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The European Growth Agenda

**Financial Market Integration and Economic
Growth: the Case of the Selected New EU
Member Countries**

**Prof. Sławomir I. Bukowski, Ph.D.,
Habil.**

***Kazimierz Pułaski University of
Technology and Humanities in Radom***



Kazimierz Pulaski University of Technology and Humanities in Radom (UTH in Radom, Poland)

- **UTH in Radom** is the oldest institutions of higher education in the South Mazovia Region.
- **Eight Faculties:** Arts, Computer Science and Mathematics, Design and Science of Materials, Economics, Filology and Pedagogic, Mechanics, Transportation and Electrical Engineering, Health Sciences
- **The Faculty of Economics** was set up in 1969. It is the biggest faculty within the UTH in Radom. In 1993 the Faculty was granted the right to confer doctoral degrees in Economics. It has got 2 200 students.



Department of International Business & Finance

- The Department is the leading didactic and research Department within the structure of the Faculty of Economics.
- The Department employs: 1 full professor, 6 assistant professors (2 with practical background in business), 3 lecturers involved in scientific research (also with practical background in business).
- All members of the Department speak fluent English and have good skills in modern advanced quantitative methods (mathematical statistics, advanced econometrics) in economic research implementation.

Department of International Business & Finance: main fields of research:

- Main determinants of economic growth in the EU. Implications for Poland
- Regional economic convergence in the EU
- Business cycle and anti-cyclical policy in the EU.
- Financial development and economic growth
- Stock exchange market as a source of financing companies
- Monetary policy of ECB, price stabilisation and euro exchange rate fluctuations
- Financial integration in the euro area. Implications for new EU member countries (NMC)
- Integration of the NMC financial markets with the euro area financial markets
- Labour market in the EU
- International transfer of technology

Sławomir Ireneusz Bukowski

- *Full professor of economics (since 2013), Ph.D. (Warsaw University-1986), habilitated (Cracow University of Economics-2004).*
- *A founder of the Department of International Business & Finance (within the structure of the Faculty of Economics - K. Pulaski UTH in Radom) and its Head since 2006.*
- *The author of more than 160 scientific publications (among others – the author of 6 books, editor of 5 books, numerous papers in English, Polish and Russian, also those published in the Philadelphia list journals) and 150 reports and expert opinions for business.*
- *Main scientific interests:*
 - *financial integration and economic growth*
 - *economic growth theory and economic policy,*
 - *implementation of quantitative methods in research in the previously mentioned fields.*

Sławomir Ireneusz Bukowski- main last international publication

- S.I. Bukowski, *The Degree of the Polish and Slovak equity market integration with the euro area equity market*, “Quaderni Del Dipartimento Di Economia, Finanza e Statistica” Quaderno n. 115 – Gennaio 2013, Università degli Studi di Perugia.
- S.I. Bukowski, *The Degree of the Chinese Equity Market Integration with the Japanese and US Equity Markets*, w: Š.Bojniec, J.C. Brada, M. Kuboniwa (ed.), *Overcoming the Crisis. Economic and Financial Developments in Asia and Europe*, University of Primorska Press, Koper 2012, s. 141-154 (ISBN 978-961-6832-32-8 (pdf)), e-book: <http://www.hippocampus.si/ISBN/978-961-6832-32-8/contents.pdf>.
- S.I. Bukowski, *Financial Market Development and Economic Growth in the Euro-12 area*, w: M.P. Van der Hoek (ed.), *Finance in East and West*, Forum for Economists International, Papendrecht, Netherlands, 2012, s. 1-15.
- S.I. Bukowski, *The Integration Degree of Treasury Bond Market in Poland and in the Euro Area*, “Eastern European Economics” November-December 2011, Vol.49, No 6, ss. 29-39.
- S.I. Bukowski, *Economic and Monetary Union – Current Fiscal Disturbances and the Future*, “International Advances in Economic Research” An official Publication of the International Atlantic Economic Society. Special Issue “The Greek Financial Crisis”, Guest Editor: Nicholas Apergis, Volume 17, Number 3 (2011), ss. 274-287.
- S.I. Bukowski, *Economic Crisis or the Crisis of Economics*, [w:] J. Sepp, D. Frear (eds), *The Economy and Economics after Crisis*, BWV Berliner Wissenschafts-Verlag, Berlin 2011, ss. 29-42.

Integration of Polish and other European Union new member countries from Central and Eastern Europe financial market with financial market in the euro area

Last research project: *funded by National Science Centre in Poland under the decision No. DEC-2011/01/B/HS4/02307*

Coordinator: Sławomir I. Bukowski

Why the project have been important ?

- „Financial Integration in Europe” – the annual report by ECB – embrace of generally whole euro area tendencies, there are no case studies of individual member countries within the framework of heterogenic monetary union.
- There are small number of empirical research and in result publication concern impact of financial market integration on economic growth - project partially fulfill this gap.
- Results of the project – stylized fact are new and important in the context of financial integration of different countries from the point of view of economic development level, degree of real convergence, propensity to inflation, budget deficit, public debt, attractiveness of financial market for foreign investors, size of economy.

Research methods

- Implementation of following measure of financial market integration:
 - price - based measures
 - news - based measures – stock exchange market, treasury bond market (evaluation of beta coefficient)
- Implementation of panel data models concern:
 - impact of financial market development on economic growth
 - impact of financial market integration degree on economic growth

Selected main findings

- Financial market development in the examined new EU member countries in a statistically significant way affects economic growth which is proved by the results of investigations carried out within the framework of this Project with the use of the panel model.
- Research results based on the panel model estimation also show a small but statistically significant effect of integration between the stock markets of the examined countries and the euro area and US markets on economic growth. However, when it comes to the effect of integration between the markets of deposits and credits in the examined countries and the euro area market on economic growth, it is statistically insignificant.

Selected main findings

- Financial markets of the examined new EU member countries (even those which are the euro area members) are relatively poorly integrated with the euro area financial markets. Poland represents relatively much highest degree of financial market integration with both euro area market and US market then the rest of investigated countries.
- Treasury bond markets of the examined countries are fairly well-integrated with the euro area market.
- What is interesting is the fact that in the years of recession and financial crisis (2008-2012), the Polish, Czech and Hungarian treasury bond markets were more integrated than the Slovak and Slovenian ones.

Selected main findings

- Thus, the very accession to the euro area and adoption of the common currency, in the short- and/or medium-term, do not bring about a high integration effect in the treasury bond market. Probably a factor which has a strong impact in this respect is attractiveness of the bond market in a given country as well as of the bonds themselves for foreign investors.
- Stock markets of Poland, Slovenia and Hungary are much more integrated with the global (US) market than the euro area market.
- Stock markets of the Czech Republic and Slovakia are more integrated with the euro area market although in the case of the Czech Republic research results are ambivalent. As far as intensity of shock spillovers in the Czech Republic is concerned, the correlation is negative.

Selected main findings

- While in the case of Poland and Hungary as well as the Czech Republic it can be, to a large extent, accounted for by a barrier in the form of multiple currencies, in the case of Slovakia and Slovenia this can be explained by the factors characteristic for their economies, that is: small size of their economies measured by the value of GDP, low attractiveness of their financial markets for foreign capital, prevalence of small and medium-sized enterprises also those listed on the stock exchange and their limited possibilities of foreign expansion.

- **Actually the same refers to the Czech economy.**

Selected main findings

- The results obtained show that so far the new EU member countries have not achieved the same degree of their financial market integration with the euro area as the old countries of the euro area (11 countries which in 1999 set up the euro zone).
- The case of Slovakia and Slovenia confirms, to a large extent, a hypothesis that the very adoption of single currency, elimination of the exchange rate risk and costs of currency exchange, in the short- and medium- term do not increase the integration of the stock market or the market of deposits and credits to the average degree

Selected main findings

- Highest integrated markets in Slovakia and Slovenia with euro area market are: money market and treasury bond market.
- Thus, financial market integration as a convergence criterion should be treated as a target which can be reached in the monetary union in the long-term.
- There is no doubt that in the long run, a high degree of financial market integration as well as a high degree of business cycle synchronisation are desirable from the point of view of monetary policy effectiveness and monetary impulse transmission. Ultimately, from the point of view of the economic shock absorption, financial market integration is important also for each of the euro area countries.

The main determinants of economic growth in the EU. Implications for Poland- new project (short abstract)

At the end of 2012 we started a new Project in our Department, but in December 2013 we are going to apply for the grant from the National Science Centre in Poland:

The main objective of the research project is to verify the real significance of the so called shallow and deep determinants of economic growth in the European Union countries and to formulate conclusions for the economic policy which would create appropriate conditions for economic growth, especially in Poland.

The main determinants of economic growth in the EU. Implications for Poland- new project (short abstract)

The following research issues are given special attention:

- What are the relationships between shallow and deep determinants of economic growth?
- What are the mechanisms of the deep determinants' impact on short- and long-term economic growth?
- Which of the shallow and deep determinants of economic growth are of the greatest significance for the EU countries?
- Are the deep determinants of economic growth similar in all European Union countries?
- Do economic integration processes in the areas of the product market, financial market and labour market affect economic growth and, if so, to what extent?

Sławomir I. Bukowski

***Kazimierz Pułaski University of Technology and
Humanities in Radom***

ul. Malczewskiego 29, 26-600 Radom, Poland

e-mail: s.bukowski@uthrad.pl

mobile: +48604907040

Thank you for your attention