

Fiscal policy during the  
transition period in the CR

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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

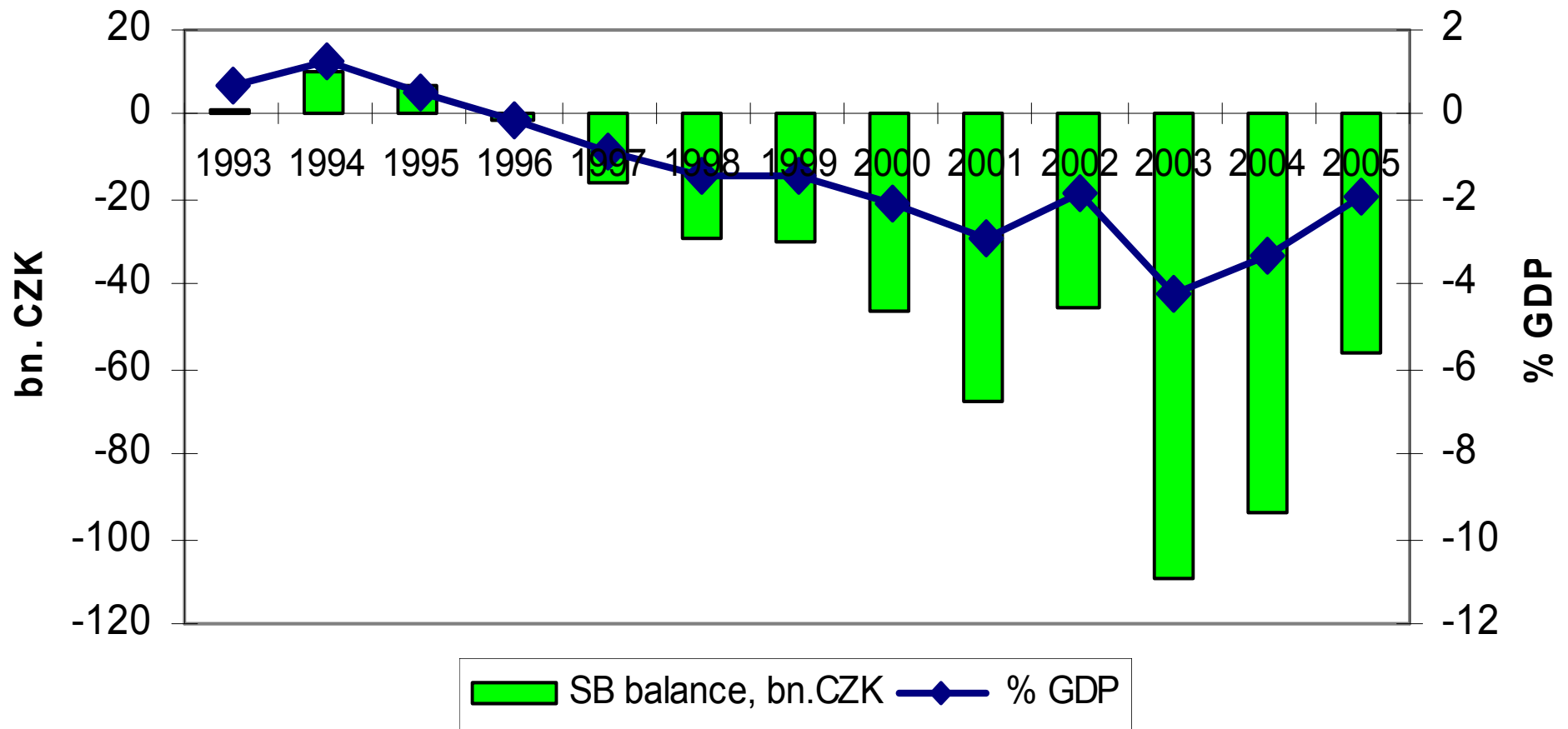
# First fiscal reform

- 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

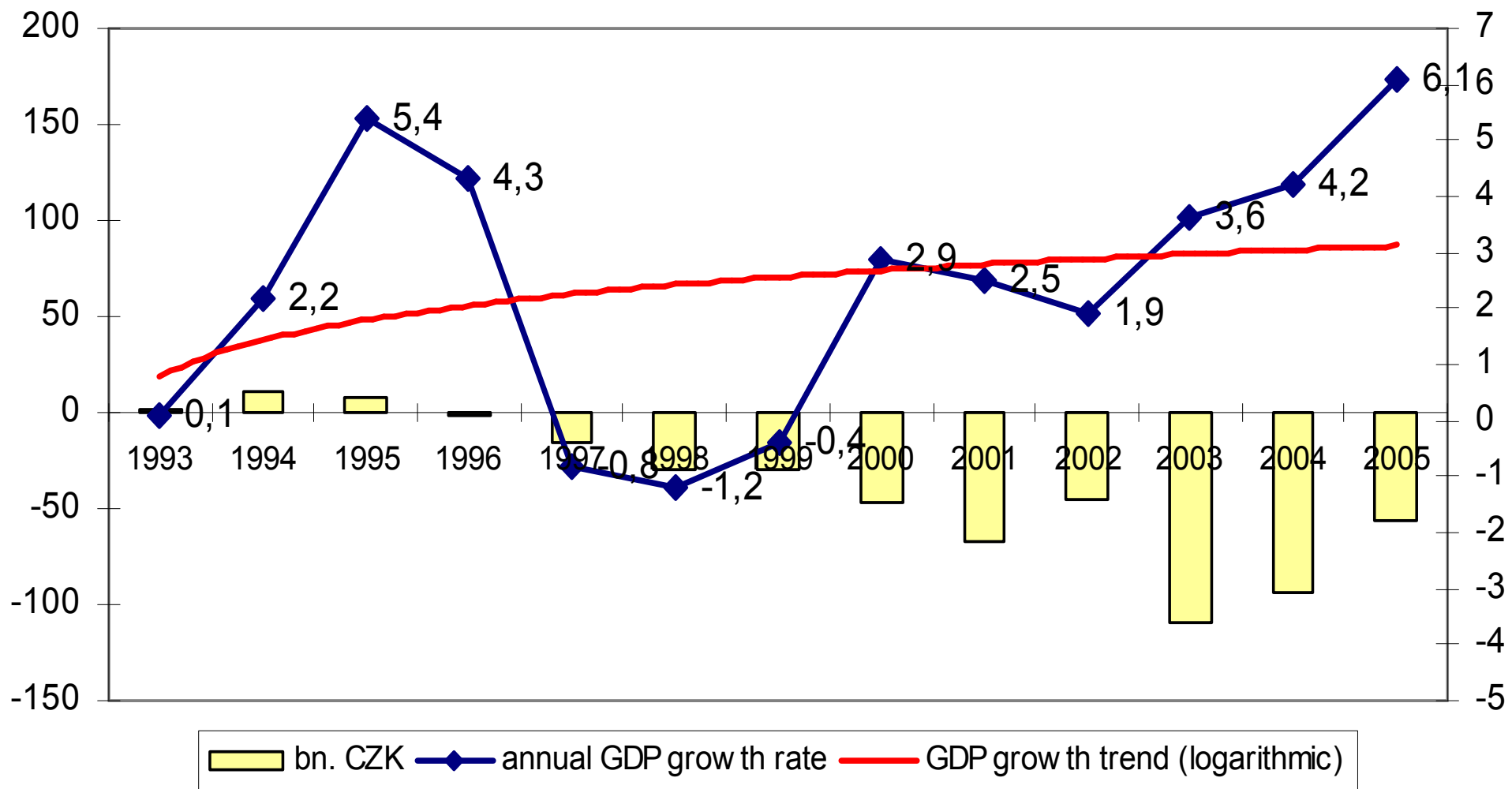
- introduced by the current coalition (conservatives, Christian democrats, greens) government
- main features: flat tax, health care system reform, social system reform; → step by step alterations
- main goals: to make the SB even within 10 years, to decrease the share of mandatory expenditures, to strengthen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

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



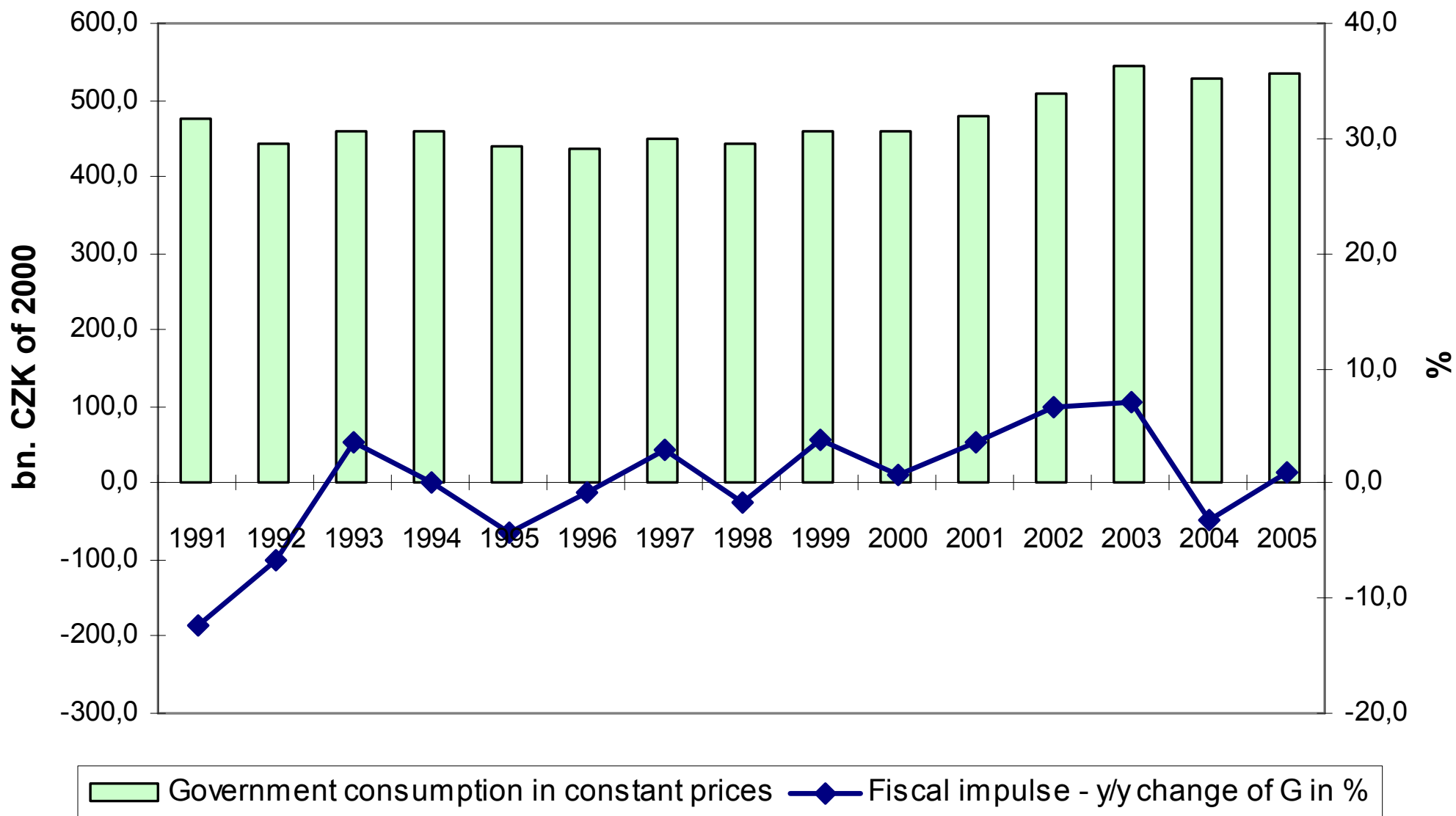
Source: OECD (2007), own calculations

### 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

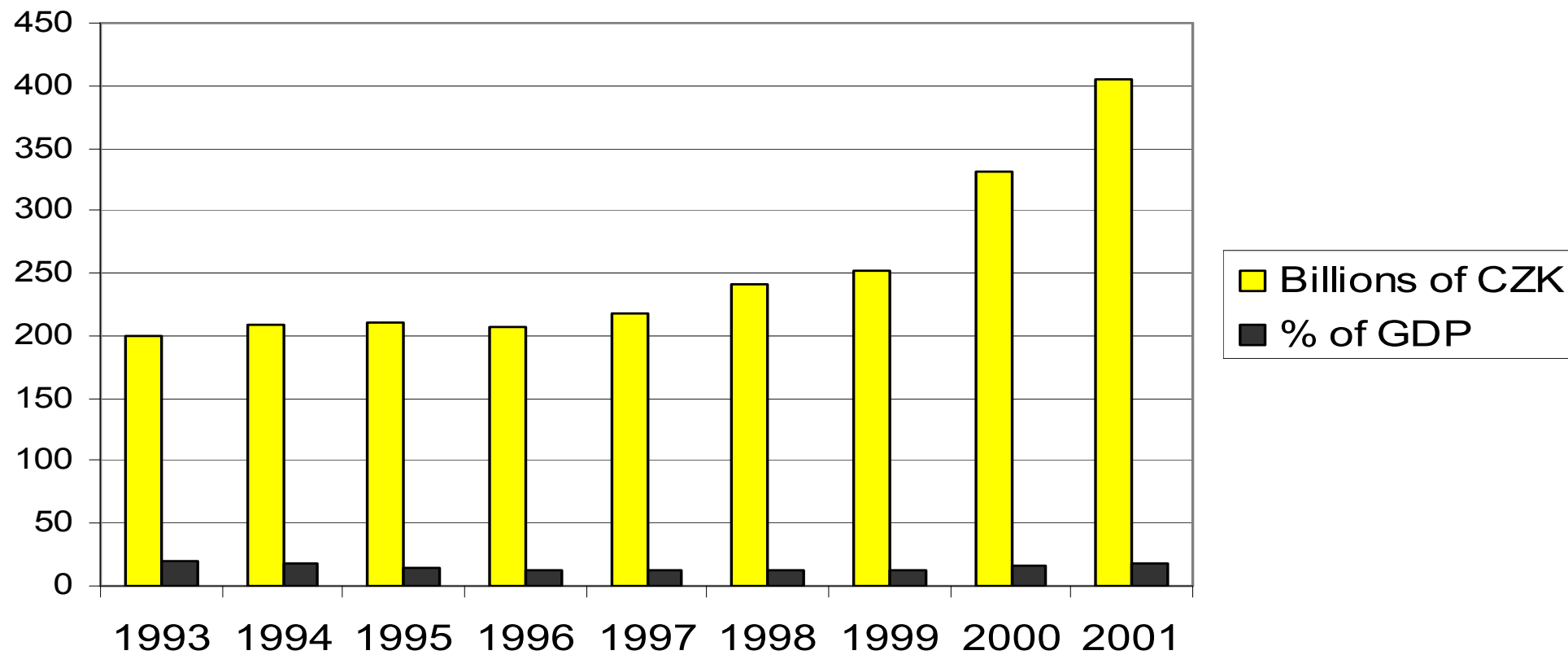
**Evolution of government consumption expenditures, constant prices of 2000**  
(bn. CZK - left axis, y/y change of G in % - right axis)



Source: OECD (2007), own calculations



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

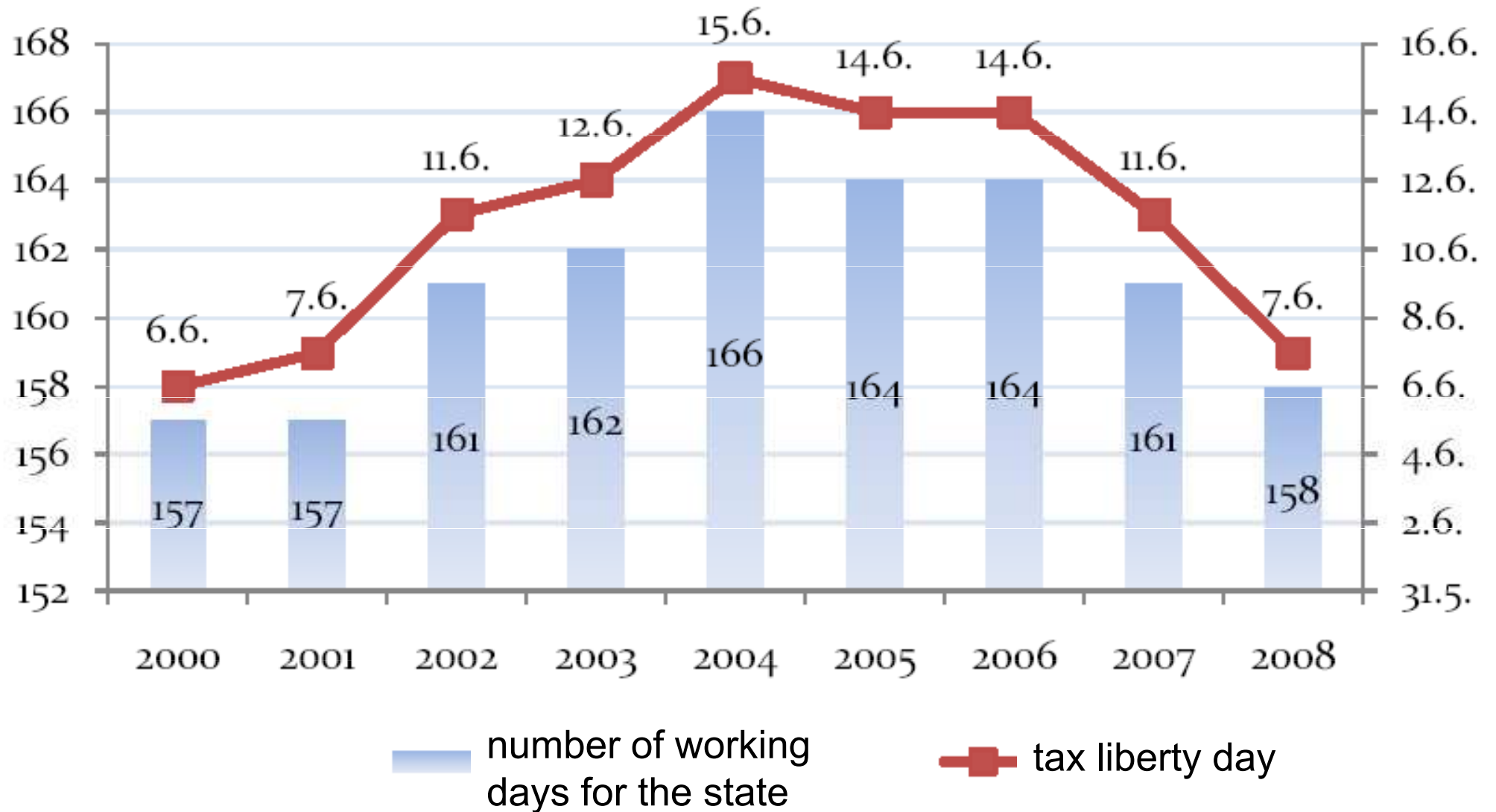


Source: Statistical Yearbook of HN 2000, 2002, Patria Finance web pages

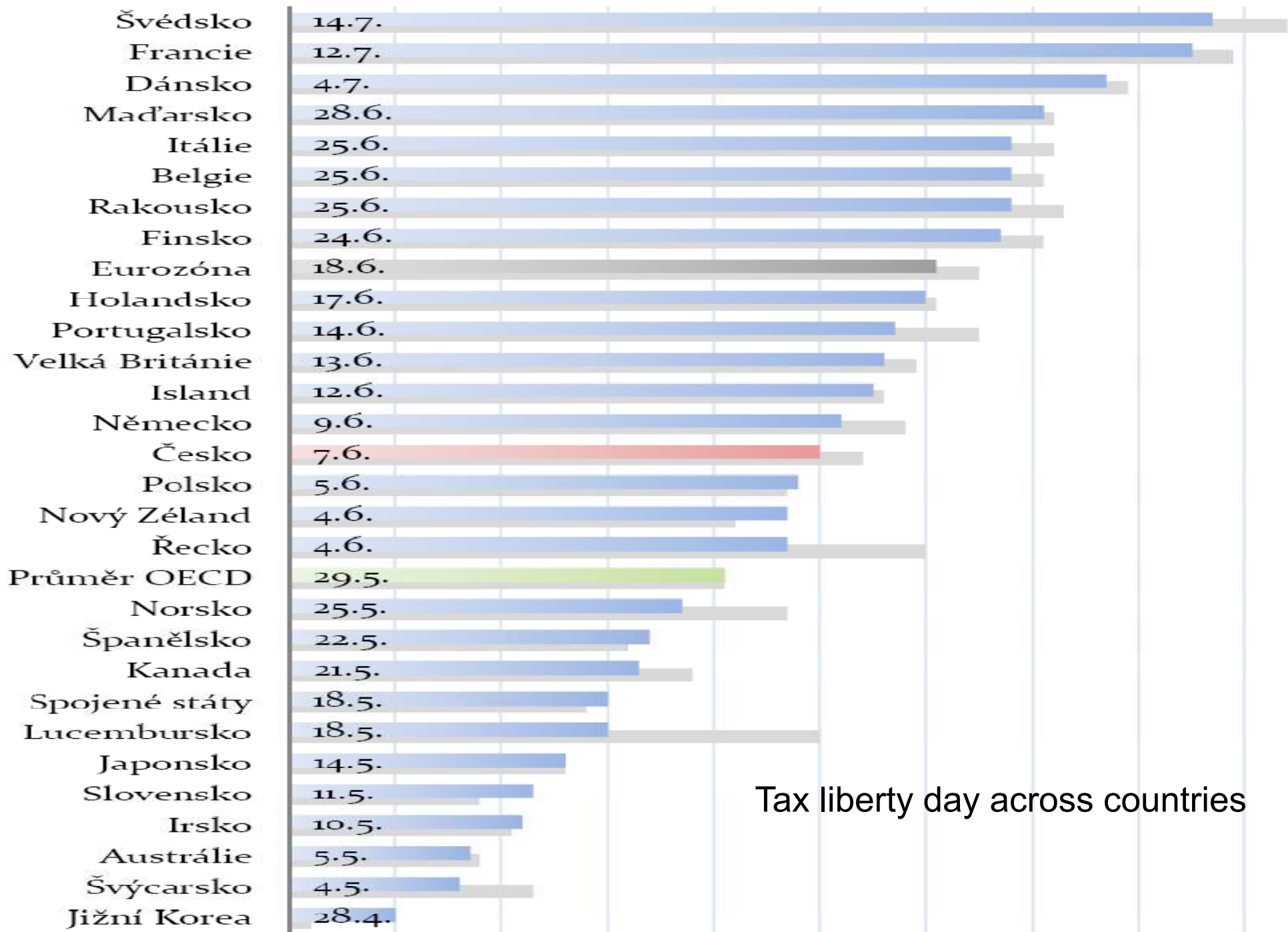
| Prime minister/time period     | Klaus |       | Zeman |       | Spidla/Gross/Paroubek |       |
|--------------------------------|-------|-------|-------|-------|-----------------------|-------|
|                                | 1993  | 1997  | 1998  | 2002  | 2003                  | 2006  |
| State 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)

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



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



Tax liberty day across countries

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

■ 2008 ■ 2007