THE STABILIZER FISCAL POLICY AND ITS LONG-TERM EFFECTS

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ABSTRACT

This paper introduces the application of the fiscal policy in order to manage the crisis. The conclusion reached is that fiscal policies between are mainly neo-classical, i.e. expenditure reacted to the development of revenue. In the most countries counter-cyclical fiscal policies can be observed. However, as the governments there are smaller and greater the effect therefore comparably limited, this plays a key role in the economic recovery. Finally, the paper briefly discusses the similarities and differences the Hungarian crisismanagament.

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INTRODUCTION

Recently in response to the exceptional circumstances of the subprime crises counter-cyclical fiscal policy has become an important tool all around the world. But Hungary has chosen a unique process to ease the crisis by introducing a severe fiscal adjustment policy.

The European leaders got tired of the crisis management equally physically and mentally. They live under an incredible pressure. Is needed for one to deal own national one and with the national crisis of any of the other European countries. Is needed between conditions like this all the time to face up to questions that are totally new and surprising ones, for which they are not really prepared, They face a civilizational shock cross every day. Was heavy to recognise, that not the victims of a conspiracy, when attacks are worth the euro.

The political one and the leaders of the economic life learned that there is not a little and big country – the crisis may set out from anywhere and spreads under moments. Who are vulnerable always yet are watching us with strange predilection because of this we are. Immediately punish, and being late reward.

The role and the place of stabilizer fiscal policy

I doubt that the current crisis will be typical in its impact on deficits and debt. The reason is that, in many countries, employment and growth are unlikely to return to their pre-crisis levels in the foreseeable future. Fiscal policy can work in two general ways to stabilize the global and local business cycle. One way is through automatic stabilizers, which arise from parts of the fiscal system that naturally vary with changes in economic activity– for example, as output falls, tax revenues also fall and unemployment payments rise. Discretionary fiscal policy, on the other hand, involves active changes in policies that affect government expenditures, taxes, and transfers and are often undertaken for reasons other than stabilization (IMF 2010: 160). Skeptics argue that discretionary fiscal measures cannot be delivered quickly enough by legislatures, especially compared with the speed with

which a central bank can change its policy rate. Hence, there is a risk that fiscal stimulus will arrive just as the economy recovers from a downturn. Moreover, argue the critics, fiscal stimulus measures are not likely to be well targeted, but are likely instead to be directed to wasteful and distortionary public spending and revenue measures more responsive to the pressures of interest groups than the needs of the economy. Furthermore, they are not likely to be withdrawn sufficiently quickly to preserve fiscal sustainability. For instance, there is widespread evidence that fiscal policy in emerging and less developed economies is procyclical rather than countercyclical, in part because of political incentives to run larger deficits in good times, when financing is available (Talvi and Végh 2000: 13).

Changes in fiscal policy governance

Broader reforms could bolster the credibility of discretionary policy actions, in particular, to reduce the risk of debt bias. This might involve establishing an independent, nonpartisan government agency, such as already exist in many countries–a sort of "fiscal watchdog"–charged with identifying changes in the cyclical state of the economy, assessing the extent to which fiscal policy is consistent with medium-term objectives, and providing advice on various policy measures. This would minimize partisan judgment in the evaluation of economic information and would avoid relying solely on statistical measures of the state of the economy, which can be imprecise. In addition, this arrangement could increase the timeliness and temporariness of the fiscal impulse. Such agencies could also be entrusted with giving advice on which tax and expenditure parameters to vary, as they indeed already do in a number of countries. (IMF 2010: 187) The following financial leader of the United Kingdom, George Osborne announced a new Office of Budget Responsibility to produce growth forecasts and public finance projections ahead of the emergency Budget.

Fiscal situations and prospects

I start with Table 1. and Table 2. A key fact emerging from these tables is that over the past three years public debt has grown rapidly in countries where it had remained relatively low before the crisis. This group of countries includes not only the United States and the United Kingdom but also Spain and Ireland.

It is important to realise that, while the direct costs of financial crisis on governments may appear large, they are in fact relatively small compared to indirect costs arising from losses of tax revenues and increased expenditure to provide demand stimulus. Financial rescue programmes, including capital injection, treasury purchase of assets and lending as well as upfront government financing and a significant part of this is likely to be recovered.

By contrast, overall fiscal balances have been deteriorating sharply – by 20–30 percentage points of GDP in just three years. And, unless action is taken almost immediately, there is little hope that these deficits will decline significantly in 2011. So, in the absence of immediate corrective action, these deficits to persist even during the cyclical recovery (BIS 2010: 3)

1. table Fiscal balance as a percentage of GDP

	2007	2010	2011
Austria	–0,7	–5,5	–5,8
France	–2,7	–8,6	–8,0
Germany	0,2	–5,3	–4,6
Greece	–4,0	–9,8	–10,0
Ireland	0,2	–12,2	–11,6
Italy	–1,5	–5,4	–5,1
Japan	–2,5	–8,2	–9,4
Netherlands	0,2	–5,9	–5,3
Portugal	–2,7	–7,6	–7,8
Spain	1,9	–8,5	–7,7
United Kingdom	–2,7	–13,3	–12,5
Unites States	–2,8	–10,7	–9,4

Source: OECD 2009a

2. table General government debt as a percentage of GDP

	2007	2010	2011
Austria	62	78	82
France	70	92	99
Germany	65	82	85
Greece	104	123	130
Ireland	28	81	93
Italy	112	127	130
Japan	167	197	204
Netherlands	52	77	82
Portugal	71	91	97
Spain	42	68	74
United Kingdom	47	83	94
Unites States	62	92	100

Source: OECD 2009

Hungarian crisismanagement

Hungary was plunged into economic hardships even before the global crisis struck in 2008 by years of excessive government borrowing, culminating in an almost 10% budget deficit in 2006.

Before the global crisis hit, introducing relevant structural reforms were tabbo in Hungary. This „crisis of indecision" was based on a faulty, bad compromise between the leading political parties. They were fighting to get the vote of that part of the electorate (unemployed, retired, etc), who are living from state redistribution. In Hungary 43% of the potentially active adult population are living from social aid.

This has lead Hungary to a country which was not yet credible because of previous years' huge deficits, a country which was not growing and in a country where, because of the huge differential in domestic interest rates and international currency interest rates, the high degree of the population had taken a home loans in foreign currency, which has made the country largely exposed to foreign exchange moves. All this added up together, large debt, slow growth and large exposure to foreign currency moves has made Hungary look very vulnerable at the beginning of the financial crisis.

Recently in response to the exceptional circumstances of the subprime crises counter-cyclical fiscal policy has become an important tool all around the world. But Hungary has chosen a unique process to ease the crisis by introducing a severe fiscal adjustment policy. This fiscal policy manages the expenditure- and taxation system of the national economy. It investigates the realisability of the revenue appropriations and allocates these revenues, this unique, procyclical, recession-deepening fiscal attitude contributed to Hungary's economic decline.

Hungary was very quick in 2008 October to turn to the IMF. Which for many including domestic politics not only seemed to be an unusual step for a country who is a member of the European Union to turn to the IMF for a standby loan facility. But the government then was determined to do that in order to have a big enough buffer to stop the Hungarian forint from collapse.

The country has relied on a 20 billion-euro ($30 billion) International Monetary Fund-led loan since its debt-reliant economy succumbed to the credit crisis. Spending was curbed in order to comply with the fiscal terms of the bailout. Hungary's international image worsened to suggesting state collapse similar to the fate of Iceland.

By the end of the winter-early spring it was clear that unless Hungary does much more than just going to the IMF, unless Hungary does its homework then there is no way out of this crisis. Looking at the currency exchange rate, the national bank interest rate which was 11.5% and looking at the CDS spreads which have been somewhere around 630 basis points, pricing in Hungary's potential default, the country had to do something.

The main changes in fiscal policy happen once determining the budget bill. The government's top priority was to secure the passage of the 2010 strict budget through parliament. Strict budget included the abolishment of large-scale social benefits and raise of taxes, including value added tax.

One of the key elements of the new state budget is that of the execution of the budget, making the utilization of public funds and EU subsidies more transparent and controllable. Consequently the purpose of the concept of the budget management system developed by the Ministry of Finance is to introduce a new IT system, besides the reorganization of the Treasury processes. It also plans changes in the regulatory system for the central budgetary institutions. Since this adjustment has been approved and implemented the Hungarian economy has been stabilized which is quite ambitious fiscal goal in a global crisis.

Conclusion

I doubt that the current crisis will be typical in its impact on deficits and debt. The reason is that, in many countries, employment and growth are unlikely to return to their pre-crisis levels in the foreseeable future. As a result, unemployment and other benefits will need to be paid for several years, and high levels of public investment might also have to be maintained.

Fiscal policy should be used to combat business cycle fluctuations, especially downturns. Discretionary fiscal policy successfully stimulate output, but it also effects harm in the long-term, and there will be a need for fiscal consolidation, and governance improvements should reduce "debt bias" concerns related to discretionary actions. It is incredibly important that close the fiscal gap worldwide.

There is certainly a visible shift in opinion, a strenghtening confidence towards Hungary in the financial markets. Due to its non conventional crisimanagement.

I think this confidence is not fully served yet, we have, as markets were very negative to Hungary before now there are, now they have given us some advance payment of confi-

dence. Now what we need to do is now serve this advanced payment of confidence and therefore we have submitted to parliament a budget two weeks ago, which is aiming at having a budget deficit next year of 3.8%, which will be one of the lowest in Europe, the average European budget deficit at next year will be 7.3%.

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