



Taxation and Politics

**Some thoughts on the presentations by Neneman,
Valenduc, Petersen and Keen**

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Łódź, May 10, 2008

Common Themes

- Actual tax systems are far from what economists would call ideal (efficient, easy to administer)
- Politics introduce distortions (exemptions, differentiated rates), mainly to achieve distributive goals
- Globalization imposes additional constraints on the design of tax systems
- Flat taxes—confused perceptions, unclear economic gains

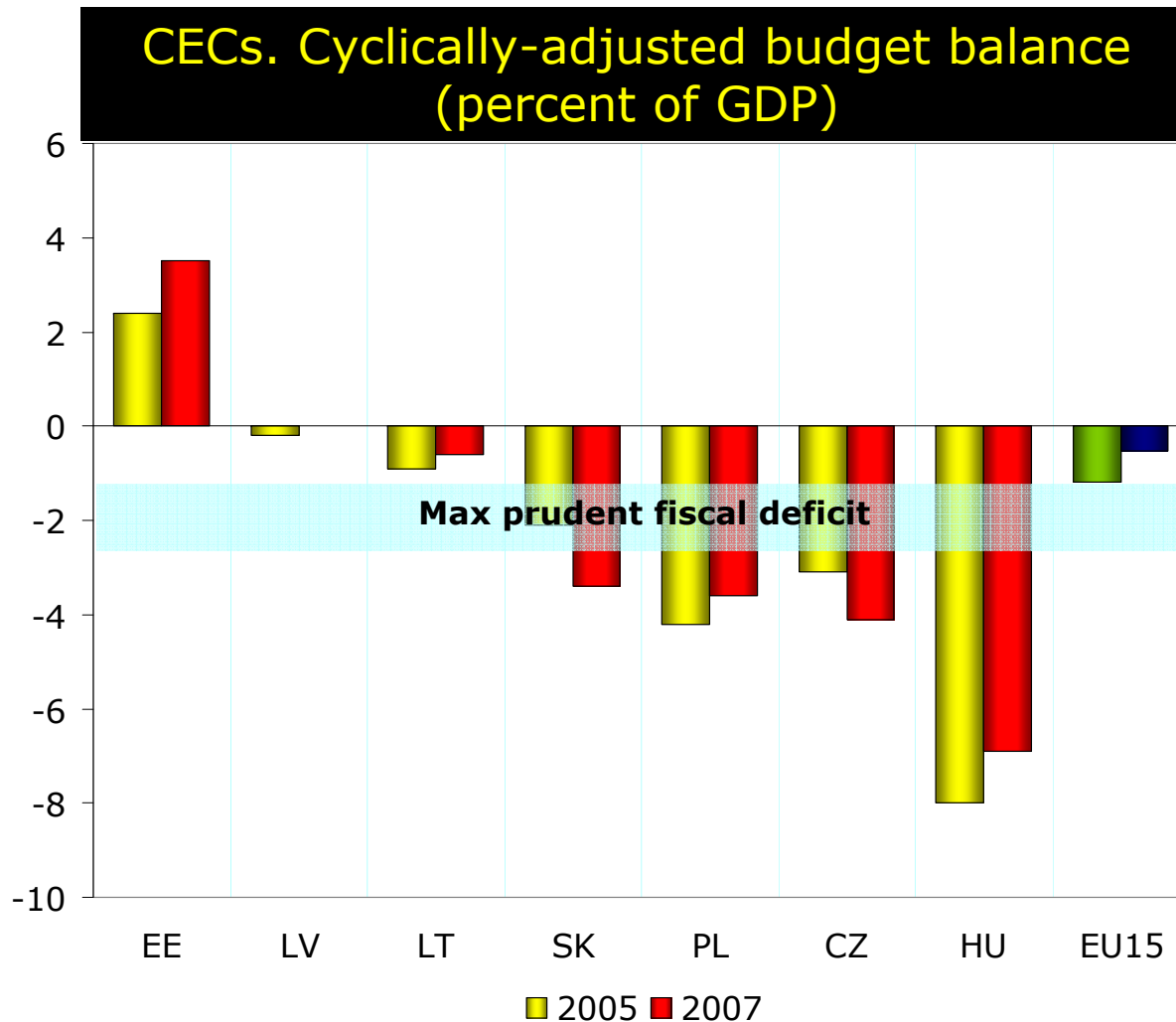
Some differences of view

- Should tax policy be used to achieve distributional goals?
- Is tax progressivity harmful—and would moving to a flat tax improve efficiency?
- Are taxes on wealth (e.g., property) desirable?

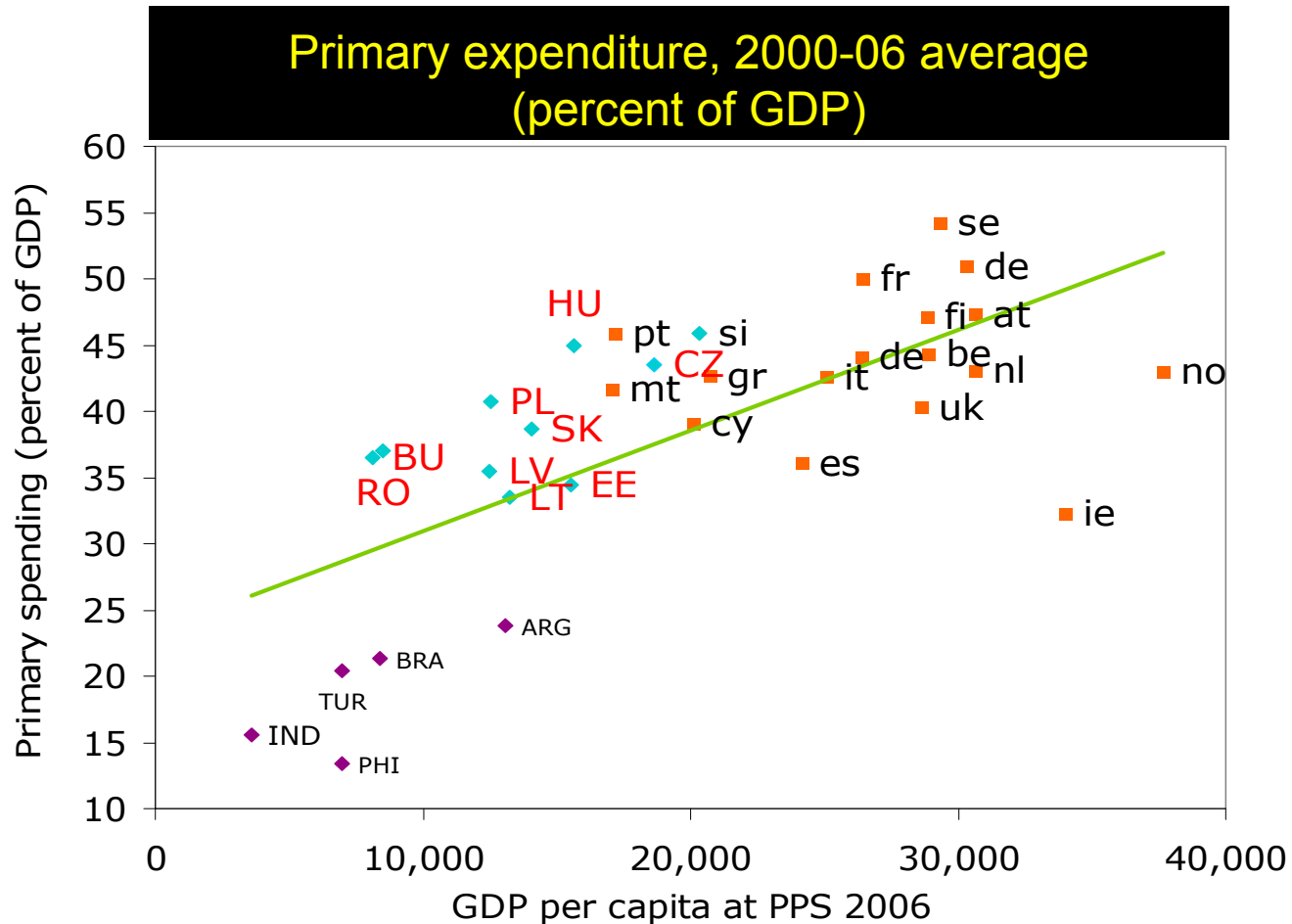
Tax policy in Central and Eastern Europe

- Some countries in the region (Baltics, Slovakia) have drawn attention by introducing “ideal” (=flat?) tax regimes
- Importantly, tax policy must be seen in the context of overall fiscal reform (budget deficit, expenditures)
- After EU membership, most countries have lost interest in fiscal reform

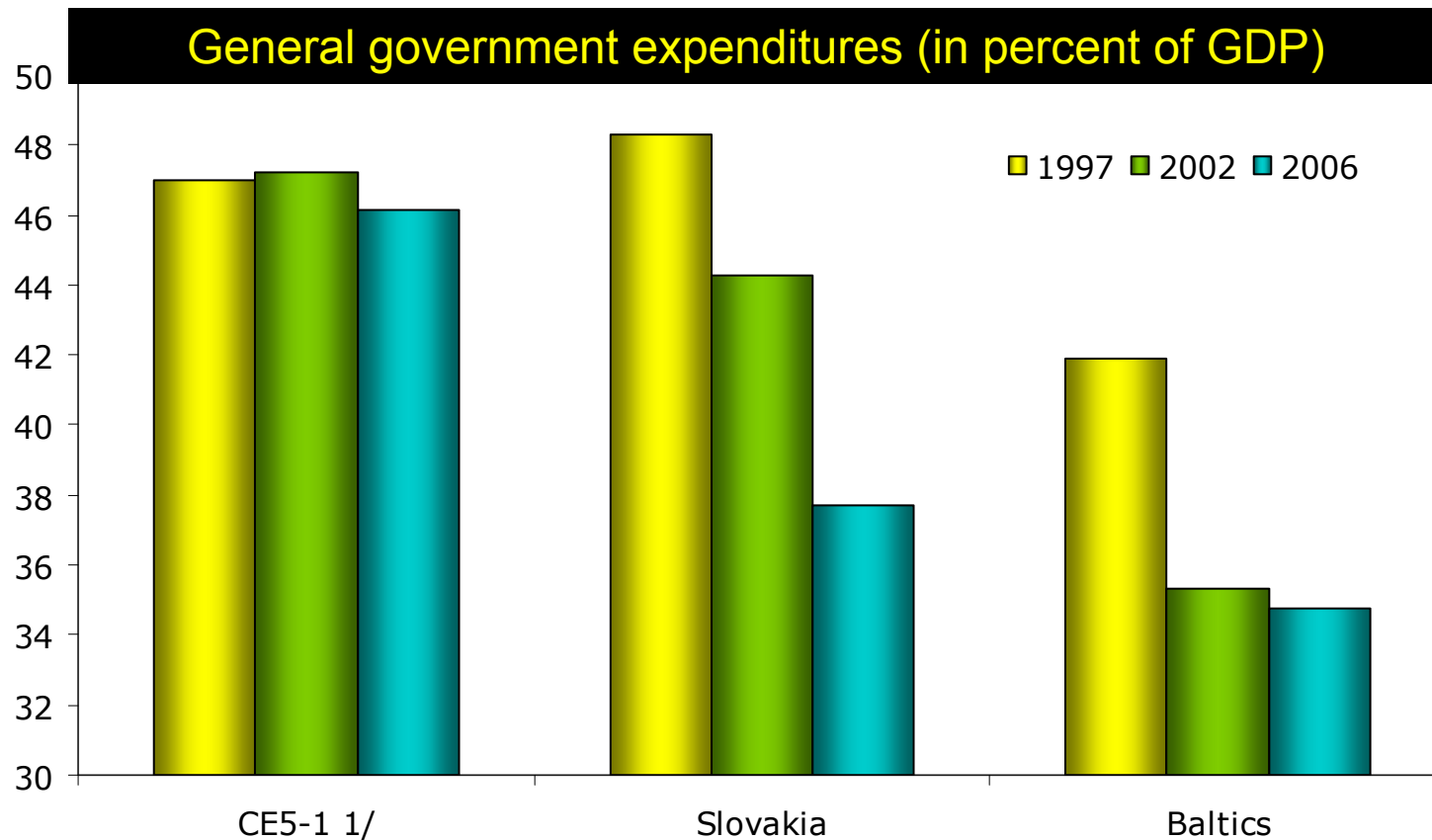
Despite very strong growth in recent years, there has been little fiscal adjustment



Primary spending in CEE is relatively high suggesting that fiscal adjustments should start on the expenditure side



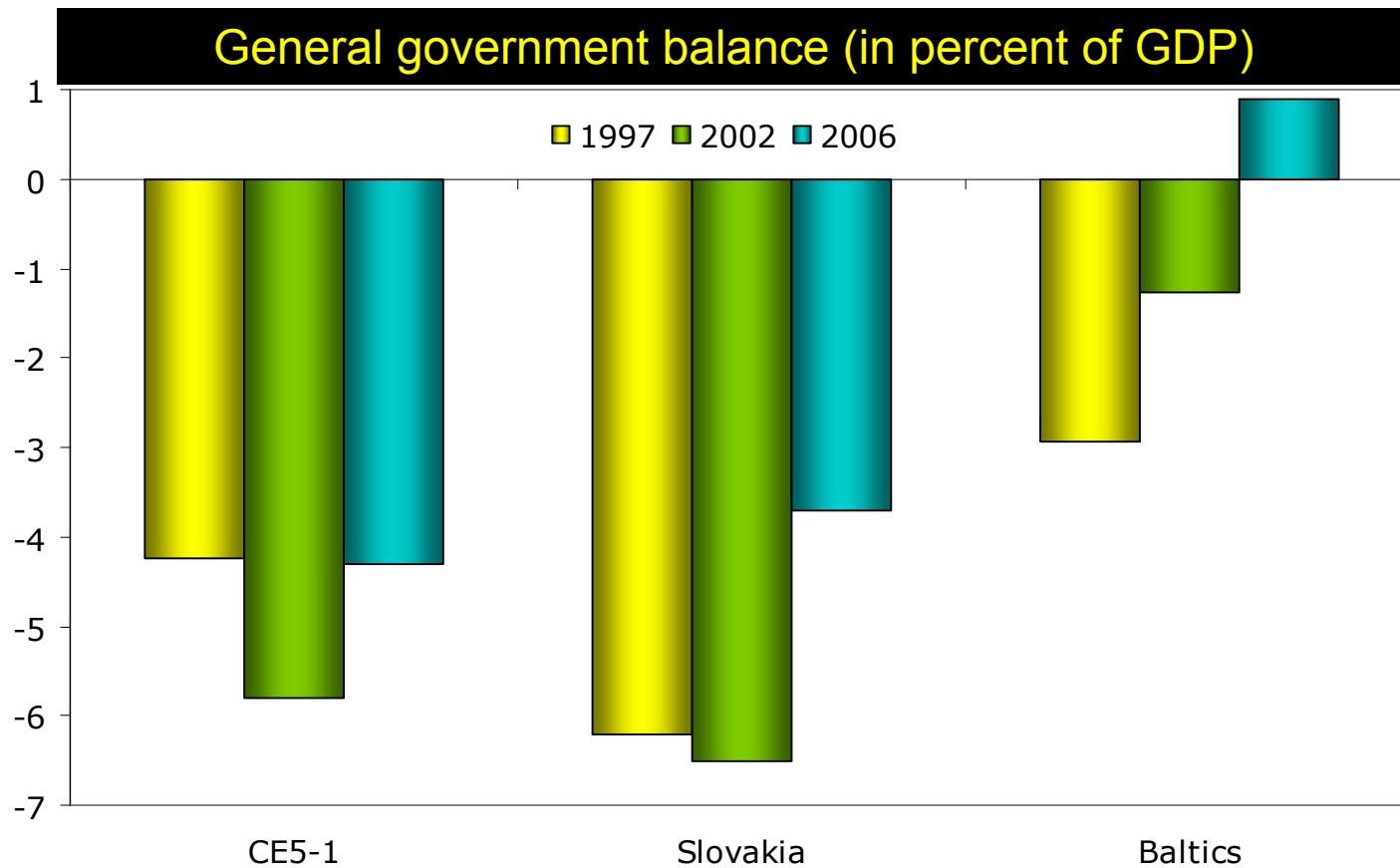
Some CEEs implemented deep spending cuts in the last decade...



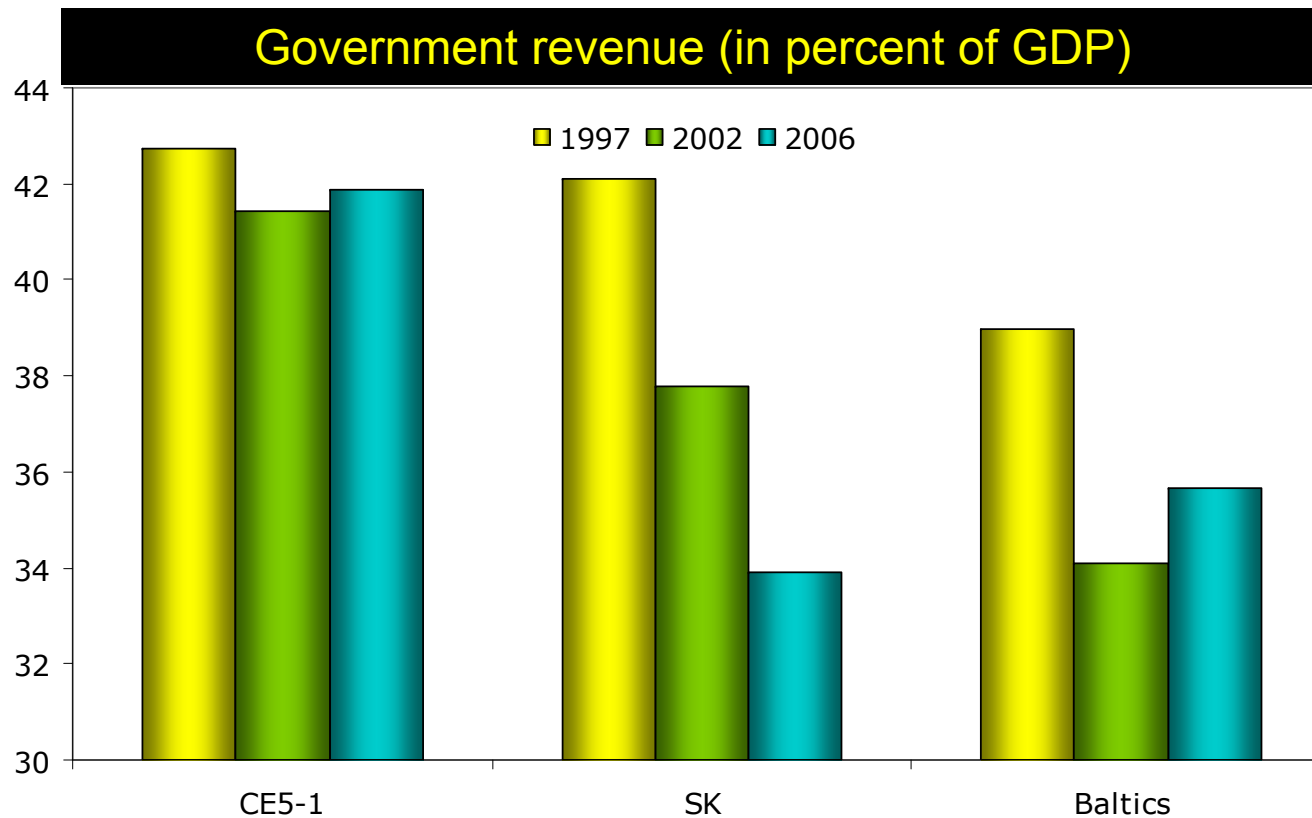
1/ Czech Republic, Hungary, Poland, and Slovenia.

Source: Eurostat

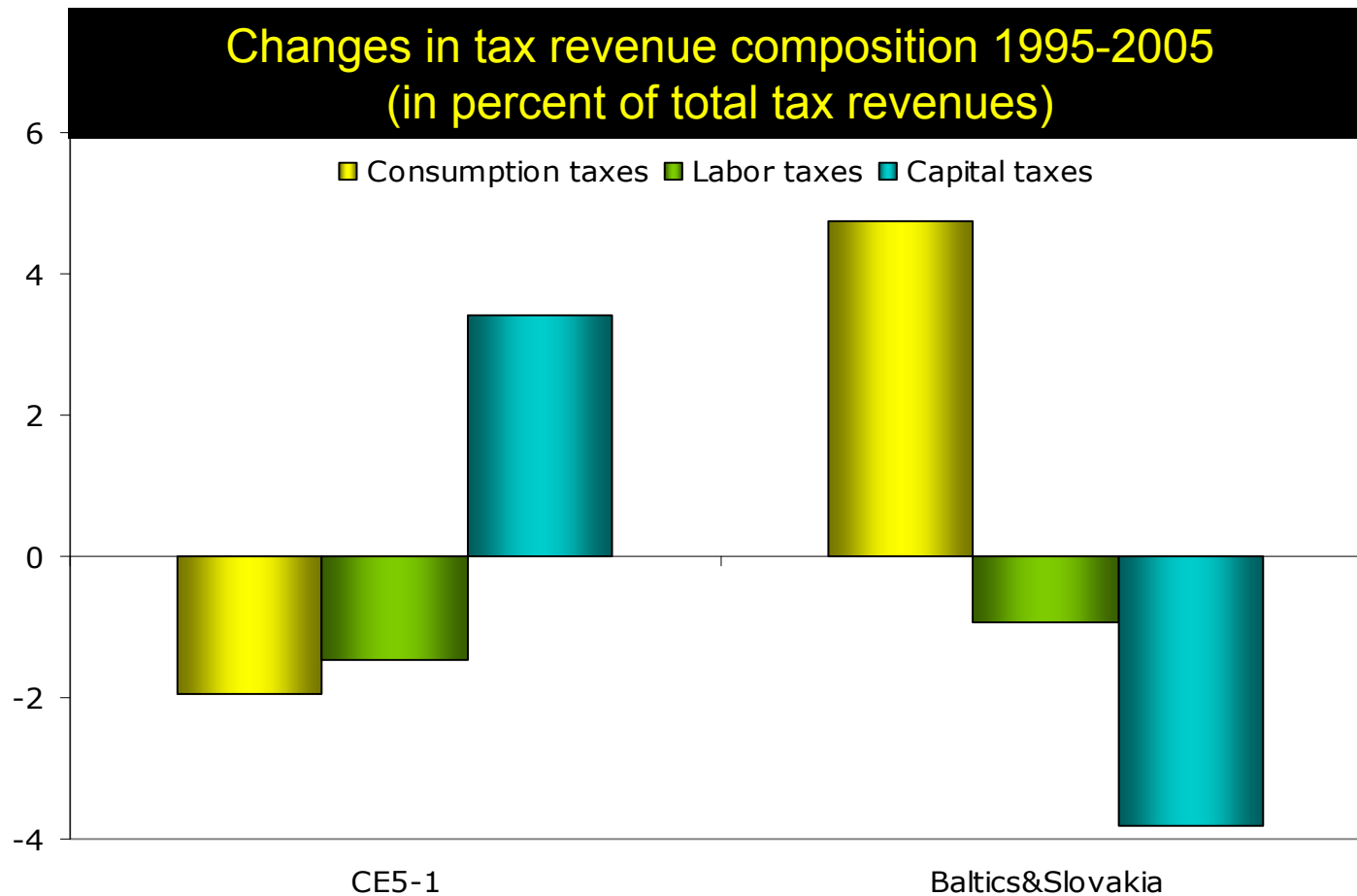
...achieving fiscal consolidation...



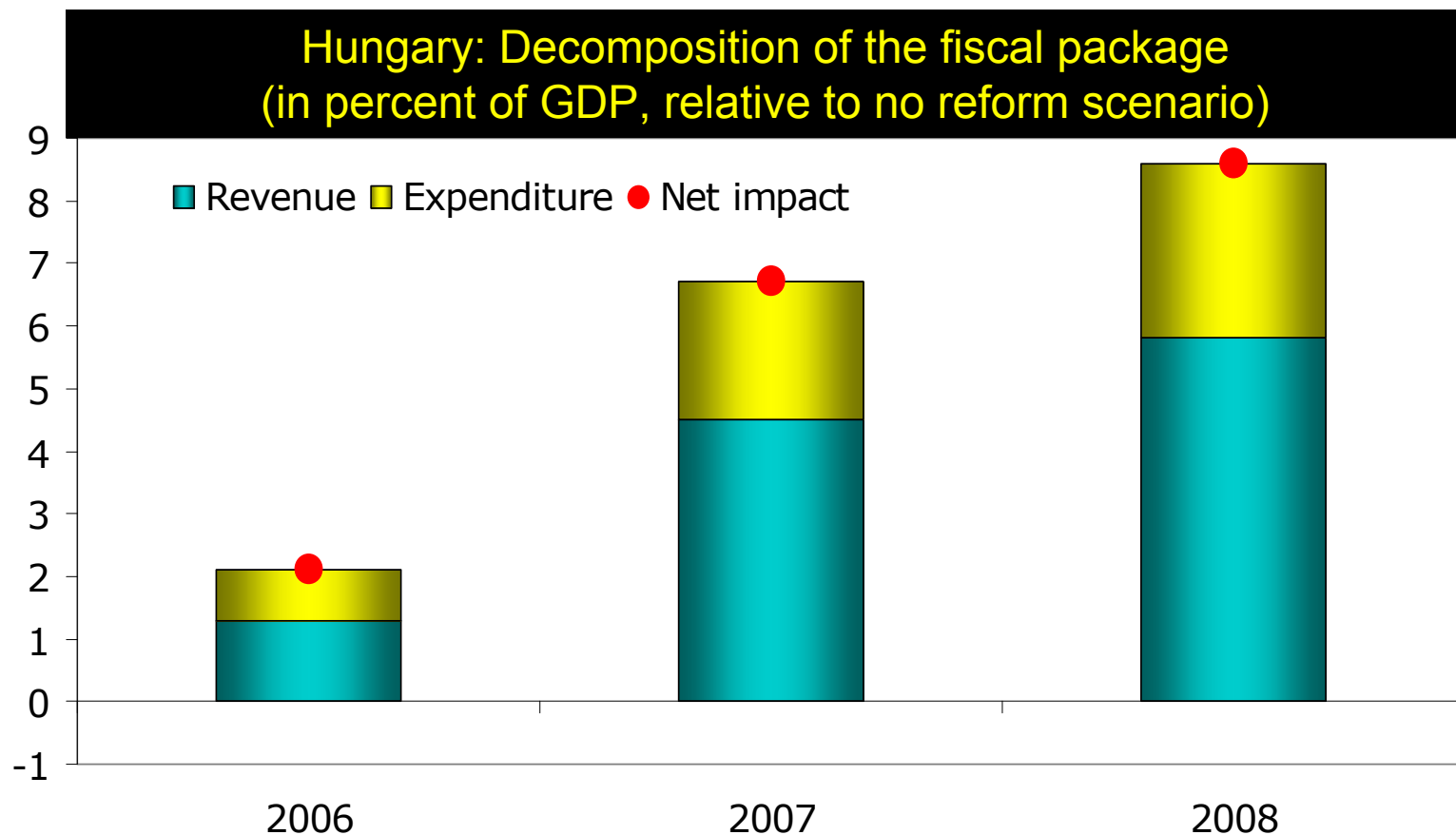
...while at the same time lowering the tax burden



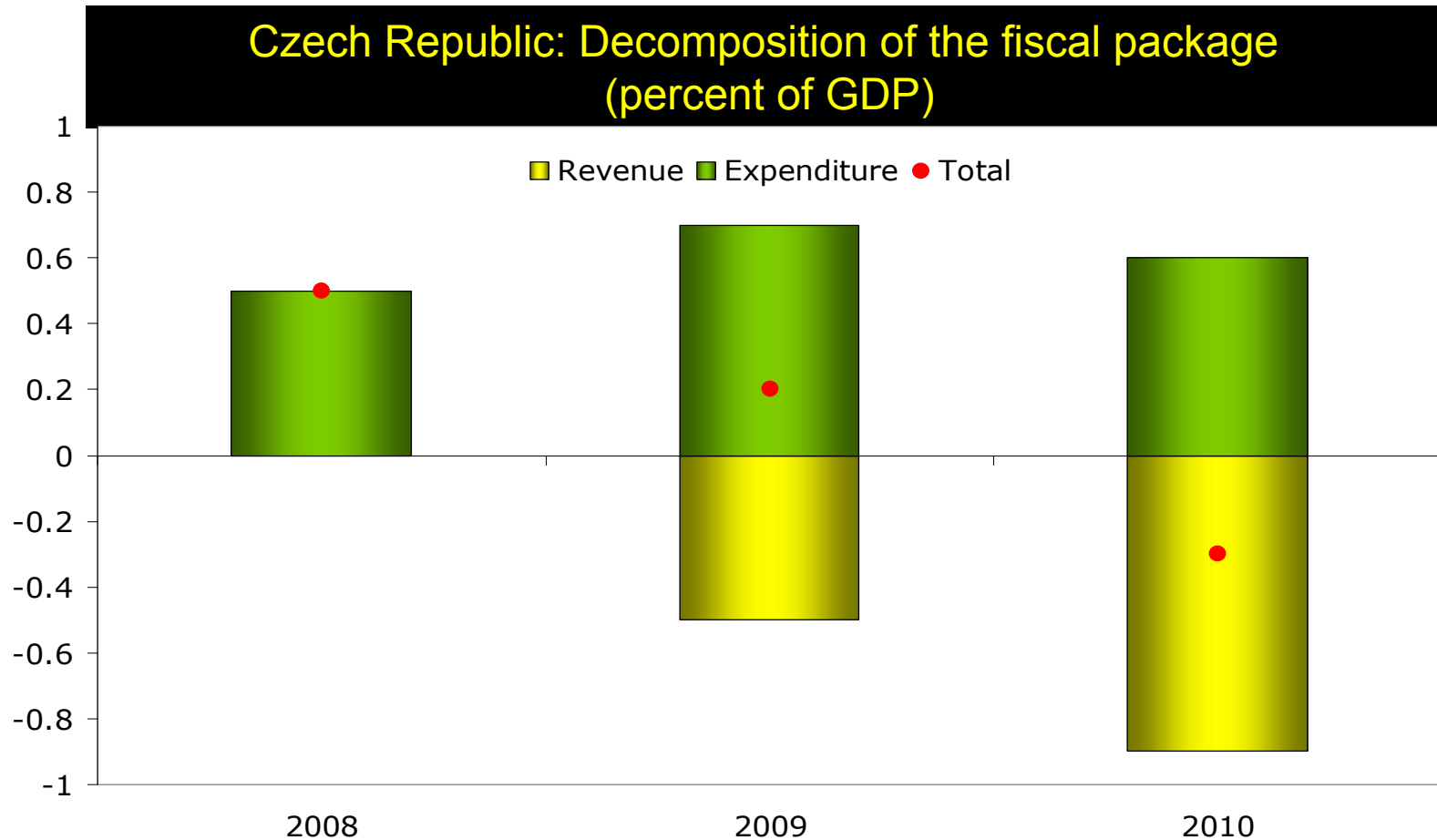
In the “reform countries” the tax structure has moved towards consumption



The Hungarian reform effort is sizeable, but in large part based on revenue increases...

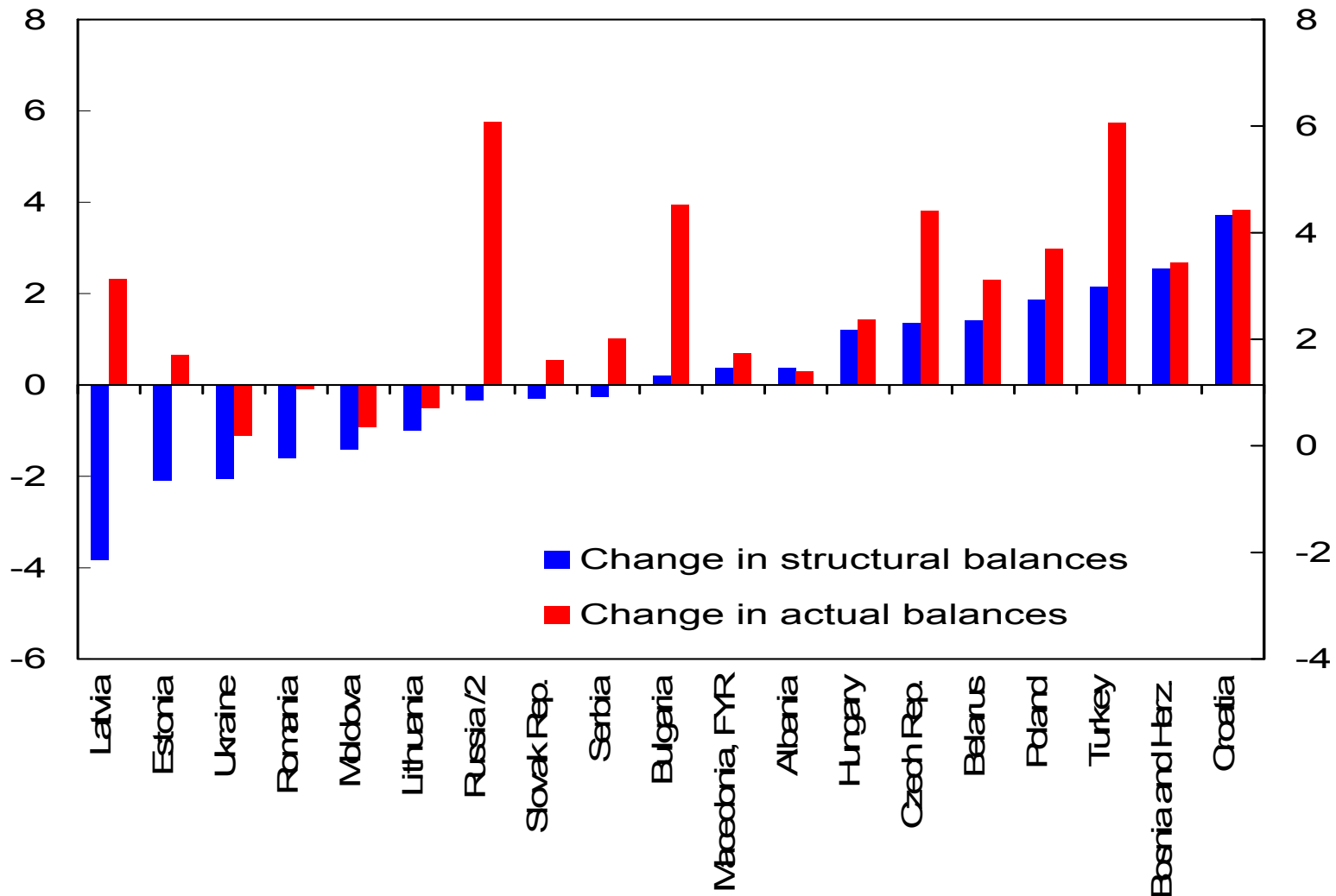


...while the recent fiscal package in the Czech Republic has only a modest fiscal impact



Room for more fiscal consolidation

Change in Actual and Structural Fiscal Balances, 2003–07 1/
(Percent of GDP)



Thank you!

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