Taxation and Politics

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

Christoph B. Rosenberg
IMF Office for Central Europe and Baltics
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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.

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

Source: AMECO.
Some CEEs implemented deep spending cuts in the last decade...

1/ Czech Republic, Hungary, Poland, and Slovenia.
Source: Eurostat
...achieving fiscal consolidation...

![General government balance (in percent of GDP)](chart)

Source: Eurostat
…while at the same time lowering the tax burden

Source: Eurostat
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...

**Hungary: Decomposition of the fiscal package**
(in percent of GDP, relative to no reform scenario)

- **Revenue**
- **Expenditure**
- **Net impact**

2006:
- Revenue: 0.5%
- Expenditure: 0.5%
- Net impact: 0%

2007:
- Revenue: 3.0%
- Expenditure: 3.5%
- Net impact: -0.5%

2008:
- Revenue: 7.0%
- Expenditure: 6.5%
- Net impact: 0.5%

Source: National authorities, Barclays, IMF
...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)

[Graph showing changes in actual and structural fiscal balances for various countries, with bars indicating the value in percentage of GDP for each country.]

1/ Change in Actual and Structural Fiscal Balances, 2003–07

- Latvia
- Estonia
- Ukraine
- Romania
- Moldova
- Lithuania
- Russia/2
- Slovak Rep.
- Serbia
- Bulgaria
- Macedonia, FYR
- Albania
- Hungary
- Czech Rep.
- Belarus
- Poland
- Turkey
- Bosnia and Herzegovina
- Croatia

Change in structural balances: [Blue bars]
Change in actual balances: [Red bars]
Thank you!

Christoph B. Rosenberg
Senior Regional Representative

International Monetary Fund
Regional Office for Central Europe and Baltics

Ul. Zielna 37C
0-108 Warszawa
Tel.: + 48 22 338 67 00
E-mail: cee-office@imf.org
Visit our website at: www.imf.org/cee