Center for Social & Economic Research

Fiscal Crisis in the Transformation Period

Trends, Stylized Facts and Some Conceptual Problems

by

Marek Dąbrowski

Warsaw, April 1996

We acknowledge the support of the ***Ford Foundation,*** which made this publication possible. (grant No: 930-1199)

ISBN 83-86296-71-2

CASE - Center for Social & Economic Research

00-585 Warszawa, Bagatela 14

tel (48-22) 628 09 12, (48-22) 629 43 83; fax (48-22) 628 65 81

Contents:

1. Introduction

In practice, the transformation process in post-communist countries covers all aspects of economic and social life, as well as economic policy. By its nature, it must also affect public finance and fiscal policy, and when the transformation process is initiated, the crisis in this latter sphere reflects _ often in a drastic manner _ the economic problems inherited from the previous economic system. These problems include macroeconomic imbalance, structural and price distortions, redundancy and ineffectiveness of social policy instruments and institutions as well as of public social services, over-regulation, paralysis of market adjustment mechanisms, and the dominance of state ownership. The crisis of public finance also frequently serves indirectly as an indicator of the extent to which the former political regime lost control over public finances and incomes policy (extreme cases of such loss of control include Poland in 1987-1989 and the USSR in 1990-1991).

In the transition to a market economy, the state of public finances usually serves as an excellent litmus test of the progress achieved and the degree of internal consistency and far-sightedness of the transformation policy. Simplifying somewhat, one can state that the share of public spending in gross domestic product (GDP), the degree of stability of public finances (including the budgets of territorial units and off-budget institutions), and the size of public debt constitute synthetic indicators of the quality of the transformation process and development perspectives in a given economy.

The purpose of this study is to describe the separate stages of the transformation in light of the basic accompanying fiscal difficulties and to formulate general conclusions regarding the factors which substantially affect the state of public finances and the quality of fiscal policy in post-communist countries.

The structure of the paper is as follows: Section 2 provides a synthetic classification of the post-communist economies according to their advancement in the transformation process; section 3 contains a proposed scheme for distinguishing successive stages of fiscal policy during the transformation period. In the following four sections, four such stages of fiscal policy are discussed. These are: initial destabilization, initial stabilization, secondary fiscal crisis, and finally, the restoration of fiscal potential. Section 8 is devoted to a group of countries which have not been able, so far, to achieve sustainable macroeconomic stabilization. Section 9 presents the issues concerning quasi-fiscal subsidies and the quasi-fiscal deficit. Section 10 contains a summary and concluding remarks.

The incompleteness and incomparability of statistical data is a major methodological difficulty in the examination of fiscal policy of the transformation period, and thus for the preparation of the present study. This incompleteness seems to be a quite obvious heritage of statistical practices applied under the previous political and economic system, when there was a tendency to hide various processes and phenomena from domestic and international public opinion for political or propaganda reasons (such sensitive topics included arms spending and the extent of social pathologies such as criminality and use of narcotics). Often, however, the lack of essential statistical information on the period before transformation and during its early stages was the effect of fossilized methodology, inadequate for current requirements and often resulting from ideological dogmatism (as in the case of the "stubborn" use in most post-communist countries of the net material product index instead of GDP or GNP [gross national product] indices). Moreover, the fact that, until the end of the 1980s, most post-communist countries were not members of the International Monetary Fund (IMF) made it difficult for them to adapt domestic classification and budgetary reporting standards to international ones. The organizational and personnel weaknesses of the staffs compiling fiscal and monetary statistics are also still recognized as a negative factor (mainly in countries that have recently become independent).

The moment the transformation process was launched, the restructuring of the state statistical system (including fiscal and monetary statistics) had to be begun. This process, however, proceeded gradually, which limits the comparability of statistical data from successive years. Comparison of data between countries is even more difficult, due to different dates at which the reform process was launched and different pace and consistency of methodological changes being implemented. Additional problems arise in relation to the countries that have achieved sovereignty as a result of the breakups of Yugoslavia, the Soviet Union, and Czechoslovakia. Although even before the breakups, all these countries had separate republican budgets, a number of important fiscal functions were performed only at the federal level (particularly strong centralization and re-distribution characterized the USSR until 1990).

All the aforementioned organizational and methodological issues limit significantly the ability to carry out intense quantitative and comparative research on the fiscal policy of the post-communist economies, even using databases of such experienced international organizations as the IMF or the World Bank.

This paper was written on the basis of statistical data and information collected in the course of the research project "The Fiscal Crisis in Central and Eastern Europe under Transition," carried out by CASE (Center for Social and Economic Research) under the author's supervision in 1994-1995 and sponsored by Ford Foundation, and information in the database of the World Bank EC 2 Department (Central Europe). The author was able to use the World Bank database during his tenure at the World Bank as a visiting research fellow from October 1994 to May 1995. Generally available IMF and World Bank publications were used as a supplementary source of information.[1]

2. The advancement of the post-communist economies in the transformation process.

Before I proceed to fiscal policy analysis and its evolution, I would like to discuss briefly the degree of transformation process advancement in various groups of post-communist countries. This categorization will be valuable in a later part of this paper to explain a difference between a basic scenario of fiscal adjustments and the individual

[1] The author is grateful to Marcin Łuczyński, Rafał Antczak and Michał Dąbrowski for their assistance in the preparation of some statistical tables used in the present study.

"specificity" of separate countries, and also to show distinctly where each country or group of countries finds itself on the fiscal transformation "map."

My evaluation of the degree of transformation advancement in various countries is based on an interpretation (widely accepted in the literature on the subject) of the scope of transformation as including three basic processes. These are: (i) macroeconomic stabilization, (ii) liberalization and institutional changes, and (iii) privatization and restructuring (see Dąbrowski, 1995a). My proposed scheme for a transformation ranking of post-communist countries (as of autumn 1995)[2] is based on a qualitative analysis[3] of the following three factors:

- the degree of transformation process advancement in the three areas mentioned above (i.e., the extent to which a given country has adopted the standards in force in countries with stable market economies),
- the rapidity of change implementation, and
- the complexity and internal consistency of the reforms.

As a result, we arrive at six country categories:

1. The former German Democratic Republic, which, beginning July 1, 1990, underwent almost immediate transformation based on the Agreement on Monetary, Economic and Social Union, supplemented by the Unification Treaty of October 1990. In practice, this case represented a total institutional "absorption" of the former GDR by the Federal Republic of Germany;
2. The first generation of rapid reformers (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Albania);
3. The second generation of rapid reformers (Estonia, Latvia, Lithuania, Kyrgyzstan, Moldova, Croatia, Macedonia);
4. The third generation of rapid reformers (Armenia, Kazakstan, Georgia);
5. Slow and inconsistent reformers (Romania, Bulgaria, Russia, Ukraine);

---

[2] In principle, this scheme constitutes an updated and modified version of a classification presented in an earlier paper (Dąbrowski, 1995a).

[3] Obviously, this type of analysis includes a number of subjective elements, which reflect the differences in the level of the author's knowledge on the separate countries and his perception of the economic and political events that have occurred in those countries. Preparation of a more strictly quantitative ranking would require much more work and probably be beyond the author's individual capabilities. Moreover, although all the attempts known to the author to prepare such a ranking based on a more formal quantitative analysis (see for example EBRD, 1994; de Melo, Denizer and Gelb, 1995) provide a generally correct picture, certain details are quite questionable with respect to both content and methodology. This is an example of undoubtedly greater precision not necessarily resulting in qualitatively superior synthetic results, mainly due to the fact that some important phenomena such as internal and external liberalization can be measured only with great difficulty or not at all.

6. The remaining countries, which suffer from armed conflicts (New Yugoslavia, Bosnia and Herzegovina, Azerbaijan, Tajikistan) or have halted the reform process due to political reasons (Belarus, Uzbekistan, Turkmenistan).

3. The fiscal scenarios of the transformation process

It should be noted that not only the fiscal situation of the countries in transition from plan to market, but also the nature of the fiscal dilemmas they are experiencing, has changed dramatically.

Seeking to capture, in an analytical way, the most critical issues and problems, one can "stylize" the following four-stage fiscal policy scenario which most of the countries that succeeded in completing the first transformation stage went through.

1. Macroeconomic destabilization (including fiscal destabilization) in the period directly preceding the launching of political and systemic transformation;
2. Initial macroeconomic stabilization connected with economic liberalization;
3. Secondary, post-stabilization fiscal crisis;
4. Restoration of fiscal potential connected with economic revival and advancement in the reforms of the public finance system.

This "stylized" scenario is based mainly on the experience of the Polish economy, though a similar "route" of events can be also noticed in other countries which conducted the transformation process in a comprehensive and quick way (groups no. 1, 2 and 3 of the ranking presented above in Section 2). Such a scenario, however, is less observable in the case of the remaining categories, since the countries that initiated the program of radical reforms relatively late (group no. 4), at best can find themselves only at the second stage. In the countries that were gradually and inconsistently carrying out the reforms, an overlapping of the separate stages (mainly of first and third ones) ensued. At the same time the first stage turned out to be a long and very painful one in an economic and social sense. This specific case will be discussed separately later in this paper (see Section 8).It is most relevant to the remaining countries (group 6), a part of which are additionally burdened with war-effects and suffer from war damage.

There are also countries that do not fall within the scope of the "stylized" scenario, or in which some scenario stages are vaguely outlined. For example, Czechoslovakia and to some extent Hungary "by-passed" the initial fiscal crisis, although the latter country suffers seriously from the secondary crisis (post-stabilization and post-liberalization one). The third stage, however, appeared to be relatively mild in the Czech Republic and Estonia. These and other exceptions will be discussed more extensively later.

4. Initial destabilization stage

The post-communist countries have inherited from the previous system a number of serious economic problems. These are the most serious ones:

1. Full or almost full nationalization, which "squeezed" individual savings and directly or indirectly limited private economic activity. The natural consequence was the practice of financing investment mainly from budgetary and quasi-budgetary resources (off-budget funds, funds collected by bodies such as associations of enterprises, targeted central bank credits), and only secondarily from profits of enterprises and private savings collected by the state savings bank and redistributed through the banking system for development processes steered by the state.

2. The existence of huge structural distortions resulting from creation of strong monopolistic structures, autarkic trade policy, administrative regulation of prices and centralized investment decisions. Under the CMEA regime, Central and East European economies as well as the USSR were strongly oriented toward domestic and regional markets. The currency inconvertibility, state price control, trade restriction and state monopoly in foreign trade _ all these factors led, more or less, to the isolation of those economies from the international market.

3. Substantial social obligations of the state in comparison with the economic development level reached by those countries (Sachs, 1995a).

4. Permanent internal and external macroeconomic imbalance, severely felt mainly in the last phase of the former system's existence.

With regard to the subject-matter of the present study, the most important is the last of the problems listed above, in particular fiscal imbalance, which constituted a main reason for monetary imbalance (since the fiscal or quasi-fiscal deficit was financed by monetary emission). This led, in turn, to inflationary pressure, either in a hidden (shortage of goods) or open form (price increase). Foreign credits appeared to be an alternative method of financing the actual deficit of public sector. In the case of most East European countries (Poland, Bulgaria, Hungary, Yugoslavia, and at the end of the 1980, the USSR), this led to enormous external indebtedness.[4]

Passing on to the analysis of the sources of fiscal imbalance, two groups of factors can be theoretically distinguished. The first group consists of those which were permanently effective through the whole period of planned economy, and the second of those that emerged during the last phase of that system; i.e., during its accelerated collapse. In practice, however, an attempt to draw a distinctive boundary-line between both kinds of reasons may raise some doubts.

[4] In the case of German Democratic Republic, different types of non-repayable transfers from the Federal Republic of Germany were also involved.

If we look at the list of major economic problems inherited from the centrally planned economy, we can without any hesitation point to items 2 and 3 as the sources of permanent fiscal tensions. More detailed historical analysis reveals, however, some differences. Whereas structural disproportions were rooted in early stages of socialist industrialization programs, central allocation of resources, administrative prices and state monopoly in foreign trade (in the USSR since the abandonment of the New Economic Policy at the end of the 1920s, and in Eastern Europe since the end of the 1940s), the social part of the heritage of the previous system is of more recent origin.

A restrictive welfare spending policy was characteristic for first decades of the communist regime. The situation started gradually changing only after Stalin's death, along with growing social dissatisfaction (bloody events in German Democratic Republic in 1953, in Poland in 1956 and 1970, in Hungary in 1956, in Czechoslovakia in 1968). Post-Stalinist communist leaders (Khrushchev and Brezhnev in the USSR, Kadar in Hungary, Ulbricht and Honecker in GDR, Husak in Czechoslovakia, Gierek and Jaruzelski in Poland) began to try to attract social support for their governments. The biggest jump in social welfare spending was recorded towards the close of communist regimes' existence, when the process of seeking social approval became more intense. It was often connected with partial democratization of the system, and with the efforts of the hitherto existing government elites to gain the electorate's approval.

On the other hand, a substantial part of the democratic opposition, while criticizing the ineffectiveness and inhumanity of the planned economy, was not fully aware of the scale of macroeconomic crisis in their countries, and sometimes did not understand the basic principles of the market economy at all. The struggle against the communist regime was, for them, a struggle for an improvement of living standards, higher wages and increases in social welfare spending. In a systemic sense, they were seeking the so-called "third way". That was true in the case of the Solidarity trade union in Poland (which was demonstrated during the "Round Table" meetings in early 1989 and the election campaign of June 1989), the "Podkrepa" Trade Union in Bulgaria, the "Democratic Russia" movement, the "Sajudis" movement in Lithuania, and the Ukrainian democratic pro-independence opposition.

The most spectacular explosion of welfare spending and wages occurred in Poland in 1987-1989 and in the USSR.

The scale of state social spending has always been a feature differentiating Eastern Europe and the former USSR from communist countries in Asia. The latter countries have provided much more modest social nets than those in Central and East European countries and the former USSR (Sachs, 1995a). Thanks to this they were able to maintain macroeconomic discipline at a fairly high level (although Vietnam was forced to conduct a radical stabilization operation in early 1989).

The explosion of social spending towards the close of communist regime was not the only reason for fiscal crisis and growing inflationary tensions. The state *de facto* lost control over state enterprises and their finances (especially wages).

The first historical reason for this loss of control and consequently for the emergence of fiscal tensions was the incompleteness of economic reforms that dismantled, to some extent, traditional system of central planning, offering no alternative solution in exchange. Several decades of experience of reforming the socialist economy (beginning with the early stages of self-government reform in Yugoslavia in 1950) have clearly shown that "market socialism" or other variants of the "third way" are difficult to reach, and at the same time lead to serious macroeconomic disequilibrium problems. It is no accident that Yugoslavia and Poland were the leaders in macroeconomic instability among the socialist countries, and that the first destabilization phase in the USSR (under Gorbachev's "perestroika") was connected with partial enlargement of state enterprise autonomy. Of all the reforming countries, only Hungary succeeded in avoiding serious crisis, although this economy cannot be considered a model of stability (especially if the scale of external indebtedness is taken into account).

The problem of the detailed mechanisms leading to fiscal destabilization under partial liberalization of the command economy is discussed in economic literature. Generally, the loss of traditional budgetary or quasi-budgetary revenues obtained primarily through the state's confiscation of almost all enterprise profits in classic socialist economies is emphasized. As the financial autonomy of enterprises increases, the budget loses part of these revenues. If, in the meantime, the state does not create alternative ways of collecting money from enterprises and citizens (through an obligatory system of direct and indirect taxes) or reduce its expenditures, then the budget deficit grows (McKinnon, 1992). This is not, however, the only mechanism. The description of the adverse influence of incomplete reforms on fiscal equilibrium can be extended through incorporating a few additional factors and phenomena in the analysis.

The growth of state enterprise autonomy in wage determination (indispensable for creation of a more aggressive system of financial incentives for employees and management), coupled with a lack of adequate interest in profit[5], leads to a decline in profit, and thus to a drop in budgetary revenues. Additionally, the level of wages paid in the enterprises indirectly affects _ through informal and formal "indexation" systems _ the level of wages in the government sector, pensions, and other social contributions financed out of the budget or from off-budget funds.

Even more harmful is a gradual and selective price liberalization, which leads to growing gaps between market prices and administratively determined or regulated prices, where subsidies, tax concessions, or other forms of financial compensation for producers are necessary. Since the goods and services sold at controlled prices _ due to their great political sensitivity _ cover generally a large group of products with a large share in overall market turnover, the final consequence of gradual price liberalization is an increase in budgetary subsidies and a decline in budgetary revenues resulting from the application of tax concessions or a general drop in profitability.

In the light of existing empirical experience, gradual and poorly coordinated price liberalization which is subject to public political bargaining constitutes the major threat to macroeconomic stability at the end of the command system. In addition to the earlier

[5] There is a large literature on the objective functions of different forms of non-private enterprises. A summary of the discussion on this subject is contained in Dąbrowski (1990).

discussed negative influence on budget equilibrium, one should also focus on the increase in velocity of money circulation caused by the expectations about the inflation rate (inflationary expectations) resulting from slow price deregulation. This problem was severely felt in Poland in 1987-1989 and in the USSR in 1989-1991 (see **table 1**), where either the problem of price liberalization or administrative adjustment of prices to equilibrium levels was a subject of public discussion, and the final political decisions in that matter were delayed for many months. To a lesser extent this process could also be observed in other countries such as Bulgaria, Czechoslovakia (in the second half of 1990 while waiting for price liberalization that was to become effective January 1, 1991), and the former GDR (the day before the monetary, economic and social union that was implemented July 1, 1990).

Price deregulation was usually connected with elimination of product rationing and liberalization of product markets and enterprise finances. In some countries (Poland, the former USSR, Romania) the liberalization of domestic trade affected both consumer and producer markets, while in the remaining countries it was mainly related to the latter one. All those movements were conducive to a one-time increase in money velocity.

The destabilizing influence of gradual and inconsistent reforms in the late stage of socialism was additionally strengthened due to the weakness, and sometimes disintegration, of the socialist state. This mechanism has been described in greater detail in the discussion of the explosion of welfare spending and wages.

The most dreadful symptoms of breakdown of public finance due to disintegration of the communist political system could be observed towards the close of the USSR's existence.

A substantial relaxation of macro- and micro-economic discipline and unfavorable changes in terms of trade in the first period of "perestroika" (the latter mainly related to a drop in oil prices on the world markets) were intensified by the effects of political competition between Yeltsin and Gorbachev and between the Russian Federation and Soviet institutions. At the end of 1990, the newly established Central Bank of the Russian Federation began taking over regional units of the USSR State Bank (Gosbank) and conducting an independent monetary policy (consisting mainly in crediting the republican budget deficit and enterprises). At the same time, the government of the Russian Federation was competing with the government of the Soviet Union for the supervision over state enterprises by offering them lower tax rates. Russia, moreover, refused to remit the taxes collected on its territory to the Union budget, with the exception of a certain sum unilaterally fixed by Russia.

The further development of political and economic events in 1991 led to the breakup of the Soviet Union and hidden hyperinflation at the end of 1991. The hidden hyperinflation consisted mainly in a complete lack of goods in the stores, while the price control over the majority of basic products and services was formally maintained.

In 1987-1989 in Poland (see above), in 1990 in Romania (after the fall of Ceausescu's dictatorship), in 1989-1990 in Bulgaria and in 1990-1992 in Albania, a similar collapse of public finances occurred, though less drastic than that in the USSR.

The political disintegration of Yugoslavia followed a dramatic course too. At the end of 1989 and at the outset of 1990, in a country that had been suffering for twenty years form chronically high inflation, an effective anti-inflation program _ connected with the name of Prime Minister Ante Markovic _ was finally implemented. The duration of Yugoslav stabilization, however, turned out to be very short due to growing political disintegration. In the second half of 1990 and the first three quarters of 1991 the federal government and National Bank of Yugoslavia lost control over fiscal and monetary policies of the separate republics, which led to backsliding into high inflation. The ongoing civil war (lasting in the case of Bosnia and Herzegovina until the end of 1995) appeared to be another destabilizing factor. Of the post-Yugoslav countries, only Slovenia quickly managed to revive stabilization at the end of 1991 (see the following section), whereas it took Croatia and Macedonia three years to do so (although with a very positive final effect). At the end of 1993, New Yugoslavia (i.e., the federation of Serbia and Montenegro) fell into one of the most spectacular hyperinflations in the economic history of the world (Rostowski, 1995). Bosnia and Herzegovina are confronted with the very difficult tasks of post-war rebuilding and stabilization.

Only Czechoslovakia, Hungary and the GDR avoided serious fiscal crisis at the beginning of transformation period; however, in these countries the macroeconomic stabilization level was far from Western standards. In the case of Czechoslovakia and the former GDR, the maintenance of an unreformed command system and then its quick replacement with market regulation mechanisms proved to be of the greatest importance. Both countries were characterized by a high level of political and economic discipline during the central planning era, and state authority and control over the economy did not undergo spontaneous disintegration, as was more or less the case in the remaining countries.

Hungary's success in avoiding political and economic disintegration has occurred despite the completely different initial situation of this country from that in Czechoslovakia and the GDR. In the 1980s, Hungary was the leader in political and economic freedom in the communist camp. The decentralized version of the planned economy existing in Hungary, although not free of some of the weak points observed in Yugoslavia and Poland, remained capable of subjecting economic entities to elementary microeconomic and fiscal discipline. The last communist government of Karoly Nemeth, with a clear pro-reform attitude, was also able to avoid the blatantly populist decisions that destabilize public finances.

Table 2 presents basic indicators reflecting the fiscal situations of six former members of the CMEA in the year preceding the launching of the fundamental transformation process. It should be emphasized, however, that this data is only approximate, due to the aforementioned incomparability of statistical data between these countries. A quasi-fiscal deficit (usually connected with central bank operations or foreign credits) not included in official budgetary statistics constitutes another factor distorting the picture. I will concentrate on this problem in Section 9 of this paper.

Data contained in table 2 confirm the dramatic state of public finances in the USSR before its breakup (1991), and also the relatively high deficit of general government in Poland in 1989. In the case of Poland, the general indicator for 1989 "hides" substantially deeper crises of public finances in the second and third quarter of 1989 (in the fourth quarter of 1989 the process of withdrawing subsidies was started, and the budget was almost balanced for the quarter). In all countries, there were also quasi-fiscal expenditures of the central bank.

Some comments on Romania are in order, as this country showed a significant budget surplus. In the second half of the 1980s, Romania was realizing a restrictive program aimed at external debt repayment (debt of the 1970s). This policy, accompanied by strict economic and political restrictions, was one of the factors that led to the uprising against Ceausescu's regime in December 1989.

5. Initial stabilization stage

The experience of approximately 30 countries undergoing the transition process from plan to market reveals that macroeconomic stabilization is a necessary (however insufficient) condition for achieving progress in other areas of transformation (see Balcerowicz and Gelb, 1994; Balcerowicz, 1994; de Melo, Denizer and Gelb, 1995). Since a considerable fiscal and quasi-fiscal deficit constitutes a main source of macroeconomic instability at the very beginning of transformation, anti-inflation activities, in order to be effective, have to be directed to the elimination or reduction of that deficit. The "standard" set of measures for doing so includes:

1) elimination or substantial cut in consumer and producer subsidies,

2) cutback of other government expenditures (mainly investment expenditures and defense spending),

3) reduction of tax concessions and increase in tax rates or introduction of additional emergency taxes if necessary,

4) elimination of central bank quasi-fiscal spending (mainly in form of negative real interest rates, differentiated exchange rates and credits directed to particular sectors of the economy).

The activities listed in items 1, 3 and 4 are impossible without price liberalization carried out on a wide scale. This price liberalization, in turn (under the conditions of extensive monopolization prevailing in most of the post-communist economies at the beginning of transformation), requires external liberalization of economy.

As the criterion for initial stabilization stage success, I suggest adopting a sustained (i.e., minimum of two successive years) fall in inflation below the level of 50% per annum concurrently with free formation of most prices, eliminating the so-called monetary overhang characteristic for Kornai's economics of shortage (Kornai, 1980). Obviously, the level of 50% inflation is purely arbitrary, but it seems to be a reasonable threshold of elementary stability of prices following their general liberalization.[6]

Table 3 presents a picture of the success achieved in the field of macroeconomic stabilization among the post-communist countries that is approximately mirrored by the average yearly data, which with some lag respond to current (December-to-December) inflation rates. A certain complication results from the fact that in some cases the anti-inflation policy is applied in the second half of the calendar year. The statistical effect _ in the form of a drop in the average annual inflation rate _ is visible only in the following year or even two years later.

In spite of these methodological reservations, the criterion of macroeconomic stability defined above can be said to be met, before the end of 1995, by the following eight countries: the Czech Republic, Slovakia, Hungary, Slovenia, Albania, Poland, Estonia, Latvia. If we include the current indicators (from December to December), we should also include Croatia, Macedonia and Lithuania. The aforementioned criterion seems to be almost satisfied by Moldova, Kyrgyzstan and Romania. Considering current monthly inflation rates in post-Soviet countries for the period of July 1994-August 1995 (see **table 4**), Armenia, Georgia and Kazakstan could (in 1996-1997) join the group of countries that have reached a fundamental level of stabilization.

This ranking of countries according to the degree of stability achieved corresponds, in general, with the classification _ contained in Section 2 _ according to the degree of transformation process advancement.

Table 5 shows budgetary revenues, expenditures and balance (in % of GDP) in 29 post-communist countries in 1989-1994. In the case of many countries (mainly the former USSR and Yugoslavia successors), however, a full time-set of data is not in my possession. In spite of this incompleteness, it is obvious that most countries that succeeded in achieving fundamental macroeconomic stability (i.e., inflation below 50% per annum) enjoy relatively low budget deficits. Only 3 out of 11 countries included in this group have deficits exceeding 3% of GDP. These were Albania, Hungary and Lithuania. In 1994 Lithuania was only beginning the stabilization process, and according to prognoses its fiscal balance for 1995 should be much better. Albania has received much non-repayable foreign assistance and concessionary loans granted by the IMF and the World Bank. Hungary, as mentioned earlier, has never gone through pre-transformation destabilization, and thus did not have to introduce strict stabilization measures. All adjustment activities related to budgetary expenditures in 1991-1993 turned out, however, to be insufficient. That is why Hungary is the country that suffers most severely from the so-called secondary fiscal crisis (see the following section). In reality, Hungary is also the only country that will register an increase in inflation in 1995. Due to falling confidence in the Hungarian economy, the possibilities for external financing of the budget deficit through placing government bonds on western financial markets are limited.

[6] A similar criterion has been adopted by Anders Aslund (1994).

The 11 countries mentioned above differ from each other in the scale and detailed path of fiscal adjustments. Due to lack of comprehensive data and the peculiar situation of "newly" independent countries of the former USSR and Yugoslavia (assumption of functions performed earlier by the federal authorities), **table 6** contains data regarding only five East and Central European countries. Although Bulgaria initially adopted a very ambitious program of liberalization and stabilization, which peaked in 1991, the government later suspended this program; thus, inflation never fell below 50% per annum, and what is more, in the winter of 1993-1994 a noticeable macroeconomic destabilization was recorded (see next section). Nevertheless, it seems to be reasonable to include Bulgaria in the analysis due to its typical (for strongly centralized economies) path of fiscal adjustment for the first years of the transformation process.

Analyzing table 6, two paths for adjustment processes immediately after initiation of the transformation process can be distinguished. The first one is represented by Czechoslovakia, Bulgaria and Albania, whose economies were strongly centralized before the beginning of the transformation process and resembled the model command system. In 1989, these 3 countries registered a high share of budgetary expenditures in GDP (from approximately 58% of GDP in Albania up to 72.3% in Czechoslovakia). In addition, a significant decline both in expenditures and revenues was recorded. In Czechoslovakia, however, the fall in expenditures and revenues was uniform, which allowed for maintenance of a reasonable budget deficit. In Bulgaria and Albania, the decline in revenues significantly exceeded the decrease in expenditures; thus, the budget deficit increased. In both countries, fall in real GDP was much stronger than in Czechoslovakia (see **table 7**) which in fact meant a more dramatic decrease in real expenditures, and an even more substantial drop in real revenues.

Whereas in Czechoslovakia the decline in the share of budgetary expenditures and revenues in GDP was the effect of a conscious and tightly controlled government policy of liberalization and comprehensive restructuring of the economic system, in Albania and Bulgaria, in addition to the aforementioned processes, there are also other factors such as significant weakening of fiscal administration and loss of government control over the enterprise sector.

In 1989, Hungary and Poland entered a stage of fundamental transformation of the political system. The economic systems of those countries were much more decentralized, and the scope of administered prices and subsidies as well as price disproportions was smaller. The Hungarian economy was "more market-oriented" and better balanced in fiscal and monetary respects than the Polish economy (see Section 4). In 1988-1989, Poland experienced a substantial drop in the share of revenues in GDP and a slight fall in the share of expenditures in GDP (Bratkowski, 1993; Bratkowski et al., 1995). In 1989, at the starting point, Hungary had a much higher share of expenditures of general government (61% of GDP) than Poland (48.9%), which resembles the situation typical for the countries with a highly centralized version of the planned economy (see above). In 1989, the share of subsidies in Hungarian GDP (12.1%) was, however, lower than the Polish share (12.9%), not to mention the Bulgarian and Czechoslovakian shares (15.5% and 25% respectively). In 1989, in comparison with Polish budget, the Hungarian budget had a higher share of the following expenditures:

- goods and services expenditures (20.5% of GDP in Hungary and 10.2% of GDP in Poland),
- debt service expenditures (2.4% and 0%, respectively),
- social security benefits expenditures (14.4% and 11.2%, respectively),
- capital expenditures (6.6% and 3.3%).

It is worth stressing that a lower initial share of subsidies in GDP, and in the case of Poland, a lower share of budgetary expenditures and revenues in GDP as well, resulted in the fact that both countries (Hungary and Poland) followed a less strict "adjustment path" in the field of fiscal policy than Czechoslovakia, Bulgaria and Albania. In 1989-1990, as far as Hungary is concerned, the adjustment path consisted in relatively slight cuts both in the expenditures of the extended governmental sector (by 3.5% of GDP) and the revenues (by 1.6% of GDP). Consequently, Hungary went from a slight deficit of general government (-1.4% of GDP in 1989) to a negligible surplus (+0.5% of GDP).

Poland where in 1989 the deficit of general government amounted to 7.5% of GDP) was on the edge of hyperinflation in second half of 1989. Therefore, Poland had to make deeper and more asymmetric adjustments than Hungary, lowering expenditures by 9.1% of GDP in 1990 (at the same time, there was a substantial fall in GDP) and increasing revenues by 1.4% of GDP. As a result, in 1989, a surplus of general government amounting to 3.0% of GDP was achieved.

The given data allow us to examine only two items on the expenditure side; i.e., subsidies (see **table 8**) and capital expenditures (see **table 9**), which make up a standard adjustment package for the first transformation stage.

The most significant reduction of subsidies was made by Czechoslovakia (by 20% of GDP in 1989-1992) _ the country that had also had the highest starting level (25% of GDP). Czechoslovakia was followed by Albania (reduction by 18.1% of GDP in 1991-1993, with a starting level of 20.3% in 1991), Bulgaria (13.7% of GDP in 1989-1992, although in 1993 an increase of 3% of GDP was registered), Poland (10.7% of GDP in 1989-1993) and Hungary (7.3% of GDP within the same period).[7] It is worth repeating that the drop in subsidies was accompanied by a slump in GDP, therefore the decrease in overall real subsidies was even greater than the fall in their share in GDP. In 1993, the level of subsidies in Poland and Albania amounted to 2.2% of GDP, while in Hungary, the Czech Republic and Slovakia, they amounted to 4-5% of GDP.

[7] It is worth emphasizing that both Hungary and Poland reduced the share of subsidies in GDP in the preceding years due to partial price liberalization. In Poland, a substantial cut in subsidies was indicated in second half of 1989 after food price liberalization. In 1988-1989, a fall in capital expenditures of the extended governmental sector was also registered (Bratkowski et al., 1995).

As far as capital expenditures are concerned, there is no uniform trend. Albania, with a record level in 1989 (29.3% of GDP), had by 1992 made the greatest relative reduction in these expenditures, which were down to 4.3% of GDP. In 1993, however, they increased to 7.7% of GDP. Bulgaria and Poland, beginning from a much lower level (5.5% and 3.3% of GDP respectively, in 1989), recorded a steady decline in capital expenditures (in Bulgaria, there was a temporary increase in 1992), while adopting a "milder" trajectory than Albania's. In Czechoslovakia and Hungary, after a temporary and slight drop in 1990, the share of capital expenditures in GDP increased over the following years.

The available statistics on budgetary revenues render impossible a detailed evaluation of the fiscal results of suspending tax concessions, unifying turnover tax rates, lowering marginal income tax rates (especially for the private sector) and other reformatory activities. In the first period of transformation, a generally observed fall in the share of budgetary revenues in GDP resulted from lowering the highest turnover tax rates (elimination of price disproportions) and income tax rates, as well as from eliminating the so-called "duplication effect" (Barbone and Marchetti, 1995); i.e., taxation of profits generated by subsidies.

6. Secondary fiscal crisis stage

The improvement of the fiscal balance resulting from radical adjustment activities at the very beginning of transformation process has not turned out to be lasting. A majority of the post-communist countries that succeeded in the second stage experienced secondary (post-stabilization) fiscal crisis shortly thereafter. Only the Czech Republic, Slovenia and Estonia have managed to avoid serious problems connected with balancing the budget. I will describe the situation of those countries in a further part of the present section.

The most important concrete reasons for the secondary fiscal crisis are the fall in budgetary revenues (particularly revenues derived from enterprise income tax) and the increase in welfare spending.

Table 10 presents a scale of changes in the ratio of budgetary revenues to GDP in 1989-1994. Twenty of the 26 countries included in table 10 registered a drop in budgetary revenues, at times very noticeable. Five of the six countries that recorded an increase in ratio of revenues to GDP have recently become independent. Those countries have taken over rights to certain revenue sources held earlier exclusively at the union level. Additionally, two of them (Azerbaijan, Uzbekistan) have crude oil pools and other raw materials that can be easily exported. In 1989, the level of revenues in Poland was exceptionally low due to dramatic collapse of public finance system and hyperinflation effects (Oliviera-Tanzi effect). This was probably also the case for three former Yugoslav republics _ Slovenia, Croatia and Macedonia.

The picture contained in Table 10 is incomplete, since the figures referring to an increase in revenues are of aggregated character and relate to the whole five-year period, in which different stages of fiscal policy overlap for different countries. It is worth noticing that 1989 was for most countries (Czechoslovakia, Bulgaria, Romania, Albania, the USSR) a year of "normal" planned economy (although in many cases it was the last year). In

Hungary, the processes of liberalization, removal of subsidies and reform of the tax system were already advanced. A similar situation existed in Poland, which had entered the initial stage of fiscal crisis. High inflation was also raging in Yugoslavia.

An even less comparable year is 1994, since some of the countries were still in the stage of initial fiscal crisis, others were only at the end of the stabilization phase, still others were at different stages of secondary fiscal crisis, and a small number of countries were emerging from crisis. The aggregation of the data makes it impossible to differentiate revenue drops resulting from price liberalization and removal of price disproportions from those resulting from decrease in the fiscal effectiveness of the state. Therefore, in order to illustrate the symptoms of fiscal crisis more precisely, one should refer to more disaggregated data related both to the revenue and expenditure items of key importance for this stage.

Both the sources and the course of the secondary fiscal crisis can be best identified based on the examples of East and Central European countries, although the crisis symptoms (particularly, a drop in revenues derived from enterprise income tax) can also be noted in most countries of the former USSR _ even in countries such as Russia _ where there is still three-digit annual inflation, which means that they have not brought the initial stabilization process to an end (see Section 8).

Table 11 shows the revenue from taxes on enterprise profits. In all countries, a drop in receipts derived from the aforementioned source can be observed. Czechoslovakia constitutes an exception (until 1992, an exceptionally high level of proceeds from the above-mentioned source were maintained[8]), as do Albania and the post-Yugoslav countries, where this tax was always of minor importance. A rapid drop in average enterprise profitability is the basic reason[9]. Some reasons for that drop include:

- withdrawal of direct and indirect subsidies (in the form of real interest rate credits) and elimination of the "duplication effect" related to them,
- increase in domestic and external competition, and thus reduction of monopolistic profits: many enterprises are affected by deep financial crisis due to difficulties in selling current production,
- weakening of state enterprise motivation to gain profits due to a temporary systemic and ownership vacuum,

[8] In 1993, both the Czech and Slovak Republics registered a falling tendency, but this may partially result from a drop in enterprise income tax rates (see Stepanek et al.,1995; Adamec, 1995).

[9] In a few cases, a reduction of tax rates and increase in the range of tax exemptions have played a certain role. The tax exemptions, however, have a bigger influence on diminishing the effective tax rates in those post-communist countries where financial discipline has been considerably weakened (Ukraine or Russia), and which are not included in Table 11.

- tendency to hide profits both in the private and state sectors in order to diminish tax obligations (in a part of the state sector, this may be additionally connected with a pre-privatization tactics),
- fall in the inflation rate and elimination of so-called paper profits resulting from high inflation.

The last element seems to play a key role in all countries which were overcoming high or very high inflation. The large share of tax proceeds in GDP in Poland in 1990, and then its rapid decrease (in spite of the fact that effective tax rates remained unchanged) can serve as an example.

In most countries, a drop in relative proceeds from enterprise profit taxes was partially compensated by increases in personal income taxes (this includes taxes on profits derived from economic activity conducted by physical persons). This effect was particularly dramatic in Poland, where, in 1992, with the introduction of the Personal Income Tax Act, a jump in budgetary proceeds from this tax was registered (from 2.4% of GDP in 1991 to 6.3% of GDP the next year).

In contrast to corporate income tax, the proceeds from turnover taxes, VAT and excise taxes either did not fall in relation to GDP (except for an initial period of price deregulation in several countries), or decreased on a smaller scale. The Central European countries that replaced the traditional turnover tax with VAT (Hungary in 1988, Slovenia and Croatia in the 1990s, the Czech and Slovak Republics at the beginning of 1993, Poland in the second half of 1993) show a higher level of indirect tax proceeds than those countries that did not introduce any reforms; in addition, proceeds began to grow immediately when the reforms were implemented. This proves the higher tax efficiency of the VAT in comparison with the traditional turnover tax.

The introduction of the VAT (NDS _ *nalog s dobavlennoi stoimosti*) in the countries of the former USSR (at the beginning of 1992) resulted in much worse fiscal performance. Apart from the generally lower efficiency of tax administration and the weaker financial discipline of the enterprises, the numerous constructional defects of the post-Soviet NDS seem to play a substantial role.

So far we analyzed the share of various taxes in officially registered GDP. An additional dramatic aspect of the situation has consisted in the slump in GDP in all post-communist countries at the discussed stage of the transformation process. In reality, therefore, these countries were faced not only with substantial declines in the share of budgetary revenues in GDP, but also with an even greater decline in overall real revenues.

The proceeds from most sources are correlated with GDP value, while the same cannot be said for expenditures. Most of them are more or less fixed (for example, payments to government employees, public debt servicing or welfare spending), which is why their share in GDP _ given a real fall in this aggregate _ can be expected to grow. In practice, in the case of social contributions, most of the post-communist countries were not only unable to reduce their commitments in this area, but also had to face new requirements and challenges, connected mainly with the effects of unemployment, which had not existed officially earlier in Central and East European economies (with the exception of Yugoslavia). A rapid growth of the number of pension recipients was a side-effect of the fall in employment, and in some countries, of gradual, adverse demographic changes. The withdrawal of many general subsidies for goods and services, the fall in registered employment and real wages, and the termination of the performance of social functions by state enterprises for their employees have caused an increase in the demand for social welfare payments. Additional needs in this field have appeared in countries with ongoing armed and nationalistic conflicts. Moreover, the ineffectiveness of systemic solutions in this field inherited from the previous political-economic system (see Section 4) and/or created hastily in the first stage of transformation (often under the pressure of the first democratic election campaigns or misleading ideas as to the real financial capabilities of the state) have been conducive to the expansion of welfare spending. The biggest problems have resulted from overly liberal legislation on counteracting unemployment and from pensions legislation. In case of the latter, the most significant sources of excessive expenditures are usually linked with:

- overly low retirement age and numerous entitlements to early retirement; in most post-communist countries retirees and pensioners can continue to work without any significant restrictions (this is usually a "relict" of the era of labor deficits),
- other branch and occupational privileges (the use of preferential coefficients in calculation of entitlements, bonuses, etc.),
- overly short period of work used in calculating pension entitlements, which may lead to manipulations increasing the payments,
- unequal principles used in setting pension payments in the agricultural sector,
- liberal definitions of entitlements and liberal rules for granting disability pensions,
- poorly constructed and calculated principles of valorization and re-valorization of payments.

Any attempts to revise the operating principles of pension schemes (even an elimination of obviously inequitable privileges, inefficient regulations which are conducive to abuses, and entitlements which exceed state financial capabilities) encounter the political resistance of large group of pensioners and persons of pre-retirement age (Sachs, 1995b), as well as the objection of constitutional courts that consider the aforementioned steps as an infringement of the citizens' rights (Poland and Hungary can serve as examples of the latter).

Table 13 indicates a rapid growth of the share of welfare spending in GDP in all East and Central European countries (excluding Romania and the former Czechoslovakia)[10]. The level of expenditures of this kind is significantly lower in the countries of the former USSR, since most of them experienced strong inflationary depreciation of welfare payments, which was not allowed to happen in Central Europe thanks to the well-developed indexation systems. Moreover, the labor market situation still exerts lower pressure on the pension scheme in the post-Soviet countries. Nevertheless, an upward tendency of welfare spending's share (including pension benefits) in GDP was observed in those countries in 1994-1995.

Social programs are not the only reason for secondary fiscal crisis on the expenditure side. In various countries, there were also other reasons for increase in budgetary obligations. These were: internal and external debt servicing (Hungary, Bulgaria, Poland), so-called enterprise and bank restructuring (Hungary, Bulgaria), and sometimes various forms of subsidies (Bulgaria).

The problem to what extent the secondary fiscal crisis is inevitable and how it can be avoided was, and to some degree still is, the subject of ongoing disputes. The supporters of gradual transformation ("the gradualists") initially blamed the excessive radicalism of economic stabilization and liberalization programs (referred to as "overshooting") for the secondary fiscal crisis (Nuti and Portes, 1993; Kołodko, 1991). According to them, so-called shock therapy led to an excessive drop in output and enterprise efficiency, and thus to a drop in budgetary revenues as well as excessive unemployment and costs of unemployment insurance benefits.

In Polish discussions, an argument concerning the alleged discrimination against the state sector (see Kołodko, 1992) has been put forward many times, though the followers of this idea have never presented any convincing evidence. Another argument has been related to the allegedly negative impact of privatization on economic activity and budgetary revenues (Kowalik, 1993).

The latter issue has also been a subject of the radical reformers' concern. In the beginning, the state sector seemed to show greater tax discipline than the private sector (particularly the thousands of small individual and family firms) and privatized sector. Moreover, rapid privatization has been recognized as an unemployment-increasing element that leads to the growth of budgetary obligations. It is worth mentioning that there have been some interesting discussions on this matter. The main focus of interest in these discussions was the optimum pace of enterprise privatization and restructuring and transformation as a whole (Roland, 1994; Aghion and Blanchard, 1993).

The supporters of radical transformation have emphasized the negative influence on public finances of such factors as delay in fiscal reforms, overly broad social commitments

---

[10] The same situation exists in Slovenia, which is not included in table 13 due to lack of comparable database. According to Boris Pleskovic's data (1995) the pension expenditures amounted to 11% of GDP in 1991, 12.7% of GDP in 1992, 13% of GDP in 1993, and 13.7% of GDP in 1994. The expenses of the obligatory Health Insurance Fund accounted for 5%, 7.2%, 7.5% and 7.3% of GDP in the respective years.

of the state, the results of the external shock coming from the collapse of the CMEA, and the lack of tight wage control in state enterprises (Dąbrowski, 1992; Gomułka, 1993; Crombrugghe, 1993; Bratkowski, 1993).

Currently, from the perspective of several years' experience in at least a few of the countries which went through the first transformation stage, it seems easy to argue for the adoption of the following position with regard to this debate:

First, the example of the Czech Republic, Slovenia and Estonia reveals that fiscal crises can be avoided. It must be noted that the fiscal policy scenario was different in each of the aforementioned countries. Estonia, having a relatively low level of revenues generated by the consolidated governmental sector (31-35% of GDP in 1992-1994), has been able to impose iron discipline in the field of expenditures, particularly in the area of welfare spending. In contrast, Slovenia's high welfare spending indicator is closer to the Hungarian or Polish one than the Estonian one. However, Slovenia has not only been able to maintain the earlier ratio of revenues of the broad governmental sector to GDP, but even to increase it. To some extent, Slovenia has also benefited from the breakup of the Yugoslav federation, having been in the past an important net donor to other federal republics. All these reasons also apply in case of the Czech Republic (i.e., maintenance of a relatively high level of tax proceeds primarily from enterprises, disciplined welfare spending in comparison with Poland, Hungary and even Slovenia, and termination of earlier fiscal transfers to Slovakia).

Second, there is no correlation between the occurrence of the secondary fiscal crisis and the application of the radical transformation variant. The countries hardest hit by the crisis were Hungary, which in 1990-1992 was the standard example of the gradualist strategy (which is reflected in table 8 data that indicate the moderate pace of subsidy elimination), and Bulgaria, where frequently changing governments very quickly detoured from the radical change path and began to "soften" the conditions for enterprise activity. Among the countries that avoided the secondary fiscal crisis are two exceptionally radical reformers, namely Estonia and the Czech Republic.

Third, a heavy drop in officially registered GDP turned out to be in fact unavoidable. Generally, however, it was smaller and shorter in the countries that adopted the most radical transformation variant (see de Melo, Denizer, Gelb, 1995; Dąbrowski, 1995a; EBRD, 1994; Balcerowicz and Gelb, 1995; Aslund, 1994). These were the first countries to return to the path of economic growth.

Fourth, any fears of the negative impact of overly rapid privatization on public finances have been not confirmed. The greater tax discipline of the state sector has turned out to be a transitory feature. State enterprises have quickly learnt from the private sector how to hide turnover and profits (or to transfer them out of the enterprise) and avoid taxes. Such practices have occurred on the greatest scale in the countries where the privatization of medium and large enterprises has been slow and the state sector has not been subject, from the very beginning, to hard budgetary constraints (Belarus, Ukraine, Bulgaria, Romania).

Fifth, the experience of some Western countries (Sweden, Italy, Finland, France, and even the USA) show that the problem of social and pension benefits guaranteed by the state is not exclusively typical for the countries undergoing the transition from plan to market, much less of special relevance to the radical transformation path.

7. Stage of revival and restoration of fiscal potential

In the case of radical reformers, a phase of transformational downturn in output lasted not longer than two (Poland) or three years (the Czech Republic, the Slovak Republic, Slovenia, Estonia, Latvia) from the beginning of the fundamental stabilizing operation. Economic growth, if it is based on sound principles (i.e., is not chiefly the result of, for example, the development of branches subsidized from the state budget), is connected with proportional (or greater) increase in revenues and not necessarily with a fully proportional rise in expenditures (the role of fixed expenses, discussed above)[11]; thus, it should by itself help towards a fiscal balance improvement. In addition, long-term tax reforms (in particular, introduction of the VAT and consolidated tax on personal incomes), improvement of the tax administration, and adjustment activities of budgetary expenditures (mainly in the scope of social programs) start to bring some positive results.

Movement from the third stage (secondary fiscal crisis) to the fourth stage (revival and fiscal potential restoration) is best exemplified by the Polish case, in which the budget deficit has been falling since the second half of 1993. The effects of economic growth (since 1992) and the aforementioned tax reforms have contributed to an improvement of the budget situation. To a lesser degree, this improvement is also due to cuts in welfare spending and payments to government employees. These reductions were made in the second half of 1991 and in 1992 and 1993, but were of a temporary and mechanical character and not linked with deeper systemic reforms in this field. Furthermore, under the left-wing coalition (governing since autumn 1993), they were partially reversed. The significant reduction of the budget deficit has resulted above all from an increase in the share of general government revenues in GDP as well as from the fast growth of GDP.

Symptoms of the gradual improvement of the budget situation can be observed in other countries which are advanced in transformation process, such as Slovenia, Croatia, Estonia and the Czech and Slovak Republics. Some of them (as mentioned in Section 6) have been able to avoid the secondary fiscal crisis. Slovenia, like Poland, benefits mainly from the effects of economic growth and tax reforms. Estonia and the Czech Republic, in addition to strengthening their income base, have managed to initiate more ambitious, long-term oriented reforms of the pension scheme, social policy and social services. In Poland, Slovenia and the Slovak Republic there have only been debates on these issues.

[11] In practice, it is not always possible to hold the expenditures down during the economic growth and increased budgetary receipts. Two political elements play a significant role. Theses are: a willingness of different groups being the beneficiaries of the budget to participate in the results of economic growth, and also government difficulty in opposing different pressure groups and carrying out unpopular reforms limiting the budgetary commitments. The fiscal crisis serves usually as the best argument for breaking the resistance of interest groups when a fortunate situation in the field of revenues softens the power of this argument.

The prospects for relative fiscal stability in the group of countries that are already at the fourth stage will depend almost entirely on the intensity of the reforms of pension schemes, other segments of social policy and basic areas of social services (health service and education). The fiscal situation of the countries that do not conduct these reforms quickly enough will mainly depend on their ability to maintain the hitherto existing pace of growth. An economic slump may easily lead to another serious fiscal crisis.

8. The fiscal situation in slowly reforming countries

In Section 5 I wrote that not all countries had completed the stage of primary stabilization and liberalization, and some of them are still very far from reaching this objective. The countries which are still far from achieving this first stage of reform include both the countries that have not made any serious attempts to introduce systemic reforms and to fight inflation for a long time (Turkmenistan, Ukraine, Belarus, Tajikistan, Azerbaijan, Uzbekistan), trying to keep remainders of the command system or find a so-called third way, and the countries that have tried _ sometimes repeatedly _ without success to stabilize the economy. Russia and Romania should be included in the second group.[12]

The problems experienced by the countries that over a few successive years have not been able to handle the task of initial macroeconomic stabilization and liberalization are best exemplified in the cases of three large post-Soviet countries _ Russia, Ukraine, and Belarus.[13] (The Romanian experience has also been similar.)

Analysis of the aggregated data contained in table 5 generally indicates the relative stability of the ratios of expenditures and revenues of general government to GDP[14]; on the other hand, it also shows the continued high degree of GDP redistribution through the state budget and quasi-budget institutions and high budget deficits (except for Belarus in 1991 and 1994). These data do not give a comprehensive picture of the situation in Belarus and Russia due to the fact that the quasi-fiscal deficit has not been included in the statistics. In case of the latter country, more accurate information is contained in **table 14**, although it also refers to operations of a fiscal character. Table 14 does not include so-called technical credits granted other countries of the ruble zone by the Central Bank of Russia (CBR) in 1992-1993[15]; nor does it include central bank quasi-subsidies for enterprises (see Section 9). This last element is also missing in the fiscal statistics of Belarus and, to some extent, Ukraine.

[12] As of the end of 1995, Romania seem to be finally close to achieving permanent stabilization. In 1995, Russia also made significant progress in this direction, though it is much too early to evaluate its further prospects.

[13] A more detailed comparative study of the experiences and macroeconomic problems of those three countries has been included in Dąbrowski and Antczak (1995).

[14] Except for a rapid jump in expenditures in Ukraine in 1992, and a downturn in both revenues and expenditures in Belarus in 1994.

[15] According to various estimations they amounted to around 8.2-8.4% of Russian GDP in 1992, and around 3% of GDP in 1993 (Dąbrowski, 1995b).

Even without data on technical credits and quasi-subsidies of the central bank, the data contained in table 14 indicate a more dramatic picture of the fiscal situation in Russia than the data presented in table 5.

Further common characteristics of the three countries under consideration are found in **table 15**, which contains data on official budgetary subsidies for producers (without the central bank quasi-subsidies or those connected with centralized imports). **Table 16** presents data on overall subsidies in Romania in 1989-1993. Given the data contained in tables 15, 16 and 14, one may draw the conclusion that a basic reason for unsuccessful or delayed macroeconomic stabilization within this group of countries was the incomplete internal and external liberalization of their economies and the "soft" financing of an unreformed state enterprise sector. This policy, usually conducted under the banner of social protection for the society (in particular for the poorest classes of society) and of reducing the social costs of the transformation process, has in fact imposed on the whole society the huge burden of an inflation tax and caused the numerous pathologies which usually accompany high inflation.

Fragmentary data (mainly for Romania and Russia) show that these countries _ although they have not yet overcome the primary fiscal crisis _ are already experiencing the symptoms of the secondary fiscal crisis, in particular in a form of revenue decline and welfare spending growth (Russia in 1994-1995). In the case of Russia, these problems are additionally intensified by the defective principles of fiscal federalism. The federal government has, for political and administrative reasons, not exercised full control over the fiscal policy of the federation's members, which has resulted in the federal budget's showing a much bigger deficit than that of general government in 1994.

9. Quasi-fiscal deficit

The difficulty of the fiscal situation of the post-communist economies, particularly in the first transformation stage, is additionally enhanced by quasi-fiscal expenditures and the quasi-fiscal deficit. Generally, two types of quasi-fiscal expenditures can be identified:

1. State expenditures (usually to be made in the future) not included in current budgetary reporting. The hidden import subsidies in place in Russia until the end of 1993 can serve as typical example: the central import by the government of certain products was financed with foreign credits, and these products were then sold to domestic firms or citizens at prices lower than the import price (until August 1, 1992, this price differential was based on a special exchange rate of the ruble). The proceeds from these sales were included in current budget revenues (directly or through off-budget funds) and credit repayment was treated as a deferred state budget obligation. This is not, however, the only example of the creation of future budgetary obligations. Another widely used (in almost all post-communist countries) form of quasi-fiscal deficit can be found in state guarantees to bank credits which are unlikely to be repaid.

2. Central bank quasi-subsidies. These may assume different forms, for example negative real interest rates, credits given to particular enterprises at the request of the parliament or the government (which quite often have a low probability of being repaid), preferential exchange rates for a specified group of clients, state investment credits,

public external debt servicing on behalf of the government, and multilateral clearing of inter-enterprise arrears.

The latter type of quasi-subsidies is used more frequently and is usually of greater dimensions than deferred obligation of the state budget. This reflects the political dependence of central banks on parliaments and governments as well as the frequent lack of understanding among monetary authorities of the role they play in the creation of the foundations for a market economy. The management of the central bank is often willing to continue the practices of the command system, and politicians in post-communist countries expect an abundant supply of credit in order to satisfy "justified needs."

Table 17 presents an effort to estimate central bank quasi-subsidies for a selected group of 12 post-communist countries. As the table shows, this type of financing was of particular importance in the case of Romania and the post-Soviet countries listed in the table, where it sometimes occurred on an enormous scale and fundamentally alters the statistics on the real fiscal deficit. The gradual withdrawal or even disappearance of this type of financing which accompanies the advancement of market economic reforms and economic stabilization constitutes grounds for optimism.

A full estimate of quasi-fiscal expenses and quasi-fiscal deficits does not seem to be entirely possible due to some problems in precisely defining and differentiating these phenomena. The question of whether a state guarantee can be automatically classified as a component of the quasi-fiscal deficit remains open. Similar difficulties may appear in evaluating some open market operations, when for example central bank interventions are connected with an intention to increase commercial banks' demand for government bonds. However, in this case, too, as the institutional reforms linked with functioning of the money market, public debt market, budget management, and introduction of international classification standards and reporting requirements in the field of monetary and fiscal policy become more advanced, the picture also becomes more clear.

10. Summary and conclusions

As the analysis presented here shows, fiscal policy has turned out to be one of the most difficult components of transformation policy, reflecting the problems that arise in other areas of systemic changes. When countries have not been able to realize a consistent policy of economic liberalization, eliminate open and hidden subsidies, introduce hard budget constraints for state enterprises, inhibit interventionist inclinations, carry out tax reforms and improve the efficiency of tax administration and the entire fiscal apparatus, launch reforms of social services, etc., they have fallen into fiscal crisis that usually leads to high inflation, and in some extreme cases to hyperinflation. The same correlation exists in politics: countries that are politically unstable and have weak, inefficient operating or simply underdeveloped state structures (as in the case of countries that have recently become independent) or are engaged in armed conflicts experience the greatest financial difficulties.

The fiscal situation has changed rapidly as the transformation process unfolds. A typical scenario of events starts with a fiscal crisis (at the beginning of transformation process) connected with decomposition of the previously existing political and economic system. A radical stabilization and liberalization policy associated, in particular, with the removal of different types of subsidies should provide the solution to the aforementioned crisis. This stage of fiscal policy, though difficult from a political point of view[16], is quite simple from a conceptual and technical point of view and may bring relatively fast results. It is not, however, the end of the complicated process of essential fiscal adjustments. Initial stabilization success is not permanent since it is usually followed by a secondary fiscal crisis, rooted in the transformational decline in output, tax system inefficiency, the excessive social obligations of the state, and sometimes in a lack of consistency in conducting a tough policy. It is much more difficult to respond to the secondary crisis than to the primary one. What is badly needed is a comprehensive reform of the tax system and social policy. With regard to the technical and conceptual aspects, these ventures are more difficult than simple removal of subsidies and are usually carried out in a more difficult political situation than the first package of reforms. Post-transformation growth helps to alleviate the secondary crisis.

This sequence of events is not universal for post-communist economies. A few of them have managed to avoid the primary fiscal crisis, at least in its most extreme form, and a few have managed to avoid the secondary crisis. This was the case in the countries that undertook adjustment activities early or found themselves in an exceptionally favorable initial situation. But there is a much larger group of countries in which the stage of macroeconomic stabilization and liberalization took a number of years to complete or was not completed at all, and for which no final result can yet be foreseen.

In spite of the views expressed by some economists and politicians several years ago, a more gradual pace of reform did not lower the social costs of transformation or prevent the secondary fiscal crisis; on the contrary, the populations of the countries conducting slow reforms were forced to pay enormous an inflation tax for the benefit of ineffective sectors of the economy and to experience a much deeper and longer-lasting drop in GDP, stronger differentiation of incomes and wealth, and a number of pathologies including "criminalization" of economic life. The typical symptoms of the secondary fiscal crisis have overlapped with the primary fiscal crisis very quickly. The scale of necessary adjustment activities is much greater and more painful, and prospects for economic recovery are less bright than in the countries that have decided on a package of radical reforms from the very beginning.

The transformation process has not been completed yet. This is true of fiscal policy as well. Even the countries whose budgets are not in deficit and whose public debt and inflation are low (i.e., the Czech Republic, Estonia, Slovenia or Croatia) have to face the problems of incomplete institutional reforms in the field of social policy and restructuring of the government sector and ineffective sectors of industry. In other countries _ even those

[16] Leszek Balcerowicz emphasises the fact that thanks to the unique political atmosphere after a communist regime's collapse, traditional political barriers are substantially softened for a certain period of time, thus giving a group of reformers the possibility to conduct a set of difficult and unpopular reforms. Balcerowicz calls this unique political occasion "the period of extraordinary politics," which after a certain period (1-2 years) is replaced by "normal politics" (with the bargaining between different interest groups which is characteristic for normal politics).

recording a quick pace of economic growth, such as Poland and Albania _ the list of challenges is longer.

Bibliography:

Adamec, Stefan (1995): *Fiscal Policy in the Slovak Republic*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 43.

Aghion, Philippe, and Olivier Jean Blanchard (1993): *On the speed of transition in central Europe*, European Bank for Reconstruction and Development (EBRD), Working paper No. 6, July.

Aslund, Anders (1994): *Lessons of the First Four Years of Systemic Change in Eastern Europe*, Journal of Comparative Economics, Vol. 19, No. 1.

Balcerowicz, Leszek (1994): *Understanding Postcommunist Transitions*, Journal of Democracy, Vol. 5, No. 4, October.

Balcerowicz, Leszek, and Alan Gelb (1995): *Macropolicies in Transition to a Market Economy: A Three-Year Perspective*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 33.

Barbone, Luca, and Domenico J. Marchetti (1995): *Transition and the Fiscal Crisis in Central Europe*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 40.

Bratkowski, Andrzej S. (1993): *Sytuacja budzetu w Polsce w okresie transformacji (Situation of Polish budget during transition)*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 10, December.

Bratkowski, Andrzej S. et al. (1995): *Fiscal Policy in Poland under Transition*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 49.

Crombrugghe, Alain de (1993): *The Polish Government Budget. Stabilization and Sustainability*, A report prepared for the Institute of East-West Studies, Namur, March.

Dąbrowski, Marek (1990): Reforma, rynek, samorząd, PWE, Warsaw.

Dąbrowski, Marek (1992): *The Polish Stabilization 1990-1991*, Journal of International and Comparative Economics (JOICE), vol. 1, issue 4.

Dąbrowski, Marek (1995a): *Different Strategies of Transition to a Market Economy: How do They Work in Practice?*, Instytut Nauk Ekonomicznych PAN, Working Papers, No. 1.

Dąbrowski, Marek (1995b): *The Reasons of the Collapse of the Ruble Zone*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 58, November.

Dąbrowski, Marek, Rafał Antczak (1995): *Źródła procesów inflacyjnych w Rosji, Ukrainie i Białorusi*, mimeo, Instytut Nauk Ekonomicznych PAN, October.

de Melo, Martha, Cevdet Denizer, and Alan Gelb (1995): *From Plan to Market: The Patterns of Transition*, The World Bank, Policy Research Department, November, paper for the XIth World Congress of the International Economic Association, Tunis, 18-22 December.

EBRD (1994): Transition report: Economic transition in eastern Europe and the former Soviet Union, European Bank for Reconstruction and Development, October.

Gomułka, Stanislaw (1993): *Poland: glass half full*, in: R. Portes (ed.): Economic Transformation in Central Europe: A Progress Report, CEPR and European Communities.

Klacek, Jan, and Miroslav Hrncir (1994): *Macroeconomic Policies: Stabilization and Transition in Former Czechoslovakia and in the Czech Republic*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 15.

Kołodko, Grzegorz W. (1991): *Transition from Socialism & Stabilization Policies: The Polish Experience*, IMF Seminar Paper, Washington D.C., 11 June.

Kołodko, Grzegorz W. (1992): *From Output Collapse to Sustanaible Growth in Transition Economies. The Fiscal Implications*, IMF, Fiscal Affairs Department, December.

Kornai, Janos (1980): Economics of Shortage, North Holland Publishing Company, Amsterdam-New York-Oxford.

Kowalik, Tadeusz (1993): *Privatization in Poland - Social Process or Another Shock*, paper presented at the International Workshop on: Privatization Experiences in Eastern Europe 21-22.05.1993.

Laski, Kazimierz (1990): *The Stabilization Plan for Poland*, Wirtschaftpolitische Blatter, No.5

McKinnon, Ronald (1992): *Taxation, Money, and Credit in a Liberalizing Socialist Economy*, in: Clague, C., and G.C. Rausser (eds.): The Emergence of Market Economies in Eastern Europe, Oxford, Basil Blackwell.

MultiQuery Database (1995), prepared by Nancy Vandycke, under the Supervision of Luca Barbone, the World Bank, EC2, March 15.

Nuti, Domenico Mario, and Richard Portes (1993): *Central Europe: the way forward* , in: R. Portes (ed.): Economic Transformation in Central Europe: A Progress Report, CEPR and European Communities.

Pleskovic, Boris (1995): *Fiscal Policy in Slovenia*, paper presented at a seminar on the fiscal crisis in Central and Eastern Europe under transition, organized by CASE, Warsaw, 20-21 May.

Roland, Gérard (1994): *On the Speed and Sequencing of Privatization and Restructuring*, Economic Journal, 104, pp. 1158-68, September.

Rostowski, Jacek (1995): *Jugosławiańska hiperinflacja i stabilizacja 1992-94*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 32.

Sachs, Jeffrey D. (1995a): *Reforms in Eastern Europe and the Former Soviet Union in Light of the East Asian Experiences*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 39.

Sachs, Jeffrey D. (1995b): *Postcommunist Parties and the Politics of Entitlements*, Transition, Vol.6, No.3, March.

Stepanek, Pavel et al. (1995): *Fiscal Policy in the Czech Republic under Transition*, CASE - Center for Social and Economic Research, Warsaw, Studies and Analyses, No. 51.

WEO (1994): World Economic Outlook, International Monetary Fund, October.

Tables:

Table 1: Money velocity in the selected post-communist countries (GDP/ broad money)

Country	1989	1990	1991	1992	1993	1994
Romania	2.0	1.7	2.1	3.3	4.8	
Czecho-Slovakia	1.4	1.5	1.4	1.2		
Czech Republic			1.5	1.3	1.3	1.3
Slovakia			1.4	1.4	1.3	1.6
Hungary	2.3	2.3	2.1	1.9	1.9	2.0
Poland	1.2	2.9	3.1	2.8	2.8	2.8
Slovenia			3.1	3.5	3.2	3.7
USSR and Russia	1.6	1.4	1.7	4.4	7.1	8.5
Albania				1.7	2.0	2.0

Source: For the Czech Republic , Slovakia, Hungary, Poland, Slovenia and Albania - MultiQuery Database [1995]; for the USSR and Russia - IEA [1995], tabl. A4; for Romania - World Tables [1995]; for Czecho-Slovakia - own calculations based on Klacek and Hrncir [1994], tables 1, 2 and 12.

Note: some differences in global indices for Czecho-Slovakia as well as for the Czech Republic and Slovakia for 1991-1992 result from differences in the databases used.

Table 2: Revenues, expenditure and deficit of the extended governmental sector in the year proceding the beginning of transformation process (in % of GDP)

Country	Year	Revenues	Expenditures	Deficit
Poland	1989	34.65	39.86	5.21
Hungary	1989	61.16	62.30	1.14
Czecho-Slovakia	1990	61.86	62.60	0.74
USSR	1991	38.00	53.00	15.00
Bulgaria	1989	77.92	79.46	1.54
Romania	1989	50.79	44.07	-6.72

Source: MFW and Central Bank data; own calculations.

Table 3: Inflation in selected post-communist economies (CPI - increase in the average yearly indicator in %)

Country	1989	1990	1991	1992	1993	1994	1995[a]
Poland	251.0	586.0	70.3	43.0	35.3	32.2	29.0
Czech Republic	2.3	10.8	56.7	11.1	20.8	10.2	9.0
Slovakia	0.0	10.8	61.2	10.1	23.0	14.0	10.0
Albania	0.0	0.0	35.5	225.9	85.0	28.0	9.0
Estonia	6.1	23.1	210.6	1069.0	89.0	48.0	26.0
Latvia	4.7	10.5	124.4	951.2	109.0	36.0	25.0
Hungary	17.0	29.0	34.2	22.9	22.5	19.0	29.0
Slovenia	1306.0	549.7	117.7	201.2	32.0	19.8	13.0
Lithuania	2.1	8.4	224.7	1020.3	390.2	72.0	36.0
Kyrgyzstan	0.0	3.0	85.0	854.6	1208.7	280.0	44.0
Moldova	0.0	4.2	98.0	1276.0	789.0	327.0	20.0
Romania	1.1	5.1	174.5	210.9	256.0	131.0	34.0
Russia	2.2	5.6	92.7	1353.0	896.0	220.0	181.0
Bulgaria	6.0	22.0	333.5	82.0	72.8	89.0	62.0
Belarus	1.7	4.5	83.5	969.0	1188.0	2200.0	737.0
Kazakstan	0.0	4.2	91.0	1610.0	1760.0	1980.0	165.0
Turkmenistan	2.1	4.6	102.5	492.9	3102.0	2400.0	226.0
Ukraine	2.0	4.0	91.2	1210.0	4735.0	842.0	321.0
Uzbekistan	0.7	3.1	82.2	645.0	534.0	746.0	273.0
Armenia	0.0	10.3	100.0	825.0	3732.0	5458.0	185.0
Azerbaijan	0.0	7.8	105.6	616.0	833.0	1500.0	464.0
Mongolia	0.0	0.0	208.6	321.0	183.0	145.0	25.0
Macedonia	1246.0	120.5	229.7	1925.2	248.0	65.0	18.0
Croatia	2520.5	135.6	249.5	938.2	1516.0	98.0	2.0
Georgia	0.0	3.3	78.5	913.0	3126.0	18000.0	163.0
Tajikistan	0.0	4.0	111.6	1157.0	2195.0	452.0	389.0

[a)] IMF forecast

Source: de Melo, Denizer, Gelb [1995], table 3; IMF data

Table 4: Monthly inflation rates in countries of the former USSR (in%), July 1994 - August 1995

Country	7/94	8/94	9/94	10/94	11/94	12/94	1/95	2/95	3/95	4/95	5/95	6/95	7/95	8/95
Armenia	-1.8	3.7	6.3	11.3	14.7	60.8	3.9	0.7	1.2	7.1	7.8	0.6	-4.6	1.7
Azerbaijan	11.5	5.9	16.6	33.5	52.0	55.2	27.8	12.5	2.5	5.6	4.1	-0.6	-0.3	-0.3
Belarus	26.6	53.4	25.5	25.7	40.5	31.3	39.2	33.7	20.0	14.5	3.4	2.5	5.2	
Georgia	18.1	95.0	61.9	16.0	-12.0	4.0	3.0	3.0	-0.3	3.0	1.0	-0.4	4.1	
Kazakstan	25.4	13.3	9.6	20.1	14.2	10.0	8.9	6.7	5.1	3.2	2.7	2.3	2.9	
Kyrgyzstan	2.8	1.7	0.2	5.0	3.2	3.6	7.1	6.8	1.6	0.8	1.6	0.7	0.4	
Latvia	0.9	2.0	1.1	1.4	1.9	2.4	3.4	3.3	2.6	1.9	1.4	1.8	0.3	
Lithuania	2.1	2.2	2.3	2.8	3.5	3.8	5.7	3.9	1.4	1.4	2.2	1.0	2.7	0.4
Moldova	2.2	-0.1	2.5	4.2	3.5	2.9	2.9	2.3	0.7	0.6	0.4	0.2	0.2	
Russia	5.3	4.6	8.0	15.0	14.6	16.4	17.8	11.0	8.9	8.5	7.9	6.7	5.4	4.6
Tajikistan	4.0	5.9	3.4	6.6	1.6	4.7	13.3	10.9	17.9	20.9	27.9			
Turkmenistan	20.0	38.9	25.6	25.8	15.4	33.5	26.0	55.8	39.9	31.1	5.7			
Ukraine	2.1	2.6	7.3	22.6	72.3	28.4	21.2	18.1	11.4	5.8	4.6	5.2	5.2	4.6
Uzbekistan	18.2	17.5	10.4	22.3	19.0	10.8	16.9	17.8	7.8	20.1	4.9	1.9	2.0	0.1
Estonia	2.8	1.0	3.2	1.1	1.6	1.5	3.5	2.9	2.4	1.0	2.6	0.4	1.7	0.6

Source: data of the IMF and the Institute of Economic Analyses in Moscow

Table 5: Revenues, expenditures and budget balance of the extended governmental sector in transformation countries (in % of GDP)

Country	Indicator	1989	1990	1991	1992	1993	1994[b]
Albania	revenues	48.0[c]	47.0[c]	31.0[c]	25.5[c]	28.0[c]	27.7[b]
	expenditures	57.0[c]	62.0[c]	62.0[c]	48.0[c]	44.0[c]	41.0[b]
	balance	-9.0[c]	-15.0[c]	-31.0[c]	-22.5[c]	-16.0[c]	-13.3[b]
Armenia	revenues	52.2[c]	42.7[c]	29.1[c]	21.5[c]	17.6[c]	37.0[b]
	expenditures	49.8[c]	36.9[c]	36.4[c]	61.5[c]	66.4[c]	61.0[b]
	balance	+2.4[c]	+5.8[c]	-7.3[c]	-40.0[c]	-48.8[c]	-24.0[b]
Azerbaijan	revenues	22.3[c]	26.4[c]	25.5[c]	23.4[c]		36.0[b]
	expenditures	24.3[c]	31.9[c]	30.5[c]	27.5[c]		49.0[b]
	balance	-2.0[c]	-5.5[c]	-5.0[c]	-4.1[c]		-13.0[b]
Belarus	revenues			47,5[e]	43,3[e]	43,6[e]	36,6[b]
	expenditures			43,9[e]	46,8[e]	51,9[e]	38,1[b]
	balance			3,6[e]	-3,5[e]	-8,3[e]	-1,5[b]
Bulgaria	revenues	59.6[a]	51.6[a]	42.3[a]	38.3[a]	37.4[a]	38.0[b]
	expenditures	61.0[a]	60.4[a]	50.9[a]	45.3[a]	51.2[a]	44.1[b]
	balance	-1.4[a]	-8.8[a]	-8.6[a]	-5.0[a]	-10.9[a]	-6.1[b]
Croatia	revenues			14.9[d]	20.4[d]	20.1[d]	27.2[d]
	expenditures			19.5[d]	20.6[d]	20.7[d]	27.6[d]
	balance			-4.5[d]	-0.2[d]	-0.6[d]	-0.4[d]
Czecho-Slovakia	revenues	69.5[a]	61.1[a]	55.0[a]	56.4[a]		
	expenditures	72.3[a]	61.5[a]	57.1[a]	60.1[a]		
	balance	-2.8[a]	-0.4[a]	-2.1[a]	-3.7[a]		
Czech Republic	revenues	42.8[c]	42.4[c]	35.3[c]	49.5[a]	48.5[a]	51.2[b]
	expenditures	42.4[c]	41.2[c]	37.0[c]	47.5[a]	47.5[a]	50.7[b]
	balance	+0.4[c]	+1.2[c]	-1.7[c]	+2.0[a]	+1.0[a]	+0.5[b]
Slovakia	revenues				50.9[a]	48.1[a]	50.5[b]
	expenditures				64.0[a]	55.1[a]	53.0[b]
	balance				-13.1[a]	-7.0[a]	-2.5[b]
Estonia	revenues	43.0[c]	35.7[c]	38.5[c]	31.4[a]	32.5[a]	35.0[b]
	expenditures	42.5[c]	33.3[c]	32.5[c]	31.0[a]	33.9[a]	35.0[b]
	balance	+0.5[c]	+2.4[c]	+6.0[c]	+0.4[a]	-1.4[a]	0.0[b]
Georgia	revenues	31.5[c]	33.2[c]	30.0[c]	10.2[c]	2.7[c]	15.0[b]
	expenditures	30.6[c]	32.0[c]	35.9[c]			24.0[b]
	balance	+0.9[c]	1.2[c]	-5.9[c]			-9.0[b]
Kazakstan	revenues	40.7[c]	41.4[c]	35.1[c]	24.6[c]	22.3[c]	19.0[b]
	expenditures	39.2[c]	38.4[c]	44.1[c]	31.9[c]	23.5[c]	23.5[b]
	balance	+1.5[c]	+3.0[c]	-9.0[c]	-7.3[c]	-1.2[c]	-4.5[b]
Kyrgyzstan	revenues	38.5[c]	39.5[c]	35.2[c]	15.8[c]	14.2[c]	24.3[b]
	expenditures	36.4[c]	37.9[c]	27.3[c]	33.9[c]	23.0[c]	32.7[b]
	balance	+2.1[c]	+1.6[c]	+7.9[c]	-18.1[c]	-8.9[c]	-8.4[b]
Lithuania	revenues	49.8[c]	45.0[c]	44.0[c]	33.3[a]	25.1[a]	25.1[b]
	expenditures	53.8[c]	48.8[c]	36.7[c]	32.9[a]	30.4[a]	30.4[b]
	balance	-4.0[c]	-3.9[c]	+7.3[c]	-0.4[a]	-5.3[a]	-5.3[b]

Table 5 - continued.

Country	Indicator	1989	1990	1991	1992	1993	1994[b]
Latvia	revenues	31.0[c]	36.6[c]	26.5[c]			36.7[b]
	expenditures	29.8[c]	35.8[c]	21.8[c]			38.7[b]
	balance	+1.2[c]	+0.8[c]	+4.7[c]			-2.0[b]
Macedonia	revenues						42.8[b]
	expenditures						45.4[b]
	balance						-2.6[b]
Moldova	revenues	35.3[c]	35.2[c]	26.2[c]	20.3[c]	12.4[c]	17.1[b]
	expenditures	33.7[c]	32.4[c]	26.3[c]	42.4[c]	18.1[c]	25.9[b]
	balance	+1.6[c]	+2.8[c]	-0.1[c]	-22.1[c]	-5.7[c]	-8.8[b]
Mongolia	revenues	48.6[c]	50.6[c]	47.4[c]	29.9[c]	36.2[c]	36.2[b]
	expenditures	65.3[c]	64.1[c]	55.1[c]	42.7[c]	53.2[c]	48.0[b]
	balance	-16.7[c]	-13.5[c]	-9.7[c]	-12.8[c]	-16.9[c]	-11.8[b]
Poland	revenues	41.4[a]	42.8[a]	41.5[a]	43.9[a]	45.5[a]	47.9[b]
	expenditures	48.9[a]	39.8[a]	48.0[a]	50.7[a]	48.4[a]	50.4[b]
	balance	-7.5[a]	+3.0[a]	-6.5[a]	-6.8[a]	-2.9[a]	-2.5[b]
Russia	revenues				37.6[a]	35.9[a]	36.3[b]
	expenditures				44.4[af]	41.9[af]	45.1[b]
	balance				-6.8[a]	-6.0[a]	-8.8[b]
Romania	revenues	51.0[a]	39.8[a]	39.4[a]	37.6[a]	30.8[a]	32.6[b]
	expenditures	42.8[a]	38.7[a]	38.8[a]	42.2[a]	31.0[a]	35.6[b]
	balance	+8.2[a]	+1.1[a]	+0.6[a]	-4.6[a]	-0.2[a]	-3.0[b]
Slovenia	revenues		48.9[c]	43.7[d]	46.6[d]	49.8[d]	43.1[d]
	expenditures		49.3[c]	41.0[d]	46.4[d]	49.4[d]	44.1[d]
	balance		-0.4[c]	+2.7[d]	+0.2[d]	+0.4[d]	-1.0[d]
Tajikistan	revenues	40.3[c]	46.8[c]	40.7[c]	32.8[c]	27.2[c]	35.4[b]
	expenditures	38.6[c]	43.4[c]	31.9[c]	69.8[c]	52.2[c]	38.1[b]
	balance	+1.7[c]	+3.4[c]	+8.8[c]	-37.0[c]	-25.0[c]	-2.7[b]
Turkmenistan	revenues	32.4[c]	42.7[c]	44.7[c]	22.5[c]	13.4[c]	6.2[b]
	expenditures	31.2[c]	41.1[c]	41.2[c]	32.6[c]	17.0[c]	7.3[b]
	balance	+1.2[c]	+1.6[c]	+3.5[c]	-10.1[c]	-3.6[c]	-1.1[b]
Ukraine	revenues	26.4[c]	27.4[c]	38,3[e]	44,0[e]	42,4[e]	42,3[b]
	expenditures	25.7[c]	26.6[c]	51,9[e]	73,3[e]	52,1[e]	51.4[b]
	balance	+0.7[c]	+0.8[c]	-13,8[e]	-29,3[e]	-9,7[e]	-9.1[b]
Uzbekistan	revenues	35.2[c]	45.0[c]	45.5[c]	31.9[c]	41.0[c]	43.0[b]
	expenditures	35.8[c]	45.9[c]	50.0[c]	42.1[c]	43.4[c]	45.0[b]
	balance	-0.6[c]	-0.9[c]	-4.5[c]	-10.2[c]	-2.4[c]	-2.0[b]
Hungary	revenues	59.6[a]	58.0[a]	56.1[a]	57.8[a]	54.1[a]	52.3[b]
	expenditures	61.0[a]	57.5[a]	58.3[a]	63.4[a]	60.5[a]	58.8[b]
	balance	-1.4[a]	+0.5[a]	-2.2[a]	-5.6[a]	-6.4[a]	-6.5[b]

Source: WEO [1994], table 14, and 15 (a); de Melo, Denizer, and Gelb [1995], table 8 (b); PRD WB data base (c); MultiQuery Database [1995] (d); Dąbrowski, and Antczak [1995] (e).

[f] - without hidden import subsidies

Table 6: Adjustments of revenues and expenditures in selected post-communist countries during stabilization-liberalization stage (in % of GDP)

Country	Period of time	Expenditures	Revenues
Czecho-Slovakia	1989-1991	-15.2	-14.5
Poland	1989-1990	-9.1	+1.4
Hungary	1989-1990	-3.5	-1.6
Bulgaria	1989-1992	-16.2	-21.5
Albania	1990-1992	-14.0	-26.5

Source: See Table 5

Table 7: Increase (+) or decrease (-) in GDP, 1989-1995 (in % in relation to the proceding year and cumulatively for the whole period)

Country	1989	1990	1991	1992	1993	1994	1995[a]	1989-1995
Poland	+0.2	-11.5	-7.6	+2.6	+3.8	+6.0	+5.5	-2.4
Czech Republic	+0.4	-3.0	-10.0	-5.0	-0.9	+2.6	+4.0	-12.0
Slovakia	-1.0	-2.5	-11.2	-7.0	-4.1	+4.8	+5.0	-15.9
Albania	+9.8	-10.0	-27.7	-9.7	+9.6	+9.4	+7.8	-16.6
Estonia	+3.3	-8.1	-11.3	-19.3	-6.6	+6.0	+6.0	-28.7
Latvia	+5.7	-3.4	-8.3	-33.8	-14.8	+1.9	+0.4	-46.0
Hungary	+0.7	-3.5	-11.9	-4.5	-0.8	+2.0	+1.2	-16.3
Slovenia	-3.6	-2.6	-9.3	-6.5	+1.3	+5.0	+4.5	-11.5
Lithuania	+1.1	-6.9	-13.1	-37.7	-24.2	+1.7	+5.3	-58.1
Kyrgyzstan	+3.8	+3.2	-5.0	-19.1	-16.0	-26.5	+2.0	-48.2
Moldova	+8.8	-1.5	-18.0	-21.3	-8.7	-22.1	+1.5	-50.1
Romania	-5.8	-5.6	-15.1	-13.5	+1.3	+3.5	+4.5	-28.4
Russia	+1.5	-3.6	-12.9	-18.5	-15.0	-12.0	-4.3	-50.3
Bulgaria	-1.9	-9.1	-11.7	-5.6	-2.4	+1.4	+2.3	-24.7
Bielarus	+7.9	-3.2	-1.9	-9.6	-10.6	-20.2	-13.8	-43.0
Kazakstan	-0.3	-0.8	-13.0	-14.0	-12.0	-25.0	-11.0	-56.5
Turkmenistan	-7.0	+1.8	-4.7	-5.3	-10.0	-20.0	-1.0	-39.1
Ukraine	+4.1	-3.6	-11.9	-17.0	-16.8	-23.7	-10.3	-58.2
Uzbekistan	+3.7	+1.6	-0.9	-9.5	-2.4	-3.4	-4.0	-14.5
Armenia	+8.0	-7.2	-11.8	-52.0	-14.1	+5.3	+5.1	-59.7
Azerbaijan	-6.3	-11.7	-0.7	-26.8	-23.1	-22.0	-8.7	-67.1
Croatia	-1.5	-8.5	-28.7	-24.8	-3.7	+0.8	+5.0	-50.7
Georgia	+2.6	-11.1	-20.6	-42.7	-39.2	-35.0	-5.0	-83.4
Tajikistan	-2.9	-1.6	-8.7	-30.0	-11.1	-21.4	-19.5	-65.7

Source: IMF, World Bank and PlanEcon databases.

[a] Forecast

Table 8: Expenditures of the extended governmental sector for subsidies (in % of GDP) in the countries conducting a radical variant of stabilization.

Country	1989	1990	1991	1992	1993	Changes
Czecho-Slovakia	25.0	16.2	7.7	5.0	-	-20.0[a]
Poland	12.9	7.3	5.1	3.3	2.2	-10.7[b]
Hungary	12.1	9.6	8.0	5.8	4.8	-7.3[b]
Bulgaria	15.5	14.9	4.2	1.8	4.8	-13.7[a]
Albania	8.3	15.7	20.3	8.2	2.2	-18.1[c]

Explanation: a - for 1989-1992; b - for 1989-1993; c - for 1991-1993

Source: WEO [1994]; see also table 15

Table 9: Investment expenditures of the extended governmental sector (in% of GDP) in the countries conducting a radical variant of stabilization.

Country	1989	1990	1991	1992	1993
Czecho-Slovakia	8.5	6.9	8.4	11.3	-
Poland	3.3	2.8	2.2	1.7	1.5
Hungary	6.6	4.7	6.2	8.1	6.2
Bulgaria	5.5	3.1	2.0	2.8	1.9
Albania	29.3	18.8	6.1	4.3	7.7

Source: See table 8

Table 10: Changes in ratio of budgetary revenues to GDP (in %), 1989-1994

Country	Change
Slovenia	+4.6
Poland	+6.5
Hungary	-6.8
Czech Republic	-10.9
Slovakia	-11.6
Bulgaria	-21.9
Estonia	-8.0
Lithuania	-25.2
Latvia	-15.1
Romania	-18.5
Albania	-20.3
Mongolia	-12.4
Russia	-4.5
Kyrgyzstan	-14.2
Moldova	-18.2
Kazakstan	-21.7
Uzbekistan	+7.8
Belarus	-1.6
Ukraine	+15.9
Turkmenistan	-26.2
Croatia	+12.3
Macedonia	+6.6
Armenia	-15.2
Georgia	-16.5
Azerbaijan	+10.2
Tajikistan	-4.9

Source: de Melo, Denizer, Gelb [1995], table 8

Table 11: Proceeds from tax on enterprise profits (in % of GDP), 1989-1994

Country	1989	1990	1991	1992	1993	1994
Bulgaria	23.2	17.9	17.4	8.3	5.6	
Czecho-Slovakia	11.0	12.2	13.7	11.7		
Czech Republic				11.1	7.5	
Slovakia				10.3	6.5	
Estonia				5.3	4.0	
Hungary	8.1	7.6	5.7	2.6	2.2	
Lithuania				6.3	4.7	
Poland	9.7	14.0	6.1	4.6	5.3	
Romania		7.3	5.1	5.3	3.5	
Armenia				8.2	4.6	
Mongolia	21.3	19.5	13.1	11.7	13.0	
Slovenia			0.6	0.6	0.0	0.8
Croatia			0.1	0.5	0.5	0.7
Albania				0.5	0.7	2.2

Source: WEO [1994], table 14; MultiQuery Database [1995]; IMF data

Table 12: Turnover tax, VAT and excise proceeds (in % of GDP), 1989-1994

Country	1989	1990	1991	1992	1993	1994
Bulgaria	11.2	9.0	7.4	6.1	7.6	
Czecho-Slovakia	17.7	18.0	12.6	12.8		
Czech Republic				11.5	12.0	
Slovakia				13.4	13.8	
Estonia				8.0	9.2	
Hungary	16.1	13.8	13.9	13.6	14.3	
Lithuania				11.3	7.2	
Poland	8.8	6.3	7.4	9.0	10.6	
Romania	18.8	11.8	8.3	7.0	7.4	
Mongolia		7.2	8.4	7.4	5.0	
Slovenia			10.2	10.7	11.7	11.7
Croatia			7.8	11.6	13.5	17.5
Albania				7.5	7.9	5.8

Source: WEO [1994], table 14; MultiQuery Database [1995]

Table 13: Share of welfare spending in GDP (in %), 1989-1993

Country	1989	1990	1991	1992	1993
Albania	7.1	8.6	12.0	10.8	12.7
Bulgaria	10.4	12.0	14.2	14.1	15.8
Czecho-Slovakia	13.6	13.6	16.1	16.4	
Czech Republic				14.0	13.5
Estonia				7.6	8.8
Lithuania				19.2	14.3
Slovakia				18.8	16.7
Hungary	14.4	14.9	18.1	18.9	18.2
Poland	11.2	10.6	17.3	19.9	20.4
Romania	9.5	10.6	10.1	9.1	8.9
Russia				6.1	6.7

Source: WEO [1994]; see also table 15.

Table 14: Data on fiscal policy in Russia, 1991-1994 (in % of GDP)

Item	**1991 r.**	**1992 r.**	**1993 r.**	**1994 r.**
Federation Budget				
Revenues	23,6	16,6	13,7	11,0
Expenditures	22,8	27,4	20,3	21,9
Balance	-0,8	-10,7	-6,7	-10,9
Regional Budgets				
Revenues	...	17,6	15,7	17,5
Expenditures	...	17,0	16,0	17,0
Balance	...	0,6	-0,3	0,5
Off-budget funds balance				
	-2,2	2,5	0,6	0,5
Off-budget import subsidies				
	-4,2	-11,9	-2,1	...
Extended governmental sector balance				
Subsidies	...	8,9	8,6	7,5
Balance	-5,7	-18,8	-7,6	-9,9

Source: IMF data

Table 15: Total subsidies for producers in Belarus, Russia and Ukraine, in % of GDP (1992-1994)

Country	1992 r.	1993 r.	1994 r.
Belarus	11,0	12,4	7,1
Russia	8,9	8,6	7,5
Ukraine	9,1	5,5	9,1[a]

[a] - January - July

Source: IMF data

Table 16: Total subsidies in Romania, 1989-1993

Year	% GDP
1989	5.7
1990	7.9
1991	8.1
1992	12.9
1993	5.5

Source: WEO [1994], table 15

Table 17: Fiscal deficit, central bank quasi-fiscal expenditures and total deficit for selected post-communist economies (in % of GDP), 1992-1994

Country	Fiscal deficit			Quasi-fiscal expenditures			Total deficit		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
Poland	6.8	2.9	2.9	0.0	0.0	0.0	6.8	2.9	2.9
Hungary	5.7	7.0	6.5	0.0	0.0	0.0	5.7	7.0	6.5
Czech Republic	0.5	-0.6	-0.5	0.3	0.8	0.1	0.8	0.2	-0.4
Slovakia	13.1	7.6	2.5	0.3	1.7	0.0	13.4	9.3	2.5
Bulgaria	5.0	11.1	6.1	1.3	0.8	0.7	6.3	11.9	6.8
Estonia	-0.5	1.4	0.0		0.2	0.3		1.6	0.3
Romania	5.5	1.0	3.0	5.9	3.9	0.0	11.4	4.9	3.0
Russia	3.4	8.1	8.8	11.3	1.7	0.0	14.7	9.8	8.8
Kazakstan	7.3	1.2	4.5	32.7		2.6	40.0		7.1
Bielarus	6.4	9.4	1.5	26.5	9.3	3.4	32.9	18.7	4.9
Turkmenistan	10.1	3.6	1.1	12.5	21.2	6.4	22.6	24.8	7.5
Uzbekistan	10.2	8.4	2.0	13.1	18.5	19.0	23.3	26.9	21.0

Source: de Melo, Denizer, Gelb [1995], table 9