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Finance Minister Kalousek Presents Presidency Priorities to ECOFIN Council

Today's meeting of the EU Economic and Financial Affairs Council (ECOFIN) in Brussels was presided over by Czech Finance Minister Miroslav Kalousek for the first time.

The discussion centred on the main challenges of the 2009 budget and economic policy, particularly in the context of the forecast recently published by the European Commission and the European Economic Recovery Plan adopted by the European Council in December.

At the beginning, the President of the ECOFIN Council presented the **priorities and objectives of the Czech Presidency**. Over the coming six months, the Presidency will focus on the implementation and continuous assessment of measures to boost economic growth and employment in the EU. It will also strive to reinforce financial stability and to restore normal functioning on the financial markets. Priority will be given to the reform of the international financial architecture and the preparation of the EU position at the G20 summit in April. Against the backdrop of the current economic situation, the Czech Republic wants to promote an efficient coordination of the EU economic and fiscal policy, while stressing the need to respect the rules contained in the Stability and Growth Pact, to bear in mind the long-term objective of sustainable public finances and to pursue structural reforms. Last but not least, in line with its slogan 'A Europe without Barriers', the Presidency wants to continue removing barriers to the functioning of the internal market and its modernisation, above all in the field of taxation and financial services.

Contact: Radka Kohutová, spokesperson of the Ministry of Finance of the Czech Republic for the Presidency; tel.: +420 257 042 103, GSM: +420 724 845 394; e-mail: radka.kohutova@mfcr.cz

Building on the conclusions of the **December European Council**, the ECOFIN President spoke about the intentions of the Presidency concerning reduced VAT rates. In its Recovery Plan, the European Council demanded that a solution be found by March 2009 which will allow Member States to opt for reduced VAT rates in certain sectors. In line with the work schedule endorsed by the Ministers, the ECOFIN Council will discuss this issue in detail at its next meeting.

On the background of the new macroeconomic forecast published by the European Commission on 19 January, the Ministers talked about the **principal challenges of the 2009 economic and budget policy**. They agreed that it was of chief importance to restore confidence on the financial markets and to bring the EU back on a growth path. In line with the Recovery Plan, a number of Member States, depending on the needs in their particular situation, have already adopted essential fiscal and structural measures to support their economies. Automatic stabilisers will also help mitigate the recession. However, it will take some time before the effect of these steps and mechanisms becomes perceptible.

Owing to the unfavourable economic developments, many countries will see a temporary increase in their budget deficits. The Ministers nevertheless agreed that the Stability and Growth Pact is flexible enough even for this exceptional situation. They also reaffirmed their commitment to maintain healthy and sustainable public finances and expressed their determination to consolidate budgets towards medium-term goals as soon as possible, depending on the economic recovery. Coordinated fiscal stimulation will be thus followed by coordinated fiscal consolidation. The Ministers stressed the need to pursue structural reforms that will make the EU economies more robust and boost their growth potential in the long term. They also agreed that the Lisbon Strategy continues to provide a good framework for these reforms. Moreover, they were unanimous in their opinion that rules for state aid and economic competition must be obeyed in order to prevent distortion of the internal market.

A key prerequisite for reversing the unfavourable economic development is to restore the normal functioning of the financial sector, where the crisis started. An important task at hand is the unlocking of lending channels. Over the past few months, a number of governments have spent significant amounts from their budgets to support financial institutions, mainly by way of recapitalisations. Banks should not interpret these recapitalisations as increased requirements on capital adequacy. One of the principal

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goals of the measures adopted is to support the provision of credits to businesses and households. Banks should use the aid they have received to resume the role of credit providers, which is their principal role in the economy. This is the main message of the conclusions on bank capital adopted by the ECOFIN Council.

The European Commission and Slovakia informed the ECOFIN Council about the process of **the introduction of the euro in Slovakia**. Following the example of Cyprus and Malta, Slovakia had opted for the 'big bang' scenario. The short period during which both the euro and the national currency could be used ended as early as on 16 January. The transition to the euro was smooth and the European Commission confirmed that the risk of an inflation rate increase caused by the introduction of the single currency was negligible for Slovakia.

The Council obtained the first report on the state of progress of the **Western Balkans Investment Framework**, which is aimed to improve the coordination of instruments of financial assistance provided to this region from various European resources. In its conclusions, the ECOFIN Council called for an acceleration of work on specific tasks such as the rationalisation of existing instruments, the creation of a joint website and a single point of contact for aid recipients. The Commission is expected to submit another progress report by the end of June.

The Ministers also approved the provision of **financial aid to Latvia** amounting to 3.1 billion EUR. This aid is intended to allow Latvia to maintain the exchange rate of its currency to the euro, stabilise its financial sector and restore the confidence of savers.

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