

## **Plenary meeting with Finance Ministers' presentations (Selected remarks)**

**Ivan MIKLOS**

Deputy Prime Minister and Minister of Finance of the Slovak Republic

Dear colleagues, ladies and gentlemen,

I think topic is very actual: How can the acceding countries contribute to necessary restructuring progress in the whole Europe. If we look at Lisbon strategy and reality how it is being fulfilled we cannot be satisfied. Goal is very ambitious and important: to become the most competitive and dynamic knowledge-based economy. This goal was agreed because of increasing gap between competitiveness of Europe on one side and of America and Asia on the other side. If we look at recent development we can say that goal is one matter, reality is other one and we see that there are no preconditions for fulfilling this goal by 2010. From 2000, when Lisbon Strategy was agreed, the gap is even increasing... If there will be no significant changes in the economic policy of the present EU15 then the Lisbon Strategy will be only nice but not realistic goal.

What is the situation in acceding countries? Can the enlargement serve as a kind of incentive or stimulation for changes? If we compare growth in acceding countries and in EU countries, there is significant difference. What is the reason? Everybody can say that it is because of convergent growth. It is usual that countries which are less developed are growing more than developed countries. Another reason should be that the acceding countries have been providing necessary structural reforms which are inevitable also in developed countries. If these reforms will continue, then in acceding countries maybe in a few years there will be a bigger progress than in at least some of important present EU member countries. As example of these reforms we can mention tax reform, pension reform, labor market reform, social sector reform. But maybe more generally it is possible to say that there are institutional and structural reforms which are changing traditional social and economic European model connected with too high redistribution, too high taxation, lack of economic freedom, problems in the business environment, insufficient labor market and financial market flexibility, etc...

...I think EU enlargement is typical win-win situation. There is no doubt that it is good for acceding countries but also for present EU countries. Enlargement should speed up deepening necessary structural and institutional reforms in present EU countries. Good example is tax reform... When we prepared Slovak tax reform we really did not expect that it would have such effect in abroad. Also because of Slovak tax reform they reduced more significantly corporate tax in Austria. They had last year 35% and discussed about reducing it to 31%. Then immediately after our reform has passed they decided to reduce it to 25% which was unexpected before... Together with other reforms the tax reform is also serving as a very good stimulus for foreign investors to come to Slovakia. Of course the potential of removing the investors from present EU countries is creating additional pressure for their governments to do something in business environment. The best answer of acceding countries' governments to for instance the limitation of free movement of the labor force in next years is not to protest, or to pass the same decision but to provide deep necessary structural reforms, to improve business environment and to attract investors from all over the world. My strong conviction is that it will have positive effect not only for these countries but also for present EU15 countries because it will speed up reforms which are necessary to fulfill Lisbon Strategy. Thank you.

**Dusan MRAMOR**

Minister of Finance, Slovenia

Ivan Miklos is with his reform pushing all the neighboring countries but not only them to change their tax systems... I agree with his observation that acceding countries really did great job in complying with the EU requirements in last 10-12 years and that these changes pushed their growth rates and standards of living... But as we are entering now we have to do huge changes in our fiscal positions and in our expenditures that we actually do not want to have. We would like to have more expenditure on research and development, education, maybe regional development, industrial policy, maybe even active labor policy. But what do we see? We have to give more for agriculture. We would not do that if we would not be joining the European Union. But it is really hard to change the agreements on the share of EU budget for agriculture... Common agricultural policy is something that is given...

...For Slovenia the growth is a problem. As you look at four major macroeconomic variables – growth, inflation, budget deficit and balance of payments deficit – our inflation is coming down, budget deficit is within the limits, and balance of payments was in surplus. But when you have all those three in balance, the question is how to increase the growth...

**Lajos BOKROS**

Director of the Financial Advisory Services, World Bank

Before our western colleagues feel that we are very complacent about ourselves, that we are more radical and can reform everything overnight..., I think we have to remind ourselves, that we still have an unfinished agenda of structural reforms ourselves. This is not compliment to the western countries at all but we have to realize that the starting point for our countries is much lower. Therefore we have to complete this reform agenda much more rapidly and perhaps in a more radical way than some of the more mature western democracies where we have much more efficient industrial sector...

...Even among the eight candidates, there are two subgroups. One is the Baltic countries... compared to the Vysegrad4 plus Slovenia. To put it a little bit bluntly and in a simplistic way we can see that economic policy mix is quite different between these two subgroups. In the Baltics we have very high growth, very low inflation... and also no fiscal deficit! ...I do not want to point any of the ministers here, I better talk about Hungary which had almost 10% general government deficit before the last year and last year we also made a substantive slippage compared to what we planned for ourselves... In the Baltic countries we have only huge current account deficit but not twin-deficit! The question is which type of policy is better in order to achieve higher-level sustainable economic growth. Is it important for us to cut back on fiscal expenditure especially in such countries where it is not only the deficit which is high? But the overall fiscal redistribution of income in the economy is paralyzing economic activity. We know that it is a problem in many western countries but it does not provide us a good excuse not to do the right thing in our own homework...

**Karl-Heinz GRASSER**

Federal Minister of Finance, Austria

Global economic competitiveness of the enlarged EU is in fact one of the most important questions for the next years... Is European Union ready to develop to the most competitive area in the world by 2010? Are we ready to implement necessary structural reforms? If we

face the European economic developments in comparison to USA and to Asia than we must know that USA will develop this year with a growth of about 4.0% - 4.5%. Asia is going to grow with about 5.5% - 6.0%, the Eurozone just with about 1.75% - 2.0% and the enlargement countries with about 4.0% - 4.5%... If the Lisbon Strategy should be credible, we know that we need about 20 million new jobs within EU, we need productivity increases of 20% – 200% if US is the benchmark... My hope, talking from the perspective of one of the member countries of the EU15, is that the enlargement really should bring the opportunity of speeding up the Lisbon process as a whole. If we compare what are the growth areas in the world in the future, then it is for sure the emerging Asian markets, the United States and in my mind the accession countries that will bring the opportunity of increasing the potential output growth of the EU25. With the opportunity of ten countries joining the Union we must also try to reform the existing European Union... I think there is a lot of potential of reforming its bureaucracy and regulations and that these ten countries can really make a difference.

**Andrzej RACZKO**

Minister of Finance, Poland

Let me start with the observation that being the world's largest common market the enlarged European Union will not be immune from challenges of globalization... It will have to combine two complicated processes: transformation of its economy in order to increase its competitiveness and the full integration of the new members. The Lisbon Strategy addressed the most challenges of implementation of structural reforms. The accelerating implementation is a key factor for successful future of the European economy. We may assume that although structural challenges in acceding countries do not differ in nature from those in present member states, some of them are more demanding for the new members... The gap between existing and acceding countries is still wide and the progress of catching up with the EU income levels and productivity has been limited in most acceding countries. We realize that catching up the income levels is a long-term process but the challenge is to speed up the narrowing of the productivity gap and the gap of employment levels...

...If we take into account Baltic states in some sense they are lucky. They have no mines, no steel mills, no problems with so called difficult sectors. In Poland we have shipyards, coal mines, steel mills and huge agriculture sector. We have not finished all the needed transition reforms. This is in my opinion the main reason why it is difficult for such countries like Vysegrad4 to be in a different position... Our membership in EU is extra benefit for our economies but extra burden for our central budgets. The most important question is how to find a balance...

**John DALLI**

Minister of Finance and Economic Affairs, Malta

Competitiveness in fact is a very complex issue. It has to take into account political stability, liberalization, innovation, human resources, labor market efficiency, reducing of bureaucratic overheads, and sustainable public finance which brings about reduction of the taxation burden... We must enhance our research potential. Our companies need to be on the forefront of the developments within the particular sectors. When compared to the US and Japan, R&D spending as a percentage of GDP is lower in most EU member and acceding states except for Finland. Exports of high-tech products as a percentage of total exports are lower in 20 EU member and acceding states... It is a known fact that countries which are frontrunners in R&D have governments which are actively involved in financing this research.

The fact that EU companies are fighting financial difficulties to undertake research must mean that the current structures for the support of research may need to be further improved in order to unleash our full research potential...

**Bohuslav SOBOTKA**

Deputy Prime Minister and Minister of Finance, Czech Republic

...Generally accepted explanation of the American economy's better performance is its higher flexibility, more flexible labor market, better conditions for firms to enter the market, and tax system oriented to support firms and investors. Regarding the R&D it is a better knowledge application in the production and creation of more attractive environment for scientists who often leave Europe for USA. In the 2<sup>nd</sup> half of the 90-ties the EU countries lagged behind the US in labor productivity as well as in living standards. The question that we ask today is whether the EU enlargement will speed up the accomplishment of goals that EU presented in Lisbon. I think the answer to this question is – Yes! In my opinion the EU enlargement will help to accelerate structural reforms that will enable to achieve higher economic growth in the EU. If we look at the reforms in accession countries and compare them with the Lisbon criteria we find out that almost all accession countries respect these criteria. Their reforms lead toward a more flexible labor market, enforce investment into R&D and education, contribute to the spread of modern technologies. In my opinion the relatively rapid process of structural reforms that started in accession countries during the last three years will affect as a challenge and undoubtedly as a competition in relation to the existing members of the EU...

...Regarding the new financial perspective of the EU we regret that the effort to adjust the EU budget policy to the accomplishment of the Lisbon Strategy objectives was not fully met... In my opinion it was a serious mistake that the EU fixed the volume of expenditure on agriculture... Thus, the debate about the structure of the EU budget can not in principle touch upon one of the biggest budget expenditure chapters. The accession of the Czech Republic into the EU means paradoxically that we are forced to increase agriculture spending at the expense of policies that we would implement if we were not entering the EU...

...The Czech Republic just like other accession countries is consolidating its public finances. We are struggling to reduce the public finance deficit below 4% of GDP by 2006. We are well aware that the fiscal policy aimed at the public finance consolidation does not offer possibilities for fiscal stimulating of the economic growth. We assume that the government can find some room for supporting the faster economic growth in three areas: labor market (improving the flexibility of the labor market, decreasing the motivation for those who do not want to work), business environment (our goal is to make the administration more simple, to decrease barriers to enter and to leave the market), and education reform...