Assessment and recommendations

Major challenges need to be addressed with bold measures on a broad front

Six years after Slovakia initiated a broad ranging series of reforms which generated high growth and rapid convergence the government again finds itself in front of major challenges, albeit within a much less benign international environment:

- The legacy of the crisis is felt on the labour market with record high unemployment and in the government budget with high deficits again.
- The gap in living standards with the more advanced OECD economies calls for efforts to move to a higher trend growth rate.
- International agreements to limit climate change request measures re-pricing energy and emissions, which make challenging calls on the competitiveness of Slovakia's energy-intensive and export-oriented manufacturing sector.
- A worldwide re-orientation towards green growth generates opportunities, which will only be accessible with deep structural changes.

Measures to address these challenges will need to be taken on a broad front and be of a bold nature. Some of these measures are of a cross-cutting, "generic" nature, including a sound macroeconomic policy framework, a competition friendly regulatory environment, labour market clearing wage determination, a growth friendly tax system as well as an education system which makes the most out of Slovak talent. While on the one hand the need for reforms has grown with the size and complexity of the challenges, there are on the other hand important synergies, which potentially increase the return to reforms:

- Fiscal consolidation will not only reduce risk premia and future financing costs, but will also free resources becoming available for new activities, increasing potential growth in a sustainable way.
- Improving the efficiency of the Slovak education system to endow graduates with employable skills will increase the recovery from the crisis as well as facilitate structural change, for example by making growth greener.
- A wage determination system, which allows job seekers to price themselves into the market and employment will help to reduce poverty risks, reduce social expenditure pressures, limit the economic costs of fiscal consolidation, help lower entry barriers for innovative entrepreneurs and increase the efficiency of active labour market measures.
- Fostering competition throughout the economy, in particular in network industries, which supply important inputs will reduce rents, strengthen the purchasing power of households and increase the scope for innovation

- A growth friendly tax system not only lowers the deadweight cost of financing public expenditure, but can also remove obstacles for risky investments with a high rate of return, like innovation expenditures to reap the opportunities of green growth.

The assignment of policies to address the various challenges is presented in the following according to their time horizon: starting with the immediate challenges of overcoming the legacy of the crisis on the labour market and for public budgets, moving to making consolidation more durable by increasing the efficiency of government spending and concluding with the transition to green growth.

The economy is coming out of a deep crisis…

The Slovak economy suffered one of the steepest declines in real GDP among OECD countries during the financial crisis, mirroring developments in world trade on which Slovakia is highly dependent. In contrast to many other OECD economies, there were few domestic imbalances ahead of the crisis. Household borrowing was not excessive, bank lending was prudent and increases in house prices did not lead to a boom in construction activity. In addition, notwithstanding some loss in competitiveness due to currency depreciation of neighbouring countries, the accession to the euro area in 2009 was beneficial for Slovakia during the crisis, not least as increased market confidence has kept financial conditions relatively favourable. The economy is now recovering swiftly, along with the pick-up in world trade, and real GDP may reach its pre-crisis output level during 2011. Nevertheless, the adverse effects of the crisis are substantial, notably in the labour market and the budgetary position. In addition, as in other countries, the crisis is likely to have led to a temporary decline in potential output growth, reinforcing the need to implement growth friendly structural reforms. The new government has rightly embarked on an ambitious reform agenda with an emphasis on fiscal consolidation and improving the framework conditions for economic activity.

… but unemployment remains at very high levels

The number of unemployed has risen sharply during the crisis, notwithstanding an extensive reduction in hours worked per employee, helped by an increased use of working hour accounts. With the unemployment rate now standing above 14% – the second-highest among OECD countries – the main challenge is to prevent unemployment from becoming entrenched and turning into long-term unemployment and, eventually, a decline in labour force participation and social exclusion. Cross-country evidence suggests that the risk of such hysteresis effects is larger in Slovakia than in many other OECD countries. *Countering this tendency may require a reprioritisation of active labour market policies*. Currently, expenditures on such policies are below the OECD average as a share of GDP but rightly focus on job counselling and placement services. However, expenditures on training account for a much smaller share of spending on active labour market programmes than in other countries. As the opportunity costs of training are likely to be smaller (and thus the effectiveness higher) following deep recessions, in particular if the focus is on general skills, *active labour market programmes should be shifted towards training*. By contrast, spending is significantly above the OECD average in some other areas, such as start-up incentives. Evidence for the effectiveness of start-up incentives based on other countries' experience is more mixed. *Slovakia should thus closely monitor the outcomes of this measure and, based on such monitoring, decide whether to reduce spending in this area.*

Wages need to adapt to local labour market conditions

Flexible wage formation mechanisms are essential to restore labour market equilibrium following the rise in unemployment. In this regard, all institutions that may prevent adjustment of wages to local conditions should be reviewed. First of all, this means ensuring that minimum wages do not have adverse effects on employment creation. The level of the minimum wage relative to the median wage in Slovakia has risen over recent years to around the OECD average in 2010. However, due to the pronounced divergences in regional economic development, the minimum wage is much higher in relation to median wages in those poorer regions of the country, which also register above-average unemployment rates. *Significant increases in the minimum wage should be avoided and some differentiation of the minimum wage to deal with pockets of high unemployment considered.* Currently, minimum wages are determined by negotiations between the social partners; however, if no agreement can be reached – as has frequently been the case in recent years – the government sets the level. In order to depoliticise the process, *an independent expert commission should be considered to provide advice on the minimum wage.*

The setting of a national minimum wage also has implications beyond low-income earners. A regulation stipulates that employees in firms not covered by collective wage agreements are subject to a minimum wage that differs per employee, depending on his/her type of work based on a classification of job types by level of difficulty. While the minimum wage level at the lowest level is equal to the national minimum wage, it rises up to twice the national minimum wage for work classified in the highest level. This effective wage floor may have adverse effects on employment creation even for higher paid jobs and also entails a significant administrative burden on companies through the classification of job types. *This regulation should be phased out.*

Legal extension of collective wage contracts to firms that do not participate in collective bargaining may also hinder wage adjustments to regional requirements. Up to 2007, Slovak firms had the right to veto the extension to their firm. However, this regulation was changed subsequently and firms had only very limited grounds to ask for exoneration from legal extension. The new government changed the law and now legal extension of collective wage agreements is made dependent on the consent of affected firms. *While this is a welcome step, ending legal extension might be the best policy.*

The budget deficit has increased sharply

The budget deficit has increased sharply during the crisis, from 1.9% of GDP in 2007 to 7.9% of GDP in 2009; it is estimated to remain broadly at this level in 2010. This reflects both a permanent loss of potential output and the effect of the automatic stabilizers, and to a lesser extent stimulus measures, which amount to around 1% of GDP in total over the period 2009 and 2010. Swiftly reducing the budget deficit should be the policy priority going forward. This is all the more important as government bond markets are increasingly differentiating between countries on the grounds of their fiscal performance. While the debt burden is relatively low in Slovakia, at around 40% of GDP, rapid population ageing, due to a very low fertility rate and increases in life expectancy, will soon significantly raise public expenditures. Against this background, the government's plan for a substantial consolidation package that is intended to reduce the deficit in 2011 by 2.5 percentage points of GDP (against a no-policy change scenario) is very welcome. This package includes significant expenditure cuts (a reduction in the public wage bill and savings in public procurement) and revenue increases, notably a temporary rise in the standard VAT rate by 1 percentage point to 20%, higher excise taxes and phasing out of some tax expenditures.

Reforms to the pension system are urgently needed

Reforms to the pension system are urgently needed as the first (defined-benefit) pension pillar is clearly unsustainable in view of the impact of ageing. As long as first pillar pension promises depend on future tax increases a meaningful comparison with the performance of the second pillar can not be made and decisions about the participation in the second pillar will be distorted in a way which increases future fiscal liabilities. Making the system sustainable requires *a reform of the first pillar pension replacement rate, for example by adding a sustainability factor into the pension formula to ensure an automatic cut-back of replacement rates as the old-age dependency ratio worsens. Another way would be to increase the retirement age in line with gains in life expectancy and to index pensions solely to inflation rather than the current indexation to 50% nominal wage growth and 50% to inflation*. These measures would lower pension expenditures while guaranteeing that the number of years spent in retirement remained constant and protecting the consumption level at the age of retirement throughout the retirement period. Long-run sustainability of the pension system also requires raising the importance of the second (defined-contribution) pension pillar. Yet another way would be to raise contribution rates, although the labour tax wedge is already high. As a consequence of recent reforms which allowed participants to move back into the first pillar and made participation in the second pillar voluntary instead of mandatory for new labour market entrants, the inflow into the second pillar has slowed substantially and thereby raised the future spending liabilities of the currently non-sustainable first pillar. *Participation in the second pillar should be made the default option for new labour market entrants – participants would have to specifically opt out if they don't want to be in the system*.

In addition, the special allowance ("Christmas allowance") paid once a year since 2006 to some groups of pensioners with incomes below a certain level should be phased out. However, the underlying issue is a concern about the lack of redistributive features in the pension system – which reflects a very strong link between earnings and subsequent pensions during retirement. Thus, the phasing out of the special allowance may need to be coupled with reforms to increase redistribution, for example by weakening this link or by subjecting pensions to personal income tax and using these revenues to raise first pillar pensions, as recommended in previous *Surveys*.

Revenues should be raised from real estate taxation…

In addition to expenditure cuts, revenue increases will need to be considered. Evidence from OECD countries suggests that taxes on immobile bases have less adverse effects on growth than labour or capital taxes. It is thus unfortunate that taxes on real estate – one of the least mobile bases – are scarcely developed in Slovakia with revenues amounting to ½ per cent of GDP, around a quarter of the average OECD country. Real estate taxation in

Slovakia consists of a land tax, based on applying a tax rate on the value of the land as set by regulation and a tax on buildings and apartments, based on applying a fixed tax rate per square metre.

Apart from yielding little revenue, the current taxation of real estate is below the level of taxes on investment in financial assets, thereby distorting the allocation of capital towards owner-occupied housing. Also, the set-up of the building and apartment tax, where the tax rate per square metre is fixed in euro terms, amplifies volatility of house prices as the effective tax rate is negatively correlated with the real estate value (*i.e.* the effective tax rate declines when the value of the property increases and *vice versa*). *The land tax rate should be raised, the building and apartment tax rate should be set as a per cent of the value, and in both cases the tax base should take the market value of the property into account.*

… and tax exemptions should be reduced

In addition, all tax expenditures should be regularly reviewed and certain exemptions should be phased out, not least because they are often a poorly targeted way of supporting low-income households. *In this regard, reduced VAT rates or exemptions – even though they are less widespread than in many other countries – should be reconsidered. In addition, tax exemptions in environmental taxation, which amount to revenue losses of around 0.2% of GDP, should be phased out.* When calculating the net revenue gain of such measures, however, it needs to be taken into account that some compensating transfers may have to be paid to low income households, thus reducing the net tax intake.

Improving fiscal discipline…

Evidence from OECD countries suggests that countries with fiscal rules have longer-lasting consolidations than others. Three laws govern public expenditures at the national level in Slovakia. The *General Government Budgetary Rules Act* sets out the rules for the preparation and implementation of the general government budget over the following three years. Its weakness is that revenue windfalls are usually not saved. The *State Budget Act*, which is concluded for each budget year, stipulates that windfall revenues may be used for additional spending up to 1% of originally budgeted expenditures. Local government entities are governed by the *Local Government Budgetary Rules Act* which is similar to a golden rule (as budgets excluding capital investment have to be balanced) and caps their debt level.

… by implementing a fiscal rule…

With a view to the major consolidation currently required, Slovakia needs to strengthen and reform its fiscal rules. In particular, *multi-year binding expenditure ceilings with a strong consideration of the cyclical position would improve the budgetary framework and should be implemented in a way to comply with the medium-term structural deficit objective of the Stability and Growth Pact. This may be combined with a debt rule, acting as an emergency backstop. The expenditure ceilings should include tax expenditures, but may exclude cyclical expenditure items such as unemployment benefits in order for the automatic stabilizers to work in both directions.*

… and setting up an independent fiscal council

The fiscal framework would be further strengthened by setting up an independent fiscal council as has happened in several OECD countries. Such an institution would help to depoliticize somewhat key aspects of fiscal policy (thus lowering a potential bias towards deficits or pro-cyclical behaviour). In addition, recent significant revisions of past deficits have highlighted the need to raise overall transparency. A fiscal council could provide recommendations for the purpose of budget formulation, including forming an opinion about the macroeconomic situation, and undertake analysis of fiscal issues, such as long-term sustainability, or simulate policy alternatives in order to inform the public (and politicians) about the consequences. Furthermore, a council should assess the compliance of budget numbers with the fiscal rules. By constructing a comprehensive and publicly available fiscal database, the council could significantly increase the transparency of public finances.

There is room for improving public sector efficiency

The significant deterioration of public finances means that Slovakia, like most OECD economies, now has very little scope for higher spending. In such a situation, policies to increase the efficiency of the public sector – both on the expenditure and the revenue side – can be particularly helpful. Such measures not only improve the fiscal situation (thereby freeing up resources for other purposes) but also help to stimulate productivity and thus potential. This in turn helps to improve the sustainability of public finances.

Tax administration could be improved

The collection of VAT receipts must be improved. Given that the standard VAT rate is around the European average and the level of tax exemptions is very low, Slovakia should be getting much more revenue out of its VAT system than it currently does. For example, raising the efficiency of collection towards the better performing OECD countries would raise three times as much additional revenue as a one percentage point increase in the standard VAT rate. *As fraud is likely to be an important reason for low VAT revenue collection efficiency the number of verification activities should be stepped up*. Further efficiency gains could be reaped by moving towards unified revenue collection as planned by the government's UNITAS project. Once the two phases of the project are implemented, the gains are estimated to amount to around 2½ per cent of GDP. *The plans for a unified collection scheme are highly welcome and should be implemented swiftly. In order to prevent delays, the government should proceed quickly with approving the second stage of the reform (UNITAS II)*.

EU fund absorption could be increased

Improving the absorption of EU funds should also be a priority going forward, not least as this may help to cushion some of the adverse effects of the government budget cuts on the real economy. While Slovakia compares relatively well with other Central and Eastern European countries as regards the share of contracted grants to the total available budget, the amount of grants actually disbursed to the final beneficiaries (absorption) is much lower. This outcome is partly due to a low quality and transparency of the selection process, meaning that some contracted projects do not pass the control mechanisms at the national level. *The underlying reasons for the low absorption should be investigated. Submission requirements for domestically funded capital projects should be transparent and simple and co-operation between ministries should be fostered in order to facilitate the certification process. Consideration should be given to accelerating the projects in order to get the maximum impact during the time of fiscal consolidation, thus damping the adverse growth effects of consolidation.*

Health care spending should be made more effective…

Public sector spending on health accounts for one-fifth of overall public expenditure in Slovakia and is expected to rise sharply over the next decades, not least due to rapid population ageing. At the same time, the system is less efficient than many other OECD countries in translating high expenditure growth into better health outcomes. Cross-country analysis suggests that life expectancy in Slovakia could be raised considerably if the system became more efficient. Alternatively, holding gains in health outcomes constant, a more efficient system could lead to significant savings. In addition, the inequality in health outcomes, measured as the standard deviation in mortality rates for the population older than 10, is higher in Slovakia than in a number of OECD countries. The Slovak health care system has undergone substantial reforms since 2005, and not all of the benefits may yet have occurred. However, policies still differ in many respects from countries with better performing health systems.

… by dealing with the high out-of-pocket payments and low incentives for general practitioners and hospital professionals,…

The increase in health spending is driven by private expenditures as out-of-pocket (OOP) spending has risen to very high levels. Anecdotal evidence suggests that these expenditures at least partly reflect informal payments. Rising OOP spending has lead to increased inequality as low-income households are most affected by such extra expenditures, but this is not reflected in better health outcomes. *Given the extent of OOP payments in Slovakia, an upper limit for OOP payments in terms of annual household income as exists in many other OECD countries should be considered.* In addition, salaries of physicians are well below the OECD average, both in terms of USD PPPs and in relation to average wages, leading many of them to work abroad. *Thus, the remuneration structure of doctors should be reconsidered in order to ensure that supply constraints on the side of physicians do not prevent better health outcomes.*

… by reducing the excessive expenditures on pharmaceuticals,…

Expenditures on pharmaceuticals are very high in Slovakia, accounting for more than a quarter of all health spending – the second-highest in the OECD. In a catch-up country like Slovakia, pharmaceutical prices (a traded good) are often high in relation to the price of health expenditures as a whole (a non-traded good). However, there is also evidence of over-pricing. In addition, growth of drug volume consumption is also high, possibly reflecting low co-payments for drugs. *Consideration should be given to raising co-payments, even though this will tend to increase OOP spending. Measures to increase transparency in the pharmaceutical marketing and distribution and to reduce induced consumption of drugs should be introduced. Generic substitution should be encouraged; the government's plans to encourage doctors to only prescribe the drug substance is thus a step in the right direction. In addition, pharmacists should be obliged to always supply the cheapest generic drug. Benefit-cost ratios of newly entering as well as already marketed substances should be reviewed, using standard international methodology, and inferior products should no longer be reimbursed.*

… and by raising the scope for competition in insurance and provider markets

The organisation of the Slovak health insurance system is based on a multiple insurance system with competition, funded primarily by social security contributions. However, the market is highly concentrated, with only three funds providing primary health coverage – fewer than in the other OECD countries that offer consumer choice of insurers. In addition, the levers for competition on the market for the basic insurance package are much more limited than in countries with a similar institutional set-up, following a significant tightening of regulations over the past years. While the benefits of competition in health insurance markets are still highly debated – notably, it is not clear whether having a multi-payer system with competition is always preferable to a unitary payer system – Slovakia has opted for a system that favours competition, and thus reforms within that system are needed to make it more coherent with countries with more efficient health spending. To raise efficiency and cost containment, *competition among insurance funds should be increased by allowing the distribution of profits, reducing barriers to entry, such as reconsidering the upper limit for administrative costs, allowing selective contracting with providers, and allowing contributions to vary. Consideration should be given to splitting up and partial privatization of the dominant publicly-owned insurer.*

However, in order for healthy competition to take place, a number of conditions need to be ensured. *This may include a refinement of the risk adjustment mechanism* to provide a level playing field for health insurers by reducing the incentives for them to select lower-risk individuals. In the current mechanism, around 95% of all contributions are redistributed through a risk-equalisation scheme which takes into account a number of characteristics, such as age, gender and income. *The risk-equalisation formula should be improved by also including health parameters.* In addition, competition among providers, which currently is very low in some segments, such as hospitals, should be increased. A first step in this direction has been the collection of quality indicators for healthcare providers. The aim is to increase transparency, thus allowing insurance funds to better choose providers and allowing patients – who have the free choice among providers – to choose doctors and hospitals. The list of quality indicators for healthcare providers should be further improved to reflect genuine differentiation in quality and should be published regularly in full detail. While such quality measurement is a critical ingredient for a functioning competitive market, insurance companies need to be allowed to more selectively contract with providers in order to fully bear the fruits. Currently, the extensive minimum network of providers limits such choice and *redefinition of this network should be considered, perhaps by defining the minimum network using quality indicators. Moreover, the benefits and risks of a transformation of hospitals into joint stock companies should be explored further.*

Fostering transition to a greener economy through eco-innovation…

The transition to a greener economy is challenging for a country like Slovakia, which is characterized by a relatively high share of energy-intensive industries compared to the OECD average and an important automotive sector. Fostering eco-innovation – the implementation of innovative products, processes, marketing methods, organisational structures and institutional arrangements which lead to environmental improvements – may thus be helpful to lower the abatement cost of pollution and ease this transition. Doing so will require structural reforms in several areas, such as improving the innovation framework, fostering human capital formation and enhancing the business environment.

… and addressing climate change by better pricing pollution…

Although Slovakia achieved one of the largest declines in greenhouse gas (GHG) emissions among OECD countries since the 1990s, the level of GHG emissions still remains very high reflecting high energy intensity. In addition, air pollution is expected to rise in the coming years in the absence of efficient policy actions. To tackle this issue, *environmental taxation should be extended, in particular by establishing a clear, predictable and credible carbon tax in the sectors not covered by the European Union Greenhouse Gas Emission Trading System (EU-ETS)*. Putting a national price on GHG abatement through such a tax would limit the cost of mitigation efforts, remove distortions across sectors and provide fiscal resources to replace more distortive taxes. A rapid and significant reduction of energy intensity would also help in reducing GHG emissions and contribute to creating sustainable conditions for growth. In addition, it would reduce dependence on imported fossil fuels, and limit the vulnerability of the economy to energy-price shocks and to shortfalls in primary resources. *To foster energy savings, exemptions on energy taxes should be removed. In particular, remaining exemptions for household energy consumption should be phased out, but financial compensation targeted on low income households should also be instituted so as to limit negative social repercussions.*

The development and implementation of environmental and energy policies are not centralized and lack co-ordination. *Better co-ordinating efforts among the different administrative bodies is thus needed. Carrying out systematic evaluations, including the construction of marginal abatement cost curves, would improve the cost effectiveness of environmental and energy policies.* In particular, *measures to develop renewable energy sources (RES) should be carefully monitored to avoid deadweight losses and abusive exploitation.* Those subsidies, which could be replaced by more efficient and less costly market-based instruments, should be phased out. For instance, *tax exemptions on electricity produced from renewables should be removed and subsidies for equipments used to exploit renewable energy sources should be replaced by soft loans or at least this state aid should be targeted on credit-constrained households.*

… encouraging more R&D spending…

R&D activities are relatively underdeveloped in Slovakia with total gross expenditures on R&D the second lowest in the OECD. A coherent national innovation plan is still lacking and effectiveness of public R&D spending in increasing private R&D performance is low. The current financial support of private R&D, which relies mostly on direct subsidies, should be *redesigned, for example by widening the scope of tax expenditures. The rules for granting R&D and innovation support should be clarified and projects should only be excluded on eligibility grounds.* Protection of intellectual property rights is important for firms to get the full returns on their investment in innovation, and thus *should be strengthened*.

… ensuring a business-friendly environment…

Improving the business environment would enhance competition, improve access to capital and increase the availability of a flexible and skilled labour force. Encouraging competition can raise firms' incentives to innovate and improves their cost-efficiency. Reducing entry barriers in product markets eases the entry of new firms which tend to be more innovative. Even if Slovakia has made some notable progress, the start-up of new businesses is still more complicated, costly and time-consuming than in many other OECD countries. *The administrative burden should be reduced, for example by establishing the long-envisaged single contact point for firms and by unifying the collection of social security contributions and taxes. Entry barriers should be removed in regulated sectors, notably in energy.* Despite the recent opening of the energy market, the incumbent companies are still dominant. This lack of competition could hamper eco-innovation by reducing incentives for energy producers, distributors and suppliers to find solutions to improve energy efficiency. *Competition in the energy market should be ensured by limiting non-price discrimination and the power of incumbent companies, for instance by establishing unambiguous and transparent rules for access to the grid, the enforcement of contracts and the authorisation procedures. The price-setting framework should also be more stable and transparent.*

Lack of funds is one of the main factors hampering innovation and venture capital is underdeveloped in Slovakia. *Recent initiatives to develop financing of small innovative firms (JEREMIE) should thus be pursued further.* Adapting to a greener economy requires structural change and the diffusion of new technologies, which may lead to skill shortages. *Fostering the expansion of a private rental market and ensuring that job protection legislation is not excessive would improve the adaptive capacity of the labour market.* Skill availability should be ensured by *the development of training and life-long learning and the removal of barriers to mobility.*

… and developing a knowledge society

To raise its innovative and adaptive capacities, Slovakia needs to develop a knowledge society by increasing the quality of tertiary education, removing barriers to knowledge transfers and obstacles to human capital accumulation. Tertiary educational attainment is an important determinant of innovative capacity, as it broadens the potential for creation and diffusion of knowledge. Slovakia has a low level of tertiary educational attainment, even for the young generation, and outcomes are weak. *Reforms are required to increase the quality and the flexibility of the tertiary education system. In turn, allowing universities to introduce tuition fees for full–time students coupled with loans having income contingent repayments, facilitating entry of new competitors into the tertiary education system, and replacing budgetary allocations to universities with competitive research grants (or at least making funding more dependent on outcomes) would help achieve these objectives.* In addition, Slovakia has scope to develop knowledge transfers and improve technological diffusion: ties between the academic and the business sphere are weak, participation in international R&D projects is limited, and ICT use is underdeveloped. *Barriers to labour flows (as between the academic and the business sphere) at the national and the international level should be removed. In particular, high-skilled migration should be facilitated. Public support to innovation should encourage the establishment of knowledge networks, cross-funding of projects and international co-operation.*

A political economy reasoning for consensus about important regime changes

In the past years Slovakia was exposed to several regime changes in important policy areas, such as pensions, health care and the labour market. While each of these changes has had its own merits and risks, the mere frequency and significance of policy shifts risks taking up scarce resources in policy making and imposing additional adjustment costs on society. It is therefore a welcome step by the current government to seek a broad consensus to support reform initiatives concerning the fiscal policy framework. Notwithstanding different political preferences, there is room for agreements which concern measures influencing the more medium or long term performance of the economy with the potential for a high return to stability in the policy environment.