Analyses OSW

CENTRE FOR EASTERN STUDIES 30.03.2011 www.osw.waw.pl

Hungary and the Czech Republic opt out of the Euro Plus Pact

At the summit of the European Council held on 24-25 March, Hungary, currently holding presidency of the EU Council, and the Czech Republic announced that they will opt out of the Euro Plus Pact. Thus these two countries figure, along with the UK and Sweden, outside the group of EU countries that wish to establish a closer coordination of their economies. Although the pact at this stage does not impose specific economic solutions, the governments of Hungary and the Czech Republic have justified their decisions by the fear that the pact will lead to the harmonisation of taxes, which the two countries are firmly opposed to. The Czechs also justify their decision by a lack of possibilities in participating in the elaboration of the project. However remaining outside the pact may further limit the impact of the two countries on the processes of economic integration in Europe. This may complicate the cooperation of the Visegrad Group in the EU.

The Euro Plus Pact, agreed upon at the summit of the eurozone on 11 March and adopted on 24 March at the summit of the European Council, aims at deepening cooperation in the areas of tax and pensions and employment policies among the member states of the euro area and the remaining EU countries interested in it. Both Hungary and the Czech Republic have used positive terms to assess the pact's measures and underline that they are convergent with their domestic reform programmes. The two countries are only critical of the provision regarding a possible harmonisation of the CIT basis and remark that this would lower the competitiveness of their economies. Harmonisation of the CIT basis provokes controversies also among the signatories of the pact (including Slovakia).

The Czech Republic's strong opposition to the pact was caused by the fact that the document was elaborated in a narrow group of the eurozone countries and the remaining EU states were only offered the possibility to join the already established formula. Prague has also pointed to the unclear position of the European institutions stated in the pact. The monitoring of the implementation of the pact has been delegated to the European Commission, which in the opinion of the Czech Republic widens its competences and may be contrary to EU law.

Despite having reservations and not joining the pact, Hungary's presidency is portraying the pact as its success and emphasises that the pact's premises are convergent with the priorities of the Hungarian presidency. However, the fact that Hungarians participated in the work on the document in a very limited degree proves the marginalisation of a presidency held by a country from outside the euro zone. Although neither Hungary nor the Czech Republic will take part in negotiations about the specific regulations of the mechanisms of the pact, scheduled for April, the two countries do not rule out that they will adhere to the pact in the future. <grosz, szyl>