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Sustainability of structural pension reforms in the CEE countries – experiences and lessons for the future[1]

At the beginning of their economic transformations, Central and Eastern European countries inherited public pension systems which faced short- and long-term challenges that resulted from socio-economic conditions and demographic pressure. Pension reforms were on the political agenda from the early stages of the shift from centrally planned to market orientated economies.

Most of the countries of the region introduced structural pension reforms, which led to complementing the mandatory public PAYG schemes with the mandatory pension funds.

A decade on from the implementation of structural reforms, and now in times of financial and economic crisis, some of the CEE countries decided to retreat from their initial reform paths. This article discusses the fiscal factors of a reversal in pension reform or in maintaining the status-quo, and focuses on 8 countries: Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

Key words: structural pension reforms, CEE countries, fiscal policy.

1. Pensions reforms in the CEE countries at the turn of the century

The adaptation of public pension systems to changing demographic and economic conditions may follow different patterns. The typology of pension reforms is built on different concepts, but in this paper the simplified division between structural (systemic) and parametric reforms is used[2]. Parametric reforms refer to the customization of public pension system parameters, such as retirement age, contribution rate, old-age pension eligibility conditions, indexation rules, etc. Structural

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2. As in: M. Żukowski, „Reformy emerytalne w Europie" ["Pension reforms in Europe"] (Poznań: Wydawnictwo Akademii Ekonomicznej w Poznaniu, 2006), 9–10.

reforms concern the change of structure and aims of pension systems and comprise the change of pension formula from DB to NDC and/or the implementing of prefunding into mandatory pension schemes. Most of the CEE countries followed systemic reforms in the sense that they introduced privately managed pension funds into mandatory part of pension systems, while just a few radically changed the old-age pension formula from DB to NDC in the PAYG part of their systems (Table 1).

Table 1. Main features of mandatory pension schemes in 8 CEE countries

Country	Public pension scheme (PAYG)	Retirement age	Initial mandatory funded contributions	Enactment date of mandatory pension funds	Who participates in mandatory pension funds
Bulgaria	DB	60/55 to 63/60	2% to 5%	2002	Mandatory for all workers <42, no cohorts with choice option
Estonia	DB	60/55 to 63/63	6% (4% +2%)	2002	Mandatory for new entrants, voluntary for 19–60 in the year of reform
Latvia	NDC	60/55 to 62/62	2% to 8%	2001	Mandatory for new entrants and workers < 30, voluntary for 30–50
Lithuania	DB	60/55 to 62.5/60	2.5% to 5.5%	2004	Voluntary for current and new workers
Hungary	DB	60/55 to 62/62	6% to 8%	1998	Mandatory for new entrants, voluntary for all employed
Poland	NDC	65/60 (60/55) to 67/67	7.3%	1999	Mandatory for new entrants and workers < 30, voluntary for 30–50
Romania	DB	62/57 to 65/60	2% to 3%	2008	Mandatory for new entrants and workers < 35, voluntary for 36–45
Slovakia	Points	60/53–57 to 62/62	9%	2005	Mandatory for those born after 1983, voluntary for all in social insurance before 2005

Source: A. Schwarz and O. Arias, *The Inverting Pyramid. Pension Systems Facing Demographic Challenges in Europe and Central Asia* (Washington D.C.: World Bank, 2014) and author's update.

The parametric reforms that accompanied the structural ones were intended to increase the retirement age and in some cases equalize it for men and women, to limit or phase out early retirement and to increase eligibility requirements for an old-age pension.

Decisions concerning the funded part of the mandatory pension system differed between countries, mainly due to the level of contribution diverted to pension funds and the participation rules. The rules of prefunding play a significant role in the sustainability of public finance, especially in the short and medium term following the implementation of pension reform.

Reformers in all countries expected that the creation of a funded mandatory component of pension systems would play a significant role not only in terms of providing more diversified and sustainable pensions, but also in increasing savings, developing financial markets and supporting economic growth. These aims of pension reforms were strongly supported by the World

Bank Report "Averting the Old Age Crisis. Policies to Protect the Old and Promote Growth"[3]. It is also claimed that the final decisions made by national authorities on the pension reforms were influenced more directly through financial aid and structural loans from international financial institutions[4].

2. Strategies for dealing with transition costs

Reforming existing mandatory public PAYG systems with prefunding raises the issue of transition costs. To simplify the concept of transition costs: they occur when prefunding is done from part of the existing old-age contribution by transferring it to mandatory pension funds. Almost all of the CEE countries decided not to increase labour cost and thus use a part of their current PAYG contribution to prefund pensions. The only country in the region that decided to increase the employee part of contribution diverted to pension funds was Estonia (Table 1).

The outflow of the part of old-age contribution to mandatory pension funds may result in the creation, or deepening, of a deficit in PAYG public schemes.

Transitional deficit in a mandatory public scheme may be covered from three sources:

- taxes and other budgetary revenues (burden for the working generation),
- savings in the existing PAYG system (burden for the retired generation),
- through an increase in general government debt (burden for future generations).

The choice of the source of financing of the transition costs is a crucial decision in terms of the reform's success or failure, as all cases rely on the political agreement over current and future fiscal policy priorities.

As mentioned above, the level of transition costs depends on the level of contribution diverted from a PAYG public scheme to mandatory pension funds and also the changes in wages (the base of contribution deduction), as well as the rules governing switching participants to the pension funds and switching behaviour (when the participation is voluntary for some employees). When employees have the option to join a pension fund, the estimation of transition costs is a high-risk undertaking.

Experiences during the implementation phases in the analysed CEE countries showed that where some cohorts had the choice of joining mandatory pension funds, participation was higher than expected. In Hungary about 2 million employees joined the mandatory pension funds compared to the 1.5 million expected by reformers at the end of 1998[5]. In Poland the difference between the projected and final choices of employees was smaller (more than 60 percent of those who had the option to join the funded part of the mandatory system did so, compared to the 50 percent base-line scenario), yet this still caused significant pressure on the level of transition costs. The range of real transition cost for the 8 CEE countries is shown in Table 2.

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3. *Averting the Old Age Crisis. Policies to Protect the Old and Promote Growth* (Washington: World Bank, 1994).
4. See: M. Orenstein, "Privatising Pensions: The Transnational Campaign for Social Security Reform" (Princeton, N.J.: Princeton University Press, 2008); I. Guardiancich, "Pension Reforms in Central, Eastern and Southeastern Europe. From post-socialist transition to the global financial crisis" (London-New York: Routledge, 2013).
5. M. Augusztinovics et al., "The Hungarian pension system before and after the 1998 reform" in *Pension reform in Central and Eastern Europe*, Vol.1 of *Restructuring with privatization: case studies of Hungary and Poland*, ed. E. Fultz (Budapest: International Labour Office – Subregional Office for Central and Eastern Europe, 2002), 25–94.

Table 2. Transition costs to funded pillar (% of GDP) in CEE countries till the end of 2008

Country	Minimum value	Maximum value
Bulgaria	0.5	0.9
Estonia	0.7	1.1
Latvia	0.8	1.2
Lithuania	0.3	1.1
Hungary	0.2	1.6
Poland	0.3	1.6
Romania	0.2	0.2
Slovakia	0.6	1.3

Source: author's review of Convergence Programmes of CEE countries.

The highest levels of transition costs (as percent of GDP) occurred in countries with the longest period of mandatory pension funds existing, accompanied by the highest levels of contribution rates diverted from the PAYG public schemes (Hungary, Poland).

The issue of covering a transitional deficit in a mandatory public scheme was addressed differently by different reformers. Most of the countries planned to cover the transitional deficit from different sources (general revenue, savings in the PAYG pillar, public debt). Hungary decided to rely on only one of these: reduction of spending in the mandatory public scheme and, as the studies show, the issue of of transition costs in Hungary was highly underestimated or ignored[6].

The policy choices regarding covering transition costs in CEE countries in times of reform preparation are presented in Table 3.

Most of the countries of the CEE region assumed that the main source of financing the transitional deficit would be the rationalization of pension expenditure in existing PAYG public schemes, although the appropriate laws were not (in most cases) passed before the mandatory pension funds started[7].

6. A. Simonovits, "The mandatory pension pillar in Hungary: An obituary", *International Social Security Review* 64 (3) (2011): 81–98; K. Bielawska, "The impact of fiscal situation on retreat from the mandatory pension funds in the countries of Central and Eastern Europe: the case study of Hungary and Poland" in *Pension Reforms – Comparison and Evaluation*, ed. M. Szczepański, (Poznań: Wydawnictwo Politechniki Poznańskiej, 2013), 140.

7. E. Fultz, "The retrenchment of second-tier pensions in Hungary and Poland: A precautionary tale", *International Social Security Review* 65 (3) (2012): 1–25.

Table 3. Initial plans for covering the transitional deficit in the short and medium term since reform implementation in the 8 CEE countries

Country	Increase of government sector revenues (taxes, social security contributions)	Savings in existing PAYG public scheme	Privatization revenues
Bulgaria	x	x	
Estonia	x	x	
Latvia	x	x	
Lithuania		x	x
Hungary		x	
Poland		x	x
Romania	x	x	
Slovakia	x	x	

Sources: authors' resume based on *Pension Reform in Central and Eastern Europe*, ed. E. Fultz (Budapest: ILO 2002) and Convergence Programmes of CEE countries.

Reformers planned that the savings in the PAYG part of the mandatory pension system would be achieved by introducing the indexation of pension benefits closer to prices than to wages, raising the retirement age, limiting early retirement and also through pension formula changes in the public scheme. Less generous indexation rules contributed to the limiting of public pension expenditure in Bulgaria, Estonia, Hungary and Poland. However, most of the pension expenditure rationalization tools, even if implemented, were expected to reduce pension spending in the medium and long term[8].

In effect, the internal capacity of public pension systems to absorb the transition costs was reduced, which resulted in a higher reliance on general government subsidies.

The financial situation of mandatory PAYG schemes in the CEE countries prior to and after the pension reforms differed (Table 4). Countries such as Hungary, Poland, Slovakia, Bulgaria and Latvia already had a deficit in their PAYG schemes prior to the implementation of reform. Diverting a part of the old-age contribution to mandatory pension funds seriously deepened the deficit of PAYG schemes in Hungary, Poland and Slovakia. The situation in the Baltic States was more favourable before the implementation of pension reforms and allowed the surplus in public PAYG schemes to remain even after the outflow of the part of the old-age contribution to mandatory pension funds.

8. K. Bielawska, "The impact of fiscal situation on retreat from the mandatory pension funds in the countries of Central and Eastern Europe: the case study of Hungary and Poland" in *Pension Reforms – Comparison and Evaluation*, ed. M. Szczepański (Poznań: Wydawnictwo Politechniki Poznańskiej 2013), 140.

Table 4. Current year deficit/surplus of the PAYG schemes as % of GDP before any financial transfers to the system from general government

Country (reform year)	T-3	T-2	T-1	Reform year(T)	T+1	T+2	T+3	T+4	T+5	T+6	T+7
Bulgaria (2002)	..	-0.4	-0.9	-2.0	-2.0	-3.1	-2.6	-2.4	-2.3	-3.6	..
Estonia (2002)	-0.9	-0.2	0.5	0.6	0.2	-0.1	-0.2	-0.2	..	..	..
Hungary (1998)	..	..	..	-0.5	-0.7	-0.7	-1.0	-1.8	-1.6	-2.0	-2.3
Latvia (2001)	-0.3	-0.9	-0.6	-0.1	0.0	0.1	0.7	0.9	1.3	..	..
Lithuania (2004)	-0.1	0.0	0.3	0.2	0.1	0.4	..	..	..	..	..
Poland (1999)	-0.9	-1.3	-1.3	-2.0	-2.3	-2.9	-3.4	-3.4	-3.3	-3.0	-3.3
Slovakia (2005)	-0.4	-0.4	-1.1	-2.2	-2.7	..	..	..	..	..	..

Note: The reform year (T) takes into account the first effects of the reform. It must be noted that in Estonia, Latvia and Lithuania the mandatory pension funds started mid-year (from July). In other countries the reform was introduced from January of the respective year. No specific data for Romania.
Source: *Transition Costs of Reformed Pension Systems* (Tallin: Center for Policy Studies PRAXIS, 2008), 15.

Favourable economic conditions in Estonia, Latvia and Lithuania before the financial crisis were the main cause of extra revenues from social security contributions – these were used to cover transition costs in the early years of reform implementation.

The public PAYG schemes of reformed pension systems in Bulgaria, Hungary, Poland and Slovakia relied heavily on general government subsidies.

As the case study of Poland shows, privatization revenues were not the best source for financing the transitional deficit. In Poland the transition period was planned for 50 years with the annual outflow of the contribution from the PAYG scheme to mandatory pension funds to be between 1.5 percent-2.2 percent of GDP[9]. Reformers were aware that the expected savings in the PAYG scheme would appear slowly and estimated that in the first 5–7 years of the reform these costs should be covered from privatization revenues[10]. In fact, the privatization revenues covered the outflow of the contribution to mandatory pension funds for the first two years and the surplus of privatization revenues was used for other public purposes when the Polish economy slowed down in 2001–2002. Additionally some of the political decisions on savings in the PAYG public scheme were postponed.

Very sound arguments for not having the privatization revenues as a main source of financing transition costs are outlined by Price and Rudolph[11]:

- they do not have the long horizon of the transitional deficit,
- the amount of privatization is highly dependent on political decisions,
- governments tend to time privatization to suit market conditions.

9. A. Chłoń-Domińczak, "The Polish Pension Reform of 1999" in *Pension Reform in Central and Eastern Europe*, ed. E. Fultz (Budapest: ILO, 2002).
10. Office of the Government Plenipotentiary for Social Security Reform, *Security through Diversity: Reform of the Pension System in Poland* (Warsaw, 1997), 104.
11. W. Price and P.H. Rudolph, "Reversal and reduction, resolution, and reform: lessons from the financial crisis in Europe and Central Asia to improve outcomes from mandatory private pensions, Financial and Private Sector Development" (Washington DC: World Bank 2013), 39.

In effect, except for the Baltic States and Bulgaria, all of whom managed to cover transition cost mainly through general government revenues, the other countries in the region financed their transitional deficits through the issuing of public debt.

3. The fiscal position of CEE countries and reform reversals

Between 2000 and 2012 the majority of the 8 CEE countries concerned here experienced favourable economic conditions with an average real GDP growth rate of 4 percent (except Hungary, where the real GDP growth rate did not exceeded 2 percent on average during this period). The economic conditions accompanying the implementation of systemic pension reforms were favourable. Only Poland and Romania experienced negative trends – in the case of Poland this was an economic slowdown (2001–2002) and in Romania this was recession (2009–2010), in both cases just after the implementation of pension reforms.

A relatively good economic situation accompanied by the efforts of all the analysed countries to join the European Union (respectively in 2004 and in 2007), which required meeting the fiscal criteria of the Maastricht Treaty and Stability and Growth Pact (especially in terms of general government balance), led to fiscal consolidation in most of the countries of the region. General government gross consolidated debt in relation to GDP in the CEE countries was on average a half of the same ratio in EU-15, although the situation varied between countries (Table 5). In terms of general government deficit/surplus, most of the analysed CEE countries 'endeavoured to have the situation either close to balance or in surplus in the period before the financial crisis and economic downturn. The only countries with a "chronic" excessive deficit of the general government sector were Hungary and Poland[12]. This led to the highest rates of general government debt to GDP ratio in the group of CEE countries. Slovakia balanced on the edge of a nominal deficit of 3 percent GDP after joining the EU and its ratio of general government debt declined to 28 percent in 2008 (Tables 5 and 6).

Table 5. Fiscal position of CEE countries in 2000–2006

Country	General Government net lending (+) /net borrowing (-) (% GDP)							Government consolidated gross debt (%GDP)						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
Bulgaria	-0.5	1.1	-1.2	-0.4	1.9	1.0	1.9	72.5	66.0	52.4	44.4	37.0	27.5	21.6
Estonia	-0.2	-0.1	0.3	1.7	1.6	1.6	2.5	5.1	4.8	5.7	5.6	5.0	4.6	4.4
Latvia	-2.8	-2.0	-2.3	-1.6	-1.0	-0.4	-0.5	12.4	14.1	13.6	14.7	15.0	12.5	10.7
Lithuania	-3.2	-3.5	-1.9	-1.3	-1.5	-0.5	-0.4	23.6	23.0	22.2	21.0	19.3	18.3	17.9
Hungary	-3.1	-4.1	-9.0	-7.3	-6.5	-7.9	-9.5	56.1	52.7	55.9	58.6	59.5	61.7	65.9
Poland	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	36.8	37.6	42.2	47.1	45.7	47.1	47.7
Romania	-4.7	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	22.5	25.7	24.9	21.5	18.7	15.8	12.4
Slovakia	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.2	50.3	48.9	43.4	42.4	41.5	34.2	30.5

Source: Eurostat, extracted in December 2013.

12. Hungary was subject to an Excessive Deficit Procedure (EDP) through the whole period of EU membership, while Poland met the nominal deficit criterion of general government in fiscal year 2007, so an EDP procedure was closed for one year and reopened in 2009.

The favourable fiscal position of the Baltic States and Bulgaria resulted both from macroeconomic and systemic factors. Total general government expenditures in relation to GDP before the crisis were reduced by 7 percentage points in Bulgaria and on average by 2 percentage points in the Baltic States. Simultaneously, the general government revenues remained at an unchanged level (as in Estonia, Latvia) or decreased slightly, but not by enough to offset the expenditure consolidation (in Bulgaria and Lithuania).

When the crisis hit the economies of the CEE countries, their fiscal position worsened. Estonia was the only country not subject to an excessive deficit procedure in the years 2009–2010. However, this fact did not stop the government from conducting fiscal consolidation, which resulted in a surplus or a situation close to balance by the end of 2012. The same mechanism worked in Bulgaria, the second country (after Estonia) with very tight national fiscal rules – these pursue fiscal policy in line with a budgetary medium-term objective. In other countries general government deficit exploded to 7–9 percent of GDP during 2009–2010.

Table 6. Fiscal position of CEE countries in 2007–2012

Country	General Government net lending (+) / net borrowing (-) (% GDP)						Government consolidated gross debt (%GDP)					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Bulgaria	1.2	1.7	-4.3	-3.1	-2.0	-0.8	17.2	13.7	14.6	16.2	16.3	18.5
Estonia	2.4	-2.9	-2.0	0.2	1.1	-0.2	3.7	4.5	7.1	6.7	6.1	9.8
Latvia	-0.4	-4.2	-9.7	-8.1	-3.6	-1.4	9.0	19.8	36.9	44.4	41.9	40.6
Lithuania	-1.0	-3.3	-9.4	-7.2	-5.5	-3.3	16.8	15.5	29.3	37.8	38.3	40.5
Hungary	-5.1	-3.7	-4.6	-4.4	4.2	-2.1	67.0	73.0	79.8	82.2	82.1	79.8
Poland	-1.9	-3.7	-7.5	-7.9	-5.0	-3.9	45.0	47.1	50.9	54.9	56.2	55.6
Romania	-2.9	-5.7	-9.0	-6.8	-5.6	-3.0	12.8	13.4	23.6	30.5	34.7	37.9
Slovakia	-1.8	-2.1	-8.0	-7.7	-5.1	-4.5	29.6	27.9	35.6	41.0	43.4	52.4

Source: Eurostat, extracted in December 2013.

The strategies of fiscal consolidation differed between the CEE countries (Table 7).

Table 7. The main instruments of fiscal consolidation (outside the pension system)

Country	Revenue side				Expenditure side		
	Increase of VAT rates (permanent or temporal)	Increase of excise duty	Increase of property tax	Increase of dividends from state owned companies	Reduction of public sector salaries	Freeze of public sector salaries	Rationalization of social benefits
Bulgaria		x				x	x
Estonia				x			x
Latvia	x	x	x	x		x	x
Lithuania						x	x
Hungary						x	x
Poland	x	x				x	x
Romania	x				x		x
Slovakia	x	x	x			x	

Source: author's summary on the basis of Convergence or Stability Programmes of each country for years 2009–2012.

Fiscal consolidation with regards to taxation revenue comprised not only the increase (permanent or temporal) of tax rates, but also assumed a widening of the tax base and an increase in the efficiency of tax collection. The countries that used revenue side instruments of fiscal consolidation were Latvia, Poland, Slovakia and to some extent Bulgaria and Romania. More popular were expenditure side instruments, including an overall non-interest public spending freeze or growth limits (usually below the growth of potential GDP), especially a wage bill freeze or decrease (as in Romania), as well as social transfer reduction and rationalization.

Taking into account the instruments of fiscal consolidation connected with the mandatory pension system, 7 out of the 8 analysed CEE countries (with the exception of Bulgaria), decided on a temporal or partial reduction of the contribution to mandatory pension funds and/or a partial or permanent reversal from the prefunding of pensions (Table 8).

Other instruments of fiscal consolidation within the pension systems were: a freeze of public pensions or a reduction of pension indexation (except in Estonia and Poland), an increase in retirement age or an acceleration of increase of retirement age as well as other parametric changes to the pension system that aimed to reduce public pension expenditures.

The measures taken regarding changes in the mandatory pension funds played a significant role in the fiscal consolidation process among the CEE countries, with the most radical scope

Table 8. Policy decisions in CEE countries on mandatory pension funds after 2009

<table>
<tr><th>Type of decision</th><th>Duration of change</th><th>Country</th><th>Short description of the change to mandatory pension funds</th></tr>
<tr><td>Reversal</td><td>Permanent</td><td>Hungary</td><td>8% contribution to 0% in January 2011; assets transferred to GGS.</td></tr>
<tr><td>Part reversal / part reduction</td><td>Permanent</td><td>Poland</td><td>Contribution rate reduced to 2.3% in May 2011. From February 2014 contribution at 2.92%, in February 2014 assets invested in government bonds transferred to GGS and redeemed. In 2014 system made opt-out and opt-in in specified time slots. Assets from mandatory pension funds transferred gradually to PAYG scheme 10 years prior to retirement.</td></tr>
<tr><td rowspan="6">Reduction of contributions</td><td>Permanent</td><td>Slovakia</td><td>9% contribution reduced to 4% in 2013 with planned further increase to 6% in 2024. Mandatory funded scheme opt-out and opt-in system.</td></tr>
<tr><td rowspan="5">Temporary</td><td>Estonia</td><td>6% contribution rate cut to 0% between June 2009 and January 2011 and shifted to PAYG. Gradual increase from 2011. Rate set at 3% in January 2011 and 6% in January 2012. In 2014–2017 at 8% to offset missed contributions</td></tr>
<tr><td>Latvia</td><td>8% contribution rate reduced to 2% in May 2009. Rates increased to 4% from 2013.</td></tr>
<tr><td>Lithuania</td><td>5.5% contribution rate reduced to 2% in July 2009. Rates further lowered to 1.5% in January 2012 and 2.5% in 2013. Change to 3% (2%+ 1%) in January 2014, voluntary participation. Additional contribution at 2% in 2016–2019.</td></tr>
<tr><td>Romania</td><td>Reduction in planned growth path of contribution rate from 2% to 6%. Rate froze at 2%, started to increase from 2011 at annual rate of 0.5 percentage point.</td></tr>
<tr></tr>
<tr><td>No change</td><td>Permanent</td><td>Bulgaria</td><td>Contribution rate to mandatory pension funds remains at 5%.</td></tr>
</table>

Source: W. Price and H.P. Rudolph, *Reversal and reduction*…, based on A. Schwarz, *New realities of Pension Policy in Central Europe* (Washington D.C.: World Bank, 2011) and author's update.

during analysed period occurring in the case of Hungary. The sequestration[13] of pension funds' assets in Hungary improved the fiscal balance of approximately 10 percent GDP. In the Baltic States temporary reduction or partial reduction of contributions diverted to mandatory pension funds during 2009–2011 improved the fiscal position by 1.4 percent GDP in Lithuania, 2.3 percent GDP in Estonia and 3.2 percent in Latvia. In Poland the permanent reduction of contributions to the funded part of the pension system from May 2011 brought a fiscal effect of 0.6 percent GDP in 2011. The changes implemented in Poland in 2013 (effective in 2014), namely the acquisition of 51.5 percent of assets of OPF's and removing the mandatory character of pension funds, will further improve the current fiscal position but will contribute to the deteriorating long-term sustainability of public finance.

The fiscal effort undertaken by the CEE countries led to the abrogating of excessive deficit procedures in most countries in 2013, with the exceptions of Poland and Slovakia.

The reform of economic governance in the EU initiated by the "six-pack", followed by the "two-pack" and the Fiscal Compact will strengthen the fiscal rules for the countries in question, including their surveillance, if the fiscal policy is run along with a country-specific budgetary medium term objective (MTO), which in general should be close to balance. Ignoring the MTO in fiscal policy choices may result in financial sanctions (especially on eurozone members). Pressure put on EU Member States to further the consolidation of public finance and the reduction of the explicit debt has as its target leaving space for automatic stabilisers to act in bad times and at the same time to not exceed a deficit of 3 percent GDP in such circumstances. The transition costs accompanying prefunding of pensions can still be considered during the process of evaluation of a country's fiscal position under the excessive deficit procedure but only if the deficit is close to the reference value. Thus the reformed fiscal rules in the EU pose an additional challenge for countries with chronic deficits such as Poland and Slovakia and put into question the continuity of mandatory pension funds under the assumption of no policy change.

Conclusions

The studies of structural pension reforms introduced in the 8 CEE countries indicate that a prudent and consistent fiscal policy is the key issue for sustainability of such reforms.

Policy makers should properly address the issue of transition costs and sources of covering the transitional deficit in public PAYG schemes when deciding on prefunding pensions from existing mandatory old-age contributions. If covering transitional deficit relies on future and uncertain savings in PAYG schemes or on debt issuance it may cause serious difficulties in pension reform sustainability. As the experiences of these CEE countries show, when governments are determined to conduct structural reforms, often under the pressure of tight national fiscal rules, they are able to reach a consensus between short- and long-term needs. A weak political consensus on pension reform and precipitated fiscal policy dilute efforts to reach the long-term stability of pension systems and public finance by reducing the role of mandatory pension funds and the return to financing mandatory pensions on a PAYG basis.

13. B.H. Casey, "From Pension Funds to Piggy Banks: (Perverse) Consequences of the Stability and Growth Pact Since the Crisis", *International Social Security Review* 67(1) (2014): 27–48.

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Stabilność reform strukturalnych systemów emerytalnych w krajach Europy Środkowo-Wschodniej – doświadczenia i lekcje na przyszłość

Na początku okresu transformacji gospodarczej kraje Europy Środkowo-Wschodniej odziedziczyły publiczne systemy emerytalne stojące przed krótko- i długoterminowymi wyzwaniami wynikającymi z warunków społeczno-ekonomicznych oraz presji demograficznej. Już na wczesnym etapie przechodzenia z gospodarki centralnie planowanej do gospodarki wolnorynkowej reformy emerytalne były elementem programu politycznego poszczególnych krajów regionu. Większość z nich przeprowadziła reformy strukturalne, które zaowocowały wprowadzeniem obowiązkowych funduszy emerytalnych stanowiących uzupełnienie obowiązkowych publicznych systemów repartycyjnych. Dekadę po ich wdrożeniu niektóre z krajów regionu zdecydowały się zawrócić z początkowo obranej drogi przemian. Inne skłonił do tej decyzji trwający obecnie kryzys finansowy i gospodarczy. Niniejszy artykuł omawia czynniki fiskalne, które doprowadziły do wstrzymania reform i zachowania status quo, *ze szczególnym uwzględnieniem ośmiu krajów: Bułgarii, Estonii, Węgier, Łotwy, Litwy, Polski, Rumunii i Słowacji.*

Słowa kluczowe: strukturalne reformy emerytalne, kraje EŚW, polityka fiskalna.

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