Growth-Friendly Fiscal Strategies for the Czech Economy*

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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

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