



MINISTRY
FOR NATIONAL ECONOMY

DR. GYÖRGY MATOLCSY
Minister

Mr. Olli Rehn
Commissioner for Economic and Monetary Affairs
European Commission
B-1049 Brussels
Belgium

Budapest, 1 February 2011

Dear Commissioner,

Thank you for your letter dated 14 January 2011 sharing with us your assessment on Hungary's current situation under the excessive deficit procedure.

I welcome the Commission's conclusion that, in 2011, the general government balance is expected to be below 3% of GDP and may even turn into surplus, thus meeting the Treaty reference value for the first time since Hungary is subject to an excessive deficit procedure.

As I have already indicated in my previous letter of 13 January 2011, Hungary is currently carrying out a large-scale structural reform program. The new Stability and Growth Program will be based on lasting measures mainly on the expenditure side, thus improving the government balance on a permanent basis. The initial impact of these measures will be noticeable as early as in 2011, however, the program will unfold in full size in 2012 and 2013. As a result, the concrete, lasting measures will ensure that the fiscal targets as laid down in the Convergence Program are met. This will result in a marked fall in the the debt-to-GDP ratio, to below 70% in the coming years.

In addition to the important measures – fostering job creation and reducing the labour tax wedge – which have been already implemented in the second half of 2010 or as from the beginning of 2011, the structure of the new program will ensure that the fiscal consolidation will be sustainable. Nevertheless, the emphasis of the Hungarian economic policy will remain on boosting employment and on increasing competitiveness. The initial impact of these growth-friendly measures is already reflected in recent employment figures, and point to the feasibility of our goal to create 300,000 new jobs by the end of 2014.

The structural measures will be announced in the course of February, demonstrating the Government's commitment towards sustainable public finances. I would more than welcome to discuss the topics I mentioned above at the margin of the February ECOFIN.

Yours sincerely,


György Matolcsy