

Fiscal Reforms in the New Members States

1st LANCUT Conference *Rzeszow*



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Outline

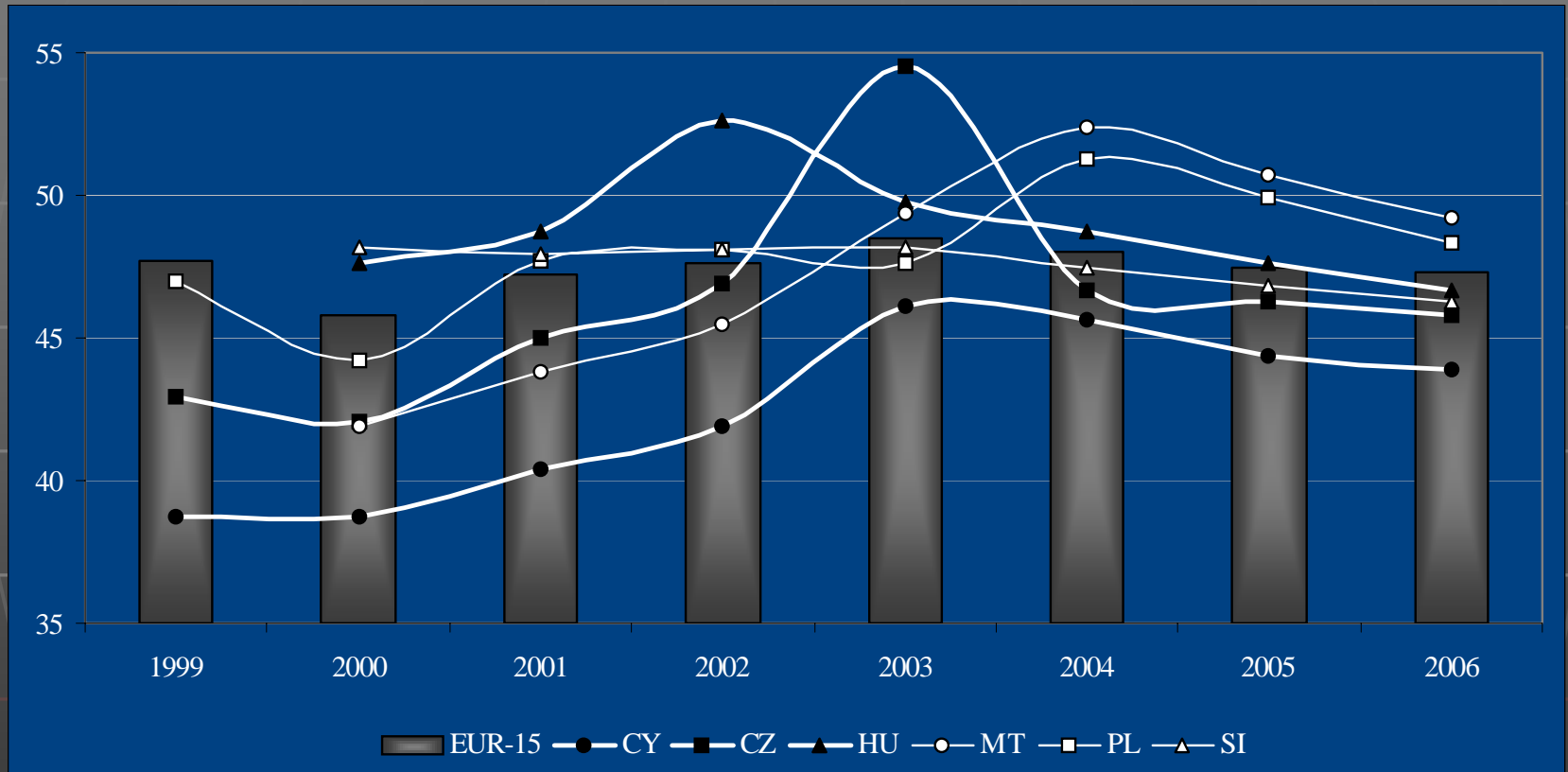
- I. Hypothesis
 - 2 groups of countries
- II. Evidence
 - Basic facts
 - Reform efforts
 - Evidence from PEPs & CoPrs
 - Sustainability
 - Consolidations
- III. Conclusion

I. Hypothesis

I. Hypothesis

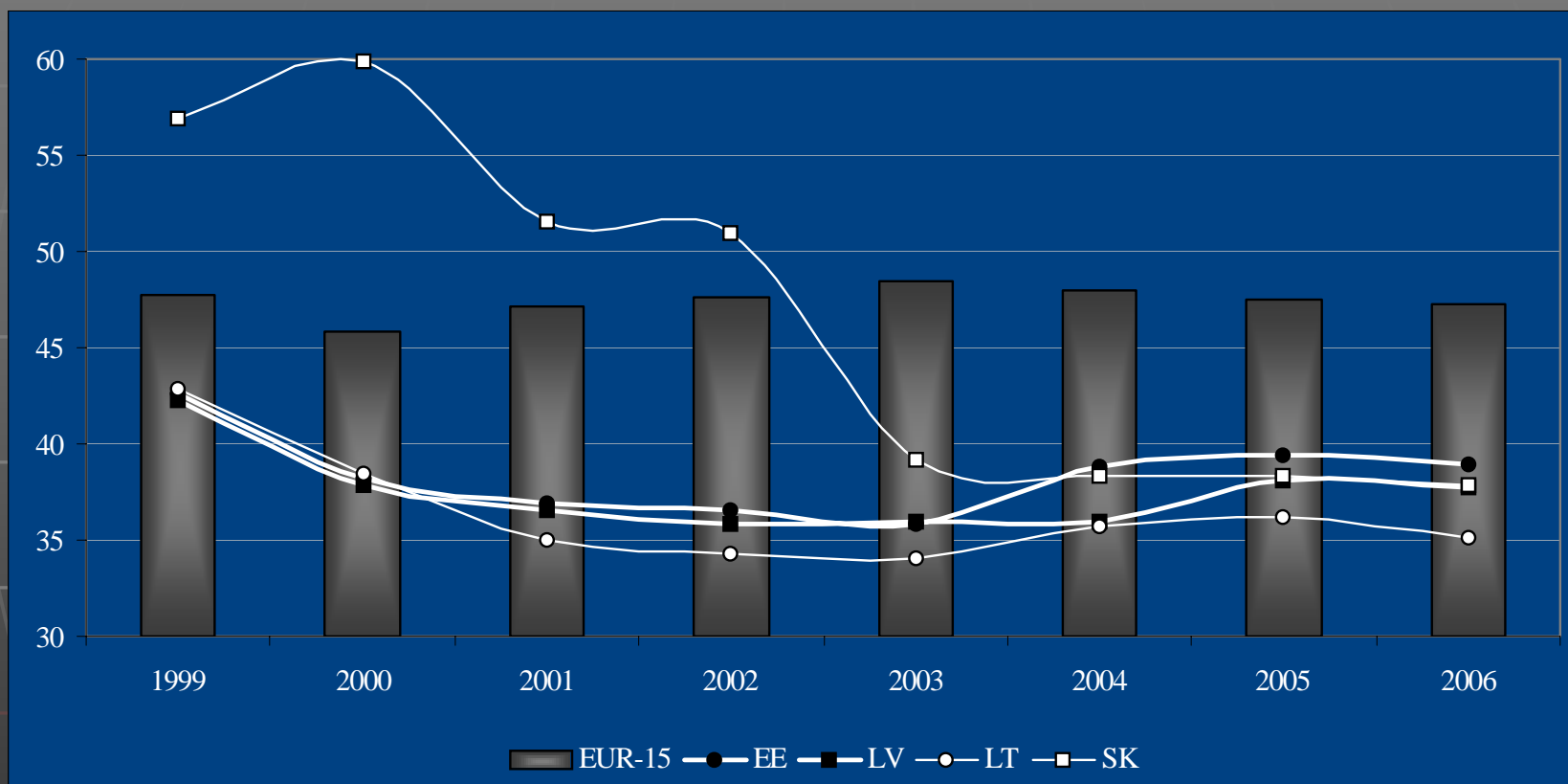
- 2 groups of countries?
 - Large government (46-52% of GDP)
Cyprus, Czech Republic, Hungary,
Malta, Poland, Slovenia
 - Small(ish) government (36-38% of GDP)
Estonia, Latvia, Lithuania,
Slovakia (since 2003)

Large government



General government expenditure in % of GDP

Small(ish) government

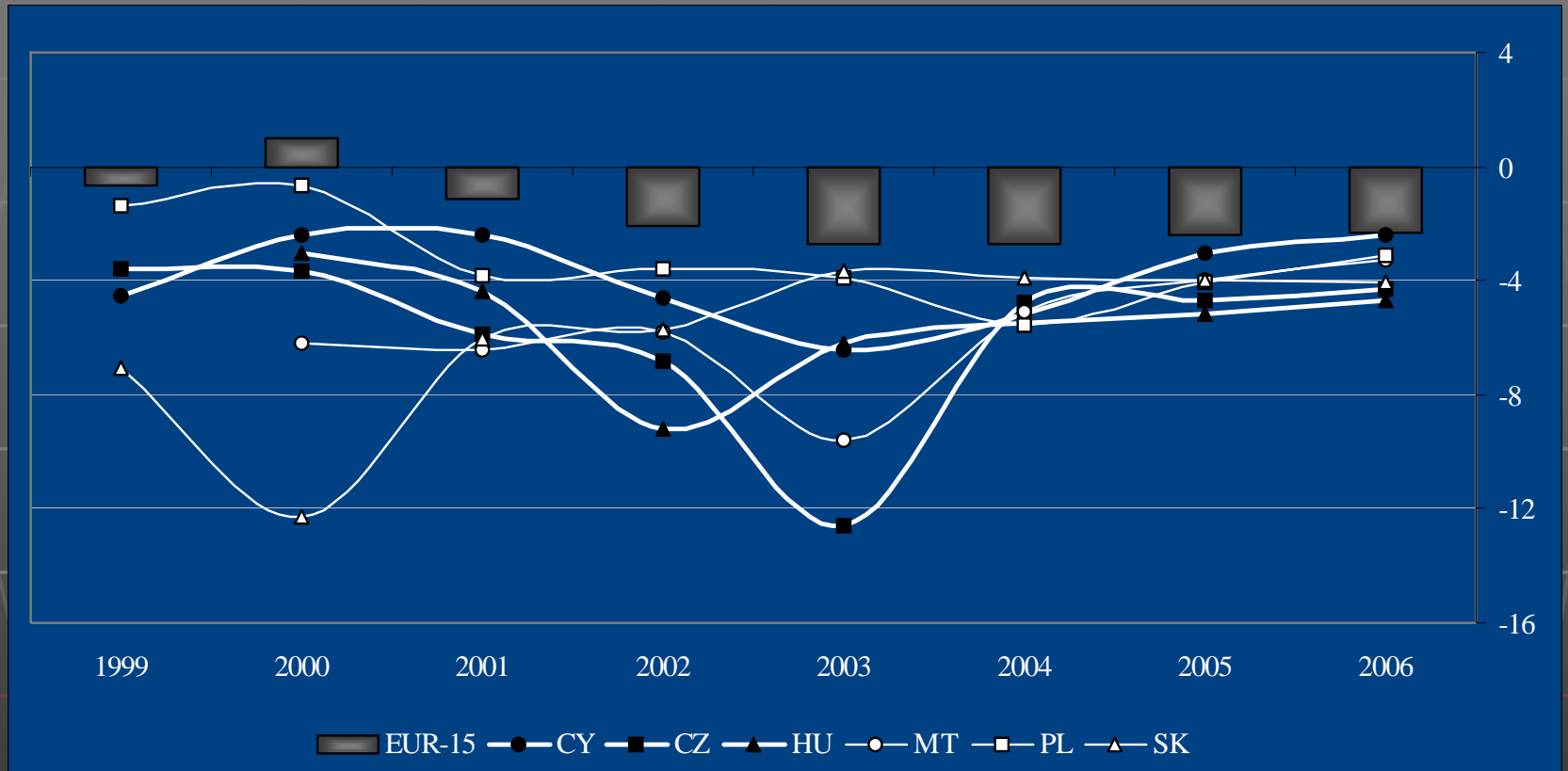


General government expenditure in % of GDP

I. Hypothesis

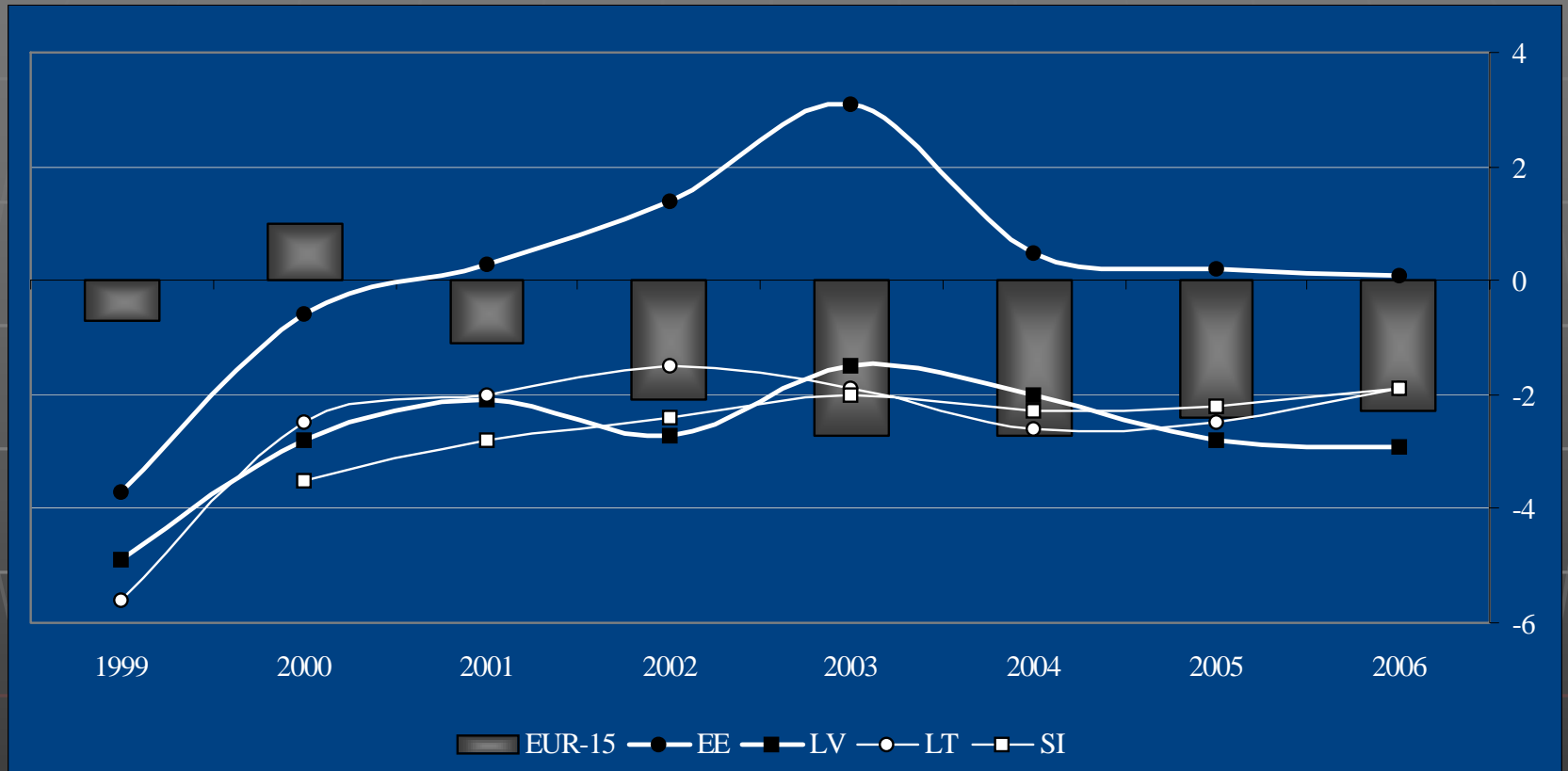
- 2 groups of countries?
 - in the breach of SGP – Excessive deficit procedure (EDP)
Cyprus, Czech Republic, Hungary, Malta, Poland, Slovakia
 - compliant with SGP (non EDP)
Estonia, Latvia, Lithuania, Slovenia

EDP



General government budget deficit in % of GDP

non EDP



General government budget deficit in % of GDP

Hypothesis

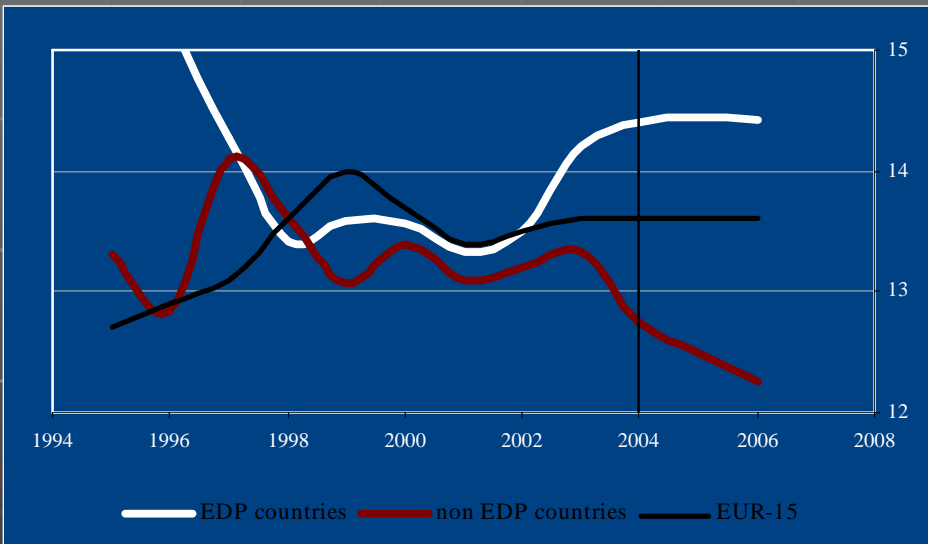
- Grouping very robust:
 - The „bad“ always are: Cyprus, Czech Republic, Hungary, Malta, Poland
 - The „good“ always are: Estonia, Latvia, Lithuania
 - Only Slovenia manages big government and low debt
 - Only Slovakia managed to cut government expenditures massively (but runs deficit)

II. Evidence

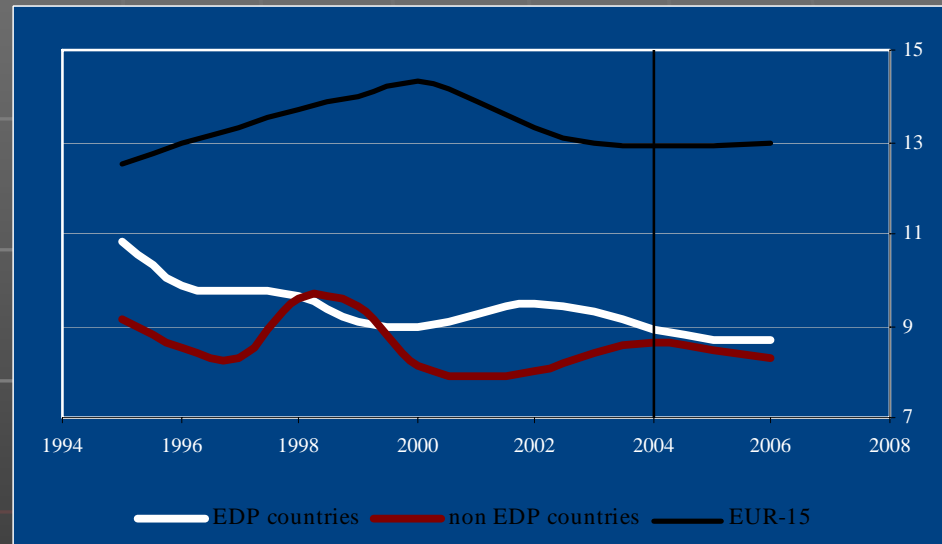
Basic facts

■ Indirect taxes

■ Direct taxes



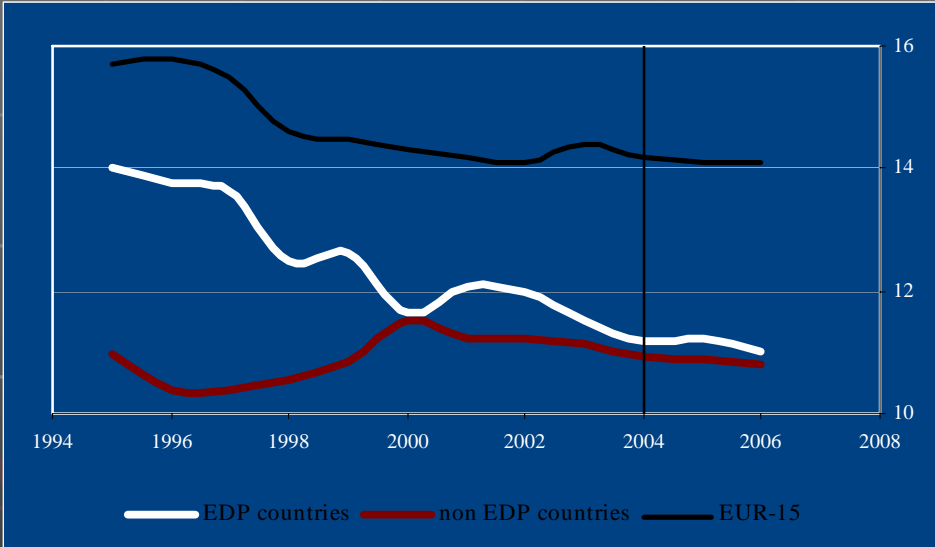
% of GDP



% of GDP

Basic facts

■ Social contributions

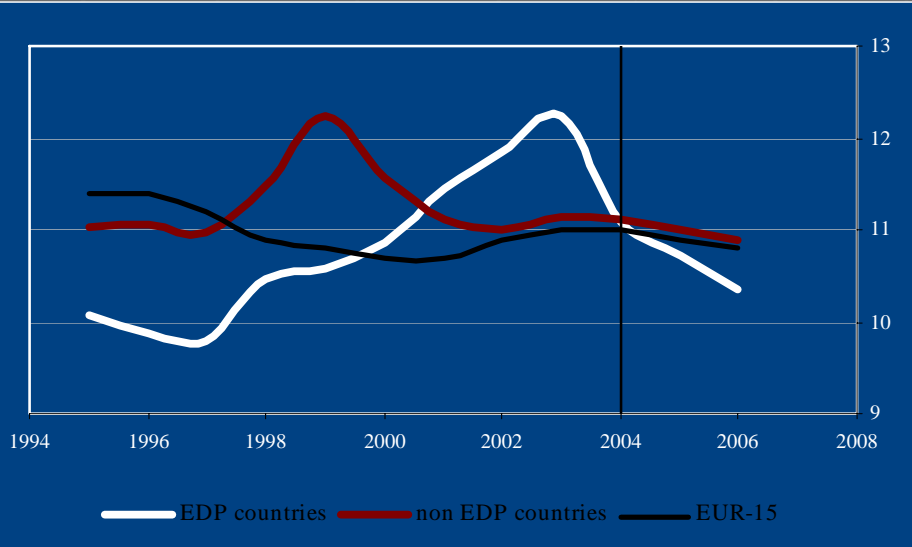


% of GDP

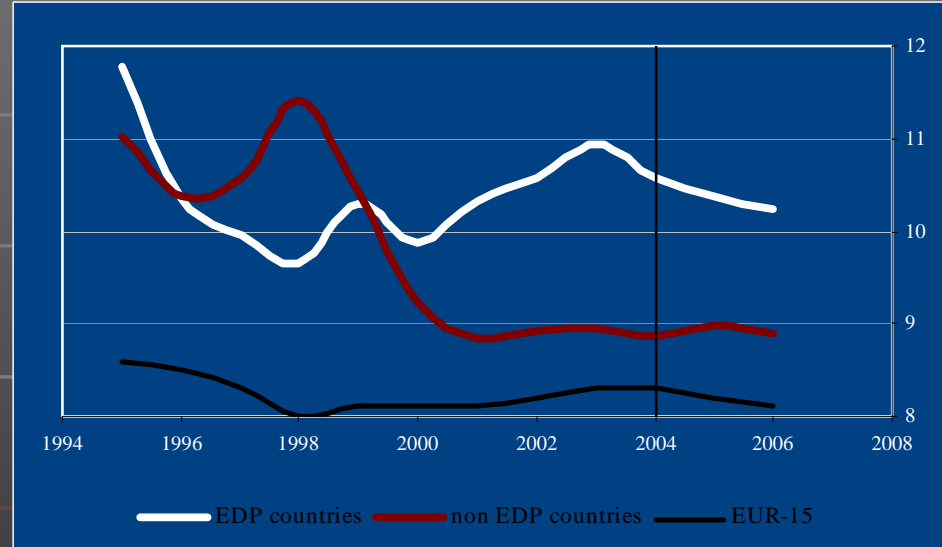
Basic facts

■ Employees' compensation

■ Collective consumption



% of GDP

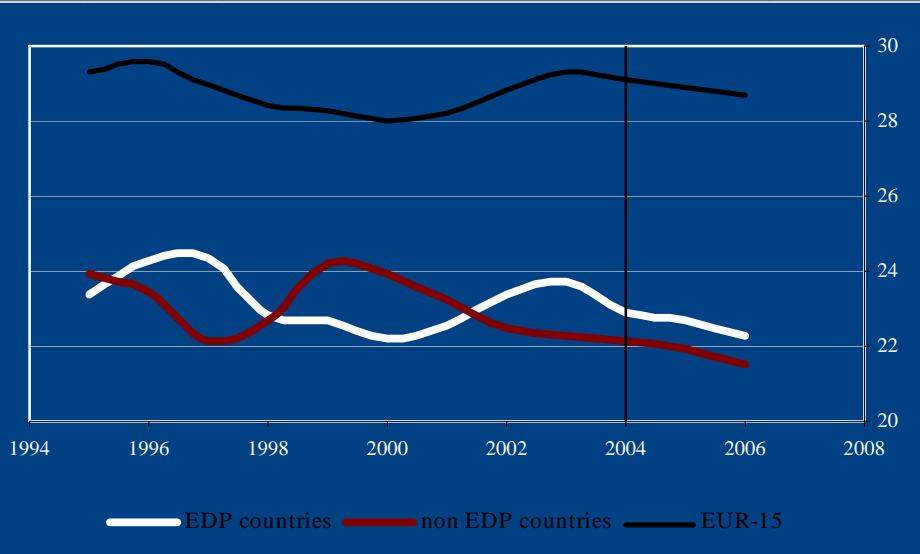


% of GDP

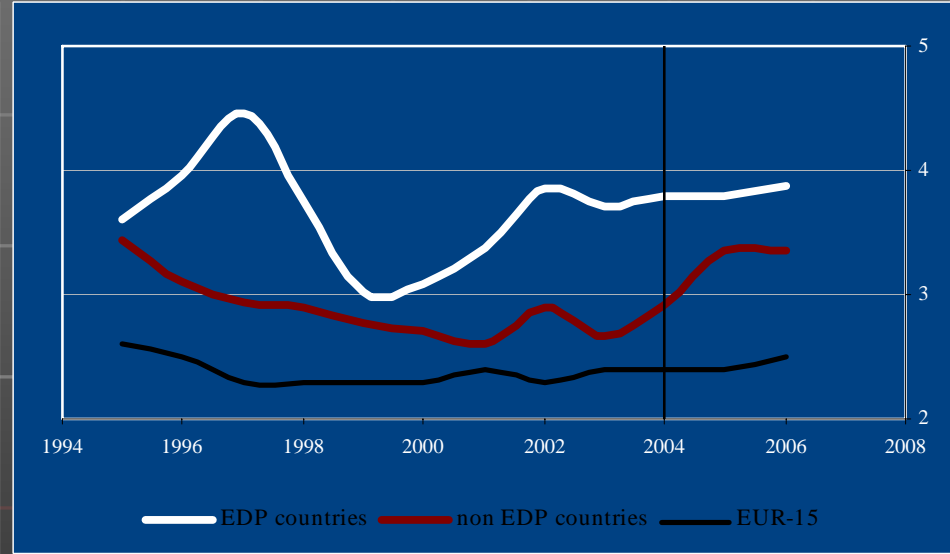
Basic facts

■ Social transfers

■ Investment



% of GDP

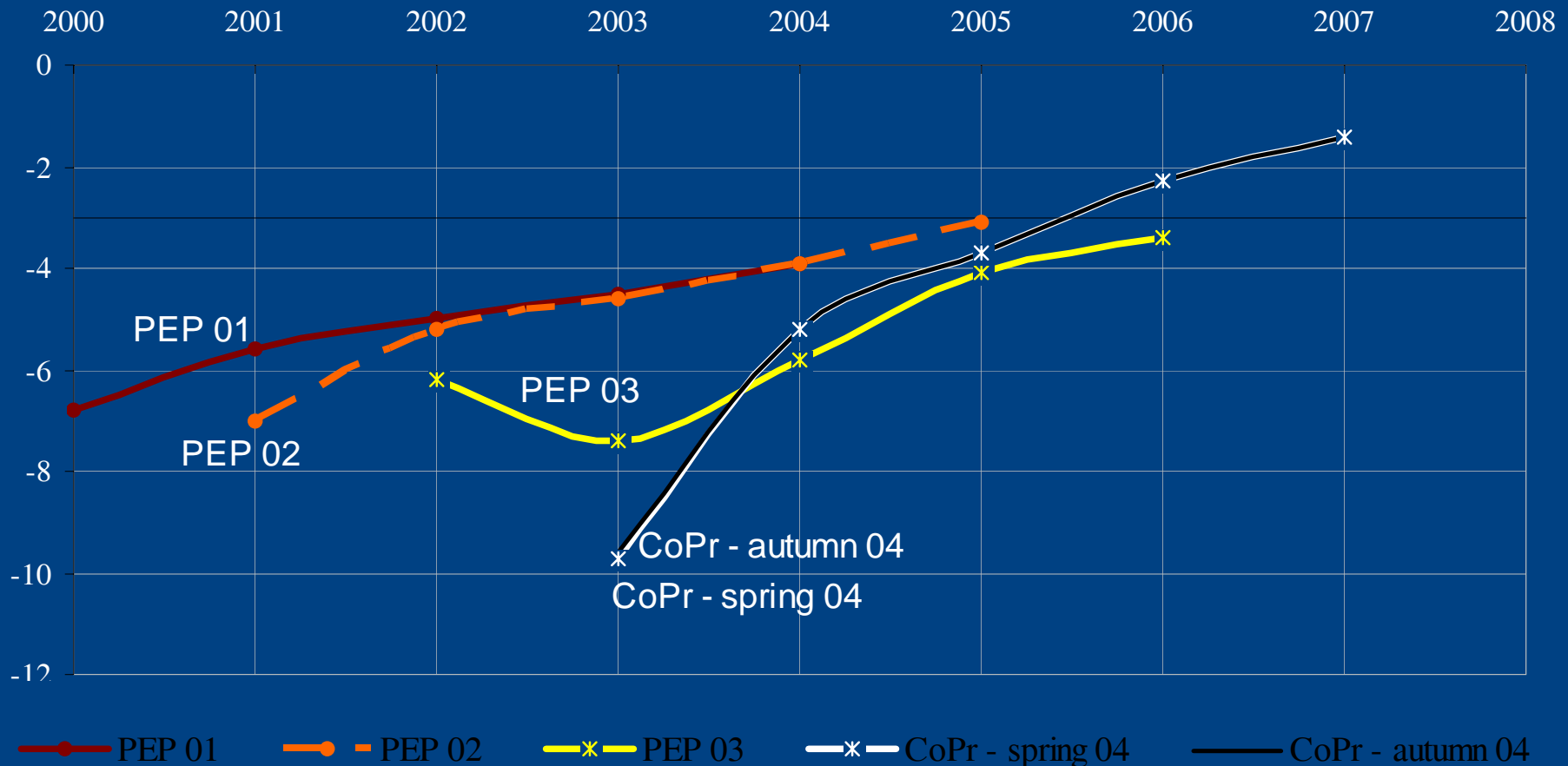


% of GDP

Evidence from PEPs & CoPrs

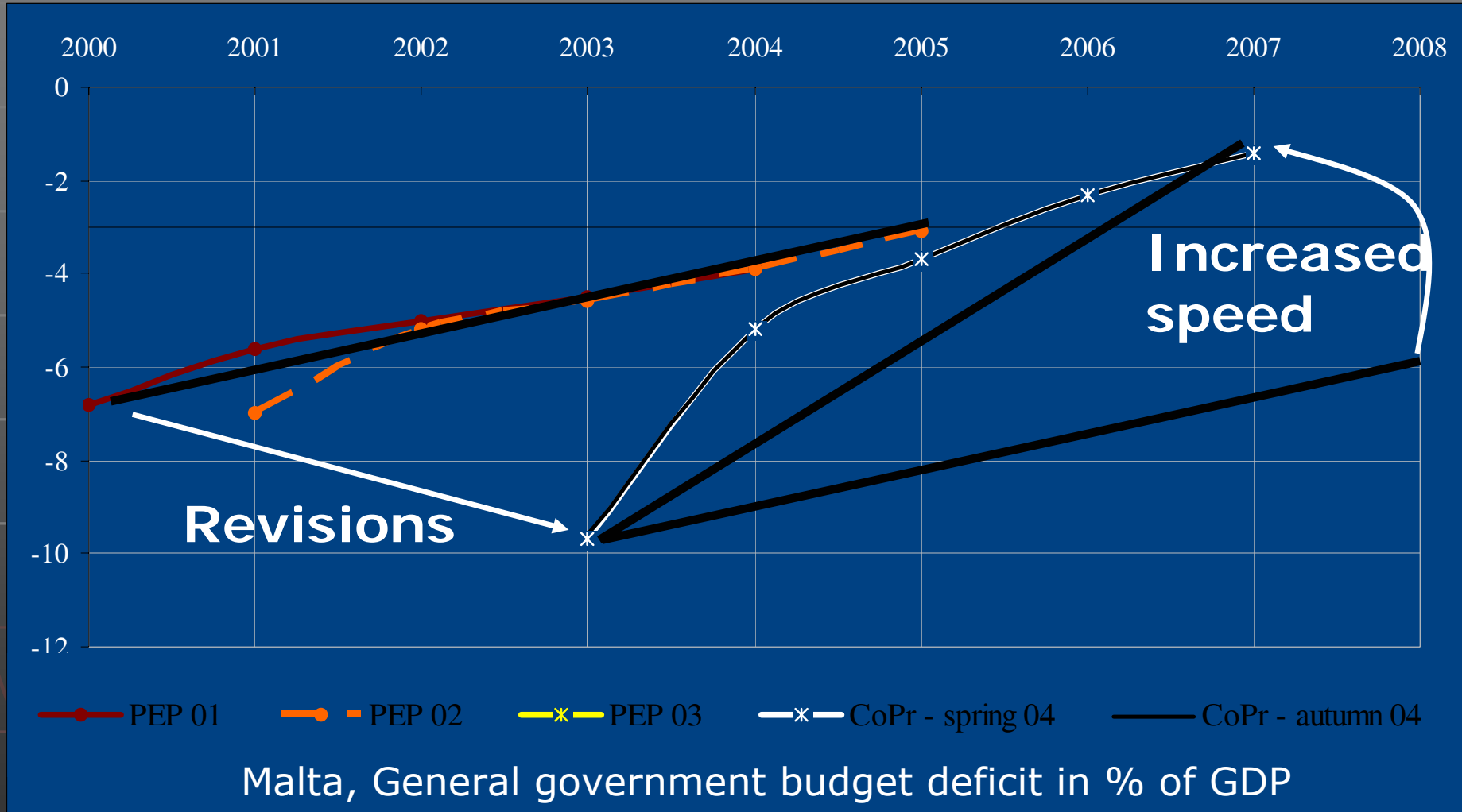
- Pre-Accession Economic Programme (PEP)
 - 2001
 - 2002
 - 2003
- Convergence Programme (CoPr)
 - Spring 2004
 - Autumn 2004

Evidence from PEPs & CoPrs



Malta, General government budget deficit in % of GDP

Evidence from PEPs & CoPrs



Sustainability

- Benchmark primary deficit

$$(r-y) \cdot b$$

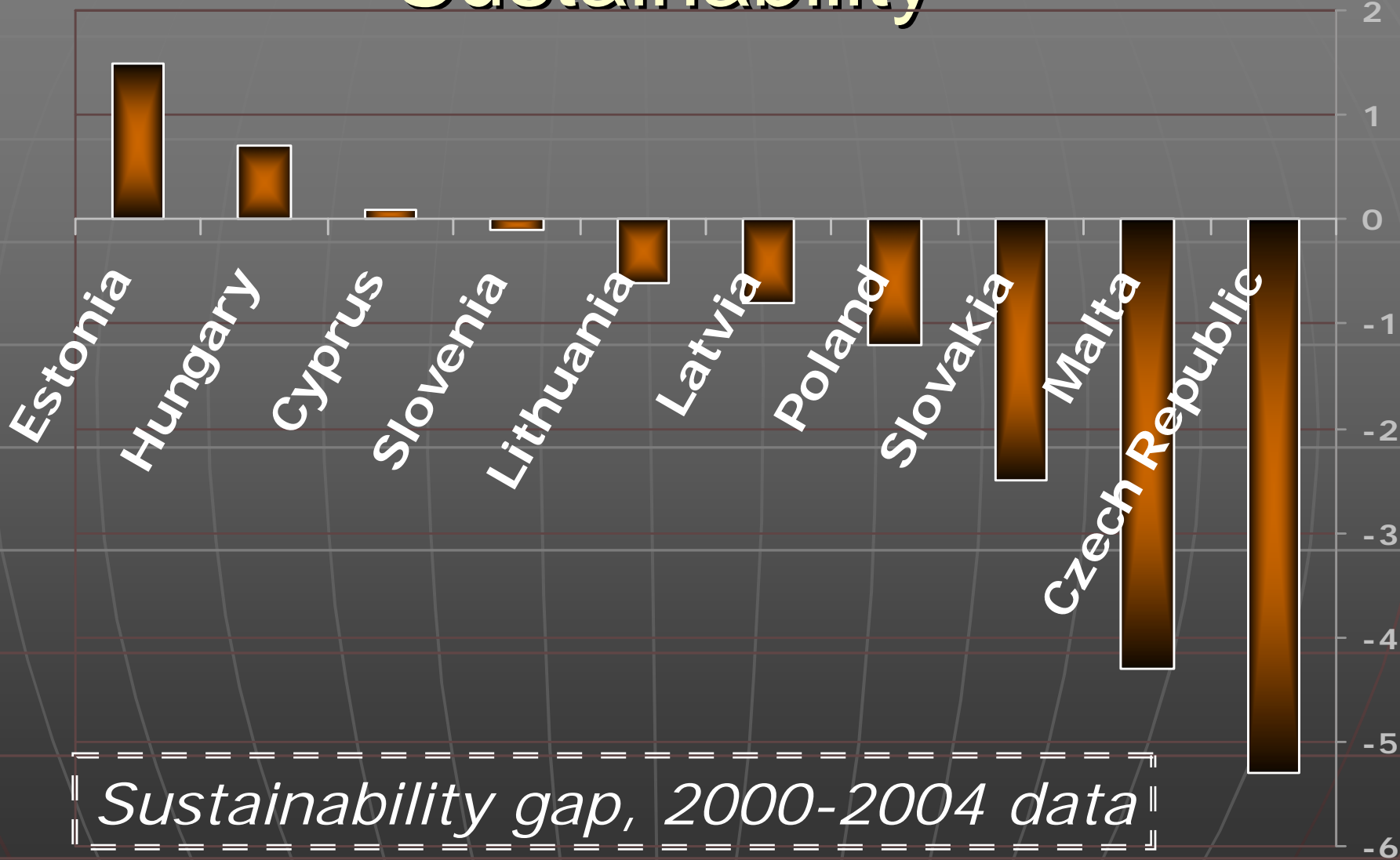
- r ... real interest rate
- y ... real growth of output
- b ... debt to GDP ratio

- Actual primary deficit based on 2000-2004

Sustainability gap as a difference

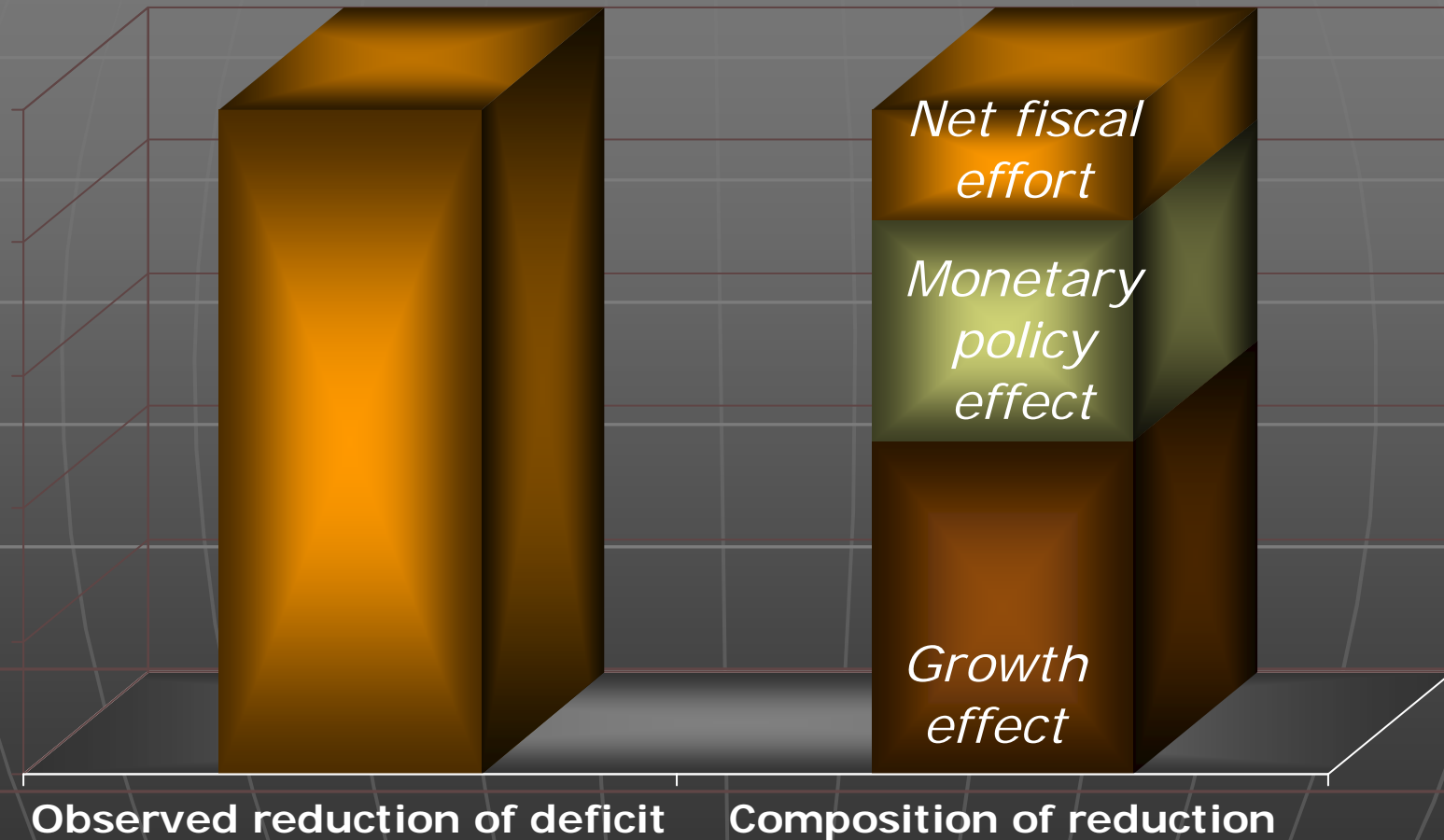
Sustainability

↑
Unsustainable / Sustainable
↓

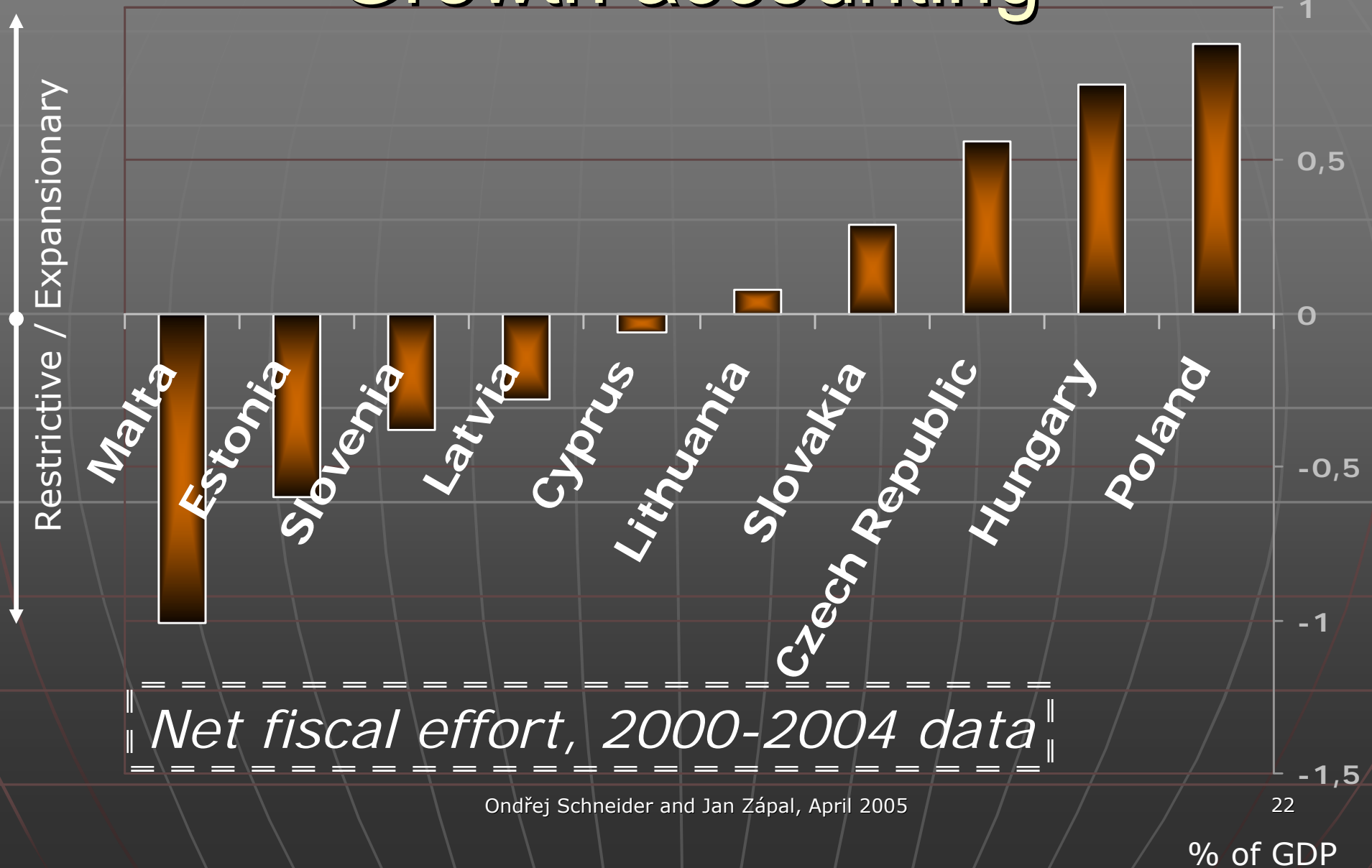


Sustainability gap, 2000-2004 data

Growth accounting

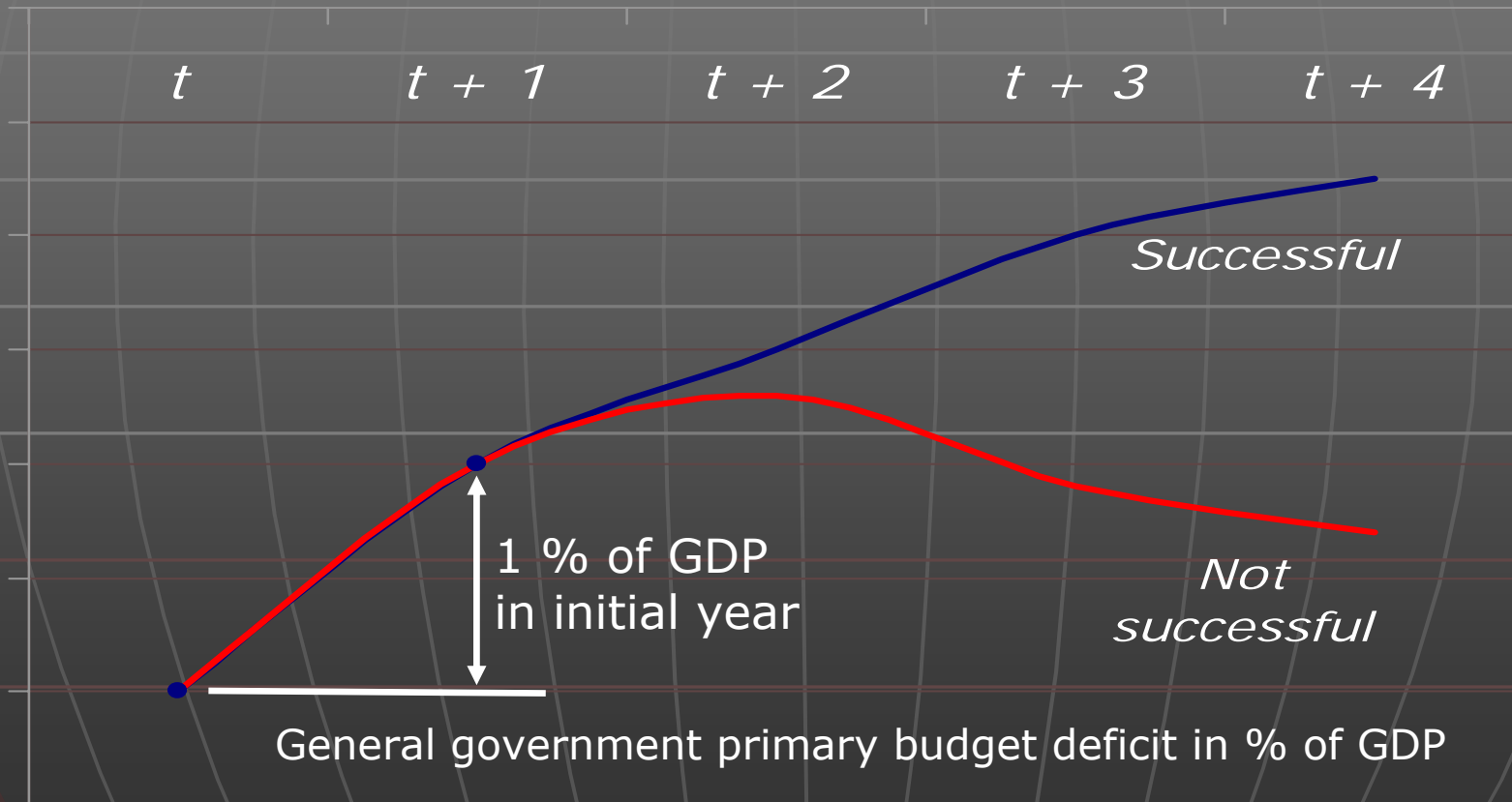


Growth accounting



Consolidations

- Definition of consolidation



Consolidations

	Deficit reduction	Total revenue	Total expenditure	Collective consumption	Employees' compensation	Social transfers	Subsidies	Investment
Successful	5,45	-2,20	-7,70	-1,50	-1,85	-1,58	-0,25	-0,30
Not successful	4,62	0,14	-4,50	-0,50	-0,44	-0,54	-0,16	-0,52

Consolidations

	Deficit reduction
Successful	5,45
Not successful	4,62

Successful consolidations reduce deficit more

Consolidations

	Deficit reduction	Total revenue
Successful	5,45	-2,20
Not successful	4,62	0,14



Successful consolidations do not rely on revenue increases

Consolidations

	Deficit reduction	Total revenue	Total expenditure
Successful	5,45	-2,20	-7,70
Not successful	4,62	0,14	-4,50

Successful consolidations rely on expenditure cuts

Consolidations

	expenditure	Collective consumption	Employees' compensation	Social transfers	Subsidies	Investment
Successful	<p>Successful consolidations rely on <u>painful</u> expenditure cuts</p> 	-1,50	-1,85	-1,58	-0,25	-0,30
Not successful		-0,50	-0,44	-0,54	-0,16	-0,52

Consolidations



Planned consolidations

	Deficit reduction	Total revenue	Total expenditure	Employees' compensation
Consolidations pre EU accession - realized	4,86	-0,53	-5,41	-0,84
Consolidations post EU accession - planned	5,28	1,75	-3,53	-1,27

Planned consolidations

	Deficit reduction	
Consolidations pre EU accession - realized	4,86	Post EU accession consolidations aim for deeper deficit reduction
Consolidations post EU accession - planned	5,28	

Planned consolidations

	Deficit reduction	Total revenue
Consolidations pre EU accession - realized	4,86	-0,53
Consolidations post EU accession - planned	5,28	1,75

Post EU accession consolidations rely heavily on revenue increases

Planned consolidations

		Total expenditure	Employees' compensation
Consolidations pre EU accession - realized	Post EU accession consolidations rely less on expenditure cuts	-5,41	-0,84
Consolidations post EU accession - planned		-3,53	-1,27

Planned consolidations

		Employees' compensation
Consolidations pre EU accession - realized	... but bureaucrats will not be happy	-0,84
Consolidations post EU accession - planned		-1,27

Reform efforts

- NMS differ in their reform efforts
- Main reforms: pensions, health care, tax, fiscal decentralisation, budgetary rules and procedures
- Most reform minded: Estonia, Slovakia
- Almost no reforms: Hungary, Czech Republic

Reform efforts

- Pension system reforms

	2. pillar introduction
Cyprus	-
Czech Republic	-
Estonia	2002
Latvia	2001
Lithuania	2004
Hungary	1998
Malta	-
Poland	1999
Slovenia	2000
Slovakia	2005

Reform efforts

- Health care reforms

	Reform
Cyprus	YES
Czech Republic	NO
Estonia	YES
Latvia	YES
Lithuania	YES
Hungary	NO
Malta	YES
Poland	YES
Slovenia	YES
Slovakia	YES

III. Conclusion

Ranking fiscal policies

- 14 criteria
 - Reform efforts
 - Consolidation success
 - Sustainability gap
 - Dependency ratios
 - EDP
 - Revisions
 - ... etc.

Ranking fiscal policies

Sub-index no.1

Reform efforts

- *Pension reform*
- *Health care reform*
- *Fiscal stance*
- *Consolidation*

	Rank
Slovakia	10
Estonia	9
Slovenia	8
Latvia	7
Malta	6
Lithuania	5
Poland	4
Cyprus	3
Hungary	2
Czech Republic	1

Ranking fiscal policies

Sub-index no.2

Ageing impact

- *Dependency ratio*
- *Fertility*
- *Room to rise tax*
- *Discretion*

	Rank
Estonia	10
Cyprus	9
Slovakia	8
Latvia	7
Lithuania	6
Hungary	5
Poland	4
Slovenia	3
Malta	2
Czech Republic	1

Ranking fiscal policies

Sub-index no.3

Fiscal functions

- *Stabilization*
- *Fiscal stance*
- *Consolidation*

	Rank
Malta	9
Estonia	9
Slovakia	8
Slovenia	7
Lithuania	6
Cyprus	4
Latvia	4
Poland	3
Czech Republic	2
Hungary	1

Ranking fiscal policies

Sub-index no.4

Past behavior

- *EDP*
- *Revisions*
- *Speed*
- *Sustainability*
- *Fiscal stance*
- *Stabilizations*

	Rank
Estonia	10
Latvia	7
Lithuania	7
Slovenia	7
Slovakia	6
Cyprus	5
Hungary	4
Malta	3
Poland	2
Czech Republic	1

Ranking fiscal policies

OVERALL INDEX	Rank
Estonia	10
Slovakia	9
Latvia	8
Lithuania	7
Cyprus	6
Slovenia	5
Poland	4
Hungary	3
Malta	2
Czech Republic	1

**Thank You for Your
attention**

We welcome any comment