

Fiscal policy during the  
transition period in the CR

1. Main characteristics of socialist fiscal policy
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4. Fiscal policy since 1998
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# Socialist fiscal policy scheme

- complicated tax system
- tax burden as much as 80 % for state corporations
- personal income taxation 15 to 55 %
- state budget – more or less a redistribution instrument
- state budget – instrument of political power and illusion of paternalistic state

# Socialist tax system – state corporation taxation

1. Levy on (concerned banks and corp. of foreign trade): *profits, payrolls, capital depreciations, profit remainders, regulatory and price levies*
2. Income tax on (concerned all other corporations): *profits, payrolls*
3. Agricultural tax on (concerned farms): *profits, payrolls, lands, exceeds of payrolls, social contributions*
4. Turnover tax: *was negative – in fact a subsidy*

## Socialist tax system – personal taxation

1. Wage tax – progressive, max. 20 %
2. Tax on literary and artistic activity income – progressive, max. 33 %
3. Income tax – all other incomes, progressive, max. 55 %
4. House tax – tax on family houses

In fact there was a twin taxation of wages: corporate levies on payrolls + personal wage tax

# Fiscal policy between 1990 – 1992

- main goal – to decrease inflation pressures – fiscal restriction
- specific measures:
- reduction of the redistribution process + the aim to decrease the role of state in the national economy
- decrease expenditures on defense and safety, bureaucracy, subsidies
- total state budget of Czechoslovakia split into 3 sections: federal (35 %), Czech (40%), and Slovak budget (25 %)

# Fiscal policy between 1990 – 1992

State budget 1990 – 1992 (mn. CZK, current prices)

	Federal	Czech Rep.	Slovak Rep.	CSFR total
<b>1990</b>				
revenues	92 017	127 800	76 378	296 195
expenditures	88 002	127 568	76 846	292 416
balance	<b>4 015</b>	<b>232</b>	<b>-468</b>	<b>3 779</b>
<b>1991</b>				
revenues	124 034	156 412	108 902	389 348
expenditures	117 645	170 029	119 130	406 804
balance	<b>6 389</b>	<b>-13 617</b>	<b>-10 228</b>	<b>-17 456</b>
<b>1992</b>				
revenues	119 015	217 693	115 190	451 898
expenditures	126 015	219 390	123 123	468 528
balance	<b>-7 000</b>	<b>-1 697</b>	<b>-7 933</b>	<b>-16 630</b>

Source: CZSO Statistical Yearbook (1993)

# Fiscal policy under conservative governments (1993 – 1997)

- tax reform in 1993 – one of the most important steps in the sphere of fiscal policy
- other aims: to follow the reduction of the role of state in the national economy
- fiscal policy in 1996 and 1997 under the impact of parliamentary elections and monetary crisis



# Tax reform in 1993

- modern and market economy compatible tax system
- simplification of tax system
- two basic groups of taxes: direct + indirect
- direct taxes: income taxes (corporate + personal), property taxes
- indirect taxes: VAT, concise tax
- newly introduced the system of social and health contributions (employee's + employer's)

# Impact of the 1997 monetary crisis

- state budget for 1997 constructed as even
- in April 1997 – deficit 14,4 bn. CZK (cca 2,5 % of total SB expenditures)
- first „parcel of economic measures“ – cut of SB expenditures by 25,5 bn. CZK
- second „parcel“ in May 1997 – cut of another 18 bn. CZK
- total cut of SB expenditures cca 43 bn. CZK, but insufficient – SB deficit reached cca 15 bn. CZK in 1997

# Fiscal policy since 1998

- governmental switch → fiscal policy switch
- economic recession
- government followed the Keynesian economic policy – to stimulate AD and economic performance
- introduction of investment incentives system („tax vacation“, subsidies, etc.)
- deepening the fiscal imbalance
- state and public debt growth

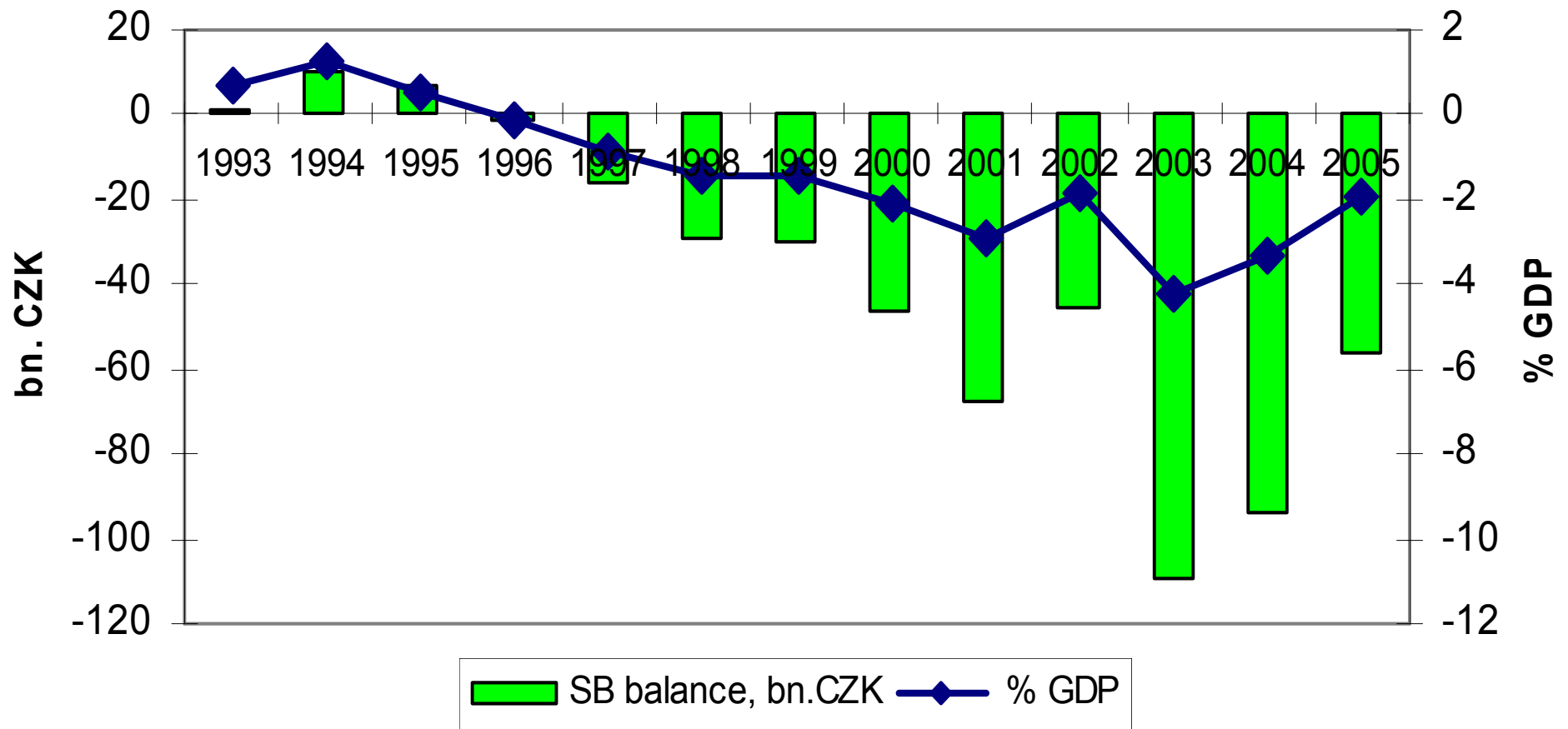
# First fiscal reform

- fiscal imbalance became a serious problem by 2002 – prediction of SB deficits for 2003 and 2004 (6,4 and 7,5 % of GDP)
- need of fiscal reform – **introduced in 2004**
- the aim: to reach the SB deficit 4 % of GDP by 2006
- accepted measures should save cca 270 bn. CZK
- reality: corruption scandal of prime minister – fiscal reform unfinished
- 2006 – popular steps in fiscal policy before the elections – fiscal reform practically stopped

# Second fiscal reform

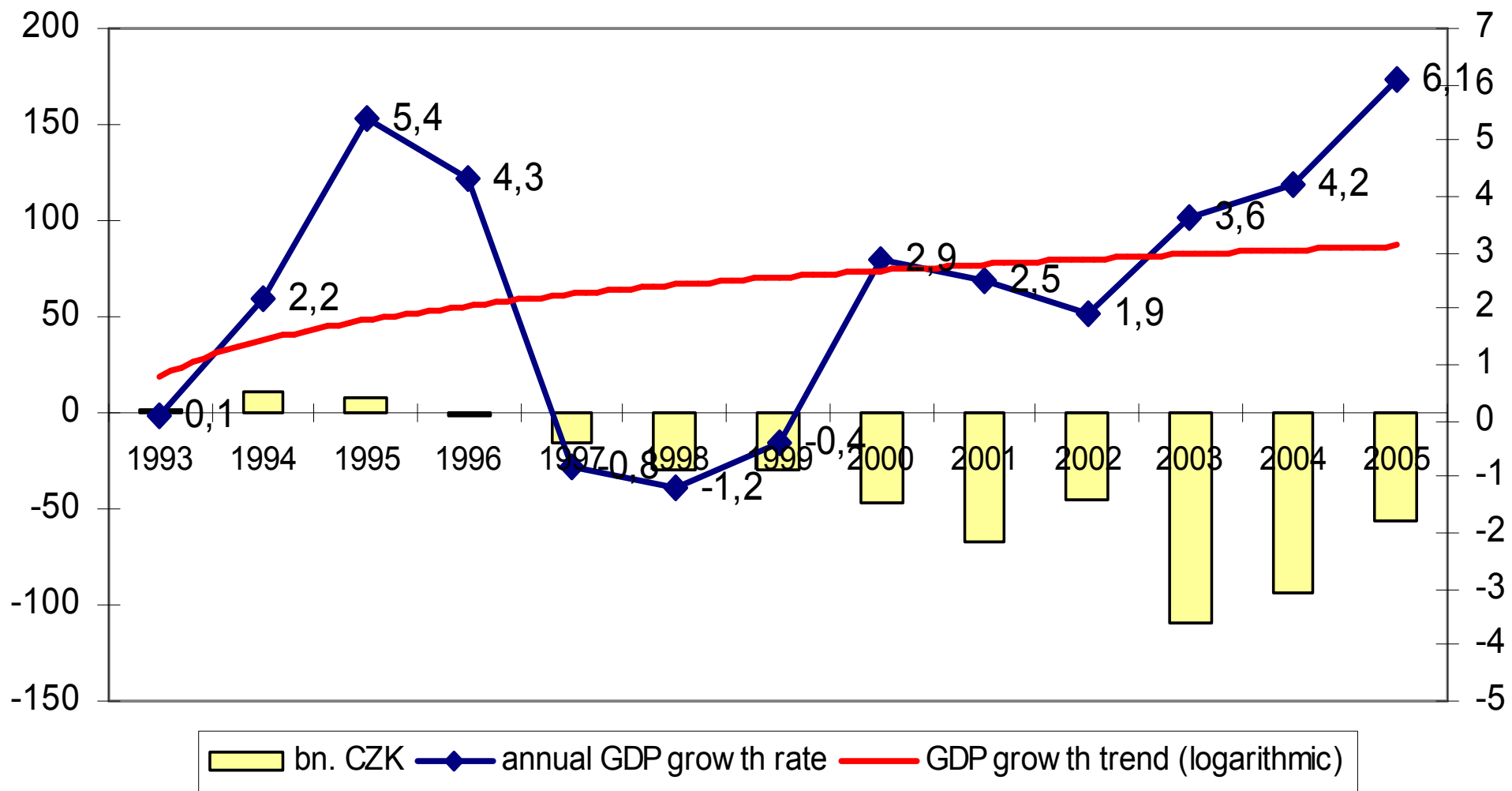
- introduced by the current coalition (conservatives, Christian democrats, greens) government – **since 2006**
- main features: flat tax, health care system reform, social system reform; → step by step alterations
- main goals: to make the SB even within 10 years, to decrease the share of mandatory expenditures, to strengthen the economic activity

**SB balance in the CR 1993-2005 (bn. current CZK - left axis,  
%GDP - righth axis)**



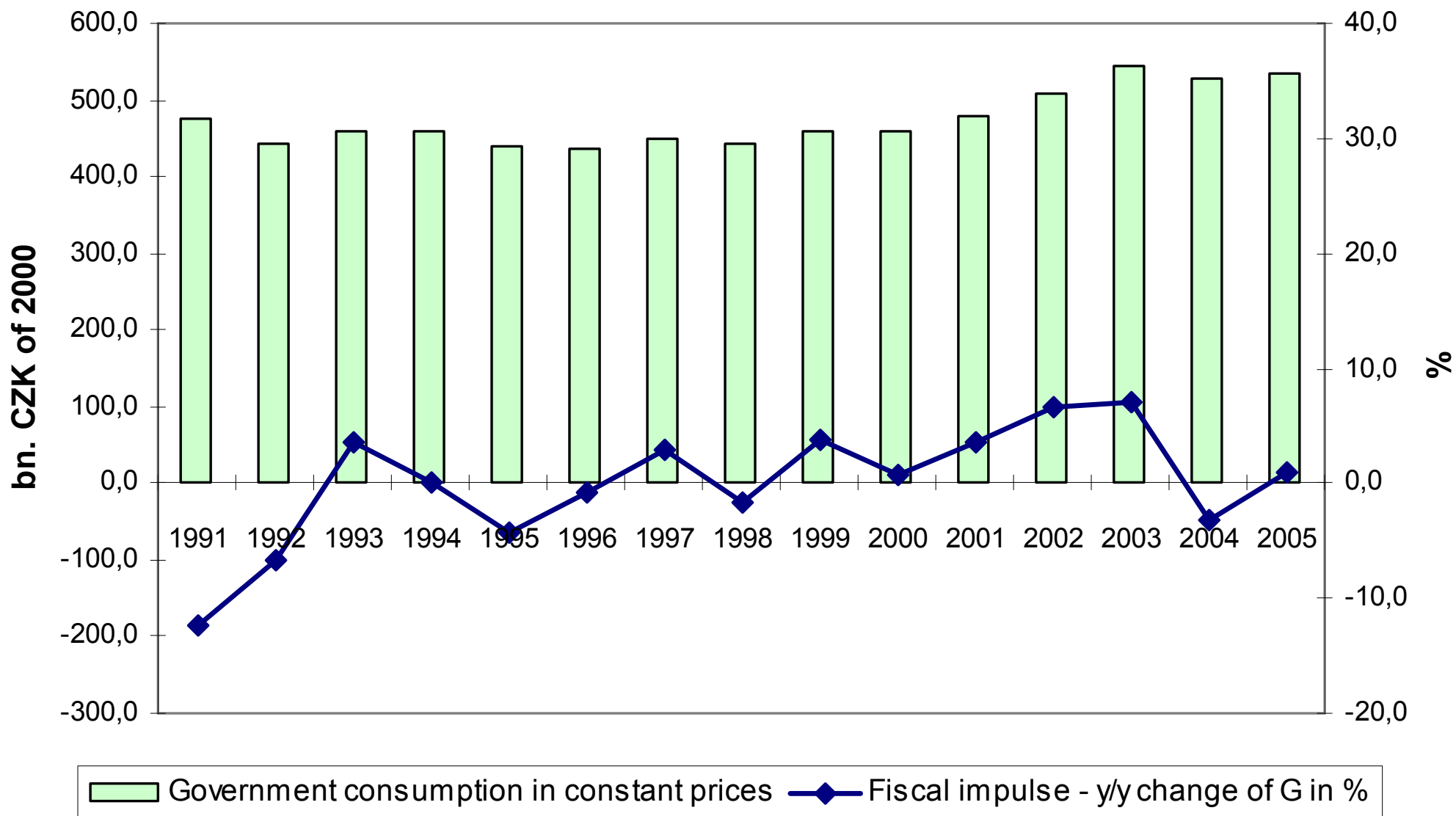
Source: OECD (2007), own calculations

### SB balance in the CR, estimation of structural and cyclical component (bn.CZK - left axis, annual GDP growth - right axis)



Source: OECD (2007), own calculations

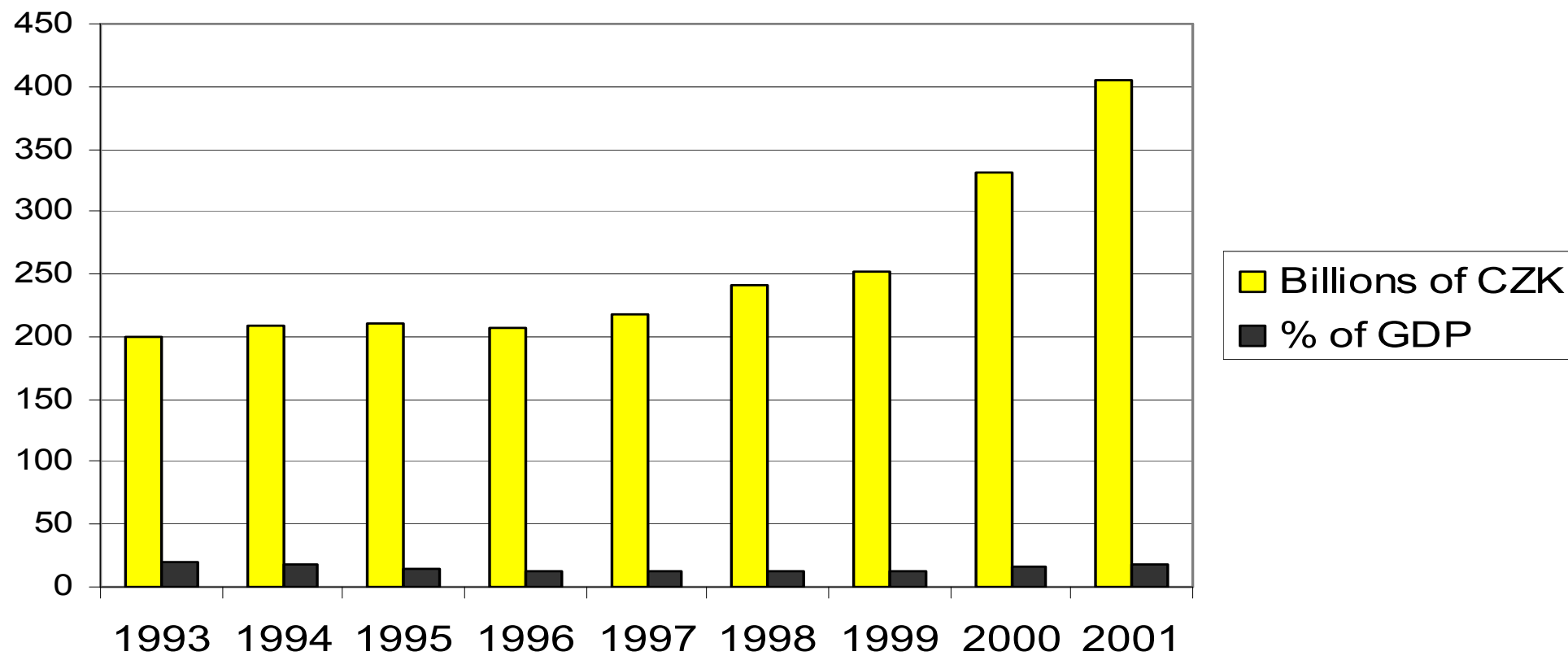
# Evolution of government consumption expenditures, constant prices of 2000 (bn. CZK - left axis, y/y change of G in % - right axis)



Source: OECD (2007), own calculations



## Public debt in the Czech Rep. 1993-2001

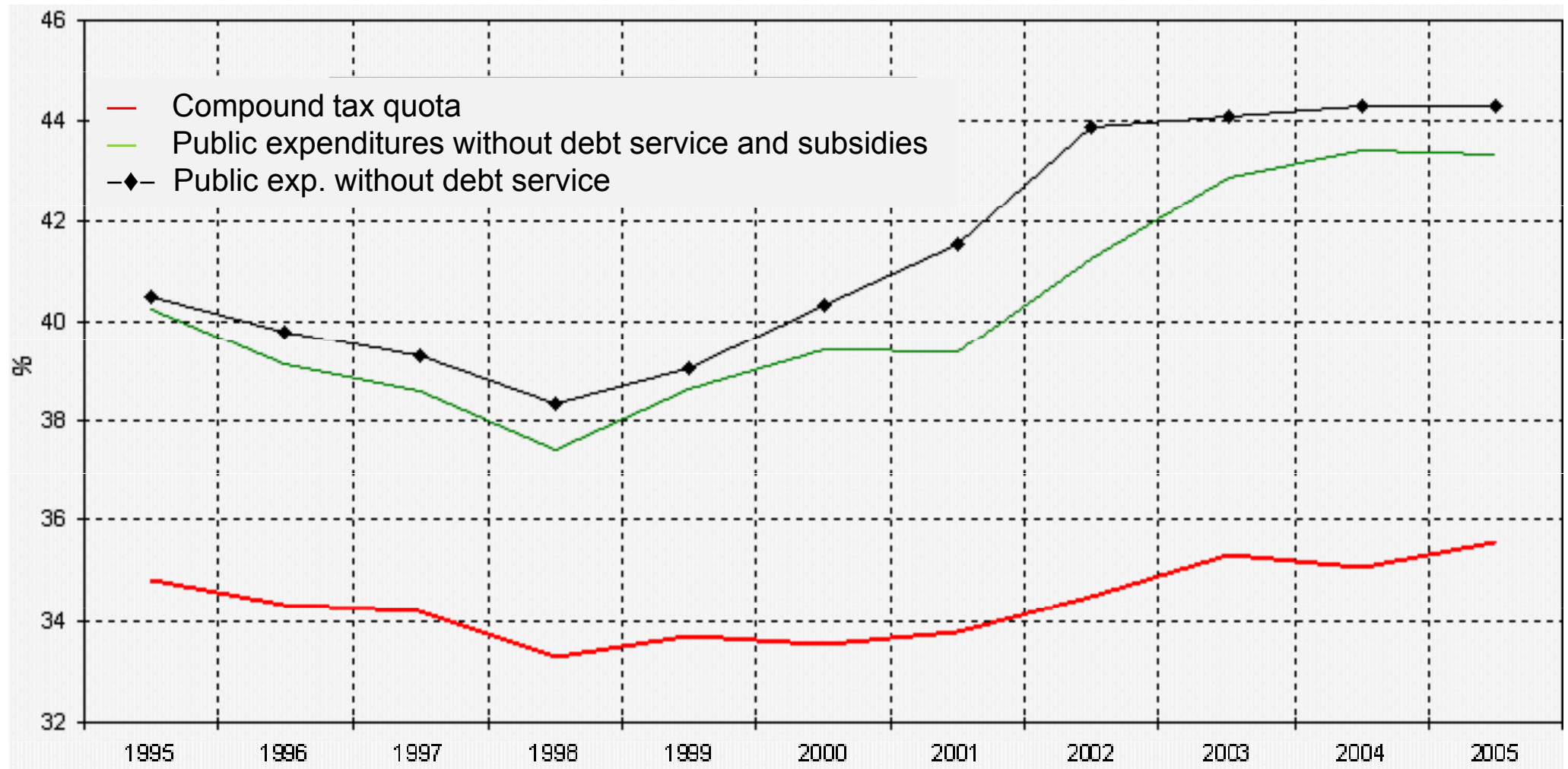


Source: Statistical Yearbook of HN 2000, 2002, Patria Finance web pages

Prime minister/time period	Klaus		Zeman		Spidla/Gross/Paroubek	
	1993	1997	1998	2002	2003	2006
State debt (bn.CZK)	158,8	172,2	193,6	395,9	493,2	827,7
Change of state debt (bn. CZK)	13,4		223,7		334,5	
State debt/GDP (%)	15,6	10,3	10,5	17,4	21,6	28,9

Source: Centre for Economics and Politics 2003, [www.patria.cz](http://www.patria.cz) (2007)

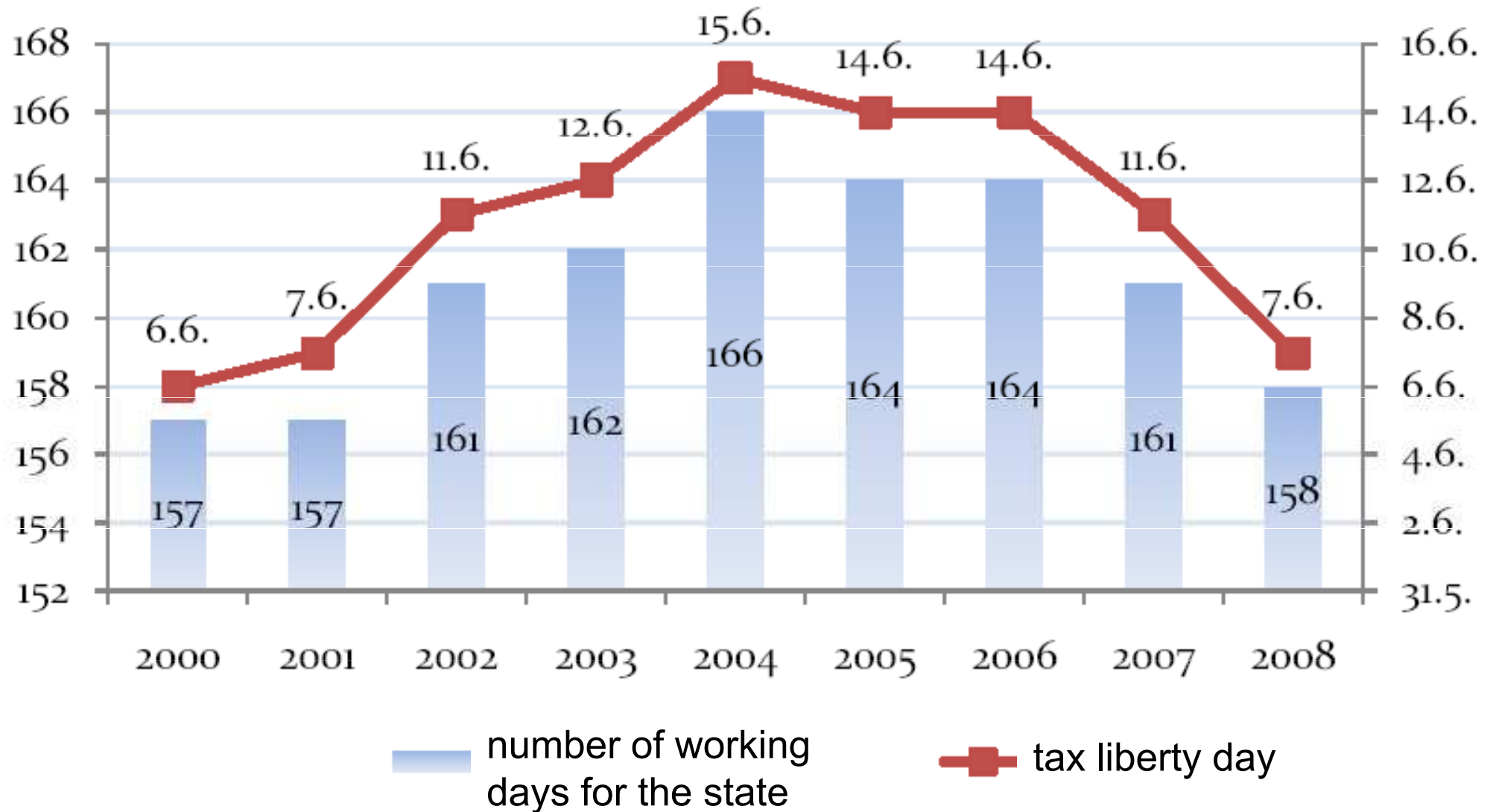
# Public sector revenues and expenditures in % of GDP in the Czech Republic



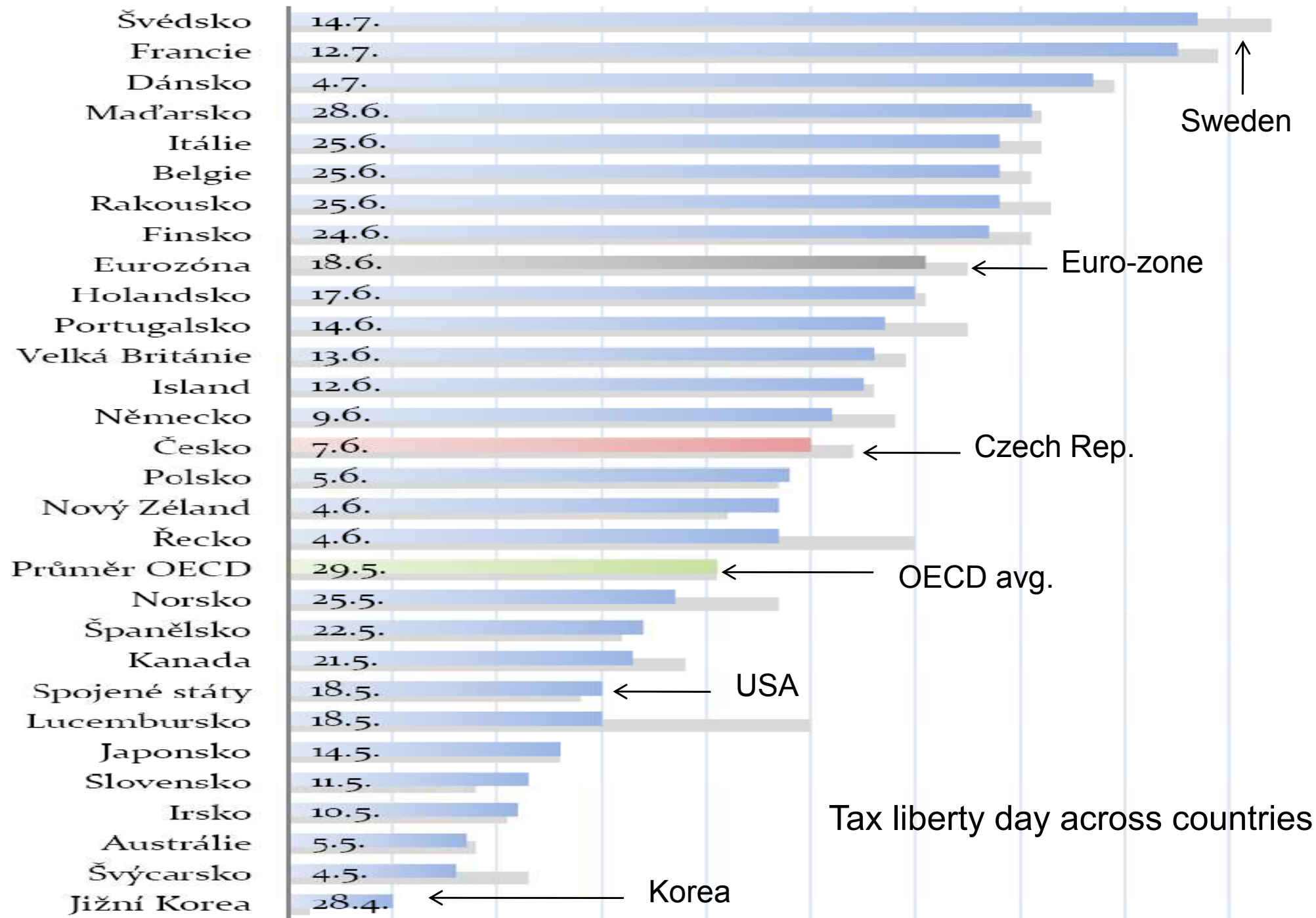
Source: Czech Ministry of Finance

[http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/makro\\_pre\\_10303.html?year=PRESENT](http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/makro_pre_10303.html?year=PRESENT) (2008)

# Tax liberty day in the Czech republic (2000 – 2008)



Source: [www.danova-svoboda.cz](http://www.danova-svoboda.cz) (2008)



18.4. 28.4. 8.5. 18.5. 28.5. 7.6. 17.6. 27.6. 7.7. 17.7.

■ 2008 ■ 2007