



Policy Brief 1/2012

(UN)SUSTAINABILITY OF PUBLIC (DEBT) FINANCES

February 6, 2012

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Abstract

Czech public finances seem to be relatively unproblematic in the short term view, but in a long-term horizon the Czech Republic has a serious problem - partly due to population aging - with growing expenditures and unsustainable public debt. Predictions of the Ministry of Finance show that in 2040 the public debt will exceed the size of annual gross domestic product (GDP), and by 2050 the debt could reach 160 percent of GDP. To reverse this trend and to reach sustainability of public finances, it is necessary to make major changes to public policies and public finances, which are currently not considered by the ruling nor opposition parties. To sustain the same size of GDP debt in 2050 as it is today, we need to execute changes in public budgets as of 2012. These changes correspond with a fiscal gap of 2.2% of GDP as well as, for example, the need to increase harmonized VAT rate up to almost 23%, or cut all costs of five mid-size ministries or reduce pensions by 30% down to approximately CZK7300. Furthermore, any delay in the execution of such measures will result in the growth of the problem, and greater measures being needed in the future. A realistic strategy for achieving sustainable public finances should include relatively swift and radical adjustments of public policies and changes in expenditures, revenues and the institutional setting of public finances.

[Download](#) the complete study (in Czech only).

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