Economic and political factors affecting attitudes of Slovakia and Hungary towards the future of the EU

Abstract. This paper identifies the factors that, despite the similar political and economic system characteristics, considerably influence attitudes of the Slovak and Hungarian political elites towards the future development of the EU and its institutions. While Slovakia is in favour of enhanced cooperation within the union, Hungary prefers its transformation into the Europe of nations, in which decisions will be taken by states. In economic dimension, the attitudes of both countries are dissimilar due to the different effects of the global crisis on their economies as well as their financial and social environment. The contribution shows that the measures associated with the preparation for the entry into the euro area have helped Slovakia to handle the impacts of the financial and economic crisis. Subsequent accession into the Eurozone and its positive effect on the economy has become an important structural factor influencing the positive attitude of the ruling elite to closer integration in the EU. On the other hand, the global economic crisis has deepened the problems of the Hungarian economy. The conditions of the IMF and the EU loan were perceived as an intervention into the sovereign decision-making about Hungary's own economic policy. Hence, overcoming the crisis has been, on the contrary to Slovakia, interpreted as the result of the independent government policy. This fact has been a key stimulus to the efforts of Hungary to strengthen of the member states’ position within the EU.

The attitudes of both countries to the future of the EU are influenced also by constellation of economic and political actors. In Hungary, the government for the long term strengthens the economic position of domestic businesses, concentrates the political power and implements foreign policy with a strong emphasis on national sovereignty. Slovakia is more willing to participate, with the exception of migration, in deepening of European integration due to economic conditions and significantly pluralistic political environment.

Keywords: European Union; Slovakia; Hungary; Visegrad Group; European Integration; Eurozone

JEL Classification: F15; F55

DOI: https://doi.org/10.21003/ea.V172-05

Milan Kurucz
PhD (Political Science), Associate Professor, University of Economics in Bratislava
1 Dolnozemská cesta Str., Bratislava, 85235, Slovak Republic
milan.kurucz@euba.sk
ORCID ID: https://orcid.org/0000-0002-7523-0498

Abstract. This paper identifies the factors that, despite the similar political and economic system characteristics, considerably influence attitudes of the Slovak and Hungarian political elites towards the future development of the EU and its institutions. While Slovakia is in favour of enhanced cooperation within the union, Hungary prefers its transformation into the Europe of nations, in which decisions will be taken by states. In economic dimension, the attitudes of both countries are dissimilar due to the different effects of the global crisis on their economies as well as their financial and social environment. The contribution shows that the measures associated with the preparation for the entry into the euro area have helped Slovakia to handle the impacts of the financial and economic crisis. Subsequent accession into the Eurozone and its positive effect on the economy has become an important structural factor influencing the positive attitude of the ruling elite to closer integration in the EU. On the other hand, the global economic crisis has deepened the problems of the Hungarian economy. The conditions of the IMF and the EU loan were perceived as an intervention into the sovereign decision-making about Hungary's own economic policy. Hence, overcoming the crisis has been, on the contrary to Slovakia, interpreted as the result of the independent government policy. This fact has been a key stimulus to the efforts of Hungary to strengthen of the member states’ position within the EU.

The attitudes of both countries to the future of the EU are influenced also by constellation of economic and political actors. In Hungary, the government for the long term strengthens the economic position of domestic businesses, concentrates the political power and implements foreign policy with a strong emphasis on national sovereignty. Slovakia is more willing to participate, with the exception of migration, in deepening of European integration due to economic conditions and significantly pluralistic political environment.

Keywords: European Union; Slovakia; Hungary; Visegrad Group; European Integration; Eurozone

JEL Classification: F15; F55

DOI: https://doi.org/10.21003/ea.V172-05

Kurucz M. / Economic Annals-XXI (2018), 172(7-8), 28-31

Kurucz, M. / Economic Annals-XXI (2018), 172(7-8), 28-31
1. Introduction
The global financial crisis as well as the Eurozone crisis and Brexit have again raised questions about the EU’s future. The Visegrad Four (V4) countries also discuss these issues. Even though the V4 is usually perceived as a homogeneous group and its member states take the same or similar stance on a large number of issues, their attitudes towards further development of the EU differ. We can identify the biggest differences between positions adopted by the Slovak Republic and Hungary. However, it should be borne in mind that the debate on the EU’s future is only beginning. Until now, no coherent concepts of transforming the EU institutions and policies have been presented, with the exception of the European Commission’s White Paper, which outlines possible scenarios of the EU’s future, and the vision for the Eurozone reform laid down by the French President Emmanuel Macron.

Slovakia and Hungary have already demonstrated their preferences with regard to prospective changes in the EU. Even though they were expressed only from the general point of view, they already indicate what type of integration both countries prefer - whether it is reinforcement of the EU supra-national elements, preferred by Slovakia, or strengthening participation of the nation states in the decision-making process, which is an idea supported by Hungary.

Why do these countries adopt different attitudes towards the future of the EU? Is it because of preferences of political leaders or political parties resulting from their value orientations? Do these differences arise due to synergetic factors, or are these attitudes and subsequent decision-making in general and in terms of integration are largely formed and influenced not only by ideology but also by the economic and political structures. This paper aims to analyse how some differences in the economic and political environment and its specific development in the Slovak Republic and Hungary affect opinions on the EU’s future in both countries.

Robert Fico, a Chairman of the Slovakia’s ruling Smer - social democracy party, and the former prime minister of the Slovak Republic, has maintained a clear stance on the future of the EU and Slovakia’s role in the union since 2016. He repeatedly points out that Slovakia wants to be a part of an integration core that will form due to changes that are taking place in the EU. In his view, the EU’s core is a group of countries that are members of the Eurozone and promote enhanced cooperation within the EU (Gabržová, 2017). The strongest Slovak opposition party, Freedom and Solidarity, unlike the social democrats does not support closer integration. The party in its Manifesto requires returning competences to the member states and less regulation (Group of European Conservatives and Reformists, 2017). The question is how consistently it will pursue this goal as government’s party in the case of its victory in 2020 elections.

Hungarian Prime Minister Viktor Orbán opposes the idea of the United States of Europe and claims that the union must function as the Union of Nations, and the member states should regain the power in some areas, which will include the V4 countries. In good hands (Orbán, 2018).

The Hungarian democratic opposition has a different opinion about the future of the EU. In debate of the European Parliament, MPs representing the Hungarian socialist party István Újhelyi and Tibor Szanyi clearly expressed support for the EU’s future in both countries.

In the early 1990’s, Hungary was undergoing dynamic economic transformation and the role of the Hungarian economy in the global manufacturing (Myant & Draho koupil, 2013). Bohle and Greskovits define capitalism in these countries as embedded neoliberalism, which means permanent search for a compromise between market transformation, social cohesion and an inclusive system of democratic rule. In contrast to the Baltic countries, the market principles in the Visegrad countries combine with some elements of a welfare state, which is connected with an impact of social forces on political decision-making (Bohle & Greskovits, 2012).

However, these major structural characteristics do not determine identical form of relationships and pace of development in the V4 countries. They have certain particularities resulting from historical development, tradition as well as the balance between social and political forces. In this regard, economic and political structures develop and change at a different pace. What is more, there is a complex interplay between internal and external factors, which has different effects in individual countries.

In the past thirty years, Slovakia and Hungary have had different economic and social dynamics. In addition, interplay between economic, political and social forces has differed as well. These differences influence the relations of Slovakia and Hungary to the EU before and after accession. In retrospect, we can say that these countries developed unevenly from the structural point of view and in terms of political preferences.

In the early 1990’s, Hungary was undergoing dynamic economic transformation and creation the environment for implementation of the rules of the EU. It was regarded as a necessary condition for the EU membership even among the Visegrad countries. Development of relations between Slovakia and the EU was much more complicated. The political and economic changes which had been introduced in Czechoslovakia continued after Slovakia became an independent state. However, those changes were largely modified. The leading party Movement for a Democratic Slovakia (HZDS) tried to introduce a new political programme that would enable creation of a powerful national
entrepreneurial class, an economic base of its power. The efforts of HZDS to increase its political power without adhering to the principles of democracy and the rule of law made the Slovak relations with the EU complicated.

Different assessment of development in Hungary and Slovakia meant that the EU accession negotiations with these countries did not start at the same time. At its Luxembourg meeting in December 1997, the European Council decided to officially begin the accession negotiations with Hungary, the Czech Republic, Poland, Slovenia, Estonia, and Cyprus. The negotiations were launched in April 1998. The Council decided to begin negotiations with Slovakia and five other countries (Bulgaria, Lithuania, Latvia, Romania, and Malta) two years later, in 1999. Slovakia was invited to start the EU accession talks mainly due to the economic and political changes that took place after the parliamentary elections in 1998.

Decision to enlarge the EU sparked off a debate on whether to stick to the «regata» principle, meaning that countries could join in small group or the «big bang» enlargement, which meant accepting all the candidates. Hungary was in favour of reduced enlargement, which corresponded with its internal policy and geopolitical interests. The speedy accession of Hungary to the EU brought about expectations of its modernization, faster social and economic development, moving closer to the developed countries of the Western Europe and increasing its influence in the region.

Hungary’s efforts concerning the EU enlargement collided with the interests regarding major liberalization. According to Holman, decisive was a prospect of making profits for European entrepreneurs due to expansion of the EU single market provided that the candidates transform their economies successfully and align their legal system with the acquis communautaire (Holman, 2001).

Despite their different development in the 1990’s, Slovakia and Hungary joined the EU together in 2004. Unlike in the 1990’s, Slovakia saw its economic growth in the early 2000’s. On the contrary, Hungary had run into financial problems caused by the budget deficit and rising foreign debt. As table 1 shows, the debt ratios in both countries before and after the global financial crisis differed considerably.

Due to its long-lasting inadequate fiscal policy and negative impact on the government budget, the Hungarian government was forced to make an official request for a rescue package worth USD 25 billion from the International Monetary Fund (IMF) and the EU in 2008 (Csáki, 2013). As Myant and Drahokoupil claim, the situation in Hungary did not result from the economic structure, but rather from the political system that led to uncontrolled competition of the two main political blocs by means of providing social benefits (Myant & Drahokoupil, 2013). According to Körösenyi, in the second half of the 1990’s a bipolar party system arose and in the early 2000’s a political polarisation between the left-wing and the right-wing parties deepened. The leaders of both blocs constantly escalated political tensions by their confrontational rhetoric (Körösényi, 2015).

It is necessary to perceive social benefits as a tool in political rivalry also in the context of the Hungarian neoliberal policy, which had been dominant since the early 1990s (Pogátsa, 2016). The efforts to mitigate its negative effects in such political environment resulted in the loss of financial balance with all its consequences. Neoliberal policy in Slovakia was rather restrictive, with the exception of social problems, especially in the early 2000s. However, the political parties that promoted this policy (especially the Slovak Democratic and Christian Union led by the Prime Minister Mikuláš Dzurinda) were not exposed to the political and social pressure that would make them implement the major changes. This also resulted from largely positive expectations from the accession to the European Union, which the majority of population regarded as the core of democracy, stability and prosperity. While in Slovakia a distribution of economic growth results was problematic, Hungary faced the problem of economic decline.

The aforementioned differences between economic growth in Slovakia and Hungary considerably affected their position in the Euroland Union, political stability and prospects of joining the Eurozone.

Impact of the crisis on attitudes towards participation in euro integration

The attitudes of the Slovak and Hungarian elites towards the EU’s future were largely influenced by the 2008 global financial crisis.

The Hungarian financial woes exacerbated and the government was forced to take harsh austerity measures, which led to another escalation of tensions between the social and liberal coalition and the conservative opposition. Despite the Hungarian consensus on the Eurozone entry, the aforementioned economic woes did not allow the country to meet the convergence criteria. As a result, the euro adoption was repeatedly postponed.

The situation in Slovakia was different even though its economic growth slowed down temporarily during the crisis. The restrictive neoliberal policy of the Slovak government in the early 2000s, which focused particularly on macroeconomic balance, enabled gradual fulfilment of the Maastricht criteria for entry into the Eurozone. The centre-right coalition was defeated in the 2006 elections and a new government consisted of the social democrats, HZDS and the Slovak National Party (SNS). Even though before elections these parties did not support the adoption of euro, after joining the government they continued the Eurozone accession process launched by the former right-wing government. That political decision was largely influenced by interests of the business communities (Svetlosakova, 2009). In this regard, it is necessary to point out the foreign capital that already played a key role in the Slovak industry and financial sectors.

Table 2 shows the differences in meeting the convergence criteria by Hungary and Slovakia in 2008 (which was a decisive year when Slovakia joined the Eurozone).

| Country  | 2007 | 2008 | 2009 | 2010 | 2015 | 2017 |
|----------|------|------|------|------|------|------|
| Slovakia | 30.1 | 28.5 | 36.3 | 41.2 | 52.3 | 50.9 |
| Hungary  | 65.5 | 71.6 | 77.8 | 80.2 | 76.7 | 73.6 |

Source: Eurostat, 2018

The impact of the global crisis on the Slovak economy was considerably mitigated by the fact that Slovakia already had a fixed exchange rate as the Slovak currency began participating in the Exchange Rate Mechanism (the ERM II) in 2005. The ERM II protected the national currency against exchange rate fluctuations.

Growing economy after the global meltdown and favourable terms for granting credits in the financial markets allowed Hungary to pay back its IMF remaining debt worth USD 2.8 billion earlier in 2013, which initiated the end of the IMF mission in Budapest. As far as the Eurozone entry is concerned, the Hungarian government relates it to how fast the Hungarian economy can move closer to the EU economy. In 2017, the Hungarian GDP per capita reaches 68% of the average EU’s GDP. Despite its economic growth, Hungary met only one convergence criterion in 2017 - the government budget deficit relative to GDP reached 2%. The government debt-to-GDP ratio was 73.6% - the reference value is 60%, and the inflation rate is 2.2%, while the reference value is 2% (European Commission, 2018).

Following his general election victory and entry into the office in 2017, Viktor Orbán gave a speech outlining the country’s goals extending up to 2030. He clearly wants Hungary to play an increased role in the EU and believes that by 2030 his country will be among the European Union’s top five countries in terms of quality of life and competitiveness (Orbán, 2018). However, Hungary’s goals do not consider its country’s eurozone membership, which could mean that this issue

Kuncz, M. / Economic Annals-XII (2018), 17(2-8), 28-31

30
is not among the government’s priorities in the long term. On the other hand, it corresponds with the Hungarian ruling party’s concept of European integration.

Accession of Slovakia to the Eurozone put its economy (both producers and consumers) into a completely different situation. The common currency brings numerous advantages for the Slovak entrepreneurs and the majority of population. It reduces transaction costs, ensures the stable exchange rate. Leaving the old one would most likely result in the currency, price and global economic instability. That is why the Eurozone membership is largely approved by Slovaks. According to the Eurobarometer survey, as many as 80% of people in Slovakia approve their country’s membership in the economic and currency union (Standard Eurobarometer, 2017).

**Constellation of economic and social power and the European integration issues**

Foreign investments in both countries created conditions for their entrepreneurial communities’ consolidation, especially in the branches in which foreign capital needed sub-suppliers. In general, medium-sized enterprises became suppliers of less sophisticated components for foreign companies. Their companies must be based on low labour costs and highly qualified labour force. With regard to relations between foreign and domestic capital, the state and the EU, Drahokoupil points out that despite similar interests of domestic and foreign capital, two types of capital were formed in different environments and have different means of influence. Multinational companies, border regime and state can affect each decision-making in the EU institutions. On the other hand, the influence of home entrepreneurs is heavily dependent on the national market. However, the EU membership provided domestic enterprises with the European funds, which became an important capital source accessible only through nation states (Drahokoupil, 2009). These facts also influence the policies of the Slovak and Hungarian governments towards the EU and their frequent manoeuvring between interests of multinational and domestic enterprises.

**Conclusion**

Nowadays, the differences in positions of both countries on whether to encourage further European integration or not arise from the different influence of multinational and domestic capital on political decision-making, which also depends on economic and political preferences of both governments. Hungarian government policy is considerably affected by its efforts to support domestic entrepreneurs. According to Wiener, the current system of so-called national cooperation, which was built after 2010, is based on acknowledging the key role of national capital and its support by means of tax policy and public procurement done by the central or municipal governments (Wiener, 2015). The efforts to strengthen the position of this political and economic configuration led to numerous constitutional steps that enabled centralisation of power, weakening of the system of checks and balances and government control of the media. As a result, the relationships with the EU deteriorated and, subsequently, the EU requested elimination or modification of some measures that did not comply with its legislation (Sadecki 2014). These tensions persuaded the Hungarian governing elites of the necessity to strengthen the nation state and gain more independence within the EU.

**Economic and political structures considerably influence the position of political elites and societies in Slovakia and Hungary on the future of the EU. The impact of the 2008 global financial crisis on economy and different political development in both countries have led to different attitudes of the Hungarian and Slovak governments towards further development of the European Union and its institutions as well as positions and roles of Slovakia and Hungary within the EU. Slovakia’s Eurozone membership is an important determinant of its efforts to enhance cooperation within the European Union and adopt adequate policies. However, Hungary takes a different position and emphasises the necessity to strengthen the nation state and its sovereignty. What is more, it actively promotes the EU transformation into the Union of nations and reduction of supranational elements in its structures.**

**References**

1. European Parliament (2017). The future of the EU: Members have negotiated five scenarios with President Juncker. Retrieved from http://www.europarl.europa.eu/hemy/hu/aktualis-2017-hirek/hirek-2017-marcus/az-ue-jovo.html (in Hungarian)
2. Agh, A. (2017). Increasing Europessim as a Megatrend in East Central Europe: From Facade Democracies to Velvet Dictatorship. Baltic Journal of Political Science, 5, 21-39. doi:10.15088/BJPSS.2016.5.10334
3. Bohle, D., & Greskovits, B. (2012). Capitalist Diversity on Europe’s Periphery. Ithaca, NY: Cornell University Press.
4. Eurostat (2018). Convergence Report 2008. European economy. Luxembourg: Office for official publications of the European Communities doi: https://ec.europa.eu/eurostat/tgm/table.do?tab=table&language=en&pcode=tia225&plugin=1
5. European Commission (2008). Convergence Report 2018. European economy, Institutional paper No. 078. doi: https://doi.org/10.2765/2212
6. Ericsson and Eurostat. 2018-2019. The Eurozone membership is an important determinant of its efforts to enhance cooperation within the European Union and adopt adequate policies. However, Hungary takes a different position and emphasises the necessity to strengthen the nation state and its sovereignty. What is more, it actively promotes the EU transformation into the Union of nations and reduction of supranational elements in its structures.