MAASTRICHT IS NOT ENOUGH
NEW CRITERIA NEEDED
FOR EUROZONE ACCESSION
THE FULFILLMENT OF THE MAASTRICHT CRITERIA ALONE IS NOT ENOUGH

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

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

1. An appropriate phase in catching up to the euro area
2. Synchronized business and financial cycles
3. High competitiveness of companies, labor and products
4. Developed, stable and competitive financial sector
5. Available, effective counter-cyclical policies

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

The European Union is also not a homogeneous group in terms of relative development.

Note: Data from 2018, except Cyprus (2017)

Source: WDI database
SIGNIFICANT DIFFERENCE IN THE BUSINESS AND FINANCIAL CYCLES AMONG COUNTRIES OF THE EUROPEAN UNION

2. criteria:

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

Higher development, larger business cycle synchronization

Source: MNB calculation
Despite the convergence, there is still a significant productivity gap between large enterprises and SMEs in international comparison.

3. Criteria:

Source: Eurostat, MNB calculation

Labor productivity relative to large enterprises (2016)
4. criteria:

BANKING SYSTEMS ARE HETEROGENEOUS INSIDE THE EURO AREA

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

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

*Of the average of eurozone.
THANK YOU FOR YOUR ATTENTION!