

The standpoint of Hungary to the Banking Union and remarks about the possibilities of eurozone accession

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I. The standpoint of Hungary to the Banking Union

The accession to the Banking Union: open for non-euro area countries.

The Hungarian interests are the followings:

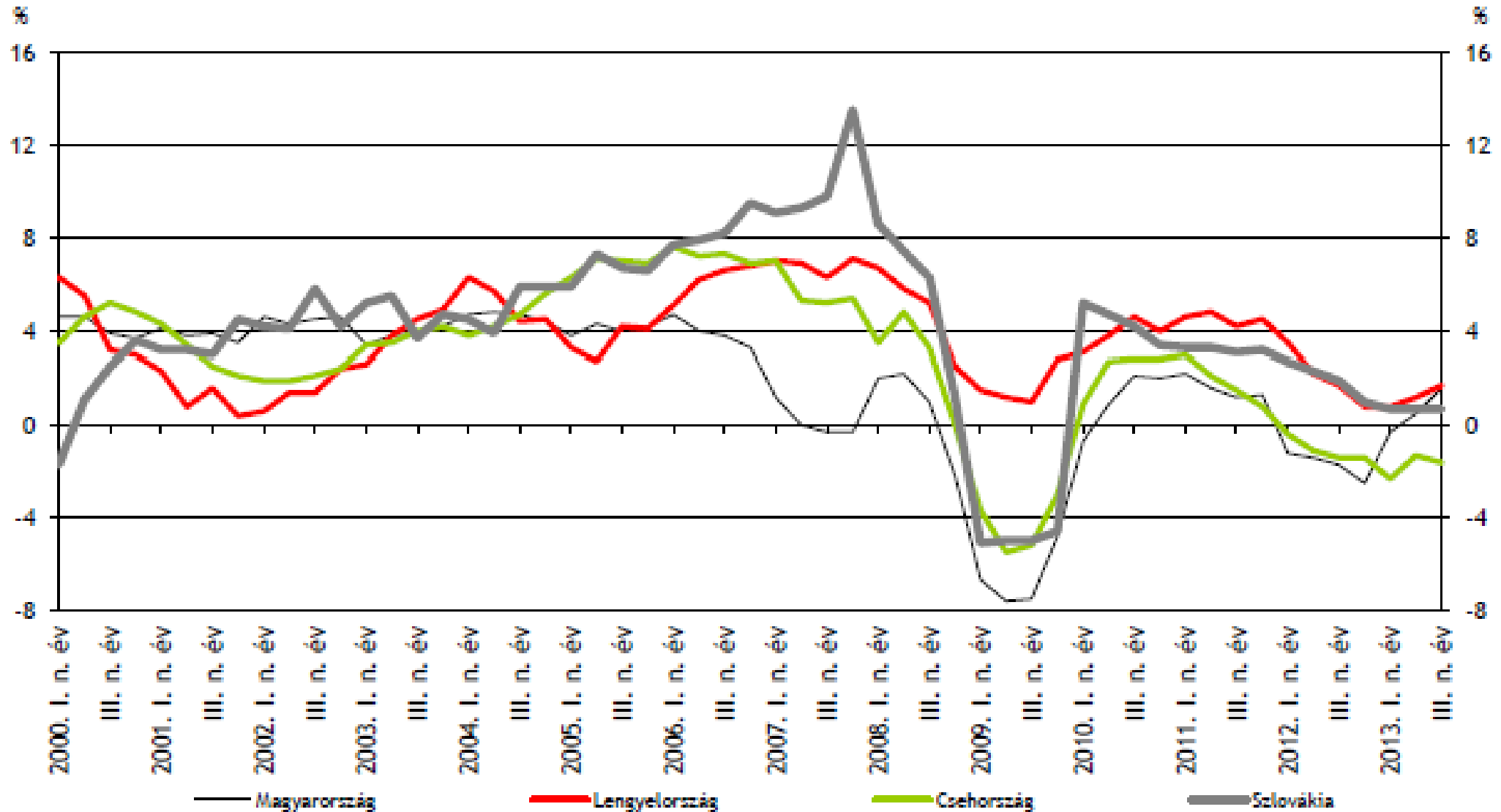
- 1. To provide a balance of the eurozone and non-eurozone Member States (equal treatment and same rights and obligations + voluntary participation).**
- 2. Criticism that the European Stability Mechanism will only be available to the MS financial institutions.**
- 3. Concerns about the decision-making mechanism within the EBA.**

Banking Union: lot of unresolved questions.

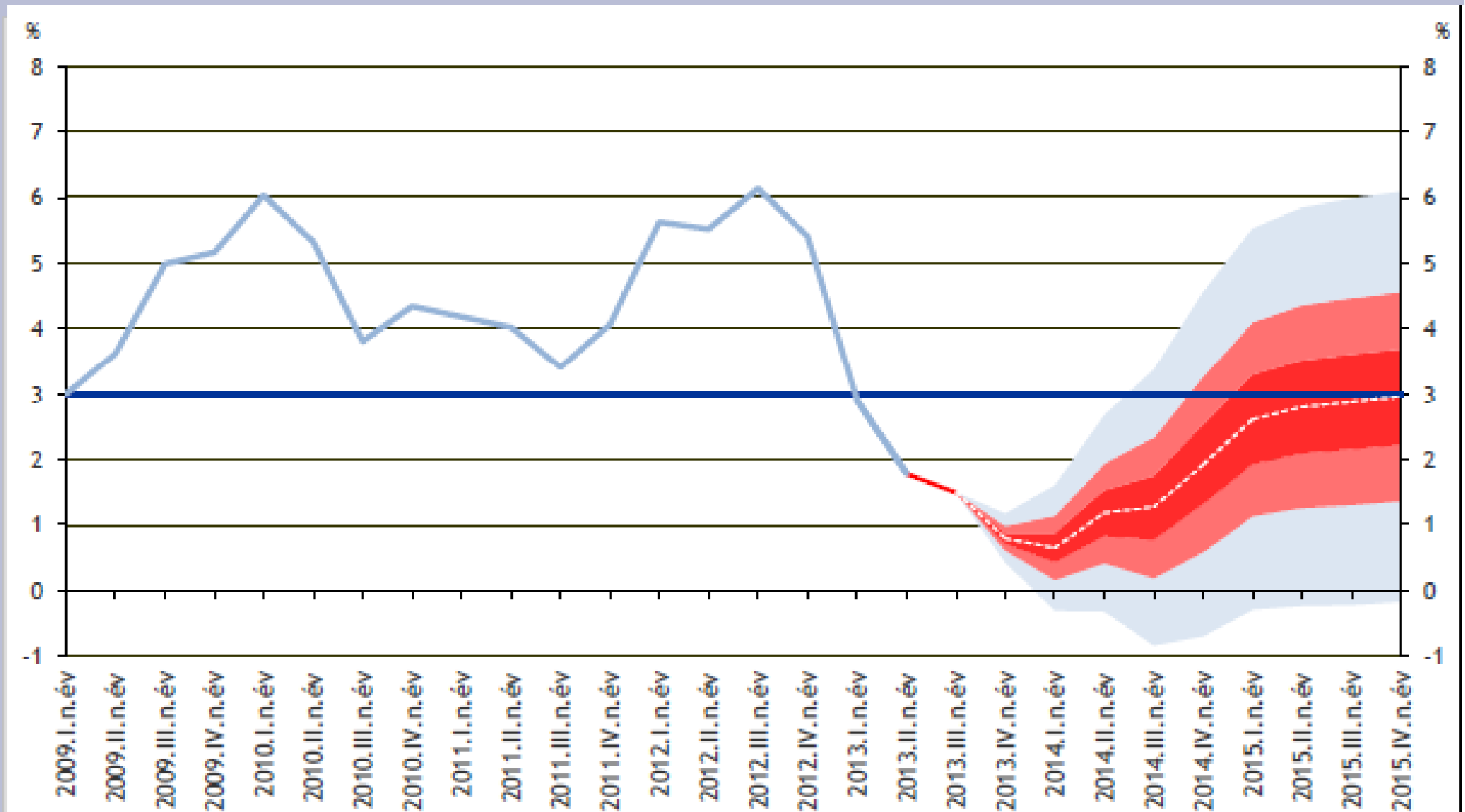
II. The Hungarian economy at the end of 2013 and in Q1 2014

- **End of the economic recession in 2013.**
- **The main reasons were the followings: 1. the favourable weather conditions (the role of the agriculture), 2. the acceleration of public investments.**
- **Favourable inflation expectations (0.3% in January 2014 as a consequence of the reduction of energy prices).**
- **Decreasing unemployment rate (workfare programs and other measures in the labour market).**
- **Favourable fiscal trends: budget deficit 2,7% of GDP; gross government debt 79% of GDP in 2013.**

Real GDP growth in the Visegrád countries between Q1 2000 and Q3 2013



Consumer prices in Hungary



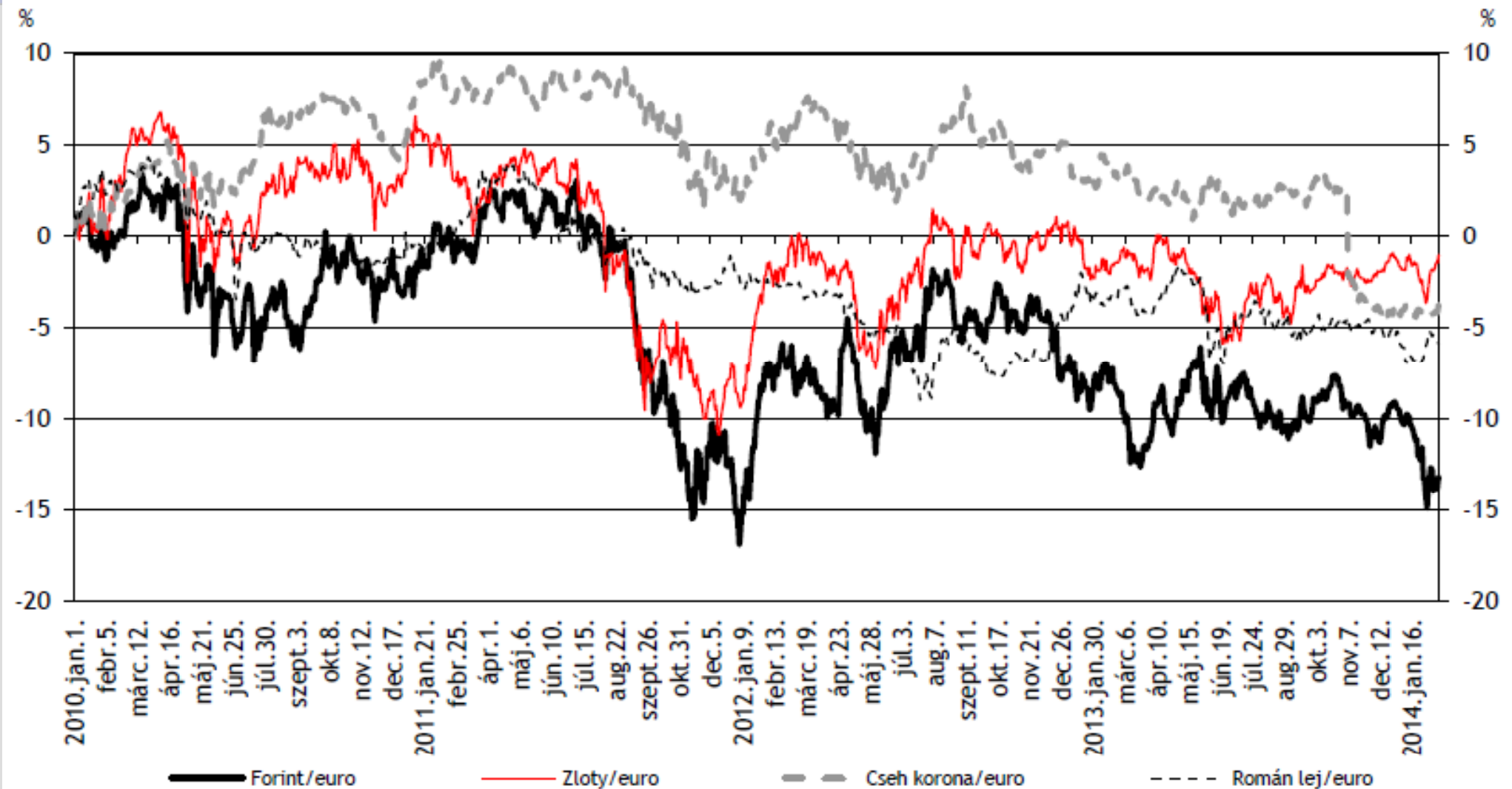
II. The Hungarian economy at the end of 2013 and in Q1 2014

Problems of the Hungarian economy:

- 1. Unsustainable processes in spite of positive achievements (early repayment of foreign-currency denominated loans, passing the burdens on the banking sector).**
- 2. Low investment activity in the private sphere.**
- 3. The fluctuation of the national currency (HUF) in 2013 and in 2014.**

Main consequences: in order to restore sustainable growth it's necessary to restore predictability, the proper operation of the banking sector + dynamic growth in business investments.

Exchange rate fluctuation in CEEs countries



EUR/HUF exchange rates between 2007 and 2014

Change from 19 March 2007 to 25 February 2014 **+62.95 (+25.6%)**

Minimum (18 July 2008): **228.16** - Maximum (5 January 2012): **320.78** - Average: **276.22**



III. Some remarks about Hungary's eurozone accession I.

Hungary and the adoption of euro: put off after 2020 (reasons: depending on the reduction of gross government debt to 50% of GDP + achieve convergence to 90% of GDP of the industrialised countries).

Problems in Hungary:

- 1. The stop of convergence process in 2006.**
- 2. The high share of foreign-currency denominated loans in the private sector.**
- 3. The volatility of the Hungarian national currency.**
- 4. Downgrading of Hungary below investment grade.**

III. Some remarks about Hungary's eurozone accession II.

Arguments for the early adoption of euro in Hungary:

- 1. The vulnerability of national currency by the contagions in the financial markets;**
- 2. Abolition of exchange rate risk;**
- 3. Contribution to the capacity of convergence.**

Risks of the early accession to the euro area:

- 1. Higher inflation rate as a consequence of real convergence;**
- 2. The accession to the eurozone by over-valued exchange rate system;**
- 3. The deficiencies of the euro area institutional systems.**

IV. Conclusion

- **Hungary and the Banking Union: equal treatment of the non-euro area countries + voluntary participation.**
- **Hungarian economy: positive changes in 2013, but some doubts in the real economy.**
- **The position of Hungary related to the adoption of euro: „not earlier than 2020” consideration.**
- **Several important factors in order to adopt the euro without tensions: to fulfil the extended rules of eurozone membership; the creation of reliable operation of institutions and mechanisms, to avoid any form credit expansion and overheating of the economy, the application of appropriate exchange rate mechanism.**

V. References

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Thank you for your attention!