



**Contributions from the Sherpas
of the Member States to
the Five Presidents' Report**

HUNGARY

First Contribution

Non-paper on deepening of EMU

With reference to the consultation on 11th March and on the invitation to supplement the comments with written contributions we would like to submit the following considerations in general and in particular to questions No 4, 5, 11¹ of the Note:

1. Hungary continues to consider the issue of deepening the EMU from the perspective of a Member State which does not yet apply the common currency. While preparing for meeting the requirements of the future application of the Euro Hungary at present has no target date set for its introduction. The lessons drawn from recent developments strengthen our conviction that while the adoption of the common currency is an issue of high political importance the decision has to be based on economic realities. Beyond meeting the numeric objectives enshrined in the Treaty the competitiveness of the economy should determine the speed of the process. That is the only way, how the success of euro area accession can be assured both for Hungary and for the existing members of the euro area.

As a consequence Hungary believes that the level of ambition concerning deepening of coordination within the euro area should be determined first and foremost by Member States who are at present immediately and directly affected by such decisions.

At the same time Hungary considers itself directly concerned and therefore welcomes the inclusive nature of the process for three reasons:

- a. As a future member of the euro area decisions to be taken prior to Hungary adopting the euro shall be applicable to Hungary upon its euro adoption.
- b. As Hungary's foreign economic interdependence with the euro area is among the highest, its state has a very strong influence on our economy.
- c. Prior to euro adoption, it will be a determining factor for Hungary how "diversity within unity" (i.e. specificities and commonness of rules) can be combined in the most reasonable manner.

As contained in chapter 5 of the Analytical Note " there is a need to move... towards concrete mechanisms for stronger economic policy coordination..." and " such mechanisms should be based on the reality of the economic and employment and social situations of euro area Member States." This statement is valid not only within the euro area but also in the relation between euro area and each and every non-eurozone EU Member State.

¹ „To what extent can the framework of EMU mainly rely on strong rules and to what extent are strong common institutions also required? (4)

What instruments are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray? (5)

...

How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?(11)"

Moreover, Hungary fully shares the subsequent quote from the Note calling for “...to implement a consistent strategy around the ‘virtuous triangle’ of structural reforms, investment and fiscal responsibility...”. Hungary is firmly committed to continue the policy of growth enhancing structural reforms, investment and fiscal discipline.

We are also convinced however, that a proper balance and proportionality should be followed between compliance with the rules and obligations on the one hand, and intrusiveness into the national economic policies, on the other. That balance and proportionality should also be dependent on whether or not the macroeconomic indicators of the Member State concerned would necessitate and justify the intervention into the shaping of national economic policies.

The above interrelationship is already reflected in the present design of instruments like 6-pack, 2-pack and the MIP. In case of the present practice of CSR however this interrelationship should be reflected to a much higher degree. That could serve as a guiding principle for establishing more ownership to Member States. The objective should be to allow for a proper link between compliance of Member States with the agreed rules and the strength of intrusiveness of common institutions into the economic policy mix of Member States. The difference in spill over effects due to applying or not yet applying common currency should also be reflected. (See Annex)

In order to illustrate the problem it can be noted that the presentation prepared for the informal European Council of 12 February 2015 refers to Hungary only in the case of a table on page 8, as a Member State whose average rate of implementation of EU country specific recommendations is low. That single indicator does not reveal however the fact that the macro-economic trends seem to develop in a promising direction during the last 3-4 years resulting by the end of 2014 in a situation which put Hungary among the best performing Member States in terms of most macro-economic indicators. The complexity of the situation can only be assessed through the thorough analysis and careful evaluation of the wide range of structural reforms taken by Hungary since 2010. In order to enhance ownership and public support necessary for pursuing structural reforms it needs to be taken into account that presently there is no scientific consensus in the assessment of some structural measures like for example public works schemes. The objective to increase the level of implementation of country specific recommendations can only be reached by enhanced ownership of Member States which is a prerequisite of internalizing policy recommendations.

2. Deepening of economic policy coordination and steps towards fiscal union within the euro area shall accentuate the already existing differences between the euro area and the non euro countries which should be properly dealt with. In that respect Hungary would like to call the attention to elements of commonness of EU28, in particular to the need to maintain the integrity of the single market and inclusiveness to be continued to be respected:
 - a) While specifying steps to be taken within the euro area it is also important to respect the areas where EU28 is relevant like internal market, cohesion and competitiveness. The integrity of the four freedoms should continue to be respected in accordance with the Treaty.

As the Analytical Note states: “The functioning of the single market... is vital to ... euro area economies”. That statement is valid not only for the euro area but the EU28 as well. In addition we have strong reservations concerning the reference to taxation as an area to be addressed as remaining barrier to investment.

- b) Institutions: while recognizing the need for deciding the modalities and the frequency of meetings of the euro area members at the level of Heads of States and Governments and at the level of Eurogroup and Europe Working Group we believe that the institutional integrity of the EU28 should continue to be respected.
- c) Method: the continuation of the existing approach is important in terms of inclusiveness. Like in the case of Banking Union it is important that new arrangements should be negotiated in EU28 format and participation in new arrangements should be open to all EU Member States.

