



INEKO

Institute for Economic and Social Reforms

Public finance consolidation in Slovakia

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Webinar on Public Finance Consolidation

Most important problems

Most important issues faced by the country (Eurobarometer, Nov-2014)

Czech Republic	Hungary	Poland	Slovakia
Unemployment (40%)	Unemployment (50%)	Unemployment (54%)	Unemployment (57%)
Government debt (27%)	Economic situation (30%)	Health care system (25%)	Economic situation (31%)
Rising prices/Inflation (24%)	Health care system (21%)	Rising prices/Inflation (19%)	Health care system (23%)
Economic situation (20%)	Rising prices/Inflation (20%)	Pensions (19%)	Rising prices/Inflation (21%)
Crime (20%)	Government debt (13%)	Economic situation (17%)	Pensions (13%)
Pensions (17%)	Pensions (13%)	Government debt (11%)	Government debt (11%)

Gross public debt (% GDP, 2014, Source: Eurostat)

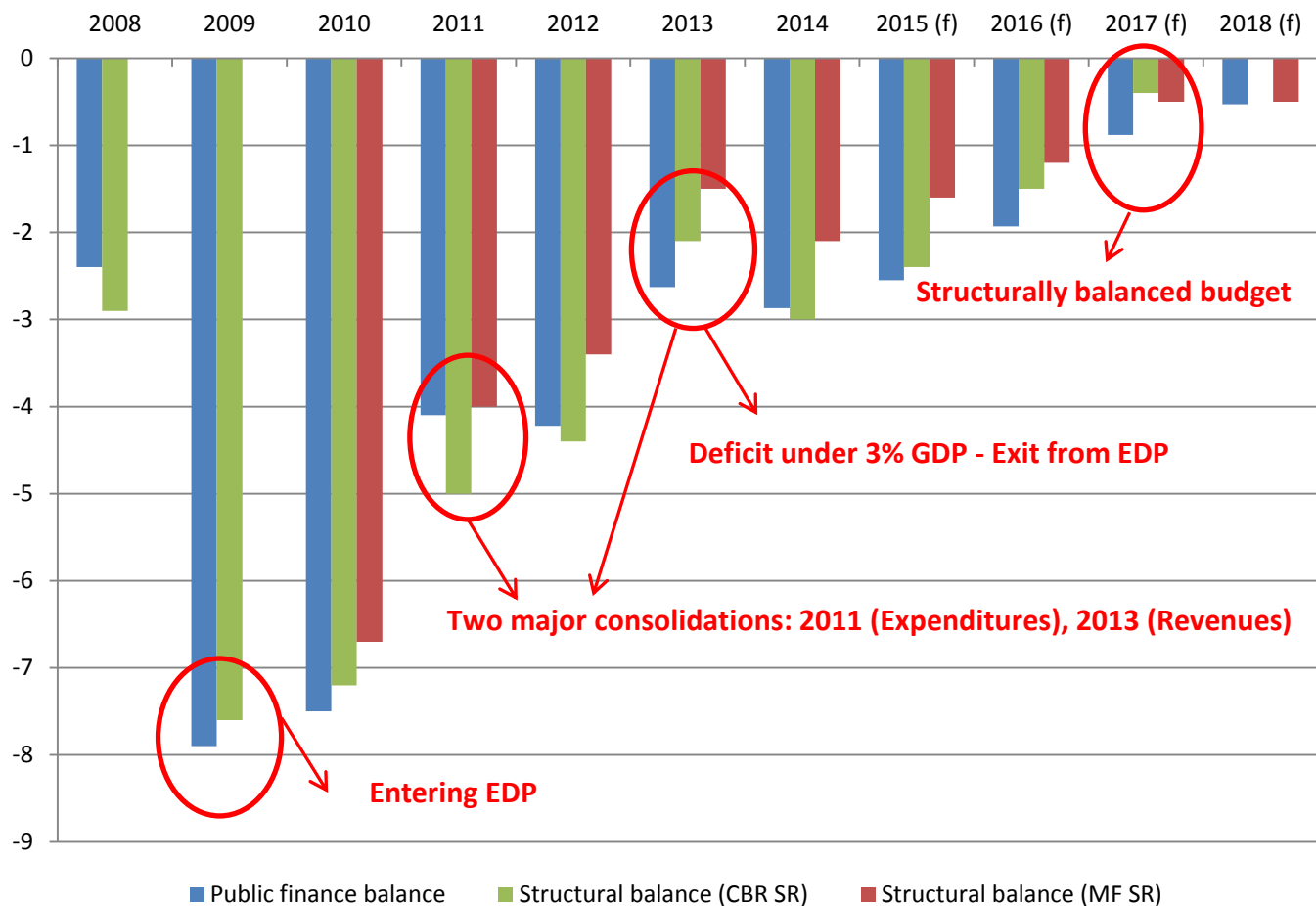
42.6

76.9

50.1

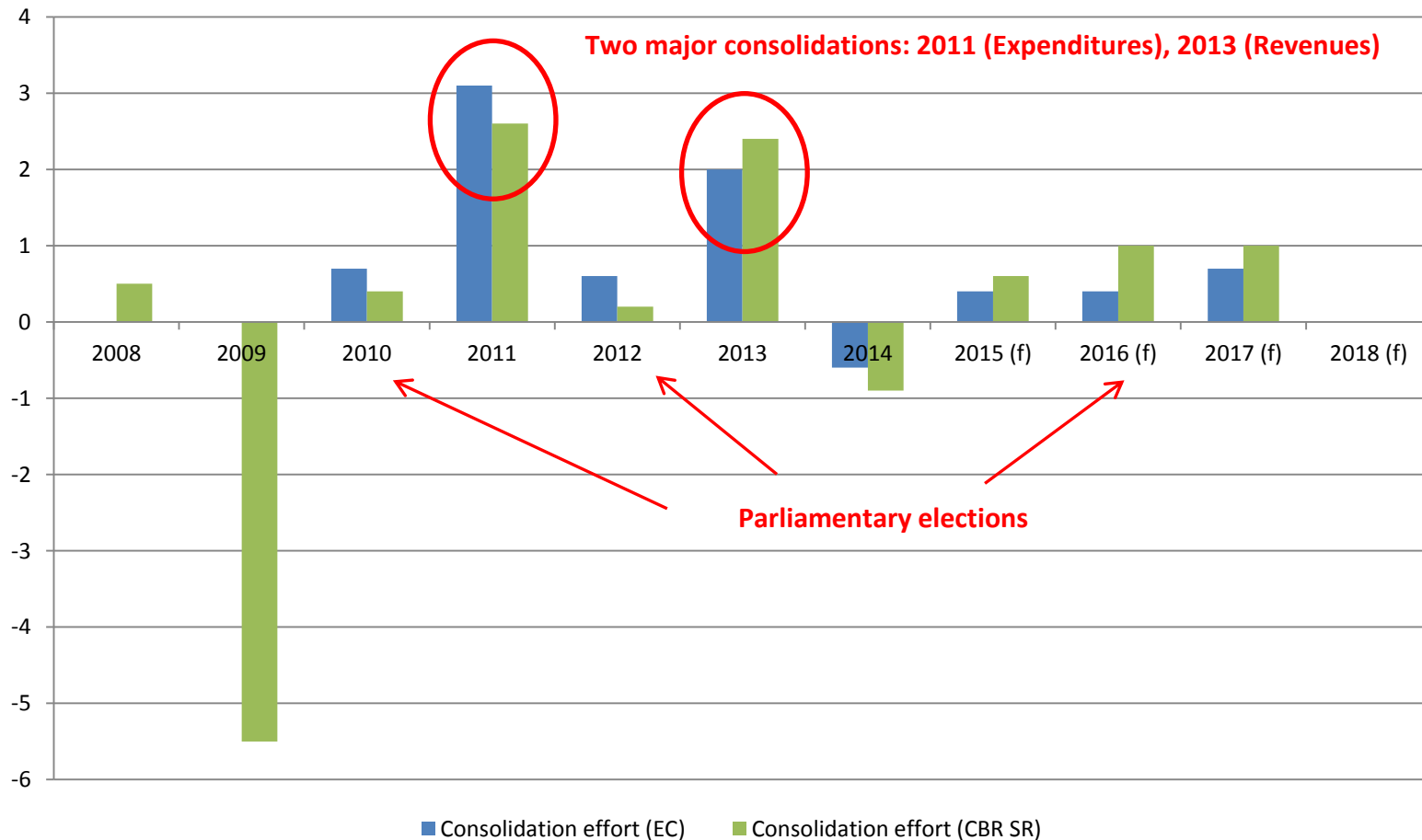
53.6

Public finance balance (% GDP)



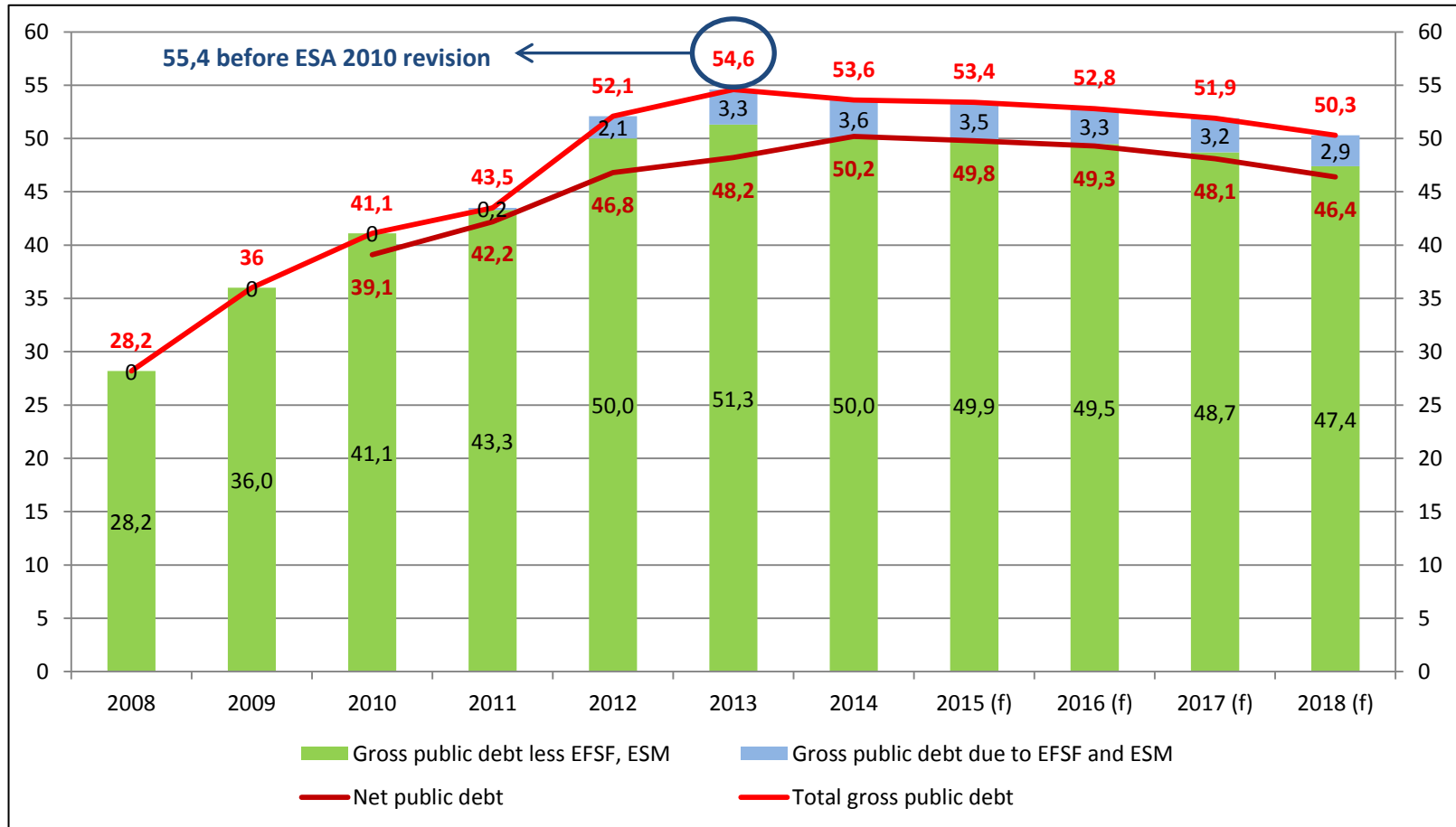
Sources: Ministry of Finance (MF SR), Council for Budget Responsibility (CBR SR)

Consolidation effort (% GDP)



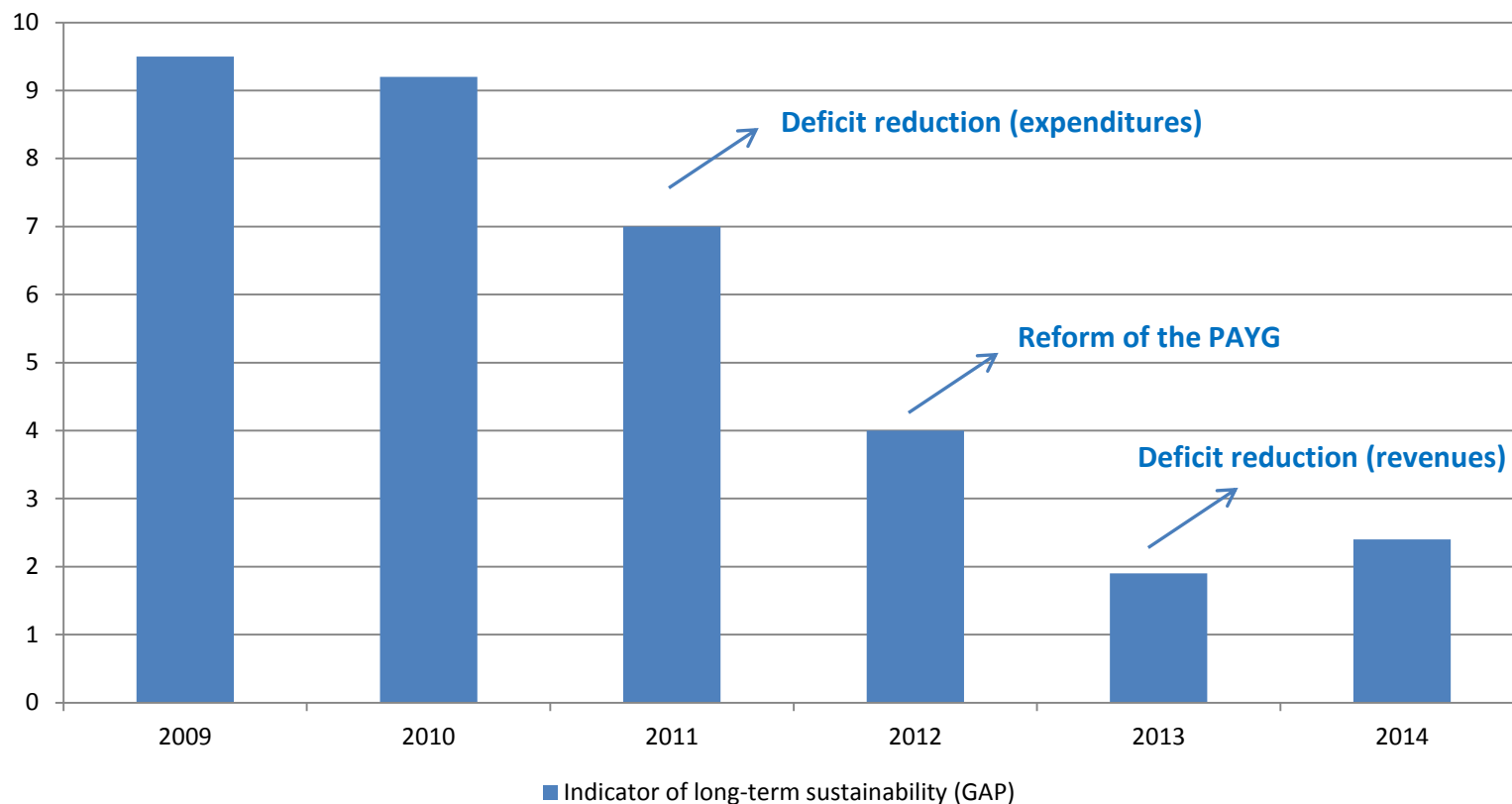
Sources: INEKO based on data from the European Commission (EC) and from the Council for Budget Responsibility (CBR SR)

Public debt (% GDP)



Source: INEKO based on data from the Ministry of Finance (MF SR)

Long-term sustainability (% GDP)



Source: INEKO based on data from the Ministry of Finance (MF SR) and the Council for Budget Responsibility (CBR SR)

Reform of the PAYG

- Prolonging retirement age
 - 2004: Gradually up to 62 years for both genders
 - Since 2017 retirement age will be linked to life-expectancy
- Indexing pensions:
 - Since 2004: Automatic (average of wage growth and inflation)
 - 2012-17: Increase by a fixed sum (based on weighted average of wage growth and inflation)
 - Since 2018: Indexed purely by inflation for pensioners' basket of goods
- Result: Stabilization of the pension system (halving long-term deficit)

Fully-funded pension pillar

- Reducing contribution rate:
 - 2012: The rate was decreased from 9% to 4% (increasing public budget revenues by around 0.6% of GDP annually)
 - The rate is expected to grow up gradually to 6% by 2024
- Re-opening of the second pillar:
 - In 2008, 2008/09, 2012/13, 2015
 - Approximately 15% people returned fully to the PAYG
- Re-introduction of voluntary entry for young people
 - In 2008 and 2013
- Impacts on the public finance balance:
 - Positive or neutral until 2060, negative afterwards

Debt brake

- 2012: Constitutional Act on Budget Responsibility introducing the debt brakes and the Council for Budget Responsibility
- Debt brake levels:
 - 50%: Minister of Finance informs the Parliament
 - 53%: The government proposes measures to reduce the debt, the salaries of government members are frozen
 - 55%: The government has to cut 3% of expenditure immediately and freeze expenditure for the next year
 - 57%: The government and municipalities have to propose balanced budgets for the next year
 - 60%: The vote on government confidence in the Parliament
- Transition period from 2018 until 2027:
 - Gradual decreasing of limits to final 40% to 50%

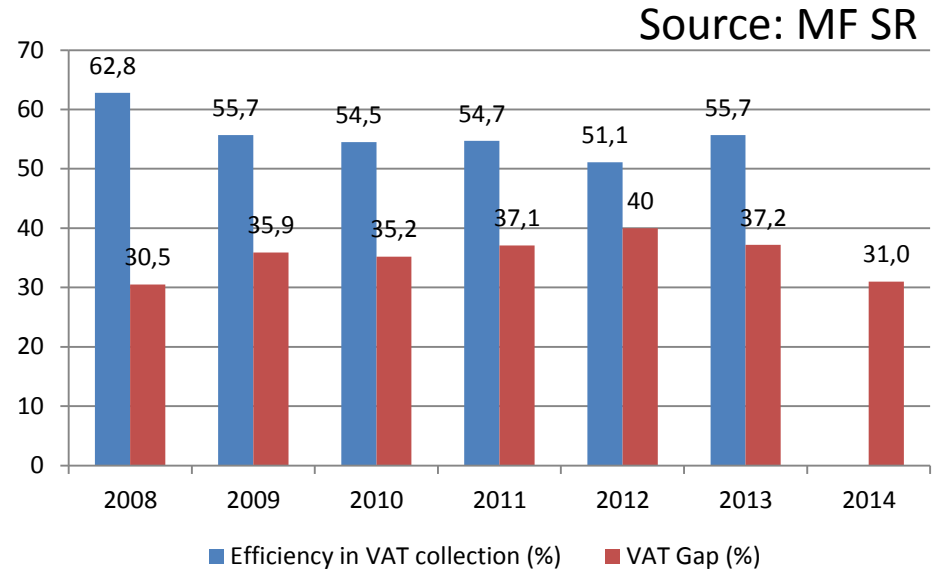
Hidden debts

- PPP (highway): 2.7% of GDP
- Conditioned liabilities (court processes, guarantees): 16.4% of GDP as of 2013 (out of which 3.0% of GDP is EFSF)
- Off-balance debt of state and half-state firms (e.g. debt taken to pay superdividends, old debts of hospitals – 0.4% of GDP)

Improved tax collection

Around 50 measures since 2012:

- Disclosing fraud cases
- Electronic central evidence of invoices (cross controls)
- Tax transparency: Publishing taxes paid by firms
- Extending „reverse charge“ (VAT paid by buyers)
- Extended use of registration machines (hotels, physicians, taxi drivers, etc.)
- Control of transfer prices, etc.



Other consolidation measures

- 2011:
 - Expenditure cuts (wages, procurement)
 - VAT up from 19% to 20%
- 2013:
 - Higher payroll-taxes for people with high income
 - Re-introduction of higher 25% personal income tax rate
 - Increase of maximum payroll-tax base
 - Reduction/Elimination of tax deductible
 - Corporate income tax up from 19% to 23% (since 2013 decreased to 22%; new tax licences)
 - Special tax levies on banks and regulated monopolies
 - Higher payroll-taxes for self-employed and non-standard contracts
 - Lower capital investment of municipalities

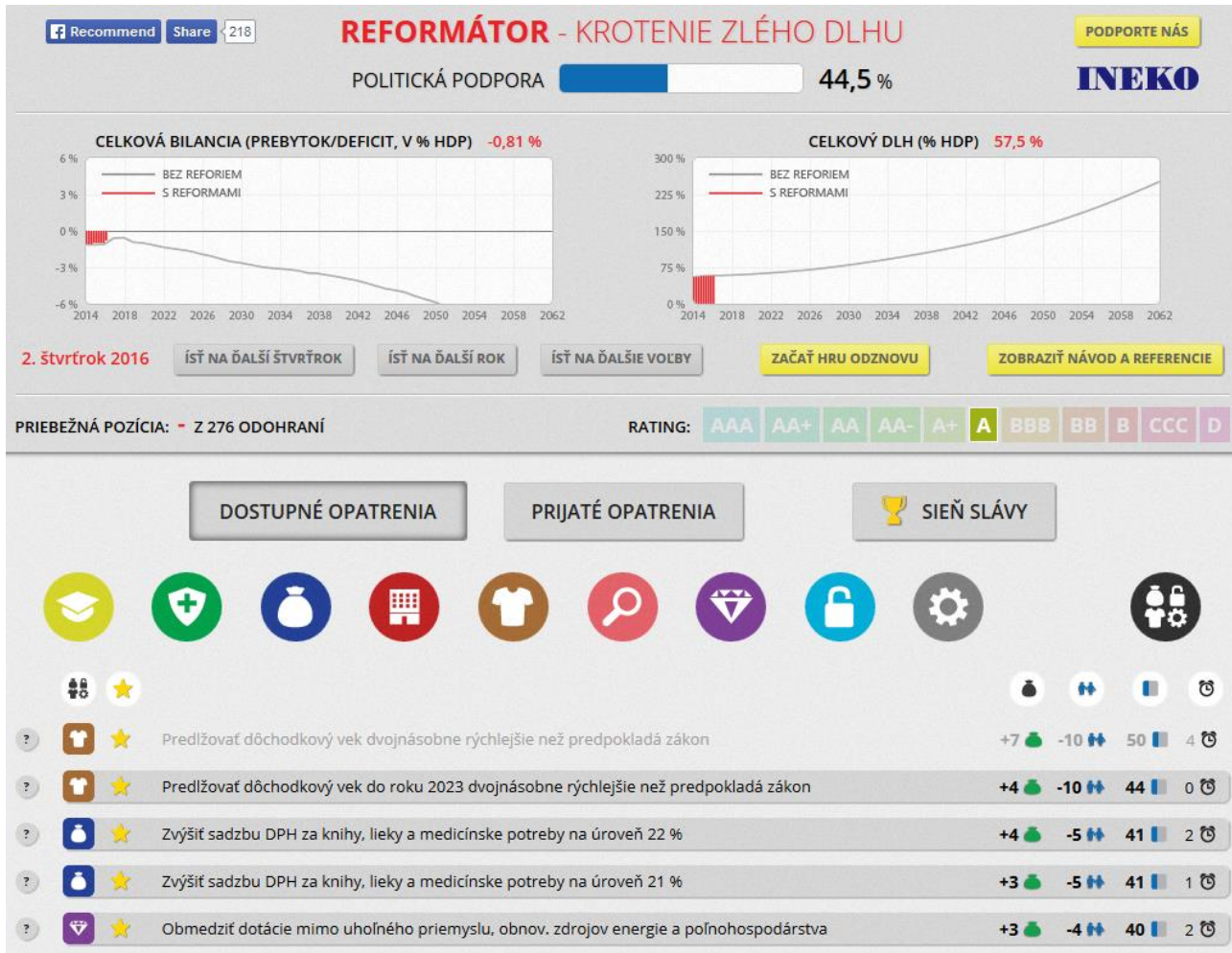
Current challenges

- Health care and long-term care
- Pensions (not imminent)
- Eurofunds corrections
- Tax collection (real estate, deepening tax transparency)
- The need for public finance stability is becoming less imminent. The highest priorities are:
 - Unemployment (especially long-term)
 - Low quality of public services (especially in health care and education)

Lessons learned

- Local debt brakes and external pressure (EC SGP, Fiscal Compact, ESA 2010, Eurostat – disclosing hidden debts) work well
- High quality people guarding public finances is crucial
- Supportive public debate helps a lot (media, think-tanks, economic analysts)

INEKO computer game



- Long-term public debt projections
- Over 200 consolidation measures
- Measuring political support
- Threat of bankruptcy
- Goal: To have the lowest debt by 2062

Source: <http://hra.ineko.sk/>

Thank you for your attention!

<http://www.ineko.sk/>