

RETHINKING HUNGARY'S PROSPECTIVE ADOPTION OF THE EURO

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The study aims to revisit some of the macroeconomic issues related to Hungary's prospective accession to the Euro Zone. Adoption of the Euro was postponed by the present Hungarian government to a date "not earlier than 2020", without any discussion with or within the profession, or any meaningful explanation. This omission is one of the motives behind the authors' analysis. The study reviews the arguments in favour of adopting the Euro, formulated in 2000–2004 by the profession, and contrasts the official declarations on its prospective adoption and targeted dates for doing so with the actual policies pursued in the 2000s by successive governments. The case for Hungary to adopt the Euro is reconsidered in the light of experiences of the Euro Zone's crisis countries and its new central and east European members (Slovenia, Slovakia and Estonia), and of the current reforms in EU economic governance. The main conclusion reached is that irrespective of the intended timing for Hungary's actual accession to the Euro Zone, it is in its best interest to meet as soon as possible the requirements for introducing the Euro (the Maastricht criteria) and the new collective rules (the Six Pack and Euro Plus). However, beyond meeting the requirements of the European Union, "internal" ones also have to be met, including the stabilization of inflation expectations at a low level, and establishing institutions and mechanisms that prevent (1) enduring divergences between the tendencies in productivity and wages, and (2) excessive growth in domestic credit in the case of low real interest rates. The analysis reaches policy conclusions on two important points that differ from earlier conclusions supported by the profession. First, that the government should focus on designing, communicating and implementing a credible programme for meeting the conditions for adopting the Euro, rather than announcing new dates for joining the Euro Zone, Second, and yet more importantly, experience in the crisis countries teaches us that adoption of the Euro does not bring durable credibility gains, if the underlying developments are not sustainable: such "unearned" credibility may easily evaporate. So Hungary should only adopt the Euro if and when the government in power does not expect additional credibility from the currency change.