

Opinion & Reviews

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Nightmares and Dreams: The Eurozone Crisis and the Prospects of Hungary's Eurozone Accession

The crisis of the eurozone has led the attention of economists to issues that were discussed two decades ago, but, at that time, strong political will (together with a relatively favourable overall economic situation) led to compromises, not in the letters, but mostly in the interpretation of the texts describing the conditionality of becoming (and, to a much less extent, of being) a member of the euro zone.

The reinforcement of the security mechanisms of the eurozone was a logical step, which was necessary to be completed very rapidly. It was also important for the mid-term stability of the eurozone. In order to make the eurozone an attractive and successful project, in the long run, even more emphasis should be given – beyond nominal convergence – to criteria describing the real economy of the members (or candidates for membership). Indicators based on such criteria may help avoid problems similar to those which occurred in some Member States (first of all, of course, in Greece) in the recent half-decade, and foresee potential problems, and avoid potentially harmful decisions made (only) because of political reasons.

In order to avoid (as much as possible) conflicts similar to the present Greek crisis management, the political aspects of the European integration process should be redesigned. One of the potential (theoretical) solutions could be the increase of the importance of supranational political decision-making bodies and institutions – of course, only as a result of thorough negotiations.

In the first years of its EU membership, Hungary had among its mid-term objectives to join the eurozone. However, serious problems regarding the fulfilment of the convergence criteria have led to a redesigned convergence

programme in September 2006 that contained no target date. At the time, it was a much more credible and realistic approach than the 2004 and 2005 extremely ambitious versions (and the target dates for the introduction of the euro set in them) of the convergence programme. The September 2006 version was even corrected positively in December 2006, and the targets were being met until the world financial and economic crisis seriously hit Hungary in the autumn of 2008.

The success of the fulfilment of the convergence programme (especially the substantial reduction of the public deficit) in the short period between 2006 and 2008 substantially contributed to the fact that Hungary could avoid default as the situation became very tight at the end of October 2008.

During the crisis, in Hungary, eurozone accession was not on the agenda, and it has not returned there after the crisis, either. The (elected in 2010, re-elected in 2014) right-wing government's Europe-rhetoric concentrates on the "independence" of the country, in some periods even expressly talking about a "fight for freedom". eurozone accession simply does not fit into such an approach. The crisis of the eurozone as well as the costs of the reinforcement of security mechanisms have further strengthened this approach. In the meantime, the National Bank of Hungary has followed a policy of lowering the basic interest rate; these (also due to external factors) successful steps have strengthened the feeling of being able to have an "independent" monetary policy. The debates on the future of Greece – including the debates on e.g. German dictates – also have strengthened this approach recently.

In the near future, no substantial change in this respect can be expected. In the longer run, however, the treatment (and the degree of success of the treatment) of the Greek crisis may have an effect on the Hungarian approach towards the question of joining the eurozone. A successful crisis management, with the consent of the majority of Greek citizens (which, at the moment, does not seem to be very likely) could in principle tune the present attitude of the Hungarian government towards a more positive one, while a more dramatic outcome – strong pressure of Western countries, first of all Germany, not accepted by the majority of the Greek population, persisting economic difficulties and social tensions – may provide additional support to the present approach.

As a result of the very deep political division within Hungarian society, the social perception of the euro is very different in different groups of the population. For many, the single European currency is still a symbol of stability, of avoiding risks (e.g. stemming from the fluctuation of the exchange rates), and of the strength of a big economic player (the eurozone, owing this first of all to the economic power and stability of Germany and France).

For others, the euro is a symbol of the reduction of a country's sovereignty – the events in Greece and their media coverage have recently contributed to the strengthening of this approach. A recent (April 2015) Eurobarometer survey (Flash Eurobarometer 418, Introduction of the euro in the Member States that have not yet adopted the common currency, has clearly reflected this division.

Still, among the countries presented in the survey, the respondents from Hungary were relatively pro-euro. Beyond Romania (54%), Hungary (50%) is the only country in the survey where at least half of the respondents believed that the introduction of the euro in their country would have positive consequences (for their country). Despite a 4 percentage point decline compared to 2014, still 60% of the respondents from Hungary were in favour of the introduction of the euro.

Despite the relatively (and only relatively) pro-euro survey statistics, the introduction of the euro in Hungary looks to be an event in the far future – if ever. Different government statements in the recent years have put the earliest potential date of the introduction to 2018, then for even later 2020 or beyond – again: if ever. Despite the fact that Hungary – similarly to all other Member States joining the EU after the formulation of the Copenhagen criteria – has no opt-out for the introduction of the single currency, the non-fulfilment of the convergence criteria “legalizes” this approach; at least in this respect, the country has become similar to Sweden. The increasing awareness of the risks of an incautious widening of the eurozone (as a lesson learnt from the Greek experience) from the side of the core eurozone members makes the approach of the Hungarian government far more “manageable” even in the long run than it was the case before the Greek crisis. All in all, if no sudden, for the moment not foreseeable changes occur, eurozone accession remains distant for Hungary.