currency against foreign currencies. As a result, the exchange rate was favourable for domestic exports.

Keywords: interest rates, central banks, monetary policy, debt securities, Poland.

1. Introduction

The aim of the article is to present arguments in favour of maintaining the Polish zloty and its own monetary policy by our country. The article expresses the view that having Poland's own currency and its own national monetary policy helps to alleviate crisis phenomena in the economy. The article highlights the positive role of the NBP in mitigating the economic crisis caused by the coronavirus epidemic.

The Polish zloty as the national currency was introduced into the economic circulation after regaining independence as one of the pillars of the Polish state. Poles understood well how important it is for the independence of the Polish state to have its own money.

Furthermore, in the realities of the 21st century, independent states have their own currency and their own central bank. Own money is still a very important attribute of sovereignty. Own monetary policy is one of the two key elements of economic policy. In pursuing the Polish monetary policy, the National Bank

of Poland applies the so-called direct inflation targeting. At the same time, it makes it as beneficial as possible for the real sphere of the Polish economy, supporting economic growth and protecting jobs.

It is worth noting that the liquidation of the Polish zloty is the next phase of the process that may consequently lead to the actual liquidation of the Polish state. By liquidating our national currency and transferring the competence to conduct monetary policy from Warsaw to Frankfurt am Main, we are almost completely shedding the sovereignty of the Polish state. We would then be only a part of a state-like organisation, which was pointed out by prof. Lech Morawski. We cannot allow this. I believe that the task of the present generation is to pass on the attributes of Poland's monetary sovereignty to future generations of Poles.

In the modern world dominated by multinationals, our homeland must develop and last. For this to be possible, the zloty should be defended. At the same time, I would like to emphasise once again the importance of the need to maintain one's own monetary policy

and not to enter the euro area. I even think that it would be worthwhile to postulate the official exclusion of Poland from the obligation to adopt the euro. I think that it is worth pursuing this consistently in order to regain full sovereignty of Polish monetary policy. Poland should always stick to its own currency.

In this context, it is worth noting that a referendum was held in Sweden on September 14, 2003, in which the majority of the country's citizens voted in favour of keeping the Swedish crown and not joining the euro area. As a consequence of this event, on February 20, 2008, the former president of the Bank of Sweden, Lars Wohlin, during a debate in the European Parliament stated that "in the next treaty" it should be "clearly stated that Sweden is not obliged to participate in monetary cooperation".

It is worth noting that even under the current legal conditions, the zloty can be kept for any time. If only because it is not known whether the eurozone will one day collapse or dissolve. After all, in the past we had to deal with multinational monetary unions that were falling apart. I believe that the euro area is still an experiment.

Having a zloty and our own central bank, i.e., in fact having monetary sovereignty, we have the opportunity to conduct monetary policy in accordance with the interests of our own country. There are at least three advantages of monetary sovereignty. These are: the independence of deciding on the objectives of the central bank's operations, the independence of deciding on the instruments of monetary policy and the independence of deciding on the location of the central bank within the structures of Polish national authorities. These are very important competences of the Polish state, the defence of which should be the Polish *raison d'etat*.

Let us remember that the National Bank of Poland as the Polish central bank will take better care of the Polish economy than the European Central Bank. It is worth emphasising that the members of the Monetary Policy Council are morally obliged to care for Poland because they are Poles, while members of the ECB body are not obliged to do so. From the Polish point of view, the ECB is a foreign bank, the purpose of which is not to care for the Polish economy, but for the economy of the euro area.

2. Methods and results

Let us remember that the euro area has been an area of economic stagnation and relatively slow economic growth as well as high unemployment since its inception. It is worth

emphasising that this is a permanent feature of the euro area. In almost all years of the 1999-2019 period, the economic growth rate in the euro area was lower than the economic growth rate in mature countries in general with their own national currencies. So far, there has been no case of a relatively poor country entering the euro area and becoming a rich country by operating in this area. It is worth giving the example of Portugal, which was the country with the lowest GDP per capita of the euro area among the 11 countries constituting this zone in 1999. Currently, Portugal is still the country with the lowest GDP per capita among these 11 countries.

Moreover, the recent financial crisis of 2007-2009 showed that the most effective measures were taken by central banks with their own national currencies. In order to mitigate the effects of the crisis for Poland, one must act quickly. Therefore, it is necessary that Polish state institutions retain their competences and not transfer them to foreign hands.

The economic crisis caused by the coronavirus epidemic also shows that countries such as Poland, which have monetary sovereignty, experience the coronavirus epidemic more gently than countries in the euro area.

It is worth following basic macroeconomic data such as: GDP, inflation and unemployment in Poland compared to the euro area in recent years. The conducted research shows that the real GDP rate in Poland in 2018-2020 showed a much higher growth dynamics than in the euro area (Figure 1).

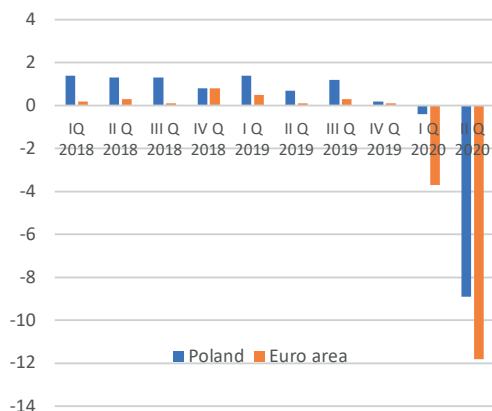


Figure 1: Real GDP growth in Poland and the euro area in 2018-2020 in %
Source: IMF database

Interestingly, during the coronavirus pandemic, the Polish economy was doing much better than the euro area. In the second quarter of this year, the real GDP rate decline in the euro area

exceeded -10% and amounted to -11.8%. In Poland, the decline in real GDP growth was at the same time much lower (-8.9%).

Taking into account the unemployment rate, it can also be seen that in Poland in 2019-2020 there was a much better situation than in the euro area (Figure 2).

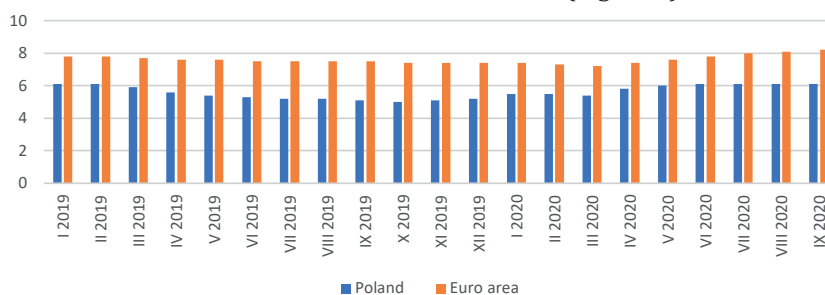


Figure 2: Unemployment rate in Poland and the euro area in 2019-2020 in %
Source: IMF database

During the coronavirus pandemic, the Polish monetary and budgetary authorities managed to curb the further increase in the unemployment rate (6.1%). Meanwhile, in the euro area, we have continued to see an increase in the unemployment rate (8.2%) since the outbreak of the economic crisis caused by the coronavirus pandemic.

Interestingly, the inflation rate in Poland is higher than in the euro area. However, what worries the monetary and budgetary decision-makers of the euro area is the deepening of deflationary tendencies in the area of the single currency since the outbreak of the coronavirus epidemic (Figure 3).

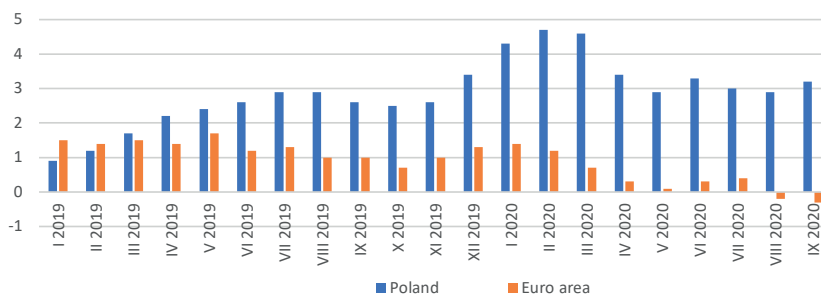


Figure 3: Inflation rate in Poland and the euro area in 2019-2020 in %
Source: IMF database

It is worth remembering that although in the case of the Polish central bank the direct inflation target of 2.5% with possible deviations of +/- 1 percentage point up and down is still in force, but it should be treated flexibly. Personally, I am a strong supporter of such an approach, according to which the inflation target should be implemented in such a way that it is as beneficial as possible for the real economy.

With its own currency and its own central bank, Poland can use monetary policy instruments to stimulate Poland's economic development. Experience shows that the National Bank of Poland has so far performed very well in supporting the Polish economy.

In the era of the coronavirus, the Polish central bank also helped the Polish economy. By pursuing a bold monetary and fiscal policy, temporary economic difficulties have been

overcome. Thanks to the reduction in interest rates and the purchase of Treasury securities and debt securities guaranteed by the Treasury, there has been a gradual improvement in consumer sentiment. In addition, data on industrial production are also improving, which is also growing annually, and this is very positive. We need to continue these positive trends.

It is worth noting that the dynamics of industrial production in our country recorded positive values already in June this year. Meanwhile, in the euro area, industrial output growth continues to remain below 0 (Figure 4).

It is worrying that in the case of euro area countries, since July this year, the decline in industrial production has been deepening, despite the already very expansive monetary and budget policies.

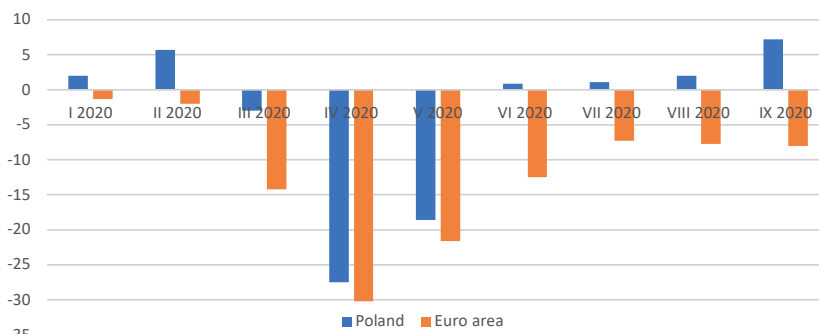


Figure 4 Industrial production growth in Poland and the euro area in 2020 in %
Source: IMF database

It is also worth noting that individual central banks lowered interest rates also to counteract the strengthening of exchange rates. The point is that excessive strengthening of the domestic currency may have a negative impact on the profitability of exports. It is very important that the NBP is examining the borderline profitability of exports. Currently, the level of the exchange rate in Poland is favourable for Polish exporters and ensures the profitability of Polish exports.

The point is for the exchange rate to support the economic development of the country. An element of GDP is not only consumption and investment outlays, but also the difference between exports and imports, i.e., net exports. If export is higher than import, it has a positive effect on GDP, and if there is higher import, it has a negative effect. Consequently, net export increases employment and protects jobs in Poland.

3. Conclusions and discussion

First, the Polish zloty is an attribute of Poland's independence. Having a zloty and our own central bank, i.e. in fact having monetary sovereignty, we have the possibility to conduct monetary policy in accordance with the interests of our country.

Second, there are three advantages to mo-

netary sovereignty. These are: the independence of deciding on the goals of the central bank's operation, the independence of deciding on the instruments of monetary policy and the independence of the central bank's cooperation with government bodies of a given country.

Third, own monetary policy may be helpful in mitigating crisis phenomena. The recent economic crisis caused by the coronavirus epidemic has shown that the Polish central bank, in cooperation with the Polish government, has taken decisive measures to prevent further cooling of the real sphere of the Polish economy.

Fourth, countries such as Poland, which have monetary sovereignty, experience the coronavirus epidemic more gently than countries in the euro area. For example, during the coronavirus pandemic, the Polish monetary and budgetary authorities managed to stop the further increase in the unemployment rate. Meanwhile, in the euro area, since the outbreak of the economic crisis, there is a continuing increase in the unemployment rate.

Fifth, easing monetary policy in the era of coronavirus is aimed at preventing excessive strengthening of the national currency against foreign currencies. The point is that the exchange rate should be favourable for domestic exports, which mitigates the effects of the economic slowdown.

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