

Contents

Foreword	vi
Abstract.....	vii
Acknowledgments.....	viii
Executive Summary.....	ix
1. Expenditure Trends and Challenges.....	1
Fiscal Objectives of the CEECs	1
Recent Trends in General Government Expenditure.....	3
Differences in Expenditure Composition	7
Conclusions.....	14
2. Liquidating the Legacy of the Past.....	15
Restructuring Banks.....	15
Restructuring Enterprises	22
Conclusions.....	30
3. Successfully Integrating with the European Union.....	31
Upgrading Skills.....	31
Upgrading Environmental Standards.....	49
Upgrading Transport Networks	58
Conclusions.....	68
4. Ensuring Social Protection.....	71
Reforming Public Pension Systems	71
Reforming Health Care	84
5. An Expenditure Strategy for Growth and Convergence	99

List of Tables

Table 1.1	Pre-Accession Fiscal Programs of the CEECs, 2000-04	2
Table 1.2	Fiscal Cost of EU Accession and Sources of Financing: National Estimates	2
Table 1.3	Consolidated General Government Expenditure (Excluding Net Lending), 1995-2000.....	3
Table 1.4	Central Government Debt and Interest Payments	4
Table 1.5	Consolidated General Government Primary Expenditure, 1995-2000	5
Table 1.6	Consolidated General Government Expenditure (Excluding Net Lending) by Economic Type, 1995-2000	8
Table 1.7	General Government Expenditure (Excluding Net Lending) by Function, 1995-2000	9
Table 1.8	Government Employment and Expenditure on Wages and Salaries, 1996-2000	11
Table 1.9	Growth of the Age 0-14 Population.....	11
Table 1.10	Poverty Incidence and Welfare Payments, 1995-2000.....	14
Table 2.1	Shares of Nonperforming Loans.....	15
Table 2.2	Total Fiscal Costs of Bank Restructuring in Selected CEECs, 1991-98.....	17

Table 2.3	Assets of Majority Foreign-Owned Banks.....	18
Table 2.4	Banking Sector Reform and Financial Regulations.....	21
Table 2.5	Key Elements of the Banking Institutional Framework.....	22
Table 2.6	Enterprise Privatization and Restructuring, 2001.....	24
Table 2.7	Rail Transport: Volumes and Labor Productivity, 1999.....	26
Table 2.8	Operating Deficits of Selected CEEC Railways, 1997.....	27
Table 3.1	School-Age Population, 1990-2015.....	32
Table 3.2	Enrollment Ratios through the Transition.....	33
Table 3.3	Bulgaria: Rates of School Attendance by Level, 1995, 1997, and 2001.....	34
Table 3.4	Public Expenditures on Education, 1990-2000.....	35
Table 3.5	Changes in Student/Teacher Ratios.....	36
Table 3.6	TIMSS Eighth Grade Student Assessment Results for Science and Math for Eight CEECs, 1995 and 1999.....	37
Table 3.7	PISA Student Assessment Results for Literacy for 15-Year Olds for Four CEECs, 2000.....	38
Table 3.8	A Composite Formula for Education Finance.....	41
Table 3.9	Total Benefits over the Period 2005-20.....	49
Table 3.10	Estimated Costs of Environmental <i>Acquis</i> for the CEEC.....	50
Table 3.11	Ratio of Benefits to Costs of Complying with Environmental Directives.....	52
Table 3.12	Alternative Estimates of Investment Costs for Compliance.....	53
Table 3.13	Replacement Value of Main Road Network, 1999.....	59
Table 3.14	Internal Rate of Return on Road Projects: Best Practices.....	60
Table 3.15	Tolls and Vignettes in the CEECs.....	63
Table 3.16	Earmarking of Road User Revenues ("Road Fund") in the CEECs.....	65
Table 3.17	Road Fund SWOT.....	67
Table 4.1	Deficit/Surplus of Public Pension Systems in the CEEC, 1991-2000.....	72
Table 4.2	Expenditures of Public Pension Expenditures in the CEECs, 1991-2000.....	72
Table 4.3	Basic Characteristics of Mandatory Pension Systems in CEEC Countries Following Transition Periods.....	76
Table 4.4	Projected Financial Performance of the Public Pillar following Reforms approved through End-2001.....	80
Table 4.5	Public Pension Expenditures in EU Member Countries: 2000-50.....	84
Table 4.6	Trends in Health Care Expenditures in the CEECs, 1990-99.....	86
Table 4.7	Comparison of Health Status Indicators between the CEECs and the EU.....	87
Table 4.8	Share of Social Health Insurance and Taxation in Public Spending on Health.....	88
Table 4.9	Social Insurance Contribution Rate for Health.....	90
Table 4.10	Paying Health Care Providers.....	91
Table 4.11	Hospital Beds, Physician, and Utilization Patterns.....	92

List of Figures

Figure 1.1	General Government Expenditure and Income per Capita in the EU and the CEEC, 1999.....	6
Figure 1.2	Consolidated General Government Outlays in the CEECs and the OECD 1995-2000.....	7
Figure 1.3	Government Wage Bill and Perception of Corruption.....	12
Figure 3.1	Condition of Road Network, 1999.....	59
Figure 3.2	Average Daily Traffic Density on Motorways and Two-Lane Major Roads.....	60
Figure 4.1	Demographic and Pension System Dependency Ratio.....	73
Figure 4.2	Number of Beneficiaries from Public Pension Systems, 1991-2000.....	74
Figure 4.3	Number of Contributors to the Public Pension System, 1991-2000.....	75
Figure 4.4	Demographic Dependency Ratio, 1995-2040 (population above 60/Population 20-60).....	77
Figure 4.5	Health Care Expenditure in the CEECs, 1990-99.....	85

List of Boxes

Box 2.1 Restructuring the Polish Coal Mines.....25
Box 2.2 Restructuring Polish Railways.....28
Box 2.3 Restructuring the Energy Sector in Romania.....29
Box 3.1 Bank Experience with Water Utilities in the Baltic States54
Box 3.2 Hungary M1 / M15 Motorway Concession Project.....62
Box 3.3 Road User Charges in the CEECs.....64
Box 3.4 Key Features of the Latvian Road Fund66
Box 4.1 Indebtedness in the Health Systems.....96