



REFORMS FOR EUROPE

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Bratislava
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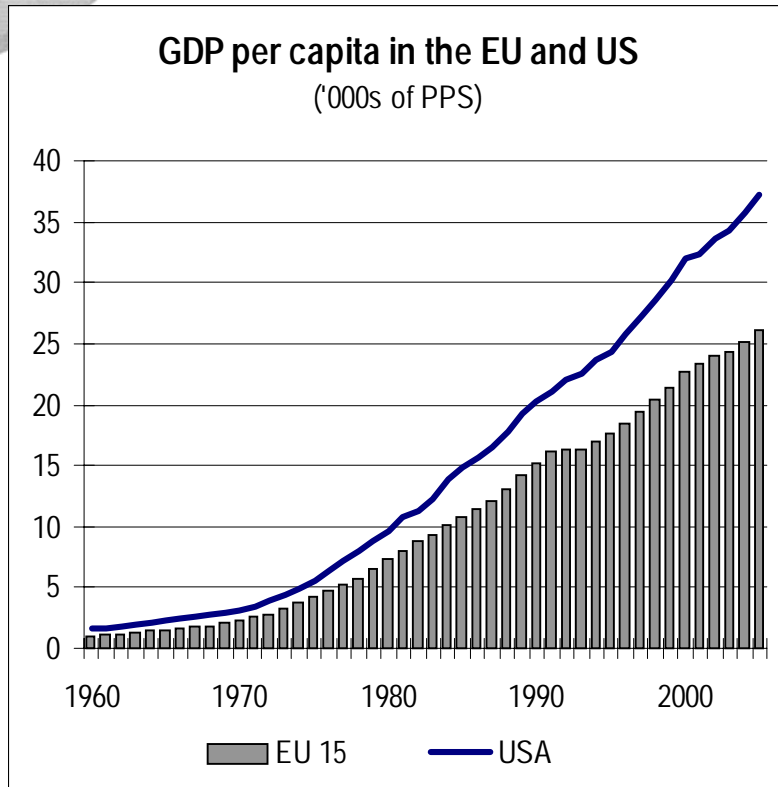


LISBON STRATEGY: THE STRATEGIC GOAL

"To become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion by 2010."



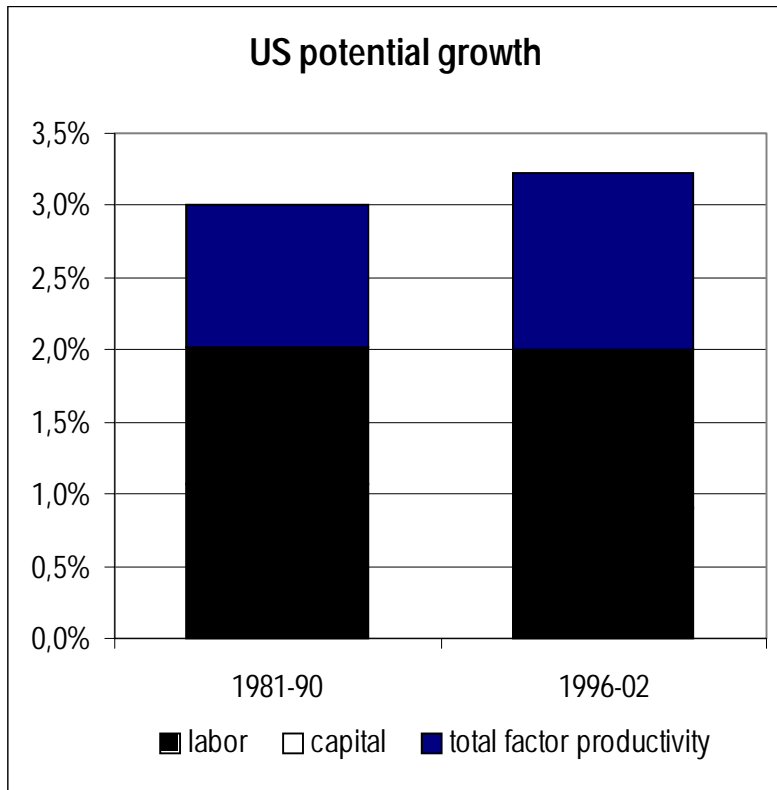
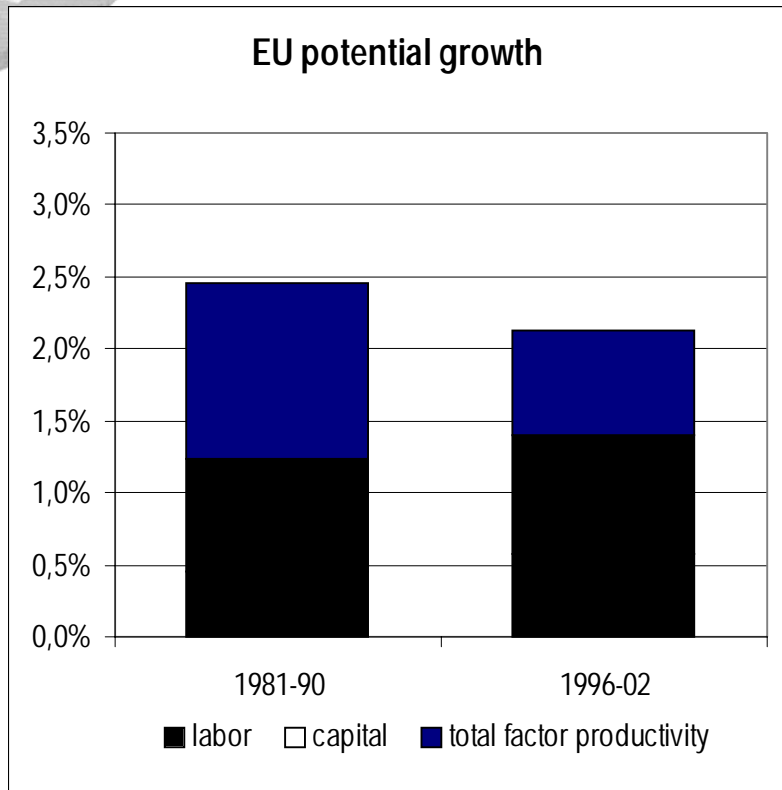
GROWTH PERFORMANCE OF EU AND US



Source : EC



DECOMPOSITION OF POTENTIAL GROWTH RATES



Source : EC

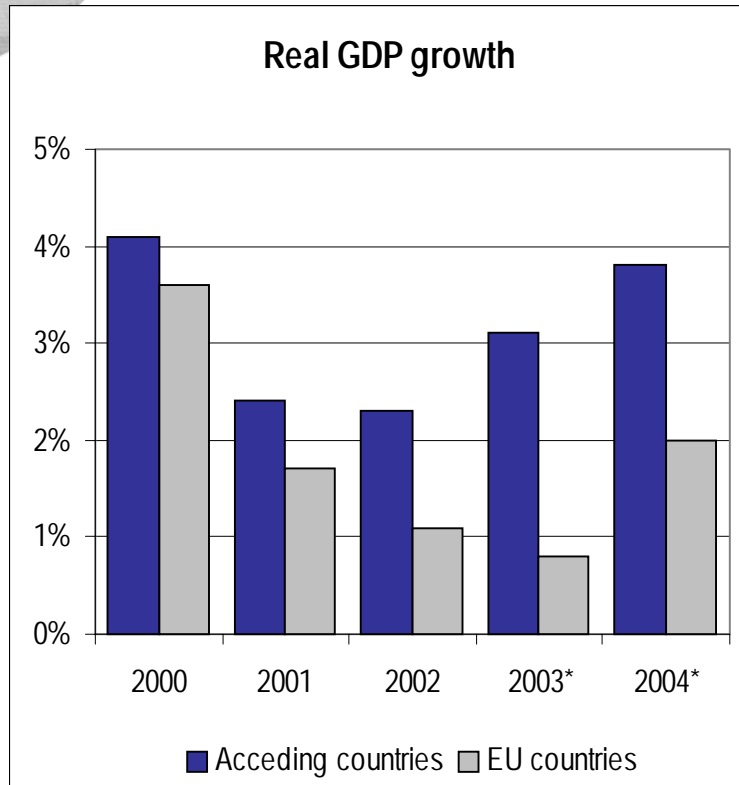


RECENT REPORT BY THE COMMISSION ON DELIVERING LISBON IS NOT ENCOURAGING

- employment is still making only a limited contribution to growth
 - intermediate target of 67% employment rate by 2005 will not be reached
 - 50% employment rate target for older workers by 2010 is also in danger of being missed (only 40.1% in 2002)
- overall productivity growth is still too low, due mainly to two factors
 - too low contribution of information and communication technologies (less than half of US)
 - falling investment – both business and public
- weaknesses in internal market still persist
 - slowdown in product market integration
 - falling transposition rate of internal market directives



GDP GROWTH IN THE ACCESSION COUNTRIES



* Forecasts
Source : EC

- acceding countries have been growing much more rapidly than the existing Member countries
- reasons:
 - convergent growth
 - **structural reforms**



NEW MEMBER COUNTRIES CAN LEAD THE WAY WITH STRUCTURAL REFORMS

1989

2004

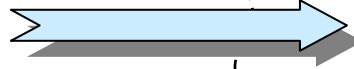
CENTRALLY
PLANNED ECONOMY

GOALS OF REFORMS

- functioning market economy

TYPES OF REFORMS

- privatizations
- price deregulations
- market institutions



FUNCTIONING
MARKET ECONOMY

- real convergence with the rest of EU
- long-term competitiveness
- structural reforms



EXAMPLE 1: THE SLOVAK TAX REFORM - GOALS

BASIC PHILOSOPHY: LIGHT, NONDISTORTIVE, SIMPLE AND TRANSPARENT TAX SYSTEM

- create business and investment friendly environment for both individuals and companies
- eliminates existing weaknesses and inefficiencies in the tax law
- eliminate distortive roles of tax policy as instruments for achieving non-fiscal goals
- achieves a high degree of tax fairness by taxing all types and all amounts of income equally



EXAMPLE 2: EDUCATION SYSTEM REFORM

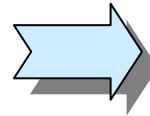
CURRENT REFORMS

TOOLS

GOALS

PRIMARY AND SECONDARY EDUCATION

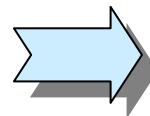
- transferring responsibility to lower-level of governments
- changing the mechanism of financing (fixed funding per student)



- ensure that school supply responds to local demand for schooling and labor market situation
- creating more pressures to close inefficient and costly small schools
- create conditions for changing school curricula reflecting the needs of a modern economy

TERTIARY EDUCATION (envisaged)

- introduction of fees for universities
- changing the system of subsidies for related services



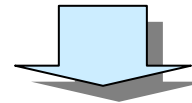
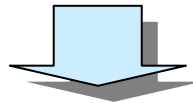
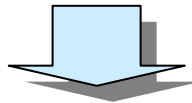
- increase financial flows into the system to expand capacity and improve quality
- target financial assistance to those who need it the most



EXAMPLE 3: PENSION REFORM

Key reforms recommended by European Commission to relieve long-term pension system pressures on public financing:

- provide economic incentives to prolong working lives
- limit access to early retirement schemes
- strengthens the link between contributions and entitlements
- curtails future public spending requirements by instituting more appropriate pension indexation mechanism.
- spread future pensions-related risks across several pension pillars



SLOVAK REFORM IMPLEMENTS ALL THESE RECOMMENDATIONS

- by radical reform of 1st pillar
- by introduction of the 2nd pillar
- by improving the regulatory environment for an efficient functioning of the 3rd pillar



OTHER EXAMPLES OF STRUCTURAL REFORMS

- labor market and social security
 - increase job creation
 - by increasing the flexibility of the job market
 - increase motivation of job seekers to look for work actively
 - by improving incentives in the social and unemployment support system
 - improve the ability of job seekers to succeed
 - by better and more targeted active labor market policies

- health-care
 - make the system financially sustainable
 - improve the quality of services provided



CONCLUSION: ENLARGEMENT CAN PROVIDE THE EU WITH A NEW PRO-REFORM STIMULUS

- EU needs to expedite progress on structural reforms
- enlargement should help thanks to:
 - competitive pressures coming from the new Members
 - current EU members will have to reform as well if they will want to stay competitive in medium and long term
 - “change of mood” within the EU
 - at least 10 out of 25 people around the table will be from dynamic countries with significant reform experience



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