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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)**, held in Brussels on 28 and 29 February 2012

The meeting was chaired by Ms Bowles (ALDE, UK), Ms McCarthy (S&D, UK), and Mr Zalba Bidegain (EPP, ES).

1. Exchange of views with Johnny Åkerholm, Chairperson of the European Statistical Governance Advisory Board (ESGAB)

ECON/7/02197

In his opening statement, Mr Åkerholm gave an overview of the European Statistical Governance Advisory Board's (ESGAB) activities, difficulties, achievements and future expectations.
He considered the resources currently allocated to the ESGAB to be insufficient. In his opinion, this had undermined the ESGAB's initial objectives and required a readjustment of its working practices and the downgrading of its ambitions. He underlined some positive developments such as improvements in transparency and in priority setting.

Mr Åkerholm proposed enhancing best practices, cost savings and quality, the adjustment of resources and the introduction of multiannual budgeting to ensure the viability and the adequate implementation of the ESGAB's projects. He also commented on the implementation of the European Statistics Code of Practice in several Member States, referring to the memorandum of understanding with Greece and the implementation issues in Sweden, the Czech Republic, Bulgaria, Denmark, Germany, Latvia and Greece.

In the subsequent exchange of views, he told Ms in't Veld (ALDE, NL) that the ESGAB needed additional and renewed political backing to regain momentum, warning against the politicization of statistics.
He pointed out to Mr Chountis (GUE/NGL, EL) the efforts made by the Greek statistical bodies under difficult circumstances to present accurate figures. He agreed with Mr Scicluna (S&D, MT) that smaller Member States needed appropriate support to provide reliable statistics and he told Mr Stolojan (EPP, RO) that at present, given the scarcity of resources, a number of new demands on data production would have to be disregarded.

2. European system of national and regional accounts in the European Union

ECON/7/04957 2010/0374(COD)
Rapporteur: Ms Bowles (ALDE)
Consideration of amendments

In her initial address, Ms Sharon Bowles (ALDE, UK) listed the tabled amendments ranging from the limits on derogations, the need for regional statistics, the percentage criterion (50 or 100 per cent) to be used to determine the nature of entities (public or private) when calculating debt and deficit figures, the data transmission programme and the deadline for the publication of statistics.

In the subsequent exchange of views, whilst Mr Stolojan (EPP, RO) and Mr Scicluna (S&D, MT) supported the use of the 100 per cent criterion, Ms Ford (ECR, UK) suggested additional technical discussions.
Mr Stolojan opposed the proposal to consider military expenditure solely as operational expenditure, suggesting instead a split into two categories: investment and operational expenditure. This received Ms Ford's support.
Mr Scicluna favoured regional accounts, provided a common methodology was used, whereas Ms Ford considered disclosure to be appropriate solely in autonomous regions with budgetary powers.

Mr Scicluna pointed out that derogations did not solve the problem of lack of adequate resources in smaller Member States (MS) and considered the setting of indicators to be the European Parliament's exclusive prerogative.
In spite of Eurostat's opposition, Mr Lamberts (Greens/EFA, BE) called for the Commission to implement the measures voted by the European Parliament on 8 June 2011 concerning the GDP and beyond report.
Ms Ford did not disagree with the proposed data transmission programme but warned against faster timeframes for data collection because it could increase costs and hinder accuracy.
The Eurostat representative noted that derogations were meant to enable the MS concerned to develop new statistical sources to improve the quality of their evaluations and should not be immediately linked with the need for additional resources. He agreed on limiting derogations to safeguard the quality of European statistics and to ensure international comparability, and supported the proposed distinction regarding military expenditure. He pointed out that the envisaged changes to the criterion to determine the ability to undertake market activity could have far- reaching consequences regarding the notions of general government and public sector. He explained that Eurostat would like to supplement GDP with satellite accounts on account of the variety and quality of monetary and non-monetary indicators including environmental data. Finally, he noted that Eurostat favoured the fair treatment of regions and backed the same deadline for the transmission of statistics (T+85) for all Member States.

Vote in ECON: 20 March 2012. Vote in plenary: May 2012.

3. Administrative cooperation in the field of excise duties

ECON/7/07779 2011/0330(CNS)
Rapporteur: Mr David Casa(EPP)
First exchange of views

In his introductory remarks, Mr Casa (EPP, MT) highlighted the overall consensus among the political groups. He informed the Committee that the European Protection Data Supervisor had just recently proposed some modifications intended to ensure compliance with data protection rules and that, together with Mr Schmidt (ALDE, SE) and Mr Lamberts (Greens/EFA, BE), he had called for the creation of a VAT and excise duty forum. He, together with Mr Fox (ECR, UK) rejected the introduction of penalties since most of the provisions in the current text were voluntary.

Mr Bullmann (S&D, DE) called for further transparency when setting rules and for more efficiency through the use of electronic information exchange, (without additional costs), and suggested sharing third-country information. Mr Schmidt noted that translation could represent an excessive burden for the authorities.

Vote in ECON: 29 February 2012. Vote in plenary: March 2012.

4. Extension of the geographical scope of the EBRD to the Southern and Eastern Mediterranean

ECON/7/08383 2011/0442(COD)
Rapporteur: Mr Slavi Binev (NI)
First exchange of views

In his opening address, Mr Binev (NI, BG) explained the genesis of the European Bank for Reconstruction and Development (EBRD); referred to its triple A status; underlined the different tasks of the EBRD and the European Investment Bank (EIB); pointed out the complementarity between both institutions; and justified the extension of the EBRD's geographical scope by referring to the European Parliament's determination to support the Arab Spring. He mentioned the EBRD's calibrated approach and its commitment to support the region's sustainable development and its focus on a low carbon- based economy. Finally, he noted that all projects would be assessed on an annual basis.

In the ensuing exchange of views, all speakers agreed on the need to support political and economic reforms in the southern and eastern Mediterranean. Ms Essayah (EPP, FI) welcomed the proposal to extend the EBRD's scope and its calibrated approach; although he expressed concerns about possible overlaps with the EIB and suggested focusing on the EBRD's audit committee.
Mr Lamberts (Greens/EFA, BE), Ms Goulard (ALDE, FR) and Mr Chountis (GUE/NGL, EL) questioned the EBRD's usefulness and the extension of its mandate. Mr Lamberts, along with Mr Kamal (ECR, UK), considered merging the EBRD's activities into the EIB and/or changing its mandate, while Ms Lulling (EPP, LU) challenged its existence all together.
The Commission representative reiterated the complementarity between the EBRD and the EIB activities.

Consideration of draft report: 20 March 2012. Vote in ECON: 17 April 2012.
Vote in plenary: June 2012.

5. Strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area

and

Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area

ECON/7/07962 2011/0385(COD) and ECON/7/07959 2011/0386(COD)
Rapporteurs: Mr Jean-Paul Gauzès (EPP) and Ms Elisa Ferreira (S&D)
Consideration of draft reports

The two reports also known as the “two-pack” were dealt with together.

In his opening statement, Mr Gauzès (EPP, FR) proposed including in the report as many elements as possible from the new international treaty, underlining the Commission’s support. He suggested as well introducing the principle of Reversed Qualified Majority (RQM) to enable the Council to repeal or to modify Commission proposals, placing Member States on the verge of default under legal protection and in the process freezing loan interest rates as well as ratings, and identifying creditors.

Ms Ferreira (S&D, PT) echoed Mr Gauzès’ recommendations to rebalance powers in order to limit the Commission's powers and to allow for more national ownership and a better democratic process. She proposed that all budgetary recommendations made by the Spring Council should take account of the European Semester assessment, including the Annual Growth Survey, macroeconomic unbalances and employment proposals to be incorporated by Member States in their National Reform Programmes (NRPs), their Stability and Convergence Plans (SCPs) and their mid-term taxation plans. She noted that the economic partnership programmes mentioned in the Fiscal Compact should include the recommendations for each state as part of the excessive deficit procedure and to guarantee the independence and credibility of the bodies producing economic forecasts. She recommended that, under the main European Union institutions' scrutiny and guidance, the budget's plan first draft should include indicators on public finances and on investment, planned expenditure relating to employment and growth, the NRPs' budgetary implications, and state debt plan details. Finally, she proposed that Member States should deliver to the Commission and to the Eurogroup a plan and a provisional timetable on sovereign debt issuing and a "roadmap" for the introduction of stability bonds along with the establishment of a debt redemption fund immediately after the adoption of the "two-pack".

In the subsequent debate, Ms Ferreira called for more clarity in the provisions for triggering legal protection. Mr Haglund (ALDE, FI) agreed with the incorporation of the international treaty provisions in the “two- pack” and supported additional powers for the Commission on enhanced surveillance. Mr Tremosa I Balcells (ALDE, ES) also recommended increasing the Commission powers in the “two- pack" and welcomed the idea of establishing a debt redemption fund. Mr Eppink (ECR, BE) defended the right to leave the euro area ; supported the concept of sanctions and the suspension of structural funds and disagreed with Ms Ferreira’s proposals to water down the Commission’s powers and to link the "two- pack" with a road map for the introduction of project bonds. Mr Giegold (Greens/EFA, DE) called for more democratic scrutiny and for an extension of the scope of the Commission proposals beyond the Euro area countries. He supported the concept of legal protection, the use of the RQM principle and the involvement of the 3 European Supervisory Authorities (ESAs). Mr Lamberts (Greens/EFA, BE) called for greater balance between economic efficiency, social justice and environmental sustainability; for the creation of a proper system of checks and balances, and for greater democratic accountability and transparency in terms of methodology. Mr Portas (GUE/NGL, PT) noted that the institutional architecture being designed was curtailing national democracy and budgetary sovereignty.

Deadline for amendments: 5 March 2012. Consideration of amendments: 20 March 2012..
Vote in ECON: 17 April 2012. Vote in plenary: 12 June 2012.

6. Amendment of the Regulation (EC) No 1060/2009 on credit rating agencies

and

Coordination of laws, regulations and administrative provisions relating to undertakings of collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of the excessive reliance on credit ratings

ECON/7/07815 2011/0361(COD) ECON/7/07818 2011/0360(COD)
Rapporteur: Mr Leonardo Domenici(S&D)
Consideration of Draft Reports

In his initial address, Mr Domenici (S&D, IT) suggested: complementing the Commission proposals with additional elements, prohibiting "unsolicited" sovereign debt ratings, setting up an independent public European credit rating agency (CRA) to rate the creditworthiness of Member States, and ending the over-reliance on ratings whilst redefining them.

More specifically, Mr Domenici recommended the consideration of at least two independent ratings, the development of internal rating capacities, the treatment of ratings as mere information and not as unilateral and unquestionable data, the enhancement of the capacity of the European Securities and Markets Authority (ESMA) to rate CRAs' performances, the revision of the rules governing the selection and payment of agencies to perform ratings, and the prohibition of cross-shareholding.

In the subsequent exchange of views, there was an overall consensus regarding the curtailment of over-reliance on the ratings. Unlike Mr Kamall (ECR, UK), Mr Gauzès (EPP, FR) and Mr Schmidt (ALDE, SE) expressed doubts concerning the banning of "unsolicited" sovereign debt ratings, while Mr Canfin (Greens/EFA, FR) suggested establishing precise time slots for the evaluation of sovereign debt and Mr Portas (GUE/NGL, PT) the abolition of sovereign debt ratings.
Mr Schmidt and Mr Kamall supported the deletion of the rotation principle, and the subsequent abolishment of the proportionality principle within CRAs.
Mr Kamall and Mr Feio (EPP, PT) opposed the creation of a European CRA, whilst Mr Giegold (Greens/EFA, DE) favoured differentiation between big and small CRAs.
Ms Wikströrm (ALDE, SE), Rapporteur for the opinion from the Legal Affairs Committee (JURI), welcomed the Commission's proposal for common civil liability rules on CRAs which, she felt, needed to be improved, and suggested the use of ESMA's legal procedures to determine possible infringements, whilst respecting the presumption of innocence and placing the burden of proof on the party claiming injury.

Deadline for amendments: 22 March 2012. Consideration of amendments: 24 March 2012.
Vote in ECON: 21 May 2012. Vote in plenary: July 2012.

7. Economic Dialogue with Hungary: Exchange of views with Zoltán Cséfalvay, Minister of State for Strategy of the Ministry of National Economy

ECON/7/08837

Mr Cséfalvay delivered the speech contained in the Annex.

In the subsequent debate, Mr Caséfalvay told Mr Gauzès (EPP, FR) and Mr Bullmann (S&D, DE) that Hungary was committed to keeping its budget deficit below 3 per cent. He explained that in early February, the Hungarian government had informed the European Commission in a letter about new economic adjustment measures worth 0.4 per cent that would ensure that Hungary met the required deficit target below the 3.25 per cent Commission forecast, which would in turn prevent the Commission from blocking Hungary's cohesion funds. He explained that the Hungarian government had reached an agreement with the banking sector on 15 December 2011 regarding burden and risk sharing, which he considered acceptable to all parties. He pointed out to Mr Schmidt (ALDE, SE) that despite substantial progress, (on the establishment of a debt break and early retirement pension schemes reforms), Hungary had not joined the Europlus pact due partly to issues regarding the Common Consolidated Corporate Tax Base (CCCTB) and tax sovereignty. He also explained to Ms Wortmann-Kool (EPP, NL), concerning pending talks with the International Monetary Fund (IMF) and the European Union on the establishment of a financial safety net, that discussions would start as soon as the Commission had finished assessing Hungary's response to the questions raised in the infringement procedure; he stressed that it was in the interest of all sides to start and conclude negotiations as soon as possible. He mentioned that Hungary's request to the IMF and the European Union was precautionary in nature and would serve the purpose of stabilising the currency exchange rate and the reduction of yields. He reassured Ms Berès (S&D, FR) that the Hungarian Central Bank would remain independent and that Hungary was committed to joining the Euro as soon as it met the required preconditions.

8. Chair's announcements

Ms Bowles (ALDE, UK) reported back on the Committee's delegation visit to Singapore and Hong Kong that had taken place the previous week, listing the topics discussed during the meetings. These included financial legislation, the Euro and Sovereign crisis, growth and unemployment, Over The Counter (OTC) derivatives, the Market in Financial Instruments Directive (MiFID), the Market Abuse Directive (MAD), the Financial Transaction Tax (FTT) and the Capital Requirements Directive (CRD).
She also announced that the Committee's calendar of meetings for 2012 had been revised due to budgetary changes and to the Committee's heavy workload, stressing that extra meetings had been requested in weeks 15, 23, 39 and 49. Lastly, she mentioned that the Committee's work could now be followed on the European Parliament's website under the legislative observatory.

****** Voting time ******

9. Amending Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity

ECON/7/05849 2011/0092(CNS)
Rapporteur: Ms Astrid Lulling (EPP)
Adoption of draft report

The draft report was approved, with 22 votes in favour, 6 against and 16 abstentions.

10. Administrative cooperation in the field of excise duties

ECON/7/07779 2011/0330(CNS)
Rapporteur: Mr David Casa(S&D)
Adoption of draft report

The draft report was approved, with 38 votes in favour, 0 against and 1 abstention.

11. European account preservation order

ECON/7/06630 2011/0204(COD)
Rapporteur: Ms name Elena Băsescu (EPP, RO)
Adoption of draft report

The draft report was approved, with 34 votes in favour, 0 against and 0 abstentions.

****** End of vote ******

12. Common system for taxing financial transactions and amendment to Directive 2008/7/EC

ECON/7/0 7286 2011/0261(CNS)
Rapporteur Ms Anni Podimata (S&D)
Consideration of draft report

In her initial address, Ms Podimata (S&D, EL) listed two sets of amendments: the first was aimed at widening the net for Financial Transaction Tax (FTT) collection by complementing the residence principle with the issuer principle; whilst the second set was intended to tackle tax evasion by rendering it potentially more expensive than actually paying tax. She pointed out that financial institutions located outside the European Union would also be obliged to pay an FTT if they traded securities originally issued within the EU. Taking the UK stamp duty as a reference, she explained that her report linked the payment of the FTT to the acquisition of legal ownership rights, which implied that if the buyer of a security did not pay the FTT, he or she would not be legally certain of owning that security and would therefore be unable to clear the trade centrally.

In the debate that followed, the speakers for the political groups largely restated the positions announced during the first exchange of views[1].

The Commission representative indicated support for complementarity between the residence and issuance principles and proposed strengthening the proposal with respect to tax evasion and relocation. He warned against the use of the UK stamp duty as a reference since it exempted many of the products targeted for taxing, such as derivatives and High Frequency Trading (HFT).

He confirmed that the Commission had undertaken additional economic analysis that would soon be disclosed which reiterated the conclusions communicated to Member States in December 2011, notably that the macroeconomic implications were negligible and inconsequential for growth and jobs. He explained that Article 9(2) of the Commission's proposal provided that only one financial institution in a valued chain would have to pay the tax, (typically the last one if all the other participants acted on its behalf), and therefore refuted any alleged cascading effects. He noted that low-risk pension funds would be barely affected by an FTT as regards the rights of return for pensioners. Finally he informed the Committee that, apart from a global and an all-inclusive European scenario, the Commission had also envisaged a situation without all European Member States.

Deadline for amendments: 6 March 2012. Consideration of amendments: 27 March 2012.
Vote in ECON: 24 April 2012. Vote in plenary: June 2012.

13. Economic Dialogue: Exchange of views with Jean-Claude Juncker, President of the Eurogroup

ECON/7/00020

In his initial address, Mr Juncker listed the decisions taken at the meeting of the Eurogroup on 20 and 21 February concerning the Greek public debt and in particular negotiations regarding private sector participation and the agreement on a second aid package to Greece. Referring to the participation of the private sector, he described this is a "one off" that would not be repeatable for a Member State (MS) of the euro area.

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[1] See 5282/12 pp. 1-3.

Mr Juncker mentioned that the Private Sector Involvement (PSI) operation had been launched on 24 February and that the results were expected around 9 March, stressing that only then would the agreement on the second program of aid to Greece be formalised, (possibly around 12 or 13 March), and underlining that the second program of assistance was subject to strict conditionality.
Regarding the Stability Fund, Mr Juncker: reminded Members that the European Stability Mechanism (ESM) would enter into force on 1 July 2012 while the European Financial Stability Fund (EFSF) would continue to operate until 1 July 2013; stressed that the EFSF would continue to fund existing programmes until the implementation of the ESM; noted that the total lending capacity of 500 billion euro between July 2012 and January 2013 should be reviewed; defended the complementarity between the ESM and the EFSF as well as the transfer of the EFSF remaining funds to the ESM to reach a total of EUR 750 billion.
He noted that Ireland's option to hold a referendum on the new international treaty had to be respected and explained that the treaty would enter into force once it had been ratified by 12 signatory MS.

In the subsequent debate, Mr Junker encouraged reflection on Mr Gauzès' (EPP, FR) proposal to place MS on the verge of default under legal protection. He told Mr Giegold (Greens/EFA, DE) that the Portuguese Government was not considering a second aid package. He reiterated to Ms Lulling (EPP, EL) that the Greek case was unique and to Mr Chountis (GUE/NGL, EL) his conviction that the European Union should appoint a Commissioner in charge of economic stimulus and growth policies for Greece to restore growth. He explained to Mr Zalba Bidegain (EPP, ES) that he had not advocated the "Plan for Growth in Europe" because it lacked a social dimension. He told Ms Hübner (EPP, PL) that he preferred the Community method to the intergovernmental approach and acknowledged to Mr Lamberts (Greens/EFA, BE) and Mr Gualtieri (S&D, IT) that there was scope for cuts in Greece's military spending.

14. Date of next meeting

The next meeting will be held in Strasbourg on Monday 12 March 2012.

Speech by Mr Cséfalvay, Hungarian Minister of State for Strategy of the Ministry of National Economy

Thank You, Chair, Excellencies, Ladies and Gentlemen, and honourable members of the Committee.

It gives me great pleasure to be here in the European Parliament, and I welcome this occasion to discuss the Hungarian economy with you in some detail.

Jerzy **Buzek**, former President of the Parliament, referred to the Hungarian Presidency that ran in the first half of 2011, as a „*Parliament-friendly Presidency'*. In fact, it was during the Hungarian Presidency that the so-called „*Six Pack*" was introduced as a key way to strengthen fiscal discipline and economic governance within the EU. And now, Hungary again has the chance to demonstrate its „Parliament-friendly" character – Hungary is the first country to appear in front of **ECON,** to engage in an economic dialogue which is part of the new economic governance framework.

Given the background of struggling European economies, of stalled economic recovery and the ongoing Euro crisis, economic policy-making needs to move beyond the intellectual debate between the **Austrian School of Economics** that advocates no government action and leaving the market to resolve the crisis, and a post-**Keynesian approach** which rather privileges state intervention.

Hence, in my opening statement today I am going:

- first, to contextualise Hungary's position and its recent policies,
- then to draw some lessons from the crisis and how we are applying these in our policy making,
- I will then introduce the rationale behind the measures we are implementing, and
- last, I will set out our reform agenda.

When it joined the European Union, Hungary embraced the opportunities represented by the EU – Hungary is a small and an open economy, highly integrated into Europe, and dependent on trade and export for growth. But this has made the country particularly vulnerable to external economic and financial conditions. Currently, the biggest challenge to the Hungarian economy is uncertainty in the euro-zone.

The **two most anticipated outcomes** are at opposite ends of the spectrum: one is the break up of the euro, and the prospect of default by some countries; the other is the emergence of a stronger fiscal union, involving increased political integration which is controversial in many member states. However one thing is clear, the market is impatient with the current policy of muddling through from summit to summit, from compromise to compromise.

Against the background of the euro-zone crisis, in the autumn of last year Hungary approached the European Commission and the IMF for a **safety-net.** Hungary is able to finance its debt on the market, and is determined to do so in the future, so our concern is not liquidity. Our aim is to secure a precautionary financial assistance agreement such that, without drawing down the finance, it would result in lower yields and more stable exchange rates, all of which are crucial for safeguarding the growth of the Hungarian economy. Within the Euro zone, the European Central Bank (ECB) is able to provide such a safety-net – the long-term refinancing operation launched by the ECB in 2011(489bn euro) and in 2012(530bn euro) has provided low interest loans to European Banks, enabling them able to buy government bonds of southern euro area countries and therefore keep bond yields at a lower level. But non-euro countries, including Hungary, needed to obtain such support through the EU and the IMF.

There are many lessons to be drawn from the crisis and three are particularly relevant for economic policy-making now:

To paraphrase Charles **Darwin**, we are living in a time when – instead of the survival of the fittest - it is the survival of the fastest that matters. We are accustomed to the state response being "too little, too late", but in the recent crisis the successful countries are those which can respond quickly and proactively to the challenges. The Hungarian Government is doing this, having introduced more than **350 new pieces of legislation** since taking office in the summer of 2010, laying the foundations for a comprehensive range of reforms which will make the economy more resilient to crises and more competitive within global markets.

The second lesson, given the current growth projections around Europe (now 0.0% for 2012), is that austerity alone is not enough. The Hungarian Government is deeply convinced that we cannot solve the budget and debt problem in a sustainable way without growth. That is why from the very beginning our policies were based on the two pillars of **stability and growth at the same time**. Therefore, I am very happy to acknowledge that last year the Hungarian economy grew by 1.7 per cent, above the EU average.

The Hungarian Government welcomes that now there is a growing consensus in Europe (and beyond) on this. Recently Christine **Lagarde**, Managing Director of the IMF, eloquently said: “fiscal consolidation programmes should be applied in a socially responsible manner in order to promote growth and employment”. As former **chair of the Competitiveness Council** during the Hungarian Presidency, I would add that enhancing the Single Market is the most important driver of growth throughout Europe. That is why I personally was so determined to push forward the **unitary patent system,** achieving a keenly long-awaited and much anticipated breakthrough.
 The third lesson is the importance of **sharing the burdens and risks of the crisis** among citizens, state, and business sector. In fact, governments all over Europe are struggling both implicitly and explicitly, with this challenge. Niall **Fergusson,** the Harvard historian, identified one of Europe‟s great strengths as the competition between different social and economic models. Hence, the main challenge is improving Europe‟s competitiveness through maintaining competition between the different Member States and their economic models. Regarding burden and risk sharing, the Hungarian Government faced the problem of very high levels of **privately held foreign currency debt,** a challenge which was referred to by The Economist as a „*Gordian knot'* for the Hungarian Economy. Defining the problem is one matter, solving it is another – from experience we can say it is extremely difficult to find a solution that is acceptable to all players, including the debtors, the state, and the banks. Hence, one of the government‟s main policy achievements is to have reached an agreement with the Hungarian Banking Association in mid December last year. The agreement sets out in a clear and fair way the effective sharing of burden and risks between sectors. Below the preferential exchange rate (in the case of the Euro at 250 HUF) the burden is on the debtor, while above the preferential exchange rate two third of the burden falls on the banks, and hence one third of the burden falls on the state.

Now, I would like to focus on Hungary in some more detail. In mid-2010, **when the new government took office**, the country was highly indebted. Public debt had soared from 54% in 2002 (when Fidesz lost office) to more than 80% in 2010 (when we returned to office). From 2002 to 2008 there was a track record of high annual deficits ranging between 6% and 9%. In fact, the budget deficit was heading for 7% of GDP in 2010. The government acted by introducing a range of one-off measures, such as the levy on banks and taxes on specific commercial sectors, such as energy, telecom, and retail.

These were necessary to **consolidate the budget**, to prevent recession, and to avoid harsh austerity. More importantly, the measures were essential **to gain time for the much needed structural reforms**.

As a result, the deficit position has improved, from 4.2% of GDP in 2010 to below 3% of GDP in 2012, and public debt has decreased, from 82% in 2010 to below 80% of GDP in 2012. When adjusted for the effects of exchange rate fluctuations (the forint‟s appreciation in the second half of 2011), the public debt to GDP ratio reduced by close to 6 percentage points in 2011. While the Hungarian economy contracted by 6.8% of GDP in 2009, it has since returned to growth, albeit at a similarly low level as found within most of the EU.

These measures are unusual and, more importantly, they are temporary – **the crisis taxes will be phased out as planned** in 2013, and the bank levy will be halved in 2013. The Hungarian Government has asked for help from the business sector for 3 years and it is committed to keep its promises and abolish the crisis taxes.

In the light of these principles and context, our policies should rightly be assessed on the depth and progress of our reform agenda. While we stand by the temporary measures we introduced, we know that institutional restructuring and transformation will be the test of a successful and competitive economy in the longer term.

There are some reforms where I would argue that **Hungary is at the forefront of Europe** – for instance abolishing early retirement schemes and implementing the debt brake. Both policy measures are included in last year‟s Euro-Plus Pact. There are, however, only a handful of countries that have anchored the debt break in their constitution, and Hungary is among them. One day we anticipate that „**Schuldenbremse**‟ will become as common a word in European English, as Kindergarten‟.

There are some reforms where **we have been able to catch up with the most competitive countries of Europe,** and compared to some Southern European countries, Hungary is clearly ahead by one or two years. Three areas are worth mentioning: increasing employment, improving the business environment, and enhancing the effectiveness of the state.

 One of the centrepieces of the Hungarian reform agenda is **to increase employment levels and employability**. We have created more incentives for people to enter the labour market instead of relying on benefits. We have improved labour market flexibility through the **New Code of Labour**, making it easier to hire and fire and to work overtime.

We have introduced the German dual vocational training model in order to develop a closer relationship between schools and companies. And we have launched higher education reforms which better meet the needs of business. **Pensions** are currently one of the most onerous welfare demands on the state, and pension reform in Hungary is therefore central to balancing public budgets and improving employment opportunities. Measures already implemented include cancelling early retirement schemes, reviewing disability pensions, and introducing inflation linked pension rather than indexation of pensions under the Swiss system.

 Regarding the **business environment**, policy measures to date have included: reducing corporate tax from 19% to 10% for small- and medium sized enterprises, abolishing some small business taxes, and a large scale program for cutting red tape that will take away the administrative burden on businesses in Hungary by nearly 2% of GDP. The centrepiece is the **flat rate of income tax** of 16% which addresses the well-known and long criticised problem of excessively high marginal tax rates in certain (and not the highest) income categories, which in Hungary had a negative effect on the labour supply. We also attach important stimulating and whitening effects to the flat tax, because it creates incentives to work and weakens the incentive to underreport salaries, a practice relatively widespread in Hungary. "**Let work pay**" is a widely accepted policy target in Europe, and we think this could be achieved most effectively with a flat income tax, since it does not punish more and better work with higher tax rates.

 The third area is to establish **a smaller, but more effective state**. We have introduced measures to improve local government performance, procurement practices and budgetary processes, and to make subsidisation policy more effective. Centrepiece in this area is the reform of public administration, and slimming down the multi-layered system of regional and local governments.

While these overarching reforms will have their impact in the long term, last spring we launched a multi-annual structural reform programme, the **Széll Kálmán Plan**. This aims at budgetary improvement of between 2% and 3% of GDP in 2012 and 2013. This plan comprises structural changes and savings amounting to 550 billion HUF in 2012, and 900 billion HUF in 2013 through reforms to pensions, labour markets, public transport, health care, local government, and education. The 2011 Spring Economic Forecast of the European Commission anticipate that only the half of these measures will be completed because of implementation risks – however, for 2012 more than 80% of the planned measures have already been implemented, and for 2013 more than 70%.

To recap briefly, Hungary has embarked on one of the most ambitious and wide-ranging reform programmes in Europe:

- in some areas Hungary is ahead of the game, for example in terms of pension reform and „debt brake",
- in some areas Hungary is on a par with the rest of Europe, for example labour market flexibility, and
- there are a few areas where we have to accelerate the reform process, such as with public transport and local government.

Nevertheless, within we have nearly accomplished every reform that is necessary to put Hungary on a sustainable growth path. Critically, this means that the time of turbulence is over and we believe that these reforms will guarantee the growth prospects of Hungary this year and into the future.