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## **Central Europe – the Engine for Growth**

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Thank you very much and good afternoon, Ladies and Gentlemen.

My elaboration today is about Central Europe and its future in a wider context, may I say in a European context. Thank you for the invitation, because it is always a joy to explain Central Europe to the Westerners, which is not an easy job anyway. The difficulty of that kind of lecture is that the speaker cannot be sure, how well the audience is educated on the subject. Not only in terms of the facts of history and economy of Central Europe – because probably you know better in that respect about Central Europe than me –, but the real question is whether you have some understanding about the last twenty years of Central Europe as we - who live there - perceive it. This doubt is relevant especially to the political life of Hungary. How could it happen – it is a very natural question –, that as a result of a fair and free election a party can get a two-thirds majority in the House? I mean a two-thirds majority of the seats in the House. For the British it is even more challenging to understand, because by the British system our result at the last election would have been – let's say – 99 %, because we got 174 seats out of 176 – I mean in single constituencies. Plus to that it is done by the same political community which lost the elections 8 years ago, and than 4 years ago as well. So, first we have to clarify how could it happen in Central Europe and especially in Hungary?

May I begin by defining what post-communism means – which is a very often occurring expression without having a clear definition of that. Post-communism is a period after the collapse of communism, when first the constitutional institutions are fragile, especially because there is no new constitution as a basis for them. Second: rules of market, no question they do exist, but the informal strengths and dominance of the old political elite override the formal regulations. So on

the surface we have a market economy based on competition, but in fact we have an economy based on monopolies. The third characteristic of the post-communist period is that those political parties which have no roots in the communist past are rather weak and loosely organized.

Ladies and Gentlemen,

What happened in Hungary one and a half years ago is a landslide victory and unity of the people in order to close the chapter of post-communism in Hungary. That is a kind of an explanation how could it happen in a democracy that a party can get more than a two-thirds majority, or even 99 % of the single constituencies. The only question is now in Hungary: what for, and for what purpose we use that – may I say – terrific political strength. I hope that by the end of this elaboration you will get the answer to that question. Now, let us turn our attention to the future, and first may I have some observations about the root causes of the crisis we are living in now.

Ladies and Gentlemen,

While on the surface we are talking about the crisis of the European Union, in reality we are facing specific sovereign crises caused by irresponsible public finance management and irresponsible investment policies where European Union and national funds were used for welfare expenditures rather than productive value-creating investments. This resulted in the emergence of a culture of “something for nothing” that created unrealistic expectations at every level in many European Union countries. We cannot deny at the same time the well known fact, that we face a problem of the lack of political leadership in some European Union countries. Not to be involved in diplomatic scandals, if you allow me I will not mention any specific country names. But it is clear, that the most valuable thing today in Europe is political leadership and political stability. Especially because we see some countries, where the political leaders and the political system itself is or are not able to stop the increasing indebtedness of their countries. Now after that, may I have some remarks on the possible remedies.

In our understanding Europe is a network of politically and economically stable countries, actively trading and dealing with each other, and in my understanding Europe consists of self-sufficient, solid countries that can rely on each other and together can create additional value on the top of their stand-alone national achievements. Strong Europe can only be built on the basis of solid nation states. The job to be done in the European politics is not complicated, but simply heavy. First of all I think each and every country in Europe should put its own house in order and take responsibility for its own future without excessively relying on the international private debt market or the generosity of multilateral financial and political institutions. Second: we have to make clear, there is no alternative. Each country should rebalance its finances at least to a sustainable level,

and generally live within its means. The third remedy is: tackling the sovereign debt and public finance crisis requires common understanding and concrete measures to share the burden of the restructuring between governments, financial institutions and tax payers. And four: for the sake of the future it is critical that we create a business-friendly administrative and banking system, including sufficient financial resources for growth.

So now, let us make some remarks about the specific Hungarian answers to the crisis we have done up to now. I suppose that you are aware of the fact that we Hungarians are still in the situation which can be characterized as difficult. We had a demanding decade, or probably two decades behind us. Hungary is the only country which while absorbing the sources from the European funds, despite this possibility, was not able to produce higher growth rate in terms of GDP, after becoming a member of the European Union, than we were able to produce prior to becoming a member of the European Union. It is not a nice certificate anyway and we are the only country of that kind in Central-Europe. The situation is not easy. In the last several years the budget deficit ran up to approximately minus 9 %, and the indebtedness of the state increased by 50 % during eight years. The unemployment rate went up from 5.5 % to 11 %. No question that this is a huge challenge for our political and business establishments. It demands first common sense, firm choices and resolve to act and to implement measures that improve the socio-economic situation.

In Hungary we have a very simple philosophy, which philosophy is guided by three key principles. First: burden-sharing, second: empowering and third: restructuring. Principle No.1. Key players, as we understand, the government, the business sector and households – should share the burden of taking back control of our public finances. Nobody can expect it exclusively from the households or from the financing institutions or exclusively from the government. So we need to share the burdens. This is why it is – at least in my understanding - right and moral to introduce temporary extraordinary taxes and levies that are necessary to stabilize the budget. This, in turn – if we do the job well -, will create a much better environment for taxpaying companies over the medium term. This also means deleting the early retirement system as it is – as we do so just now in Hungary – and rationalizes the social entitlements that are embedded in our pension and other social security systems. As part of sharing the burdens we have to, and we have done so, broaden the tax base – we involved one-fourth of older employees in to the tax basis in the last year, because out of four million Hungarians who have a job, one million did not pay any tax. That was the inherited – may I say – social system. At the same time, we have to be much clearer that the activity rate can not remain as low as it is. Now it is 56-57 % and if we would like to be competitive, we have to lift it up at least to 75 % anyway, which is far above the European average, but that is exactly the American one. So, 75 % activity rate is openly the target of the government. At the same time it is important and we try to do so, that the government also must

carry its share of the burden. Since my government took office, we have shut down about 50 % of the semi-governmental agencies – kind of institutions that served only to increase the bureaucratic burden on businesses and citizens. The political class was cut into half – I mean in numbers –, which means that we decreased the number of the local governments, local councils – let's say – by 45 %, and we reduced just now the number of the Parliament by 50 %. The next Parliament – we create just now the electoral law - and as the result of that the next Parliament will have 50 % less members than we have today.

Ladies and Gentlemen,

The reduction of a budget deficit is about cutting expenditures and increasing revenues. The rule of thumb is that some two-thirds of the reduction should come from cuts in expenditures and one-third could come from increasing budget revenues. That is a kind of – as we call it in Hungary – rule of thumb. Another rule of thumb is that you have to try to earmark budget revenue types with expenditures. This is a very complicated measure, but important one. For example, in our case, the Hungarian 2012 budget for pension contributions matches the pension expenditures in a way that, according to the present demographic forecast, the system is self-sufficient in the medium as well as the long term. We are aiming at the same for the expenditures for health care within three years. Which looks to be more difficult than it was in the area of the pension system.

Principle No.2. Empowerment – empowering individuals and families who are ready to take a bigger share in our common cause, in our economy and demographic growth via increased participation in the labour market, and empowering businesses to create value and increase the tax base of the nation. As we all know, the EU population is decreasing and constantly ageing, increasing the risk of recurring national debts if we sustain the current level of public pension entitlements. This is why we in Hungary not only introduced a very competitive flat 16 % personal income tax rate, but also included a solution that enables families raising children to reduce their tax base. The bottom line is that we leave financial resources with individuals who are ready to work and have taxable income and even more if they raise children who will pay for all of our pensions in couple of decades. I believe that while governments can do a lot to improve the lives of citizens, the real value is created by individuals who get jobs or build enterprises that sustain their lives and families.

Ladies and Gentlemen,

The next question is, how we can help our enterprises and companies to prosper more. The Hungarian Government's answer is pretty simple: We introduced a 19 % corporate tax rate and a 10 % tax rate for SME's. Such a measure broadens – at least that is our experience up to now - the tax base and whitens the black and grey economy. It also increases the corporate financial

resources for investments, obviously. The third principle is about restructuring the government. The political elite must understand that if we would like to create some legitimacy, behind our decisions we have to restructure the governmental structures as well in order to ensure value for money and prompt professional service to both individual and corporate citizens. In our modern societies the bulk of the cost of education and healthcare is born by the government. A more efficient use of the educational expenditures can produce individuals with the right skills and capabilities that are critical to our economic and human growth. Similarly, effective national healthcare is critical to a reliable and capable work force. In addition, there is a huge efficiency gain potential in reducing the abuse – especially it is high in ex-socialist countries – of these systems and in building incentives to work rather than living on benefits. These are areas where the government can make a difference with regards to the well-being of a nation and restore constructive values in a society. As you all know, in Hungary we introduced a new Constitution that stipulates not only political but also economic criteria defining the state's policies towards its citizens. For example, we enacted a binding ceiling of sovereign debt of 50 % of GDP. We have to create another piece of legislation how to get there – that is even more complicated, but we are working on that –, but you see that we are determined to keep that level if at any time we will be able to reach it.

To give you some sort of a progress report about Hungary, I can tell you that we've reduced the budget deficit from 7.2 % in 2009 to 2.9 % in 2011. And the breaking news today is that the Brussels Commission just published its evaluation about the next year budget plans of the European Union member countries, and the opinion of the Commission is that the Hungarian budget deficit next year will be under 3 %, 2.8 – which does not sound probably as great information for you, but you should know that Hungary joined the European Union 7 years ago, 8 years ago, and this is the first time that Hungary was able to keep its promise we have made since we joined the European Union, that the budget deficit will be under the level of minus 3. So, it is a great day for the Hungarians, anyway. The next information I would like to give you is that at the same time we've reduced the sovereign debt from 82 % which we had one and half years ago – 82 % of the GDP - to 73.5 point by the end of this year, approximately by 8 %. As far as I remember Hungary and Sweden are the only two countries in the European Union, which were able to reduce, to suppress the debt in the recent years.

Ladies and Gentlemen,

The next point we have to speak about is economic growth. This is a point where the risk is very high. You know better than me, that the figures of the next year, economic growth figures concerning Germany or - not to speak about Italy, but let's say -, France. It means that the budget in Hungary for next year, which is planned for 1.5 % of economic growth in terms of GDP, it will

be extremely difficult to keep. Even the Commission of the European Union I just quoted now said that, OK, the budget deficit will be less than 3 %, but the economic growth will be not more than 0.5 %. The next battle – may I say battle, can I use this kind of language – so, the next battle for the Hungarian politics after the sovereign debt crisis and the budget deficit is the growth battle. How we can create a plan which can generate at least 1 % higher growth in the Hungarian economy than it is expected – let's say - by the European Union or the economic institutions.

When we Central Europeans think about Central Europe, we think about ourselves as the next engine of the European Union and European economic growth. I mentioned earlier that the best policies are those which empowering individuals as responsible members of society, and entrepreneurs who create value and pay taxes for common goals. Central Europe has many distinctive competitive advantages for the forthcoming several years. The post-communism is over, which means that now we can provide, as we do so in many countries, stable political leadership. Those kinds of competitive advantage – I mean strong political leadership – has a value not just only in Hungary, but please look at Poland, which is the leading country of that region, where the people re-elected the previous government with convincing majority. Look at the Czech Republic, which always has some uncertain news about the political life, but basically the country is so stable like a rock, and look at Bulgaria where the prime minister run a very-very tough restructuring program, but was able to win the local election and the presidential election last weekend or two weeks ago. So, I think stable political leadership is something which easily could belong in long term to Central Europe. Competitive advantages in case of Hungary – is let's say – that some of 50 % of our export is high-tech and high-quality manufacturing related. We have the significant current account surplus, which is quite rare now in many countries in the European Union, the surplus is between 1 or 2 % of the GDP, which is extremely high, never happened previously in our country. The last 20 years of heavy investment in infrastructures such as roads, electricity, pipelines, and telecom has resulted in a state of the art infrastructural environment not just in Hungary but as we call it, in the four Visegrad countries as well.

The skills and attitudes – competitive advantages, the next one – the skills and attitudes of Central European work force provide excellent value for money for investors. Make no mistake, while Central Europe still represents a significant labour cost advantage compared to the EU 15, our key selling point is not solely the cost, but the skills and readiness of our people to work. We often forget that Central Europe has always been on the crossroads of history. Our peoples are very much accustomed to easily making connections and learning new ideas. The rich multicultural heritage of the region makes us stronger and adaptive to new challenges.

Ladies and Gentlemen,

As I mentioned, the stable government in many countries can mitigate the sudden changes in economic philosophies and policies. While we are suffering the consequences of the economic crises, we are already - not just in Hungary but in every Central European country – we are already preparing for the post-crisis period. GDP per capita in the region is still well below the EU 15 level, which offers strong domestic demand opportunities going forward.

You cannot be a good partner or neighbour without knowing yourself – that is a very important common wisdom in Central Europe. Central European nations have very distinctive cultural identities and self-esteem that enable them to sustain their political, cultural and economic lives as well. Putting together that kind of competitive advantages, all together they can explain why we in Hungary and in Central Europe are so optimistic about the future. Regardless in what kind of crisis we are living just today. This is an overall view what can provide for you. I am one of the rare optimistic, even enthusiastic politicians in Europe who believes strongly in what is doing now, believe in the future and having good partners in the region to do the job not alone, but with the other governments, prime ministers and nations in Central Europe.

Thank you very much for your attention!

Q & A at the London School of Economics

Question 1

You mentioned the second part of the restructuring story, the first part being revenue, reduction and about revenue and cutting costs. What about the growth hand of the phenomena? Where do you see the growth coming from? Particularly, if we are moving from to a more depressed European environment where exports have more difficulty and being increased. What is your answer to that issue?

May I have some unorthodox kind of answers? The first is that - you know – I've been in politics for more than 20 years. I do remember vividly that when politicians - not just in Central Europe but in Europe as such – presented their ideas about the future, they always elaborated on service sector, high-tech industry and so on. And production as an expression was very rare. Now, in the last one- one and a half year it seems to me, that many leaders realized that without having – let's say - production centres, manufacturing industry, we cannot be competitive with those countries which have huge that kind of industry – the Chinese and Asians. In my understanding Central Europe and Hungary could be in the future a production centre, a manufacturing production centre. So we are competing just now with China, speaking very honestly. When the last investments happened in Hungary – let's say, in automobile industry – the competition went

on between – as production centres – between China and Hungary. And we won. Finally major European car factories or companies decided to have huge investments not over there, but here – I mean - in Hungary, in Central Europe. Production centre and industry is very important. Sometimes Central Europeans are criticized by the Westerners because they attract the production capacity from West to the East. But don't forget that it means at the same time - because it can cause some difficulties no question of that at home - but all in all, from the European perspective, we save those industries. Without having the Central European investment possibilities, that kind of capacities would leave the continent. I think, in that respect to create Central Europe, or to form, establish Central Europe as a production centre for Europe is European interest as well. That is the first answer. The second is agriculture. Agriculture is a brand of industry which was underestimated in the last several years. But because of the growing population of the world, because of the bio issue, because of the food sector issue, agriculture is getting more and more important. Central Europe is strong on that and Hungary especially. We believe that Central Europe could be the strong agricultural centre and economic growth or certain percent of that could come from here. The third point is the mind. Hungarians are creative. Or at least we like to think about us that we are creative. And there are some evidences that it is probably not just an overestimation of us. Creative industries like IT, like computer industry is something that is suitable for us. I think if we are able to raise the level of education in that respect - because Hungary is unfortunate now, not in a good shape in that respect now -, if we are able to lift it up, we could be very much competitive and the growth could come from that high-tech industry as well.

## Question 2

A question relating to the East. Looking at the imminent joining of the WTO - it appears - by the Russia, and looking at to the development of the economic space to the East which appears to be the part of the strategy, Russian strategy and other perhaps also, how do you see this and the relationship that Hungary has historically with the East and in the energy component of that relationship. How do you see that developing?

Prior to (going to) answer your specific question concerning Russia, may I have a comment on the East? Probably it is common sense here, in Hungary it is not so often expressed point, that globalization as such was very much in favour – let's say – of the western countries. But we created a global system now, which is in favour to the eastern countries and not for the western countries. We have to understand that. We have two options. The first is to take competition. Regardless that now the system is better for the emerging countries in East, we take the responsibility and take on the contest and try to reshape ourselves. The other one is to step back and to create a totally different global commercial and work-power system as we are living today.



I don't like the second option. It is too early to have that kind of answers, so first we try to take the challenge and try to compete with the East or the eastern countries.

Russia. I think it is a key issue. I would not like to recall the long discussion about the point whether Russia is a part of Europe or not - there is a library about it. But I think we need Russia. We Europeans need Russia. We need sooner or later - rather sooner than later - a strategic alliance with Russia. The only difficulty is that we have some historical experiences – as you have just said. And the historical experience for Central Europe and Hungary is that when there is a historical agreement between Europe; let's say Germany and Russia, those who are in between cannot get a high profit on that business. Therefore we have to be very cautious. I think it is better to speak loudly about this issue, and to make clear that we Central Europeans need guarantees. Security guarantees – OK, NATO membership is a kind of. We need guarantees in terms of energy, commercial routes, trade and infrastructure from North down to South, not just to have the infrastructure between East and West which makes us vulnerable at this moment. If we can get those kinds of guarantees as part of the European project of having a strategic alliance between Russia and the European Union, we will be in favour of that.

### Question 3

One of the things that is likely to happen as the result of October 27 Eurozone crisis resolution package, is that banks are going to require to hold more capital. They will announce to hit a 9% capital accretion. Now, most people believe this is going to lead to what is called deleveraging; they're going to cut lending. Possibly as much, if not more in Eastern Europe than in Western Europe, some of these banks of a big presence in Hungary, a bigger presence in other countries, and there is a fear that they will discriminate against Central and Eastern Europe, and in favour in their home markets, partly because they think that there is a possibility they will need the help of their home governments. Is that a fear that you recognise, or is that anything that you think, a nation like Hungary standing alone, could do to cope with , or sort of new Central European credit crunch?

May I first react in a way saying that the 9% level for the banks, I am not very much happy with that. Generally speaking it is obvious that the bank system is vulnerable, so we have to raise that kind of 7% to 9%. But the timing, I am not sure about whether is it OK, because, we have a growth problem in Europe and especially in Central Europe. But anyway, this is an international decision we have to live with it. In Hungary we have a special problem that – as just I tried to explain in a civilized way – the burden sharing is important. But you know, those who have money, they don't like burden sharing. And banks especially don't like it. Therefore, burden sharing for the banks was a confrontative issue in Hungary. Therefore, the phenomena you have

described – I mean there is no proper quantity of fresh money and the credits in the economic system and to finance the economic growth in Hungary –, so this process that they withdraw their capacities from Hungary started earlier than in some other Central European countries - as a reaction to the bank levy we introduced-, which is understandable. I don't think it is revenge or a plot or something like that, it is a sort of rational behaviour on behalf of the banks, because they voted against the burden sharing, OK. But at the same time, in case of Hungary, it is impossible to manage this crisis, or getting out of this crisis without of that kind of involvement of the banks. So, sooner or later we have to have an agreement - this is going on anyway -, and we have new and new confrontations, and agreements and confrontations and agreements, but finally, we have to reach an agreement with the financial institutions how to finance the economic growth. Otherwise we will be in trouble. Back to your point, that is the reason why I found extremely important the point in the prime ministers announcement - as a conclusion of the summit -, saying that those banks who are helped from the European Union money should not forget about the sister banks having activity in Central Europe. So that sentence is very-very important. If any West-European big banks get help from a European fund, it must serve the Central European economic interest as well. I think it is important, the danger is imminent, and the only solution of that is agreement between the financial institutions, Hungarians and foreigners, and the political elite, may I say.

#### Question 4

My question is regarding the 2012 budget. There is a lot talk about what is the correct GDP assumption for the government to reach the budget deficit target of 2.5% next year. I would like to get your opinion on the sensibility of the budget deficit target to your GDP growth assumption. What additional measures do you think will be necessary to reach your target? Should the economic growth fell below 1.5% and are you considering a doubt of the vision on your economic growth assumptions?

Probably you accept that I am biased on that issue a little bit. But probably European Union is not as biased as we are. So the European Union Commission just today issued a new valuation about all the members' budget, but as part of it, the Hungarian budget as well. They said the growth level will be in Hungary 0.5%. Together with 0.5% the budget deficit in Hungary next year will be 2.8. Fine, I don't agree, but it is fine. Because we think that the growth level will be higher and the budget deficit will be 2.5. But anyway, that is a good discussion. You know, in politics there are two kinds of problems: good problems and bad problems. That is a good problem. We are very happy that even in the evaluation of the European Union, which is based on a lower forecast of the economic growth than ours is based on, it is under 3%. So it is fine. So there is no need for any kind of correction. Probably the journalists should make some kind of correction by

the end of 2012 saying, oh, what a surprise, the budget deficit is 2.5. I hope so, at least. What I could add again and repeat again, that without having a specific economic growth plan for the Hungarian economy, we cannot have higher growth rate than 0.5 - which is taken into consideration by the Commission-, and we would like to have 1.5. Just by itself it will not – without having governmental targeted programs – it cannot work. So we need targeted government growth projects. We are working on that anyway.

#### Question 5

You said that you would like every country in the EU to be independent from capital markets. But with the debt of 73% of GDP you will face those capital markets almost every week. Do you plan any other measures to increase that independence from the capital markets and should that not work – given the unstable situation of the Euro zone -, are you willing to come back to the land of the last resolve, that was the IMF?

Probably my reading was not accurate, but you know, I am living in very hostile surroundings, you know politics is, by nature, that kind. Being precise is very important, and probably my reading was not accurate, but what I said was that, we would not like to see countries which excessively rely on financial markets. I am not against at all being financed by financial markets, just the opposite. I do remember, that – was it one year ago? – when IMF arrived in Hungary – nice story, anyway -. Some elements are a rather hidden story. And we started to discuss the future of Hungarian economy and the measures planned by the government. My conclusion was after that discussion, that it is far better for Hungary not to rely on the generosity of the IMF or other international finance institutions, but it is better for Hungary to go back to the financial markets. And we have done so. It was a very risky decision. It happened one year ago, and the doubts about the next year's budget deficit and so on, was far higher than today. We decided that we have a good economic policy; therefore the financial markets will finance our policy and our economy. We left IMF and we moved back to the markets. So I think markets are very important. Far better than international institutions. I would not like to quote any name of any country, but how can we have a predictable and reliable economic policy when prior to arriving of the IMF delegation to a country, the budget deficit forecast is – let's say - 6.5% and then having an agreement with IMF, you know, it is not for the future, but the same year is 4.5. I think reliable, honest figures and data which can generate trust, financial markets are far better than international financial institutions. That is my point.

#### Question 6

To continue with this discussion, what will you do if the financial markets don't take up on Hungary's debt? We have had two twelve month T-bill options from Hungary in last few weeks; in both cases Hungary has not been able to place the full debt. The first one was to cancel this result, and today option at the same time was not able to place it. When you are at that point, then have to back to IMF?

Our understanding of this situation is that, at the same week we have a successful attempt to sell out our bonds without any difficulties. Today or yesterday difficulties are just because of the Italians, so sorry to say that. You know, it is a crazy idea to sell anything when something is going on in Italy. It is not a good day for business and that will be the case of some months, I think. The other one was because the expectation in Hungary was, that in short term the interest rate of the National Bank will be raised, which did not happen. We have a lot of successful selling of our bonds and we pay – how to say it - a high interest rate, so it is a good business to buy it. It is not a social investment on behalf of the financial markets; it is good business for them. You know, Hungary is a country, not many countries exist in the globe, which regardless that we had a communist system, a post-communist one, or democratic one, we've always paid back all the loans, always. So Hungary is a very reliable country in that sense. No question that we will pay back, it is a very secure, plus now it's a high profit investment to buy Hungarian state bonds. I think the business will go on, it is a good business. I believe business and not speculative - you know - evaluations on Hungarian economy. Business is business.

#### Question 7

I was wondering what you thought about the possible downgrade by the rating agencies of Hungary's. rating. What is the latest you heard from them, and is it something you are concerned about?

Hungary is floating on having good evaluations and bad evaluations. You know, we have to live with the fact, that because of our policy, crisis management policy - which we believe firmly is a successful one -, is a kind of combination of mixture of conservative, orthodox and non-orthodox crisis management elements. You know, sometimes rating agencies and evaluation making journalists and institutions don't like it. Because it is simply new, and has some risks, no question of that. Therefore, we are always floating on whether having a good opinion about us or bad. The first period is closed now, because we initiated and basically concluded all that kind of non-orthodox decisions, and now, the results are coming back. Don't forget that we reduced the state indebtedness close to 9% in one year. Just at end of October we paid back one billion Euros to the European Union and at the end of November we will pay back two billion Euros to the European Union and the money is there. It is in the National Bank, so it is OK. We reduced the

budget deficit and even while the opinion of the European Union is getting better and better, we are having some complications, but basically we are able to sell out our bonds. The growth rate is still on the positive strata. I think the result of the Hungarian economy can convince the rating agencies and others to have a better opinion of us. To criticize rating agencies and journalists and economists is not a good policy. We have to live with their opinions; it is part of the life, part of the democratic international politics. We have to carry evidences that what we are doing is reasonable, predictable and successful. That is the only way. So I think, rating agencies – as far as I know, but I am not an expert of the timing of rating agencies' evaluation – but they waited or they will wait probably till end of November or something like that, and they will come up with their final observations about the Hungarian performance. We will wait and see.

#### Question 8

One of the lately consequences of the current crisis it appears, is that having that true the immediate crisis assuming that that is resolved, we will definitely have greater integration within the Euro zone and certainly what is coming from Berlin, seems to be a clear requirement, that there will be institutional change through greater discipline with the obvious implications in terms of national sovereignty, to ensure that those who are part of the Euro zone comply with their requirements in regard to government deficit, debt/GDP levels and so on. This is a complicated issue and obviously we don't know exactly what are requirements and regard to any treaty change might be. But I'll be very interested in the view that you might have about this conclusion that the only way that this problem can be resolved in a long term basis is by significant, increased integration within the Euro zone. And what the implications of that actually are?

This is one of the most complicated issues. Especially the language we developed inside of the European Union is unable to explain what we are speaking about. But I will try to explain our vision, not in the EU language, but "in Hungarian". First is that, no politician would like to become humiliated. Not because of a personal reason - it is not convenient anyway -, but because of the nation he represents. And I have, or I was a witness several times of discussions of prime ministers, when those who are inside the Euro zone said, that you are out of the Euro zone and please don't make any comments on how we are doing our job, because it is not a very prudent behaviour. Therefore, Hungary as a country who is not member of the Euro zone, must be very careful to make any comments on Euro zone- countries politics. That is the number one.

The second one is that it is obvious, that without having a greater integration of the Euro zone countries, the Euro zone cannot survive. It is tough, especially for those who are in. The third point that I would like make is, that we are out. At this moment it is not our challenge, but at the same time we have some interest because, we would like to be part of the Euro zone regardless

that now that is not a very popular point. But in long term, may I say in historical perspectives, we believe in the European integration and we think that a country, a trading country – Hungary is a trading country, we live on export, we are integrated into the European economy -, so a country like we are, our future is far better or promising inside the Euro zone and in the strong integration, than out. Therefore, our interest is not to see a kind of integration of the Euro zone which becomes unavailable later on for us. That is a complicated point, but therefore we hope that the Euro zone country leaders will find a solution on the base - for the stronger cooperation for the Euro zone countries -, on the basis of the treaty. Not on the basis of the intergovernmental solution. If they do it in the intergovernmental solution, the possibility to join later on is gone up with the wind. Probably. So, it is dangerous. I am always arguing in favour of to make decisions and reforms on the basis of the treaty. It is more difficult, anyway, but from the European perspective, from Central European perspective it is more reasonable.

May I have a last comment on how and when could we join the Euro zone? The lesson we have got from the Greeks and probably from the Italians and who knows which other country in the future, is that becoming a member of the Euro zone without fulfilling the structural criteria, getting close with your real economic structures to the community you would like to join, so, without reaching the point, it is very dangerous. Therefore, we have to have, we have to create a far stronger Hungarian economy, stronger fundamentals, being competitive with those who are in - regardless that we are outside -, and then - when we reach that -, then we can join. Too early getting in to motion can create a lot of tragedy. And this is going on in some countries who are already in the Euro zone. That is the lesson. We have to – if somebody would like to see Hungary joining the Euro zone, first must see a strong Hungarian economy with solid fundamentals. That is the way, but philosophically and historically the target is there.

**END**