

Slovakia turns away from liberal socio-economic reforms

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On 10 August, the Slovak parliament approved a reform of the pension system. On one hand, the changes introduced by Robert Fico's left-wing cabinet will weaken the position of private pension funds, and on the other will link retirement age to average life expectancy. These reforms are part of the government's tactic of combining regulation aimed at restore the state's finances with measures to limit the private sector's role in the social system. In this way, the left-wing government policy is moving away from the liberal solutions introduced by the government of Mikuláš Dzurinda. The planned next step in this direction is reform of the health insurance system. Prime Minister Fico's ambition is to return to a single state-run health insurer, which would mean the elimination of two private insurers. The government will declare its readiness to buy them out and standardise the system; if there is no agreement with the owners, then the government does not rule out the prospect of nationalisation.

Slovakia's public finances are in good shape, especially compared to other countries of the euro zone: debt is relatively low (46.4% of GDP in the first quarter of 2012), and economic growth is stable (2.7% of GDP in the second quarter of 2012). However, in order to meet the fiscal pact's criteria, next year Slovakia must reduce the deficit in the public finance sector from 4.8% of GDP last year to no more than 3% of GDP next year. By abandoning an increase in VAT, Fico's leftist government intends principally to charge the cost of public finances to individuals with above-average incomes, entrepreneurs and firms, while at the same time easing the burden on those who earn least. This logic encompasses the pension reform (see Appendix) and additional taxes on companies from the regulated sectors (such as energy and telecommunications), taxation on bank deposits, and the introduction of progression taxation in place of the flat tax. Additional money for the budget is to be ensured also by the sale of the state's minority share (49%) in the company Slovak Telekom, whose majority owner is Deutsche Telekom.

The reform of the pension system

The changes to the pension system sparked heated discussion in parliament, but it was not in a position to threaten the government's project, as Prime Minister Fico's Smer-SD party has a stable majority of 83 seats in the 150-seat parliament. Defending the reforms, the Prime Minister stressed that the current pension system generates a loss of €900 million a

year, and the rate of return on savings in the second pillar of contributions is less than inflation. The opposition criticised the government plan by highlighting demographic changes, and the fact that a pension system based on the first pillar of contributions alone is not sustainable in the long run. Since September pension contribution to the second pillar will fall from 9% to 4%, however, the government agreed to an opposition proposal to gradually increase contributions to the second pillar of contributions after 2017 (see Appendix).

There are many indications that the Slovak government's preferred model assumes that most of the insured will remain in the state pension system alone, and that participation in the second pillar for the wealthiest citizens entering the labour market will be optional. The Slovak government is trying to refute opinions that such changes in Slovakia would lead to the liquidation of private pension funds (the 'Hungarian scenario'), in which 1.5 million people have accounts. PM Fico has announced efforts to adopt a constitutional law in the autumn with the aim of stabilising the pension system reform. However such a scenario is unlikely, because it would require the agreement of some of the opposition MPs in order to obtain the votes of at least three-fifths of the deputies in parliament.

Announcing the reform of the health insurance system

Funds collected from the pension reform, the tax rises and the sale of Slovak Telekom assets will in part be used to reform the health insurance system. The plans approved by Fico's cabinet on 25 July this year assume a departure from the system of private and public insurers, towards support for a single national health insurer. In the government's opinion, the underfunded health care in Slovakia cannot afford a system of private, for-profit health insurers. Fico's government assumes that the transfer of insured persons from private companies to the state insurer will reduce administrative costs and simplify the system. Critics point to the elimination of positive competition among insurers and the poorer culture of management in the state-run system.

Outlook

The Minister of Health is expected to present a plan for transition to the single, state-run health insurer by the end of September. The Dutch company Achmea, which owns the Union fund, has announced that it does not agree with the change of rules, and intends to defend itself against the state's takeover of its customers. The second fund, Dôvera, is controlled by Penta, one of the biggest Central European financial groups (through Dôvera Holding) and also by a company registered in Cyprus, Prefto Holdings Limited. In contrast to Achmea, Dôvera's owners have not commented on the government's plans, saying only that they were waiting for the final draft of the reform. Given Penta's strong position in the Slovak power structures (see *CEW10[148]*), it may be assumed that the government's planned amendments to the health insurance system will be a result of discussions with

representatives from Penta. Smer-SD's strong political position may encourage Robert Fico to undertake tough negotiations with the private funds' owners; however, it is unlikely that these talks will result in nationalisation.

Appendix

The most important changes in the pension system in Slovakia

- As of 2017, the retirement age (62 years for men and women) will be moved, together with the lengthening of average life expectancy (estimated to be about 50 days per year).
- From September this year, the pension contribution to the second pillar will fall from 9% to 4% of gross salary. Thus, the ratio of contributions paid to the first and second pillars will be changed from 9:9 to 14:4. A larger percentage of salary may be transferred to private funds, but only a further 2 percentage points will be exempt from the tax.
- People under the age of 35 entering the labour market will be covered by the second pillar of contributions if they have signed an agreement with one of the funds; otherwise they will remain in the first pillar.
- In the period 2013-2017, pensions will be indexed by a value dependent on the interim increase of inflation (to a greater extent) and the average salary (to a lesser extent). This revised system for calculating pensions will improve the situation of those who have earned below-average wages, and will reduce the pensions of those who have had higher incomes.
- As of 2017, the contribution to the second pillar of contributions is expected to grow by 0.25 percentage points annually, until they reach the level of 6% of gross salary.
- Pension contributions will also be collected from civil law contracts and from working pensioners and students. Higher pension contributions will be paid by entrepreneurs.
- From September 2012 to the end of January 2013, every insured person will be able to reconsider the decision of whether they want to be covered by the second pillar of contributions, or remain in the state system alone.