



Prospects of Euro Adoption in Hungary

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Hungary does not have a clearly defined position on the adoption of the euro. While the central bank opposes the quick introduction of the single currency, the government shows it is open to it, leaving room for manoeuvre in case of political consolidation of the eurozone. Such a scenario would probably induce the government to decide on euro adoption despite doubts about its economic benefits.

Convergence Criteria. In joining the European Union, Hungary committed itself to adopting the euro. It should therefore strive to fulfil all conditions of its adoption. The country currently complies with three of the five convergence criteria for euro-area candidate countries: inflation remains low (1.8%); the budget deficit is below 3% of GDP; the long-term interest rate criterion is also fulfilled (3.2%). The government debt ratio is still significantly above the 60% reference value (74%), albeit decreasing for some time, meaning it would not be an obstacle to euro introduction. However, Hungary does not participate in the ERM II exchange rate mechanism, and so does not meet the fifth formal condition: stabilisation of the national currency rate against the euro. Membership of ERM II must be in place for two years before the introduction of the single currency. However, the forint's rate against the euro has not fluctuated greatly for four years. Thus, in practice, it correlates to the euro exchange rate. According to a declaration in June 2017 by Minister of Economy Mihály Varga, the formal adoption of the fixed exchange rate system—and thus signalling the willingness to participate in ERM II—is only a political decision since Hungary is prepared for it.

Central Bank Against Rapid Euro Adoption. Governor of the Hungarian National Bank (HNB) György Matolcsy would maximally delay the country's eurozone accession. He has mentioned 2030 as a possible accession date. According to the bank governor, less-developed countries should pursue their own monetary policy, especially to maintain the possibility to devalue the national currency to improve the economy's competitiveness. He argues that adopting the euro would be economically rational if convergence of national income levels was achieved. Meanwhile GDP per capita in Hungary is significantly lower than the euro area average. GDP per capita measured by purchasing power standard (PPS) was 67% of the EU average in 2016 (down by 1 percentage point in comparison to 2015).

Government's Position Unclear. Unlike the HNB, the government considers the political aspects of joining the eurozone. Like the central bank, its position refers to the economic risks, however, it leaves open an earlier political agreement on the issue. Minister Varga has made contradictory statements on the possible date of euro adoption. In June this year, he referred to it as a long-term goal, but in 2016, he signalled the possibility of joining the eurozone before 2020. The government has thus held off and, like other non-euro Member States, follows the changes in the euro area. Hungary, in contrast to the Czech Republic, has not applied for observer status at eurozone finance ministers' meetings (Eurogroup), which further demonstrates the Hungarian authorities' restraint.

Prime Minister Viktor Orbán, who is the one to decide on the introduction of the euro in Hungary, has taken a moderate position. Although he prefers solutions that give him greater independence, in a speech

in June 2017, he avoided evaluating whether plans to deepen the economic union would serve or impede Hungarian interests in the EU. This should be interpreted as preparing the political ground for either approving or rejecting the country's eurozone accession. The decision also will be influenced by Orbán's own political ambitions to occupy a high post in EU institutions. For him to have a real chance at that, the country will have to be in political centre of the EU.

The Opposition Favours Joining the Euro. The extreme right-wing Jobbik party, which is the second-largest political force, opposes the economic and political arguments on the adoption of the euro. It points to the level of economic development of the country and insists it does not allow the introduction of the single currency on beneficial terms. However, this party, firmly Eurosceptic until recently, now supports Hungary's participation in deeper economic and political integration. It is using this stance to differentiate itself from the government's criticism of the EU as a way to attract right-wing EU-enthusiasts before the parliamentary elections planned for April 2018.

Meanwhile, leftist parties Hungarian Socialists (MSZP) and Democratic Coalition (DK), as well as centrist party Together (Együtt), unambiguously support euro adoption. They argue that it would determine a European future for the country. They assume that soon a core group of Member States will emerge centred on the monetary union, and states that refuse to quickly join it will face the risk of being politically and economically side-lined in the EU. Given the position of the majority of Hungary's parliamentary opposition, the implementation of constitutional changes before euro adoption would not be a problem. They would be necessary according to the 2011 constitution which states the national currency is the forint.

Expert Debate and Public Attitudes. The newly formed Central Civic Party (Polgári Világ Párt) revived the public debate on euro adoption in August 2017. It initiated a petition for a referendum on the introduction of the single currency. Eventually the referendum question was rejected by the National Election Committee based on concerns about its compatibility with the constitution. Nevertheless, prominent Hungarian economists, including former HNB governors and former advisers of Prime Minister Orbán, endorsed the initiative. They unequivocally support the introduction of the euro, even though some represent conservative political views.

Public opinion is in favour of introducing the euro. The May 2017 Eurobarometer shows that the majority of residents (57%) supports the adoption of the single currency (for comparison, in Poland it is 43%). Out of all Member States yet to introduce the euro, only Romanians are more enthusiastic about adopting the single currency (64%). Opposition to adoption in Hungary amounted to 39% of respondents (54% in Poland). However, not all supporters of such a decision expect positive consequences. In Hungary, 44% of respondents expect negative impacts of euro adoption (52% in Poland).

Conclusions. The Hungarian government for now has left the date of euro adoption open. It is possible it will announce the intention of joining the eurozone. On one hand, economic necessity could induce the decision, such as a restructured EU budget and implementation of new financial instruments for eurozone members after 2020. This scenario is realistic since all net payers apart from Sweden and Denmark will be in the monetary union. After the UK leaves the EU, financial support for non-eurozone members under current conditions might be limited because of a smaller EU budget. Hungary receives funds of at least 4% of its GDP annually from the EU. These resources are difficult to replace from the Hungarian economy. Their absence would threaten the political position of the ruling coalition. Therefore, the likelihood it would speed up euro adoption is directly proportional to the possibilities of accessing EU funds at the current level. Orbán also will want to avoid a situation in which Hungary, as a non-eurozone member, would be politically weakened after the eurozone reform. Since the majority of Hungarians supports the introduction of the single currency, the decision to implement it does not constitute a high political risk for the government.

However, Orbán will not want to open the debate on euro introduction before the parliamentary elections planned for spring 2018, because that would be difficult to reconcile with the rhetoric against the EU by the ruling party in the pre-election campaign. The Hungarian prime minister also may choose to hold off on the issue until the new governing coalition in Germany is formed and a Franco-German compromise on eurozone reforms is reached. Since Orbán is not in favour of deepening political integration in Europe, he will try to avoid transferring more of the countries' economic competences to the EU, as long as doing so does not bring clear political or economic losses for Hungary.