

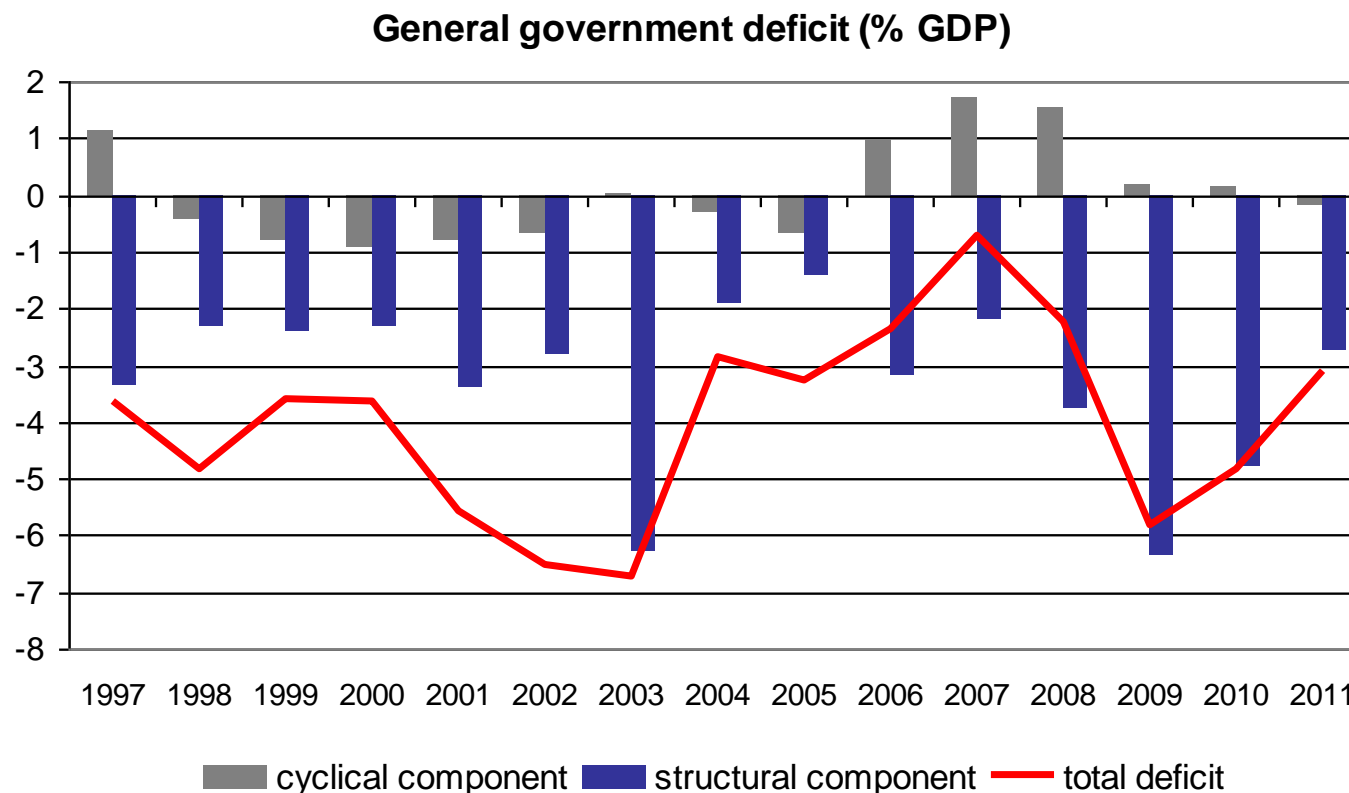
Fiscal Discretion in the Czech Republic 2001–2011

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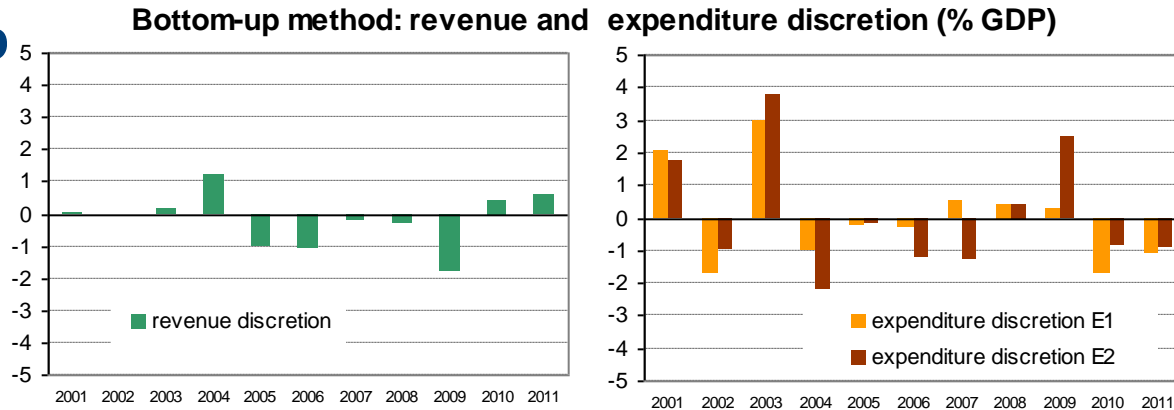


- Persistent deficits caused by structural factors
- A “boom-bust” policy, discretionary measures
- Pro-cyclicality, especially in good times (?)

- **Central bank's point of view**
 - Fiscal outlook as a part of macroeconomic forecast:
 - fiscal measures → GDP → inflation → MP interest rates
 - What are the impacts of fiscal measures?
- **Economic policy point of view**
 - Does the fiscal policy play the stabilisation role?

→ **Analysis of discretionary measures**

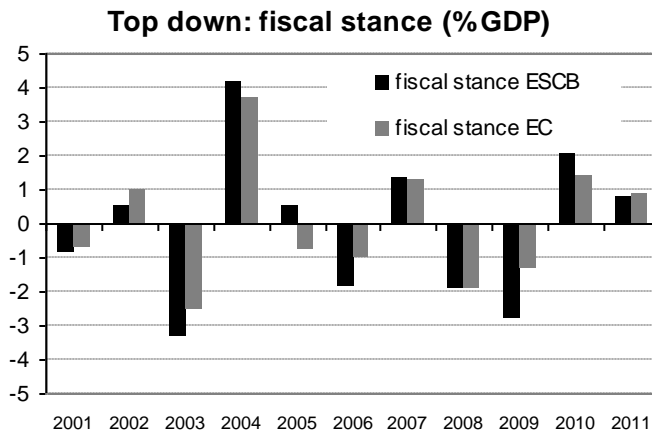
*bottom-up



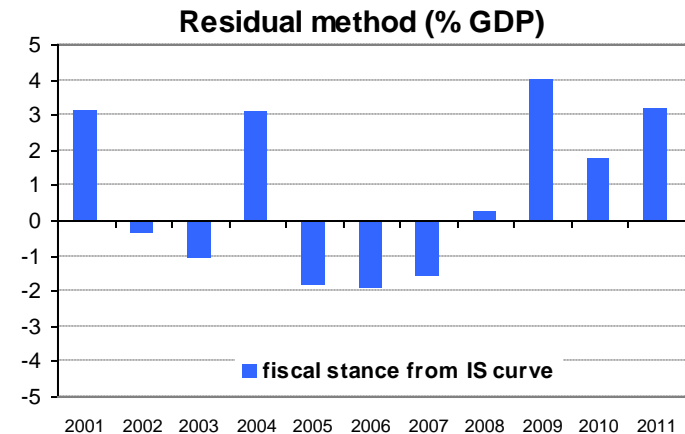
Revenue discretion > 0 : higher revenue compared to the situation without any discretionary action.

Expenditure discretion > 0: higher expenditure compared with the estimated trend (E1 = deviation from the trend of adjusted total expenditures, E2 = deviation from the trend of the share of adjusted total expenditure to GDP)

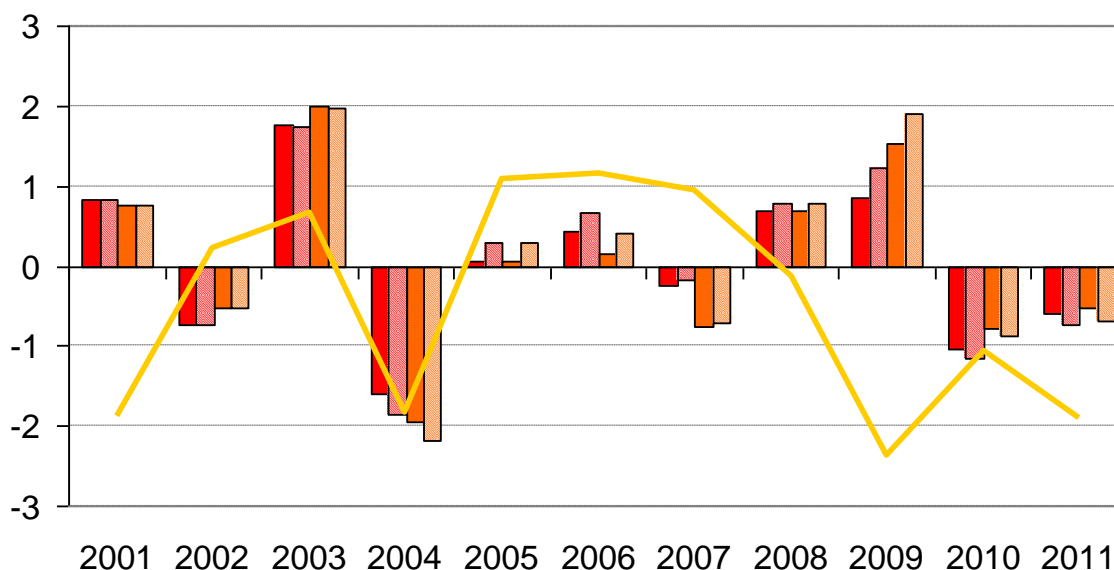
*top-down



*filtering



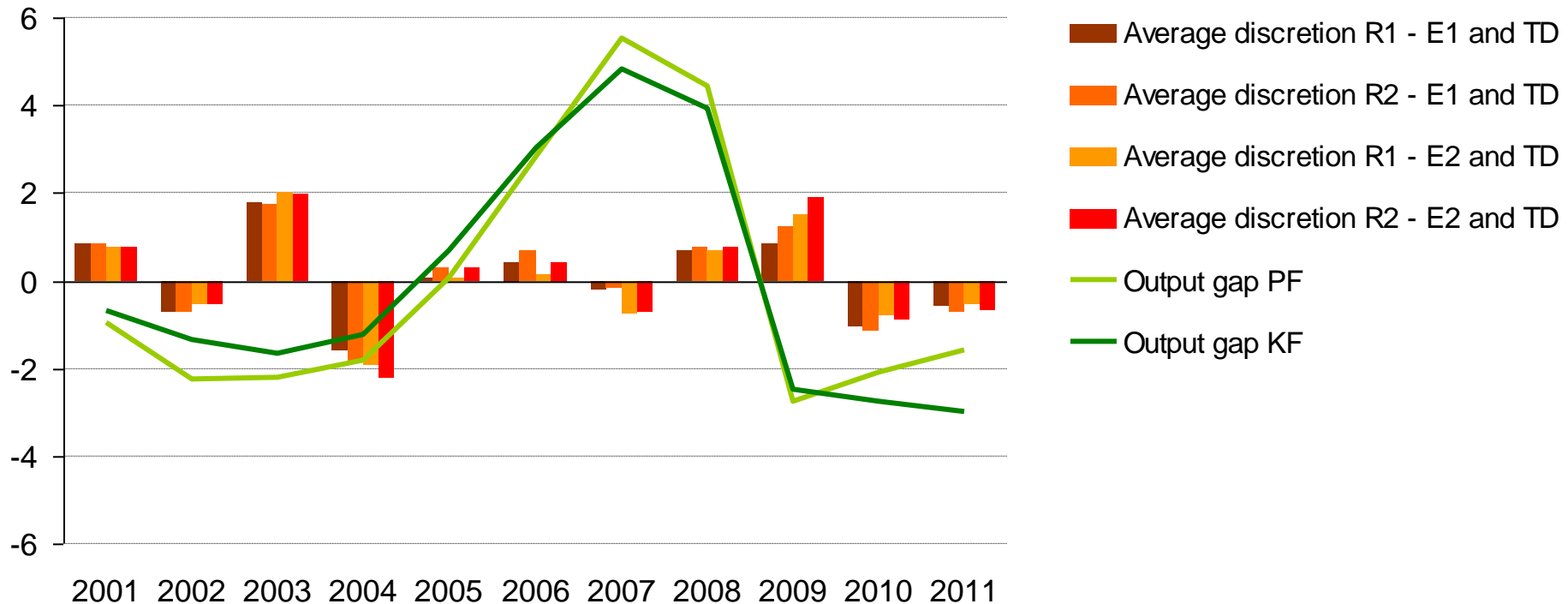
Average of bottom-up and top-down methods compared with filtering (% real GDP)



Positive values = fiscal expansion,
negative values = fiscal restriction.
R1 = revenue discretion using IMF
multipliers;
R2 = revenue discretion using revenue
multiplier of 0.6 for all revenue categories.
E1 = deviation from the trend of adjusted
total expenditures
E2 = deviation from the trend of the share
of adjusted total expenditure to GDP.
TD = fiscal discretion identified by the top-
down method.

- All methods tell **qualitatively the same story**, individual fiscal packages in accord:
 - 2009 (anti-crisis package) impact +0.9–1.5 % of GDP
 - 2010 (austerity package) impact between -0.8 and -1.1 % of GDP
 - 2011 (further consolidation) impact between -0.5 and -0.7 % of HDP
- Exception: residual method in 2001 and 2009

Output gap and GDP impact of fiscal discretion (% GDP)



- Fiscal policy **predominantly pro-cyclical** (in 2002, 2004–2006, 2008, 2010–2011).
- Counter-cyclical discretion (2001, 2003, 2007 and 2009)
- Correlations between the impacts of fiscal discretion with the output gap in statistically insignificant range -0.1 to 0.2.

- **Situation:**

- Need to fulfil EDP commitments
- Positive surprise in notifications

- **Policy choices:**

- **Strong fiscal restriction continued**

- + decrease in country risk-premium (?)
- + expected by the markets (?)
- restrains the economy
- not expected by the markets (?)

- **Allow for some counter-cyclical of fiscal policy**

- + more easy for the economy
- expansion of deficit and debt

- Fiscal discretion in the Czech Republic:
 - quite intensively used
 - had significant real impacts
- A “boom-bust” policy
- Without systematic link to the cycle:
 - periods of desired counter-cyclical effects have been short,
 - while periods of destabilizing pro-cyclical effects were in some cases prolonged.
- The Czech fiscal policy did not establish sufficient reserves in good years
 - a room for effective use of fiscal discretion in a prolonged slowdown is missing
 - currently this leads to a pro-cyclical fiscal consolidation

Thank you for your attention.

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