

# Addressing Fiscal Challenges and Enhancing Growth Prospects

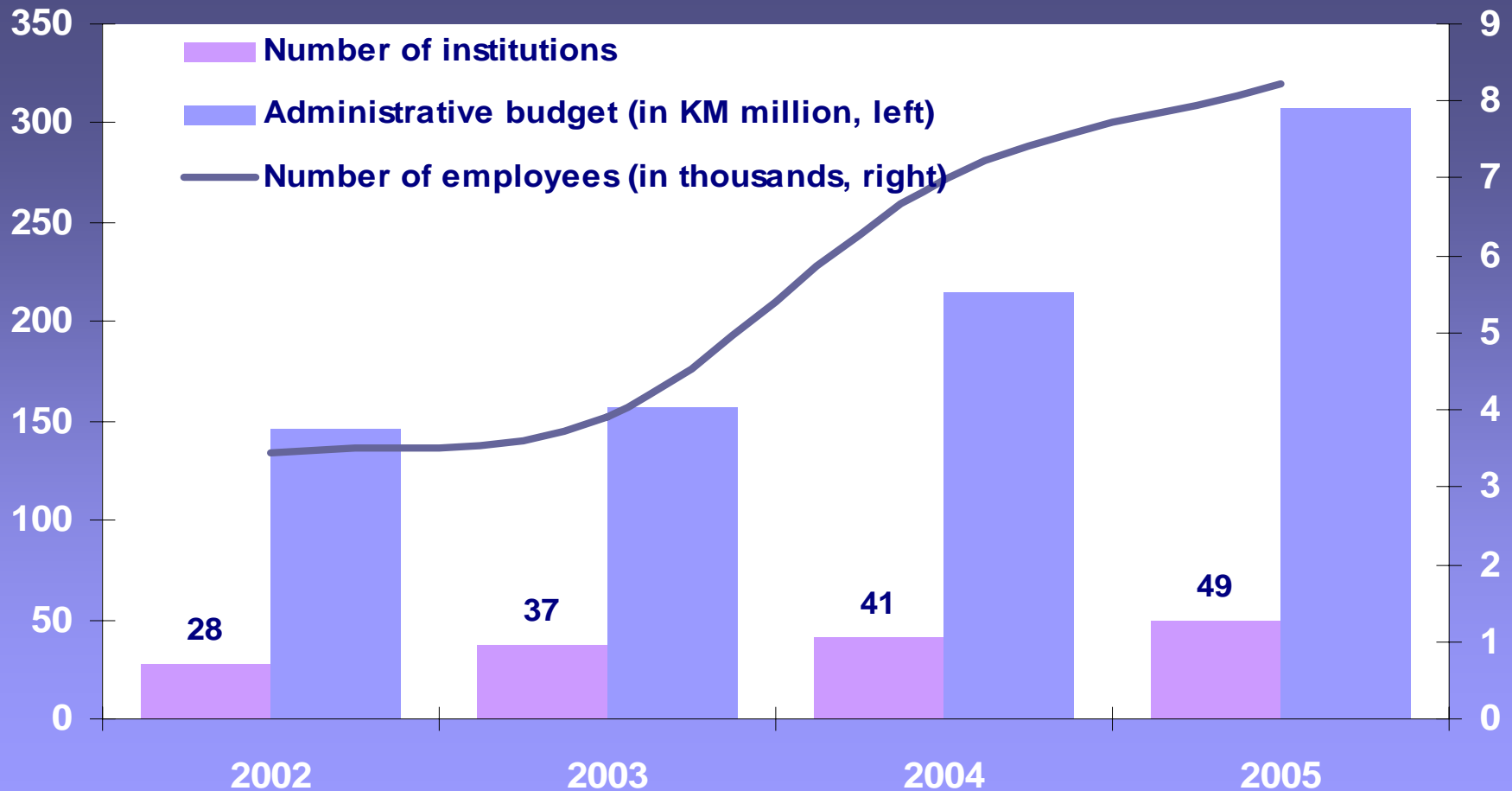
## State Building - a Key Challenge and an Opportunity

The World Bank  
October 19, 2006

# Introduction

- Institution building to date without sufficient regard for fiscal constraints (police and defense reforms)
- Principles to be applied: cost-neutrality, offsetting savings
- EU integration not a reason *per se* for increased spending (NMS experienced spending declines over 10 years prior to membership).
- Government priorities need to be set and agreed in a fiscally sustainable way – the pace of state building has to ensure fiscal sustainability

# Some institution-building has already taken place...

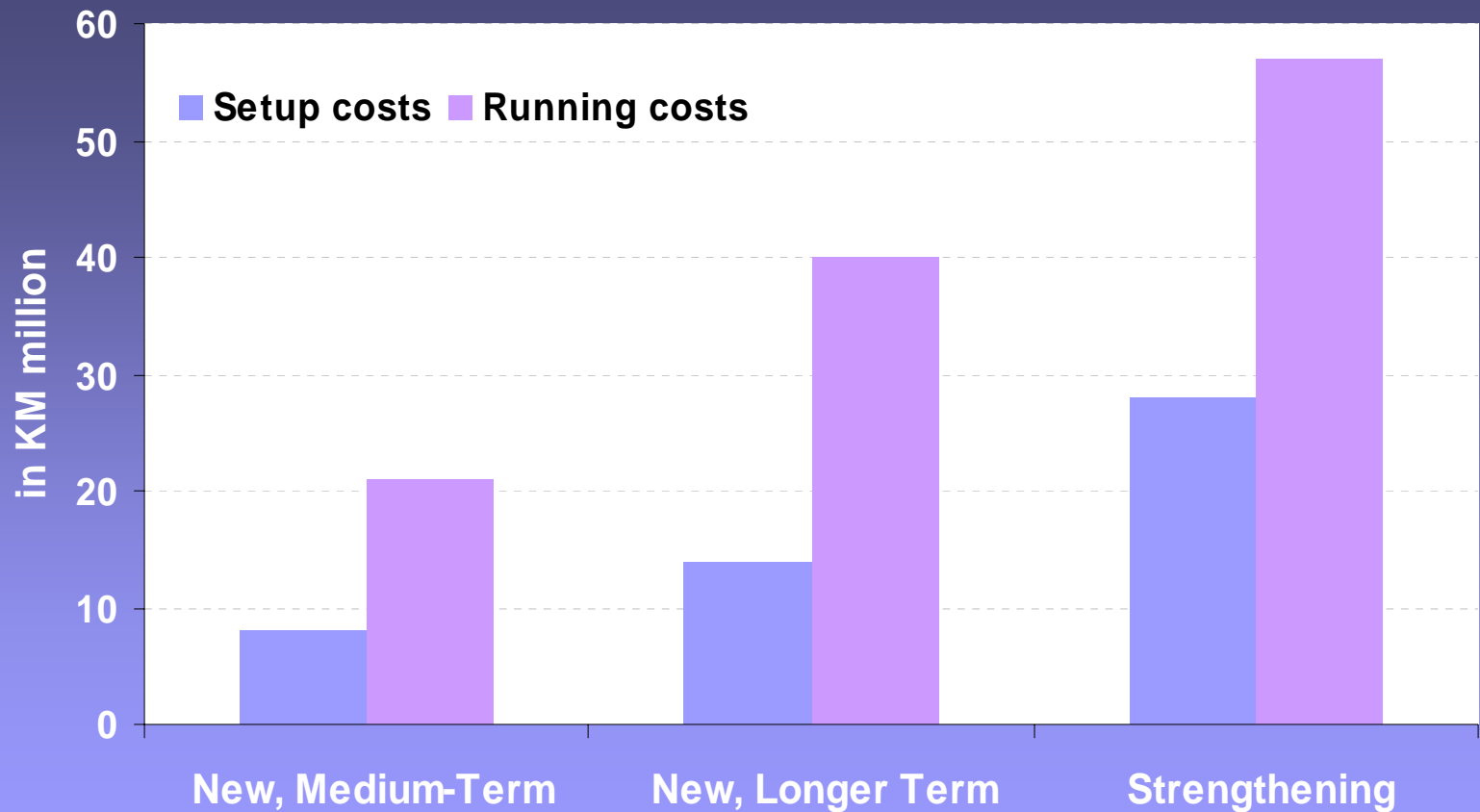


# ... but a lot remains to be done.

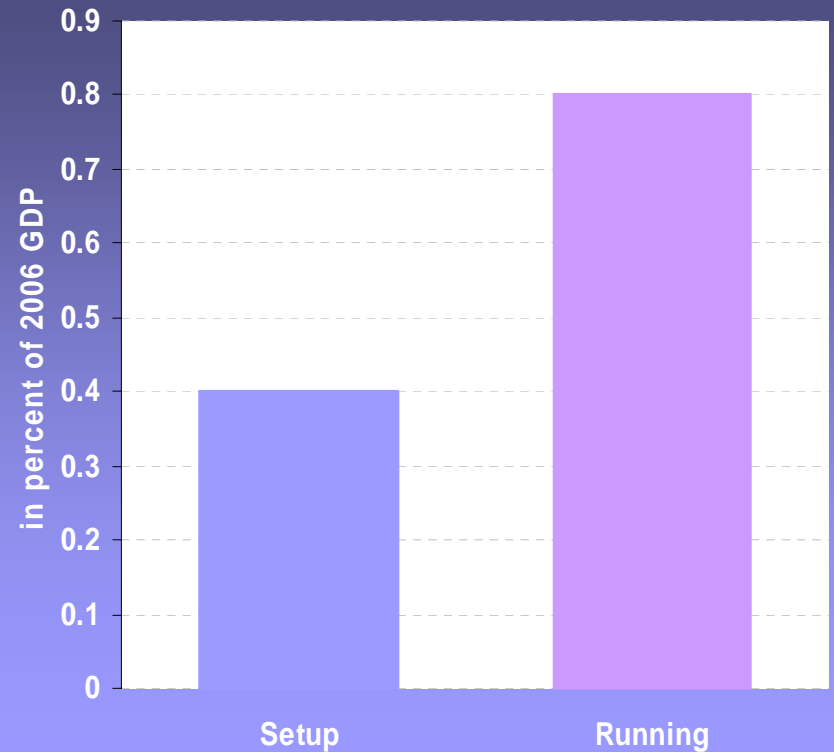
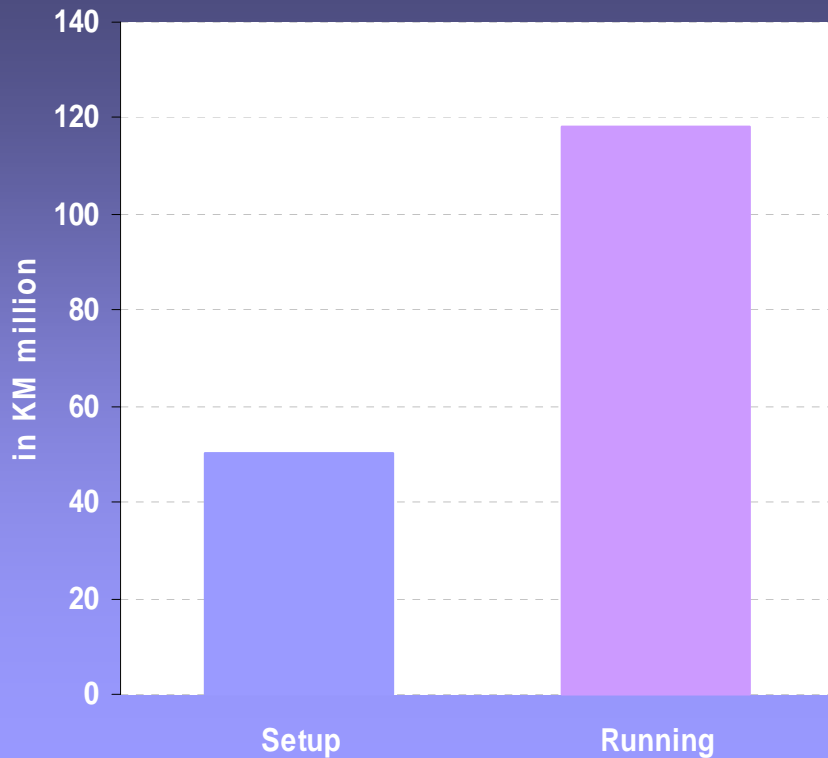
## ■ Assumptions

- Moderate pace and existing constitutional arrangements,
- EU membership by 2020
- Cost estimates:
  - new or existing institutions
  - staff and non-staff
  - setup and running costs
- Two-staged approach: medium and long term

# Institution building entails costs...



# ...that depend on the scale of institution building



# Conclusions

- Cost under the “modest centralization” scenario: 0.8 percent of 2006 GDP a year
- More centralized model would require up to 1.8 percent of 2006 GDP a year
- State-building has to be carried out within a properly defined budget constraint – requires a fully operational central fiscal authority (NFC)
- Effectiveness of the newly created institutions is not about staffing or functions only – it will largely depend on the public administration reform