

Fiscal Policy during Transformation Period

Czech Case

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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.

Fiscal restriction – opposite of expansion.

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Instruments of fiscal policy

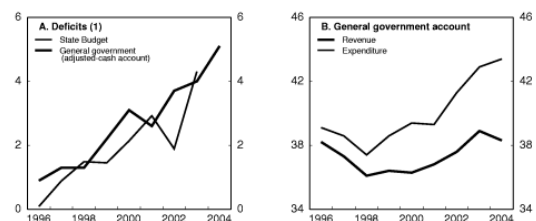
	Fiscal expansion	Fiscal restriction
Direct instruments	↑ government expenditures	↓ government expenditures
Indirect instruments	↓ taxes	↑ taxes

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.

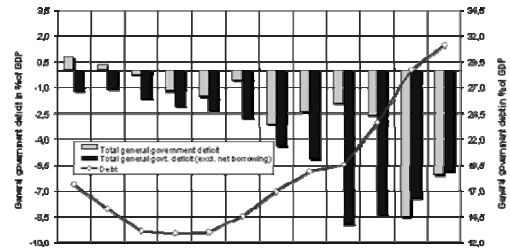
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Basic Phases of Czech Fiscal Policy

- 1993 – 1998 „**conservative**“ fiscal policy aims - to achieve balanced public budgets
- to reduce role for the state in the economy;
- 1998 – 2004 „**neokeynesian**“ fiscal policy aims - to achieve sufficient growth of GDP in spite of budget deficits
- to strengthen role for the state in the economy.

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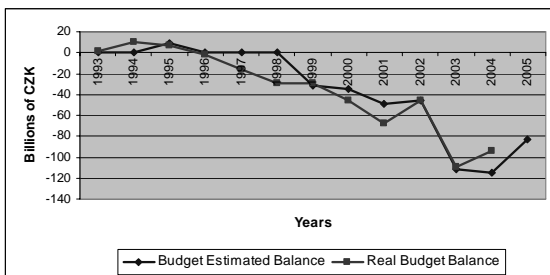
Graph: Fiscal Developments 1994 – 2005.



Bank Klus

Bank Zeman 8

Graph: Difference between budgeted estimated balance and real budgeted balance (1993 – 2005).



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

Bank Klus

Bank Zeman

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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.

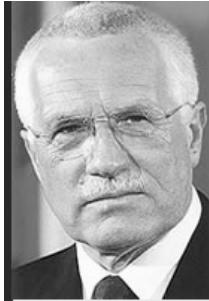
Reasons:

- 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

- Neoknesian 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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Fiscal Policy Strategy 2004 (Gross)



Stanislav Gross

- Connected with left wing political party ČSSD
- Prime Minister 2004 – 2005
- 2005 – abdication because of problems with his family property
- Nowadays – left politics, employed as a lawyer

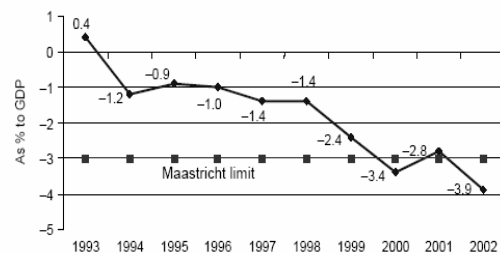
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Fiscal Policy Strategy 2004 (Gross)

- another social democrat government
- continued growth of public debt, BUT decreasing of deficit (real < estimated) *see graph*
- achievement of Maastricht criterion for public deficit - 3 % GDP (= 83,4 bill. CZK)
- **restrictive fiscal policy** – implementation and realization of Public Budgets Reform

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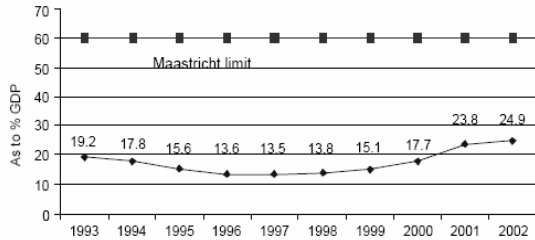
Public sector balance and the Maastricht criteria



Source: Czech National Bank.

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Public debt and the Maastricht criteria



Source: Czech National Bank.

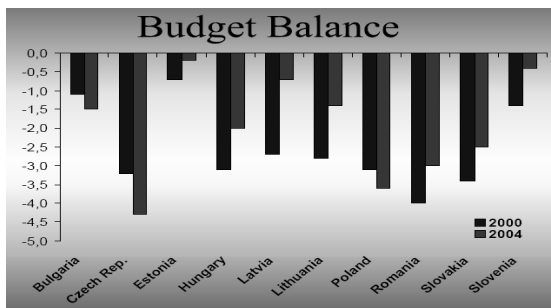
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Current Situation

- 1. 5. 2004 – access to the EU (obligation to fulfill Maastricht criteria)
- 25. 4. 2005 - change in position of Prime Minister → Paroubek
- Analyses of current situation in fiscal policy connected with analyses of Public Budgets Reform – next lecture
- Discussion

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Graph: Comparison of Budget Balance.



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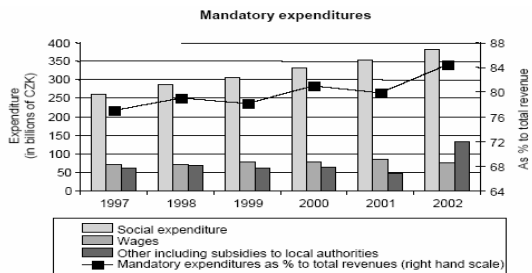
Mandatory expenditures

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 – 2002)

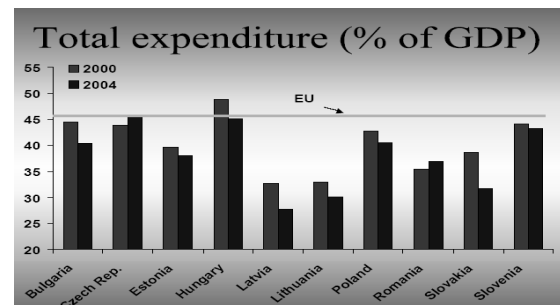


Sources: Czech National Bank; Czech Ministry of Finance.

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Graph: Comparison of total expenditures.



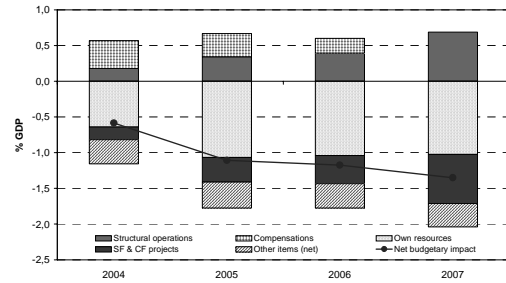
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Issues for Discussion

- 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 (see graph)
- Transparency of the Czech fiscal system

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Graph: Direct Impact of EU Accession on Government Sector Deficit.



Source: The Czech Ministry of Finance.

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The End 😊

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