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Public finance consolidation in Czech Republic and Poland – what after crisis?

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Abstract

The economic and financial crisis was the catalyst for a fiscal crisis engulfs European Union's Members. Consolidating public finances in order to address the consequences of the crisis, underlying weaknesses and also future spending pressures creates important challenges. Fiscal consolidation requires choices to be made about how much consolidation is needed, how fast it should be implemented and which instruments should be used. In this article was showed the need of public finances' consolidation, what was exacted by European Commission and its regulations. Setting an example – Czech Republic and Poland – author described the ways of reforms in public finance. While the process in both countries was different, the result is the one – both countries need deeper, wider and long – time reforms.

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Keywords: consolidation; crises; public finance; European Union; reform

1. Introduction

The economic and financial crisis is like catalyst for a fiscal crisis. The Stability and Growth Pact was designed to avoid budgetary free-riding and to make credible the Maastricht Treaty's "no bail-out rule", and thus to limit the extent to which budgetary developments in individual countries impinge on their neighbours. The Pact provided for enforcement of rule with a new institutional framework, which includes both an "excessive deficit procedure" with a specification of possible sanctions, and an early warning mechanism involving strengthened surveillance and co-ordination of economic polices via the annual review of national programmes. But the situation changed in 2008

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when the financial crises began. The article has four sections. In the first one, the author described the meaning of consolidation and the EU's reaction for the crisis. Next, was described the economic situation in member states in 2008–2014. In third and fourth part was presented the economic situation in the Czech Republic and Poland with regard on reforms in their public finances. The aim of this article is to show how was prepared the consolidation in these two countries, that are members of EU and Visegard Group; what instruments was used in these reforms and what were the results at this moment. To achieve the aim the author used statistics from Eurostat and dates from national financial pages. The important think to further discussion is the question for how long the effects of consolidation will be stable.

2. Europe's decisions after beginning of crisis - consolidation

Fiscal consolidation is – we can say – an exercise in discretionary policy making. In theory purely cyclically induced budgetary impacts are self-correcting. However, in practice widespread structural imbalances and the secular rise of public debt reflect and underlying deficit bias. While the institutional reforms can be helpful in containing deficit (and pro – cyclicality) bias, including reliance the adoption of specific structural reforms to government spending programmes and revenue policy to stabilize and then reduce debt – to – GDP ratios to a prudent level. The challenge depends on balancing several trade – offs. The pace and composition of consolidation has to consider the trade-offs between maintaining support for domestic demand on the one hand while, on the other hand, not risking larger consolidation costs later due to delaying fiscal adjustment. The political economy of deficit reduction has to contend with the trade – off between equity and growth, too. A strategic approach to fiscal consolidation enables the government to anticipate distributional impacts and adopt accompanying measures to protect vulnerable member of society and to tend to other policy goals (Sutherland et al., 2012).

R. Hagemann (Hagemann, 2012) says that fiscal consolidation is a top – down process that entails in the first instance the determination of the size of the adjustment that is needed to secure a sustainable fiscal position, followed by estabilishing the balance between spending reductions and revenue increases. But in practice it is also bottom up process of identifying changes to specific government spending programmes and revenue policies. These specyfics constitute the "instruments" of fiscal consolidation. Given the government interventions in the economy, the aim is not to be exhaustive, but instead to examine the major spending and revenues categories that hold the most promise of contributing, both directly and indirectly, to fiscal consolidation.

In March 2011, following the 2010 European sovereign debt crisis, the EU member states adopted a new reform under the Open Method of Coordination, aiming at straightening the rules e.g. by adopting an automatic procedure for imposing of penalties in case of branches of either the deficit or the debt rules. The new "Euro Plus Pact" is designed as more stringent successor to the Stability and Growth Pact, which has not been implemented consistently. The measures are controversial not only because of the close way in with it was developed but also for the goals that is postulates. The four main broad strategic goal are (Council Agreement, 2011):

- fostering competitiveness,
- fostering employment,
- contributing to the sustainability of public finances,
- reinforcing financial stability.

The additional fifth issue is (Council Decisions, 2011) tax policy coordination. When we look at the new European economic governance framework, it seems to be in front of a „mixture" of different acts adopted at various territorial levels and characterized by a different legal nature.

The second, let's say, more "customary" EU norms contributed to the formation of the legal structure underlying the new European economic governance were:

- so called "Six-Pack": five regulations and one derective are attended to strengthening the Stability and Growth Pact (SGP). That is the rule-based framework for the coordination of national fiscal policies in the European Union. The new measures were meant to increase transparency on their budgetary decisions and stronger coordination within the 2014 budgetary cycle and to recognize the special needs of Euro area Member States