

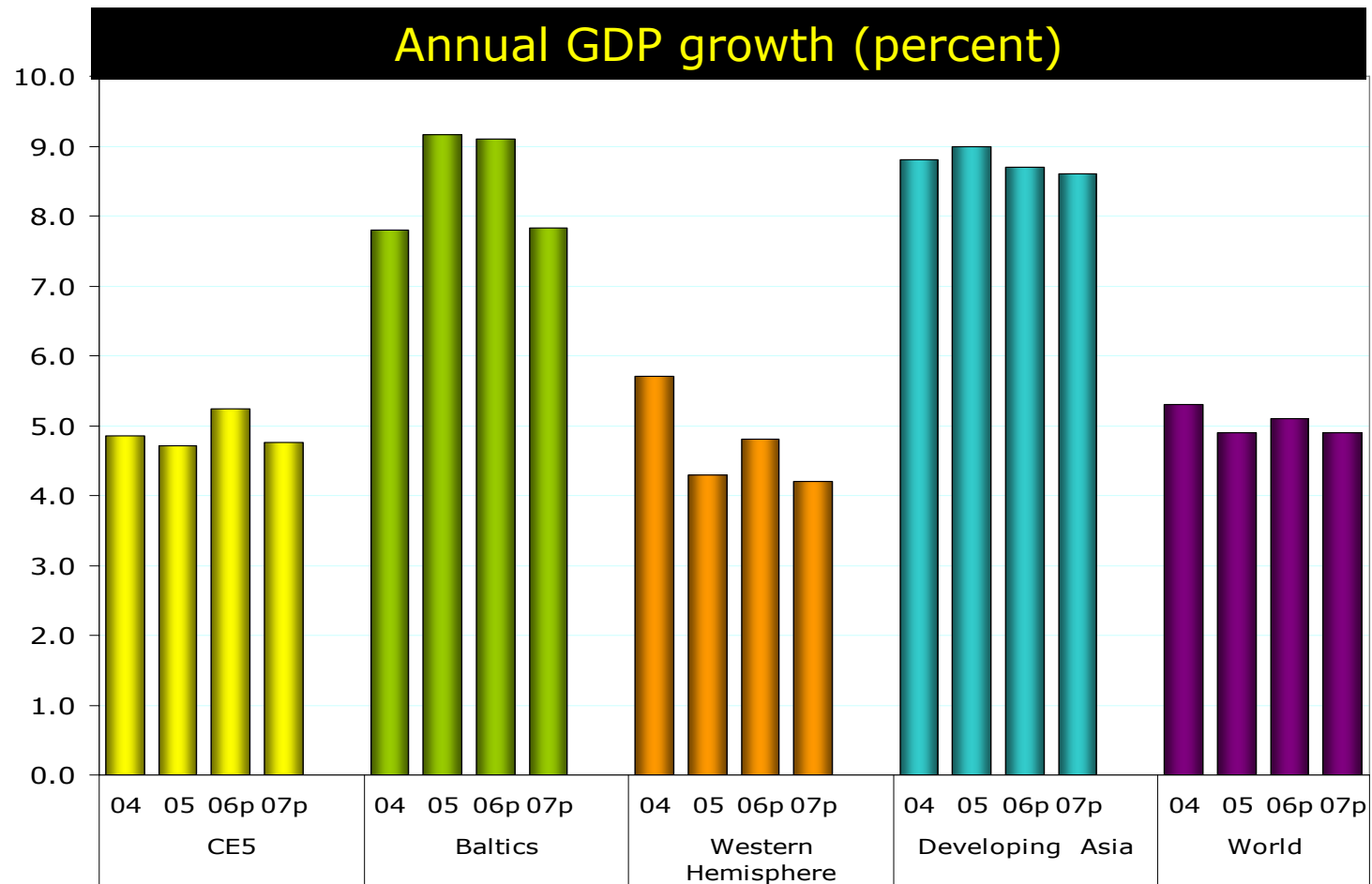


2nd AmCham Regional Tax Conference

Fiscal Trends in Central and Eastern Europe

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Growth performance is good, albeit cyclical.



But good headline figures hide underlying macro vulnerabilities

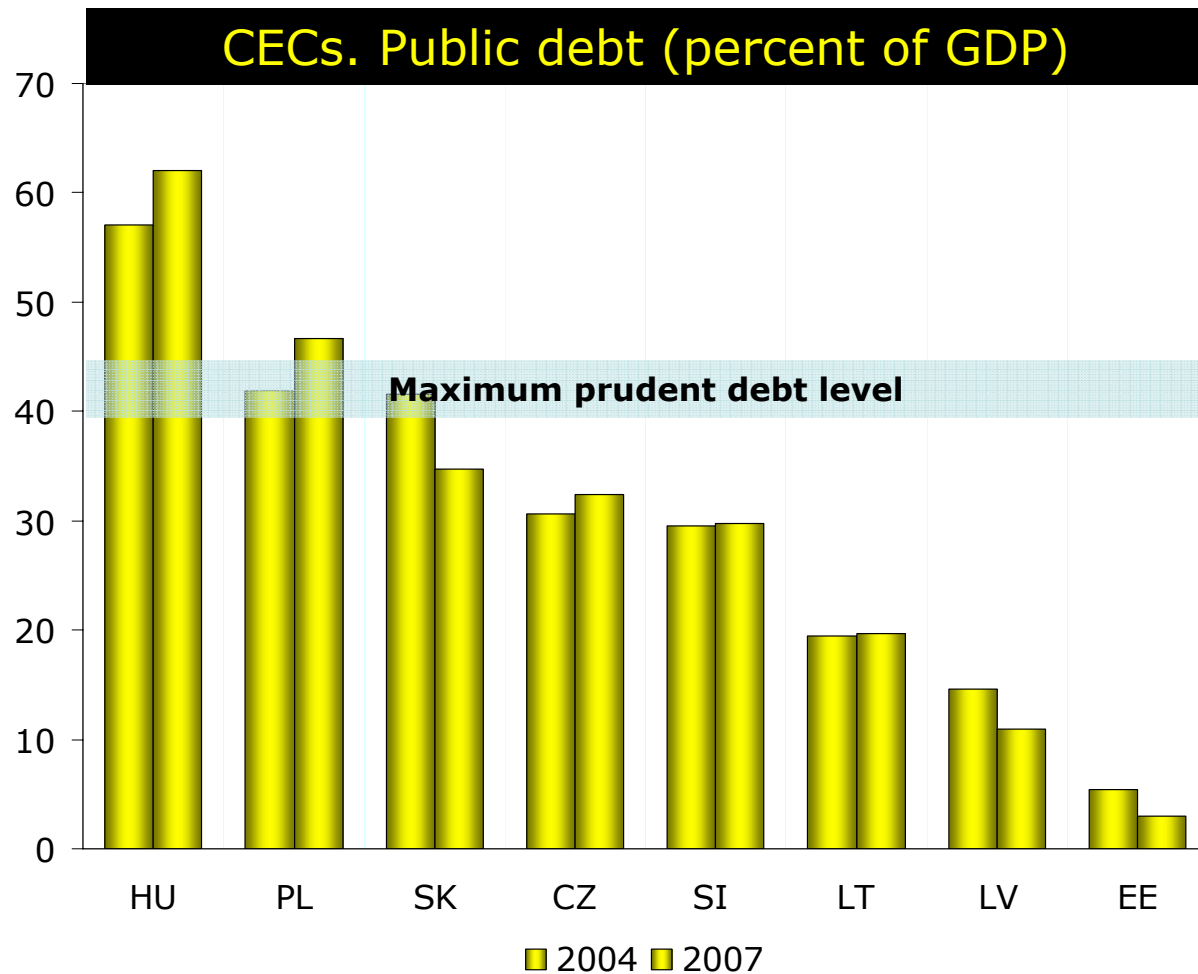
Key Macro Indicators 2005 (in percent of GDP)

| | CE5 | Baltics | EM countries* |
|--|-------|---------|---------------|
| General government deficit | -3.2 | 0.4 | 2.2 |
| C/A balance | -3.5 | -10.1 | 1.5 |
| External balance | 56.5 | 81.9 | 61.2 |
| Public debt | 39.0 | 11.8 | 45.8 |
| Reserves/ST debt | 173.0 | 54.8 | 212.4 |
| Credit growth (annual growth) | 1.4 | 7.5 | 2.9 |

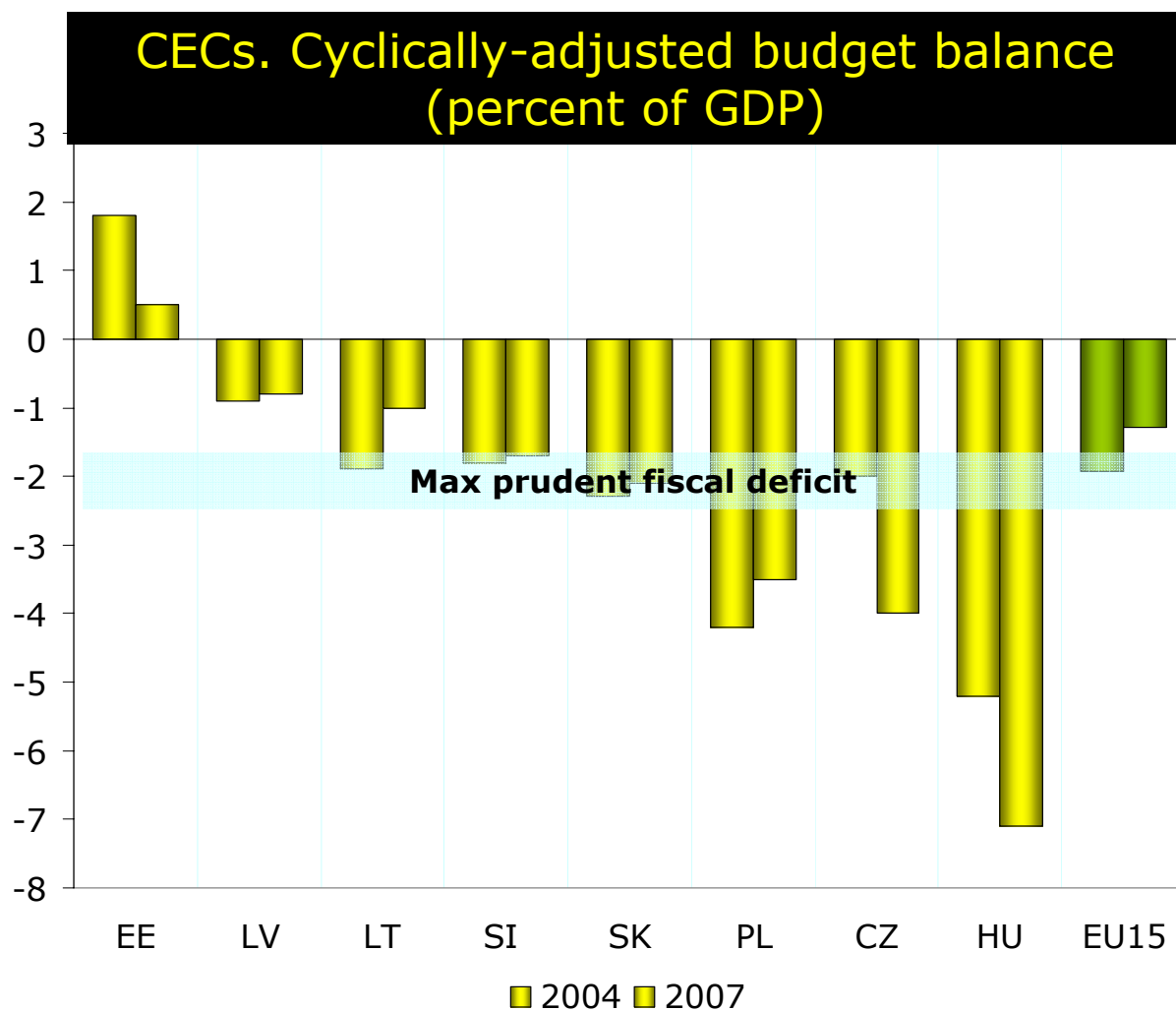
* EM countries - Argentina, Brazil, Bulgaria, Chile, China, Colombia, Indonesia, Peru, Russia, Singapore, Thailand.

Source: IMF GFS, IMF IFS, IMF Article IV Consultations

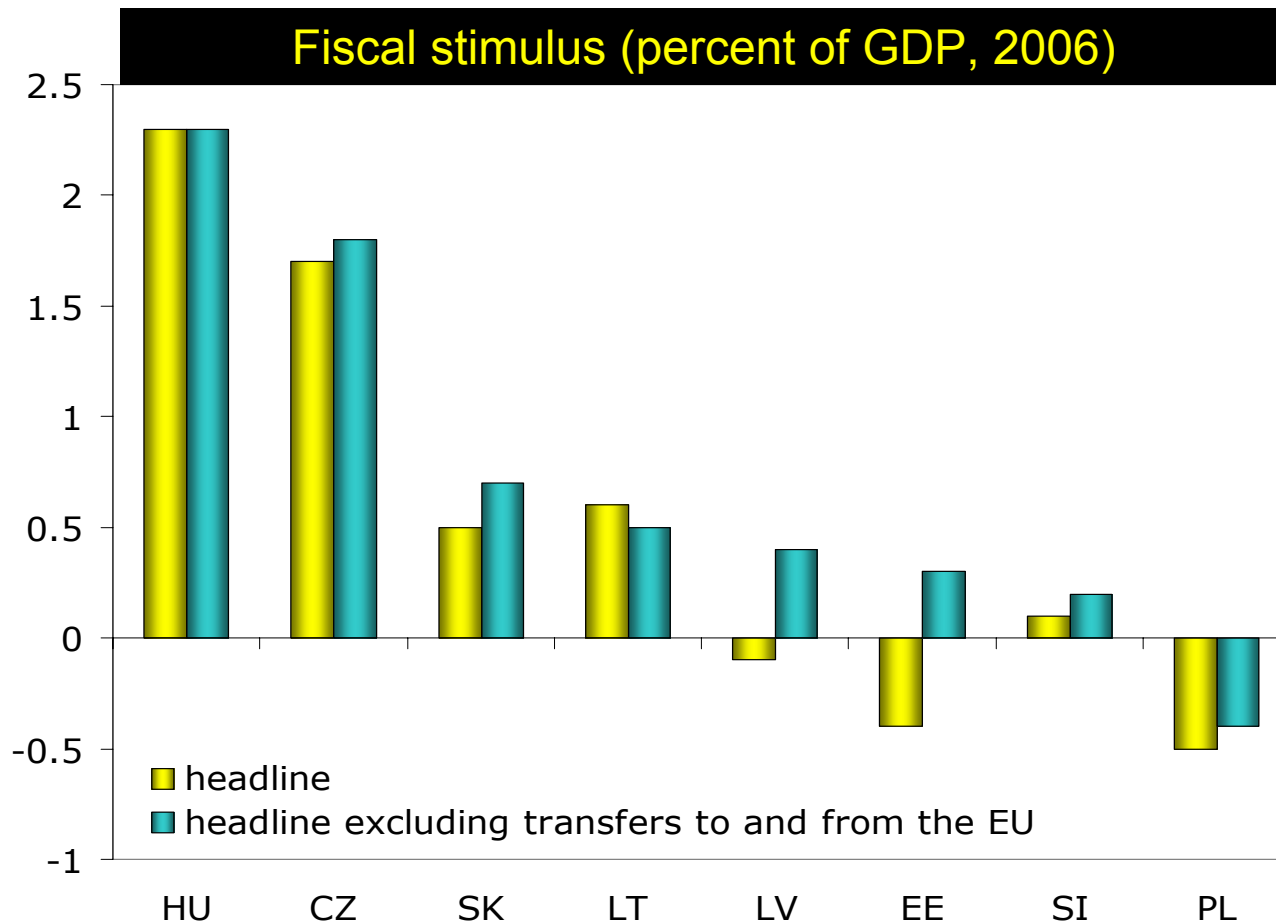
Despite healthy growth, public debt ratios are still rising in some CECs.



Few countries have used the benign global environment to undertake fiscal adjustment.

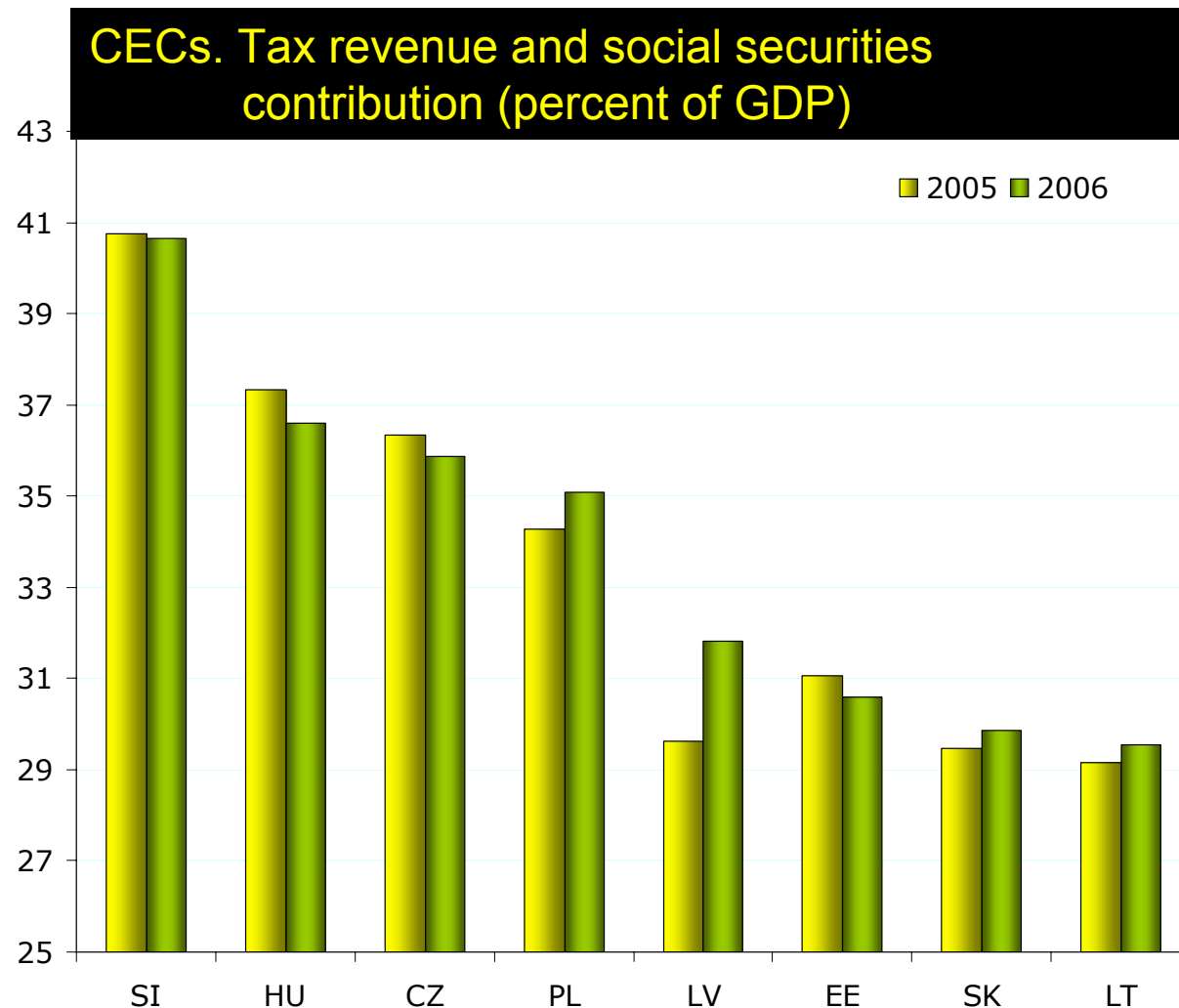


Fiscal policy is even more procyclical if one accounts for the effect of EU funds



Source: Christoph B. Rosenberg and Robert Sierhej, Interpreting EU Funds Data for Macro Analysis in the New Member States, IMF Working Paper (forthcoming)

Tax revenues are buoyant in CECs where tax rates remained unchanged

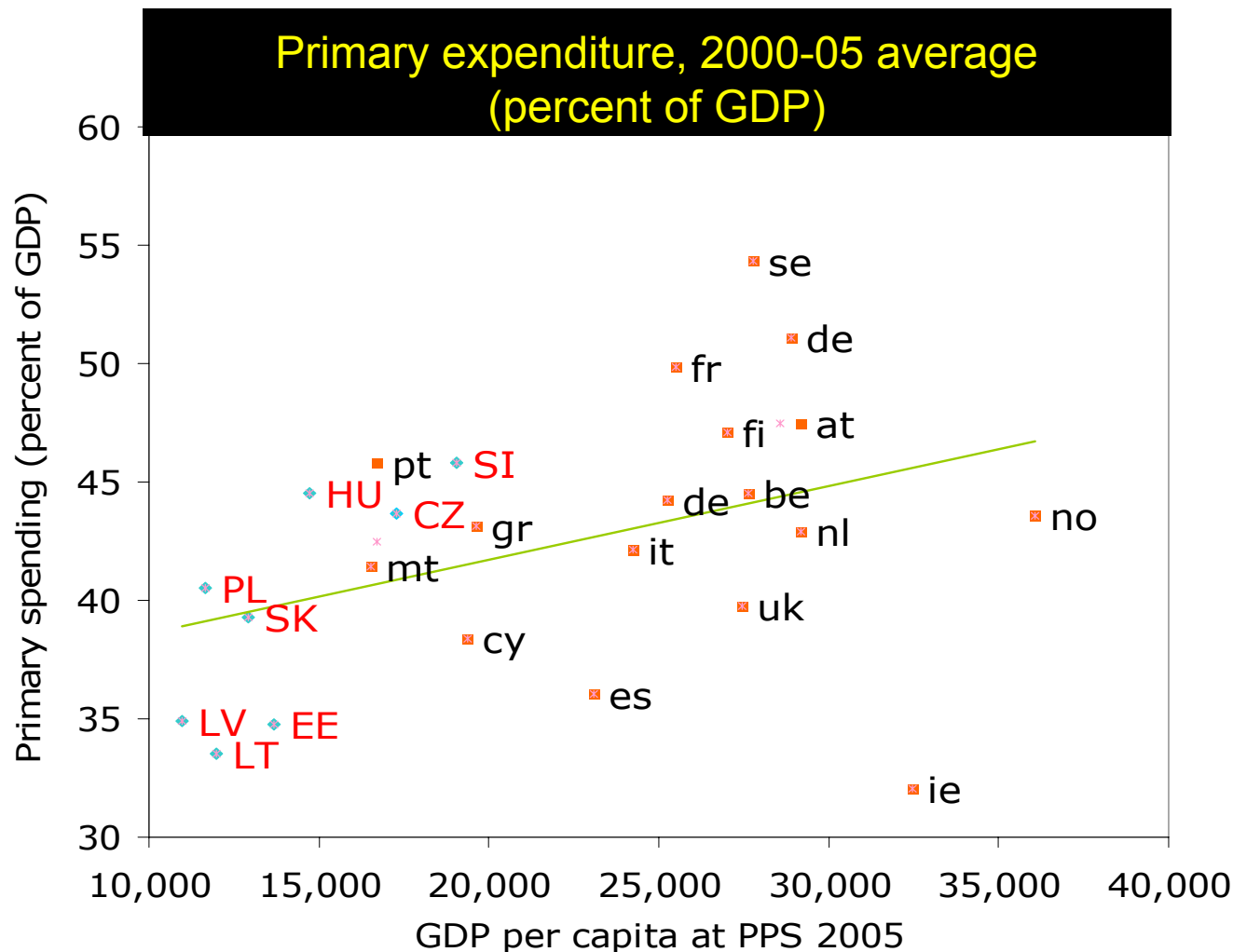


In the countries where 2006 budget data are available, revenues performed better than budgeted

| | Nom. Revenue budget 2006* | Nom. Revenue actual 2006* | Overperformance (percent) |
|------------------------|----------------------------------|----------------------------------|----------------------------------|
| Poland | 195,282 | 197,674 | 1.2 |
| Hungary | 5,923,540 | 6,558,142 | 10.7 |
| Latvia | 3,224 | 3,310 | 2.7 |
| Slovak Republic | 257,918 | 272,717 | 5.7 |

*Data in million of national currencies
Source: National authorities.

Primary spending in Central Europe is high, suggesting that fiscal adjustments should start at expenditure side.



Key messages

- Despite the favorable environment, governments are doing little to put their fiscal house in order.
- Such procyclical policies can lead to boom-bust cycles.
- Many governments are missing an opportunity to reduce structural deficits and to make the budget more flexible.
- Fiscal adjustment should start on the expenditure side.