

The Czech Republic: The government adopts pension reform guidelines

On 17 February, the centre-right government led by Petr Necas agreed on the main guidelines of the pension system reform, which include the introduction of the second pillar in the form of private pension funds. The way the reform will be financed caused the greatest controversies on the Czech political scene. The bill proposed by the government provides for a VAT raise, which is opposed by one of the coalition parties. The opposition is accusing the government of intending to make the poorest part of society incur the costs of the reform.

The presented bill offers employees two options: either to remain in the current state-guaranteed system or to transfer part of their premium to the newly established pension funds. In the latter case, employees would transfer 3% of their wages to the individual accounts in private pension funds, at the same time reducing the premium paid to the state-controlled pension system by 3 percentage points. The employees who choose this option will also be obliged to transfer additionally at least 2% of their incomes at their own expense to their account with the private fund.

It is the government's ambition to carry out a pension reform without increasing the deficit in public finances. The costs of the reform are to be covered with the imposition of an equal 20% VAT rate on all goods and services. In the case of most food products and medicines, the tax rate would double. The current 10% VAT rate would now apply only to a short list of basic food products.

The Ministry of Finance estimates that the VAT rate rise will make the inflation level increase by 3%. In the coming weeks, the coalition will be discussing forms of compensating the price rises to families with children, which the centrist coalition member, the Public Affairs party (VV), is pressing for. When a common stance is agreed, the government wants to discuss the draft reform with the Social Democrats, who are in opposition and who, like VV, would like the pension reform to be adopted in the form of a constitutional law. However, the reform in the final version will most likely not differ much from the guidelines adopted at present. <grosz>