

# *The Conference on the European Economy - a Return to Growth or Long-term Stagnation?*

## *Konference Evropská ekonomika - návrat k růstu nebo dlouhodobá stagnace?*

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The one-day conference on the *European Economy – a return to growth or long-term stagnation?* was held by the University of Finance and Administration in the Congress Hall at the Czech National Bank on 27<sup>th</sup> November 2015. The conference's morning program involved papers presented by invited experts, while the afternoon program was dedicated to the winners of the Professor František Vencovský Prize.

The main paper on the topic of *Growth in the European economy in the light of the steps of the ECB* was given by Governor of the Czech National Bank, Miroslav Singer. František Bostl, the chief economist at Colosseum, spoke on the topic of *The TTIP Agreement – an advantage or the source of problems*. Martin Diviš, the Chairman of the Board of Directors and the Managing Director of the Kooperativa insurance company, captivated the audience with the topic *The Czech Republic – top of the class in Europe in 2015?*

The speakers agreed in their topics that Europe has been facing several threats in recent months which could be negatively reflected in the development of the economy and further slow down its growth. The challenge of recent years has been the migration crisis which has divided experts. There are varying opinions as to whether migration will provide a necessary injection in the form of an increased influx of the lacking workforce or whether, on the contrary, the wave of migrants will mean high costs associated with, for example, the payment of social benefits. The entire process may not only lead to the gradual closure of European borders, but also to the limitation of trade. In this context, the planned TTIP (Transatlantic Trade and Investment Partnership) on free trade between the European Union and the United States may be positive.

Another significant risk, which was commented on by the attending economists, is the risk of deflation. Interest rates worldwide are at very low levels approaching zero, so it is possible to acquire a comparative advantage through a weaker currency.

The Czech Republic fared very well in 2015 from the point of view of the economy, whereby we expect GDP growth of around 4.5%, i.e. a higher rate of growth than in all other European Union states. This fact was also the subject of an interesting discussion, in which M. Singer stated that: "the Czech economy has the potential to be among the faster growing economies in Europe, because the economy is balanced from a macroeconomic point of view, it has relatively little debt and the micro – fundamentals are solid."

A further significant topic was the competitiveness of the European Union and the divergence of the economic performance of the individual European states; on the one

hand represented by Germany and on the other hand by Greece and Portugal or Italy and Spain. As Governor Singer stated: "the belief that membership of the euro area will lead to greater discipline in economic policies (and politicians) has proved to be an illusion and wishful thinking."

The question which strongly resounded from today's forum is whether projects involving the unification of Europe with the aid of fiscal or banking union can even be successful and whether on the contrary this situation will not lead to the overall weakening of Europe as a whole in relation to the remainder of the world.

The afternoon section of the conference evaluated this year's competition for the Professor F. Vencovský Prize and the names of the winners were announced. They then presented their papers. This was the fifth part of the competition for young economists aged up to 35 let which the Rector of the University of Finance and Administration announces at two-year intervals.

First place went to Volha Audzei with a competition paper entitled "*Information Acquisition and Excessive Risk: the Impact of Interest Rates and Market Volatility*". The competition paper concerns itself with the problem of risk taking by financial agents and reaches the conclusion that low interest rates and/or market volatility lead to excessive risk taking and reduce the motivation to acquire information about risky assets. The author works at the Czech National Bank and at CERGE-EI as a researcher and at the same time is studying for her doctorate at CERGE-EI.

Hana Lipovská also came first equal with her competition paper "*Fiscal Placebo*". The competition paper concerns itself with the problem of government intervention (using the example of Czech governments) during economic crises. The author introduces the concept of the "fiscal placebo" according to which government intervention in the form of fiscal measures only serves a signalling function. Proposals of anti-crisis laws are therefore only a strategic decision of the government, the position of which is under substantial threat during a crisis. The author works at the Economic-Administration Faculty at Masaryk University in Brno, where she is also studying in the doctorate program. At present, she is also an external employee of the Václav Klaus Institute.

Third place went to Jakub Matějů with the competition work "*How Does Expansive Monetary Policy Induce a Build-up of Asset Price Bubbles and Amplify the Credit Cycle*". The competition work concerns itself with the establishment of price bubbles in models of general balance where they may result from the moral hazard of investors who demand a higher than optimal amount of risky assets. The work reaches the conclusion that an expansive monetary policy may lead to a financial cycle in the form of price increases for risky assets. The author works at the Czech National Bank and is studying in the doctorate program at CERGE-EI.

In the past, the conferences associated with the announcement of the winners of the Professor František Vencovský Prize for young economists have been attended by a number of significant economic personalities on both a Czech and an international scale, such as, for example, Professor Sam Peltzman from the University of Chicago, Professor Nicolas

Barr from the London School of Economics, Professor Michael Landesmann from the Wiener Institut für internationale Wirtschaftsvergleichung or Professor Václav Klaus. I am sure that further years of the competition and the conference will also take place with similar success.

Information on the conference is available at: <http://www.vsfs.cz/bienale/>

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