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The Viability of Joining the Euro Area from Poland's Economic Perspective

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Abstract:

Purpose: *The aim of this article is a comparative analysis of the key processes of economic development and the competitive position of selected EU countries, both aspiring to and already belonging to the euro area.*
Design/Methodology/Approach: *Comparative analysis of indicators and processes of economic competitiveness of countries and enterprises using statistical data.*
Findings: *On May 1, 2004, ten countries from Central and Eastern Europe, including Poland, joined the European Union. These countries also committed to joining the euro area. Slovenia did so in 2007, Slovakia in 2009, and several more countries in subsequent years. The multi-year period of Slovenia and Slovakia—countries from the former communist bloc operating in the euro area, provides a valuable comparative base for Poland and the Czech Republic, which have not yet decided to join. An additional element in this comparative analysis is the Spanish economy. The research, conducted from a Polish perspective, indicates that maintaining a national currency within the EU, which ensures access to the Single European Market, does not necessarily weaken a country's competitive position and allows for the generation of number developmental advantages. However, this comes partly at the cost of periodically greater challenges in maintaining price stability and higher public debt financing costs. Less clear-cut conclusions can be drawn from the analysis of the economic and social shocks recorded in 2008–2009 and during the COVID-19 pandemic in 2020–2021.*
Practical Implications: *The analysis shows that belonging to the euro area, despite lower transaction costs due to the elimination of currency risk in trade and lower public debt servicing costs, does not automatically translate into higher economic growth dynamics and higher competitiveness of the economy and enterprises.*
Originality/Value: *The analysis statistically verifies, in the medium- and long-term horizon, a number of views and assessments based on short-term events and phenomena. Thus, the balance of benefits and costs of joining the euro area is more reliable.*

Keywords: *Euro area, national currencies, competitive position, economic and social shocks, monetary policy, stability, economic development.*

JEL codes: *E61, F43, F45, P52.*

Paper type: *Research article*

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1. Introduction

The euro area has been functioning continuously for over twenty years. Despite the controversy that this project has aroused since its inception, it has survived several significant economic and financial shocks and continues to attract more countries interested in joining (from 2023 Croatia, probably from 2026 Bulgaria).

Such decisions stimulate discussions in the country concerning Poland and its preparations to join the euro area, the risks of peripheralization related to the strengthening of the two-speed Union and Polish remaining outside this zone, or the loss of benefits that the common currency gives to citizens and entrepreneurs and the confidence of financial markets associated with it.

The author's intention is to join this discussion with the use of a comparative analysis aimed at verifying the basic theses and expectations related to the country's accession to the euro area. For this purpose, Poland, as a country remaining outside the euro area, is compared to Slovakia and Slovenia, which, being countries of the former Eastern Bloc, joined the European Union together with Poland in 2004, and after a few years found themselves in the euro area (Slovenia since January 2007) and Slovakia since January 2009).

Taking 2004 as the reference point for the accession of as many as 10 countries from Central and Eastern Europe to the EU should also allow us to assess which countries are better able to compete in economic competition on the single European market and to what extent this depends on their membership in the euro area.

The rather distant dates of the enlargement of the EU to include the so-called ten countries and the accession of the first two of them to the euro area already allow for minimizing the risk of randomness of the analysed trends, as well as include a comparatively significant time of economic shocks that took place in 2008-2009 and in 2020-2021 caused by the COVID-19 coronavirus pandemic.

Due to the large differences in the economic potential of Poland and Slovakia and Slovenia, the analysis also took into account Spain, as a country economically more similar to Poland and functioning in the euro area since its inception. To make the comparative analysis more reliable, the Czech Republic has been included in addition to Polish as a country with its own national currency.

The aim of the article is to verify the hypotheses related to the potential economic benefits that may be given by Polish's membership in a large integration grouping functioning on the basis of the common currency, which is the euro area.[2]

[2] *The author focuses exclusively on economic benefits. In the discussion on accession to the euro area, political arguments are widely used – the Polish raison d'état, the increase in importance in the EU, the impulse to further strengthen European integration and the related*

These benefits can be seen in a higher pace of economic development achieved, among others, thanks to a higher rate of investment, greater resistance to economic shocks, increased international competitiveness enabling export expansion, increased confidence and willingness of foreign capital to direct investment, stabilization of public finances (Kolodko, 2017; Pietrewicz, 2015; Sobiecki, 2017; Liapis *et al.,* 2013; Thalassinos, 2008; Hakim *et al.,* 2022; Grima and Thalassinos, 2018). In addition to economic trends, social processes related to the level of employment, labour costs as a substitute of wages and their dynamics were also analysed.

The euro area dates back to January 1999. Three years later, the national banknotes and coins were replaced by the euro. The euro area was initially made up of a group of 12 countries. Over time, it was expanded to include more members, and from January 2023 it already had 20 members.

Gradual enlargement to include more countries did not have a major impact on changes in the functioning of the euro area, due to the low economic potential of the acceding countries. Much more important for the countries belonging to the euro area could have been the accession of 10 countries from Central and Eastern Europe to the European Union in 2004, allowing for a significant expansion of the borders of the so-called Single Market, and consequently new opportunities for doing business and economic expansion.

2. Building Social Welfare

2.1 Persistence of Economic Development

It can be expected that the functioning of the economy within the single currency area should translate into a higher rate of economic development and its long-term sustainability. This is supported by greater institutional stability of the economic environment thanks to a significant reduction of currency risk and currency speculation, allowing for greater predictability of competition conditions and business opportunities.

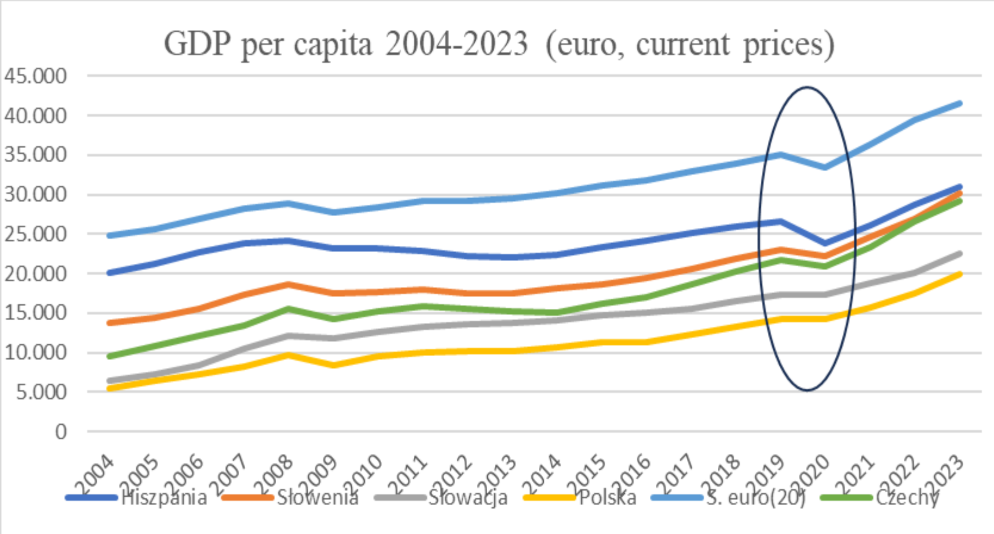
The potential extension of the economic horizon of activity should be conducive to greater innovation, increase in investments and income and, as a result, faster building of social welfare. A synthetic reflection of these trends is the increase in GDP per capita, as shown in Figure 1.

Compared to 2004, GDP per capita in euro at current market prices in the euro area increased by 67.5% in 2023, i.e. after 19 years, to EUR 41,620. During this time, GDP per capita in Spain increased by 54.3%, in Slovenia by 119.2%, and in

sense of security, the change of status from a peripheral country to a state that is an important element of the core of the entire organization (Kolodko, Postuła 2018, Orłowski et al. 2018, Rosati 2022).

Slovakia by 250.2%. Respectively, in Poland this increase amounted to 267.2%, and in the Czech Republic 207.5%.

Figure 1. *GDP per capita 2004-2023*



Source: *Eurostat Data Browser, GDP per capita, current market prices.* *https://ec.europa.eu/eurostat/databrowser/view/nama_10_pc__custom_16099300/default/table?lang=en*

A comparison of the above GDP per capita growth indicators indicates that the countries newly joining the euro area receive additional development bonuses that allow them to maintain economic growth at a level significantly higher than the average for the entire euro area. However, these bonuses are also the case for two other countries of Central and Eastern Europe, from outside the eurozone.

Slovakia, which operates in the euro area, as well as Poland, which remains outside the euro area, are the largest beneficiaries of membership in the European Union in the compared group of countries. Only during the period of functioning in the Eurozone, i.e. from 2007 to 2023, Slovenia's GDP per capita increased by 93.5%, while that of Poland increased by 175.2% in the same period, and in the Czech Republic by 140.6%. In the case of Slovakia, since joining the euro area (from 2009 to 2023), the increase was 84.3%, compared to 106.4% in Poland and 88.0% in the Czech Republic.

Comparatively, much better results of Poland and Slovakia compared to Spain, Slovenia and the entire euro area, as well as comparable results of Slovakia and the Czech Republic, may indicate that membership in the single currency area is not yet a guarantee of a high pace of economic development, which is strongly influenced by other factors or their complementary set.

2.2 Resilience to Economic Shocks

An important comparative element is the verification of the hypothesis based on the theory of asymmetric shocks, according to which less developed countries functioning in the common currency area may react negatively more strongly than those more developed in the event of external shocks (Mundell, 1961; McKinonn, 1963). Despite this risk, belonging to the economically strong bloc of eurozone countries should provide greater stability and resilience to economic turbulence (Mundell, 1973).

Crises of serious scale and consequences after the date of the creation of the eurozone have occurred twice in the EU. The first financial and economic crisis took place in 2008-2009. EU countries experienced another economic shock in 2020-2021, due to the closure of the economy and the reduction of all activities not directly related to the fight against the COVID-19 coronavirus pandemic.

A comparison of the declines in GDP per capita expressed in euro in 2009 presented in Chart 1 (Slovakia by 3.3%, Eurozone by 3.8%, Spain by 4.3%, Slovenia by 6.0%, Czech Republic by 8.3%, Poland by 13.6%) during the first of the above-mentioned crises does not unequivocally confirm this hypothesis. Slovenia experienced a relatively deeper economic crisis, but Slovakia, which joined the euro area on 1 January 2009, recorded the lowest decline in this indicator among the analysed entities.

Against this background, the Polish economy was seemingly significantly in the negative. However, this was mainly a statistical effect resulting from the conversion of GDP from the Polish zloty to the euro, with the average depreciation of the Polish currency over the course of 2009 by 23.0%.[3]

Taking this element into account and measuring the scale of the crisis in 2009 by the real GDP per capita index, in the case of the Polish economy it increased by 2.5%, and in the case of the Czech Republic it decreased by 5.5%.[4]

This comparison clearly indicates that Poland remaining outside the euro area, despite the high exchange rate risk, allowed for better absorption of the economic shock of 2008-2009 in the analysed peer group, which was undoubtedly influenced by the large depreciation of the Polish currency.

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[3]*Poland Foreign Exchange Rate: NBP: Annual Average: Euro from 1999 to 2017. https://www.ceicdata.com/en/poland/foreign-exchange-rate-annual/foreign-exchange-rate-nbp-nbp-annual-average-euro.*

[4]*Eurostat Data Browser, Real GDP per capita, https://ec.europa.eu/eurostat/databrowser/view/sdg_08_10/default/table?lang=en&category=t_na10.t_nama10.t_nama_10_aux, own calculations.*

Directional comparable reactions to the situation of the shock caused by the coronavirus pandemic in terms of economic activity both in the euro area and in its surroundings (Poland, Czech Republic) are observed in relation to 2020. Supported by a moderate (by 4.8%) depreciation of the zloty in 2020.[5]

The Polish economy reacted to this shock with the mildest decline in activity – to 0.8% growth rate expressed in euro GDP per capita in current prices. Spain, which was much more affected by the pandemic, also recorded the deepest decline (by 10.4%), more than twice as large as the average for the entire eurozone (a decrease of 4.4%) and almost three times deeper than that recorded in Slovenia (a decrease of 3.6%). Results similar to the Polish economy were achieved by Slovakia (a decrease of 0.4%).

A smaller than average for the eurozone - a 3.5% drop in GDP per capita occurred in the Czech economy. This differentiation in GDP declines during the pandemic was primarily a consequence of the variation in the intensity of the pandemic, which in Europe most affected countries such as Belgium, France, Ireland, Italy, Portugal and Spain, the United Kingdom, where the highest incidence and mortality cases were recorded, especially during the first wave of the pandemic (first half of 2020).

Poland, along with Slovakia, Slovenia and the Czech Republic, was in the group of countries that coped relatively better with the pandemic in 2020.[6] In the case of this shock caused by epidemiological factors, membership of the euro area did not have much significance for the scale of the economic shock that followed its outbreak.

However, it could have had an impact on the pace of restoring the disturbed economic balance. These processes mainly took place in 2021, with the end of the third spring wave of the pandemic. In nominal terms at the end of 2021, only Spain did not reach the level from before its outbreak, i.e. from 2019 (98.0%, 94.5% in real terms).

In other cases, these nominal increases, as illustrated in Figure 1, ranged from 3.7% (euro area) to 11.1% (Poland). In real terms, the Czech Republic (99.0%) and the euro area as a whole (99.7%) had not yet reached their pre-crisis levels, while Poland, Slovakia and Slovenia had the highest recovery and growth rates (107.5%, 103.2% and 103.0% respectively).[7]

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[5] *NBP. Statistics and reporting. Weighted monthly exchange rates, EUR, USD, CHS. https://nbp.pl/statystyka-i-sprawozdawczosc/podstawowe-wykresy/#tab-KW*

[6] *Pandenomics 2.0. How countries faced the second wave of pandemic and the second dip of the recession. Report of the Polish Economic Institute. https://pie.net.pl/litwa-luksemburg-holandia-i-polska-to-kraje-ktore-gospodarczo-najmniej-ucierpialy-na-skutkach-kryzysu-covid-19/.*

[7] *Eurostat Data Browser. Real GDP per capita, own calculations. https://ec.europa.eu/eurostat/databrowser/view/sdg_08_10/default/table?lang=en&category=t_na10.t_nama10.t_nama_10_aux.*

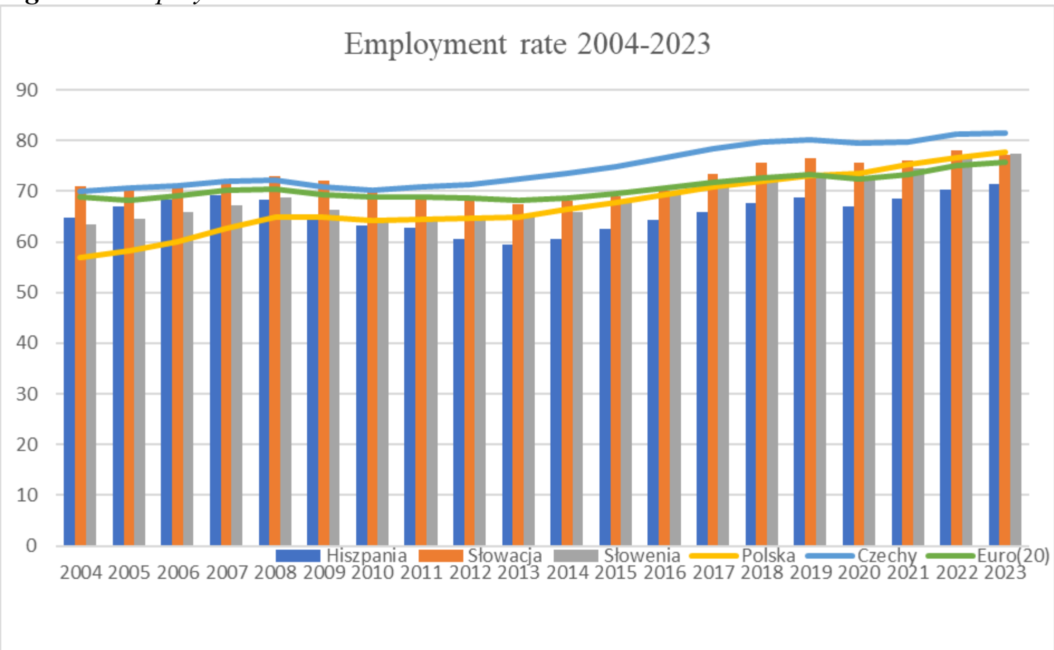
Two serious economic shocks that the European economy has faced, the costs of which in the Eurozone turned out to be comparable or higher than in the Polish economy, allow us to believe that the fact of belonging to the Eurozone is not a sufficient guarantee of higher stability and business conditions that allow for the expectation of better economic results.

The lack of an autonomous monetary and monetary policy is a significant barrier limiting the ability of enterprises and the economy to adapt flexibly to periodically occurring economic shocks (Mody, 2019). However, similar results of Poland's GDP per capita with Slovakia, which operates in the euro area, indicate that good economic results in comparable conditions are equally possible with the functioning of the economy in the euro area and outside the euro area.

2.3 Growth of New Valuable Jobs

Economic activity goes hand in hand with the creation of new jobs, which also allow for reducing unemployment problems. Joining the euro area, thanks to uniform regulatory standards adopted in many areas, should be conducive to the development of business activity, and thus to an increase in demand for labour and professional activity. Trends in this area are illustrated in Figure 2.

Figure 2. *Employment rate 2004-2023*



Source: *Eurostat Data Browser, Employment rate, by citizenship.* *https://ec.europa.eu/eurostat/databrowser/view/sdg_08_30a/default/table?lang=en&category=sdg.sdg_10*.

Joining the euro area in 2007 Slovenia went hand in hand with a significant increase in the employment rate both in the preceding period and in the following years. This trend was reversed in 2009 as a result of the development of the economic and financial crisis of 2008-2009. The return to the path of systematic growth took place in 2014. As a result, for the period of its existence in the euro area, Slovenia increased its employment rate from 66% in the base year 2006 to 77.5% in 2023, i.e. by 11.5 percentage points.

During this time, the employment rate in the Polish economy increased by 17.7 pp., i.e. to 77.8% in 2023, and in the Czech economy by 10.5 pp., to 81.6%. All these countries therefore performed better than the average for the euro area, where the increase amounted to 6.7 percentage points. A lower increase, by 3.2 percentage points, was recorded in Spain.

In the case of Slovakia, the country's accession to the euro area in 2009 coincided with the intensification of the global economic and financial crisis, which also resulted in a decline in the employment rate extending into 2014 (from 73.1% in 2008 to 67.4% in 2013). As a result of the re-entry into the path of employment rate growth, its level in 2023 amounted to 77.3%.

Thus, the Slovak economy, which joined the eurozone with a significantly higher level of employment than Slovenia (a difference of 7.1 pp), managed to raise the employment rate in its economy only to a small extent (by 4.2 pp). With comparable labour market conditions in the Czech economy (employment rate in 2008 – 72.3%), at the end of 2023 the employment rate in this country increased to 81.6%, i.e., by 9.3 pp., and in Poland by 12.8 pp at the same time.

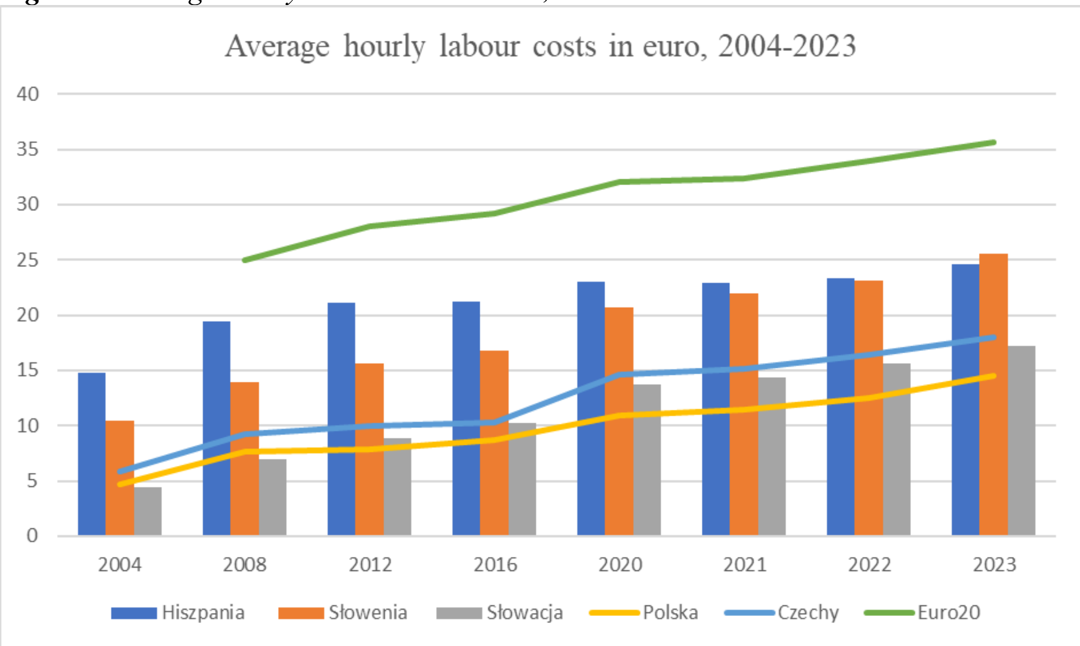
The example of Spain shows that the mere fact of stable functioning in the euro area, even in the case of a relatively large economy and a large internal market, does not automatically ensure a high level of employment. The level of the employment rate from before the 2008-2009 crisis was recovered by this economy only in 2021.

Comparing the employment rate of the Czech economy and the entire eurozone, it is impossible not to notice that over the last 20 years, the Czech Republic has shown not only a higher employment rate, but also its higher dynamics. As a result, the Czech Republic's advantage in this area increased from 1.2 pp in 2004 to 5.8 pp. in 2023. Since 2020, the Polish economy has also had a higher employment rate than in the Eurozone.

An analysis of employment developments shows that the accession and functioning of the euro area economy does not automatically mean an improvement in the euro area. The best results were achieved by countries such as Poland and the Czech Republic, which remain outside the Eurozone. This supports the thesis that one's own currency is better conducive to maintaining the economy's ability to use its labor resources in open trade conditions (Kawalec and Pytlarczyk, 2016)

Potential changes resulting from joining the euro area may be related to the need to emerge and respect new conditions for competition of enterprises and the work of employees. This is reflected in labour costs, as shown in Figure 3.

Figure 3. *Average hourly labour costs in euro, 2004-2023*



Source: *Eurostat Data Browser. Hourly labour cost by NACE. https://ec.europa.eu/eurostat/databrowser/view/lc_an_costh/default/table?lang=en&category=labour.lc.lcan.lcan_hist; Eurostat Data Browser. Labour cost levels by NACE. https://ec.europa.eu/eurostat/databrowser/view/lc_lci_lev/default/table?lang=en&category=labour.lc.lcan;*

An analysis of Figure 3 showing changes in average hourly labour costs over the years 2004-2023 shows that these costs changed directionally symmetrically to changes in the employment rate (Figure 2). The periods of 2004-2008 and 2016-2020, characterized by the highest growth rates of wage rates (costs), were also characterized by the highest employment growth rate.

Both countries in the euro area and those operating outside the euro area benefited from the good economic situation of these periods. After Slovenia adopted the euro, between 2007 and 2023, average hourly labour costs in the country increased by 123.7% and in Spain by 55.1%. These rates in Poland and the Czech Republic, which remain with their national currencies, increased at that time, in euro terms, by 141.7% and 153.5%, respectively.

After Slovakia joined the Eurozone in 2009, the increase in average wage costs for the years 2009-2023 was 145.7%, compared to 42.4% in the Eurozone, 83.5% in

Slovenia and 26.3% in Spain. Accordingly, in Poland for this period this increase amounted to 90.8%, and in the Czech Republic 95.7%.[8]

A comparison of the analysed indicators of the level and dynamics of hourly labour costs indicates that the processes of convergence in this area in the analysed EU and euro area countries are faster in countries such as Slovakia and Poland, which in the past were characterised by relatively low wage rates. Membership in the euro area makes this process easier, although the example of Spain shows the existence of regional growth ceilings.

3. Stimulating Economic Growth Factors

The differences in the pace of economic development of the analysed countries raise a further question whether these countries rely on the same sources of economic development, how effectively they use them, or whether functioning in the euro area creates new impulses for economic activity.

3.1 Investment Dynamics

One of the key factors of economic development is investment. Trends in their development are presented in Figure 4.

Although the changes taking place are one-way, the Poland`s economy in the analysed period is quite significantly lagging behind the investment rate of the euro area countries and the compared countries outside this zone. This could indicate that the euro area, by eliminating some of the risks and uncertainties associated with doing business, creates more favorable conditions for investment.

This hypothesis is partially verified by the analysis of the investment trend of corporate involvement (Figure 4). This analysis confirms the decline in investment activity in the corporate sector, which has persisted since the crisis of 2009, but significantly deeper in relation to Poland.

In particular, after 2015 there is a clear divergence of trends in this activity in the comparison of the corporate investment rate in Poland against the background of slightly upward trends in the euro area. An analysis of long-term trends shows that joining the euro area has not ensured that either Slovenia or Slovakia will maintain a high investment rate.

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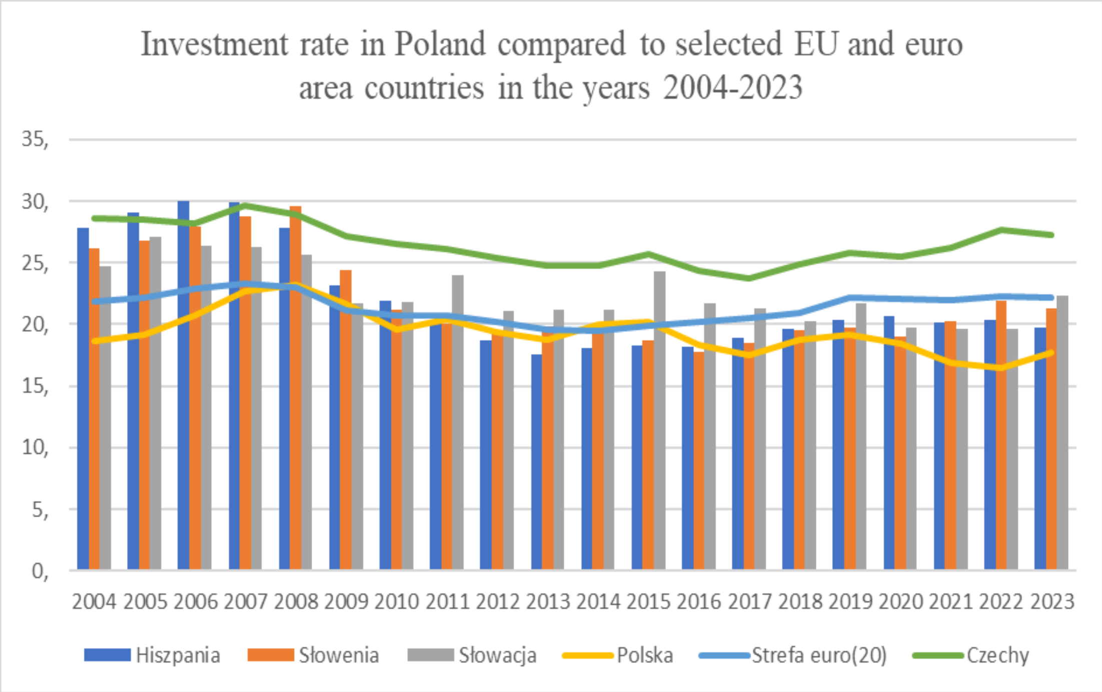
[8] *Eurostat Data Browser. Labour cost levels by NACE. Own calculations based on: https://ec.europa.eu/eurostat/databrowser/view/lc_an_costh/default/table?lang=en&category=labour.lc.lcan.lcan_hist; https://ec.europa.eu/eurostat/databrowser/view/lc_lci_lev/default/table?lang=en&category=labour.lc.lcan.*

Figure 4. *Investment rate in Poland compared to selected EU countries*



Source: *Eurostat Data Browser, Investment share of GDP by institutional sectors. Total Investments https://ec.europa.eu/eurostat/databrowser/view/SDG_08_11__custom_1160220/default/table ?lang=en*

In the case of Slovenia, the high level of investment (28.8%-29.6%) remained two years after joining the eurozone, only to fall sharply by more than 5 percentage points to 24.4% in the crisis year 2009, and remained in a downward trend in the following years. In none of the years since 2008 has Slovakia reached the level from before its accession to the euro area.

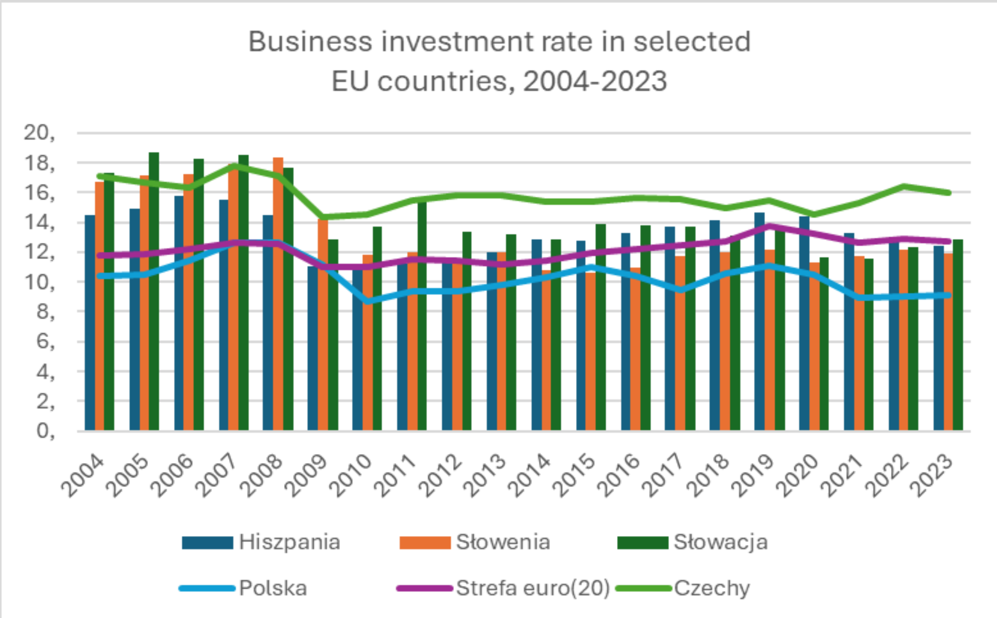
As a result, during the period of its existence in the euro area, i.e. for the years 2007-2023, the gross investment rate in the Slovenian economy decreased by 6.6 percentage points. while in Poland it fell by 3.0 pp, in Spain by 10.3 pp, and in the Czech Republic it decreased by 0.9 pp.

During the period of Slovakia's functioning in the euro area (2009-2023), the gross investment rate decreased from 25.6% in 2008 to 22.4% in 2023. During this time, this rate in Poland fell by 5.5 percentage points, in Spain by 8.2 percentage points, and in the Czech Republic by 1.6 pp.[9]

[9]*Eurostat Data Browser, Investment share of GDP by institutional sectors. https://ec.europa.eu/eurostat/databrowser/view/SDG_08_11__custom_1160220/default/table ?lang=en.*

However, the phenomenon of the high interest rate that has been maintained for many years is striking investments, including corporate investments in the Czech economy, which is several percentage points higher than the average of the euro area and all the countries analysed. This investment activity is based on the high competitiveness of the Czech economy, which has its sources in high management efficiency, well-developed infrastructure, as well as access to highly qualified labour resources.

Figure 5. *Business investment rate in selected EU countries*



Source: *Eurostat Data Browser, Investment share of GDP by institutional sector. Business investment. https://ec.europa.eu/eurostat/databrowser/view/SDG_08_11__custom_1160220/default/table?lang=en*

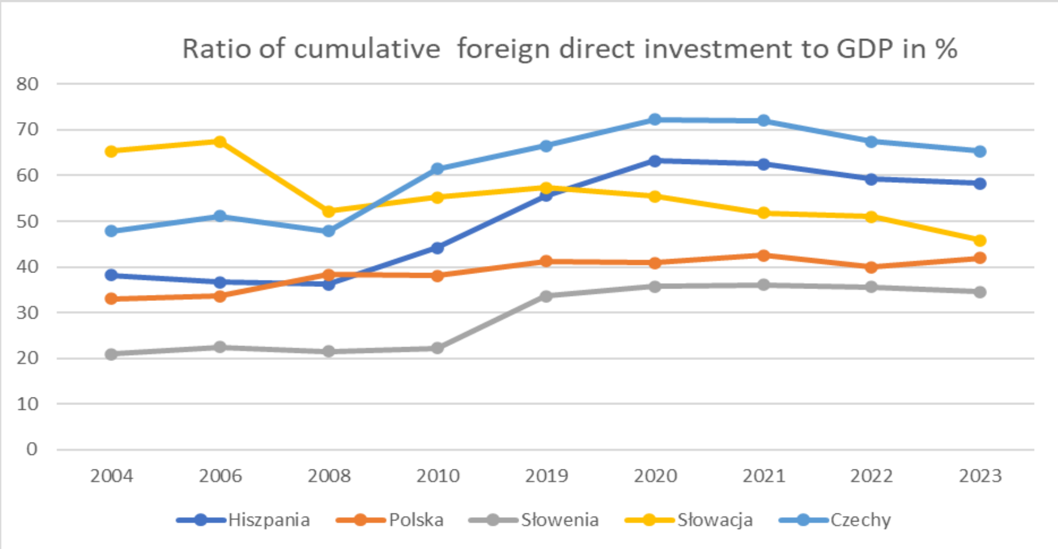
The Czech Republic also ranks highest among the analysed countries (29th in 2024) in the ranking of economic competitiveness conducted by the Institute of Management and Development in Lausanne.[10] On the other hand, Slovakia and Slovenia, although they have maintained the investment rate for years, including the corporate investment rate at a significantly higher level than Poland, it is impossible not to notice that this rate before these countries joined the eurozone was significantly higher than the average for the euro area, only to lose this advantage for the following years starting from 2018.

[10]*The IMD World Competitiveness Ranking. https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/. In this ranking, Poland was ranked 41st in 2024.*

An important component of investment activity is the inflow of foreign direct investment. As Figure 6 illustrates, in the years 2004-2023, all the analysed countries recorded a significant inflow of foreign direct investment and its role in the economy of individual countries, with the Czech Republic leading the position.

Membership in the eurozone did not give the acceding countries an additional handicap. Cumulative inflow of foreign direct investment to Slovenia in relation to GDP in 2007-2023 increased by 12.2 pp. At that time, the increase for Polish was 8.3 pp., and for the Czech Republic 14.3 pp. In the case of Slovakia, on the other hand, after the date of accession to the euro area (after 2008) the share of cumulative foreign direct investment in GDP decreased by 6.3 pp, while in Poland it increased by 3.6 pp. and in the Czech Republic by 17.6 pp.

Figure 6. *Ratio of cumulate FDI to GDP in %*



Source: *Eurostat Data Browser, Inward FDI stocks in % of GDP, https://ec.europa.eu/eurostat/databrowser/view/TEC00105/default/table?lang=en Data for 2004-2010 and for the Czech Republic for 2023 from the: UN Trade and Development Statistics, Foreign direct investment: Inward and outward flows and stock, annual, https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock*

A significant decrease in the share of foreign investment in relation to Slovakia's GDP has been visible after the crisis related to the COVID-19 coronavirus pandemic. The volatility of trends related to the inflow of foreign investment and its importance in the economy, as measured by the cumulative share of this investment in GDP, indicates that membership of the euro area has no direct impact on these processes. It can be assumed that the economic incentive policy applied by individual countries in relation to foreign investments, the level of infrastructure or geographical location plays a greater impact here.

3.2 Trade Expansion

Functioning in the euro area should mean greater transparency and stability of the conditions for doing business, and thus strengthen the competitive position of companies in this zone thanks to lower costs of risk and uncertainty. Higher competitiveness should be reflected in higher trade expansion into foreign markets after accession to the euro area. Expectations were formulated that this could be 5 to 10 percent above average (Baldwin, 2006).[11] Trends in this area are presented in Figure 7.

Slovenia joined the euro area on 1 January 2007, i.e., in a period of very good economic conditions and rapid development of international trade following the accession of 10 more countries of Central and Eastern Europe to the European Union at the beginning of May 2005.

As a result, after the first two years after joining the euro area (2007-2008), Slovenia's exports increased by 25.4%. At that time, Spain, which was already in the Eurozone, recorded an increase in exports by 12.4%, and Poland, which was operating outside the Eurozone, by 31.4%. The Czech Republic and Slovakia recorded an increase in exports for this period by 32.0% and 45.1%, respectively.

Slovakia's accession in the euro area (1 January 2009) coincided with the financial and economic crisis in Europe and in the world, which was reflected in the collapse of exports in 2009 and its recovery in the following year, as shown in Figure 7. With the exception of Slovenia (a decrease of 5.1%), all the countries analysed recovered their pre-crisis exports in 2010.

In Slovakia, the increase for the years 2009-2010 amounted to 2.8%, in Poland 4.0%. The similar, albeit slightly weaker, results of the other countries suggest that the mere fact of belonging to the euro area does not ensure greater resilience to economic shocks and maintaining export expansion.

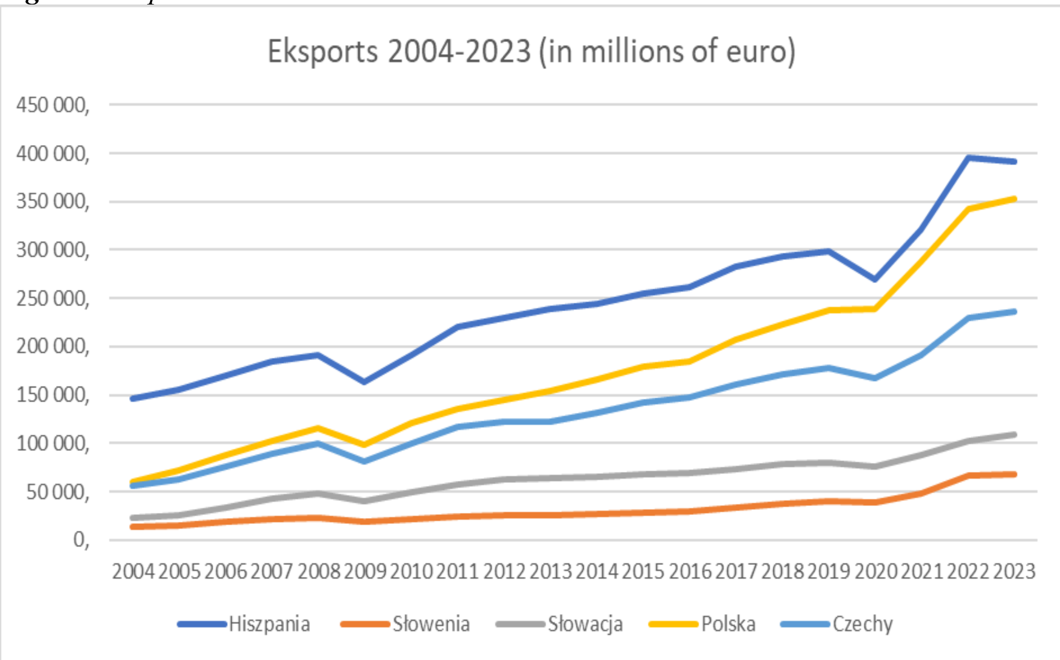
Analysing the changes for the entire period of Slovenia and Slovakia's functioning in the euro area, we can note that Slovenia's exports for the years 2007-2023, i.e., after the date of joining the euro area, developed at an average annual rate of 5.9%. At that time, the rate for Poland exports was 6.7%, and in the case of Spain and the Czech Republic 1.6% and 4.5%, respectively.

Slovakia joined the euro area, accepting to a significant (by 22%) strengthening of its own currency before the exchange for the euro (Orłowski et al. 2018). The date of accession also unfortunately coincided with the occurrence of the global financial

[11]*In fact, the euro area's share of global exports of goods and services fell from 30% (Baldwin, 2006) in 2000 to 24.2% in 2024. Own calculations based on data from the World Economic Outlook Database, April 2025, Volume of exports of goods and services.*

and economic crisis of 2008-2009, and 10 years later with the emergence of another crisis related to the COVID-19 coronavirus pandemic.

***Figure** 7. Exports 2004-2023*



***Source:** Eurostat Data Browser, International trade of EU, the euro area and the Member States by SITC product group. https://ec.europa.eu/eurostat/databrowser/view/EXT_LT_INTERTRD__custom_16196825/default/table?lang=en*

This had a significant impact on the lower average annual export dynamics. It amounted to 1.5% for the years 2009-2023. Spain and Slovenia, which are active in the euro area, recorded an average annual increase in exports of 0.3% and 4.4%, respectively, and Poland and the Czech Republic, which remain outside the euro area, 4.9% and 2.1%, respectively.

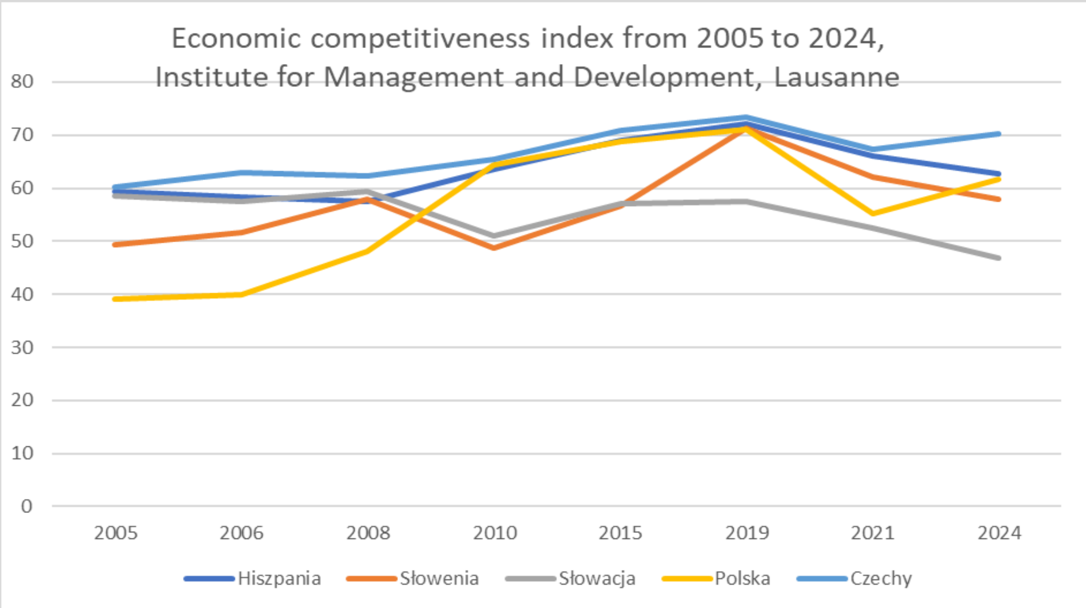
The results of foreign trade do not indicate that accession to the euro area will open up new development prospects for domestic companies. Exporters do not see currency or the exchange rate as a key issue.[12] They recorded the highest export dynamics in the period after accession to the European Union. The large differences in this dynamic between Slovenia and Slovakia after joining the euro area may indicate the importance of the economic situation at the date of accession to the euro

[12]*This opinion was expressed by m.in. Marta Kightley, First Vice-President of NBP, during a debate organised as part of the Polish Economic Forum in London in March 2025, referring to the bank's panel surveys of enterprises in Poland (Business Insider, 2025)*

area and the importance of the fixed exchange rate. Poland, which remains with its own currency, has the best results in all the comparisons carried out here.

According to the comparisons of export dynamics, the accession of the analysed countries to the euro area does not have a distinctive impact on the improvement of the competitive position of their enterprises and economy, which is also synthetically presented on a scale from 0 to 100 points by the Economic Competitiveness Index of the Institute of Management and Development in Lausanne (Figure 8).

Figure 8. *economic competitiveness index from 2005-2024*



Source: *The IMD World Competitiveness Ranking. Raports, 2006, 2015, 2021, 2024. https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/*

On the threshold of accession to the European Union, Poland was a clear outsider in terms of the overall level of competitiveness in the group of countries analysed. The Czech economy was the leader, maintaining this position throughout the entire analysed period. Nevertheless, over the 20 years 2005-2024, the Polish economy improved its competitive position the most – from 39.0 to 61.7, i.e., by 22.7 p.p., followed by the Czech economy – by 10.1 p.p., i.e. countries remaining outside the Eurozone.

At the other end of this comparison was the Slovak economy, which has been operating in the Eurozone since 2009, recording a decrease in the competitiveness index from 58.6 in 2005 to 46.9 in 2024. Spain and Slovenia, going through vicissitudes, finally improved their competitiveness indicators for the analysed period by 3.3 and 8.7 p.p., respectively, after 20 years.

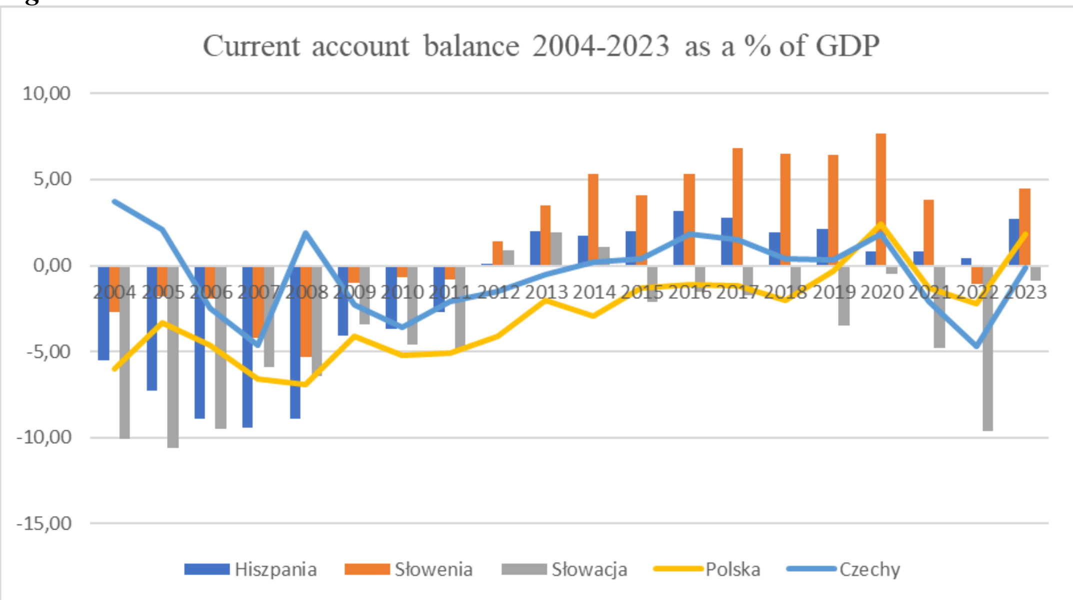
As a result of the processes taking place, we can talk about, among other things, a tendency (visible in Figure 8) for the competitiveness of the Spanish and Polish economies to equalize, starting from 2010, although five years earlier they were separated by a difference of more than 20 points. Slovenia and Slovakia, despite joining the euro area, were overtaken by Poland in the competitiveness ranking.

4. Economic and Financial Stability

4.1 External Balance

Membership in the euro area should provide companies of the joining countries with greater financial credibility, better financing conditions, lower transaction costs, thus strengthening their sales potential and contributing to the improvement of their financial results and market position. On a macroeconomic scale, this should result in an improvement in the current account balance, the net international investment position, and reduce the pressure on the growth of public debt with lower costs of its financing.

Figure 9. *Current account balance*



Source: *Eurostat Data Browser. Current account balance. https://ec.europa.eu/eurostat/databrowser/view/tipsbp20/default/table?lang=en;*

An analysis of the current account balances of Slovenia and Slovakia (Figure 9) shows that these countries have improved their financial position by moving from negative to positive balance sheets, albeit only after several years. In the case of Slovenia, this improvement turned out to be permanent in the period 2012-2023, excluding 2022, in contrast to the situation of Slovakia, which, after several years of improvement (2012-2014), returned to the track of a negative current account balance, which in 2022 reached a record negative level.

The Poland`s economy did not stand out from the emerging trends compared to the comparison group, although it presented slightly weaker indicators. The Czech economy fared much better until 2020, but in recent years it has probably felt the effects of foreign exchange disruptions as a result of the coronavirus pandemic, the outbreak of war in Ukraine and the rapid increase in inflation in 2022 more than other countries.

However, the year 2023 allowed both the Czech Republic and Poland to stabilize the current account balance. After a period of many years of turmoil visible in the first decade of the 21st century, the Spanish economy regained stability at the level of the current account balance in the following period.

The fact that the current account balance of the countries under review has been maintained, with occasional exceptions, regardless of their membership of the euro area, indicates that there is no direct link between these elements.

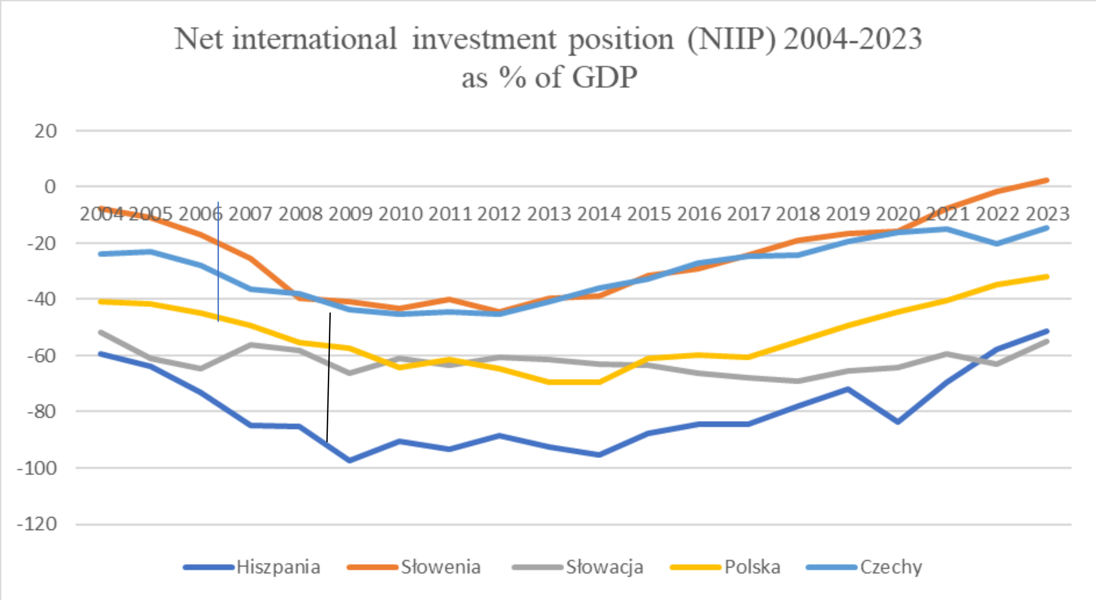
This would indicate that for countries that have achieved a level of economic and institutional development that allows them to aspire to join the eurozone, e.g. by joining the EU, no longer means a qualitative leap in terms of financial credibility, strengthening market competitiveness.

It is also possible that any lost benefits due to the still paid costs of foreign exchange differences are compensated at the same time by easier opportunities to maintain cost advantages in other areas in conditions of, for example, easier segmentation. The country's financial and economic position is an important indicator of the country's financial and economic stability position (Figure 10).

All the analysed countries, despite their strongly differentiated starting position in 2004, recorded a deterioration of the net MPI starting from 2006 and even more, with the financial and economic crisis of 2008-2009 with individual shifts in time. The following years resulted in stabilization at a relatively low level, which is reflected in the sideways trend of the MPI index.

In the case of Slovenia and the Czech Republic, it lasted until 2012, and two years longer in the case of Poland and Spain. Since the country's entry into the euro area, Slovakia's net MPI has been in a sideways trend for a decade, with a slight negative trend.

Figure 10. *Net international investment position*



Source: *Eurostat Data Browser, Net international investment position. https://ec.europa.eu/eurostat/databrowser/view/TIPSII10/default/table?lang=en.*

The change in trend took place in 2019 with a significant reinforcement – an improvement of 8.3 pp. in 2023. As a result, Slovakia improved by 3.1 pp. its position in the MPI area compared to the 2008 level of (-)58.0%). In the same period, this indicator in relation to Poland improved from (-)55.4% to (-)31.8%, with a temporary significant deterioration in the meantime.

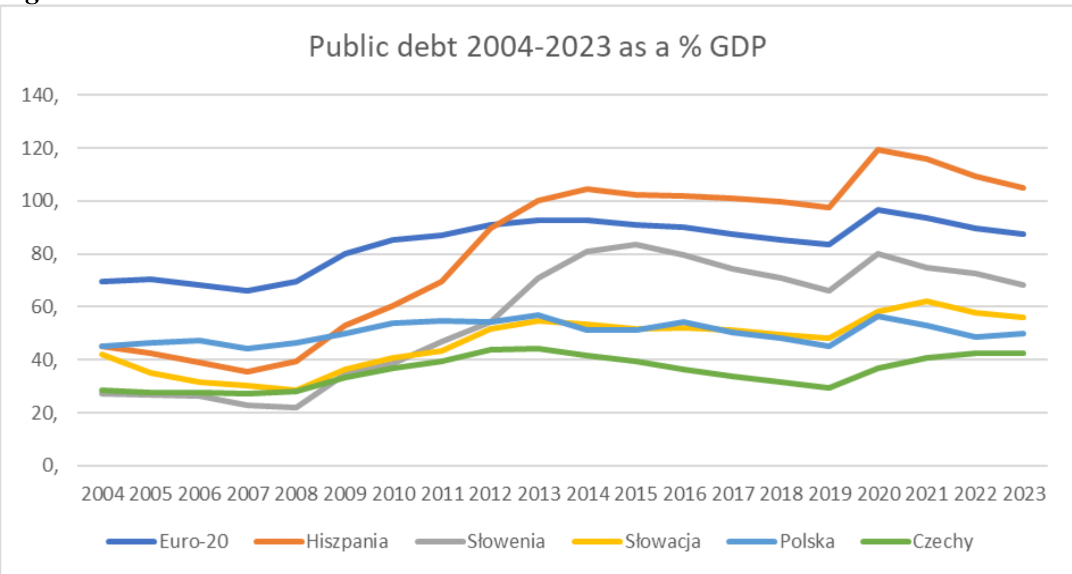
As Figure 10 shows, at the end of 2023, two euro area countries, Spain and Slovakia, were in the most difficult position in terms of their net international investment position, albeit with a trend of improvement. The situation is good in the case of Slovenia and the Czech Republic.

However, it is impossible not to notice that the Slovenian economy reached the level of the net MPI before joining the euro area (((-)16.9% in 2006) only in 2019. Poland had its most difficult period in 2013-2014, recording a systematic improvement since 2018. The wide variation in performance over time and across countries analysed indicates that the accession of an economy to the euro area does not automatically lead a country to an improvement in its net international investment position.

4.2 Price and Public Debt Stability

Membership of the euro area by transferring a number of competences of the national central banks to the European Central Bank should strengthen the stability and financial discipline of the euro area countries, which should be conducive to better management of public debt and stricter control of inflation. Trends related to the development of public debt are illustrated in Figure 11.

Figure 11. *Public debt 2004-2023*



Source: *Eurostat Data Browser, Government deficit/surplus, debt and associated data. https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_6729263/default/table?lang=en .*

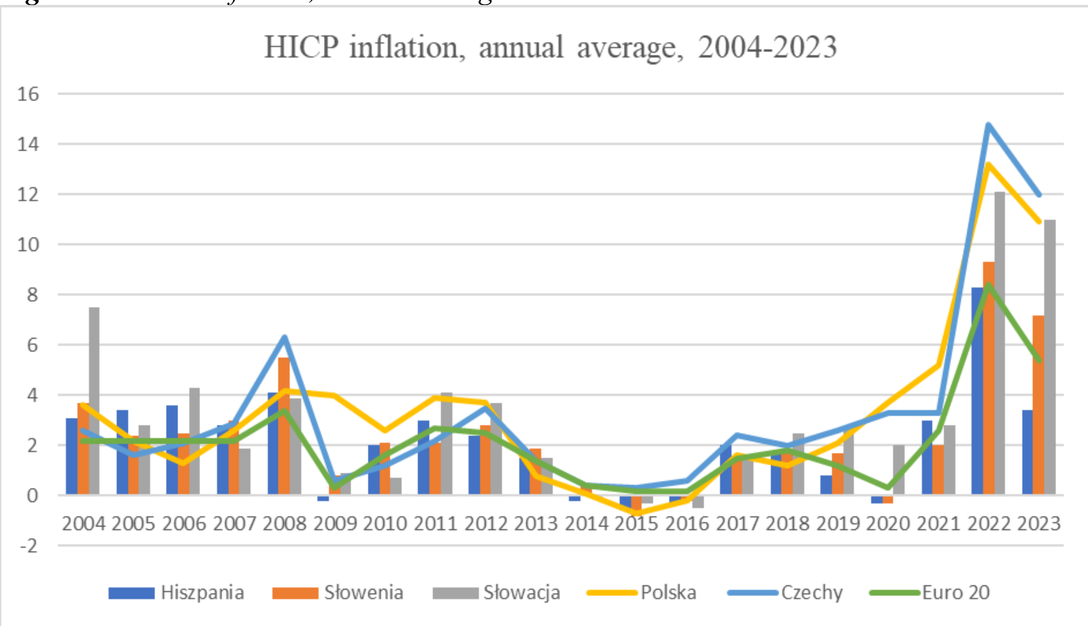
Since Poland's accession to the European Union, public debt in relation to the GDP of the euro area countries has increased from 69.7% in 2004 to 87.4% in 2023, i.e., by 17.7 percentage points. At that time, for Poland, the increase was 4.8 pp, and for the Czech Republic, 14.1 pp. Slovenia joined the euro area in 2007 with a public debt of 26.2% of GDP. At the end of 2023, this debt increased to 68.4% of GDP, i.e., by 42.2 pp. In the comparable period, this increase for Poland amounted to 2.6 pp. Since Slovakia's accession to the euro area (2009), the country's public debt has increased from 28.6% to 56.1% in 2023 (by 27.5 percentage points).

During this time, the Polish public debt increased by 3.1 percentage points. It is worth noting that both Poland and the Czech Republic have complied with the requirement to maintain public debt at a level not exceeding 60% of GDP for the entire period of their membership in the European Union, which turned out to be impossible in the case of Spain and Slovenia. This level was permanently exceeded in 2010 and 2013, respectively.

An analysis of changes in public debt ratios in the compared group of countries leads to the conclusion that accession to the euro area does not generate effective pressure to reduce public debt.

The high autonomy of the European Central Bank gives rise to a natural expectation of a monetary policy that ensures that the price level is stable. The effects of this policy on inflation are shown in Figure 12.

Figure 12. *HICP inflation, annual average 2004-2023*



Source: *Eurostat Data Browser, Harmonised index of consumer prices (HICP). https://ec.europa.eu/eurostat/databrowser/view/prc_hicp_aind__custom_10737370/default/table?lang=en.*

In the euro area, the 2% ceiling applies as the medium-term inflation target, and as of July 2021 it has been additionally symmetrical. In the Czech Republic, there is also a 2% target with a permissible 1% deviation, and in Poland 2.5% with a corresponding 1% deviation. A comparison of inflationary trends over the last 20 years shows their cyclical volatility, oscillating within the limits of the adopted target, to which all observed economies, regardless of their membership in the euro area, were subject, with periodic exceptions.

However, while the economies of Spain and Slovenia have been characterised by a high convergence of their HICP inflation rates over the period of their existence in the euro area, in the case of Slovakia, domestic inflation rates in some years, especially in 2022-2023, differ significantly from the averages for the entire euro area.

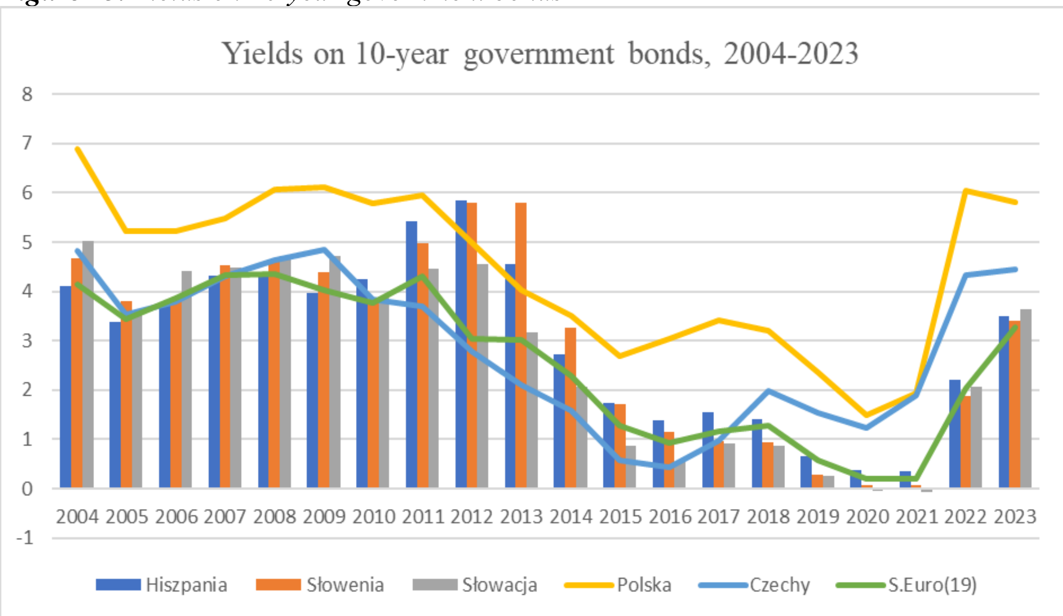
A similar situation can also be observed for HICP inflation in Poland and Czechia. Over the last 17 years of its membership of the euro area, Slovenia has achieved average annual HICP inflation rates below the average for the entire zone 6 times. At the same time, Poland recorded 5 such periods, and Slovakia also recorded 5 periods of lower inflation rates for its 15 years of membership. However, the analysis of trends indicates that Poland and the Czech Republic periodically (e.g., in relation to the COVID-19 pandemic and post-pandemic period) showed deeper deviations of the inflation level from the average for the euro area than the analysed countries remaining in this zone, which indicates a greater scale of inflationary instability.

At the same time, it is worth noting the large increase in inflation as a consequence of the economic shock of the COVID-19 pandemic and the parallel intervention measures taken by the governments of individual countries. The highest inflation levels were achieved by the neighbouring Czech Republic, Poland and Slovakia.

This may suggest the hypothesis that in view of the regional convergence of pandemic problems that took place in these countries in 2020-2021, membership in the euro area played a secondary role in this case.

The level of inflation is transferred to the level of interest rates and further to the costs of servicing the public debt. A comparable indicator of these costs and an indirect reflection of the financial standing of individual countries is the yield on 10-year treasury bonds.

Figure 13. *Yields on 10-year government bonds*



Source: *OECD Stat. Data warehouse. Long-term interest rates, annual data at the end of each year, https://data-explorer.oecd.org/vis?df[ds]=DisseminateFinalDMZ&df[id]=DSD_STES%40DF_FINMARK&df[ag]=OECD. SDD. STES&dq=AUS.M.. PA..... &lom=LASTNPERIODS&lo=5&to[TIME_PERIOD]=false*

As Figure 13 shows, in the long-term trend, euro area countries finance their debt at a lower cost, i.e., they are able to place their long-term (10-year) bond issues at a lower yield (average for 2004-2023 – 2.58%) compared to, for example, the Polish economy (4.47%). The Spanish economy also achieved lower yields (2.99%) despite very high debt ratios that have persisted for years (Figure 11).

However, this does not mean that economies outside the eurozone are automatically doomed to higher debt servicing costs, as the example of the Czech Republic proves. Apart from the emerging deviations, which may also herald a change in the trend, the average yield on the analysed Slovenian government bonds for the years 2007-2023 was 2.80%, while at that time the Czech Republic – 2.66%, and the Poland – 4.23%.

On the other hand, in the case of Slovakia, which has been on a public debt-to-GDP path similar to Poland's for over ten years, the average yield on bonds issued for 2009-2023 was 2.12%, while in this period it was 2.42% in the Czech Republic and 4.03% in Poland. Remaining outside the euro area, the Polish economy incurs significantly higher costs of servicing public debt, both in relation to the average for the entire zone and in comparison to Slovakia or Slovenia.

However, at the same time, the Czech Republic was able to secure comparable public debt financing conditions - slightly better compared to Slovenia and slightly worse than Slovakia. The deterioration of the situation of the Czech economy in the last few years was related to the post-pandemic increase in inflation and will probably prove to be temporary.

The comparison of inflation trends and yields on long-term government bonds presented in Charts 12 and 13 shows that in the case of Poland, the yield trend followed the inflationary trend, significantly increasing the cost of servicing public debt. In the case of economies belonging to the euro area, this interdependence is not so visible. Annual HICP inflation averaged 5.4% in the euro area in 2023, 11.0% in Slovakia and 7.2% in Slovenia, while 10-year government bond yields stood at 3.27%, 3.65% and 3.4% respectively in 2023.

Therefore, the yields on government bonds of the observed euro area countries were shaped more through the prism of the market assessment of the stability of the euro currency and the euro area itself, as well as the issuer's ability to service its liabilities, rather than the impact of inflationary processes. The risk of inflationary instability has been spread over the entire zone, giving the observed eurozone countries a significant cost handicap.

5. Conclusions

The country's accession to the euro area in accordance with the "Maastricht criteria" is subject to a number of conditions related to ensuring economic and financial stability regarding the level of inflation, interest rates, the exchange rate, the deficit of the public sector and the level of its debt, as well as the transfer of decision-making powers in the field of monetary policy from the national level to the European Central Bank. This should be conducive to accelerating economic convergence, reducing development risks, strengthening the confidence of financial markets, thus improving the competitive position in relation to other, non-belonging countries.

However, the comparative analysis of the countries of the former Eastern Bloc that joined the European Union together in 2004, of which Slovenia and Slovakia joined the euro in 2007 and 2009, with Spain joining the euro area since its inception, and Poland and the Czech Republic as countries operating outside the euro area, indicates, however, that the above-mentioned stability requirements do not ensure a higher rate of economic development in the medium and long term Temporary. Poland and the Czech Republic achieved significantly better economic results in this area, with a large differentiation on the side of the analysed euro countries.

The conclusions from the analysis of the effects of economic and social shocks that were recorded in 2008-2009 and 2020-2021 are less clear. While the Slovenian economy reacted to the financial and economic crisis of 2008-2009 with a decline in GDP significantly deeper than the average for the Eurozone, which is in line with the theory of asymmetric shocks, the Slovak economy recorded a better result than the average.

A stronger decline was also recorded in Spain's economy. In the countries remaining outside the euro area, the best results of Polish contrast with the weaker results of the Czech economy. A large discrepancy in the results achieved also applies to the 2020-2021 crisis related to the COVID-19 pandemic. In this case, its course was largely determined by health factors, independent of the state of the economy.

Joining and functioning in the euro area does not automatically mean an improvement in the employment situation. The best results were achieved by countries such as Poland and the Czech Republic, which remain outside the euro area. However, a positive correlation can be seen in relation to unit labour costs.

In the countries joining the euro area, they are growing much higher than the average for the entire zone. The same applies to Polish and the Czech Republic. This indicates the ongoing process of wage convergence in both the euro area and EU countries, where the dynamics of this process is highest in the countries joining the EU and the common currency area with relatively low hourly rates.

Joining the eurozone does not translate into a higher investment rate either. None of the analysed countries reached the investment ceiling from before the 2008-2009 crisis. The visible sideways trend, also with regard to the investment rate of enterprises, may lead to linking this state of affairs with the EU regulatory policy encouraging the location of high-emission investments outside the EU. Against the background of the euro area and other analysed countries, the phenomenon of a high investment rate in the Czech economy stands out, which is associated with the high competitiveness of this economy, which is confirmed by recognized competitiveness ratings.

The elimination of exchange rate risk should encourage domestic companies to increase export expansion. In contrast to Slovakia, the Slovenian economy maintained high dynamics in this area. Nevertheless, it is significantly lower than the growth rate of Polish exports. Slovakia has also used the fact that it belongs to the euro area to stabilise its current account balance, which the Slovak economy is experiencing with visible difficulties.

The analysed countries are characterised by a large convergence of inflationary trends, regardless of their membership in the euro area. However, problems with maintaining price stability were more common in Poland and the Czech Republic, as well as in Slovakia, which is a member of the euro area. This is particularly significant in relation to the COVID-19 and post-pandemic period. Higher inflation in these three neighbouring countries recorded at the same time may indicate similar causes of its occurrence as a result of the COVID-19 pandemic.

Membership in the euro area has not protected Slovenia and Slovakia from a significant increase in public debt. Paradoxically, Poland and the Czech Republic, which remain outside the euro area, are more disciplined in this respect. However, this does not go hand in hand with the costs of financing this debt, which are significantly higher.

The confidence premium for the euro of the financial market, without the need to bear exchange rate risk, allows Slovenia and Slovakia to place their bonds with an average yield of 1.4 percentage points, respectively. and 1.9 pp. lower than Poland. It is significant, however, that for a number of years, the Czech Republic, which remained with the national currency, was able to finance its public debt with bonds with a yield slightly better than that of Slovenia and slightly worse than that of Slovakia. The factor of the costs of financing public debt is undoubtedly the most important argument for Poland's accession to the euro area.

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