Growth-Friendly Fiscal Strategies for the Czech Economy*

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Updated August 2017

Abstract

I build a structural fiscal DSGE model to address three important issues of Czech fiscal policy. First, I calculate fiscal multipliers for several revenue and expenditure categories of the government budget, the largest of which after the first year are government consumption (0.6), government investment (0.5), and social security contributions paid by employers (0.4). Second, I use fiscal multipliers to derive the appropriate composition of growth-friendly fiscal strategies, e.g., the composition of temporary fiscal consolidation is more revenue-based, raising mainly consumption tax (a share of 30% in the composition) and wage tax (17%), accompanied by cuts in other social benefits (35%) on the expenditure side. Third, I show that fiscal devaluation can boost real GDP growth by 0.4 percentage points in the first year, when a budget-neutral tax shift of the magnitude of 1% of GDP occurs from direct taxes to consumption tax and capital tax. These results corroborates that the government can easily support the economy by appropriately adjusting fiscal instruments.

Keywords: Bayesian estimation, DSGE, fiscal consolidation, fiscal devaluation, fiscal multipliers, fiscal policy, fiscal stimulus, fiscal strategy

JEL classification: C11, E32, E62, F41

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*I am grateful to Jan Babecký, Michal Franta, Philipp Hartmann, Josef Hollmayr, Marek Kapička, Michal Kejak, Marco Ratto, Marta Rodríguez-Vives, Jakub Ryšánek, Sergey Slobodyan, Jan in't Veld, and Milan Výškrabka for helpful discussions and suggestions. I also thank Paul Whitaker and Gray Krueger for English proofreading. The model in this paper benefited from comments at CNB seminars, and the UECE Conference on Economic and Financial Adjustments in Europe, Lisbon, 2013. The views expressed in this article are those of the author and do not necessarily reflect the views of the affiliated institutions. All errors remaining in this text are the responsibility of the author.

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