Comment on:

Fiscal Multipliers in the Slovak Economy

DSGE simulation

By Juraj Zeman

Riikka Nuutilainen
BOFIT, Bank of Finland

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Summary of the paper

- Paper studies the fiscal consolidation cost in a DSGE framework
  - Augmenting the model by Zeman & Senaj (2009) for the Slovak economy
  - New Keynesian small open economy model with several real and nominal frictions, calibrated with data for Slovakia
  - Fiscal sector is added to the model by introducing; income tax, employer social contributions tax, consumption tax and a lump-sump tax; as well as public consumption, public investments and lump-sum transfers to non-optimizing households

- Fiscal multipliers are calculated for three different scenarios assuming that taxes respond to guarantee that debt level returns to the long run target (0.5 of GDP)
  - 1) Stabilization via the non-distorting lump-sum tax instrument
  - 2) Stabilization via the income tax instrument
  - 3) Stabilization assuming non-active monetary policy (member of monetary union)

- The impact of the announced 2013 - 2017 fiscal consolidation package to the Slovak economy is estimated based on the fiscal multipliers

Key Findings

- Budget consolidation via the lump-sum tax and income tax generate broadly similar fiscal multipliers, usually ranging around 0.2 - 0.7 for 1 to 4 years period

- Model without monetary policy that reacts to domestic conditions (i.e. the case of monetary union membership) leads to larger fiscal multipliers, getting even values >1

- The cumulative cost of the fiscal consolidation package adopted will increase from 0.2 % of GDP in 2013 to 2.5 % of GDP in 2017

Notes 1

- More detailed description on how the introduction of the fiscal sector affects the underlying model
  - How the household objective function or the firms' profit maximization problem change in the presence of the different tax rate?
- Model parameters are calibrated for the Slovak economy prior to the euro area crisis, but the model is used to evaluate the fiscal consolidation after (/during) the crisis
  - For example, the fraction of rule-of-thumb consumers, monetary policy parameters, household consumption behavior...
- In Table 5 (Fiscal multipliers under passive monetary policy) and Table 7 (cumulative effect of consolidation), what type of stabilization is assumed? Lump-sum vs. Income tax?

Notes 2

- Introduction of interest rate on government debt that depends on the level of debt or budget deficit

- The overall magnitude of the fiscal consolidation package announced by the Slovak government amounts to almost 3 % of the cumulative GDP in 2013-2017
- Using the fiscal multipliers calculated find the effect of the fiscal consolidation to be 2.5 % of GDP during the same period
  - More discussion about this

- More elaboration of the fiscal multiplier in general
  - For a linear model, the effects are similar, but only have an opposite sign for increased government spending

Thank you.