

The Czech and Slovak Economies 17 Years After

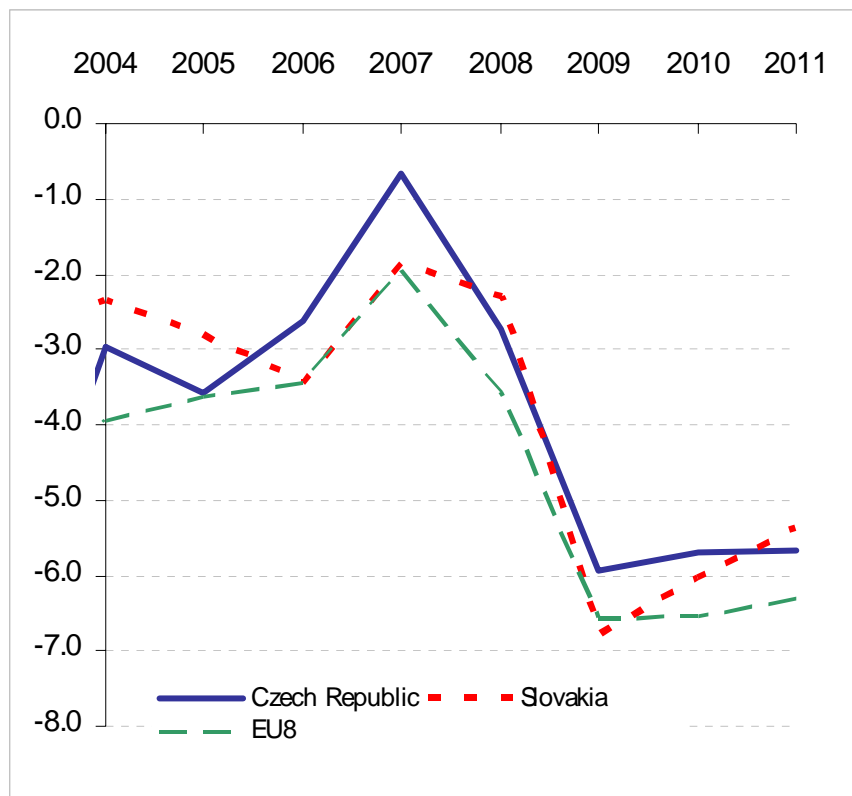
Session II – Panel

Philipp Rother
European Central Bank
Fiscal Policies Division

Government budget balance and gross debt

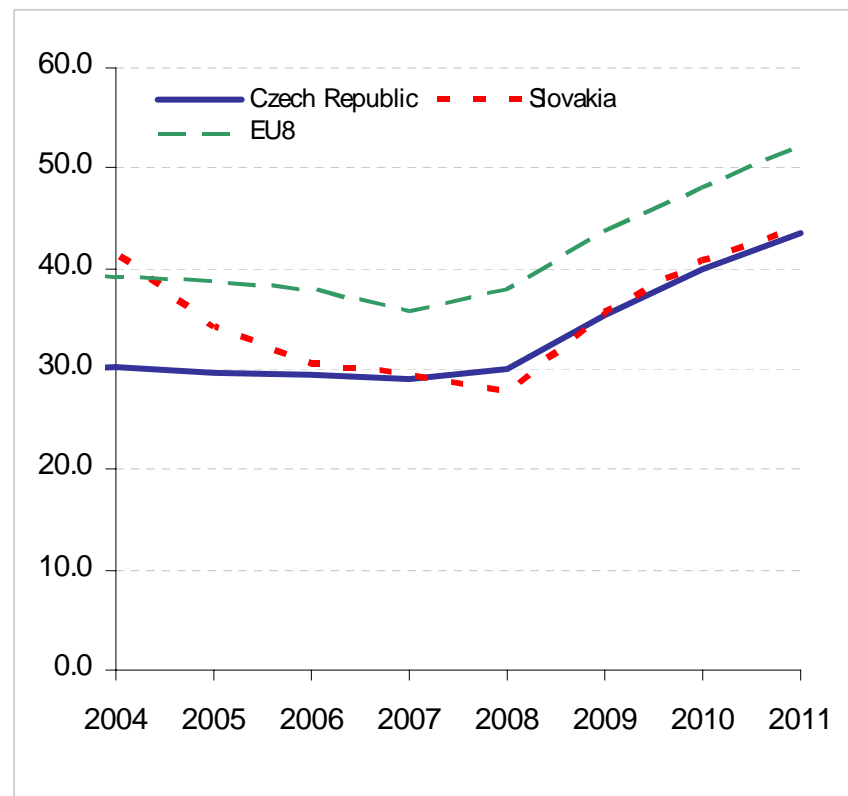
Government budget balance

(2004-2011; % of GDP)



Government gross debt

(2004-2011; % of GDP)



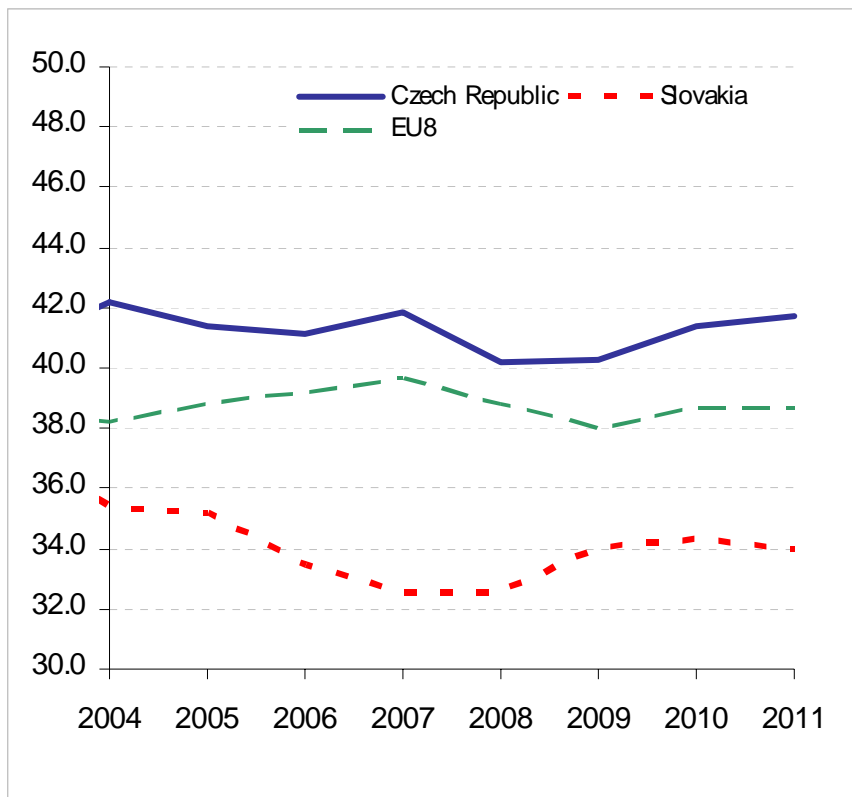
Sources: Spring 2010 European Commission Economic Forecasts and ECB calculations.

Note: The EU8 aggregate comprises non-euro countries of the new member states, namely Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, and Romania.

Government revenue and expenditure

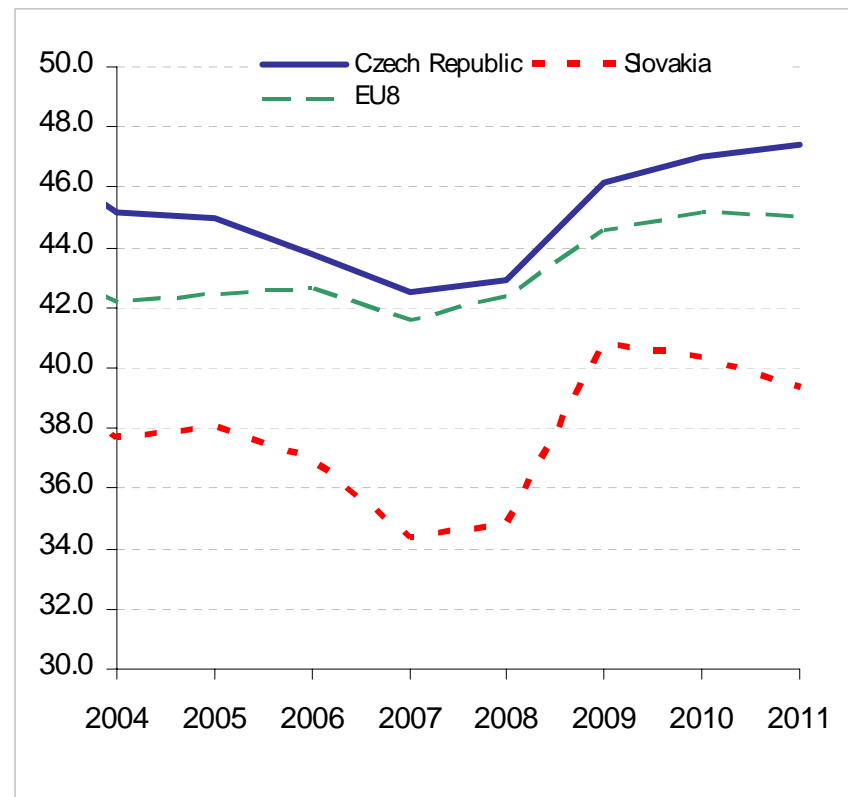
Government revenue

(2004-2011; % of GDP)



Government expenditure

(2004-2011; % of GDP)



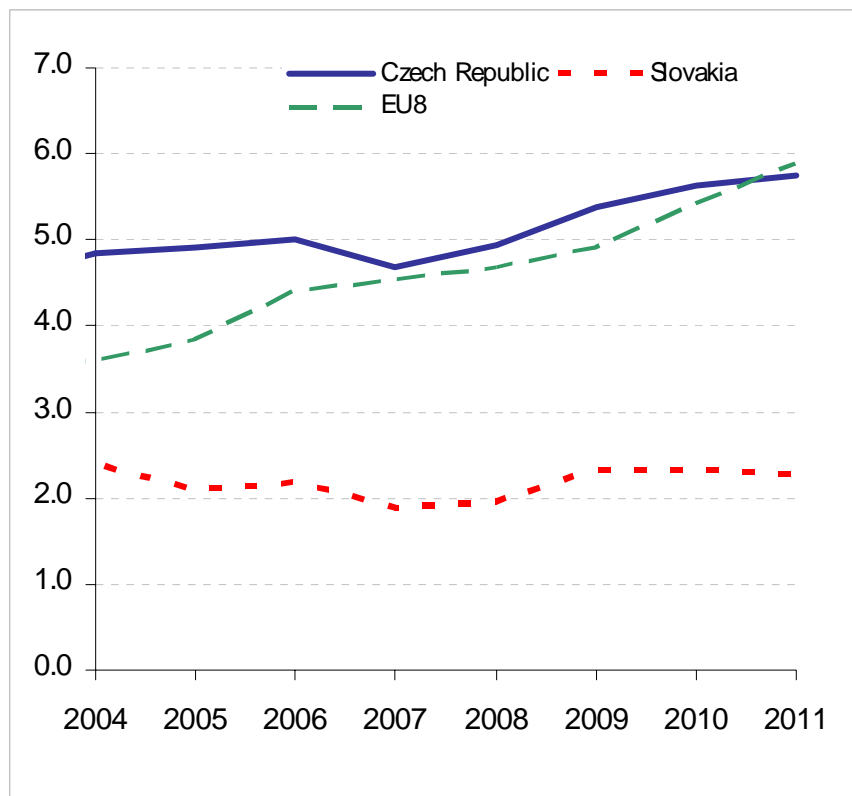
Sources: Spring 2010 European Commission Economic Forecasts and ECB calculations.

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Government investment and intermediate consumption

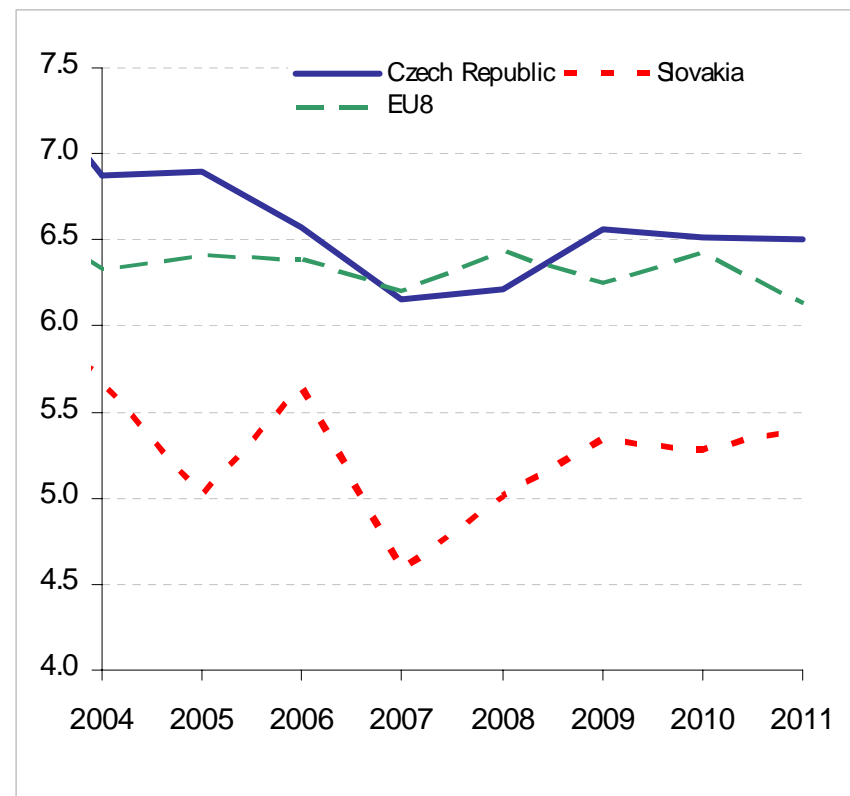
Government investment expenditure

(2004-2011; % of GDP)



Intermediate consumption

(2004-2011; % of GDP)



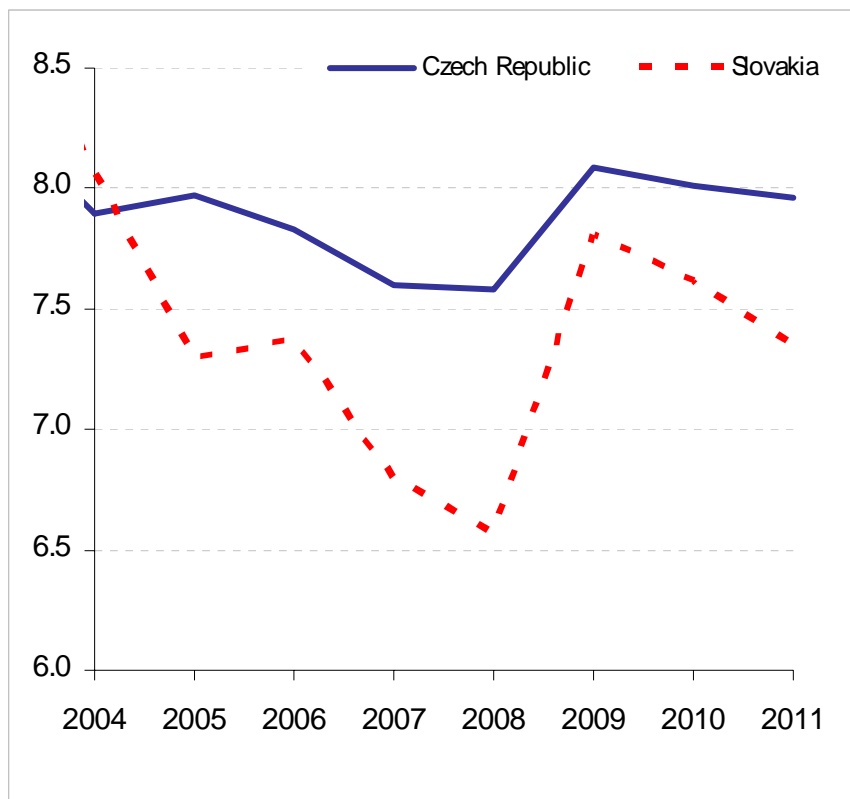
Sources: Spring 2010 European Commission Economic Forecasts and ECB calculations.

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Government employment

Compensation of employees

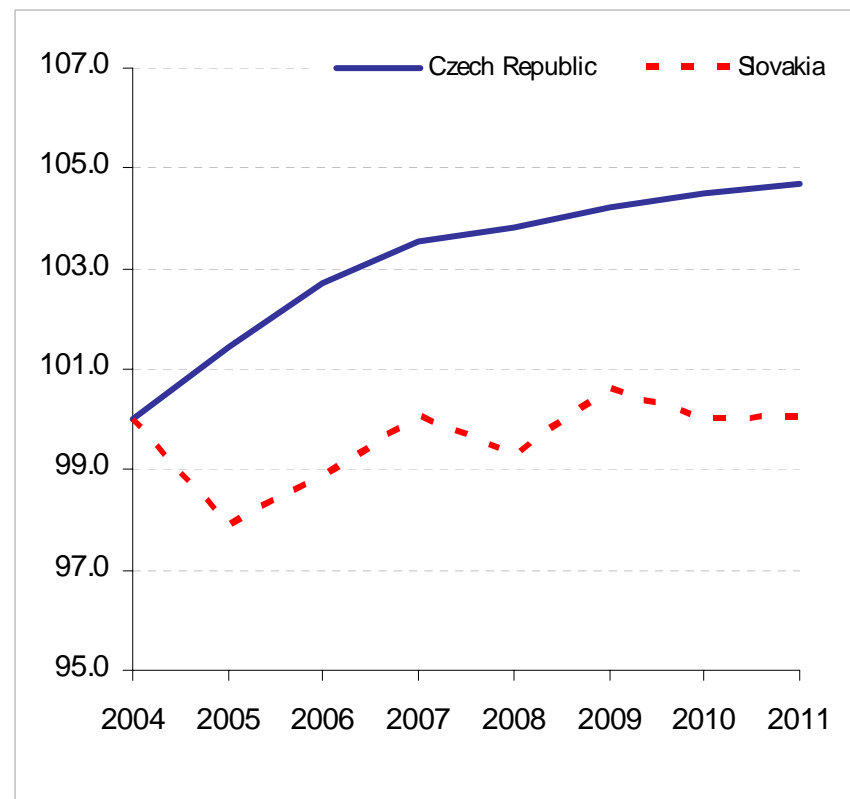
(2004-2011; % of GDP)



Source: Spring 2010 European Commission Economic Forecasts.

Number of general government employees

(2004-2011; index: 2004 = 100)



Sources: OECD Economic Outlook (June 2010) and ECB calculations.

Expenditure efficiency scores

Low scores in tertiary education and health for both countries

Expenditure efficiency scores: country rankings

	Total	CZ	SK
Tertiary education ¹⁾	28	23	24
Health ²⁾	21	18	20

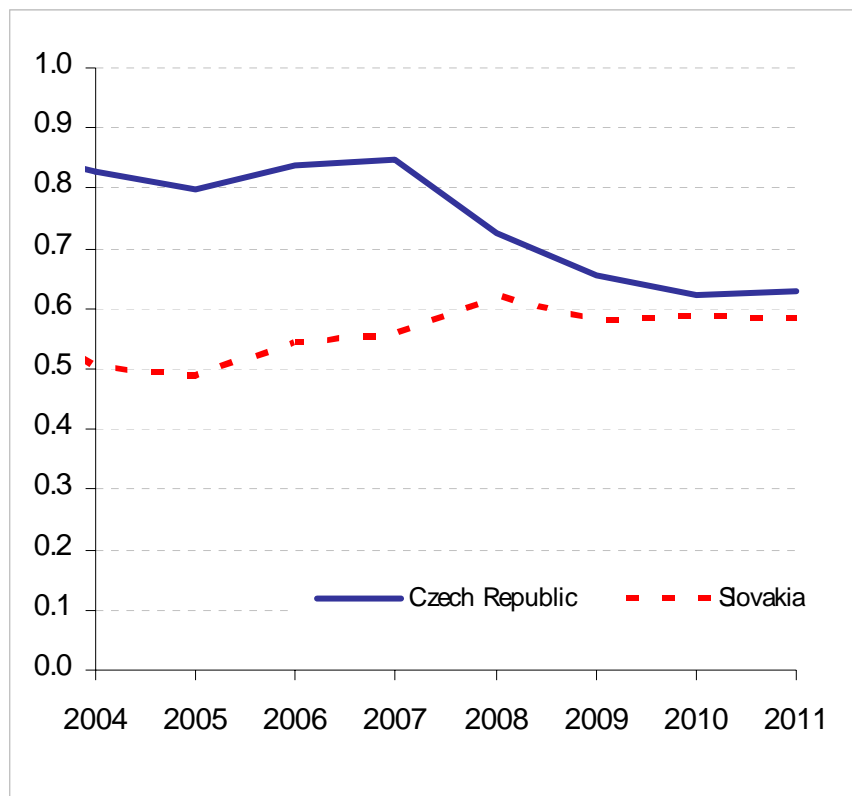
1) St. Aubyn, Pina, Garcia, Pais, European Economy Ec Paper 390, 2009, Tbl 6

2) Afonso, St. Aubyn, ISEG WP 2006-33, Tbl 5

Revenue sources and tax wedge

Financing with direct vs. indirect tax

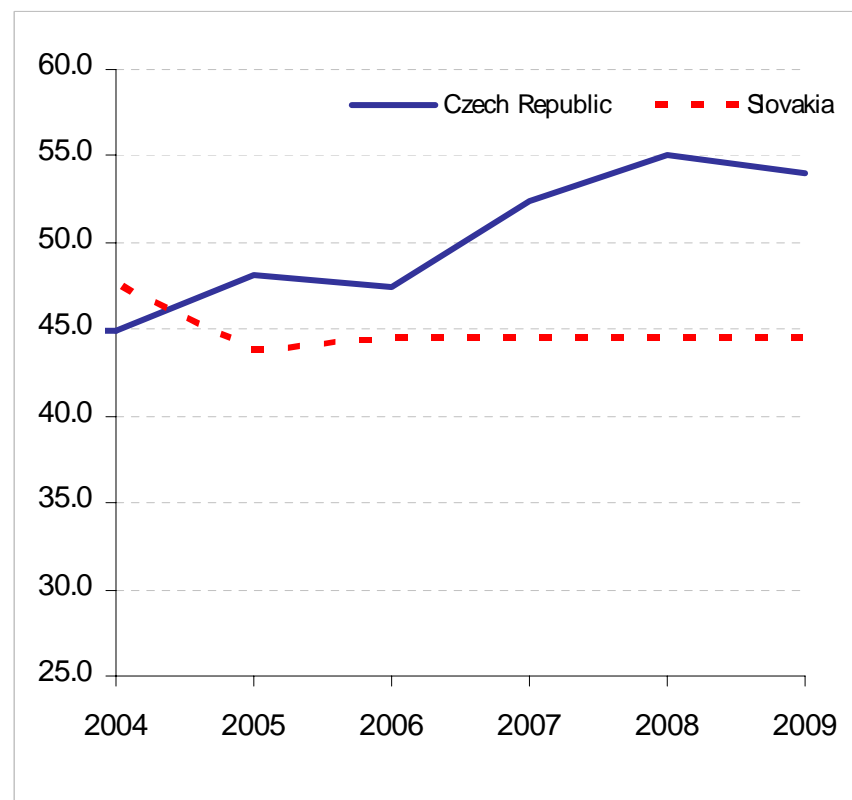
(2004-2011; ratio of direct taxes over indirect taxes)



Source: Spring 2010 European Commission Economic Forecasts.

Marginal tax wedge ¹⁾

(2004-2010; %)

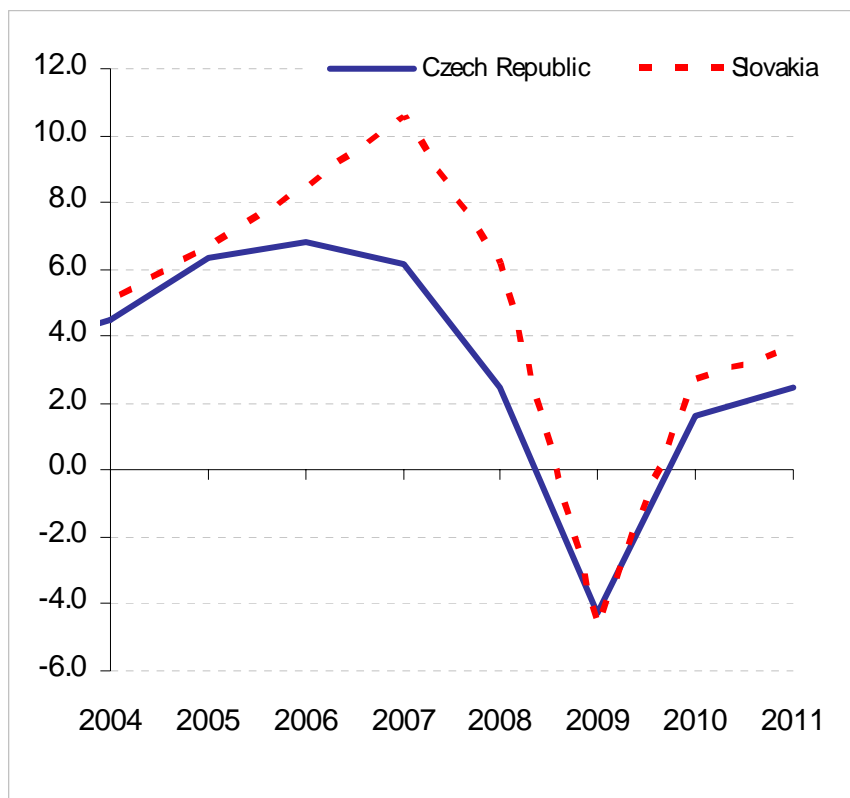


Source: OECD.

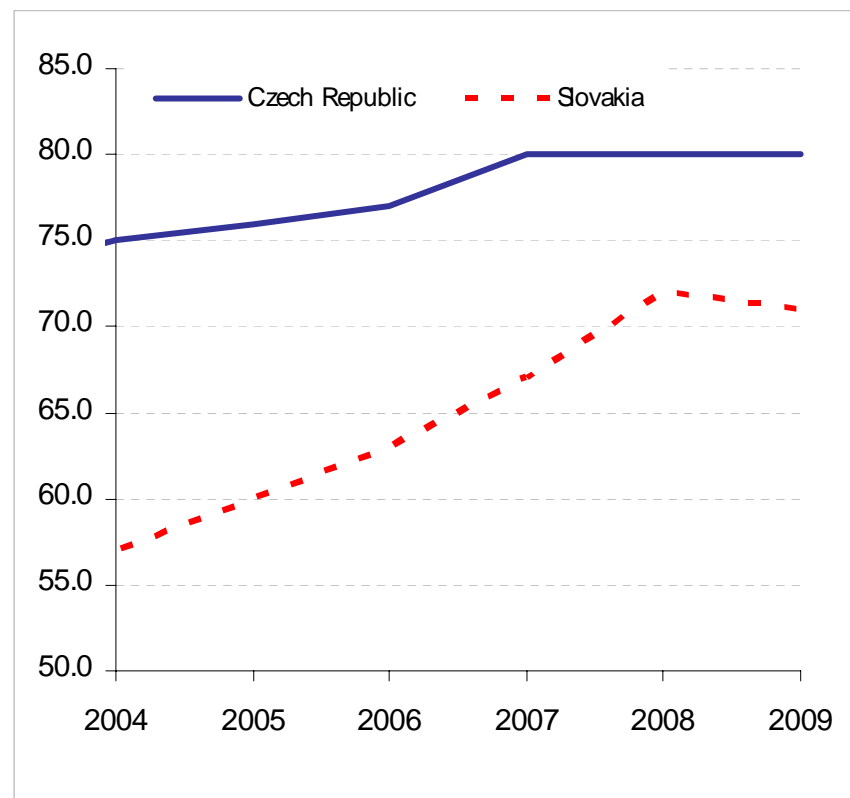
Note: 1) Two-earner married couple, one at 100% of average earnings and the other at 67 %, 2 children.

Gross Domestic Product

Real GDP growth
(2004-2011; % per annum)



GDP per capita in Purchasing Power Standards (PPS)
(2004-2009; EU-27 = 100)



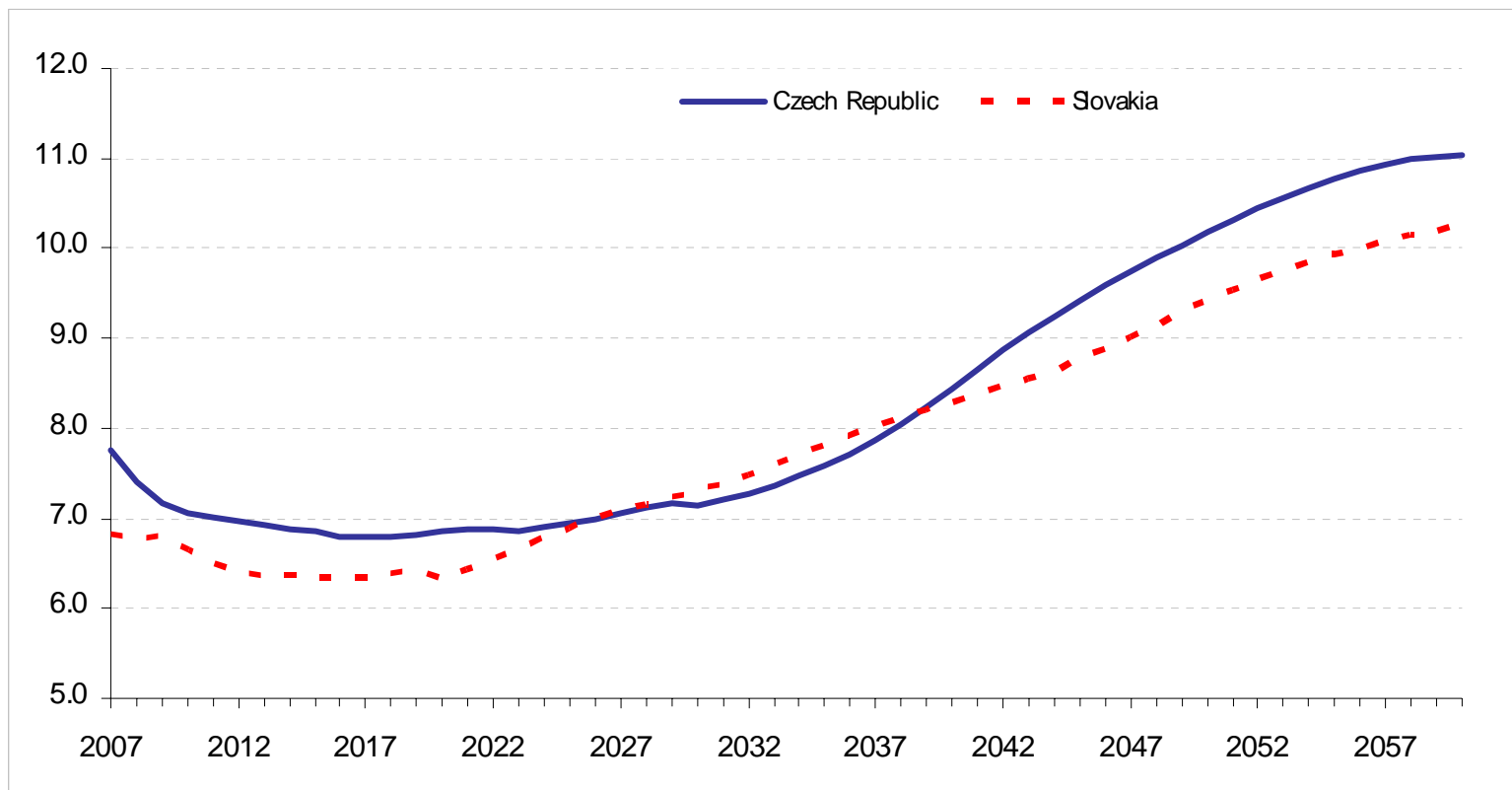
Sources: Spring 2010 European Commission Economic Forecasts and Eurostat.

Appendix

Spending on pensions

Pension expenditure

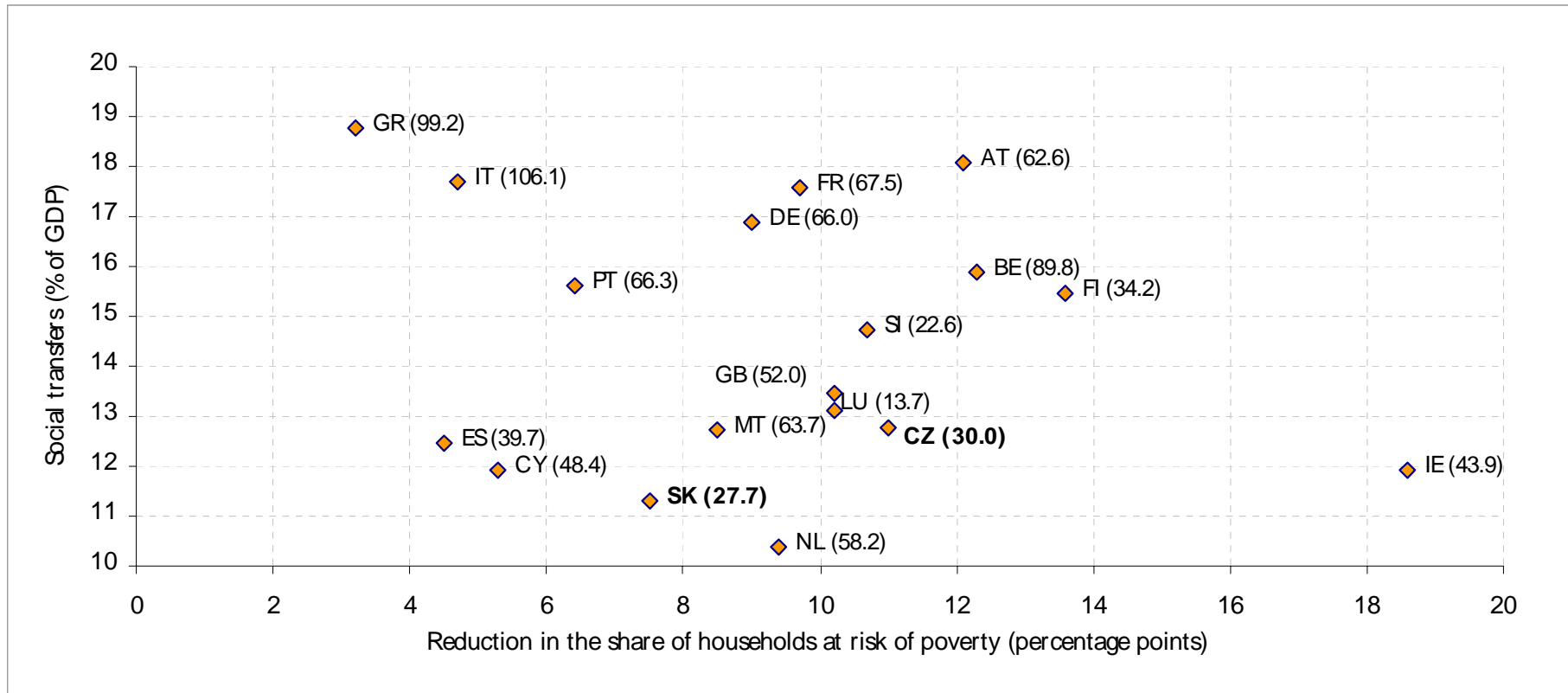
(2007-2060; % of GDP)



Source: EC Ageing Report 2009.

Social transfers efficiency

Social transfers and the reduction in the share of households at risk of poverty in 2008



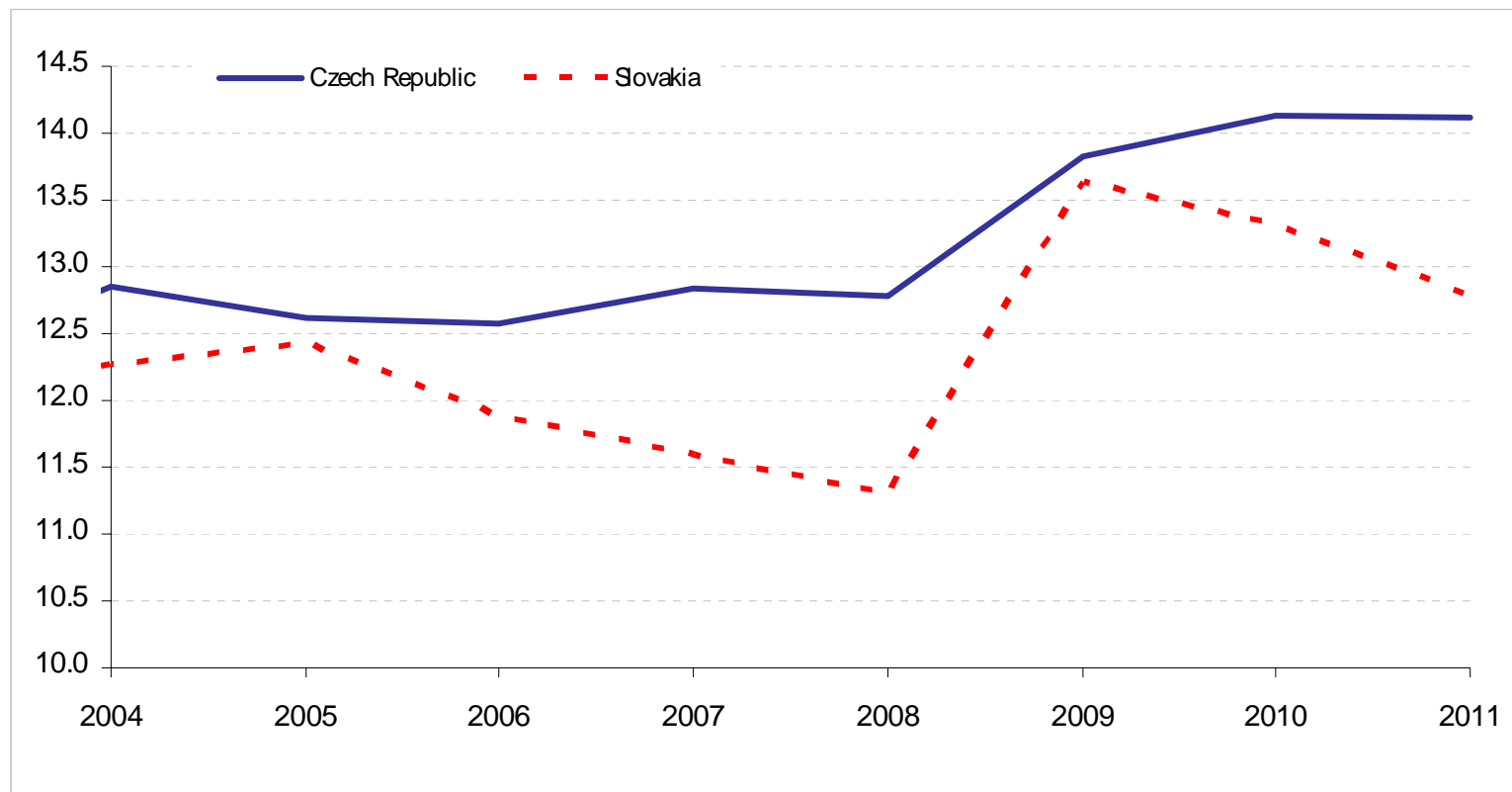
Sources: Eurostat and European Commission (AMECO database).

Notes: The labels indicate the country and its debt ratio as a percentage of GDP in 2008. Social transfers do not include social transfers in kind.

Social payments

Social benefits other than social transfers in kind

(2009-2011; % of GDP)



Sources: Spring 2010 European Commission Economic Forecasts.

Fiscal rules

Assessed against cross-country indicators measuring the strength of the fiscal framework:

- **the Czech Republic ranks “very close to the EU average”**
- **Slovakia scores “below the EU average”**

(EC assessment of the 2010 convergence/stability programme update)

CZ:

- **Since 2004 => medium-term budgetary framework including annual ceilings for nominal expenditure for the state budget over three years**
- **Main weaknesses:** low enforceability, limited ex-post monitoring, operational complexity and limited public scrutiny of the whole process.

SK:

- **Since 2005 => medium term budgetary framework based on tri-annual planning cycles.**
- **Three fiscal rules on central government expenditure, golden rule and borrowing of local governments.**
- **Main weaknesses:**
 - indicative and non-binding nature of the multiannual expenditure targets. Very sizeable revisions to targets are allowed and observed in practice.
 - no independent institution to provide inputs in the budget process and monitor fiscal developments