

Fiscal Policy during Transformation Period

Czech Case

2nd Lecture

Transformation of the Public Sector

Content of Lecture

1. Fiscal Policy Strategy 1993 (Klaus)
2. Fiscal Policy Strategy 1997 (Tošovský)
3. Fiscal Policy Strategy 1998 (Zeman)
4. Fiscal Policy Strategy 2002 (Špidla)
5. Discussion

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Fiscal Policy - definition

Government macroeconomic policy aimed at affecting state economy through public budgets.

Possible instruments:

- reduction/increase of government expenditures,
- reduction/increase of taxes or government revenues.

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Fiscal expansion

- increase of government expenditures, in general:
 - consumption of government (purchases of goods and services),
 - transfers;
- reduction of taxes (visit lecture 4).

Fiscal restriction – opposite of expansion.

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Instruments of fiscal policy

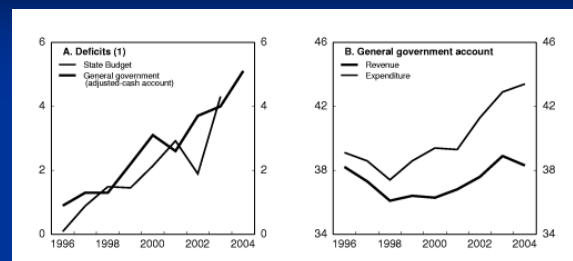
	Fiscal expansion	Fiscal restriction
Direct instruments	↑ government expenditures	↓ government expenditures
Indirect instruments	↓ taxes	↑ taxes

Fiscal expansion → budgetary deficit.

Fiscal restriction → budgetary surplus.

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Graphs: Trends in government deficit, expenditure and revenue (per cent of GDP)



(1) The general government deficit is from the cash-based GFS account adjusted by the Ministry of Finance. The State Budget deficit is from the cash-based GFS account voted by Parliament. Source: Czech Statistical Office.

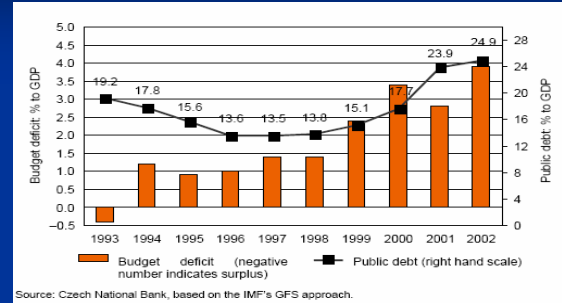
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Basic Phases of Czech Fiscal Policy

1. 1993 – 1998 „conservative“ fiscal policy
 - aim - to achieve balanced public budgets
 - to reduce role for the state in the economy;
2. 1998 – 2002 „neokeynesian“ fiscal policy
 - aim - to achieve sufficient growth of GDP in spite of budget deficits
 - to strengthen role for the state in the economy.

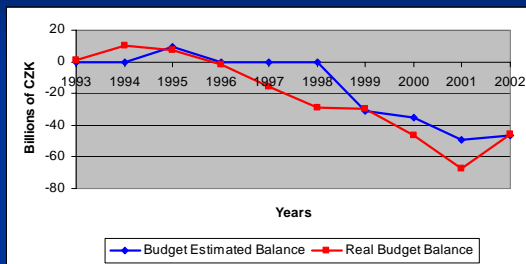
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Graph: Fiscal Developments 1993 – 2002.



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Graph: Difference between budgeted estimated balance and real budget balance (1993 – 2002).



Source: Author based on data by Czech Ministry of Finance.

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Form of fiscal policy

The form of fiscal policy is influenced by values of political parties coalition that can reach the majority in Parliament.

Right wing political parties – based on idea of free market, come out of neo-liberal theories.

Left wing political parties – based on idea of solidarity, come out of social-democratic theory.

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„Narrow“ vs. „wide“ conception of Czech public finance

- narrow conception
 - used 1993 – 1997
 - included only state budget and municipal budgets
- wide conception
 - used 1998 – nowadays
 - included state budget, municipal budgets, extra-budgetary funds, budget of health insurance system, state financial assets and debts.

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Fiscal position of CR in 1993

CR was given as an example of a good fiscal position to the other transitive economics.

Reasons:

- budgets had no deficits,
- the value of public debt was low,
- tax burden had gone down.

This position was partially supported by a non-transparent system of transformation institutions and extra-budgetary funds.

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Fiscal Policy Strategy 1993 (Klaus)



Václav Klaus

- Neoclassic economist
- Connected with right wing political party ODS
- Prime Minister 1992 – 1997
- 1997 – abdication because of problems in political coalition
- Nowadays – President of The Czech Republic

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Fiscal Policy Strategy 1993 (Klaus)

- establishing a legislative and technical framework comparable to that in modern market economies
- privatization as the cornerstone of the Czech transition to market economy
- explicit fiscal target → no increase in the nominal state debt → decrease as a ratio to GDP ([see graph](#))
- balanced public budgets ([see graph](#))

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Fiscal Policy Strategy 1993 (Klaus)

- debate about establishing a legislative requirement for balanced state budgets → not accepted by the Parliament
- a new tax system (1993) based on a neutrality, equity, and simplicity
- expenditure restrictions '97, '98 (“packets”)
- **restrictive fiscal policy**

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Fiscal Policy Strategy 1997 (Tošovský)

- Josef Tošovský – Prime Minister in 1997, before and after - Governor of Czech National Bank, nowadays – head of Swiss Financial Stability Institute
- non-political government, „officers“
- short term (17. 12. 1997 - 22. 7. 1998)
- more transparency in fiscal flows
- no further expenditures restriction
- **neutral fiscal policy**

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Fiscal Policy Strategy 1998 (Zeman)



Miloš Zeman

- Ne Keynesian economist
- Connected with left wing political party ČSSD
- Prime Minister 1998 – 2002
- Nowadays – „pensioner“ and commentator of Czech politics

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Fiscal Policy Strategy 1998 (Zeman)

- social democrat government
- original fiscal policy target → maintenance of balanced public finances, BUT the government openly opted for promoting economic growth by means of public budget deficits ([see graph](#))
- priorities in housing, education, infrastructure investment (highway D 47?)
- public expenditure growth → structural deficit

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Fiscal Policy Strategy 1998 (Zeman)

- problem – mandatory expenditures - predetermined structure of state budget expenditures ([see graph](#))
- some special off-budgetary institutions (e.i. extra-budgetary funds) were established to carry out public investments in certain areas → further fragmentation of government budget structure
- **expansive fiscal policy**

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Fiscal Policy Strategy 2002 (Špidla)



Vladimír Špidla

- Connected with left wing political party ČSSD
- Prime Minister 2002 – 2004
- 2004 – abdication because of problems in his political party
- Nowadays – EU Commissioner for Employment, Social Affairs and Equal Opportunities.

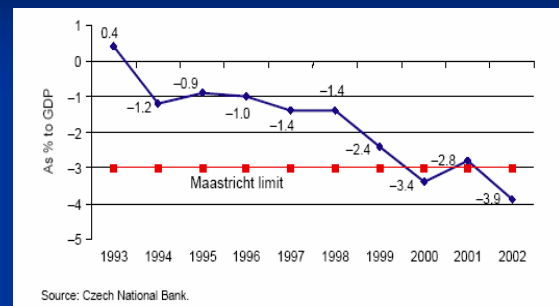
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Fiscal Policy Strategy 2002 (Špidla)

- another social democrat government
- continued public expenditure growth, decrease of public revenues
- continued growth of public debt
- attempt of **restrictive fiscal policy** – suggestion of Public Budgets Reform (connected with entrance of the CR to the EU in May 2004 – Maastricht criteria)

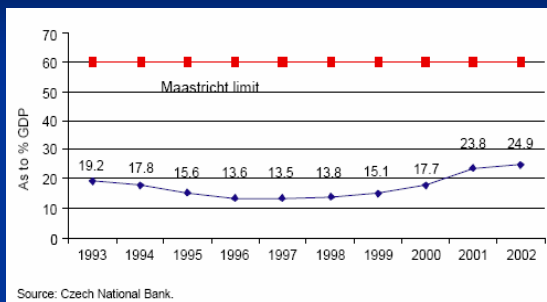
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Public sector balance and the Maastricht criteria



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Public debt and the Maastricht criteria



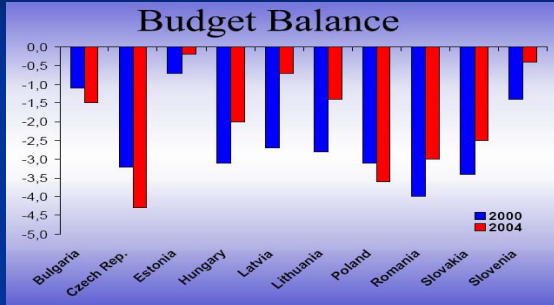
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Current Situation

- 1. 5. 2004 – access to EU (Maastricht criteria)
- 26. 7. 2004 - change in position of Prime Minister → Gross
- Analyses of current situation in fiscal policy connected with analyses of Public Budgets Reform – next lecture → **READ MATERIAL ON www.is.muni.cz**
- **Discussion**

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Graph: Comparison of Budget Balance.



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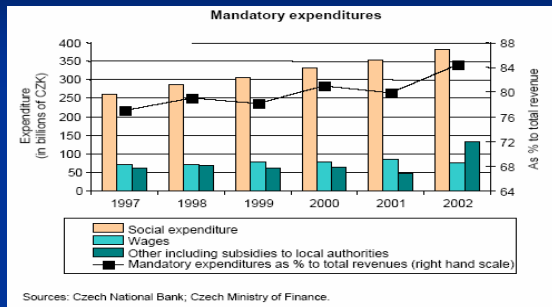
Mandatory expenditures

Expenditures can be divided in:

- non-mandatory expenditures
- mandatory expenditures (social benefits, unemployment benefits, contribution for building savings, public debt interest ...)
- quasi-mandatory expenditures (wages, allowance organization, ...).

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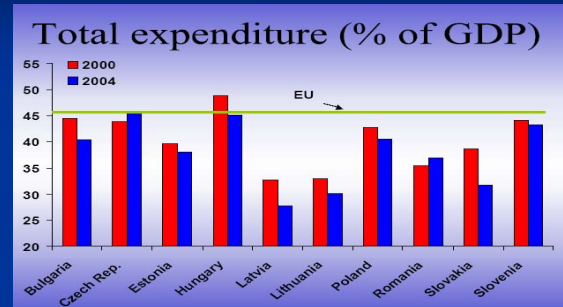
Graph: Development of Mandatory Expenditures (1997 – 2003)



Sources: Czech National Bank; Czech Ministry of Finance.

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Graph: Comparison of total expenditures.



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Issues for Discussion

- Fiscal policy objectives of the first Czech government compared with those of student's countries at the same time
- An analysis of the Czech fiscal policy in terms of access to the EU
- Transparency of the Czech fiscal system

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The End 😊

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