

DESCRIPTION FOR THE GENERAL PUBLIC (IN ENGLISH)

Economic dynamics has a spatial dimension. It results from the occurrence of idiosyncratic regional shocks, regional asymmetry in responses to common shocks and also transmission of shocks to neighbouring regions. All the above mentioned have their sources in certain region-specific (often structural) features.

The objective of this project is to investigate regional differences in economic dynamics, identify sources of these differences, track dynamic linkages between regional economic activity and show how all these are linked to the effects of monetary policy.

As many studies have shown, Poland is a country with profoundly diverse economic and social structures across its regions, which makes the problem of uneven dynamics and asymmetric monetary policy effects especially relevant. Yet it remains the only large EU country, where these problems were not given comprehensive examination and explanation so far.

There is a strong rationale behind putting regional dynamics in the context of asymmetric effects of monetary policy. Monetary policy affects economic dynamics processes through several channels. The most important are: interest rate channel (official interest rates determine commercial interest rates on deposits and loans), exchange rate channel (interest rate changes induce capital flows, which influence the exchange rate, which in turn affect prices of imported and exported goods, expressed in domestic currency) and credit channels (monetary policy decisions influence banks' balance sheets and the credit availability to economic agents). While monetary policy is designed to stabilize inflation (and possibly output) at the national level, its real economic impacts need not be homogeneous across sectors or regions. The transmission channels can work more or less smoothly in particular regions, depending on their structural characteristics, with regard to industry-mix, demographic situation, consumption patterns, enterprise sector behaviour and performance, etc. This means that the impulses and propagation mechanisms of uniform policies may also have distributional implications for the participating regions.

Recognition of mechanisms driving regional economic dynamics is important for a number of reasons. First, it substantially improves understanding dynamic processes at an aggregate level. Second, it provides essential knowledge on differentiated regional effects of uniform shocks, including monetary policy shocks. Third, it enables a more effective reaction of economic policies to prevent undesired effects of shocks in particular regions. Fourth, it facilitates understanding of dynamic interdependencies between regional economies. This project constitutes the first attempt of comprehensive investigation into economic dynamics at a regional level, with particular emphasis on the asymmetric effects of the uniform monetary policy.