

PRESENTATION OF THE CZECH REPUBLIC ECONOMIC SURVEY AT A HIGH LEVEL SEMINAR IN PRAGUE

REMARKS BY EDUARD JANOTA, MINISTRE OF FINANCE OF THE CZECH REPUBLIC

Ladies and Gentlemen,

let me first appreciate the quality of the today presented Review. With respect to the presentation of Mr. General Secretary, I am personally bound already at the opening of my notes to express a complete agreement with the OECD. It regards both its assessment of impacts of the current economic crisis on the small, highly opened Czech economy and the main challenges that stay ahead of us.

I am very glad that the OECD rates the fundamentals of the Czech economy as healthy ones and that also assessment of the financial sector and robustness of the system of financial supervision is presented in a positive way.

Mr. General Secretary has devoted a significant part of his presentation to the areas he perceives as our fundamental problem – the fiscal policy and the quality of fiscal institutions. Let me mention a couple of personal comments towards this part of the presentation.

I totally agree that worsening of the fiscal position – behind which mainly stands already for a long time unresolved public finance problems – has been apparent even before the beginning of the crisis. It is a result of an insufficient restructuring of the expenditure side of public budgets. The trend of accumulation of mandatory expenditures lasts, the growth of expenditures keeps considerable advance before the development of revenues. Unsustainable expenditure trends, established in previous years, have recently been further aggravated by negative impacts of the current economic crisis. It is evident that, as a small country, we cannot afford the same expansionary policy as countries of the UK- or Germany- type, since the ability to finance our debt is limited.

These problems have been recently joined also by a significant increase in debt servicing costs. I can testify that issuing bonds is presently for a small country not entirely without difficulties. Therefore, it is vital for us to retain our international credibility on the market that faces, and will be facing, a supply “shock“.

I would like to express a considerable support towards the idea that neither fiscal consolidation nor problems of the long-term sustainability of public finances are possible to handle without structural reforms. We cannot further carry on with

policies where fiscal consolidation is dealt with mainly on the revenue side. In here I see the first significant message for the next government: sustainable solution is necessary to be looked for on the expenditure side of the budgets, in a change of the structure and expenditure trends, based on consistent structural reforms – be it the reform of a health care, pensions, but also a number of other areas such as education, benefits' policy, and other.

Personally I very much welcome also the communication of the necessity of a broad political support in reinforcing the fiscal discipline and introducing thorny structural reforms. As a finance minister I must testify, and this is my second appeal, that fiscal consolidation without broadly-based political consensus is a search for a 'quadrature of a circle'. This is something I came through many times, both as a deputy minister and the last year also as a minister during approving of the consolidation package for this year. Similarly indispensable is also a strong support of the Prime Minister as well as other ministers. I may confirm that within the government, support for the setup of macro policy's parameters is looked for much easier than that for implementing savings measures on the micro level of individual chapters.

My concluding remark will relate to the necessity of a transparent fiscal targeting and setting of fiscal frameworks. I would like to emphasise the idea of an existence of trade-offs between the transparency – which also includes comprehensibility – and the level of sophistication of those institutes. I assume the combination of a fiscal target, given by a medium term trajectory of the total deficit's ratio, and nominal expenditure frameworks has corresponded with the needs of the time when we implemented those instruments. I do not see the problems of effectiveness of fiscal targeting and expenditure frameworks so much in increasing their sophistication, but rather in a political support and a pressure towards their enforcement. It is certainly worthwhile also for the Czech Republic to follow the path of, for example, Germany – that is, to constitutionally introduce a fiscal rule.

With respect to the idea of an independent institute of the type of a "fiscal council": such idea has already appeared here several times in the past. It is my believe that independent evaluation of macroeconomic projections and expenditure frameworks, both *ex ante* and *ex post*, would significantly improve the quality of the budgetary process.

Recommendations of the OECD are certainly worth a detailed consideration and therefore I would like to express my thanks for them. I am confident that they will represent a valuable input for the economic policy of the next government.