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Analysis of the intensifying economic relations between Hungary and the European Union

Abstract

The connections between Hungary and the European Union (and its predecessors) have had quite a long history. Hungary has now been a member state of European integration for a decade and a half, and the decade and a half preceding the accession was spent establishing and strengthening the relations as well as pursuing accession negotiations. The objective of this study is not to describe and analyse the official stages of integration but to present the types of social, economic and political steps and tendencies which characterised the connections of the two parties in the period under consideration. Of course, where appropriate, there are references in the study to official political documentation but we focus more on the longer-term tendencies. Regarding the methodology of the study it is important to highlight that secondary data was analysed for the work. The key was to identify relative positions of Hungary and to analyse the deviations from the average rates of general macroeconomic indicators and foreign trade and capital flow data of the countries in question.

Keywords: integration, international trade, investment, economic development, institutions

INTRODUCTION

Despite the fact that Hungary could be considered as a culturally inherent part of Europe, Hungary's state socialist historical heritage and specific social, political and economic development path led many to consider European integration of the country as some kind of re-unification or return process. This materialised or could materialise to an undoubtedly more advanced social, economic and political bloc (Balázs, 2003).

In the course of the accession process an almost peripheral condition was intended to be preserved in the countries verbally seeking to join, so that a work sharing method suitable to the centre could be developed and maintained. In hindsight this can be seen more clearly by analysing the global processes (Bogár, 2006).

At this point we clearly cannot overlook the inappropriate attitude of the academic elite, the economist intelligentsia, in addition to the Hungarian political sphere, as they did not make the effort needed when pointing out that the series of measures taking place in the 90s could result in the country finding itself on a path like this, undesirable in terms of national strategy. As László Józsa and Ferenc Somogyi point out in their illuminating publication published in 2013, unfortunately, the Hungarian economic thinking is led by entirely different considerations than finding the right national strategic trend – they might even find it difficult to interpret this concept.

The study processes the subject in four chapters. The first chapter introduces the events preceding Hungary's EU-accession. The second unit of the study presents the most important macroeconomic and fiscal policy trends of Hungary related to EU membership. In the next structural unit, I examine the foreign trade trends of Hungary, using an international comparison. And the last chapter shows the structure of FDI flow, also in an international perspective. After these sections the conclusions were formulated.

1. THE ANTECEDENTS OF HUNGARY'S ACCESSION TO THE EU

It is only in recent years that the recognition of the fact that a longer-term social-economic equilibrium (György, 2017) should be found and, possibly, new-old but well-functioning economic policy recipes should be followed (Tatay, 2017). However, these ideas are still often described with cynical attributes in certain circles (for example, 'resentment economics').

However, we have every right to be pleased that as a result of clearly successful crisis management, economic policy practice and a series of interventions, the Hungarian economic policy has become a point of reference even in an international sense (Matolcsy–Palotai, 2018).

Returning to the background, Hungary's path towards EU membership was also marked by the fact that the most important objectives and tasks implemented included political sovereignty, economic policy interventions and the establishment of a market economic institutional system. Hungary, just as Poland, entered into institutional contact with the EEC, the legal predecessor institution of the EU, by the end of the 1980s (Losoncz, 2011).

Surprisingly, the four countries of the group now called the Visegrád Group (abbreviated as: V4 countries) joined at the same time, on 1 May 2004, despite the fact that they started the accession process and negotiations at different times and with different goals. After the political change of regime, it was first Hungary and Poland among the countries of the Visegrád Group that opened towards the EU. Following the partition of Czechoslovakia, Czechia and Slovakia also submitted their official requests for accession. In the first years of the so-called eastern expansion process, two groups of countries seeking to join were distinguished. Later, however, the European Union made the decision that eight former socialist countries (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Latvia, Lithuania and Estonia) and Cyprus and Malta, two island states seeking to strengthen their previous partnership with the EU, would be able join the EU in 2004. Bulgaria and Romania, still treated as members of the eastern expansion, joined the EU in 2007, thus, the community enlarged to 27 member states. Croatia, which joined the EU in 2013, was not classified into the group of the eastern expansion but it is the first joining member among the so-called Western Balkan countries.

However, we are well aware that it is remarkably similar to the countries above in terms of economic history with the difference being it was strongly affected by the Yugoslav war. Therefore, these countries constitute the circle to which Hungary's performance can be compared. Of course, we can safely say that Hungary on the one hand, cyclically deviated a large extent from the general path of the region, (Oblath, 2014), and on the other hand, there were some internal development contradictions that could be observed within each country.

The accession negotiations between Hungary, several other Central and Eastern European countries – not all the countries of the 2004 accession – and the EU started in 1998. 31 accession chapters had to be talked through; these consultations were carried out in a bilateral manner. It is important to highlight that the situation of agriculture was a key issue for Hungary. It is also important to note that bilateral relations with Germany clashed during the negotiations at numerous points due to the national interests of Hungary (Hettyey, 2018).

The negotiating chapters were very similar to the 35 chapters used today. These negotiations gave huge legislative tasks to the Hungarian government during the accession process: they had to harmonise the national legislation with the EU. Furthermore, around the turn of the millennium, Hungary had already gradually become an integral part of the EU in regard to at least the economic relations and the economic-financial legal system. In this sense, therefore, 2004 can merely be considered as an administrative time limit (Lentner, 2016).

The brief description of the eastern expansion shows us that a kind of credibility deficit characterised the relationship between Hungary and the EU already in the accession negotiations. The community did not appreciate at all that Hungary had built its relations with the EU for a longer period and more intensely than the majority of the other Eastern and Central European states. At the end of the accession negotiations, therefore, the relation between Hungary and the EU became cold, which can, of course, be deemed to be the harbinger of the poignant conflict, which we have experienced since 2010, already as a member of the EU. As an additional element of this conflict, we must highlight the formulation of the Copenhagen Criteria. This document has been accepted by the aspirants and has received little help from the EU – in particular, the building of a functioning market economy and the ability to compete with competitive pressure and market forces within the European Union.

2. THE MACROECONOMIC ASPECTS OF THE EU INTEGRATION

The literature discussing the development of the forms of regional economic associations identifies a variety of advantages and driving factors of belonging to a given form of integration. In the case of a form of integration at the minimum level of customs union (the EU is at a much higher level than this) it may be noted that the internal market of the given form of integration is markedly separate from the countries outside of it, and this, in a favourable case, will have a positive impact on the side of consumers or even that of producers (Palánkai et al., 2011).

Moreover, the equilibration of the development level of the member states can be a factor for the successful operation of an integration process (Palánkai, 2010).

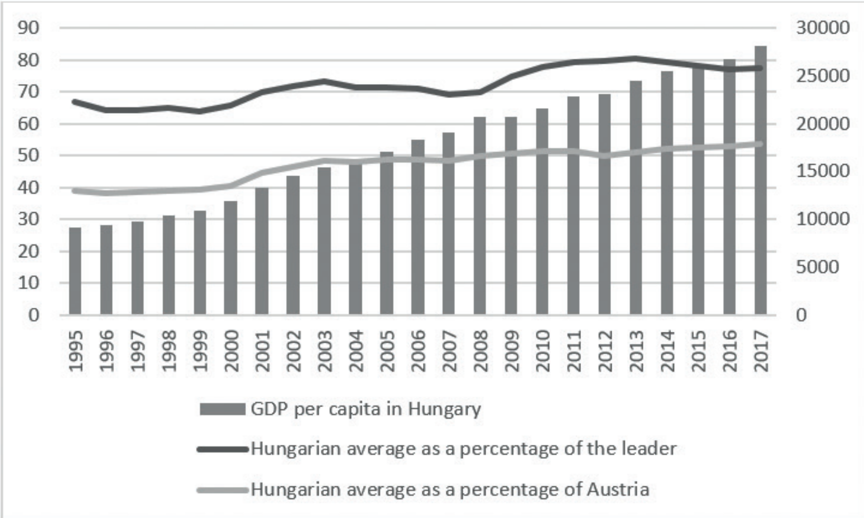
However, it must also be emphasised that both the European integration and global economy achieved such a high level of development that indicators developed for the measurement of these complex integration processes are often incorporated in academic analyses (Bache et al., 2011). These indicators also deal with the integration of the social and political system of given countries and groups of countries (Ágh, 2012). These can already be regarded as categories which have a strongly normative content that appears as a dark side in the case of these indicators. The integration of Hungary has got intraregional aspects as well, as stated by Sági and Engleberth (2018).

In this study we first point out the decisive aspects of Hungary's EU integration by using the economic indicators in a direct sense. Within this group of indicators, by using a kind of deductive logic, we believe the indicators cover a larger scope, and accordingly, we point out the shifts of the relative situation of the average Hungarian standard of living. Subsequently, foreign trade data and data of foreign working capital flow are discussed, which are complemented by fiscal and economic policy dimensions.

The monitoring of how welfare levels of a given country are progressing in comparison with Western European countries, which are considered developed, played a major role in each of the EU member states that joined after 2004, including Hungary. In the given years, this could be supported by the primarily positive experience of the previously joined countries, the trust in the inclusion following the so-called transitional crisis (Patai et al., 2019). Moreover, it can be clearly seen that measurements against and comparisons with the Austrian standard of living became accepted in the twentieth century (Tomka, 2016). Considering the fact that today, even according to the classification of the World Bank, Hungary falls into the category of countries with the highest income, and embedding the not too favourable expected growth prospects of the future in our approach, we can consider this attitude outdated. This, however, is unlikely to change the choice of values of our societies.

The welfare performance of the Hungarian national economy can be approached by comparing the country's performance to one or several specific reference values, or by expressing it with specific values. The first figure of the study presents the evolution of the Hungarian gross domestic product (GDP) per capita in Purchasing Power Standards compared to the data of the applicable Austrian GDP per capita and the respective leading country of the 11 former socialist states admitted after 2004 in the period between 1995 and 2017. The latter means which country had the highest value in terms of the GDP per capita in Purchasing Power Standards in a given year; in certain years, the list was led by the Czechia, Slovenia and Slovakia, respectively.

Figure 1 The evolution of Hungary's GDP per capita in Purchasing Power Standards expressed in American dollars, and the evolution of the GDP per capita expressed as a percentage of Austria and the leading regional state

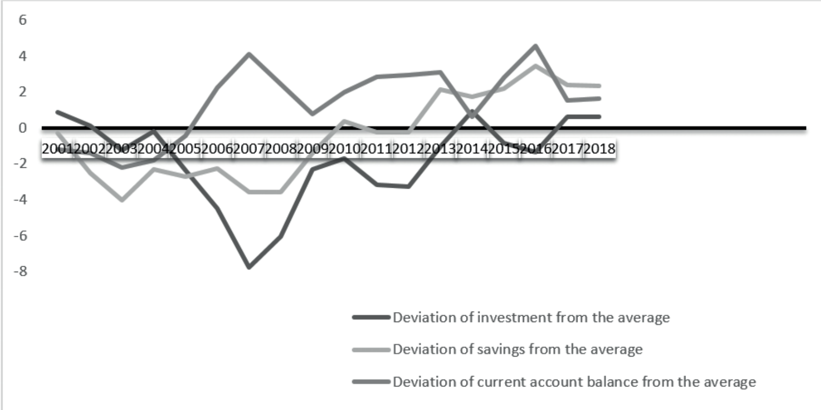


Source: Edited by the author based on the data of the World Bank

The values of the given year expressed in percentages are shown on the left-hand axis of figure 1. The values of the GDP per capita expressed in dollars are on the right-hand axis. It is clear that the value of the GDP per capita did not increase steadily, but the dynamics were almost continuous until 2006, subsequently, however, in 2013, 2014 and 2017 there was a significant increase. Compared to Austria, the country was able to strengthen to almost 55% from a value below 40%, but it was only able to catch up with the respective regional leader in terms of the longer-term trend: the momentum broke exactly around 2003–2004 (at the time of the accession to the European Union), and the improvement in this comparison is not clear even after 2013.

Figure 2 and the subsequent figures already show the reader the aspects of economic performance linked to the internal social and budgetary policy. Here, the term 'average' means in each case that the benchmark is comprised of the 11 countries joining the EU in 2004. During the subsequent EU expansions (including Hungary), with approximately the same development historical features as Hungary, the indicators express the relative situation compared to the average of these countries. The values concerning 2018 are only values estimated by the IMF.

Figure 2 The evolution of Hungary's investment value, savings at national level and current account balance compared to the countries of the region between 1995 and 2018



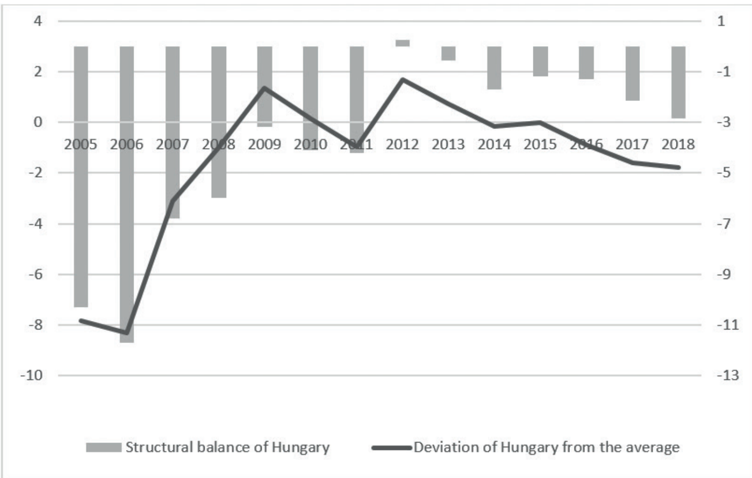
Source: Edited by the author based on the data of IMF WEO published in October 2018

Value 0 plays a major role in this figure, as in certain periods the Hungarian society and economy under- or over-performed compared to the regional average. A very positive development occurred clearly in the current account balance in 2005, and from then on the Hungarian balance showed a steadily greater surplus compared to the GDP than in the other countries of the region. However, in the case of investments it is just after 2004 that a strong relative decline occurred, which only moved into a positive over-performance territory in 2014 and after 2017. The relative savings position only shows a positive situation before 2001 and after 2010. It is only in few years that all three indicators were simultaneously in positive territory: for instance, in 2017 and in 2018.

The most important indicators showing the position of trade in goods and services with foreign countries (complemented, of course, by capital flow and other transactions) is the balance of the current account compared to the GDP. By examining this indicator, we can firmly conclude that even in terms of the entire period we are right now in the most favourable position against all our benchmarks. In 2016 our current account balance was better by at least two percentage points than the euro zone's, and we were in a better position by four percentage points than the Visegrád countries or other countries in the region. The EU membership must have had a very positive impact on the trend, knowing also our export market from the previous figures. It is doubtful, of course, as to what extent this performance is temporary or a consequence of the weakening forint. Besides all this, we can consider this latter result as the greatest macroeconomic success after our accession to the European Union, especially regarding the years after 2010. In addition, we also draw attention to the fact that in today's extremely complicated international economic connections we cannot solely consider a current account balance asset as if it were the real savings of the given nation state against "foreign countries". It would also be important to highlight what proportion in this indicator is accounted for by the resource flow of transnational and multinational companies in regard to all corporate organisations.

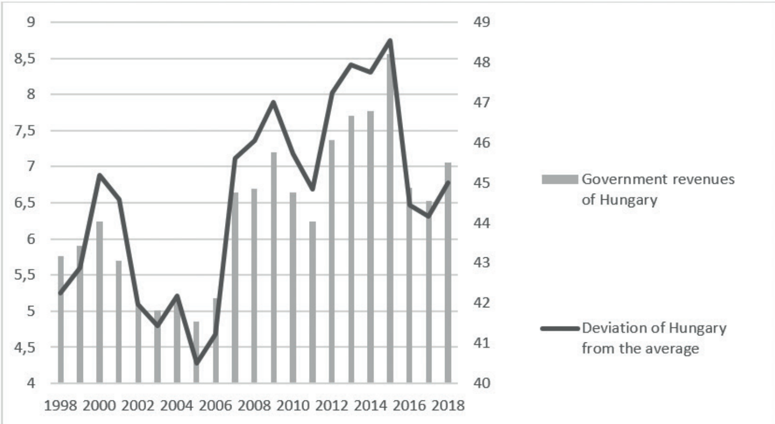
The third figure presents the absolute and relative position of the Hungarian structural balance. Here, the data available constrained the temporal limits of the figure between 2005 and 2008. As a consequence, we can only analyse the positions following Hungary's accession to the EU. The right-hand axis shows that the structural balance was only positive in 2012, from then on, however, the liabilities cannot be considered too large. This also allows us to see that the strongly negative relative situation only lasted until 2007 (we can use the values of the left-hand axis for this purpose), and after 2008 the Hungarian balance showed smaller deviations compared to the regional average both in positive and negative directions. We must note, that the Council of the European Union requested a correction of the Hungarian balance, but this did not lead to a deficit of more than 3%.

Figure 3 The evolution of Hungary's structural balance expressed as a percentage of GDP and compared to the average of the countries of the region between 2005 and 2018



Source: Edited by the author based on the data of IMF WEO published in October 2018

Figure 4 The evolution of the revenues of Hungary's public finance expressed as a percentage of the GDP and deviation from the average value of the region between 1998 and 2018



Source: Edited by the author based on the data of IMF WEO published in October 2018

The fourth figure points out one of the elements of the structural balance, the path of the government revenue between 1998 and 2002. The figure clearly shows that the value of the government revenues exceeded 40% of the GDP in each year under examination, and in 2015 it already exceeded the value of 48%. This becomes particularly interesting when examining the relative situation as we can see (if we read the values of the left-hand axis) that the Hungarian public finance concentrates significantly more revenues in each year than the regional average; actually, this figure is the greatest in Hungary in nearly each year.

Interestingly, rather a decreasing tendency was typical until 2004–2005, however, during the years spent in the EU the value of both indicators increased steadily, showing a co-moving tendency in nearly the whole period under examination. The crisis that started in 2007, of course, forced the decision makers of economic policy to revaluation. We can appreciate this tendency in a way that the Hungarian government increased the role of the state despite the fact that the last big crisis did not give rise to a real paradigm shift in regard to economic theory and in the academic sphere, which was different from the previous experiences.

The analysis of real economic and fiscal policy, economic policy tendencies cast new light on the analysis. Unfortunately, the Hungarian economic operators and the Hungarian society were placed in a position to lose their leading regional position just after the accession to the EU. This made our country mistrust and disappointed in the EU, and a series of extremely unfavourable economic policy decisions worsened the situation of Hungary in the mid-2000s. Both fiscal political integration and the favourable reverse of the current account balance resulted in an improvement in this situation, but the significant decrease in the debt and the continuous over-performance compared to the region is still not forthcoming.

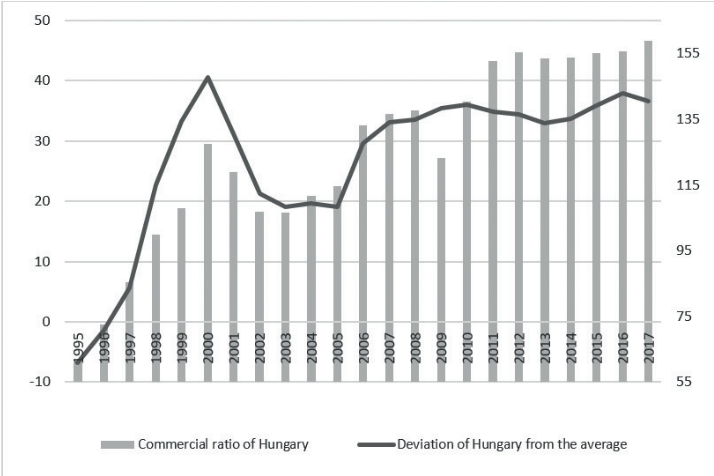
For the analysis of the future prospects of Hungary and the continent a broader-spectrum examination would be necessary. The 21st century will most certainly not bring rates of growth similar to those in the 20th century. All this can lead to the advent of comparative examinations based on relative positions against absolute values: I strived to implement this approach on the pages above, and I will do so in the subsequent parts. It is very important to mention, that in future studies, I have to deal with the consequences of the common policies of the European Union, with the impact of EU transfers or with the effects of the integration of the single European market. This kind of analysis can help to express better the role played in Hungary's European integration, the EU membership and the domestic economic policy environment in the development of the indicators.

3. FOREIGN TRADE ORIENTATION

By examining the foreign trade orientation of Hungary, in this paper we address the question as to what extent the import and export of the country is linked to the EU. By examining the tendencies, we distinguish commercial relations with old EU members and those maintained with newer EU members, as integration prior to the accession can be captured through the relations with the old 15 member states.

In one of my previous papers (Pintér, 2018) I pointed out the breakdown of the proportion of the export of goods and services arriving in Hungary from 1991 among the old member states of the EU, the countries of Eastern and Central Europe and the rest of the world. The examinations indicated that during nearly the entire period it was Western Europe that had the highest proportion of imports, however, the newly joining EU members supply to the Hungarian market was increasing to a larger and larger extent.

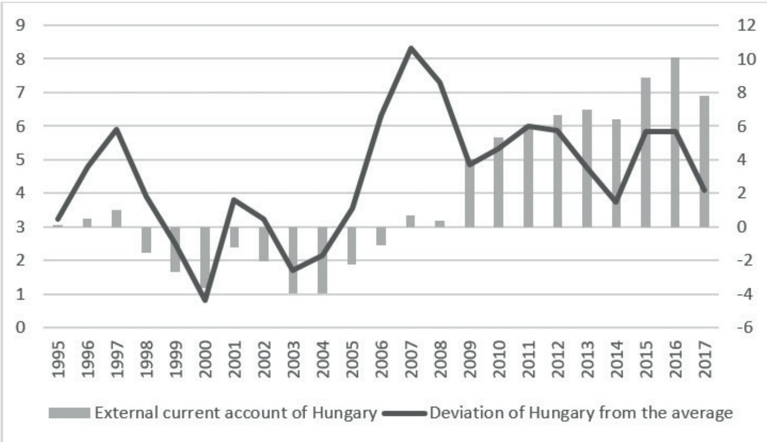
Figure 5 The value of Hungary's foreign trade expressed as a percentage of the GDP and the evolution of the deviation from the average value of the region between 1995 and 2017



Source: Edited by the author based on the data of the World Bank

The fifth figure demonstrates the role of trade in the case of Hungary starting from a one level higher point of reference. The so-called commercial ratio published by the World Bank means that in each year the value of exports and imports are added up, then the amount is compared to the country's GDP. It is generally true that in the case of smaller states this indicator is higher as the role of smaller internal market is offset by the foreign sector. Looking at the right-hand axis of the figure we can see that in the initial period the amount of foreign trade accounted for 75–95% of the GDP, and following an unsteady growth, this value has steadily increased to above 140% by today. With these figures Hungary ranks among the top in the EU as a whole, with Luxembourg and Belgium showing similarly high values. Our accession to the European Union in 2004 definitely boosted the proportion of foreign trade, and from this point on, this value has not fallen back below 110%. This allowed Hungary to achieve an increasing relative proportion compared to the other countries with similar historical heritage in terms of development. As indicated by the left-hand axis of the figure this value is higher than the average values of the region by 30–40 percentage points. Considering the fact that only Romania and Poland have populations significantly larger than Hungary's, it can be stated that Hungary is exposed to the foreign trade tendencies to a disproportionately large extent. With regard to the rate that the two main components of the foreign trade indicator, i.e., export and import, represent relatively to one another we cannot draw any conclusions form figure 5. This gap is filled by figure 6, which shows the evolution of Hungary's external current account balance as a percentage of the GDP. When imports exceeded exports, the indicator was, of course, in deficit, its value was negative while in other years the account balance was in surplus. The period between 1998 and 2006 was an example of the former case, and 2007 was an example of the latter one.

Figure 6 The value of Hungary's external current account expressed as a percentage of GDP and the evolution of deviation from the average value of the region between 1995 and 2017

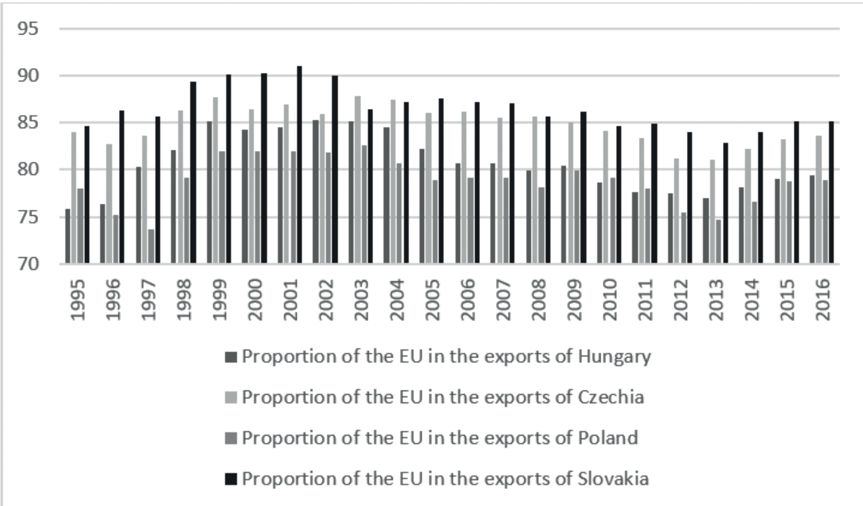


Source: Edited by the author based on the data of the World Bank

The evolution of the external current account expressed as a percentage of the GDP can be tracked on the right-hand axis of the figure. It is clearly visible that the indicator becomes largely in a surplus from 2009, and this dynamic was still not broken after 2010. The only exception was 2014. It can be inferred from this trend that the foreign trade proportion rose particularly high in such a way that it was successfully converted to an external current account balance that remained steadily in a surplus, by taking advantage of the trend. All this, of course, does not reduce the risk that the economic performance of the country significantly depends of the performance of the external markets. We will see in the subsequent parts of the study that this exposure appears excessively in the direction of one geographical region, which raises the need for the strong diversification of foreign trade. Further analyses need to be carried out in order to assess which region fills the dominant position in our foreign trade and to assess what kind of position Hungary holds in comparison with countries with similar characteristics to ours.

As a theoretical outlook, it can be stated that the integration theories name certain threshold values and threshold percentages for the identification of the rate of integration. In anticipation of the subsequent data, it is completely safe to say that Hungary has clearly formed an integral part of the EU's economy since the middle of the nineties, considering both exports and imports. In his paper published in 2010, Tibor Palánkai says that integration crosses the minimum dependence threshold if domestic trade exceeds 10% of the aggregated GDP. In our analysis there are percentage values much higher than this, so we can state that we are deeply integrated in the market of the European Union and we also cross the dependence threshold. All this is confirmed by the fact that our country is considered as an explicitly open small economy on a global scale, which means a significant degree of globalisation and integration even at a global level. Both the advantages and disadvantages of this must be taken into account.

Figure 7 The proportion of the European Union in the exports of the Visegrád countries between 1995 and 2016

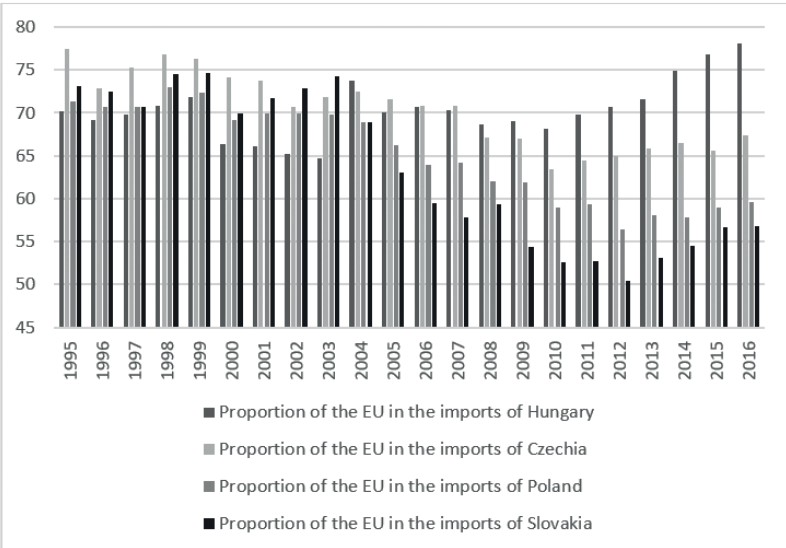


Source: Edited by the author based on the data of the WITS

World Integrated Trade Solution (WITS) is a software-based database that makes foreign trade data broken down by country available, mostly based on the data of the World Bank and the UN institutions. By using this database, in figures 7, 8 and 9, we can highlight even more the deeper components of the foreign trade structure of Hungary. Unlike in the other figures of the study, here the base sample is not composed of the 11 regional EU member states, but only the four Visegrád countries (Poland, Czechia, Slovakia and Hungary). The base year is 1995 in the case of all three figures. Figure 7 above shows the trends of the proportion of the EU in the export of the V4 countries. It is clear that although there are deviations in the percentage values, the EU reaches at least 70% of the total exports in the case of each state. It is typically Slovakia that produces the highest percentage in nearly all the years under examination, sometimes even exceeding 90%, and Poland represents the lowest values. Hungary's values were between 75 and 85 percent, ranking between Poland and Slovakia in terms of scale.

If we consider the EU share within imports, we can reveal much larger differences. While in the years before the EU accession the countries showed approximately the same proportions in their EU-related imports, in the period after 2004 we can observe divergent paths as shown by figure 8. During recent years the European Union shows a proportion of only around 50 and 55% in the imports of Slovakia, and this proportion remains below 60% in the case of Poland as well. In the case of Czechia this path shows stability, for Hungary, however, the imports related to the EU is dynamically increasing after 2010, and represents the highest value of the entire period in 2016.

Figure 8 The proportion of the European Union in the imports of the Visegrád countries between 1995 and 2016

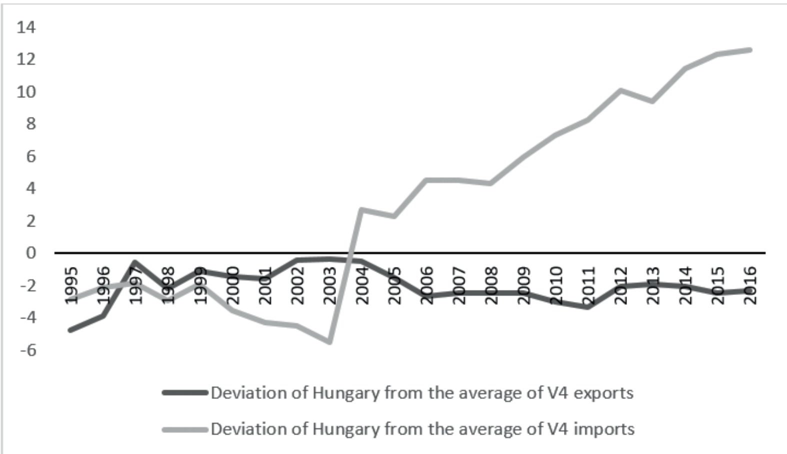


Source: Edited by the author based on the data of the WITS

Therefore, the tendency of figure 9 cannot come as a surprise. In this figure we attempted to identify the foreign trade position of Hungary in the direction of the EU relative to the V4 countries. It is clear that the role of the EU grew in the imports of Hungary following 2004, and the relative deviation from the regional average turned from negative to positive at this point. The increase in relative exposure in terms of the EU imports clearly intensified up until 2013, while Hungary produces values minimally below the Visegrád average in terms of exports. Both trends can be surprising. Given that Hungary was one of the countries in the region it was able to improve its external current account balance the most. It can be stated that it is certainly the additional export markets outside of the EU that gave a boost to the achievement of this position. However, our economic development generated a significant relative EU-related import increase that the growing export was still able to outweigh in the years after 2009.

All in all, it can also be noted that our commercial exposure in the direction of the EU is not significantly larger compared to the Visegrád countries. However, it may not be called into question that the countries form an integral part of the EU in commercial terms. They do so to such an extent that already represents a too high EU proportion, so the demand can arise for a greater degree of diversification in terms of commercial and external relations. Firstly, it can and could be countered by the fact that during this period former commercial partners also joined the EU (Romania, Bulgaria, Croatia); secondly, an increasingly powerful sanctions policy emerged from the EU's side in the direction of Russia; thirdly, the multi- and transnational companies owned and controlled by earlier EU members took a dominant role in boosting the economic performance of the region; therefore, the intensification of resource flows within the corporate value chain and the organisation could easily increase the proportion of the European Union in a statistical sense.

Figure 9 The deviation of Hungary's EU-related exports and imports compared to the average of the Visegrád countries, expressed as a percentage, between 1995 and 2016



Source: Edited by the author based on the data of the WITS

The statements above are clearly confirmed by the fact that if we examine the integration of the Hungarian economy only based on exports then it is clear that the market outlet of the goods and services flowing out of Hungary has come from the circle of EU members since the middle of the nineties. It is remarkable that 2004 means some kind of censorship here, too, as the ratio of the regional countries shows a significant decrease, however, in the case of countries outside of the EU it cannot be said that an unambiguous trend would arise, rather a kind of cyclical fluctuation determines our exports in this direction, as I explained in one of my previous studies (Pintér, 2018). The steady proportion of the countries outside of the EU, between 20-25%, highlights that the integration into the economy of the EU was even too successful, as Hungary's economy is not characterised by a healthy diversification in terms of external markets. Knowing that immediately prior to the most recent Great Recession, then following it, it is precisely Europe and the EU that were the biggest economic losers among the great regions of the world, it can be stated that it would be necessary to diversify our external economic relations to a greater degree. The economic governmental interconnection getting closer and closer, and the EU growth cycles more or less synchronising – in certain years only a few countries are able to produce a GDP growth deviation larger than 2–3 percentage points compared to the EU average and not even always upwards – project that our external commercial pattern requires a more active economic policy intervention routine. This realisation is likely to become stronger in the other countries of the region as well.

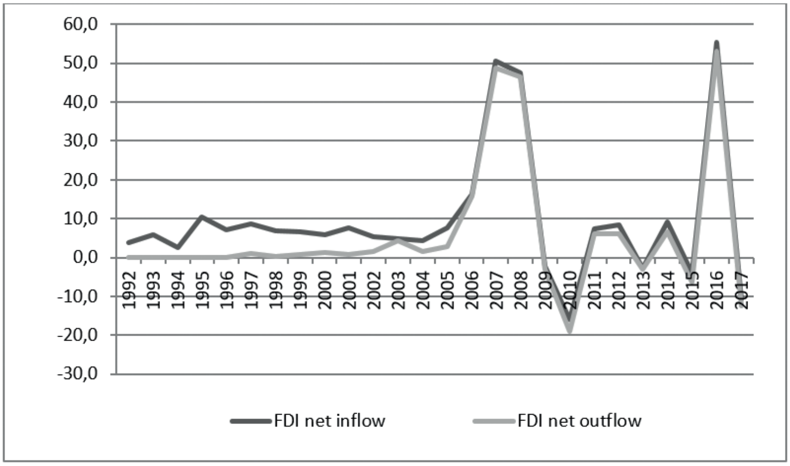
4. TRENDS OF INTEGRATION IN TERMS OF THE FDI FLOW

The extent to which Hungary integrated into the global process of foreign working capital flow can also be regarded as the indicator of the country's integration into the EU. Of course, as an opening we could have raised the question as to what capital flow intensity characterises Hungary in terms of the global average, but within the framework of this study we only discuss what is the volume of the inflow and outflow of the FDI to Hungary, and, subsequently, we also take into account from where the capital came to Hungary. We consider it as essential information that Hungary is primarily a capital importing country. That is why the countries investing capital here are to be examined, although it would also be an interesting question in which direction and for what purpose our capital export is carried out, whether our endeavours can be linked to the EU expansion strategy or whether it is the countries with a similar level of development that appear in the exports.

The figure below, which is the 10th one in the study, summarises the data available at the World Bank in relation to Hungary. As a technical addition, it can be noted that there are some values over 100% and also negative ones in the table. This is because in 2009 and 2010, for example, capital inflow reached a significantly negative balance, that is, the capital was withdrawn from Hungary due to the crisis, while the share of the EU exceeding 100% in some cases shows that compared to the other regions of the world negative inflow occurred, for example in 2008, but at this time still a positive capital flow appeared from the EU. All these comments are also true of the data of the Visegrád countries and the flows of the other countries of the region since these states have experienced similar tendencies.

By analysing the net outflow and inflow it is important to note that the two flow indicators were nearly-fully moving together after 2004. Therefore, it was again the year of the accession to the EU that meant the initial change, and this had an impact on the capital flow processes. In the previous period the flow seems to be significantly higher compared to the outflow, while after 2004 there are much higher values, although the surplus of the inflow was hardly perceptible. The crisis starting in 2007 made itself felt with little delay, the FDI flow was characterised by cyclicality after 2011, however, both categories showed an exceptionally high volume, a peak value, in 2016.

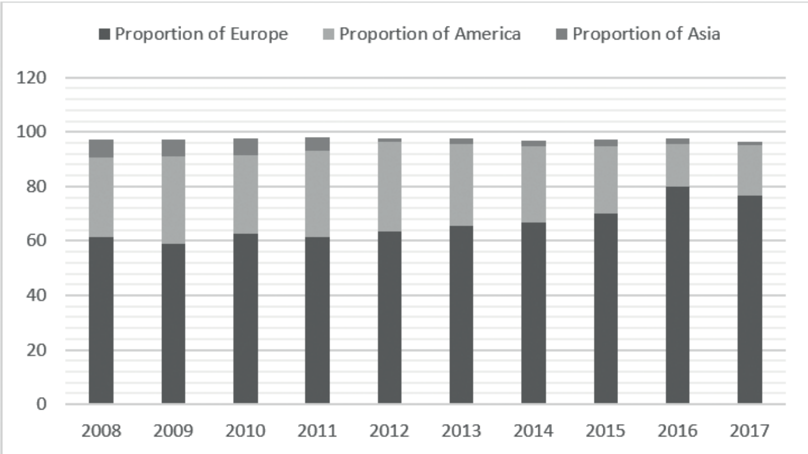
Figure 10 The net inflow and outflow to and from Hungary expressed as a percentage of the GDP between 1992 and 2017



Source: Edited by the author based on the data of the World Bank

Concerning Hungary's working capital flow position within the region I have already found in a previous study (Pintér, 2018) that after the accession to the European Union in Hungary a proportion more considerable than the regional average is represented by the EU as an entity sending working capital to the country. Between 2008 and 2011 this resulted in risk arising from our greater exposure turning into loss, as significant EU-related divestment was taking place in Hungary. This situation is, of course, not independent from the economic crisis peaking in that period, and the uncommon economic policy solutions and the sectoral special taxes introduced later triggered strong responses. Nonetheless, we can state that Hungary is strongly connected to the European Union also in terms of capital inflow. This is confirmed by the following figure 11, which shows the distribution of the FDI stock located in Hungary according to the sending territorial entity's continental position. It can be observed that despite the relation in the political scene, which is sometimes contradictory even occasionally hostile, the proportion of Europe as a continent was continuously increasing (in which mostly the EU member states, but also Switzerland played a major role). Nevertheless, the American continent and Asia rather show a downward trend.

Figure 11 The distribution of the FDI stock in Hungary based on the continent of origin, expressed as a percentage, between 2008 and 2017



Source: Own editing based on the data of the World Bank

As we could do and did so in the case of the evolution of trade relations, we must make the observation here as well that it would be necessary to diversify the capital flow relations in a geographical sense. This is justified by the proportion of nearly 80% of the European continent, as well as the fact that the centre of global growth is continuously shifting to the direction of the Pacific region. Accordingly, both the American and the Asian continent should be provided with a larger proportion. As a natural result of EU membership, the capital from the internal market of the European Union can appear most easily in Hungary, and this is exactly the reason why the distribution observed is natural. The new economic and political world order emerging and the consideration based on geopolitical and economic organisation model ideas can, however, make the diversification of the capital flow relations justified. We consider it very important to note, that according to the IBM's Global Location Trends Annual Report 2019, Hungary reached the 5th place after the 7th place from one year before in the category: Top-ranking destination countries by estimated jobs, per million inhabitants.

5. CONCLUSIONS

The purpose of the study was to provide a clear picture of the economic relations between Hungary and the EU. For this, I considered it important to summarize the history of EU-accession of Hungary. After that, the tendencies, which can describe the intensifying relations, were presented. The processed data include macroeconomic, fiscal policy, foreign trade and capital flow indicators. The tendencies and internal structure of these data serve as an empirical basis for drawing conclusions.

It is difficult to assess the economic and social experience of our years spent in the European Union so far. Based on most of the economic indicators, Hungary was not considered an isolated country within the region even at the beginning of the nineties, and nowadays it is connected to the global economic space even more closely, and the EU membership plays a major role in it.

The issue of Hungary's EU integration does not only have economic but also social and political aspects. According to the simplest interpretation of the term 'integration' we had to examine to what extent Hungary has become an organic part of the European Union, serving the soundness and development of a larger entity. We were not able to examine this question holistically and with due scientific thoroughness at present, due to its own simplicity, as not enough time has passed for us to be able examine the relation of the EU and Hungary from sufficient distance and a perspective of sufficient scale.

However, we were able to give an answer to the question as to whether the EU plays a significant role in the economic life of Hungary from the aspect of foreign trade and capital flow indicators. Our answer is clearly: yes. This means that we saw values above the threshold values defined in the integration theories.

It can be considered to be a positive result that over the last decades, in terms of relative standard of life, Hungary has been able to catch up with Austria, the most significant country of reference in historical terms. Although there has been convergence compared to the respective leading state of the region too, it is a negative finding that Hungary is not in the top three countries according to categories per capita within the group of countries in question, while it was steadily there at the beginning of the period. The trends of the indicators with significant societal and institutional aspects showed that there was a climbing-back compared to the regional partner countries and, of course, the competitor countries following the lows after the accession.

In the analyses of western literature one of the most problematic data is undoubtedly the Hungarian state with a larger size compared to the standard of living and the regional countries, and this is proved by the highest governmental revenue ratio compared to the GDP. Accepting this fact and view, however, we have to point out that one of the biggest enigmas of economic theory and paradigm formation is the following: why didn't the last crisis, which can be compared to the crisis between 1929 and 1933 in terms of scale, cause the correction or change of the dominant neoliberal economics? The crises of the 1970s linked to the oil price explosion eroded the positions of the Keynes's economic policy in favour of active state intervention within a short period of time, however, the rejection of the minimalist state concept did not occur as a result of the next big crisis – at least at the level of theories. Despite the changelessness of the academic approach, in Hungary we witnessed some significant innovations in economic policy over the last decade, and the fact mentioned above can be considered as one of the results of this.

The external trade and capital flow indicators show an excessive unilateralism, the geopolitical considerations and the pressure for diversification raise the need for the creation of a structure more heterogeneous than this, and all this, of course, can be the breeding ground for further debates.

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