

“Thank you for coming home. I’m grateful for the opportunity to meet all of you in Budapest to exchange views on where we stand, on what our intentions are and on how we can depend on you.

Thank you for your service to the Republic of Hungary. Thank you for representing the country. I appreciate that we all understand the country, its citizens, its institutions and its government are being represented together. In this you have been good colleagues and good contributors in the past few years. For this I am grateful.

On our common tasks:

2008 in Hungary was a turning point. I should add, if things in European policy do not work out how we’d like them to - I’m going to be speaking about this in a foreign-policy context a bit later on - then there will have been a turning point in Europe, too, but in the wrong direction.

For Hungary, the most important issue concerns how we can change gear while at the same time keeping the country together. Since the change in political system, this has been perhaps the most complicated economic, social and political transformation. In many ways it has been the period of realisation. The period of realisation about how the Hungary of the 20th century becomes a country of the 21st century; how Hungary integrates into the world while remaining proud and patriotic; a country where strong civic pride in its achievements sit side-by-side with community solidarity.

Hungary’s basic debates revolve around this. The surface is always political - of a party-political nature - but the deep issue concerns how civic modernisation, patriotism, national preservation, and European and global openness stand alongside each other.

I’d like the government I lead to be capable of presenting Hungary with a successful outlook by reconciling these points of view.

There have been huge debates, and not without conflict, about the transformation of the past two years. I think most of it is unavoidable. The more exciting aspects of these disputes are not political but social. The habits of decades - ingrained social and cultural habits - have clashed with the indispensable need for change. This is not a Hungarian fact. I needn’t spell it out to you all.

Romano Prodi, whom I regard highly as a true European, who has done a lot for Europe and who has done much for Italy, was forced in the end to hand in his government’s resignation, even though, let’s be frank, its transformational process compared to Hungary’s was clearly fundamentally smaller, and lighter in volume and depth.

The centre-right Czech politician, Prime Minister Topolánek, basically confronted the same reform dilemmas as Hungary. Reactions in the Czech Republic have been the same. Huge demonstrations, constitutional debates, disputes within the government, too; a struggle to sustain the capacity to act while preserving a majority.

The president of the Republic of France, who is about to take over the presidency of the European Union, won the confidence of voters by persuading them that France needed change - and no sooner than the changes reached the French electorate he encountered exceptionally serious domestic challenges. For the majority of voters the changes had not even begun. The president had only promised them.

It is easy to see how the demonstrations of hundreds of thousands in Lisbon are unfolding and how newfangled global uncertainty and all this effects the government of Prime Minister Gordon Brown, and how difficult it is to reconcile, say, the European and national viewpoints in a good few countries.

In a certain way, old Europe is struggling to work out how to win the support of the majority of society for apparently unavoidable change. I see this as a historic struggle. The choice of which road to take is a thorny one.

Virtually no one can exclude himself from this. Two days ago I was in Athens and could mention any one of the terrific contradictions of their reform process, be it the difficulties surrounding pension reform or education.

This dilemma is not a two-year or a four-year dilemma. This will accompany us all the way to the end of the decade. The majority of Irish voters said "no" for the same reasons rooted in uncertainty. It wasn't about the European Union's Lisbon reform treaty because we more or less know that the majority of voters were unclear about its content, or at least its details. I think we can't even expect them to be. There is one kind of worry for voters, and this concerns what this new world looks like: what in this new world can be preserved from past years and decades which people have come to like; whether the earlier way of life can be preserved, or whether change is needed. And whether it is right that the Union and its individual countries say that we must roll up our sleeves; because if we don't, and spare ourselves conflicts over change today, we will lose the future to the other side of the Atlantic or to Southeast Asia, and Europe - becoming captive to our own historical role and comfort - and take third place in the global race. It is possible that disputes can be spared, but it is also possible that, not now, but in many years hence, they'll look at us in this period - not just politicians, but societies - as having failed to find an effective answer to challenges which characterised a world of rivalling regions on a global stage.

Putting everyday politics aside, I can say to you that I think this is the most complex challenge. This is the most difficult.

My own government and I personally believe, without hesitation, that the path to be taken in this case is in discovering how it is possible to persuade the majority to accept change. So that there is understanding and support. It is clear that it has been more difficult everywhere than we'd hoped. I notice that there is an ever greater gulf between the understanding of the various elites; the political, economic and cultural elites, between those whose attitudes support change and the frightened masses. This is a huge dilemma. I should add that from now on, in so far as democratic systems are concerned, it is one of the biggest challenges.

All things considered, I don't see any alternative route in history. Every route that turns against this - national inwardness, nationalism, anti-European sentiment in Europe, populism - turns against democratic events and processes. That's a wrong-turning. There is a need for both patience and greater determination. Of course it's easy to say this. There is little leeway. The period itself, in this sense, will be held as historic. And it will transpire who can retain their humanity.

European and national progression on one side, and receding incapacity and fear on the other. Put together, it is impossible to put aside those social worries and fears. One should not cast them aside in an elitist way - I myself have learnt a lot about this in the past period. One should not look down from above and say: you must all believe this because it will be good for you.

Until we are not able to win the support of the majority, our historical truths - however real or debatable - cannot become the majority's truth. And if our truths cannot become the truth of the majority then the truth itself won't be worth anything. So all we are doing is calming our consciences when we see clearly that ours is the right historical path. But that is not the responsibility of politicians or the government.

I can only assess our past two years in this context. In the context that Hungary has pursued a policy of modernisation, with a fundamentally national, patriotic character and with a decidedly open attitude to Europe. This was a period of struggle.

Those things which we had to reach have, for the most part, been attained.

There were two challenges. One was the budget, of course, and for the most part we're past that. The country's public finances are approaching balance. We are to stay the course. I think that for the first time since the change in political system - as we get ever closer to an election - our public finances are not moving in the direction of imbalance but further in the direction of balance. The government won't accept any excuses for this. No economic policy or budget policy will ride against this.

In the area of reforms, the process's other big challenge is further off than we would have liked. An exceptionally strong, anti-reform political and social majority has been created. It is very instructive; we must understand the process. It has demonstrated to us how far they will let us proceed along the path of change.

Having said this, there have been several instances in the reform process which I regard as both successful and irreversible. I'll just note that in today's Hungary it has become clear to everyone that health care is insurance-based. That is, everyone must be insured. In this way Hungary will be in a position to decide in 20 years about whether, say, it wants to move in the direction of the British-type of health-care model where financing is decisively public or in the direction of a health policy where financing is basically via health-insurance fees, or, if you prefer, contributions. And those who cannot pay contributions should instead have their individual insurance contributions funded by the taxpayer.

Namely, there is an insurance bond on whose basis it is possible to get services. This is the biggest change and biggest transformation in Hungarian health-care

modernisation since the end of the 1940s. This has been completed. It was a process that took three long years.

I consider what has happened in higher education to be extremely important. The policy of quality and achievement is clearly apparent compared with what preceded it; mainly state-financed higher education and mainly foundational, or private higher education, have opened up towards one another so that the relationship of higher-education institutions to each other and the extent of a student's possibilities drives the process of undergraduates confirming the results of the institutions. Competition exists for undergraduates while at the same time competition flows between undergraduates. And the results - the quality - connect with the financing, which, in turn, impinges on which institutions have how many spaces. It is not the state bureaucracy that decides who receives what from the taxpayers money but the students themselves. Students' decisions are indeed primarily influenced by which degrees are regarded as more valuable. That's a big deal. This has started a transformation in Hungarian higher education which can lead it higher up on the European and world league tables.

More testimony to the idea that something has happened in the country is the fact it is increasingly possible to hear in normal, everyday conversations: these are our tax forints. People seem to understand that what has happened is theirs. That it is they who stand behind every state forint spent on their own achievements. This in itself inspires civic sense. This has sharpened a sense of civic duty, which is extremely important.

The most important part of what lies before us is how to stimulate job creation, employment, investment and success built on work. With the fundamental transformation of the tax and the welfare system, with vital changes in emphasis in this direction, every Hungarian citizen must be encouraged to see the prime source of his own personal prosperity through the success of his personal work and achievements. Encouragement of work, a tax system which better stimulates work, and the transformation of the present social support system which discourages work - this is the most complex issue.

This task would be difficult enough in itself; it would not be easy either if Hungary were in every respect an island of calm and the budget deficit were only one percent.

This challenge is difficult in a number of ways. On the one hand, because of a sharp political dispute. The emotional content lying at the foot of these political disputes is wanton. In the European political culture, which I believe we have chosen, political rivals do not regard each other as enemies. Everyone is clear about this: in the democratic race a person sometimes obtains a majority and at other times doesn't. It is natural that everyone should like to get a majority. Me too. I also believe that I am capable of getting and keeping a majority. The pivotal point of this debate, I believe, goes far beyond the party political election. It is whether we can accept that there exists an indestructible, indivisible national, democratic community where everyone is a member, where political debate and political opposition cannot do harm to this, where this is a taboo. So that everyone is a member of a common national democratic community in keeping with the framework of the constitution. Today's debates rather turn on how people relate to this affirmation. My relation, or the

relation of those to whom I feel close, is clear. I have thousands of debates with lots of politicians. Most of them with those who sit in the opposition benches in Parliament. But never have I for a moment thought that they are my enemies or the enemies of Hungary. On this basis, everyone must expect everyone else to refrain from such thinking.

Debates on the country's future, on key policies, if transformed into disputes of a "to be or not to be" nature will threaten not the government's ability to act, but democracy itself and the whole country's ability to act. If such disputes were to take root, the country would divest itself from an extremely important resource: the source of power possessed by half of the country. Thus, in a political sense - and this is what I see as decisive - the battles must be fought in a rational, sensible and responsible way. I see this to be the object of the struggle. It is something to fight for. It should not be left as it is.

And there is another reason: this year, the public finance deficit was targeted at below 4 percent of GDP, but this is expected to be outperformed, and next year, the deficit could come below the Maastricht criterion of 3 percent of GDP.

It would be easier to reform the system of tax and social contributions if I knew that we had heaps of cash stashed away. But since this is not the case, the tax and welfare system must be transformed at the same time as cutting the budget deficit, leaving little elbow-room.

It is without doubt that, in changing the tax system, the focus should be on reducing and simplifying the burden on labour. The business climate must be improved. Thanks to changes adopted a few days ago, registering a new business electronically can now happen within an hour - the second shortest time in Europe after Portugal. Perhaps it is partly due to these measures that in a recent survey gauging the encouraging effects of the business environment on companies, Hungary jumped by ten points to rank in the thirties from the forties.

There is a unique difference in pace between the Union's economic dynamism and Hungary's. In the Union, as in most countries, budget deficits are on the rise. In Hungary it is falling. In the union, economic growth is slowing, in Hungary it has started to grow in the last quarter and it is now expected to accelerate quarter by quarter. And, importantly, incomes and consumption are expected to rise this year.

Doubtless, we have a common problem. Inflation has not been as high as it currently is for the past decade or so in the European Union, or the euro zone. This has haunted all of us. There are fundamental, global problems behind rising energy and food prices. But I might add that the biggest one is that the old balance has toppled, mainly because several countries, said to be emerging, such as India and China, are all of a sudden using an enormous amount of energy for their own whopping growth and a rise in living standards thereby contributing to a huge increase in demand on global food markets. The supply-demand balance has tipped, further aggravated by the demand for bio-fuel crops partly on the back of rising energy prices, but preferred for other reasons as well, and a score of other impacts. In this respect, we have one task: to try and gather support for Hungary's approach to EU agricultural policy,

which calls for an increase rather than a cutback in production. This is timely as the French presidency will address the review of Europe's common agricultural policy.

It is what Hungary has been lobbying for in the past two years. The national goal is still to increase agricultural output by 30 percent over the next few years. This represents vast resources for Hungary. We have the knowledge, the conditions of production which lift us above Europe's midfield. It is in our interest to shape agricultural policy in this way. It will raise income not only for Hungary's economy, but also for the provinces, Hungarian villages; it could redraw the map of Hungary's countryside and of Hungarian villages.

Sure, you may ask me: but is all this feasible in a minority government?

I believe so. I expect that the present government will fulfil its mandate until 2010. I expect that by pursuing calm reform policies and lots of initiatives, and by building on the strong foundations established over the past two years, genuine transformations will begin in the areas I earlier identified as priorities. Thanks to much open consultation - and because we are not in such hurry as we were in the first two years - the stage will be calm and the scene set for co-operation and dialogue.

I see strong and stable support for the main lines of such politics in the governing party. I believe that the events of May-June have convinced us that it is possible in Parliament to pass legislation on expert political issues with a broad majority. Let us only think of the criminal code, the law on Lake Balaton, or the Land Act: all these laws passed with 70-80-90-100 percent majority support. There was not one law we had to retract from Parliament. This proves that on purely non-partisan policies the dialogue between government and opposition is of a good standard and these laws can be passed. On budget or tax-related matters, that are critical by nature and certainly stand out from among the general bills, it is possible to build an agreement with the liberals and so I think it is possible to get the parliamentary majority needed.

This is what I see as the country's interest.

I agree with what the Madam Minister and the Madam State Secretary said yesterday about foreign policy; it is indeed the policy that the government follows. Now I should like to talk about just one single issue very honestly. And this is the issue of the European Union and the Lisbon Treaty.

I said earlier that Hungary is at a turning point, and if we are unlucky, the European Union can take a turning point in the wrong direction.

Let us first be clear about our own position. I consider myself and my government as a resolute supporter of Europe. The way I look at this is that since 1526, for nearly half a millennium, and more recently, in the early 20th century, the most nation-minded drive of Hungarian progressives had been to sail "Hungary's ferry" into the docks by the shores of Western Europe. This is what motivated Széchenyi. He was shaken by the early 19th century experience of how far the world of Paris and London were far removed from what could be seen on Hungary's "wasteland". All the great figures we see in Hungary's history as patriots, heroes committed to policies related to the nation; they all sought solutions in this direction. For Hungary, joining the

European Union and NATO represented the fulfilment of progressive historic ambitions of half a millennium. In addition, it is a grave historical argument that Hungary, whose independence and autonomy as a nation was, from time to time, in real danger is now again the part of a strong democratic and progressive community which has a decisive role in global matters.

I wish for the European Union to reach the point very soon when the Western Balkans will no longer be a blot on the landscape. In this aim, completing Croatia's accession as soon as possible is most important. I believe that we must support Croatia resolutely and passionately in this matter. Naturally, it is they that must fulfil the criteria, and it will be very hard work to prevent EU enlargement from languishing after Croatia. This will be immensely difficult.

I am passionately convinced of the idea that Hungary should participate and be deeply involved in as many co-operation initiatives as possible; in enhanced co-operation. We are looking for ways to adopt these enhanced co-operation drives to as many areas as possible.

What I believe to be important for Hungary is very different from what some countries in the region think. I think that in this way Hungary will not lose its sovereignty, as it will be very wise to practice its sovereignty in co-operation with others more effectively. In this it will not lose but gain. A "combined" sovereignty will include bits of sovereignty drawn from such countries as Germany, France, Great-Britain, Italy, Spain, and I could go on. This is a great power. Such behaviour is in connection with the phenomenon - which is a natural one - that the European Union is not merely a historical conglomeration or a club of friends, but the principal arena for national interest-negotiation. In other words, we must strive, and at times even fight, for taking the Union in the direction where we want it to go. But for this we must know what direction we want it to take. This is not a defensive position. Hungary must have a progressive image of Europe, which is fundamentally based on the aim of deepening integration; and if this is our national interest then that's what we should work towards. We desire not a more superficial but a more engaging, co-operative Europe.

There are some of you who have experienced more about Union co-operation than I have. I see the situation as more complex than most of our diplomats do. And not because of the outcome of the Irish referendum, and not because the recent statements by President Kaczynski of Poland and President Klaus of the Czech Republic could in themselves make it impossible for the Lisbon Treaty to take effect. The risks of that are greater now than ever. Hungary must clearly state that its interest is for the Treaty to come into force.

We believe that we must call to the attention of our friends in Ireland, the Czech Republic, Poland and Germany the fact that the way they represent their own national interests could prevent more than two dozen European countries from representing their own interests in a way they see fit. For this reason, we must prepare ourselves to engage in very intensive dialogue with these countries and do whatever is possible so that these countries in the end ratify the treaty. And we must provide the French presidency and President Sarkozy all the help they need to this end. Every assistance. If we fail to do this, our children and grandchildren will hold us accountable.

I would like to ask everyone present to give their strong and full support, without hesitation, to our French colleagues and the French presidency towards this aim at their own outposts.

The question is not only whether we can get past this problem; it also concerns the historical perspective: two different visions of Europe clearly appear to have emerged over the past years. How is it possible to hold together a Europe where some would like to go forward faster than the current pace while others want to go not so fast?

I would not like Hungary to shy away from taking a strong position on this matter - of not caring one way or another, saying to ourselves: well, all right, we're a small country; we have no business in this; let's leave it to the big boys, they'll take care of it. But this wouldn't be right. I'm sorry, but this is our job, too.

Whether we speak about it or not, the image of a different European integration could easily emerge. Hungary must be prepared from now on for such a development. But Hungary should be among those member-states which desire deeper co-operation with the others. On this matter, Hungary must not be one of the laggards, but one of those at the forefront.

If it comes to differentiating between countries in the Union then we must be in the group in which - and I'm saying this loud and clear - the European train of the highest speed runs. We must be there. The inspiration enjoys sufficient support, as we were the first to ratify the Lisbon Treaty with close to 100 percent support in the parliament. There are no marked differences between Hungary's parliamentary parties on this issue.

We are not yet talking about emergency scenarios; we accept the common European standpoint, though we have to think about the future. Please do so yourselves. Not because it is what we want, but because by now it has emerged that it is a real risk and danger. If it appears to be impossible to go down the original path; we must not pretend to look surprised. Hungary must not be surprised. The next twelve months may bring a turning point on this issue and Hungary must stand prepared to face the end of the process come what may. This is a complicated intellectual task which is to be solved first in order to be able to solve the political task next.

I have recently taken the latest copy of Foreign Affairs in my hands, in which the President of the Council on Foreign Relations Richard N. Haass ruminates about a world which is no longer bipolar or unipolar but is a world where polarity disappears. Its title is "The Age of Nonpolarity". We Hungarians are interested in such a world. We want this world because it would give Hungary greater leeway: more opportunities for co-operation, more complex systems of alliance, broader frameworks for national interest-negotiation. This vision can be and should be promoted in the long-run. I think we should get familiar with the idea - even though it may not become reality in the next few years; it does not appear to be the structure of global power relations for the moment. But it cannot hurt for a country the size of Hungary to have a vision built on global forces in this sense. There are many outstanding analysts and foreign relations thinkers amongst you; I say to you that it is

well worth considering: if a global vision is needed in respect of power relations, then “non-polarity” may be the one that is closest to Hungarian interests.

Thank you very much for listening.”

(July 3, 2008)