EFFECTS OF FISCAL POLICY SHOCKS ON THE ECONOMY: EVIDENCE FROM SELECTED CEE COUNTRIES

Abstract:

The impact of fiscal policy on the economy is a subject of special interest to the EU countries outside the Eurozone, mainly due to their position of “countries with a derogation” and their future access to the Euro Area. In this context it seems appropriate to investigate the impact of fiscal policy shocks on the economy in the short-run in these countries. The aim of this study is to analyze the effectiveness of fiscal policy shocks in selected CEE countries. In accordance with the goal, the empirical fiscal SVAR models have been prepared. The study is based on a quarterly data for six CEE countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania. The empirical model for each country includes three variables: GDP, government spending and net taxes. The identification scheme is based on the Blanchard and Perotti (2002) approach. According to the estimated results the impact response of GDP to government spending shock is positive (and statistically significant in most analyzed countries), whereas the response of GDP to the net tax shock is negative or positive (positive in the case of two countries: Croatia and Poland) however statistically insignificant in analyzed countries. The dynamic responses are presented by impulse response functions investigated for each country. The analysis of these functions demonstrates the effects of structural shocks on the economy over horizon considered for the fiscal IRF. The results show differences in GDP responses on structural shocks in analyzed CEE countries.

Keywords:

fiscal policy, fiscal SVAR, European Union, CEE countries, structural shocks

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