Viktor Kovalcsuk:
No rush to join the Eurozone in Central and Eastern Europe

Ten years ago, when it first became a member of the European Union, Hungary was keen to also join the Eurozone as soon as possible. Today it is in no hurry to adopt the euro as staying outside the 18-country group presents many advantages for now.

The key advantages of being part of the Eurozone were very visible from the beginning. They include **transparency**, **lower transaction costs**, **more investment** (which brings job and trade creation) and discipline against inflation and populism. Yet the economic events of the recent years have revealed that the single currency also has many disadvantages.

The biggest drawback of joining the Eurozone is the **loss of flexible monetary and fiscal policy**. **One cap does not fit all**, and having only one interest rate is not sensible when dealing with a diverse range of economies and economic circumstances. Even within a single currency area, great diversity can exist, suggesting that a common economic policy might be unproductive.[1]

Dealing with asymmetric shocks is also extremely difficult with a single currency. Asymmetric shocks are external shocks that affect different parts of an economy or a currency zone differently. The crisis in Ukraine provides a good example. Under such circumstances, more flexible monetary and fiscal approaches are needed.

In addition, the advantage of the common monetary policy can be destroyed by the **massive concentration** of powers in the hands of small group of technocrats, managed by the most influential politicians of the EU countries.

Add to that some specific Hungarian factors: In Hungary, the banking sector still has not been fully integrated. The difference between the Eurozone average and the Hungarian GDP per capita is enormous, and the Hungarian labour market remains too inflexible and immobile. All of this contributes to making the necessary level of flexibility for Hungary more costly within the Eurozone than outside.

[1] Particularly the countries in crisis (Spain, Greece, Portugal and Italy) have very high unemployment rates of up to 21 percent, countries such as Germany, Austria, Luxemburg and Netherlands have historically low rates, below 5%.

To conclude, please let me point out one more aspect which has become clear over the then ten years of Hungary's EU membership: Whether Hungary will soon join the Eurozone or not, this country is committed to being active and loyal member of the EU. EU criticism is not EURO criticism. After all, the EU is much more than a monetary union.