Event Transcript

Second Sunrise Emerging Markets Speakers Lecture: Djankov on Bulgaria

Speaker:
Simeon Djankov, Minister of Finance of the Republic of Bulgaria

Chair:
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Unedited rush transcript

Adam Posen: I've tended to refer to the series unofficially as emerging leaders from emerging markets. We tried to do this at least once a year, and maybe with resources allowed we'll do it more frequently and the goal is not just to raise the profile of some important officials with strong economics research backgrounds who can talk both languages from emerging market, not just to bring knowledge of some markets to Washington that isn't fully appreciated, but most of all in some ways to have a two-way street; that people who have relevant, important insights from other countries who don't always get heard brought to Washington, where even if we are in some ways the grandparents of the Washington consensus in this institute we always want to listen and obviously after the last three years, there's a lot to learn.

The Sunrise Emerging Market Speaker Series has been generously funded by Antoine van Agtmael, who many of you know, he was the Founder, CEO and CIO of Emerging Markets Management, which at its height had, I believe $20 billion invested in emerging markets around the world, $20 billion, a huge investor in Africa, huge groundbreaking president. He came out of the Capital Markets department of the IFC and had previously been working at the World Bank and at Bankers Trust.

He's an author. He is a distinguished statesman in some sense and serves on a number of charitable panels. He unfortunately is a trustee of the Brookings Institution. Someday maybe he'll see the wisdom of crossing the street and he is a very intellectually active member of our community and we're very glad to have him, that he and Fred Bergsten had the sense to put together this series. So, thank you for continuing that.

We also have with us today Jose de Gregorio, the former Governor of the Central Bank of Chile and distinguished professor in, I'm going to mispronounce your university Jose. So, maybe I'd better not. Pontific—no, anyway—who is now visiting with us this month. He gave the first lecture in this series roughly a year ago and we're delighted to have him with us.

But of course today's featured attraction is Simeon Djankov, Minister of Finance from Bulgaria and Deputy Prime Minister. As the obvious joke goes, I know it's time for me to be president of the Peterson Institute when I'm introducing finance ministers younger than I am. Simeon has been a shining star in first the economics profession as a researcher, then at the World Bank, and now as a leader of his country and the leader in Europe.

And I think you will find that he embodies and will express exactly what we had in mind about this two-way street of bringing lessons from the rest of the world to Washington from that experience perspective. But first I'd like to call on Antoine to give a more proper introduction to the minister.

Antoine van Agtmael: Well, thank you Adam. I'm absolutely delighted and honored to introduce Simeon Djankov here today. He's exactly the kind of person that Fred and I had in mind when we concocted this idea of this series. He is not only an eminent economist, but he is in addition, an accomplished practitioner being both one of the two deputy ministers in Bulgaria and a finance minister.

So, I really am very delighted to have been able to have him, and to have Jose de Gregorio again here who gave the first lecture in this series.

Now, I should say that Minister Djankov is not a stranger to Washington. His wife Caroline who is a Chief Economist at the World Bank and will soon be joining the institute here lives here and has two children. But he also spent 14 years here in Washington working as a chief economist at the World Bank, focusing on a huge variety of things that I think must have actually come in handy when he became a Minister, from regional trade agreements, privatization and transition economies, corporate governance in east Asia, enterprise reform in Georgia, where he, by the way, worked closely with Kakha Bendukidze, the architect of Georgia's economic reforms.

He's also the creator of the World Bank's bestseller, which is the Doing Business report, which by the way, sells 300,000 copies. I'm sure there are plenty of authors in this room who write an economic book that sells 300,000 copies is no mean task. So that's actually quite impressive. He's also a principal author of the 2002 World Development Report and he even established the think tank, so and there's plenty of competition, that's good, it's called Ideas 42. Look at his website, I found it very interesting, lots of pictures. And it was with the sponsorship of Harvard, and I see that was just a year before he became finance minister in 2009.

So as you can hear, he has packed a lot in his life because he's only 42. I'm jealous. He studied at the Karl Marx Institute of Economics in Sofia, where he had, by the way, the highest entrance score in the nation. Then received his PhD from the University of Michigan. He comes from an illustrious political family in Bulgaria. One of his ancestors was a revolutionary fighting from freedom with the Ottomans, from which he was hanged by the way. It's described in a famous Bulgarian book called Memoirs of the Bulgarian Uprising, quite interesting and his great, great grandfather was already active in politics as well.

Now, I don't have to describe Bulgaria in this audience, but I'll just mention a few highlights. It's a fairly homogenous people of 7 million people, a GDP of over 50 billion, on a PPP (*purchasing power parity*) basis it's doubled that, 14,000 per capita on a PPP basis, just on the 10 percent unemployment, more the minister will tell you about.

It had its first post-Communist elections, multiparty elections in 1990. Then went into what I call kind of a Wild West period. I went to Bulgaria during that period, the restaurants were great and the oligarchs were swaggering. Then they brought the house in order, I think gradually. It's tied to the currency to the Deutsche market, later the euro in 1997, and ten years later became a member of the European Union. That was not easy, I mean they were saddled with huge problems, economics problems, debt, pollution problems.

And then Minister Djankov became minister in 2009. Remember 2009? That was not an easy time to become Minister of Finance. But he managed to get the budget deficit well under the 3 percent that [inaudible 00:07:32] requires and not everybody has done that and in fact, he managed to get Bulgaria the only upgrade from the rating agencies of any EU country, no mean accomplishment. Then he cleaned house among public officials, which probably did not make him very popular in Bulgaria, and established 40 goals; the golden rules, tough rules.

Deficit below 2 percent, debt of GDP below 40 percent. You hear these numbers? We have something to learn from that in the United States. We are far away from that and it makes the Washington consensus born here at this institute looking green with envy I would say. So, it's easy to see why we invited him to given the second Sunrise lecture.

I understand that we can look forward to some really forthright remarks, he's known for being forthright, on how the Brussels, Frankfurt, and Washington institutions, I won't mention them by name but you all know them, have handled their roles in the euro crisis. The topic that I'm sure everyone here is interested in. So, Dr. Djankov, with that, can I invite you to the podium? We anxiously await what you're going to say. Thank you.

Simeon Djankov: Thank you very much. With this introduction I can get right into the main point for discussion. I will only mention a few more things about Bulgaria, but most of my talk would not be about Bulgaria but about the euro zone and European Union overall. But to give some credibility to what I'm about to say, much of which is going to be critical about European politicians, international finance institutions, I want to give you a few more facts about Bulgaria.

Bulgaria is currently one of only three European Union countries that fulfilled so-called mastery criteria, which are the criteria for entering the euro zone. Later in the discussion I'll give you the other two countries, but I'll say outright that none of these three countries are actually members of the euro zone or to put it differently, not a single country in the euro zone actually fulfills the mastery criteria currently, which is a sad comment for any union, but particularly a union where not a single member actually fulfills the criteria for joining that union. So, one of three countries that fulfill the mastery criteria.

For the last year, 2012, we have a deficit of .45 percent, which is the third lowest behind Sweden and maybe Germany. We're still chasing Germany for maybe the number two spot. Our debt-to-GDP ratio is below 15 percent, 14.7 percent, which is second lowest to Estonia. Another thing, fact that is used for remembering about Bulgaria, especially useful for investors, we have the lowest tax rates of any country in the European Union, 10 percent flat tax both personal and corporate incomes tax.

As it was already mentioned, about two-and-a-half years ago we also managed to push for a parliament, a much tough budget rules law, that basically says in any one year, no matter how hard the year is, you cannot have a deficit above 2 percent and you cannot have a debt to GPP ratio above 40 percent of GDP. So these are some numbers that basically say that relative to the rest of Europe, Bulgaria has done reasonably well during this crisis.

Before entering the discussion on the euro zone in Europe, let me also tell you a few things about how I started into this work. As was already mentioned, I was a long time in the United States, nearly 20 years, of which the last 15 years at the World Bank and at the IFC, where I was dealing very much with the same type of issues: privatization, banking restructuring, corporate restructuring, crisis management, that I thought I'll be dealing when I became finance minister in July of 2009.

I became finance minister mostly by accident. I'm one of those accidental politicians, not a member of a political party. Basically went back because I was asked to go and help when a new center-right party was emerging in Bulgaria and I did it not knowing much about the party of its platform, but basically driven by one emotion, which is I don't like Communists, I've never liked Communists. And since the Communists with their new version, Socialist, had taken the previous government, basically I went to fight Communists in the new interpretation of Socialist.

And more or less I'd been seeing my work in the last few years as that, so that Socialists never come to power again in Bulgaria, and hopefully not anywhere else in Europe. But when I became finance minister, the financial crisis was already going on for more than a year. And our government came into a situation where basically crisis has started.

During the elections the previous government pretended that there was no crisis by pumping a lot of money into the economy and hoping that somehow the crisis would become obvious just after the elections. As is usually the case, it became obvious to people just before the elections. So, the party that I helped write the political platform won a new majority in parliament. And the Socialists had the fewest numbers of members of Parliament ever since the transition to market economy started.

So I went there the crisis was already going on. My first meeting at ECOFIN, the Council of Ministers of European Countries was maybe two weeks after that, and I notice two things, which are relevant to what I'm about to say.

The first thing, we met in August of 2009, I don't remember much of the meeting other than meeting the other finance ministers and then at the end of the meeting it was announced that we are not going to meet each other for two months because we need to respect each other's vacations. And I coming straight out of the FIC at the time I thought if in the middle of a crisis you take two months to go on vacations, this doesn't bode well for what's about to happen.

The other thing that then I noticed is that I was given the CVs of all the other finance ministers and going back to Bulgaria I noticed that of the other 26 finance ministers only five had a background in either economics or finance. To put it differently, 21 of 27 finance ministers, this is August 2009, were not financiers, were not economists. They had dealt with agriculture, they had dealt with culture a number of them, maybe there is some correlation between culture and finance. There were a number of people who were head of the police forces previously and so on, but very few finance and economics people.

And that's important because of the next point I'm about to make, which sounds like this, we basically wasted three years, from August of 2009 to September of 2012, basically doing nothing. We met a lot, we've met over 60 times I think. The finance ministers in this about three years we meet by rule every month. But we had a number of extraordinary meetings during, the Greek crisis, Portuguese crisis, Irish crisis, Spanish crisis, and so on. And during this time, basically very little was achieved until September of last year.

I'll tell you in a minute why I think very little was achieved, but one of the reasons was that people were simply not prepared to handle the crisis. Individually people were not prepared to handle the crisis, they didn't have the right background, and policy decision process in Brussels was so slow that by the time you reach a decision some of the ministers are already out of power, so you start again. Then the other ministers come and you need to reintroduce the concepts to him or her. I'm speaking of some of the program countries like Greece, like Romania, or like Portugal and so on.

So it basically took about three years to just get to a point where you say, "The rules for crisis management are relatively straightforward. This crisis is not too much more difficult than previous crisis. So, let's finally make some decisions." And I'll tell you now some of the good decisions that actually came about starting from September 2012, then I'll do a retrospective on why it took us so long to get them.

So for three years, August 2009, September 2012, lots of meetings, nothing seriously done. Then September 2012 was a meeting, ironically, in Cypress. This is one of the so-called informal ECOFIN council of ministers where you go and you're supposed to really tell what's on your mind. So it's off the record so you can really say what you want, it's not really like that even if you try. But therefore the first time we heard not only the French and German speak, I'll come to that in a moment, one of the biggest problems in fighting the crisis in Europe that somehow everybody had the expectation that France and Germany are going to come up with the solution.

And they most troubling is they themselves had that expectation. So after we met and discussed what we are going to do before the next ECOFIN, France and Germany meet somewhere, usually at some lush resort, and that tell us from there just for the media. We have decided on what the solution is and then we meet the next day, the problem is there is nothing written. So we actually don't even know what they are going to present to us. But early on we hoped, "Well, these are serious countries with lots of economist, they must have something smart that they've come up with."

By and large it turns out they didn't and this was a repeat of several, four or five different times, I'll mention them in a moment, where basically the French-German duo would come, with like some really saving strategy of what's going to happen to the euro zone, only to discover it doesn't work, either because it's technically impossible, meaning legally impossible to do what they planned to do or it just doesn't make sense.

But September 2012, Cyprus, very nice weather, most people went to the beach, maybe that was the informal site. There was this feeling that unless we do something now then maybe the rest of the world is going to discover that we are not good for anything. And there was a discussion of what are we going to do? So that by Christmas, this was the plan, we are in the middle of September, by Christmas we need to come up with something, anything.

And there were a lot of discussions, the main point of which is something you by well know, which was the so-called single banking supervisor. It was nothing that we had discussed before in the previous three years. We had a number of other discussions having to do with golden rules, fiscal compact, tax harmonization, competitiveness and so on.

The idea of a single banking supervisor came in June of 2012 last year, but not too seriously and only in September we thought, "Well, maybe that can work and if this works, since the origin of the crisis came through the banking sector, maybe this going to be something that first we can actually do and second, the markets are going to believe us that this is an important enough step, that it can be seen as Europe finally has its act together."

And from September of 2012 to December 16, 2012, I remember, just in three months, we actually managed to have a deal. Nobody thought that this was possible to do, including I remember this meeting in the middle of December. The beginning of the meeting, we're meeting each other just a week before Christmas, people are telling us, "Better finish early because we have hunting to go to or shopping to go to," and so on. And suddenly, it emerged, nobody believed it I think at first, we are ready to have a deal. And we stayed for over 30 hours in the room and have this single banking supervisor idea set up.

I'm not going to discuss much what it is. In the questions, if you're interested, I can go into details. But basically it sets as of April 2014, so another year and a little bit to go, it sets up a single institution, which is going to be housed at the European Central Bank, that oversees all the important, let's put it that way, all the important banks in Europe. And the idea is that through this institution we are not only going to see whether the big banks, important banks are doing well, but it's going to give us analysis that we currently don't have in Europe about how things may be happening in the future.

In quick succession after the single banking supervisor, there were two other things that happened between then and now, one was that later in December, actually December 29, the last country that had to rectify the so-called golden rules, which are not as tough as the Bulgarian ones, 2 percent deficit to GDP and 65 percent debt to GDP, but the original mastery criteria of 3 percent deficit and 60 percent debt were approved by the eleventh country that had to ratify that, that was Finland and as of January 1st of this year, the golden rules, the mastery criteria are actually obligatory, mandatory, for all countries of the euro zone.

Now remember, when you enter you actually have to fulfill them, but they had forgotten to say you also have to fulfill them when you're a member. And in fact, there are some countries that have never fulfilled, one of these countries is France, for example, France in its long stay in the euro zone has never, not for a single year, fulfilled mastery criteria. In fact there are about half of the original euro zone countries here have never fulfilled the mastery criteria after their first year. Anyhow, from January of this year, everybody has to fulfill them every year, not just at the beginning.

And the last thing I would mention, which is under the good news point, was just last week the heads of state approved the next month a year budget of the European Union and this is European Union works a little bit like central planning, like you're in a Communist country, where instead of five years they put up seven-year plans and they say, "For the next seven years we're going to do this, this, and that, and this is how much money we need for that."

So, 2014 to 2020 is the second central planning. Already for about a year, a year and half, there have been a number of fairly ferocious discussions of what should be in this budget. Some countries are arguing it should be severely cut because they're cutting their own budgets, United Kingdom is one of these countries, Netherlands is another one; while other countries like France and Spain are arguing it should be increased greatly because we need a lot more money.

Last week there was actually an initial agreement signed by the heads of states on this budget, which is the third, if you like, major step happening just in the span of about two months that bodes well for the future of the European Union and the euro zone after this nearly three years of not much happening.

Let me now go back, I told you initially the bad news, I told you now the good news that had just happened. I'm going to go back now, beating time, and tell you about these missteps or lack of steps that were between middle of 2009 and late 2012. This can be discussed in two areas, one was Greece. So Greece was clearly already from 2009 the major individual issue that the European Union and euro zone was facing. So basically, a success of the euro zone in the European Union meant that you need to resolve Greece. So, that was one thing.

And then it was clear that the euro zone itself did not have enough architecture around it, just having a monetary union is not enough. So you need some additional piece of architecture to tell investors and policymakers that in the future the euro zone is not going to be the type of crisis that it had fallen. So, all of the thinking was always going into these two directions. We need to resolve Greece because it in itself is important, but it also gives us a benchmark of how to resolve other countries. And then we need some all-European resolution of something to make investors believe and analysts believe, that Europe actually has good decision making.

So, what happened on Greece 2009. It was already clear Greece has significant issue. The European Union was not very organized at the time, first major crisis since the euro zone was established. So, they called in the IMF. The IMF came. Remember, at that time it was led by a Frenchman by the name DSK, Dominique Strauss-Kahn.

In late 2009, early 2010, the IMF basically spent most of their time in Greece designing different plans, brought them back to headquarters, which is my interpretation of what happened, and Dominique Strauss-Kahn said, "Look, I'm running elections, for presidential elections in France next year, so I need to look good for all of Europe. So forget what you're giving me, we're going to give the Greeks a lot of money and hope for the best." And this is essentially what happened in early 2010.

Basically after the IMF did a lot of reform analysis and so on, Dominique Strauss-Kahn told them, "I'm going and I'm going to announce that we're giving the Greeks, I think €200 billion at that time, and we're going to basically tell them that with this money they're going to revive their economy until the European economy picks up." I think roughly that was their plan. No reform agenda attached to any of this money, basically spend and hope for the best, early 2010.

Well Greece was happy, started spending, except the crisis not only in Greece but in the euro zone overall, was getting worse and worse. Dominique Strauss-Kahn for different reasons went out of the door, there was the second package the following year, 2011, it didn't help either and then there was the third package late last year, already with the new center-right government, the current Samaras government, that finally started helping right about now. I think from December of last year to February of this year we're starting finally to see some rays of hope for Greece.

But basically, and this is one of the things that I would like you to remember from this speech, the first Greece package not only hurt Greece significantly because it basically delayed the necessary reforms there, but I would argue that it lengthened the euro zone crisis, all of the euro zone crisis, by at least two years just by this lack of discipline and lack of vision of saying, "No reforms necessary at this point, we may slight. It's also important for me Dominique Strauss-Kahn told because I want to be president of France. So let's give them money and then let's see what happens."

The crisis in Europe, in countries like Greece, is in the seventh year. So, for seven years Greece has had fairly significant falls in productions in unemployment has risen today, actually the numbers came—27 percent unemployment in Greece. Production has fallen by about 38 percent from the beginning of the crisis to now.

Imagine if your incomes have fallen by about 35 percent from the beginning of the crisis, imagine that you're living in a country that is used to living well and suddenly a third of your income disappears and nearly 30 percent of your population, active population is unemployed.

But that was the Greek story, it has not yet a happy ending, but at least a cautiously happy ending because the current government, having seen all the problems in previous packages and years, has gotten its act together and is actually doing the tough reforms and what is most astounding about that, the population actually, I wouldn't say likes it, but supports it.

So, the current popularity rating of the government is somewhere nearly 50 percent, which means that these reforms actually may work and more importantly, they showed to other countries what is the road, and the road is very tough reforms, hopefully early on. You don't wait for too long to do them, but hopefully they happen.

Last point of last set of points that I'm going to make is on the all, the all-European solution. I told you the happy end story, it's not yet the end, but the happy end story, the single bank supervisor that is approved and will start working from April of next year. I think that's a very significant step forward. The fact that the next month the budget is almost approved and now countries can plan in it, the fact that the golden rules are approved and are now the law in the euro zone, this is the good story.

But there were three years in between that there were a lot of different ideas. As I mentioned, part of the confusion was that you meet first in the context of the 17, at that time 16, then 17 with Estonia, euro zone members, then you meet, there are 27 of us. Then you agree on some analysis that you need to do, and then you learn the day before the next ECOFIN that France and Germany has suddenly come up with some new idea.

There were several ideas, I'll just enumerate them for your benefit. Early 2010, there was the so-called Euro Pact, a dual German-French idea that basically said we implement the golden rules, the mastery of criteria. I'll tell you now the other two countries. So, it's Bulgaria, Denmark, and Sweden, the three countries that currently, and not just currently but for the last three years, fulfill the mastery criteria, none of them in the euro zone.

But the Euro Pact early 2010, golden rules, tax harmonization; this is the favorite French idea, "We want everybody who has very high taxes, so we have high taxes and we want to impose them on everybody else." So, if you depend it on the French, they always try to push for tax harmonization, which basically means high taxes.

At some of the early meeting I remember I basically raised my hand and said, "Bulgaria actually accepts this," and everybody froze since they know our stance on this, "If we put a 10 percent flat tax to everybody, because this is tax harmonization, everybody has a 10 percent income and corporate tax. Are you fine with that?" No, they obviously are not fine. So, that idea didn't fly.

Tax harmonization, fortunately not just because of Bulgaria, but because the United Kingdom, Ireland, Scandinavians interestingly were opposing it, some of the other East Europeans, but Euro Pact, tax harmonization and social sector reforms; something to be done in pension reforms, something to be done in healthcare reform. That was never written by the way, so we never got the blueprint of what this was. This was just an idea that was given at the press conference somewhere.

Three or four months after that, again a French-German idea, the Euro Plus Pact. So the first clearly didn't work. We don't know why, it wasn't really tried very hard. But the social reforms were dropped because we're too heavy, you cannot seriously do pension reforms, that reduced your popularity. So, the social reforms were dropped. And this was the next version, Euro Plus Pact in 2010.

It also wasn't very seriously discussed, except for the big arguing around tax harmonization, whereas I mentioned Bulgaria, the United Kingdom, Ireland, Sweden, Poland and a few other countries were arguing that you cannot harmonize taxes, first because this is not part of the so-called Économique et Monétaire, the basic laws for functioning of the European Union. And also, because it is going to retard progress in Eastern Europe, or in the countries that have to catch up and basically remove the so-called convergence idea behind the European Union. That was discussed, we didn't agree on it. Anyway, Euro Plus.

Then in mid-2011 there Euro Plus Plus. At this point we started wondering whether there is some new catch phrase that would come up because you see how it goes, Euro Plus Plus Plus and so on. Tax harmonization was dropped and we just remained with the golden rules. And we worked very hard, maybe six to eight months, to argue whether the euro zone should actually abide by the golden rules, the mastery criteria, which may sound slightly stupid if you ask about it.

So, you have a club that has rules for entering, and now you're basically saying that these rules should actually be followed by everybody. But for eight months we argued whether this is a good idea or a bad idea and then finally decided actually it's a good idea, we should follow the rules for this club.

There was however a big problem, I already mentioned it, nobody actually met these rules. So you then have to come up with an idea, but a subtle way of saying it so that the analysts don't get upset that these rules are going to be followed but sometime in the distant future, but you cannot use the word "distant" because some countries clearly are not very close to these rules, and there was a lot of discussion of how exactly to put this.

And then came the bright idea, a German idea, if we call it the golden rules everybody is going to focus on the golden part and they're going to forget the rules. And then the last fifth thing was not called anymore Euro Plus Plus, it was called the golden rules and it actually works. The media and everybody seemed to focus on the fact this is great that Europe has golden rules. The United States doesn't have golden rules, for example, Japan doesn't have golden rules, China doesn't have golden rules and this is just great for Europe, it shows how superior we are to the rest of the world. And in fact, it worked.

So if you notice over the last year or so, this idea of golden rules, which is nothing but a rehash of the mastery criteria, has taken hold and everybody seems to be very happy that Europe has this new and significant improvement over what we had before.

So we have now in conclusion, after some wasted years a new center-right, Samaras government, Samaras is the Prime Minister in Greece, who learned from his predecessors. By the time this time it has been four years since I've been finance minister, Greece has now its sixth finance minister. So, a lot of changes have happened in the meantime.

But this government seems to be serious about we do the current reforms, everybody expects it, no matter what the political cost. And interestingly, the political cost so far at least, in this difficult reforms, there's been a lot of strikes in Athens, in Thessalonica. But the government is fairly popular, and I think they are actually going to finish with the necessary reforms. And we have the golden rules, I hope that in the United States you also would have some golden rules, although by now they are taken so you can have platinum rules, diamond rules, and things like that.

In passing I would mention that somewhere in late 2011, early 2012, the United States got seriously concerned, or maybe at least Treasury in the United States seriously concerned, that Europe is actually not getting its act together. Suddenly at these ECOFIN meetings that I mentioned, Tim Geithner and this team started coming. And, either they think that New York is the center of the universe and there is nothing out of it or very simply had enough problems of their own. They seem to be totally unprepared for meeting 27 different finance ministers from Europe in the sense that they came in as just lecturers, "You have high deficit. You don't have fast decision making," and so on. These were at least four meetings that this happened.

And at first you sort of listen, obviously it was the United States, significant economy, larger than Bulgaria's. So you listen and then it suddenly it starts occurring to you that actually the United States has much higher deficit than we have, even the average for Europe. It has much higher debt to GDP than we have and basically, it hasn't gotten its act together. Still I would argue it hasn't gotten its act together in terms of fiscal discipline and so on. And slowly one by one the financial ministries, including myself, started talking back and said, "What are you doing in the United States to improve the situation?" This is just a [inaudible 00:38:19], there was no answer. There was just a polite, "Well, we're bigger than you, so don't take the floor."

But then, I'll finish with just one final comment on why I think the single bank supervisor is so important. First, because it was a major decision, there were large disagreements. Even in November, this is my favorite quote from our many hours, in November we met. Then it was a mixture between finance ministers met one day and the heads of state met exactly the next day so that we can talk in between.

And the Latvian president, who is a very spunky woman, came very happy out of the meeting and said on TV, "This is my favorite best meeting because the differences were so large that we'll just laugh and talk to each other about other things. I mean there were such huge differences in opinion, but there was no point basically to argue." This is mid-November.

In December there was another meeting, it was obvious that we're not going to reach conclusion that the finance ministers called each other and just said we're not going to waste time to go to Brussels. The heads of states had the worse organization, they didn't get the message. So, actually they met and didn't do anything. And then in mid-December we met again. As I told you, in 30 hours of work, we actually managed to do it.

It shows first results, so actually Europe can make decisions, even if there are 27 different people around the table. But more importantly for me, and I'll finish with this, it shows already some strategy of where we want to go because we have the monetary union, the euro zone, and every country, or nearly every country is at some point, going to the enter this monetary union. But other than that, we didn't have anything.

Well now we're going overtime to have a banking union. And that banking union, given that the banks are very interrelated in Europe, is going to help not only to manage the banking sector, but also to bring analysis of what's to come. Because there is very little analysis in the discussions that we have had so far.

That overtime may bring another idea that the forefathers of the euro have discussed 15 to 20 years ago, which is that if you the monetary union and you have a banking union, they didn't call it that at that time, you are ready to have a so-called European monetary fund.

I'm not going to discuss the European monetary fund. I'm just going to mention that this idea that over the years have been discussed, especially by the Germans and the Italians, now is actually starting to take shape. I would not be surprised if in two or three years Europe is actually going to meet again, hopefully in quieter and more peaceful times, and say, "We are going to have European money to refund so that when another crisis starts taking shape, we can together act, and not just in three or four year but immediately."

Thank you. I'm ready for your questions.

Question and Answer Session

Adam Posen: I think you'll all agree that was a forthright, insightful. It would probably be better if we, actually that's important. We have passed out a number of copies of a recent article by Anders Åslund and also his book. A little before this, Preci called the last first. We're not unfamiliar with the idea that Europe has something to offer us and there is path. But it still striking to hear the secret reality, the all new rule about [audio break 00:00:45] as well as of course the context of IMF.

Let me if I could, for a minute, ask two questions one at a time. Both of them have the fact that remark, while very forceful, seemed to imply by what they left out, that countries, even very small countries, emerging markets, their fate is all entirely in the [audio break 00:01:07]. There was almost no mention of—around problems except they're dealt with at the ministry level, no mention of how capital flows, no mention of ratings agencies, except of course you guys doing well with them, which is nice.

But the bottom line, you essentially spoke as though it never could get its whole house in order, or at least have a priority [audio break 00:01:29] that would enough. Now that maybe because we're focusing on your message or we [inaudible 00:01:35]. It may be that even if it's odd enough that's all anybody do. But for this audience house, we're very [inaudible 00:01:40] to the idea that international spillovers and the system lacks are actually another part of the process. So, have I taken your remarks out of context since it's still much of a message what was emphasized, or is still really a right self-help enough, you don't need to [inaudible 00:01:56].

Simeon Djankov: As a disciplined person I was trying to stay within the 30 minutes, so that's why I missed some of the texture for small economies like Bulgaria. But even for I would argue any economy, maybe with the exception of Germany and Europe should be real. It's very important how they deal within the European context first and then in the global context. So I'm far from saying that you can do self-help only. It's important to do whatever you can do on your own.

This is something that I learned from my work at the World Bank and at the IFC where I've been advising a lot of governments, you go in, if you're in a crisis especially, whatever you can do very early on, before the opposition figures out what you're up to is very important in terms of reforms. And in fact the first act of our government, this is July 2009, was 15 percent across the border budget cut for all the expenditure of all the ministries; defense, police, anything that we manage to push on this argument.

That's why everybody's happy with just one election, some people are drawn, some people are just happy. Push it through Parliament, then I'm going to figure exactly what you're doing, you're going to be successful. This is what we did. The first act, I repeat, of the current Bulgarian government was a 15 percent across the border expenditure cut. If we hadn't done that, Bulgaria would have fallen off not Greece. It would not have been so bad as Greece, but it would have followed at what's currently Slovenia for example.

You're probably not following these small economies. But Slovenia is on the verge of basically bankruptcy. And it's because they didn't do their reforms when they had the political chance of doing it. You have very little window, the ex-politicians among you can testify to that, where you can you do your own reforms. In Bulgaria we were happy to do most of them, not all and far from this idea but most of them and that has kept us going and we have some decent results.

But I have spent as much as I've worked in Bulgaria, not just on financial reforms, because as you mentioned, I'm deputy prime minister in charge of healthcare, education, agriculture and so on, many other reforms to do.

I have spent at least twice as much energy working in ECOFIN and that's why I mentioned it so much in my presentation. ECOFIN, because I realize that unless Germany, Italy, and the Netherlands, these are actually our three largest markets for international trade, are doing well, basically Bulgaria is not going to do well, and these are the facts.

We have—today by the way, in addition to the unemployment numbers that came for last year, the initial growth numbers for Europe came, Bulgaria would finish the 2012 year with roughly 1 percent growth, which you would say, "It's nothing. You just have told us how a wonderful of a country story Bulgaria is, but you have 1 percent growth for 2012." It's actually the fifth largest growth.

In front us there is Estonia, Poland, Latvia, Lithuania, which had all, with the exception of Poland, much deeper recessions in 2009, 2010, 2011 and now are having a rebound.

So with 1 percent, Bulgaria is actually in the top five in Europe. Well, that's a huge issue. The largest six economies in Europe also by the numbers of today are actually in recession. Germany's two successive quarters of negative growth recession; Italy, France, the United Kingdom, Netherlands, and Spain.

So on the contrary, they much matter what context is, not only European context, although Bulgaria both in terms of trade and investment mostly is interested in Europe, but also what happens here in the United States. That's why I and all of my other finance ministers, by now, by the way, of the 27, 23 are finance or economic background. So, that has changed in Europe and now when you economics, the people around you actually understand you.

At ECOFIN we very much care what happens in the United States.? The fact that actually very little happens in terms of precisely the types of deficit reduction measures, debt reduction measures that I've mentioned.

Speaker 1: That's great. Again, I'm not surprised of [inaudible 00:06:23]. I just want to make sure you got that out there.

You did mention [inaudible 00:06:27] going on lessons for us. Oftentimes a [inaudible 00:06:32] ruler in Europe is, "Okay that's nice but we're not going to think about it." Yes, you passed the rule and this time its members. But of course we all remember that you said, Germany were the first violators of the Stability Growth Pact—oh, that works. First violation Stability Growth Pact when they were members of the EU area from the start.

So, I guess the two questions related are why is this set of golden rules going to work in the sense of being enforced if the big countries are the violators? And second, what then is relevant for the United States beyond telling the United States, "Please get your debt in order," what kind of rule would you suggest would make it work in the United States?

Simeon Djankov: I'm a great fan of the golden rules. As I mentioned, we had them in Bulgaria two years ahead of time and they're more restricted than the eventual golden rules; 2 percent deficit, 40 percent debt to GDP. This time what's different is that they're actually in the constitutions of each—so basically what the golden rules are it's not just that you would abide to them, but to make sure that you abide by these rules. But they enter either your constitution, depending on the political order of the country, or the highest budget law, the organic budget law of the individual countries.

By the end of 2014, every country has to either put it in their constitution or organic budget law. The important thing about that is that then it's self-enforcing in the sense that if you go to your Parliament and you haven't fulfilled the golden rule the previous year, basically your government is disbanded. You cannot continue going to Parliament. So it has this self-enforcing internal feature, but you don't depend on Brussels coming or the IMF coming and saying, "Look, you're actually not following the rule."

Politically now the opposition in each country, and not just the opposition, the ombudsman, the various other institutions would follow the budget rules like the congregational budget is equivalent in the various countries, can go to Parliament and say, "This government has to basically be disbanded because they don't follow the rules." That's quite serious for most politicians. They say, "Okay, we are going to follow the rules."

I think a rule like that would also be very important and can work very well, not in the constitution but in the budget laws for the United States, because then it also helps politicians. For me, for example, many people early on said, "Well, why are you imposing such a restriction on yourself? You're the finance minister, you can decide who to give money." But it's actually great precisely because all the other ministers want to give money to whoever they want. Now I can say, "Sorry, but the rule doesn't allow me." If we do that then we'll be out of power.

So I'm actually a great admirer of simple, these are very simple rules that can be put in the organic budget laws of the different countries. They first become self-enforcing, more importantly the public sees whether they're enforced or not, and the other politicians see whether they're enforced or not. It's much easier on future government. Again, here in the United States as well.

Adam Posen: Terrific. Thank you for that. Antoine, do you want to post a question?

Antoine van Agtmael: Well, I have two quick questions. Before that, I just want to say I've been, like Adam and many of you here, in these conferences with finance ministers for the last 40 years. This is the first time that I can remember that in an open meeting someone has been as forthright. So that was really interesting.

And second of all, I think you showed that what we as economists at some point began to feel doubtful on because there was this rule that countries with the best economies have the worse economic problems and can't solve them. Here is a country that has a good economy that actually can solve problem. So I think that gives hopes for the future.

I have a first quick question on innovation in policymaking. I've studied this a little bit in corporations and there are kind of three rules about innovation in companies. One is it takes some time, to do brainstorming, which Europe did. Second of all, you have to have your back against the wall and third of all, the good ideas, the fresh ideas never come from the center but always from the periphery.

With all due respect, I think Bulgaria within Europe is at the periphery. How do you see this as coming from Bulgaria? Were the countries that were not Germany and France, actually the smaller countries, were they actually able to inject fresh ideas, innovative ideas in this process? You didn't mention where the ideas came from, so I was curious.

Simeon Djankov: The three rules or the three criteria that you mentioned certainly are relevant for what they just described. While many people undoubtedly will claim the single banking supervisor idea is their idea, it came actually from Finland, which is a small country in the euro zone. So it's not as periphery as some others, but it certainly was. And first it wasn't taken seriously. I actually, I remember when this idea came about people said, "It's too hard. It's going to take too many years for this to resolve. We don't even exactly know what that means, so let's not take it seriously." This was June of last year.

September, in Cyprus, it's all of a sudden started sort of people saying, "Well, everything else has failed, we are not happy with Germany and France telling us yet another sixth version of the Euro Plus Plus Plus Plus Plus, so maybe this is crazy enough so that it can work." We certainly had our backs to the wall, so that idea also works."

Just the fastness, or the speed with which this idea actually came to fruition, there were lots of discussions as I mentioned, but just in three ECOFINs, not that many. Usually we discuss for 15 ECOFINs, very simple ideas, and don't agree on them. This happened fairly quickly.

And the final shape of which I'm personally very proud of this, because let's say the 28th hour, my wife was from time-to-time sending texts how it's going. And she was, this was Belgian time, we came to Eastern time, then it became evening here, we were still sending things.

But at the end I remember and will always remember this, there was Luxemburg, Austria, the Austrian finance minister sits next to me because we're alphabetical and Bulgaria; arguing with Germany, France, and Italy. And we, in the end, actually won the argument. You'd never think that this is realistic, but Luxemburg, Bulgaria, and Austria we all sort of have a winning view over France, Germany, and Italy.

But the main argument at that point was, what are the rules by which you decide which banks roughly to supervise first? Are they weighted by country size? And the large countries were saying they should be weighted by country size because otherwise we want to ensure that small and insignificant countries don't have the same weight as we do in weight, but by the chart of the creation of the European Union it's one country one voice. So, you cannot break the fundamental rule of creation of European Union because if you break it here you're going to break it from here on, every time this is going to be an excuse.

And we have maybe three hours where we stood like this. Like this we were. The Austrian minister is a very strong lady, former interior minister and she was just say, "No, I am never, never going to agree with you," and that worked. So, small countries sometimes have a disproportionately important voice in good things to come.

Antoine van Agtmael: Second question related, Adam has talked about the kind of big lessons that small countries can give to big countries, including the United States. You have been very much involved in the process. Could you point, which I think it would be interesting, could you point to something that is important to keep in mind in the process that can be a lesson, whether it's healthcare or whether it's education? Something in the process of coming to a decision that helps you reach a better decision.

Simeon Djankov: I would say in the process at least that we're just discussing the euro zone, the Greece and so on is perhaps a follow up of what we said, that actually most of the solutions came not from the main train of thought so to speak, but came from the sight, after we had exhausted ourselves—we're sort of pushing the main pushing, pushing the main train of thought.

And then you somehow have to have the organization, maybe in that regard Europe is, since we are still 27 sovereigns, so even if one Finland or Bulgaria comes in and says, "Wait, wait, wait, I'm going to veto that. We have veto power, remember?" So that's why the large countries have to listen to us most of the time. So you can say, "No, no, no, I'm going to veto this regardless of how many times you put it."

But here's another idea, Finnish idea let's call it, that actually, even though it sounds more difficult, it may work and it can get us to a whole different level of integration in this way or an innovation in the way that we view this union, not just as a monetary union, but as something bigger, because ultimately, every time that we talked about Greece or Portugal or whichever other country, you come to that even a single country in the euro zone fails it's not a monetary failure, it's not an economic failure, it's actually a political failure of the whole European Union. The concept that you're together and you're going to help each other, this was always the back-end of all discussions.

And here comes a small country, very good economist by the way, and they say, "This a lot more difficult, but if we manage it gets us to a different level." Large countries have more analysts, have more power if you like, to come up with different ideas. Whether they also have this structure, but some of these ideas can come to the fore and be pushed – I'm talking now about the U.S., I'm not sure, but it certainly needs to be allowed. If it's not, you keep pushing, and pushing, pushing the more insignificant idea and sometimes you never get to it.

Adam Posen: That's great. I'm going to open it up to questions. Just one note, as I've been doing since the start of January, I ask my IIE colleagues to hold until the first two or questions are asked by our outside guests. There's a microphone here for this gentlemen and then we'll go to the lady at the table, and then we'll go to the back. Please identify yourself.

Lamar: Lamar [inaudible 00:17:13]. I've written and covered the White House for the National Examiner in politics and color. You alluded to the international financial organizations, World Bank, IMF, and I've noticed that China has now made a big impact in Africa and I'm just curious what you think someone like Christine Lagarde needs to do in terms of running the IMF to keep up with countries like China and also have an impact in the euro zone?

Simeon Djankov: I've known Christine Lagarde for at least 10 years, first as a junior trade minister at the time when I was still at the World Bank, she was a colleague of mine, many of these ECOFINs that I mentioned as a finance minister. And then just two days ago at our last ECOFIN she was there and has been over the last year as head of the IMF. So, I know her quite well.

She is a very able person, has the right background and has worked in many different places, so I think she's a great addition to the IMF, especially given her predecessor and his contribution is different from what we are used to having. The IMF contributed, what can she do? Well, first she needs to open the IMF to new ideas and new analysis, something that she is actually clearly doing, but at the same time trying to see how—if you expect something from a very stodgy institution that for six years has been doing one and the same thing, if they have very sudden terms, especially during crisis, whether that works. I'm alluding to something that in the audience probably many people lately have followed, which is the latest IMF analysis on the so-called fiscal multipliers.

Basically, the IMF I would say, for six years has been telling countries like Bulgaria, like the United States, every country, "If you have a crisis, you need to cut expenditure, not spend much, keep your budgets and debts under order." And certainly when I started dealing now as a finance minister, this is what the IMF was telling me. I also happen to believe it, so they were quite helpful.

In the last year the IMF has tried to innovate in terms of some of their advice, maybe not because of Christine, maybe because of her. So we have some new and interesting work, but some of it is catching all of us off guard. So what I'm referring to is last November, I think in their World Economic Outlook, they suddenly said, "Well actually our latest analysis shows that you shouldn't consolidate too much. In fact you should spend not as much as you can, but spend certainly more than you are spending."

And I can tell you that as a Finance Minister that has been fighting all the other ministers, and this is not just in Bulgaria, any finance minister is fighting all other ministers to not spend much, and certainly has drawn heavy criticism in his country for not spending on all kinds of programs. Suddenly to have the IMF come and say, "Well actually, we were wrong, you should be spending a lot more," it puts you in a very awkward position.

And all of us for the last three or four months basically had to explain to a lot of our media, a lot of our opposition of course is very gleeful, "See, you're wrong." And to the European Union itself, the idea that innovation in analysis is very good if the IMF or any other international organization wants to be modern, sort of to keep up with the times, but you also have to have a way of presenting this that doesn't hurt what you've already done.

So I would say that in the last, not just the Greek discussion that I mentioned, but in the last six months, the popularity of the IMF in Europe has sort of shrunk in half. It wasn't very high to begin with, it's shrunk in half precisely because of this type of moves that catch you off guard.

Adam Posen: Can I push you on this? I mean this is obviously a very strong statement you're making, and you've made a very convincing case why from the finance ministries one of you would feel that. But you do seem to be being a little dismissive of some of this work as though it is just, "Oh, it's à la mode, they want to keep up, they want to do something fresh."

Leaving aside the substance of it, if the IMF, or if the Federal Reserve, or if your ministry discovers an error, believes seriously, it's not just we misprinted some data, we genuinely got something wrong, what is the proper way to handle that?

I mean just to put the point a little more forcefully, in the great crisis of the 30s for the United States, Franklin Delano Roosevelt is seen as a great hero, leave aside again whether he's Austrian and all that. One of the things that he's held up for doing was saying, "I tried this, this didn't work. Fine, I cut my losses, I try something else."

So again, I understand why it's difficult for you. But I'm just asking you a little bit more from a systemic perspective, do you really want them to have very political oversight on when they say, "Oh, we made mistake," I mean, how would you want to handle this?

Simeon Djankov: First, this is a 60-year mistake. It's not that we made a mistake and then suddenly they discovered something. But for a long time, for decades the IMF has come with analysis that shows one thing. And then suddenly, in a very quick turnaround it shows something else. It is possible, as you mentioned, maybe there is now better statistical methods, there is a lot more data, so you can see something new.

I agree, and it will be great if we know it because my work as finance minister will be a lot easier, if now I'm spending a lot more money, rather than telling everybody, "No, no, no, no, no, no, no, I'm not giving you any money," it's just I'm a bit suspicious with the way how fast it came about; the fact that it wasn't actually widely discussed, not just in Europe, my understanding is that it wasn't widely discussed here as well.

And I'm also suspicious of what I told you earlier, that the first Greek package sounded exactly like that, so spend money and see what happens, but it actually didn't work. We know it didn't work, otherwise Greece would not have 27 percent unemployment and 35 percent production for now. You need to do the other reforms and maybe the IMF meant to say, "Maybe ease out a little bit on the fiscal policy, but you should do the other things."

But the way that it came to us is that, "You actually do the wrong things. You shouldn't reform, you should just pump money into the economy." And a little bit suspicious of that, yes, new ideas come about. We just discussed the Finnish idea, which is not a new idea but they represented it in a new way and it actually worked, and everybody has by now has accepted. It's a very great step forward.

So yes, you may be right that as a finance minister, perhaps I feel stronger about not being taken by surprise, because you constantly get taken by surprise by your opposition, by the more populist. You're the least liked person in the country, even in good times. In bad times you're by far the least liked person, and you have very few friends. And these few friends you regard them as some of the think-tanks that give you some analysis and you say, "It's not me saying that. See, they are saying that and they're not smarter than I am, so they are supporting this, the IMF, the World Bank and so on."

And if you have such a fast turnaround and you're not ready for it, what do you say? "Well, actually we don't take seriously the IMF." This is basically if you ask the Portuguese finance minister, the Greek finance minister and so on, this is what they say, "Don't take the IMF so seriously."

Adam Posen: That's a scary thing. So, we have a backup of people. The lady in black there, the gentleman at the back mic, and then Anders had his hand up. Please go the back mic Anders, and then the young lady also at this table after that. So, she's first. Please try to keep your questions short since we have so many people interested.

Samara Daniels: Samara Daniels, Ramsey Desigones. I was wondering if you had been following the arguments on U.S. Debt, and as a consequence of that, I was wondering whether you in your country also managed institutional reforms simultaneously, because this is I think, a real drawback in our situation of the institutional cultures and the institution match, the economic, where you want to be at a hint.

Simeon Djankov: Certainly the institutional changes have to take place either at the same time or even slightly earlier so once you have them you can say, "Now I can credibly do, let's say, the golden rule, the reform."

In the case of Bulgaria, the biggest threat to public expenditure and hence to debt level overtime was pension reform. We have a fairly rapidly aging population. And at these rates, you needed to do some significant pension reform before you introduce a rule, for example, like the golden rule. Otherwise, you know that in a few years no matter how good the government, the then government, you cannot support such a rule.

So we went from 2009 we tried first unsuccessfully. Then at the end of 2010, I'm speaking about Bulgaria, we successfully introduced pension reform and then whilst increasing the mandatory retirement age, removing various early retirement schemes for the army, and miners, and coal miners. Once we did that then we said now we can introduce the golden rule because we have the institutional backing to say the analysis, if somebody asks us, is this going to hold for another 10, 20, 30 years? To say, here is how we are going to support it.

I think it's true for any country no matter how small like Bulgaria or large like the United States. Here you need to ask the question, is this debt level sustainable? In my view, no it's not sustainable. The United States has to do something about its debt level and not just to reduce expenditure, which is painful politically, but it can be done in a few years, but to think what are the other sources, other potential sources of blowing up expenditures in the future.

And then on that many candidates, there are either subsidies, or there is healthcare, or there is pension. So in every country there is roughly the same types of issue and do you have them institutionally well in check? If you don't you better do this first, otherwise it's not credible what you do and it's quickly going to show up, both in your political discussion as well as in the media and so on.

Adam Posen: Okay. In the interest of time I'm going to ask Barry and Anders to identify yourselves, to make both your question. He'll respond, and then the lady in front here, and José de Gregorio to ask their questions. First the two of you please.

Barry Wood: Barry Wood, RTHK economics columnist. Minister, you've had such a unique and valuable perspective of observing the euro zone from the ECOFIN. What needs to be done to make the euro zone viable long term? I assume that it's more than just a single supervisory mechanism for banks.

Adam Posen: Thank you for your concision.

Anders Åslund: Anders Åslund, Peterson Institute. Thank you very much an excellent presentation. I would like to follow up on how you look up on the future development of the European Union. You are positively presenting now, is this a temporary development because of a crisis or because there's not a big center-right majority among the European governments, or is this something that is more definite?

And specifically in this regard, do you think that tax harmonization has been beaten for good or is it something that will come back later on? Then one specific question, how do you look up on Bulgaria's entry to the euro zone right now? Thank you.

Simeon Djankov: I'll start backwards. Bulgaria's entry to the euro zone, we are basically going to wait until we see all the institutions that are the euro zone or that the euro zone evolves to a set of institutions, that we first know what they are and we're comfortable with them. So sometime about two years ago we decided we're going to wait, not just because of the current problems in Greece and other countries in the euro zone, but because we want to make sure that if we're joining the euro zone club we know all the institutions.

And as I mentioned, until recently it was just one institution, the monetary union. There were a set of rules for that that nobody followed, as I mentioned. So that was slightly disconcerting. And we and many other people thought that you need other sets of institutions in order to make it stable, of which certainly the single bank supervisor, which is not just for the euro zone by the way, it's for everybody, for all 27 euro zone members is a part.

Is it enough? Which also relates to the first question, no, I don't think it's enough. It's, let's say double the security that you have, we also have the so-called golden rules, these are going to start kicking in 2015. This is going to be another layer of additional security.

And I think what we need, both to the first and the second question, both in the euro zone and in the European Union, because I repeat, one of the insights that I got from this is that any anytime we discuss, "Is it a good idea for Greece to actually exit?" I have my view, but I'm not going to share it now with you, and I've heard it consistently, but we always go to the point, if Greece or another country exists, it's not just a euro zone exit, it's a failure of the European Union as a political union. Because then you start wondering for other reasons, not related to finance or economics, whether some other countries should also be asked to exit. So, the euro zone is also a set of financial monetary tools, but it's also a political concept, and early on at least, I was not so much into this political thinking.

To both of the question of, "Is this in the last three or four months' happier decisions in the European Union, is this something to stay?" I think in our area, economics and finance, it is something to stay because by now everybody feels we are not prepared. This is the first major crisis, not just in our area of finance and economics, this is the first major crisis of the European Union as a whole. So, it tests the financial sides, but it also tests the political underpinning of the European Union.

And now that everybody has realized that, there is a lot more focus on, "Let's get this resolved." It gets top politicians focusing on this. Well, I mentioned that I spent at least as much time in European issues than on Bulgarian issues. For some of the top European politicians like Anglo-America, my guess is that you spent 80 percent of the time on non-Germans so to speak or non-directly German issues, on European issues.

And that's important for the reason that we said, European Union has to succeed to Europe to become competitive with the United States, China, Brazil, and so on. And many people came to think the resolving of the resolution of the euro zone crisis is also a step in basically stronger European Union overall, no matter what other issue may come about, and there are many other issues that, as you well know, surround the European Union.

In that, if there is one thing that I'm lately starting to learn and we already touched on that, it's important to realize that while the beginnings of the European Union were basically a duo, France and Germany, and from time to time this kicks in almost like an automatic stabilizer, "What do we do? We don't have much time to think, let's depend on them."

The resolution of the European Unions at least so far, issues has shown that this is not the way to go, that you need to involve many other countries, because roughly speaking you don't know where the good ideas are going to come from. [Inaudible 00:33:58], you have 27 and soon 28 with Croatia, it may come from one of the countries that you least expect. So, the future is that people are realizing and I think this is actually understood more and more, that you depend on all of the members, not just on some of the original and larger members.

Is tax harmonization killed forever? No, it's going to come up. Again, it's an idea that the French have always had. The Germans are ambivalent about them, but generally they also like it somewhat. They see for now benefits of Eastern Europe having lower taxes, but over time my guess is it will converge with France and like that tax harmonization idea.

My hope is, and this is what I tell politicians in Bulgaria, I would like Bulgaria to have the lowest tax level in Europe for at least another 10 to 15 years. If we manage to keep that, in 15 years tax harmonization can be welcomed, even for countries like Bulgaria. Whether we manage to keep it so long, let's see.

Adam Posen: Very good. The young lady there.

Gina: Hi. Thank you so much for your comments. I'm Gina [inaudible 00:35:07], I come with Bloomberg News. To return to your earlier point, you obviously spoke a little bit towards adopting the euro, do you have any sort of estimate on how long that might be, how many years you might be looking at there?

And then my second question is, has the government changed its GDP forecasts at all this year from 1.2 percent or are you keeping it there?

Simeon Djankov: So first of all, by my guess, middle of this year we're going to have an expansion of the euro zone, because Latvia has recently announced, and not only announced, but has adopted a set of laws in Parliament that they would like to join the euro zone by later this year, actually be in the euro zone at the beginning of 2014.

Latvia with great difficulty and great courage, I must say, seems to be able to by about middle of the year, to meet all the mastery criteria. The question of how long that's going to be, since the previous three entrance namely Estonia, Slovakia, and Slovenia met entrance criteria for about three or four months and then didn't meet at least one of them, everybody is aware of Latvia. But my guess is, with difficulty, Latvia will become the 18th member of the euro zone early next year.

And I think that is attributed to the difficult path that Latvia has followed, but also to the euro zone itself, they're actually in these great difficult times. There are still countries that want to join the euro. Bulgaria also wants to join the euro and we have multiples times said that our goal is to be in the euro zone, but we are troubled by two sets of issues.

One, that basically every country joining is troubled, which is that, do we have to pay for the bad policies of others already in the euro zone? That was a major issue for Estonia when it was entering and politically, actually, the government initially at least, was hurt by the entry because there was an argument of, "If we work very hard, we go through these great sacrifices to keep our budget in order and we enter and immediately we have to pay for Greece," which is in fact what had to happen.

The Slovak government fell last year by the way, just to push a resolution to help Greece. So, that's another example of a country that had to sacrifice domestically in order to fulfill its obligations under the euro. So, there's certainly that concern, and politically it's difficult, especially now in the crisis.

My major concern is what I have discussed, that right now we fulfill all the criteria, we've actually fulfilled them for a number of years, but if I start the path of entry, I don't know exactly what I'm entering because I know I'm entering the monetary union. But Bulgaria already has a fixed exchange rate to the euro and has had it since the beginning of the euro zone. So there we don't have to change any of our policies. So we just have to change our left with euro, that's fairly easy.

What else do we need to change now that there is a single banking supervisor? We like that. But are there some other ideas, and especially bad ideas in my view, like tax harmonization, going to be part of the euro zone sometime soon? If there are, we don't want to be part of that.

To make sure actually that future governments do not step in that direction, we have passed a law in the organic budget law, which is very difficult to change, you need super majority in Parliament to say that future Bulgarian governments cannot enter into discussions of entering the euro zone if there is any inkling of tax harmonization. But that idea, as I mentioned, over the last three years came several times. We want to make sure that such ideas are not part of the future sets of institutions of the euro zone and that's why we are going to wait probably a number of additional years until the dust settles.

Adam Posen: Very good. José?

José de Gregorio: Two questions. I don't think there should be a Greek exit, I think that Greeks should have never been in the euro. And I think that the euro has shown all the page of [inaudible 00:39:34] rates. So my question more directly to you is don't you think that perhaps floating your currency you could maybe have been growing a little bit more after the crisis, and would that help you? So that is first thing. So, for me it's not an issue whether you join the euro without all that you said that be done.

The second question is I think you pick too much on the IMF. We can take it, it's kind of a sport to pick on the IMF. But I think that the problem of the IMF is it is dominated by Europe. I think that that's the problem. So, the conflict of interest in the IMF is the IMF, you see, this is the only country in the world that you go to do a program and you sit with the Central Bank, the ECB, and the finance minister to negotiate with one of the provinces the adjustment.

Usually when they used to go to Latin America, they put at the other side of the central bank another finance minister. So I think that the big problem is the European domination. The IMF wouldn't have contributed to a bailout without the support or without the political will of Europe. And I think that the original sin was to not to let Greece to go bust because of all the problem with Germans or French banks. So that's the original sin, not whether the IMF.

Simeon Djankov: It could well be. By the way I should say that since we're neighbors to Greece, Greece is not just to most people an issue of the euro zone and Europe, but it always has direct implications, more direct implications for Bulgaria. So we follow in with the Ministry of Finance in Bulgaria, we have a whole department that just looks at our neighbors, Romania and Greece. Both of them have actually not been doing that great until recently, because they have major implications for us, bigger implications than for others.

So that's why I'm very annoyed when things don't go well there. You're right. That's why I gave the example of 2010, Dominique Strauss-Kahn. I think that's exactly in a way what you said, that politics here dominated, personal politics in his case perhaps, but the overall that you mentioned. But it shouldn't be like that with the largest international institution, you should have checks and balances within these institutions and at least with regards to Greece, the IMF didn't seem to have these checks and balances.

I know in my government we have checks and balances. That's why we have deputy prime ministers, so that if one of the ministers goes astray and decides to do something that cannot be done or is bad for the public, before it blows up at the prime minister's level you sort of have the check and balance. And to my mind, this was a major misstep of the IMF, not only for Greece. It had implications, in my view, for prolonging the crisis in Europe.

Now we have a much better—Christine Lagarde. I value her very highly from the many hours I've mentioned that we've worked together. But the misstep has already happened, so now somehow you need to regain confidence that this is not going to be happening in the future.

And then suddenly we have the fiscal multipliers issue that looks like maybe not as egregious as a misstep as before, but it looks like politics plays a lot more of a role than it should.

Now, politics always plays a large role, but if the international institutions that are the backstone for people like me also play politics then you have nobody to turn to and nobody to trust. I've discussed this ad nauseum with a number of the other finance ministers. It's not just me thinking that, the majority of finance ministers as of today, if they came here and spoke frankly they'll tell you what I tell you. So it means that the IMF has to have different systems of checks and balances to make sure that European, as you call it, this politics or any other politics do not play such a big role.

And then on the first issues, it's the one issue that I think can fire me immediately if I answer frankly. So I will go in a roundabout way to say that Bulgarians are very excited about polling. So, they poll everything every month how popular you are, how popular other things are, who isn't popular and the most unpopular person in the country and so on. And they test the popularity, if you like, of institutions. And the currency board has the largest popularity at 97 percent of any other institution by a very large margin.

To give you an example, Parliament has a 9 percent popularity, the church has 6 percent popularity, I'm actually slightly above that with about 11 percent popularity and so on. So, at 97 percent popularity, basically you take it on faith.

Adam Posen: This is fantastic. I'm afraid I'm going to have to cut it off there in a sense it's appropriate to have our first Sunrise lecturer, José de Gregorio, raising such a provocative issue for our second Sunrise lecturer, Simeon Djankov. This has been a great thrill. I bit my tongue on the IMF stuff, but I'm glad we got it out there. And we look forward I hope, Antoine, to continuing this, in continuing this two-way street. This one will be hard to top, but maybe we can have another one in which José and Simeon then put somebody else on the spot for this kind of thing.

Antoine van Agtmael: I forgot to say as I was speaking, because I didn't follow my notes, but that's definitely the plan. And after today, even more so. Thank you very much.

Adam Posen: Thank you all, and thank you especially, Mr. Djankov.