

Fiscal policies in the Czech Republic and Slovakia

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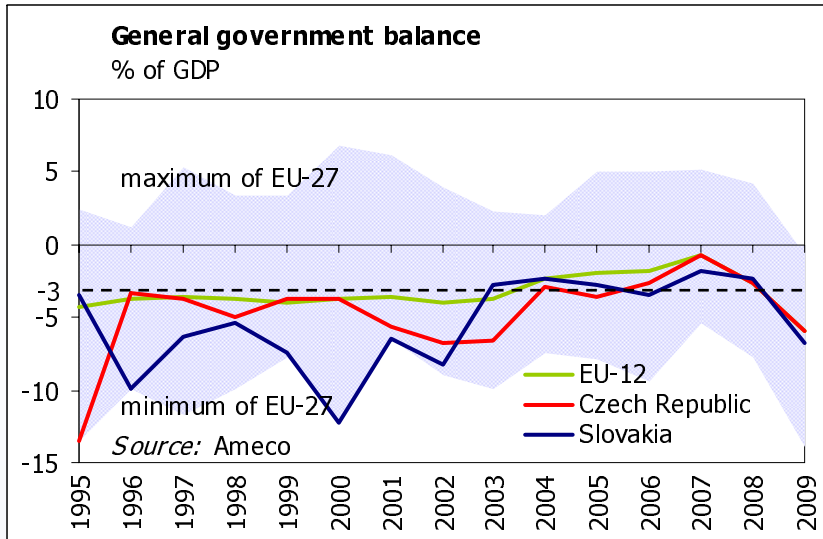
Head of Unit (acting)
The Netherlands, Czech Republic, Slovakia



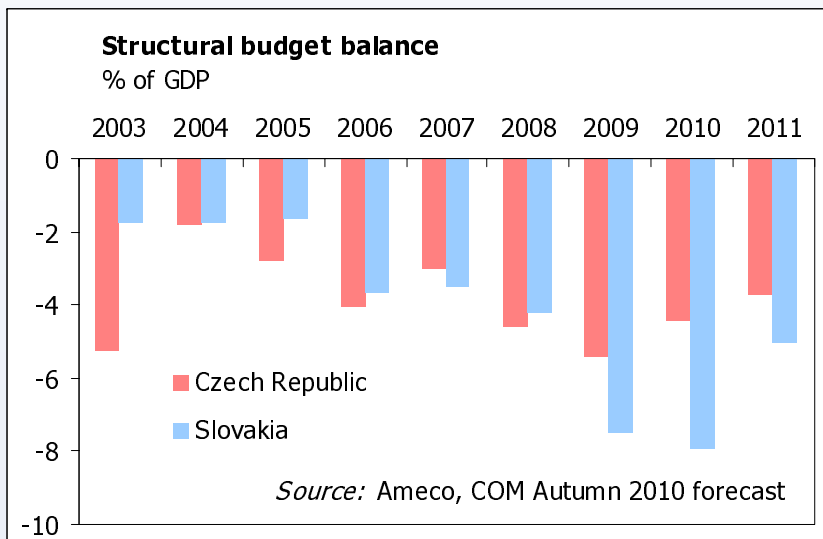
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Deficit developments

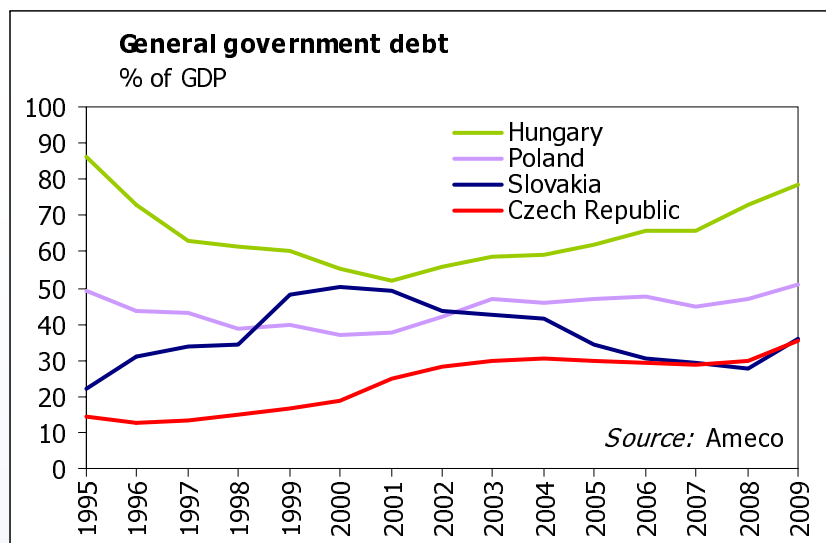


- Government deficits were reduced between 2002 and 2008 mainly due to strong economic performance
- However, structural deficits remained high also in good times



Debt developments

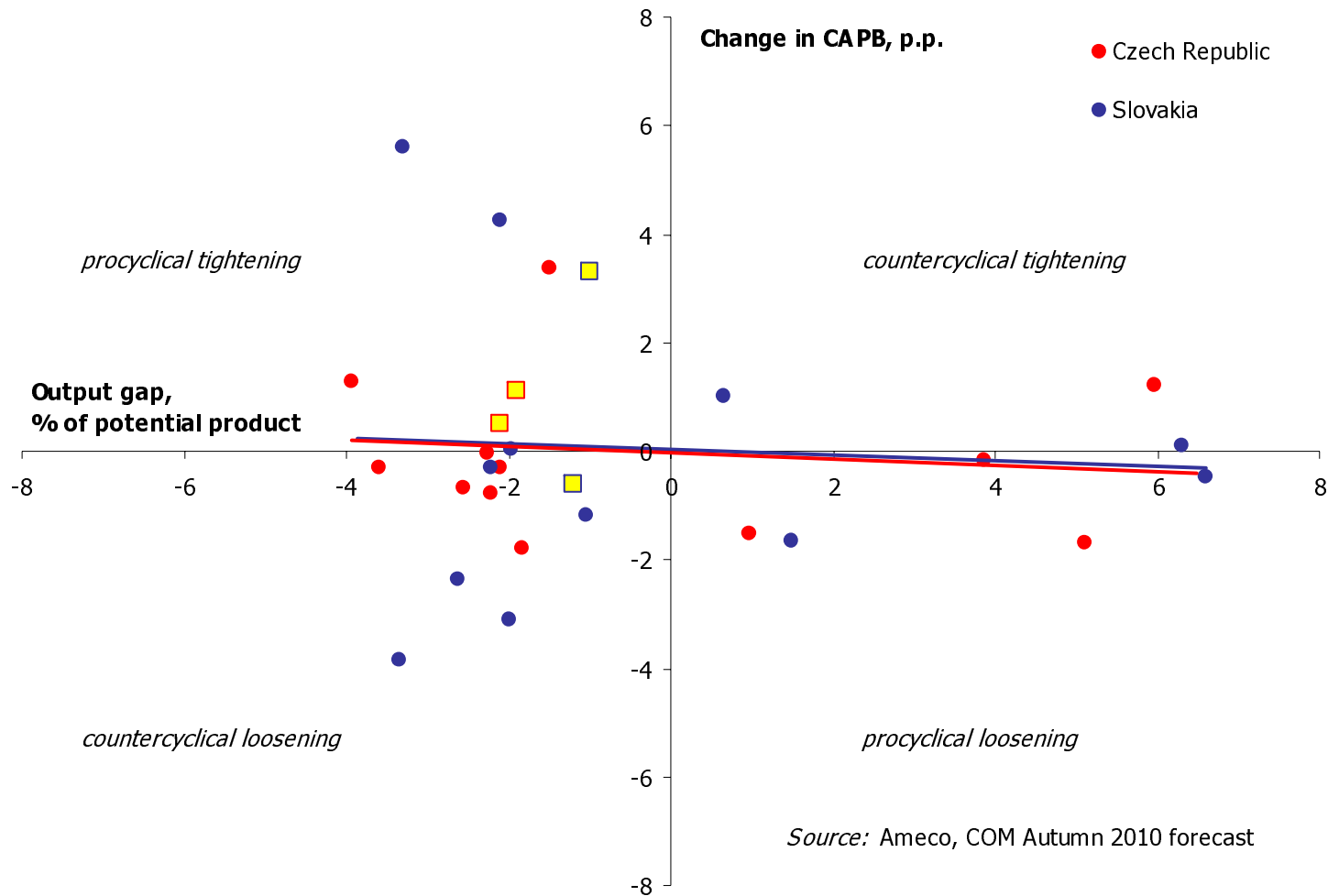
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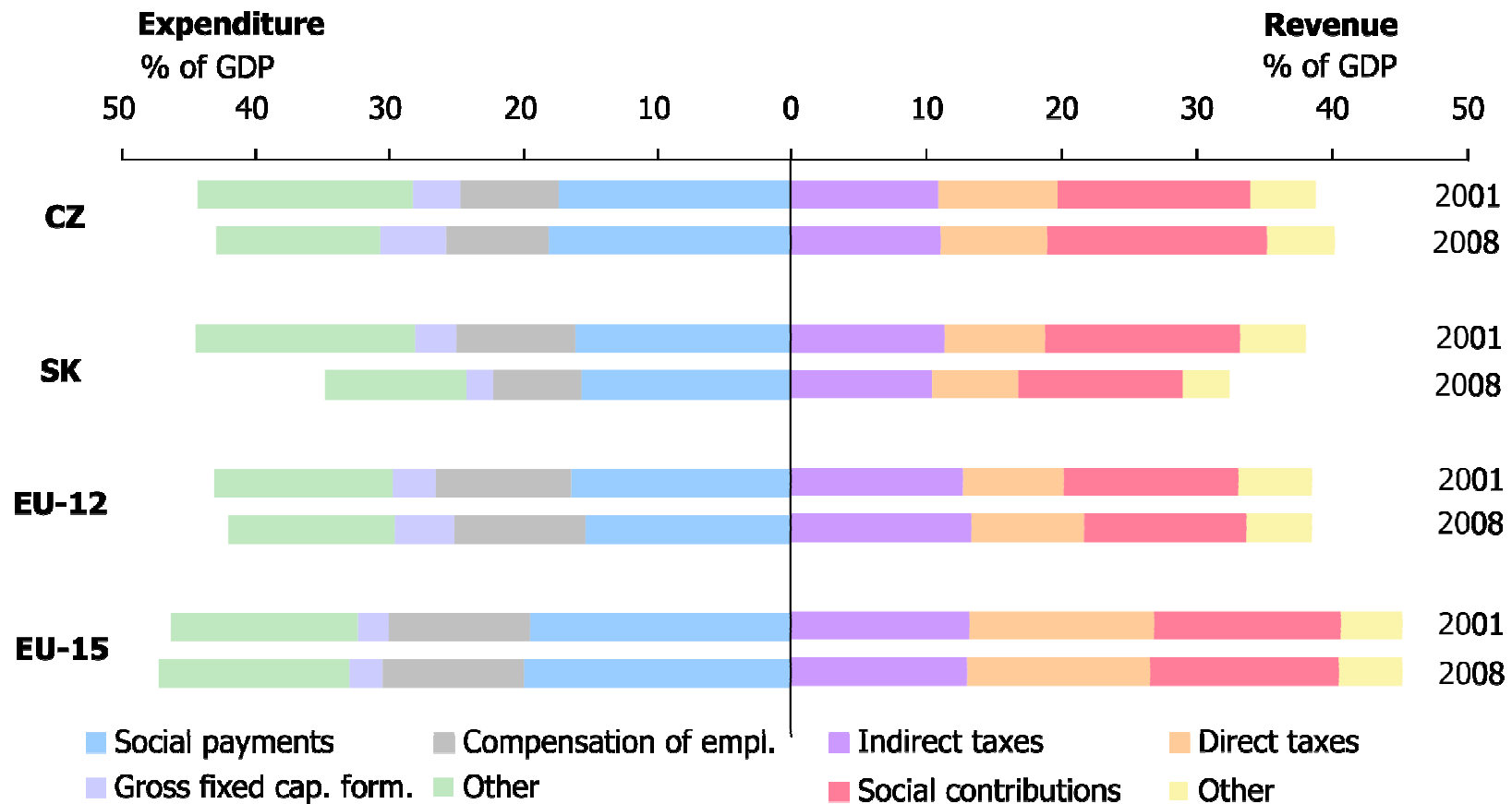
- SK: Initial increase in the debt/GDP ratio was reversed after 2000
- CZ: progressive (but limited) increase of the debt/GDP ratio
- Debt/GDP ratios in both countries converged

Fiscal policies tend to be mildly pro-cyclical

Fiscal stances (1998-2011)

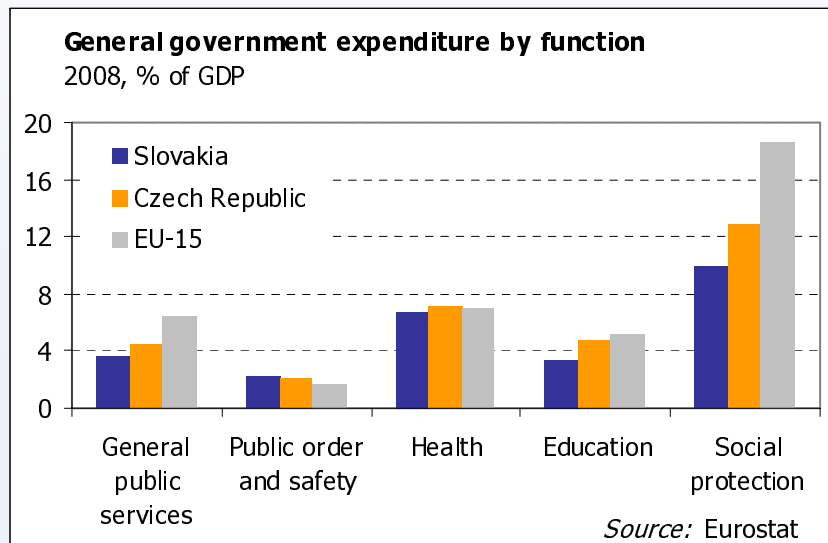
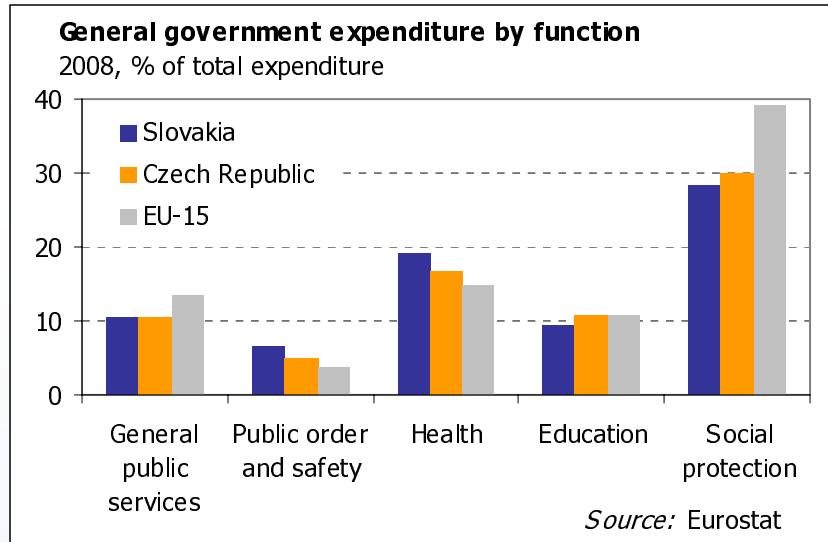


Quality of the public finances (1)



Source: Ameco

Quality of the public finances (2)



- Share of expenditure on education in CZ comparable with the EU average but lower in SK
- Some room to reshuffle composition of expenditures and increase their efficiency

Challenge for public finances

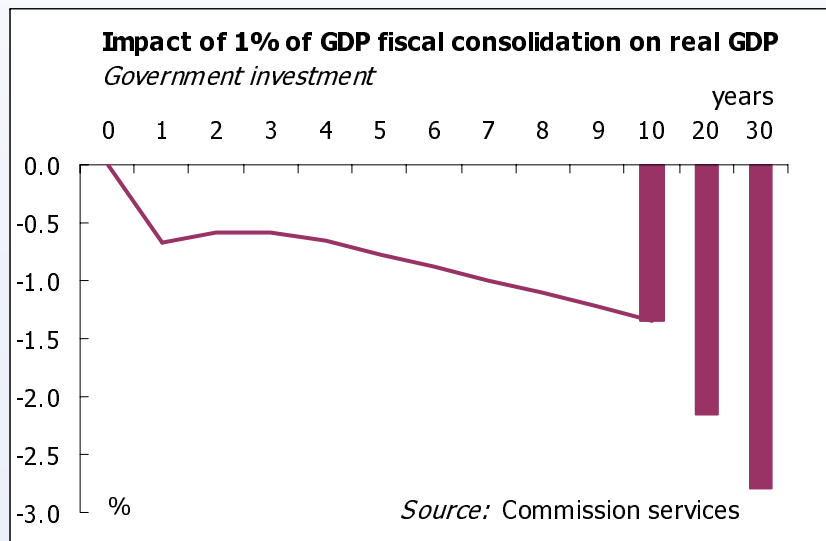
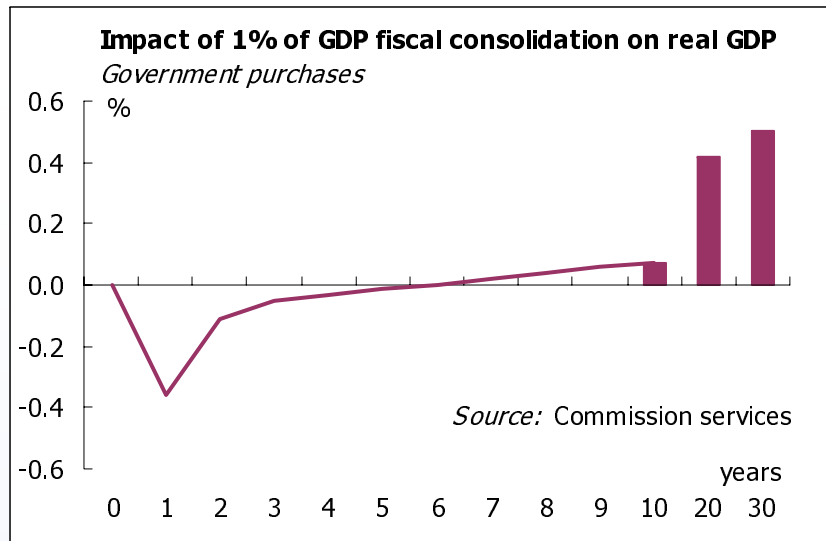
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- Commitment to ensuring stable macroeconomic environment conducive to growth (SGP)
- Ensuring long-term sustainability of public finances

Challenge for public finances: consolidation (2)

- Fiscal consolidation contractionary in the short-term...
- BUT needed in the long term to retain stable macroeconomic environment

Consolidation using the least distortionary measures



- Expenditure side: huge difference between cutting productive (investments) or unproductive spending (COM 2010 Autumn forecast, forthcoming)
- Spending-based deficit cuts tend to have smaller contractionary effects than tax-based (IMF, WEO Oct 2010)

... with help of proper fiscal frameworks (1)

- In both countries, medium-term expenditure frameworks have been in place since 2004, but with different architecture
- The Czech rules are stronger according to Commission services' fiscal rules indexes
- However, in both cases, in practice they were not adhered to in most years and did not prevent procyclical fiscal policies

Fiscal governance indexes in the EU (2008)		
	Fiscal rules index	MTBF index
CZ	1.0	1.4
SK	0.0	1.0
DK	1.8	1.6
FI	0.9	1.6
SE	1.4	1.6
EU-27	0.6	1.1

Source: Commission services

The challenges of ageing on public finances

Increase in age-related expenditure, 2010-2060		
Czech Republic	2010	Change 2010-2060
Total	17.0	6.3
Pension spending	7.1	4.0
Healthcare	6.4	2.0
Long-term care	0.2	0.4
Unemployment	3.3	0.0
Slovakia	2010	Change 2010-2060
Total	14.9	5.5
Pension spending	6.6	3.6
Healthcare	5.2	2.1
Long-term care	0.2	0.4
Unemployment	2.9	-0.6
EU27	2010	Change 2010-2060
Total	23.2	4.6
Pension spending	10.2	2.3
Healthcare	6.8	1.4
Long-term care	1.3	1.1
Unemployment	4.9	-0.2

Source: Commission services and EPC

Sustainability indicators and the required primary balance		
	Czech Republic	Slovakia
Sustainability gap (S2)	9.8	8.5
Initial budgetary position	5.8	5.2
Long-term cost of ageing	4.0	3.3

Note: S2 calculated on the base of 2009 scenario, which is assumes no policy changes taking the 2009 structural primary balance as a starting year.

Source: Commission services

- Ageing in both countries among the fastest within the EU
- Change in age-related expenditures higher in CZ+SK than in EU27 – pension and healthcare spending main driving factors
- Both countries at risk with respect to long-term sustainability of public finances

Long-term sustainability of public finances – Pension Reforms

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- CZ
 - PAYG pension system subject to several parametric changes (most recently in 2008, e.g. contribution period extended from 25 to 35 years).
 - major pension reform still under way
- SK:
 - introduction of a fully funded pension pillar, parametric changes in the PAYG pillar (e.g. increase of retirement age)...
 - BUT sustainability of the PAYG pillar remains an issue, past changes to the second pillar undermined its attractiveness
- Ensuring long-term sustainability of PF will require further steps to reform pension systems in both countries

Conclusions

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- Quality of consolidation matters:
 - avoid cuts of growth-enhancing items
 - create room to improve the quality (composition and efficiency) of expenditure
 - look for room to increase revenues (e.g. broadening tax bases, improving tax collection, etc.)
- Sustainability of PF matters