



MAASTRICHT IS NOT ENOUGH NEW CRITERIA NEEDED FOR EUROZONE ACCESSION



THE FULFILLMENT OF THE MAASTRICHT CRITERIA ALONE IS NOT ENOUGH¹



Maastricht criteria were also **achieved** by those **economies** which were **most affected** by the euro crisis.



DIVERGENCE

This requires the fulfillment of additional criteria in order to avoid divergence.

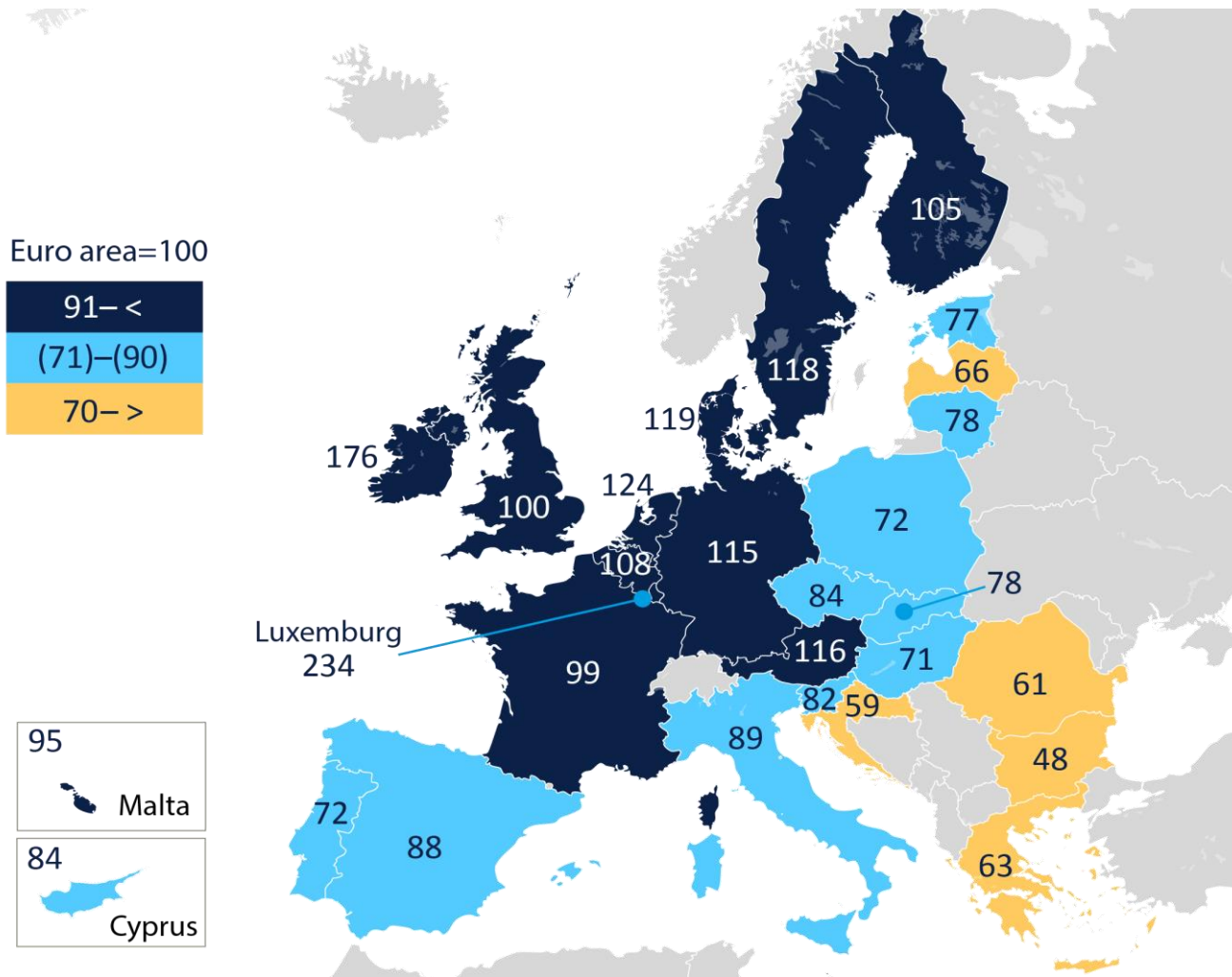


As long as the above criteria are not fully met, for Hungary, joining the eurozone entails greater potential costs and risks than the benefits.

2 | ¹ Márton Nagy – Barnabás Virág (2017): *Catching up in the eurozone can only be accomplished with proper preparation.* (<https://www.mnb.hu/letoltes/nagy-marton-virag-barnabas-felzarkozasi-az-eurozonaban-frissitett.pdf>)

1. criteria:

THE EUROPEAN UNION IS ALSO NOT A HOMOGENEOUS GROUP IN TERMS OF RELATIVE DEVELOPMENT



Relative development compared to the euro area (GDP/capita in PPS)

Note: Data from 2018, except Cyprus (2017)

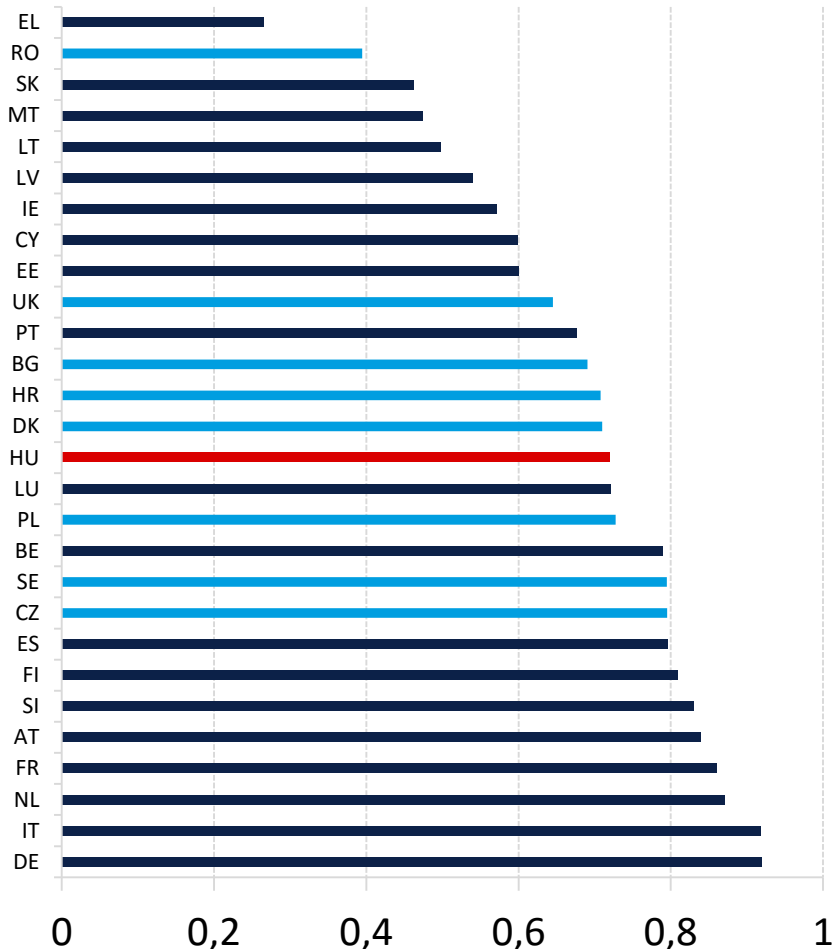
Source: WDI database

2. criteria:

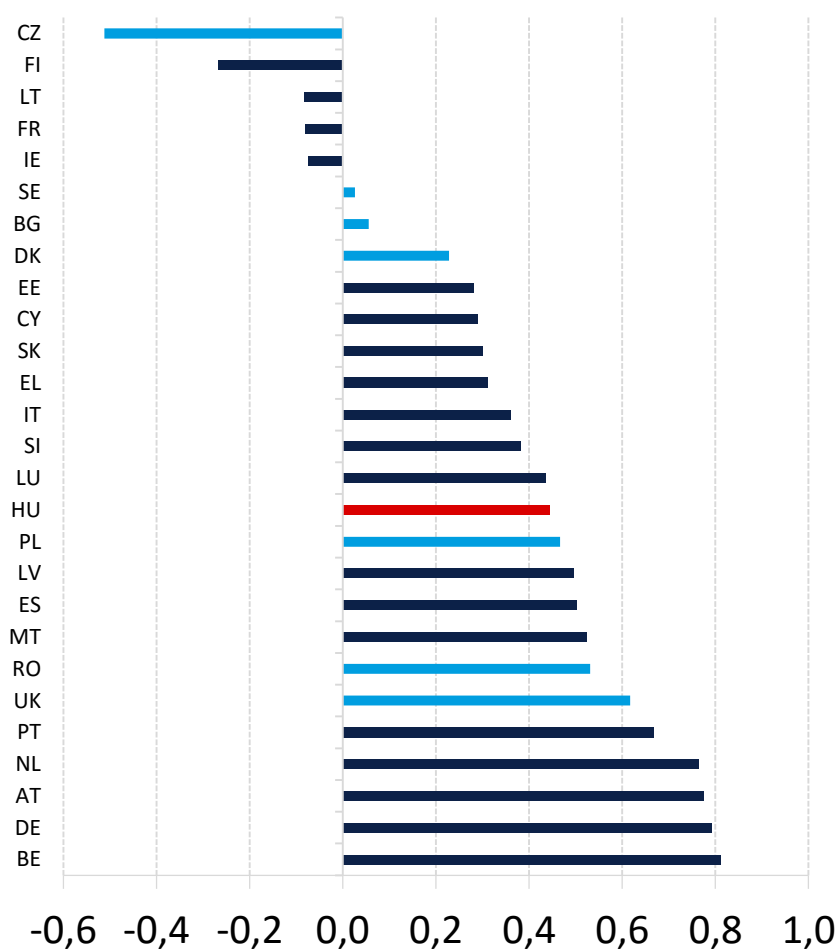
SIGNIFICANT DIFFERENCE IN THE BUSINESS AND FINANCIAL CYCLES AMONG COUNTRIES OF THE EUROPEAN UNION



Correlation between the output gap of the specific country and output gap of the euro area



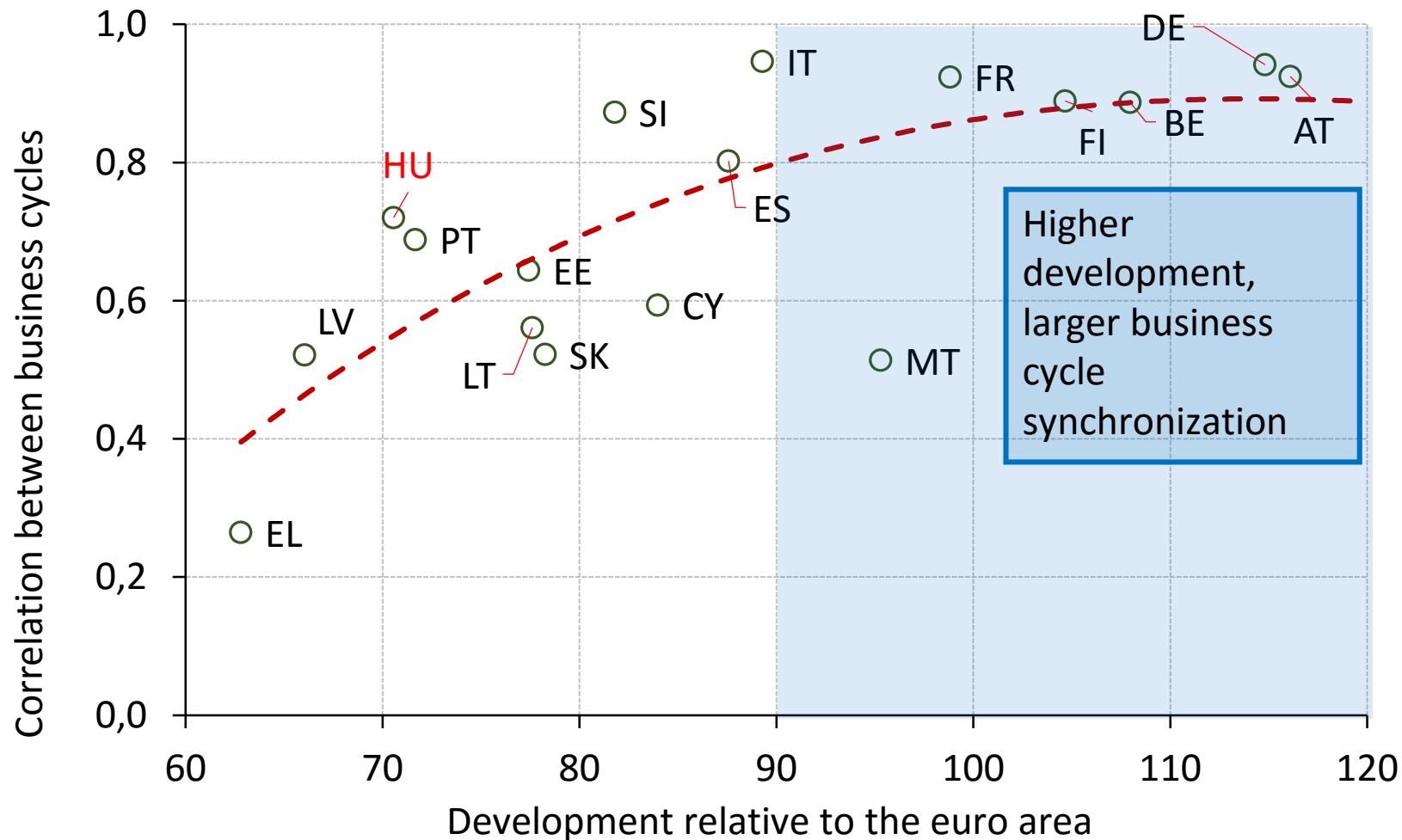
Correlation between credit to GDP gap for the specific country and the euro area



Note: Euro area countries are highlighted in dark blue

Source: MNB calculation based on Eurostat and ECB

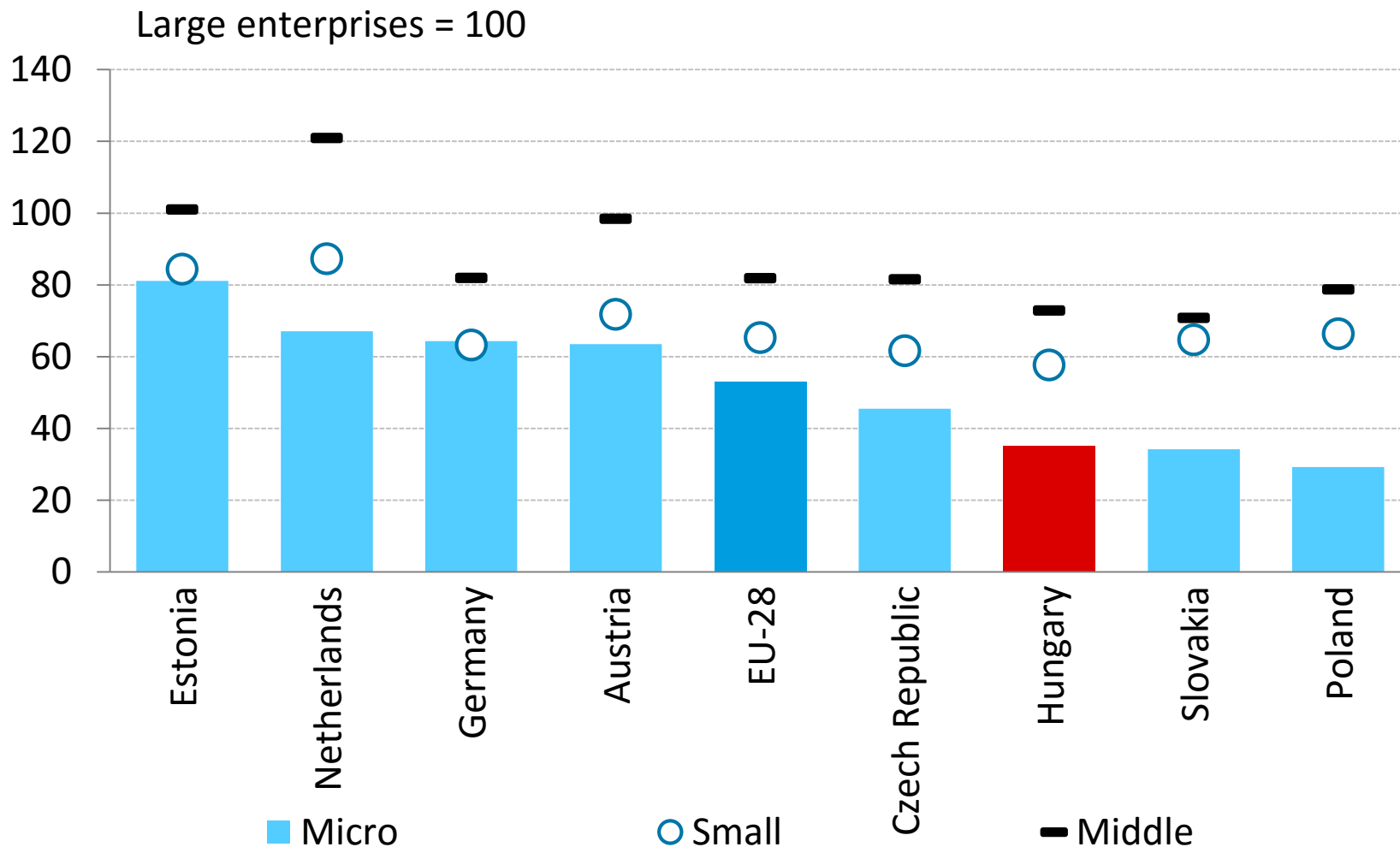
PROPER LEVEL OF ECONOMIC DEVELOPMENT IS NEEDED FOR BUSINESS CYCLE SYNCHRONIZATION



Relationship between development and business cycle synchronization

3. criteria:

DESPITE THE CONVERGENCE, THERE IS STILL A SIGNIFICANT PRODUCTIVITY GAP BETWEEN LARGE ENTERPRISES AND SMEs IN INTERNATIONAL COMPARISON

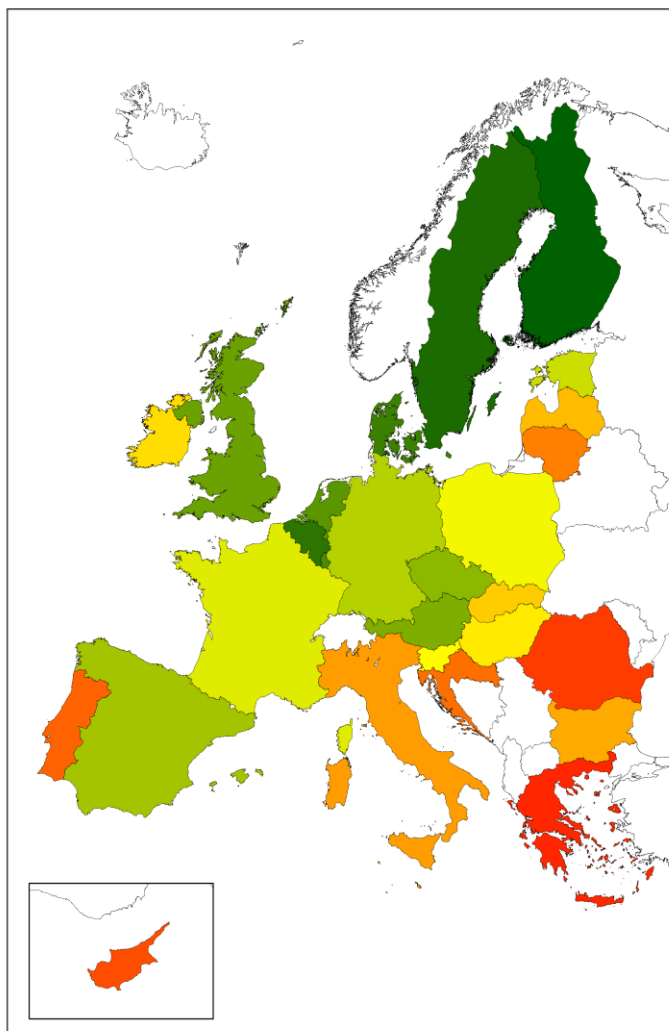


Labor productivity relative to large enterprises (2016)

Source: Eurostat, MNB calculation

4. criteria:

BANKING SYSTEMS ARE HETEROGENOUS INSIDE THE EURO AREA



- 1) Finland
- 2) Sweden
- 3) Belgium
- 4) Denmark
- 5) Luxemburg
- 6) Netherland
- 7) United Kingdom
- 8) Austria
- 9) Czech Republic
- 10) Spain
- 11) Germany
- 12) Estonia
- 13) France
- 14) Poland
- 15) Slovenia
- 16) Hungary
- 17) Ireland
- 18) Slovakia
- 19) Latvia
- 20) Bulgaria
- 21) Italy
- 22) Malta
- 23) Lithuania
- 24) Croatia
- 25) Portugal
- 26) Cyprus
- 27) Romania
- 28) Greece

Countries with the most competitive banking sector

Countries with competitive banking sector

Countries with moderate competitive banking sector

Countries with less competitive banking sector

Countries with the least competitive banking sector

Map of the MNB Banking Competitiveness Index based on the average of the two sub-indices

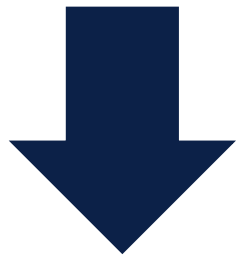
Note: The MNB calculated by averaging its Corporate and Household Finance and MNB Capital Adequacy indices ranking.
Color palette: dark green denotes strongest, red denotes weakest competitiveness denotes a country with a banking system.

THE HALF-BUILT EUROZONE LEADS TO MORE SEVERE AND LASTING RECESSIONS, CONTRACYCLICAL POLICY STILL NEEDED



When an asymmetric or a symmetric but less correlated shock occurs...

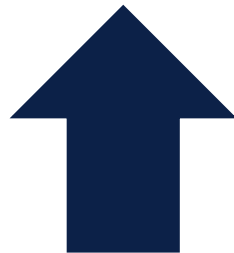
Common monetary policy can be inefficient



Deflationary pressures in one country



Inflationary pressure in another one



Missing exchange rate mechanism

Heterogenous financial markets

Constrained nation-state fiscal policy

Lack of country-specific macroprudential policy toolkit

Lack of other adjusting mechanisms



Persistent imbalances and divergence between the member states can arise.

ADDITIONAL CRITERIAS FOR HUNGARY IN ORDER TO AVOID DIVERGENCE



Criteria	Target value
I. Appropriate phase in catching up to the euro area	
Convergence in real economy (GDP per capita in PPS) *	90%
Convergence in wage level (average wages in PPS) *	90%
Convergence in financial sector's deepness*	90%
II. Synchronised business and financial cycles between Hungary and the euro area	
Synchronised business cycles (correlation between business cycles of Hungary and the eurozone)	>70%
Synchronised financial cycles (correlation between financial cycles of Hungary and the eurozone)	>70%
III. High competitiveness of companies, labour and products	
Declining duality among SMEs and larger companies	>50%
Unemployment rate (for the 15-74 age group)	4%
Activity rate (for the 15-74 age group)	65%
Broad product range	
IV. Developed, stable and competitive financial sector	
V. Available, effective countercyclical policies	
Long-term structural budget deficit	0%
Government debt-to-GDP ratio	50%
Macroprudential policy	Appropriate toolkit

9 | *Of the average of eurozone.



THANK YOU FOR YOUR
ATTENTION!