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FISCAL POLICY PERFORMANCE AND ECONOMIC DOWNTURN – THE EXPERIENCE OF THE EUROPEAN UNION COUNTRIES OUTSIDE THE EURO AREA

Abstract

Background: In recent years, imbalances in public finances have been building up in many countries of the European Union, and it has been influenced by, among others, the expansionary fiscal policies implemented during the economic downturns. The beginning of the 21st century was affected by two severe recessions caused by shocks of different natures. Therefore, there is an interest in comparing how fiscal policy was conducted before and during both recessions.
Research purpose: The paper aims to identify changes in fiscal policy and the main causes of these changes in six Central and Eastern European countries outside the euro area, i.e., Bulgaria, Czechia, Croatia, Hungary, Poland, and Romania. The focus is on comparing the paths and developments of fiscal policy aggregates before and during the two recessions that occurred in the first decades of the 21st century.
Methods: The evaluation of fiscal policy is based on a large (full) sample, which covers 2004 to 2019, and sub-samples, which allows for an evaluation of fiscal policy before the two downturns, i.e., before the economic crisis from the first decade of the 21st century, and before the "COVID-19" crisis. The main attention is paid to analyzing the changes in debt development, changes in the budget balance against the background of the cyclical indicator – fiscal stance, and evaluating domestic fiscal rules in the context of fiscal governance, and recognizing the scale of fiscal imbalances. The data used are mainly based on the AMECO database.
Conclusions: The comparison of the fiscal policy performance in the period one year before both crises shows that almost all countries under consideration in 2008 conducted a procyclical policy, whereas in 2019, the fiscal policy was procyclical in all six countries. Regardless of the fact that in recent years the countries increased the number of national fiscal rules, especially domestic budget balance rules, the fiscal policy stance was somewhat procyclical. Moreover, the analyzed countries have large disparities in the level of debt-to-GDP ratio.

Keywords: fiscal stance, CEE countries outside the euro area, fiscal rules, fiscal governance.

JEL classification: H62, H63, H69

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1. Introduction

Fiscal policy, through its stabilization function, plays a vital role in mitigating economic activity. However, in different countries, it is provided in different manners due to the possibility of using domestic independence in the choice of policy tools in reaction to economic fluctuations. European Union (EU) countries are unique in the context of this activity as EU Member States provide domestic policy but within the range of general fiscal frameworks established for all EU countries. In particular, attention should be paid to the EU countries with a derogation – i.e., potential candidates to the euro area. These countries, by acceding to the euro area in the near, but not exactly or officially defined future, will leave their own domestic monetary policy for the single monetary policy of the European Central Bank. Therefore, one possible tool to mitigate economic fluctuations at the domestic level is country-specific fiscal policy but placed within the EU's fiscal frameworks. Currently, Croatia and Bulgaria have already started preparing to join the euro area and have been participants of the Exchange Rate Mechanism II since July 10, 2020. The other four countries have still not decided about preparing to join the euro area.

On the one hand, fiscal policy is used as a stabilization tool, but on the other hand, it might influence economic turmoil. The role of fiscal policy is important, especially as a stabilization tool in "bad times." In recent years, many economies have been affected by two severe recessions caused by two shocks of completely different natures. The first was the economic crisis, which started in the EU at the end of 2008 and was caused by turmoil on the US real estate market, which spilled over to other economies. The second was the COVID-19 pandemic shock, which caused a crisis at the beginning of 2020 initiated as an administrative shock and later turned into an economic shock that affected the real economy. In recent years, imbalances in public finances have been a problem for many countries of the EU, including countries with a derogation. The imbalances have been influenced by expansionary fiscal policies, implemented not only during the economic slowdowns, but also by many different factors beyond the direct control of the governments.

Taking the above into account, the aim of the paper is to present some information concerning the fiscal policy performance in six Central and Eastern European Countries (CEECs) outside the eurozone, i.e., Bulgaria, Croatia, Czechia, Hungary, Poland, and Romania, and identify main changes in fiscal aggregates. In particular, the paper aims to compare fiscal policy aggregates, imbalance in public finance, and fiscal policy stance in these countries in the years before and during both recessions.

The structure of the paper is as follows. The next section provides a short outline concerning the national fiscal governance as a basis for the institutional implementation of fiscal policy in the EU. The third section evaluates domestic fiscal rules as an important element of fiscal governance. The next two sections analyze the situation in budget balance and public debt, respectively. Finally, the last section provides conclusions.

2. Fiscal governance and the importance of fiscal rules

National fiscal governance (national fiscal frameworks) is the set of rules, procedures, arrangements, and institutions for budgetary policy that are in place in each EU Member State.[1] It aims to improve the coordination of particular elements of fiscal policy, improve fiscal policymaking, and achieve public finance sustainability. The core source of how to conduct fiscal governance in the EU is the Stability and Growth Pact (SGP, 1997),[2] amended twice – in 2005 and 2011. An important document that directly affects fiscal governance is the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member State. It regulates many areas of budgetary policy, including requirements related to accounting and statistics; medium-term budgetary frameworks; country-specific numerical fiscal rules; transparency of general government finance; comprehensive scope of budgetary frameworks; rules and procedures in the budgetary planning process; independent monitoring and analysis (provided through a special independent body or independent audit institution). The legislation related to fiscal governance has been reformed several times, including reform of the SGP in 2005 (both Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, and Council Regulation (EC) 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure). The next amendment of the SGP took place in 2011, as part of a package of legislation known as the Six Pack (which was

1 **European Commission**, *European semester thematic factsheet national fiscal governance*, 2016, p. 1, https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_national-fiscal-governance_en.pdf; accessed 1.09.2021.

2 *Resolution of the European Council on the Stability and Growth Pact* (Amsterdam, 17 June 1997) (Official Journal of the European Communities C 236/40); *Council Regulation (EC) No 1467/97 of 7 July 1997* (Official Journal of the European Communities, L 209/40); *Council Regulation (EC) No 1056/2005 of 27 June 2005* (Official Journal of the European Union, L 174/5).

a result of the economic and financial crisis of 2008). This important reform was also related to the so-called Two-Pack in 2013, and the Fiscal Compact in 2012.

Generally, national fiscal governance influences how budgetary policy is planned, approved, carried out, monitored, and evaluated. It includes mainly medium-term budgetary frameworks, independent fiscal institutions, and national numerical fiscal rules.[3]

National (country-specific) numerical fiscal rules, in terms of the well-known definition by Kopits and Symansky,[4] are a permanent constraint on fiscal policy, typically defined in terms of an indicator of overall fiscal performance. The rule is often expressed as a numerical target (ceiling) of selected fiscal aggregates in relation to GDP. According to Kennedy et al.,[5] a fiscal rule is a kind of statutory or constitutional restriction imposed on the fiscal policy aggregate, which ensures a specific limit on that aggregate (like budget balance, debt, spending, or revenues). Council Directive 2011/85/EU of 8 November 2011[6] indicates that the country-specific numerical fiscal rule, as an element of fiscal frameworks, should contain the following specifications: the target definition and scope of the rule; the effective and timely monitoring of compliance with the rule (based on a reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States); the consequences in the event of non-compliance. If the numerical fiscal rule contains an escape clause, it must set out a limited number of specific circumstances consistent with the Member States' obligations deriving from the Treaty on the Functioning of the European Union (TFEU) in the area of budgetary policy, and stringent procedures in which temporary non-compliance with the rule is permitted. Generally, four types of national fiscal rules are applied in the EU Member States: debt rule, budget balance rule, expenditure rule, and revenue rule.

The European Commission, on the basis of the information on characteristics of fiscal rules derived from all EU countries, computes Fiscal Rule Index (FRI). The general procedure is as follows. First, a Fiscal Rule Strength Index (FRSI) is calculated that takes into account five criteria: legal base, binding character,

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3 **European Commission**, *European semester…*

4 **G. Kopits**, **S. Symansky**, *Fiscal rules*, IMF Occasional Paper 2008/162.

5 **S. Kennedy**, **J. Robbins**, **F. Delorme**, *The role of fiscal rules in determining fiscal performance*, in: Banka d'Italia, Research Department Public Finance Workshop, paper presented at the Bank of Italy Workshop in Perugia 1–3 February 2001, pp. 237–266.

6 *Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States*, Official Journal of the European Union, L 306/41.

monitoring bodies, correction mechanisms, and resilience to shocks. The composite FRSI is calculated for each rule by aggregating the scores for these criteria. The scores of the five criteria are first standardized, and next, a random weights technique is used following the method used by Sutherland et al.[7] The calculation provides one index that measures the strength of each fiscal rule. Next, the Fiscal Rule Index is obtained using a specific technique explained in detail by the European Commission unit responsible for calculating the index.

Despite the constraints related to the domestic level, all European Union Member States are also obliged to fulfill supranational rules, i.e., rules related to debt and budget balance, as mentioned in the Protocol (no. 12) on the Excessive Deficit Procedure referred to article 126 of the TFEU. As mentioned in article 1 of the Protocol, the reference values referred to in article 126(2) of the TFEU are 3% for the ratio of the planned or actual government deficit to GDP at market prices and 60% for the ratio of government debt to GDP at market prices. The reference values are perceived as supranational budget balance rule and supranational debt rule, respectively.

The reform of the SGP in 2005 put the importance on the MTO – the medium-term objective – which is based on the structural budget balance. The 2011 reform of the SGP added a supranational "expenditure rule" to the preventive arm, i.e., the expenditure benchmark, to evaluate compliance with the MTO. Generally, according to Regulation (EU) No 1175/2011,[8] for the Member States that have attained their MTOs, annual expenditure growth should not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures, thus, allowing the Member State to remain at its MTO. Moreover, the deviation of expenditure developments will not be considered significant if the Member State overachieved the MTO, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the stability programme do not jeopardise that objective over the programme period. For Member States that have not attained their MTO, annual expenditure growth should not exceed a specific lower rate, which is set below the reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures. As mentioned, the difference

7 **D. Sutherland**, **R. Price**, **I. Joumard**, *Fiscal rules for sub-central governments: Design and impact*, OECD Economics Department Working Papers 2005/465.

8 *Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies*, Official Journal of the European Union, L 306/12.

between the appropriate growth rate for net expenditure and the reference medium-term rate of potential GDP growth is referred to as the convergence margin and is set to ensure the appropriate adjustment towards the MTO (i.e., that it is in line with the required change in the structural balance). The convergence margin is calculated to be consistent with the required tightening of the structural balance. As emphasized, any discretionary reductions of government revenue items must be matched by either expenditure reductions or by discretionary increases in other revenue items or both.

3. Fiscal rules in the CEECs outside the euro area

The development of national fiscal frameworks in the six CEECs was assessed by analyzing the implementation of the fiscal rules. The table below shows the structure of fiscal rules over the period from 2004 to 2019. As presented, the national fiscal rules in force include three out of the four possible for implementation (i.e., without the revenue-type rule).

In the analyzed period, only Czechia and Hungary were without a national expenditure rule. At the end of 2019, twenty-seven different rules had been imposed, while in 2004, there were only three (i.e., three debt rules, implemented in Bulgaria, Hungary, and Poland). The main increase in the number of rules took place after 2011 (as a consequence of adjusting national fiscal frameworks to the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member State). In turn, between 2010 and 2011, the increase was related to five additional domestic rules (a new debt-type rule in Bulgaria, a new expenditure rule in Croatia, and three additional rules in Poland: two budget balance rules and one expenditure rule).

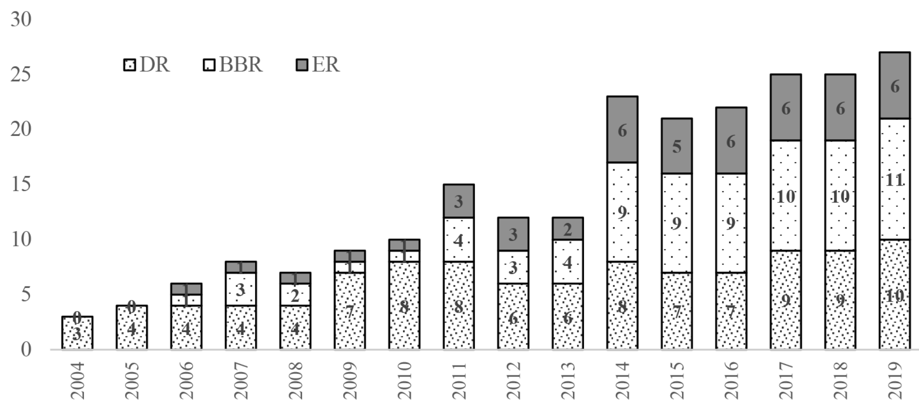
TABLE 1: *Domestic fiscal rules in the six CEECs over the period from 2004 to 2019*

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
BU	DR	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
	BBR								1	1	1	4	4	4	4	4	4
	ER			1	1	1	1	1	1	1	1	4	3	3	3	3	3
CZ	DR														2	2	2
	BBR														1	1	1
	ER																
HR	DR						1	1	1	1	1	1					1
	BBR																1
	ER								1	1	1	1	1	1	1	1	1
HU	DR	1	1	1	1	1	2	2	2			1	1	1	1	1	1
	BBR				1	1					1	2	2	2	2	2	2
	ER																
PL	DB	1	1	1	1	1	2	2	2	2	2	2	2	2	2	2	2
	BBR			1	1				2	1	1	1	1	1	1	1	1
	ER								1	1				1	1	1	1
RO	DR							1	1	1	1	2	2	2	2	2	2
	BBR				1	1	1	1	1	1	1	2	2	2	2	2	2
	ER											1	1	1	1	1	1
ALL		3	4	6	8	7	9	10	15	12	12	23	21	22	25	25	27

N o t e: DR – debt rule, BBR – budget balance rule, ER – expenditure rule.
S o u r c e: author's own work based on European Commission data – Fiscal Rules database; accessed 20.09.2021.

The structure of the total number of rules in the six CEECs is shown in Figure 1. As shown, at the beginning of the time sample, the debt-type rules prevailed in these countries, but there was an increase in the number of implemented budget balance rules starting in 2014. Finally, in 2019, national budget balance rules consisted of 41% of total rules, country-specific debt rules around 37%, while the share of domestic expenditure rules was 22%.

FIGURE 1: *Structure of national fiscal rules in the six CEECs between 2004 and 2019*

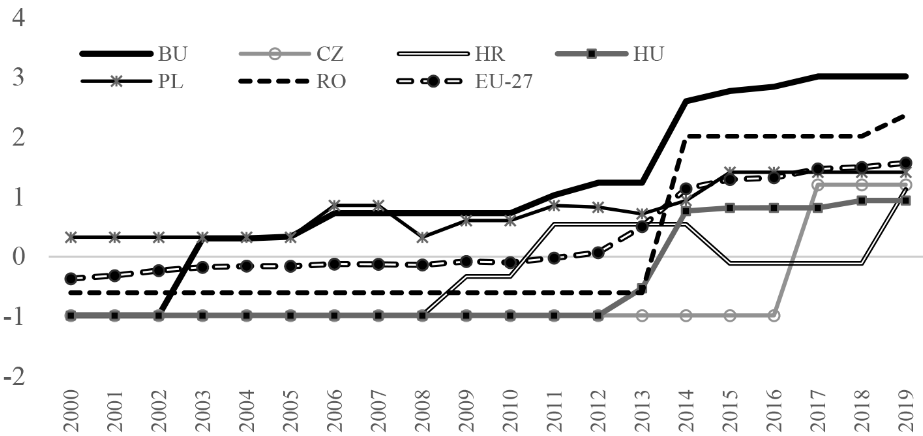


N o t e: DR – debt rule, BBR – budget balance rule, ER – expenditure rule.
S o u r c e: author’s own work based on European Commission data – Fiscal Rules database; accessed 20.09.2021.

A comparison of the number of rules in 2008 and 2019 (i.e., in the periods before both recessions) highlights the increase in rules in force. In 2008, only seven rules were in force (four related to debt, two related to budget balance, one related to expenditure) implemented in four countries (three in Bulgaria, out of which there were two debt-type rules and one expenditure rule; two in Hungary, i.e., a debt rule and budget balance rule; one in Poland, i.e., a domestic debt rule, and one in Romania, a domestic budget balance rule). In 2019, the total number of rules in force was twenty-seven, and the rules, in different ranges, were implemented in all countries. However, in 2019, only two countries were without an implemented expenditure rule. While in the period before the economic crisis, i.e., the first decade of the 21st century, fiscal rules established for public debt predominated, after 2011, there was an increase in the number of rules based on the budget balance and expenditure.

The changes in the number of rules and their structure can also be observed through the fiscal rule index (FRI). Before the economic crisis, the fiscal rule index remained relatively stable in most of the analyzed countries. Bulgaria was the exception. Hungary and Czechia were characterized by the lowest FRI levels, which were below the FRI for the EU-27 (computed as a simple average). In 2014, there was a significant increase in the FRI in Romania, which is also reflected in the number of rules in force in that year, resulting from the implementation of the expenditure rule and an increase in the number of rules for the deficit and for public debt. Consequently, the FRI increased from –0.61 in 2013 to 2.01 in 2014. In Czechia, a significant increase took place between 2016 and 2017; the FRI increased from –0.99 to 1.2 due to the implementation of rules for public debt and for budget balance in 2017. The value of the FRIs for countries with a derogation is presented in Figure 2.

FIGURE 2: *Fiscal Rule Index in the six CEECs against the background of EU-27 average*



Source: author's own work based on European Commission data – Fiscal Rules database; accessed 20.09.2021.

Between 2004 and 2019, the FRI increased by 2.71 in Bulgaria, 2.19 in Czechia, 2.11 in Croatia, 1.93 in Hungary, 1.09 in Poland, and 2.97 in Romania, while the average for the EU-27 increased by 1.73. Comparing the results for 2019 and 2008 shows that the index increased by 2.29 in Bulgaria, by 2.19 in Czechia, by 2.11 in Croatia, by 1.93 in Hungary, by 1.09 in Poland, and by 2.97 in Romania. For the EU-27, it was 1.71.

4. Budget balance and its development

The development of public finance imbalances in the CEECs was assessed by analyzing the overall budget balance. The table below presents the overall budget balance. Considering the European supranational rule for budget balance enshrined in the Maastricht Treaty and subsequently re-written in the TFEU, the data are assessed on the basis of the reference value for the deficit, which is limited to 3% of GDP.

TABLE 2: *Overall budget balance over the period from 2004 to 2019 (% of GDP)*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
BU	1.8	1.0	1.8	1.1	1.6	–4.0	–3.1	–2.0	–0.3	–0.5	–5.4	–1.7	0.2	1.2	2.0	2.1
CZ	–2.4	–3.0	–2.2	–0.6	–2.0	–5.4	–4.2	–2.7	–3.9	–1.3	–2.1	–0.6	0.7	1.5	0.9	0.3
HR	–5.1	–3.6	–3.1	–2.2	–2.9	–6.2	–6.5	–8.0	–5.5	–5.6	–5.5	–3.5	–0.9	0.8	0.2	0.3
HU	–6.6	–7.8	–9.3	–5.1	–3.8	–4.8	–4.4	–5.2	–2.3	–2.6	–2.8	–2.0	–1.8	–2.4	–2.1	–2.1
PL	–5.0	–3.9	–3.5	–1.9	–3.6	–7.3	–7.4	–5.0	–3.8	–4.2	–3.6	–2.6	–2.4	–1.5	–0.2	–0.7
RO	–1.1	–0.8	–2.1	–2.7	–5.4	–9.1	–6.9	–5.4	–3.7	–2.1	–1.2	–0.6	–2.6	–2.6	–2.9	–4.4

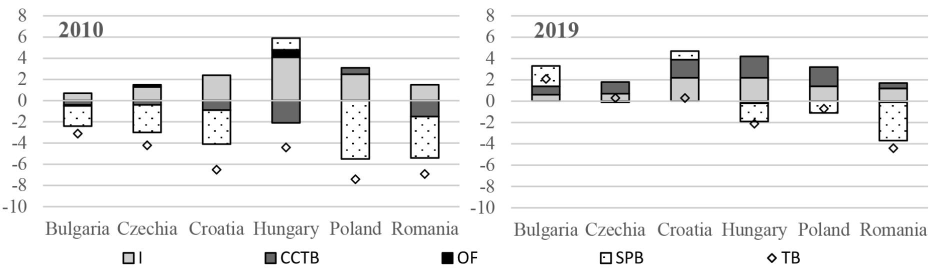
N o t e: grey cells – deficit higher than the reference value.
S o u r c e: author's own work based on AMECO data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

Analyzing AMECO data, the overall budget balance in Poland and Croatia exceeded the reference value for the deficit in ten out of the sixteen years. In these two countries, problems with ensuring the balance of public finances occurred in the aftermath of the 2008 crisis. During the period, the longest continuous period with an annual deficit above the reference value occurred in Hungary (eight consecutive years, 2004–2011), Croatia (seven consecutive years, 2009–2015), and Poland (seven consecutive years, 2008–2014). Between 2009 and 2010, all countries experienced overall deficits that exceeded the rule, in 2009 ranging from –4% of GDP in Bulgaria to –9.1% in Romania, while in 2010, it ranged from –3.1% of GDP in Bulgaria to –7.4% in Poland. Some CEECs finished the budget year with an overall surplus. The countries that had budget surpluses in recent years were Bulgaria (from 2004 to 2008 and from 2016 to 2019) and Croatia (from 2017 to 2019) – both potential candidates for the euro area – and Czechia (between 2016 and 2019).

The analysis of the European Commission documents emphasizes that the deterioration of public finance during the 2009 crisis was not only caused by a reaction to the severe recession but also structural factors, as all countries (except Croatia, which was outside the EU in the first decade of 21st century) were subject to the excessive deficit procedure in that period.

Considering the previously mentioned importance of the structural budget balance (SBB), the data below present information that includes the indicator. However, the European Commission only publishes data about the SBB from 2010 onwards. This, it is not possible to compare the SBB before 2009. The latest data are available for 2010. As a result, the figure below presents the structure of the budget balance in 2010 and 2019 (based on the most recent data).

FIGURE 3: *Structure of budget balance in 2010 and 2019*



N o t e: I – interest, CCTB – cyclical component, OF – one-off and other temporary measures, SPB – structural primary balance, TB – total (overall) balance.
S o u r c e: author's own work based on AMECO data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

All analyzed countries in 2010 had a high structural primary deficit ranging from 1.9% of potential GDP in Bulgaria to 5.5% in Poland. Hungary was the exception, with a surplus in the structural primary balance of 1.1%, but the overall deficit in 2010 in that country was –4.4% of GDP. The share of interest payments and the share of one-offs and other temporary measures were also the highest in Hungary. In 2019, i.e., before the COVID-19 crisis, Hungary had a deficit in the structural primary balance of 2.1% of potential GDP; there was also a deficit in structural primary balance in Romania (3.6%) and Poland (0.7%). These three countries ended 2019 with overall deficits. In contrast, Bulgaria, Czechia, and Croatia achieved surpluses in both the structural primary balance and the overall balance. Interestingly, the cyclical component of the total balance in 2010 was positive only in Poland, while in 2019, it was positive for all countries, implying a good performance of the CEECs' economies and generally "good times."

The following table presents the development of the structural balance in the six countries analyzed in the period from 2010 to 2019 and the Commission's projections for the period from 2020 to 2022. As the European Commission has been publishing data on the structural balance only since 2010, as mentioned above, it was not possible to provide comparative information for all six countries for earlier years.

In 2010, i.e., immediately after the economic crisis, the structural deficit (as a percentage of potential GDP) estimated by the European Commission was 8% in Poland and 2.6% in Bulgaria. The balance estimated for 2019 ranged from a surplus of 1.3% in Bulgaria to a deficit of 4.7% in Romania. Estimates for the 2020 pandemic year and post-pandemic years 2021–2022 show a significant deterioration in the structural balance, especially in Czechia and Romania.

TABLE 3: *Structural budget balance (% of potential GDP) over the period from 2010 to 2019 and projections of the European Commission for the years 2020, 2021, and 2022*

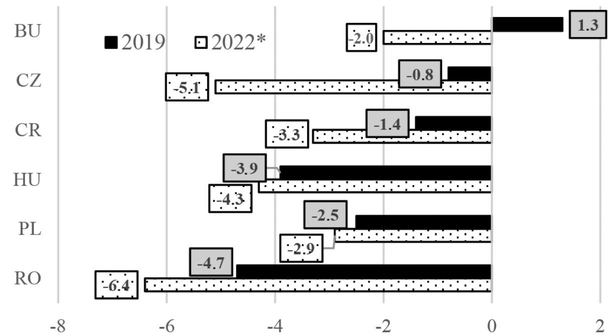
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*	2021*	2022*
BU	–2.6	–1.9	–0.1	0.1	–1.6	–1.4	0.1	0.8	1.5	1.3	–2.5	–2.6	–2.0
CZ	–3.9	–2.5	–1.3	0.0	–0.7	–0.7	0.8	0.6	–0.3	–0.8	–4.4	–7.5	–5.1
CR	–5.6	–7.3	–4.1	–3.7	–3.9	–2.5	–0.9	–0.1	–1.2	–1.4	–5.0	–3.2	–3.3
HU	–3.0	–3.6	–1.0	–1.2	–2.2	–2.3	–2.1	–3.8	–3.9	–3.9	–6.3	–5.7	–4.3
PL	–8.0	–5.7	–3.6	–3.1	–2.5	–2.0	–2.0	–1.9	–1.5	–2.5	–6.2	–3.9	–2.9
RO	–5.5	–3.1	–3.1	–1.4	–0.8	–0.2	–1.8	–3.0	–3.2	–4.7	–7.5	–6.9	–6.4

Note: 2020*–2022* – forecasts.
Source: author's own work based on AMECO and European Commission data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

As mentioned, the structural balance is the basis for determining the country-specific MTO. The European Commission verified the MTO targets for 2019 and, for several countries, changed it in the 2022 perspective. The goals set for 2022 have been corrected downward in comparison to 2019 in Czechia (by 0.25 p.p.), Croatia (by 0.75 p.p.), and Hungary (by 0.5 p.p.). For 2022, except for Czechia, the revised MTOs were set at a structural deficit of 1%, and in the case of Czechia, 0.75%. The right panel of Figure 4 shows the achieved structural balance in 2019 and the forecast for 2022. As presented, in 2019, the MTO target was achieved in Bulgaria, Czechia, and Croatia, while the preliminary forecast of the European Commission indicates that the countries will not reach their MTO in 2022.

FIGURE 4: *MTOs for 2019 and revised MTOs for 2022 (left panel) and their implementation in 2019 and projection of implementation in 2022* (right panel)*

	2019	**2022**
BU	1.00	1.00
CZ	1.00	0.75
CR	1.75	1.00
HU	1.50	1.00
PL	1.00	1.00
RO	1.00	1.00

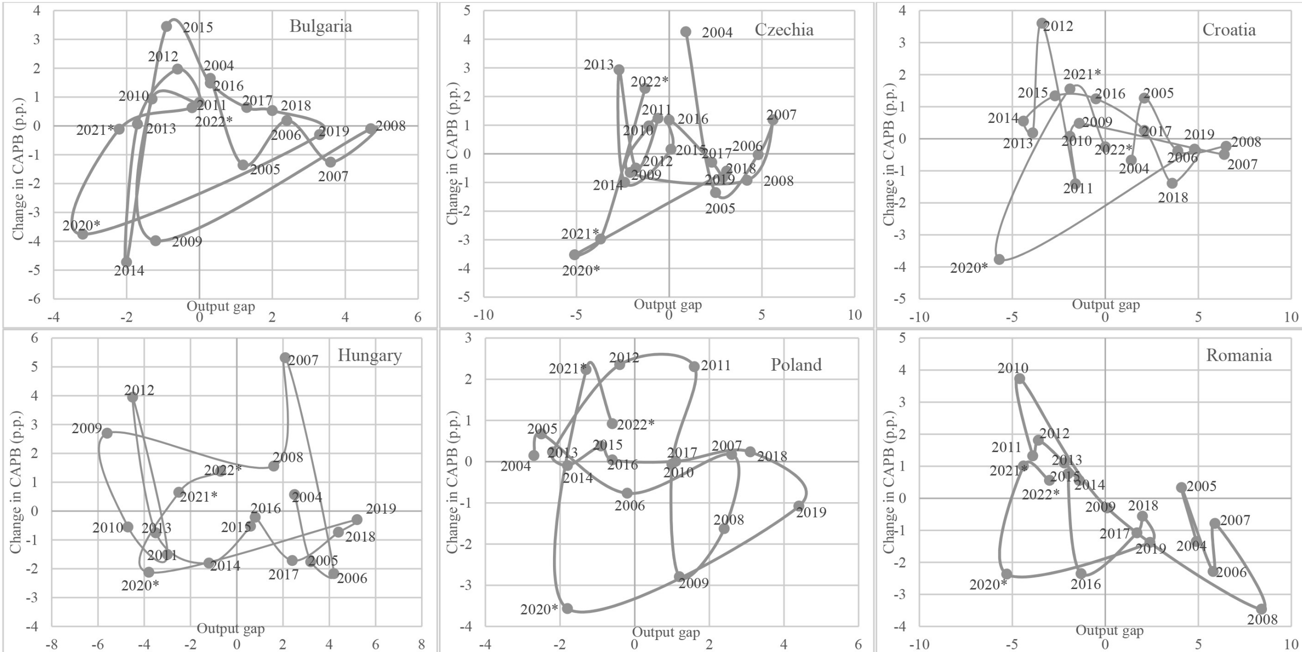


N o t e : * projection of MTO implementation in 2022.
S o u r c e: author's own work based on AMECO and European Commission data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

The budget balance is used to analyze changes in fiscal policy. The figure below presents the developments of fiscal policy stance from 2004 to 2019 with the European Commission's projections for the years between 2020 and 2022. Compared to the output gap as a cyclical indicator, the assessment was based on changes in the cyclically-adjusted primary balance (CAPB) rather than changes in the structural primary budget balance, as comparable data on the structural balance have only been published from 2010.

The fiscal stance in the six analyzed countries was quite different before the two recessions. Generally, on the eve of the 2009 crisis, the countries, except for Hungary, pursued procyclical policies, with procyclical expansion (from 2007 to 2008) in Bulgaria, Croatia, and Romania, while in Czechia and Poland, there was countercyclical tightening in 2007 and procyclical expansion in 2008. In the core year of the crisis, i.e., 2009, the countries pursued different fiscal stances, but the procyclical fiscal stance predominated – with procyclical expansion in Poland and Romania, countercyclical expansion in Bulgaria and Czechia, and procyclical tightening in Croatia and Hungary. In 2010, there was procyclical tightening, as a continuation from the crisis period, in Croatia, while it was a new type of policy in Bulgaria, Czechia, and Romania. In Poland, the procyclical expansion continued, while in Hungary, the fiscal policy changed its stance to countercyclical expansion in the years following the crisis.

FIGURE 5: *Fiscal stance and the cyclical conditions between 2004 and 2019, and projections for 2020, 2021, and 2022*



S o u r c e: author's own work based on AMECO and European Commission data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

Interestingly, on the eve of the COVID-19 crisis in 2019, the fiscal policy of these countries was oriented towards procyclical expansion. Moreover, the data show that the trend of procyclical policy prevailed in 2017 and 2018 as well, with procyclical expansion in Hungary, Czechia, and Romania, while in Poland, after the countercyclical tightening between 2017 and 2018, the recognized fiscal stance in 2019 exhibited procyclical expansion. For 2020, the Commission forecast a countercyclical expansion for all the countries analyzed, but this type of fiscal policy stance will be prolonged in 2021 in Bulgaria and Czechia, while in the other four countries, procyclical tightening is projected.

5. Debt development and imbalance in public finance

This part of the study analyzes changes in debt in the CEECs with a derogation, mainly with respect to the supranational debt rule expressed in the reference value of gross public debt of general government not higher than 60% of GDP. As presented in Table 4, the share of debt in GDP exceeded the reference value in Hungary and Croatia; in Poland, between 2011 and 2013 (i.e., after the crisis period), it increased to nearly 55% of GDP. The strongest increases in the debt-to-GDP ratio after 2004 were in Croatia and Romania. In most countries, large increases occurred mainly after 2009, i.e., after the severe recession that affected the EU economies. Using 2019 as the basis, in 2008, i.e., the pre-2009 crisis period, the deterioration in public finance, and therefore the increase in the debt-to-GDP ratio, took place in four countries, but decreased in Poland and Hungary.

The problem of public debt above 60% of GDP emerged in Hungary in 2005, with no successful consolidation of public finances to date, as indicated by the implementation of the public debt-to-GDP ratio in subsequent years. Between 2004 and 2019, the debt-to-GDP ratio increased by about 6.6 p.p. In the last year of the analysis (2019), although the public debt in Hungary exceeded the reference value by about 5.5 p.p., the country continuously exceeded the reference value. Starting in 2012, a gradual, albeit slow, reduction in debt has been observed. Croatia's public finances have also been unfavorable in recent years. However, in parallel with the high public debt, there were surpluses between 2017 and 2019 (see Table 2). Both Hungary and Croatia joined the European Union with a significant imbalance in public finance. In Hungary, in 2004 (the year of the EU accession), public debt was close to the reference value (58.9% of GDP), while in Croatia, in the year it acceded to the European Union (2013), the debt was as high as 81% of GDP (much more than 20 p.p. in comparison to the reference value).

TABLE 4: *Debt of general government as a % share of GDP in the six CEECs outside the eurozone between 2004 and 2019*

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	change (in p.p.) in 2019 to: 2004	2008
low	BU	35.7	26.6	20.9	16.3	13.0	13.7	15.4	15.2	16.7	17.1	27.1	26.0	29.3	25.3	22.3	20.2	–15.5	7.2
	CZ	28.4	27.7	27.6	27.3	28.1	33.4	37.1	39.5	44.2	44.4	41.9	39.7	36.6	34.2	32.1	30.3	1.9	2.2
	RO	18.9	15.9	12.4	11.9	12.3	21.8	29.6	34.0	37.1	37.6	39.2	37.8	37.4	35.1	34.7	35.3	16.4	23.0
medium	PL	45.1	46.6	47.3	44.5	46.7	49.8	53.4	54.6	54.3	56.4	51.1	51.3	54.2	50.6	48.8	45.6	0.5	–1.1
high	CR	40.3	41.3	38.8	37.4	39.3	48.7	57.7	64.2	70.0	81.0	84.7	84.3	80.8	77.6	74.3	72.8	32.5	33.5
	HU	58.9	60.6	64.5	65.7	71.8	78.2	80.2	80.4	78.4	77.4	76.7	75.8	74.9	72.2	69.1	65.6	6.6	–6.3

N o t e: dark grey cells – debt higher than the reference value.
S o u r c e: author's own work based on AMECO data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

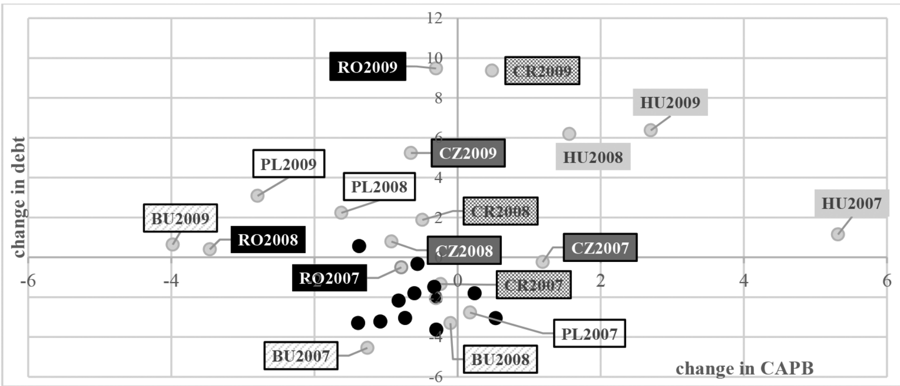
Analyzing the data, the distinction between countries with high, medium, and low levels of public debt can be made. The basis is 60% of GDP, which is the EU benchmark (i.e., the supranational debt rule). The group of countries with low public debt includes Bulgaria, Czechia, and Romania. Poland, due to its debt being close to but not exceeding the reference value, is considered a country with a medium level of debt, while Hungary and Croatia are considered countries with high indebtedness. In Hungary, public debt exceeded the reference value fifteen times out of sixteen observations between 2004 and 2019; in Croatia, it happened nine times. Starting in 2012, Hungary's public debt has been declining. In the year before the COVID-19 pandemic (2019), relative to the year before the 2009 crisis (i.e., in 2008), in Hungary, the debt was lower by around 6.3 p.p., while in Poland it was also lower but only by 1.1 p.p. There was a definite increase in Croatia (by around 33.5 p.p.) and Romania (by 23 p.p.).

The relationship between government debt and CAPB is illustrated in Figure 6 below. The data cover the period between 2007 and 2019, i.e., before the global financial crisis and before the COVID-19 crisis. The data provide some facts and dependencies. As shown, before and during the economic crisis of 2009, Hungary's fiscal policy was based on the simultaneous growth of public debt and CAPB. In 2008–2009 in Poland, Romania, and Czechia, public debt increased, but the CAPB decreased. The changes in public debt were quite significant in that period. The black dots in the figure represent information for 2018 and 2019. Interestingly, the countries showed similar changes in these two categories of fiscal aggregates, and thus reflected the negative change in debt and the negative change in CAPB.

Detailed information for 2018 and 2019, supplemented by the European Commission's forecast for 2020, is shown in Figure 7.

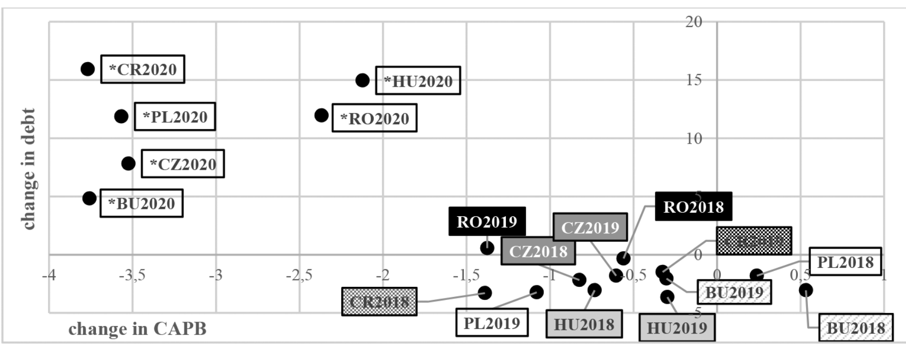
As can be observed, in the pre-pandemic period, the analyzed countries reduced public debt (except for Romania in 2019) and mostly reduced CAPB. The Commission's projections for 2020 show significant increases in CAPB and public debt, most significantly for Croatia. As forecasted by the European Commission for 2020, Hungary will increase its debt by around 15 p.p., and Romania and Poland by around 12 p.p.

FIGURE 6: *Changes in public debt and changes in CAPB in 2007, 2008 and 2009 (grey dots with labels) and between 2018 and 2019 (black dots)*



S o u r c e: author's own work based on AMECO and European Commission data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

FIGURE 7: *Changes in public debt and changes in CAPB in 2018 and 2019, and projections for 2020*



S o u r c e: author's own work based on AMECO and European Commission data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

The results presented in Table 5 show the lack of correlation between most of the analyzed fiscal variables and FRI in the six CEECs in the pre-crisis periods, except for debt level and FRI in 2019. In 2008 and 2019, there was a positive relationship between the value of FRI and the level of budget balance, level of cyclically adjusted primary balance, and the change in budget balance, i.e., the increase in FRI was associated with increases in these variables. However, the relationships were not statistically significant.

TABLE 5: *Spearman's rank correlation coefficients between FRI and selected fiscal variables in 2008 and 2019*

	2008						2019					
	debt	bb	capb	Δ_debt	Δ_bb	Δ_capb	debt	bb	capb	Δ_debt	Δ_bb	Δ_capb
FRI	–0.23	0.41	0.32	–0.41	0.72	–0.06	–0.77*	0.23	0.20	0.31	0.55	–0.43

Note: * denotes statistically significant relationship.
Source: author's own work based on AMECO data, https://dashboard.tech.ec.europa.eu; accessed 20.09.2021.

The relationship between debt and FRI was negative in 2008 and 2019, i.e., fiscal rules in the six CEECs were associated with debt reduction. But only in 2019 was it significant.

6. Discussion and conclusions

The study identifies changes in fiscal policy and compares these changes in the six CEECs outside the euro area over the period from 2004 to 2019, with particular attention paid to comparing the fiscal policy performance in the period before and during the two crises of the beginning of the 21st century. In both 2008 and 2019 (i.e., one year before the core years of both crises), the countries pursued procyclical fiscal policy stances, mainly procyclical expansion. While the European Commission forecasted a countercyclical expansion in all the analyzed countries for 2020, in 2009 that fiscal stance was pursued only in two countries (Bulgaria and Czechia); in the remaining countries, the policy was procyclical. It should be noted, however, that the fiscal stance presented in this study was determined based on the changes in the cyclically adjusted primary balance against the cyclical indicator.

The procyclicality of fiscal policy in countries with a derogation persisted despite the implementation of country-specific fiscal rules, including those relating to budget balance and debt. In recent years, there has been an increase in the number of rules that refer to the budget balance, especially since 2014. By the end of 2019, two countries did not have any expenditure rule (Czechia and Hungary), and none of the six CEECs had introduced a revenue-type rule.

Overall, fiscal policy in the CEECs was more procyclical – only a few episodes were related to the countercyclical fiscal stance. Romania, in particular, shows strongly procyclical behavior, which changed from procyclical tightening to procyclical expansion in recent years. Generally, it seems that one of the reasons for procyclicality in the CEECs was the low range of implemented expenditure rules. As shown, in 2019, Bulgaria had in force three expenditure rules, i.e., half of the total expenditure rules in the analyzed countries, and its fiscal stance in recent years was more countercyclical.

The analyzed countries experienced an increase in public debt, especially after 2009, which in the vast majority of countries was a consequence of the stabilization response to the financial and economic crisis. A gradual debt reduction has occurred since 2014. In recent years, two countries implemented a public debt-to-GDP ratio above the reference value (Croatia, Hungary), but the excess is (so far) permanent. In Poland, the ratio was close to the reference value, whereas Bulgaria, Czechia, and Romania were characterized by a low level of public debt. The problem for the CEECs was also related to compliance with the supranational rule imposed on the deficit. In most cases, the deficit appeared in these countries as a consequence of the economic recession. However, the number of excessive deficit procedures suggests that structural determinants were also causes that destroyed the health of public finance. The problems with overall deficits are reflected in the problem with reaching the MTOs goals. In 2019, only Bulgaria, Czechia, and Croatia reached their MTOs. In the 2022 perspective, the European Commission revised and changed the MTOs for Czechia, Hungary, and Croatia.

It is interesting that for 2020, the European Commission projected a strongly expansionary (countercyclical expansionary) fiscal stance in the euro area in reaction to the pandemic crisis[9]. However, the calculation of the fiscal stance was based on a change in the structural primary balance. The results presented in this study (based on the evaluation of changes in CAPB rather than a change in structural primary balance (SPB) as was done by the European Commission for the euro area) are consistent with conclusions for the euro area. Thus, the countercyclical expansion was quite synchronized in the euro area and the CEECs with a derogation. The same report summarizes the pre-crisis fiscal stance (based on SPB) in 2019 in the euro area member states, which, as emphasized, despite favorable economic conditions, in most cases adopted expansionary procyclical fiscal policies[10]. The results of the study for the six CEECs also indicate the procyclical expansion in 2019.

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[9] *The euro area fiscal stance*, European Parliament, Briefing Report, https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/587374/IPOL_BRI(2016)587374_EN.pdf; accessed 29.10.2021.

[10] *The euro area…*

In the period before the COVID-19 pandemic, in 2019, the fiscal policy in the euro area, despite being under stronger restrictions, was conducted similarly to the six CEECs. The euro area as a whole, despite favorable conditions, also pursued a procyclical fiscal policy in 2019. Moreover, in the euro area in 2008–2010, i.e., during the Great Recession, the fiscal policy generally was based on fiscal loosening; in the following years (2011–2013), there was a tightening of the euro area aggregate fiscal stance, and the fiscal stance was broadly neutral in 2014.[11]

The findings presented in the article show that despite reforming and setting strong requirements for fiscal governance at the supranational level, country-specific frameworks should be strengthened and adapted to the structural determinants of each economy. It is due to the prevailing procyclicality of fiscal policy and many structural determinants of fiscal imbalance. As noted, the reduction in procyclicality might be strengthened by implementing expenditure rules and coordinating them with budget balance rules and debt rules. Bulgaria's experiences represent good practices and a positive case. The additional value-added of this study is the comparison of the fiscal stance in the six CEECs with a derogation, which, generally, was similar in the year before the COVID-19 pandemic. The article emphasized that the domestic frameworks should be well-designed, consistent with EU requirements. This problem has grown in importance, especially in recent years, when economic prosperity was associated with a wide range of fiscal expansion policies and a certain scale of procyclicality.

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Agata SZYMAŃSKA

POLITYKA FISKALNA A DEKONIUNKTURA GOSPODARCZA – DOŚWIADCZENIA KRAJÓW UNII EUROPEJSKIEJ SPOZA STREFY EURO

Abstrakt

Przedmiot badań: W ostatnich latach w wielu krajach Unii Europejskiej narastała nierównowaga w finansach publicznych, na co wpływ miała m.in. ekspansywna polityka fiskalna prowadzona w okresie recesji. Początek XXI w. został dotknięty dwiema poważnymi recesjami, wywołanymi przez szoki o odmiennym charakterze. W związku z tym pojawia się zainteresowanie porównaniem tego, w jaki sposób polityka fiskalna była prowadzona przed i w trakcie obu recesji, co stanowi przedmiot badań podjętych w artykule.
Cel badawczy: Celem artykułu jest próba zidentyfikowania zmian w polityce fiskalnej oraz porównania tych zmian w sześciu krajach Europy Środkowo-Wschodniej spoza strefy euro, tj. w Bułgarii, Czechach, Chorwacji, na Węgrzech, w Polsce i Rumunii. W szczególności uwagę skupiono na porównaniu agregatów polityki fiskalnej przed i w trakcie dwóch recesji z początków XXI w.
Metoda badawcza: W pracy podjęto próbę identyfikacji zmian polityki fiskalnej w kontekście pełnej próby za lata 2004–2019 oraz podprób pozwalających na ocenę polityki fiskalnej przed dekoniunkturami: tj. przed kryzysem gospodarczym z pierwszej dekady XXI w. oraz przed kryzysem wywołanym pandemią COVID-19. Główna uwaga poświęcona jest analizom zmian zadłużenia, zmian salda budżetowego prezentowanego na tle wskaźnika cyklicznego – tzw. *fiscal stance*, a także ocenie implementacji krajowych reguł fiskalnych w kontekście fiscal governance i rozpoznania skali nierównowagi fiskalnej. Źródłem wykorzystanych danych jest głównie baza AMECO.
Wyniki: Porównanie wyników polityki fiskalnej w okresie co najmniej jednego roku przed kryzysami sugeruje, że prawie wszystkie badane kraje w 2008 r. prowadziły politykę procykliczną, natomiast w 2019 r. polityka fiskalna była procykliczna we wszystkich sześciu analizowanych krajach. Pomimo że w ostatnich latach kraje te zwiększyły liczbę krajowych reguł fiskalnych, w tym zwłaszcza reguł dotyczących salda budżetowego, zaprezentowane dane wskazują, że kurs polityki fiskalnej był procykliczny. Ponadto analizowane kraje charakteryzują się dużym zróżnicowaniem wskaźnika obrazującego relację długu publicznego do PKB.

Słowa kluczowe: *fiscal stance*, kraje Europy Środkowo-Wschodniej poza strefą euro, reguły fiskalne, *fiscal governance*.