

## Mojmír Hampl: Life outside the Eurozone

Speech by Mr Mojmír Hampl, Vice Governor of the Czech National Bank, at the 5th A/symmetrie (Italian Association for the Study of Economic Asymmetries) conference "Euro, market, democracy", Montesilvano, Italy, 13 November 2016.

\* \* \*

Ladies and gentlemen,

Good morning. Many thanks to Alberto Bagnai for kindly inviting me to speak at this event today. And many thanks to you all, to this audience. It is my first time here and I must say I am really impressed that so many people are willing to invest their effort, money and whole weekend (literally two days) in actively listening to debates on many – sometimes rather abstract – macroeconomic topics. That is truly amazing and at the same time encouraging.

Believe me, many people I know are unable to concentrate on presentations even during their working hours in the office, even though they are actually being paid to do so by their employer.

So my applause goes to you and to Alberto for mobilising you. Great job.

Ladies and gentlemen,

The downside of my presentation today is that I am a part of the monetary establishment – of the disliked club of central bankers. That means a thumb down for me in your eyes. The upside – and what saves me today – is that I'm a policy-maker not in your monetary zone, in the Eurozone, but in the Czech monetary zone, where we pay with our own currency, the Czech crown.

The usual disclaimer applies: my opinions are not necessarily shared by the Czech National Bank, but I do not care too much, as I am very much a part of the group which formulates the bank's positions anyway, so I do not want to distance myself from myself. I just want to say that all the blame for what I say is on me.

Our topic is life outside the euro, and as you can see I am alive and well. After what I heard yesterday about the countries in the Eurozone, I am even happier than before that we are not in this particular club at the moment.

I heard many comments on de-industrialisation in the Eurozone. Well, this is not our case. With industrial production accounting for much more than 30% of our GDP, the Czech Republic has the highest proportion of industrial production on output in the whole of the EU. And this share has actually been rising rather than falling over the last 10 years or so.

This is manifested in the fact that the Czech Republic is the second biggest producer of cars per head in the world. Moreover, the Czech Republic and Slovakia (the Eurozone country) – which formed a single state until 1993 – are together by far the biggest car-producing countries in the world in per capita terms. With 150 cars produced per every 1,000 citizens these two countries are well ahead of South Korea and Germany combined in per head metrics. Many of my friends in the real economy say that the Czech Republic is a country where everything is produced, from planes, through turbines, cars, buses, locomotives and guns, to bearings and brushes. Whatever you need to produce you will always find at least one factory capable of making it, the anecdotal evidence seems to suggest. The question we face is rather whether we are over-industrialised for a country of our size.

Furthermore, yesterday I heard many comments about the trade deficits of numerous countries in the Eurozone with Germany. Again, not in our case. If you look at a map of Europe you won't

be surprised to learn that Germany is by far our biggest trading partner, with more than 30% of our exports going there and with the biggest proportion of foreign investment in the Czech Republic coming from Germany. But you might be surprised when I tell you that the Czech Republic is one of the few countries having a trade surplus, not a trade deficit, with Germany. We export more to Germany than we import from it. And that trade surplus has been increasing over time.

With currently the lowest unemployment rate in the EU, decreasing public debt, yields on some government bonds below those in Germany (which is chiefly because of the current monetary policy of my bank), and the state budget this year heading for a surplus, you might think my country is almost an economic paradise.

Are people happy? Not really. They have other issues that frustrate them, such as why average wages are still two to three times lower than those in Germany and many other countries after 25 years of transition, when at the same time many products carrying the “Made in Germany” label are assembled on our territory. Or why so many companies pay such large dividends to owners abroad and we are unable to be attractive enough for foreign capital to be reinvested on our soil.

And this is us – we have a tendency not to accept that there are always trade-offs, there are no free lunches, that for every plus there is a minus. We want everything at the same time, sometimes even mutually inconsistent things. But that is another matter.

There is one area, however, where the Czech population has been very conservative over a very long period of time, and that is the area of euro adoption. In the Eurobarometer – a poll you all know – the Czech Republic remains the country where by far the largest share of the population has a negative view towards adopting the euro out of all the non-Eurozone countries. Roughly two thirds of Czechs are against the euro. This is a higher figure than in Sweden, which rejected the euro in a referendum in 2003.

Well, public opinion is not as anti-euro as in the UK, where at some point the euro was only “slightly more popular than ebola”, as I read in one British newspaper. But still, being for the euro is simply a total political non seller.

If I were to summarise the arguments against joining, be it on the side of the general public or professionals, they would be roughly threefold:

A. The first one is sentimental rather than economic. We have been living with our Czech koruna, or crown, for quite some time and our country has a long history of monetary stability and stabilisation. By the way, we have had the same name for our currency ever since 1892, from the times of the Austro-Hungarian monarchy (the crown is a monarchist name – what a paradox in our republic) and there has never been any reason to rename it. The old adage says: If it ain't broke, why fix it? If you have low and stable inflation on your own, you don't need any credibility for your currency from abroad.

B. The second argument is more economic. Money matters. And monetary stabilisation matters. If you have shocks in the economy, something has to move to offset the shock. Something has to be flexible. It is easier to accommodate shocks through flexible interest rates or a flexible exchange rate than through wages, unemployment or budget expenditure. We discussed yesterday how hard it can be if you don't have monetary policy to adjust to shocks. This is a classical argument of monetary economics for the active role of elastic money when you don't have flexible prices or wages. Simple as that. And as we can see, the shocks are pretty asymmetric among countries in the EU and the Eurozone. I believe in the stabilisation role of monetary policy and its ability to make cycles smoother and shallower. But you have to be prepared to use monetary policy. For instance, the population in my country is not happy with zero interest rates and the weaker crown, but we nonetheless believe it is one of the key reasons why we now have the lowest

unemployment rate in the EU and increasing real wages.

C. The third reason is that some expectations regarding euro adoption were, to say the least, not fulfilled. The euro was supposed to help the Eurozone countries become richer and outperform those outside the Eurozone. As the data show, this has not been the case so far. My article for the forthcoming issue of the New Direction magazine calculates that on average the Eurozone countries grew by 1 percentage point less every year after the euro was established, compared to the countries staying outside. This is significant. Add to that the fact that many people realised during the crises that the euro project was probably not well prepared for bad times and that the Eurozone is now looking for new creditors rather than anything else, and you will understand the low attractiveness of the euro in the Czech Republic.

However, it was not ever thus. Shortly after we joined the EU it was almost a shared view among the prevailing part of the elite in our country that the sooner we join the better and that the euro was the best club imaginable and a sure-fire recipe for success. The public never accepted this view. However, it was still very difficult to argue against it, like I and some others did ten years ago.

The lesson learned is: no worries, the media and politicians can change their minds. If you believe in your case, do not change yours. They will change theirs.

Ladies and gentlemen, I very much believe in reasonable European cooperation. But I also believe in reasonable competition among countries and their economic models. So I do not take it lightly when some integration projects divide us rather than unite us.

I think that next time around we should be much more careful when some start selling us a project as indisputable and irrefutable. At that moment we should all be far more circumspect and far less credulous.

Thank you for your attention.