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The deficit of current account balances and budgetary deficit in countries in transition

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**THE DEFICIT OF CURRENT ACCOUNT BALANCES
AND BUDGETARY DEFICIT IN COUNTRIES IN
TRANSITION**

ABSTRACT: During the last decade of this century the countries in transition (CIT) have undergone numerous changes in the field of the entire political, economic and social life. In restructuring process of their own economies, countries in transition deal with many common problems. In the analyzed period from 1993 to 1996 there was improvement in the economic situation in the countries in transition which is reflected on the higher rates of increase in GDP, increase in GDP per capita, as well as on the decrease in inflation and unemployment, which gives evidence of the efficiency of the transition process.

One of the problems that transition brought to those countries is deficit in current account, as well as budget deficit. Deficits represent limit to a healthy and fast economic development and progress. Balance in balance of payments, as well as balanced budget are components of macroeconomic system.

In the observed period there was deterioration in the balance of the current transactions in Croatia, Slovakia, Czech Republic, Slovenia and Romania, which is noticed in the emerging and an increase in deficit of the balance of current transactions, which is largely conditioned by high trade deficits of the examined countries. Because of this connection in work there have been done significant relations which explain the dependence of the trend of balance of the current transactions on the balance of foreign trade and on the trend of income transfers.

From the analysis carried out in the examined four year period one can conclude that in most observed countries there was also an increase in the budgetary deficit, because most of the countries had deficit in the budget (estimate) in comparison with the beginning period.

As the countries in transition have been in the upward phase of recovery, it is realistically to be expected that the budgetary deficits have to decrease in the following period.

The authors gave an review of activities on deficits in countries in transition, and tried to create interdependence of activities of those two deficits.

1. The Economic Development of the Countries in Transition

During the last decade of this century the countries in transition (CIT) have undergone numerous changes in the field of the entire political, economic and social life. With the transition to the system of the market economy these countries have been trying "to open themselves" to the world and join in the process of globalization. Eight years ago these countries began the process of transition and changing to the market economy. Throughout those years there have been a lot of changes in the whole economy of these countries.

As the balance of current transaction as well as the trends of the budgetary surplus and deficit cannot be considered apart from the state of economy but they depend on the economy of the country and they result from its development, the analysis of the development of the countries in transition will be approached first.

In the economic analyses the deficit in the budget is often linked with deficit in the balance of current transactions. First of all the analysis of the tendencies in the trends of the current account will be done, and after that the problem of the budgetary deficit will be analyzed.

From the indices in the Table 1 the following conclusion can be made. The analysis of the development of the countries in transition shows positive trends in comparison with the starting period. By the beginning of 90-ies the state in the transition countries was really hard. The economic picture in the transition countries was followed by the fall in productivity, unemployment growth and the high inflation as well as the constant fall in GDP. Since 1992 the fall has been alleviated, the inflation has been reduced prominently, and there has been a prominent increase in GDP.

On the basis of the data comparison from the Table 1 a progress in the development of the examined group of the countries can be noticed. Among all the examined countries, Bulgaria, of course, has been in the worst position, which is proved by the data in the table.

GDP per capita in 1996 was higher by US\$ 1273 than GDP per capita in 1993. The highest GDP per capita in 1996 was achieved by Slovenia which raised its GDP per capita by US\$ 3000 in comparison with 1993. Bulgaria and Romania which did not reach the level of US\$ 2000 per capita in 1996 had the lowest GDP per capita. The rest of the countries exceeded the level of US\$ 3000 per capita in 1996, which means that they have entered the group of medium developed countries.

In 1996 all countries except Bulgaria had positive rates of growth of GDP, and the average rate of growth was 2.3%. As early as 1996 Bulgaria had a negative rate of growth which was even -10.9%. The high rates of growth in 1996 show that there was faster economic growth in these countries, which is necessary to approach the development of west Europe.

A big problem of the examined countries, and at the same time the greatest problem in the highly developed countries of Europe (European Union) is the rate of unemployment which since 1993 from 13.1 % has been reduced to 11.2% in 1996. Croatia had the highest unemployment rate which was increased by 1.3% in comparison with 1993.

In 1993 the countries in transition struggled against very high rates of inflation ; the average rate of inflation (consumer prices) was 247.6%, whereas in 1996 the average rate was 29.2%, which presents a remarkable decrease (fall) in the rate of inflation. The greatest decrease can be noticed in Croatia which in 1993 had hyperinflation of 1 517.5%, and in 1996 the growth of prices was reduced to 3.5%.

The foreign debt per capita was increased in 1996 in comparison with 1993 by US\$ 422.8 because of foreign indebtedness. The rates of increase in imports and exports in the year 1996 were unfavourable for all the countries except Romania which had three times as high a rate of exports increase as the rate of imports increase. Croatia and Hungary have negative rates of increase, i.e. they registered the rate of decrease in exports, whereas the rates of the increase in imports are positive and they amount to 4.6% in Croatia, and 13.6% in Hungary. These rates are reflected through the trade balance on the balance of the current transactions which will be analyzed further on.

Table 1. Economic indicators of development of countries in transition in 1993 and in 1996

Countries	GDP per capita US\$		GDP growth rate in %		Inflation in % (consumer prices)		Unemployment in %		Foreign debt per capita in US\$		Export growth rate in %		Import growth rate in %	
	1993	1996	1993	1996	1993	1996	1993	1996	1993	1996	1993	1996	1993	1996
Bulgaria	1276	1129	-1.5	-10.9	72.8	123.0	16.4	12.5	1642	1158	-5.1	-13.1	6.5	-9.0
Croatia	2440	4243	-0.9	4.2	1517.3	3.5	14.6	15.9	552	1010	-15.1	-2.6	4.6	3.7
Czech Republic	3328	5321	0.6	4.1	20.8	8.8	3.5	3.5	822	1980	..	1.1	..	10.0
Hungary	3745	4347	-0.6	1.0	22.5	23.6	13.3	10.7	2390	2717	-16.6	1.7	13.6	5.0
Poland	2232	3479	3.8	6.1	35.3	19.9	16.4	13.2	1227	1046	7.3	6.7	18.4	27.8
Romania	1159	1571	1.5	4.1	256.1	38.8	10.4	6.3	148	302	12.1	2.2	4.2	11.3
Slovakia	2256	3529	-3.7	6.9	23.2	5.8	14.4	12.8	679	1452	..	2.9	..	24.7
Slovenia	6366	9362	2.8	3.1	32.9	9.9	15.4	14.4	941	2018	-9.0	-0.1	5.9	-1.0
Total CIT (average)	2850	4123	0.44	2.3	247.6	29.2	13.1	11.2	1037.6	1460.4	-	-	-	-

Source : *Countries in Transition 1997, WIIW Handbook of Statistics*

2. Balances of the Current Transactions of the Countries in Transition

The aim of every national economic policy is to achieve economic growth under conditions of full employment and stability of prices along with the equipose in the balance of payments. Consequently, it is necessary to achieve at the same time the home and foreign equipose. (Babić, M. 1993.) The equipose in balance of payments implies the settlement of the balance of the current transactions (current account) is made by the settlement of balance of the capital transactions of the opposite sign. The difference between these two settlements represents the change and the amount of the international reserves.

A great influence on the foreign equipose (respectively the balance of payments) is made by the balance of the current transactions which cover exports and imports of goods, services, as well as income and transfer receivings and contributions. By drawing lines under particular items in the balance of current transactions we can get the balance of commodity exchange, the balance of service exchange and the balance of foreign trade. The deficit in the balance of the current transactions is a result of the difference between the home consumption and the production, respectively between the home savings and home investments so it is considered that deficit in the developing countries is justified because in doing so the total investments will contribute to the growth and the faster development of these countries.

In this part of work the balances of current transactions of the European countries in transition with an emphasis on the structure and the structural effects of the trends of deficits and surpluses will be analyzed.

The trends of settlements of balance of the current transactions are shown in the Table 2.

Table 2. The balance of current transaction of selected transition countries for the period from 1993 to 1996

<i>Countries</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Croatia	104	103	-1 712	-1 452
Slovenia	188	547	-37	47
Hungary	-4 262	-4 054	-2 535	-1 689
Poland	-5 788	954	854	-3 264
Czech Republic	512	-778	-1 374	-4 299
Slovakia	-580	719	390	-2 090
Romania	-1 231	-455	-1 780	-2 579

Source : Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997.

At the beginning of the examined period Czech Republic had the greatest surplus in the balance of current transactions (US \$ 512 mill.), and beside it Slovenia had US\$ 188 mill

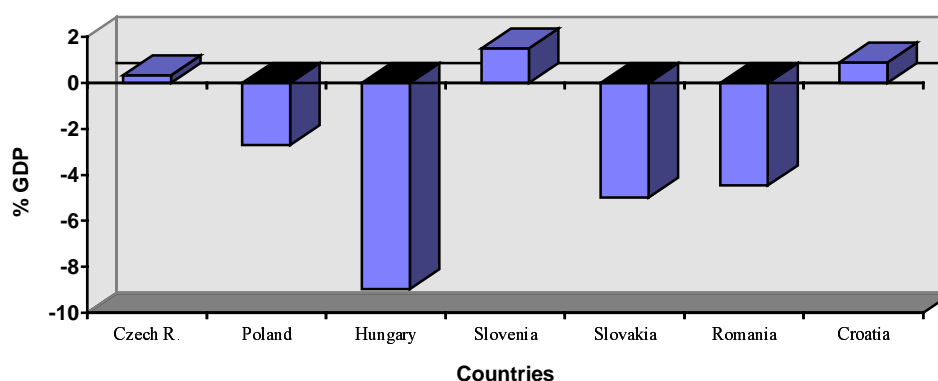
and Croatia US\$ 104 mill surplus. The rest of the examined countries had deficit which was the highest in Poland (US\$ 5.8 bn) and in Hungary (US\$ 4.3 bn).

Considering the tendencies in the four-year period one can notice the deterioration in the balance of current transactions in Croatia, Slovenia, Czech Republic, Slovakia and Romania. Only Hungary and Poland improved their balances of current transactions, which means that they managed to cut down their deficits i.e. Hungary from US\$ 4.3 bn to US\$ 1.7 bn, and Poland from US\$ 5.8 bn to US\$ 3.3 bn. In 1994 and 1995 Poland registered surplus in the balance of current transactions but it failed to maintain it, whereas in Hungary the deficit of the current account was gradually diminishing in the examined four year period. The surplus of the current account in Slovenia in 1994 increased in comparison with the year 1993 by US\$ 360 million, whereas in 1995 there was deficit amounting to US\$ 46.5 million, while in 1996 a surplus amounting to US\$ 46.4 million was recorded again.

The surplus amounting to US\$ 512 million in 1993 in Czech Republic grew into a deficit in 1994 which was increasing in the subsequent years more and more, and in 1996 it reached a level of US \$ 4.3 billion. The deficit in Slovakia at the beginning of the examined period grew into a surplus in the following two years, and in 1996 there was a deficit amounting to US \$ 2.1 billion there.

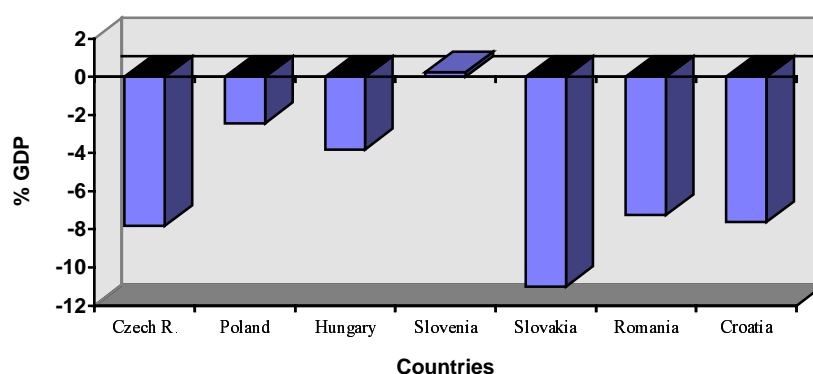
In Romania the deficit of the current account in 1994 was lower in comparison with that of 1993 by US\$ 776 million, but in 1995 and in 1996 the deficit was higher than it was at the beginning of the period. The surplus in the current account in Croatia in 1993 and in 1994 grew from US\$ 103 million into a deficit which was US\$ 1.7 billion in 1995, and US\$ 1.5 billion in 1996. Except the very trends of surplus and deficit of the balance of current transactions it is interesting to analyze their participations in the gross domestic product.

Figure 1. Share of the balance of current transactions in GDP the transition countries in 1993



Source : Countries in Transition 1997, WIIW Handbook of Statistics

Figure 2. Share of the balance of current transactions in GDP in the transition countries in 1996



Source : Countries in Transition 1997, WIIW Handbook of Statistics

By analyzing the participations of settlements of the balance of current transactions in GDP one can notice deterioration in 1996 in comparison with 1993 in Slovakia, Romania, Croatia and Czech Republic (share of deficit in GDP is higher by 7%), while Poland and Hungary managed to reduce those shares. In Slovenia the fall in the share of balance of current transactions in GDP was recorded, but in both of the examined years it refers to surplus, so it can be pointed out as a positive fact.

For a more complete analysis only a global survey of the settlement of balance of current transactions is not enough but it is necessary to enter an analysis of components of the balance of current transactions of particular countries.

Table 3. Balance of current transactions for Croatia for the period from 1993-1996 in US\$ mill.

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	-272	-356	-2358	-2231
1.1. Goods and services	-131	-231	-2265	-2186
1.1.1. Goods	-296	-446	-2126	-2497
1.1.2. Services	165	215	-138	312
1.2. Income	-141	-125	-93	-45
<i>2. Current transfers</i>	376	459	646	779
Total (1+2)	104	103	-1712	-1452

Source : Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 196-198.

Table 4. Balance of current transactions for Slovenia for the period from 1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	168	498	-81	22
1.1. Goods and services	220	385	-228	-67
1.1.1. Goods	-154	-338	-954	-853
1.1.2. Services	374	723	725	786
1.2. Income	-52	114	147	89
<i>2. Current transfers</i>	20	49	45	24
Total (1+2)	188	547	-36	46

Source : *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 721-723.*

Table 5. Balance of current transactions for Hungary for the period from 1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	-4995	-4963	-3595	-2610
1.1. Goods and services	-3805	-3557	-1791	-1154
1.1.1. Goods	-4021	-3716	-2433	-2652
1.1.2. Services	216	159	642	1497
1.2. Income	-1190	-1406	-1804	-1456
<i>2. Current transfers</i>	733	910	1060	921
Total (1+2)	-4262	-4053	-2535	-1698

Source : *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 348-350.*

Table 6. Balance of current transactions for Poland for the period from 1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	-6548	-298	-104	-4958
1.1. Goods and services	-2935	2265	1891	-3883
1.1.1. Goods	-3505	-575	-1646	-7287
1.1.2. Services	570	2840	3537	3404
1.2. Income	-3613	-2563	-1995	-1075
<i>2. Current transfers</i>	760	1252	958	1694
Total (1+2)	-5788	954	854	-3264

Source : *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 635-637.*

Table 7. Balance of current transactions for Czech Republic for the period from

1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	424	-905	-1946	-4683
1.1. Goods and services	541	-884	-1842	-3961
1.1.1. Goods	-471	-1366	-3685	-5877
1.1.2. Services	1013	482	1844	1917
1.2. Income	-117	-21	-104	-722
<i>2. Current transfers</i>	88	127	572	384
Total (1+2)	512	-778	-1374	-4299

Source: *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 206-208.*

Table 8. Balance of current transactions for Slovakia for the period from 1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	-678	650	297	-2291
1.1. Goods and services	-640	770	311	-2245
1.1.1. Goods	-912	109	-229	-2283
1.1.2. Services	272	662	540	38
1.2. Income	-38	-120	-14	-47
<i>2. Current transfers</i>	98	68	93	201
Total (1+2)	-580	719	390	-2090

Source : *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 714-716.*

Table 9. Balance of current transactions for Czech Republic for the period from 1993-1996 in US\$ mill

	1993	1994	1995	1996
<i>1. Goods, services and income</i>	-1388	-711	-2143	-3164
1.1. Goods and services	-1243	-582	-1902	-2855
1.1.1. Goods	-1128	-411	-1577	-2470
1.1.2. Services	-115	-171	-325	-385
1.2. Income	-145	-129	-241	-309
<i>2. Current transfers</i>	157	256	363	585
Total (1+2)	-1231	-455	-1780	-2579

Source : *Balance of Payments Statistics Yearbook, Part 1 : Country Tables, IMF, 1997, p. 196-198.*

On the basis of the above tables it can be seen that the trend of the balance of current account is mostly conditioned by the trend of the balance of foreign trade (settlement of trade balance of goods and services). If deficit of the trade balance is higher than the surplus in the income and the current transfer the settlement of the current account will be negative. There is a specially great influence of the trade balance on the current account in Croatia, Slovenia,

Czech Republic, Slovakia and Romania, respectively in the countries in which the income and current transfers are considerably lower than the trends of the foreign trade exchange.

As the foreign trade trends are the most significant item of the balance of current transactions further on there will be shown the interdependence of the trends of balance of current transactions of the trade balance and income :

$$CA = a + b \times TB + c \times I + u,$$

where

CA= current account, i.e. BCT = balance of current transactions, dependent variable;

TB = trade balance, independent variable;

I = income transfers, independent variable;

u = stochastic variable..

On the basis of the econometric analysis one gets the following relations which show the dependence of the trends of current account on the trends in trade balance and income transfers.

1. for Croatia $CA = 808.52 + 0.9496 \times TB + 4.0120 \times I + u$ $R^2=0.9998$
(44.90) (6.80)
2. for Slovenia $CA = 20.666 + 1.0226 \times TB + 1.1588 \times I + u$ $R^2=0.9993$
(38.90) (13.98)
3. for Hungary $CA = 167.14 + 1.0018 \times TB + 0.4936 \times I + u$ $R^2=0.9994$
(33.18) (3.19)
4. for Poland $CA = 1880.2 + 0.9753 \times TB + 1.3161 \times I + u$ $R^2=0.9963$
(15.36) (6.89)
5. for Czech Republic $CA = 184.24 + 0.8448 \times TB + 1.5392 \times I + u$ $R^2=0.9950$
(6.18) (1.93)
6. for Slovakia $CA = 93.163 + 0.9569 \times TB + 0.9467 \times I + u$ $R^2=0.9998$
(69.92) (2.37)
7. for Romania $CA = -183.96 + 1.1608 \times TB - 2.8295 \times I + u$ $R^2=0.9964$
(4.67) (-0.99)

All relations have a high coefficient of determination (R^2), which means that more than 99% of the square sum of the empiric aberrations from the calculated values is explained through relations. In Croatia, Slovenia, Hungary and Slovakia the parameter of the trade balance is significant at the level 99%, in Poland at the level 95%, whereas in Romania and Czech Republic it is remarkable at the level 90%. The parameter I is significant at the level

95% in Croatia, Slovenia and Poland, whereas in Hungary it is significant at the level of 90%, and in the rest of countries at the level of 75%.

The quoted levels of significance show that the parameters are very significant (which is more expressed in TB). The carries out tests of relations confirm the hypothesis that trend in current account depend on the trend of the foreign trade and income.

However, the deficit in the balance of the current transactions are not the only problem the countries in transition come across, but they also come upon the phenomenon of the estimated deficit which encumber additionally the national economies of these countries.

3. The Estimated Deficits of the Countries in Transition

The analyzed economic indicators present specific fiscal circuit of the countries in transition. The fiscal policy is part of macroeconomic policy which causes changes in economy. A part of it deals with the estimated deficit. Much attention is paid to the fiscal problems in the transition countries, because in that way e. g. inflation depreciates tax incomes, and unemployment influences the increase in the estimated deficits. Therefore the estimated deficit is linked with the other macroeconomic variables, such as balance of payments, inflation and the like.

A balanced estimate (budget) is one of the basic preconditions of the macroeconomic stability. In a balanced budget revenues are equal to expenditures. The budgets are in surplus or deficit, depending on whether the revenues are higher or lower than expenditures. If revenues are higher than expenditures the budget has surplus, and if expenditures are higher than revenues then the budget has deficit.

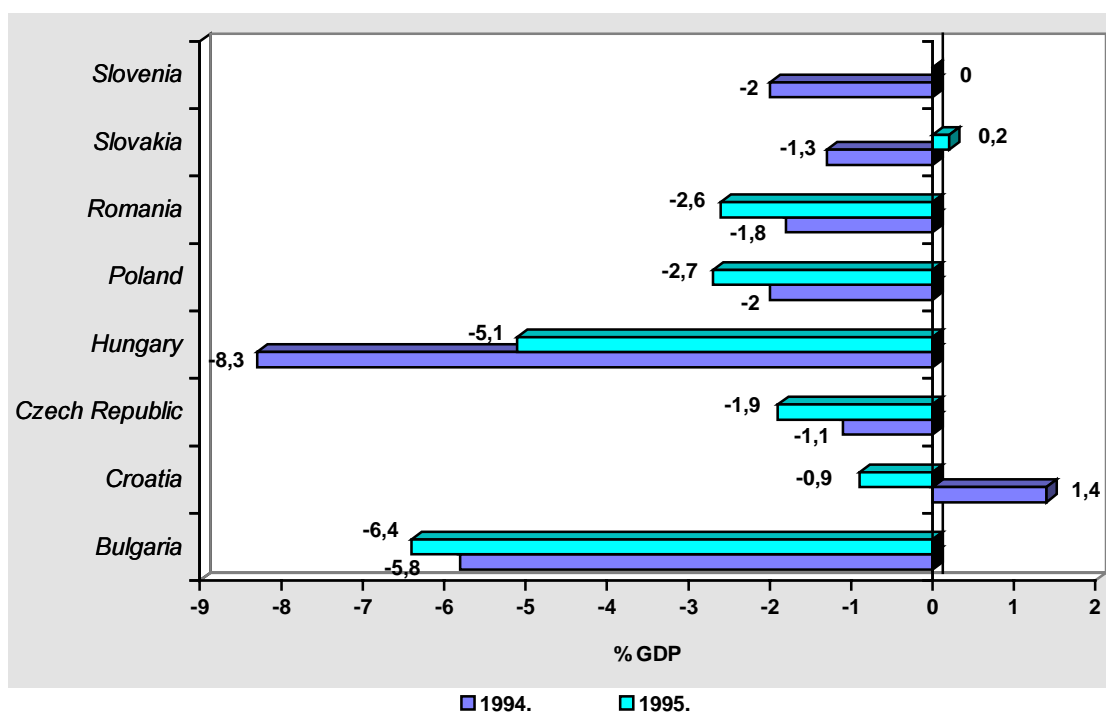
The estimated deficit is a narrower concept in relation to the fiscal deficit which presents the total deficit in the public sector and it is more comrehensible than the estimated deficit.

In theory and practice of the public finances there has consequently developed a broad “palette” of methodology of measuring disbalance in the estimate, respectively in estimated deficit. Most often as a measure of deficit a common deficit is applied, respectively a difference between total revenues and expenditure of a country. Under certain conditions some alternative measures (gauges) are used for the calculation of deficit. (Švaljek, S. 1995)

The change in the estimated deficit rises as the consequence of the changes in the estimated revenues or expenditures. Major questions that could be associated with an estimated deficit is, in fact, how high and how dangerous it can be. The fact of the matter is that year after year a regular increase in the estimated deficit it has been noticeable, and in so doing there is deterioration in the economic sphere, because the fall in the economic activity will influence the decrease of the estimated revenues, but the increase of the estimated expenditures, as well.

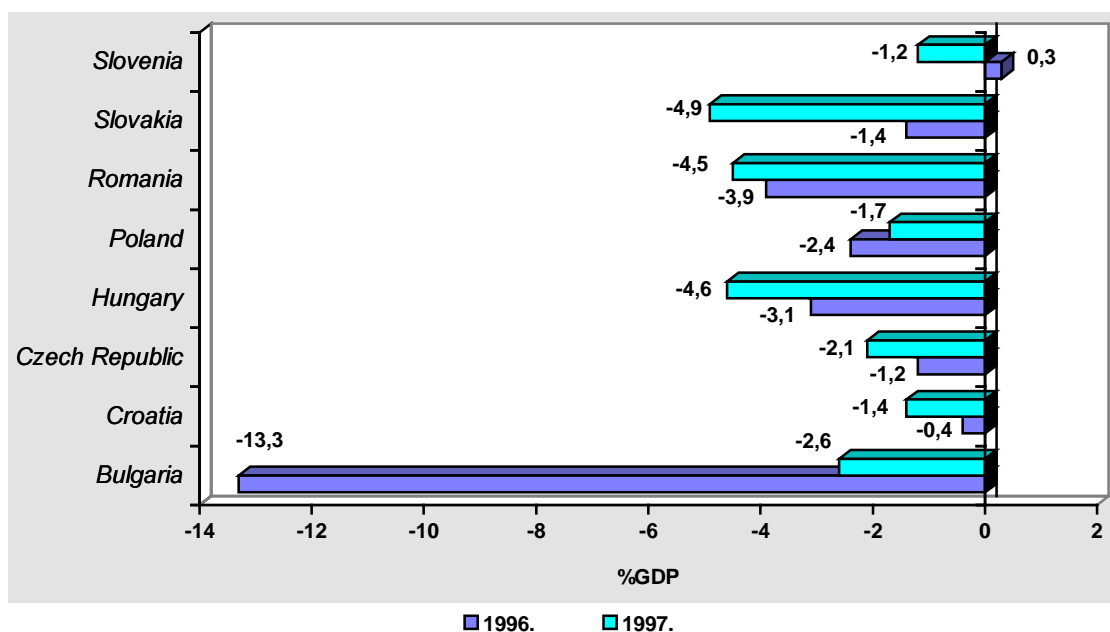
The categories of fiscal deficit in the countries in transition are hard to reach, because, in fact, it is hard to find out its true value. The following figures present the contributions of the estimated deficits in the gross product in the countries in transition.

**Figure 3. Budgetary deficit of countries in transition in 1994 and 1995
(as % GDP)**



Source: IMF (1997.): World Outlook 1998., IMF

**Figure 4. Budgetary deficit of countries in transition in 1996 and 1997
(as % GDP)**



Source: IMF (1997.): World Outlook 1998., IMF

From the figures 3 and 4 it can be noticed that at the beginning of the observed period in 1994 Hungary and Bulgaria had the greatest disbalance between the participation of revenues and expenditure, respectively the greatest participation of deficit in GDP, whereas Czech Republic had the least participation of the deficit in GDP, and only Croatia had effectuated surplus, respectively share in surplus in GDP amounting to 1.4%.

By analyzing the tendencies in the observed four-year period it is noticed that there was improvement in some countries because the participations decrease, but in most of the countries the participations deteriorated in comparison with the initial period. It is noticeable that in 1997 Hungary and Bulgaria had a considerably greater balance between revenues and expenditure in relation to the starting period, because the participations of deficit in GDP decreased considerably.

Croatia in 1994, Slovakia in 1995 as well Slovenia in 1996 had surplus in their budget, whereas all of them had deficit in 1997. In 1997 Romania and Slovakia had increased disbalance between revenues and expenditure, respectively higher participations of deficit in GDP than at the greatest share of deficit in GDP amounting to 4.9%. And Slovenia had the least share of deficit in GDP amounting to 1.2 % and in Croatia 1.4%.

Further on we shall be analyzing the trends of revenues and expenditure, respectively deficit and surplus in the countries in transition for the period from 1993 until 1996.

Table 10. General government budget of Bulgaria for the period from 1993 to 1996

	<i>bn US\$</i>			
	<i>1993.</i>	<i>1994.</i>	<i>1995.</i>	<i>1996.</i>
Revenues	4.25	4.05	4.89	3.30
Expenditures	5.43	4.60	5.63	4.34
Deficit (-)/Surplus (+)	-1.18	-0.56	-0.74	-1.04

Source: Countires in Transition 1997, WIIW Handbook of Statistics

Table 11. General government budget of Croatia for the period from 1993 to 1996

	<i>bn US\$</i>			
	<i>1993.</i>	<i>1994.</i>	<i>1995.</i>	<i>1996.</i>
Revenues	2.33	3.86	5.35	5.78
Expenditures	2.31	3.77	5.49	5.80
Deficit (-)/Surplus (+)	0.02	0.09	-0.14	-0.02

Source: Countires in Transition 1997, WIIW Handbook of Statistics

Table 12. General government budget of Czech Republic for the period from 1993 to 1996

	<i>bn US\$</i>			
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Revenues	12.28	13.57	16.57	17.78
Expenditures	12.24	13.21	16.30	17.84
Deficit (-)/Surplus (+)	0.04	0.36	0.27	-0.06

Source: Countires in Transition 1997, WIIW Handbook of Statistics

Table 13. General government budget of Slovenia for the period from 1993 to 1996

	<i>bn US\$</i>			
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Revenues	5.96	6.60	8.57	8.52
Expenditures	5.92	6.63	8.57	8.47
Deficit (-)/Surplus (+)	0.04	-0.03	0	0.05

Source: Countires in Transition 1997, WIIW Handbook of Statistics

Table 14. General government budget of Hungary for the period from 1993 to 1996

	<i>bn US\$</i>			
	1993	1994	1995	1996
Revenues	11.31	11.33	11.28	13.59
Expenditures	13.48	13.60	13.76	14.46
Deficit (-)/Surplus (+)	-2.17	-2.27	-2.48	-0.87

Source: *Countires in Transition 1997, WIIW Handbook of Statistics*

Table 15. General government budget of Poland for the period from 1993 to 1996

	<i>bn US\$</i>			
	1993	1994	1995	1996
Revenues	25.36	27.81	34.60	36.92
Expenditures	27.76	30.34	37.67	40.31
Deficit (-)/Surplus (+)	-2.40	-2.53	-3.07	-3.39

Source: *Countires in Transition 1997, WIIW Handbook of Statistics*

Table 16. General government budget of Romania for the period from 1993 to 1996

	<i>bn US\$</i>			
	1993	1994	1995	1996
Revenues	4.99	5.35	6.34	5.96
Expenditures	5.43	6.60	7.80	7.70
Deficit (-)/Surplus (+)	-0.44	-1.25	-1.46	-1.74

Source : *Countires in Transition 1997, WIIW Handbook of Statistics*

Table 17. General government budget of Slovakia for the period from 1993 to 1996

	<i>bn US\$</i>			
	1993	1994	1995	1996
Revenues	4.88	4.34	5.48	5.43
Expenditures	5.63	5.06	5.76	6.26
Deficit (-)/Surplus (+)	-0.75	-0.72	-0.28	-0.83

Source: *Countires in Transition 1997, WIIW Handbook of Statistics*

The best results in the decrease of deficit were achieved, as it is seen from the table, by Hungary which cut down its deficit of US\$ 2.2 billion in 1993 to US\$ 0.9 billion in 1996. In the year 1993 Croatia, Czech Republic and Slovenia had surplus in their budgets, and in Slovenia the surplus in 1994 decreased and grew into deficit, so that the deficit in that year amounted to US\$ 30 million, whereas in 1996 the budget had surplus again and it was US\$ 50 million.

In Slovakia the deficit in 1995 was lower in comparison with 1993 and 1994, but in 1996 it was higher than at the beginning of the period. In Romania the deficit at the beginning of the examined period was also higher than at the beginning of the period and it amounted to US\$ 83 million.

The surplus in the budget of Czech Republic turned from US\$ 36 million to a deficit which in 1996 amounted to US\$ 60 million. Croatia like Czech Republic had surplus in the first two observed years, and in 1995 and 1996 it had deficit which in 1995 amounted to US\$ 14 million, respectively US\$ 2 million in 1996.

Poland was in the worst position because in the observed period it had constant budgetary deficit which was rising year after year, so that in 1996 it amounted to US\$ 3.39 billion.

4. Interdependence of Trends of Deficit of Balance of Current Transactions and the Budgetary Deficit

As the aim of every national economy is to establish home and foreign balance the economists made a relation about definite dependence of the deficit of balance of the current transactions on the deficit in the budget i.e. through balance of foreign trade (Dornbusch, R. & Fischer, S., 1994.) which in the transition countries represents the largest part of the balance of the current transactions.

The connection between the deficit in the balance of foreign trade and the deficit in the budget is shown in the relation as follows: $FTB = S - I + T - G$, where S is individual saving, and $T - G =$ budgetary surplus. If I and S were constants of the change in the budget, they would be reflected on the foreign trade balance, i.e. cutting down the budget would lead to a decrease in the foreign trade deficit. However, I and S are not constants, so that cutting down the budget influences them, so with that model the influence of cutting down the budgetary deficit on the foreign balance cannot be explained.

By observing countries in transition and their budgetary deficits and the deficits in the balance of the current transactions in 1993 and in 1996 it can be pointed out that:

- ◆ in Czech Republic in the examined period there was rise in the budgetary deficit to 2.1% of GDP, and simultaneously there was also deficit in the balance of the current transactions amounting to 7.8% of GDP (in 1993 there was a surplus 0.33% of GDP in the balance of the current transaction);
- ◆ in Poland there was a decrease in the budgetary deficit to 2.4% of GDP and a decrease in the deficit in the balance of the current transactions to 2.4% of GDP;
- ◆ in Hungary there was a decrease in the budgetary deficit to 3.1% of GDP and a decrease in the deficit in the balance of the current transactions to 3.8% of GDP;
- ◆ in Slovakia there was an increase in the budgetary deficit to 1.4% of GDP and an increase in the balance of the current transactions to 11% of GDP;
- ◆ in Slovenia there was a decrease in the budgetary deficit, respectively a budgetary surplus amounting to 0.3% of GDP, but there was a decrease in the surplus in the balance of the current transactions to 0.25% of GDP;
- ◆ in Romania there was an increase in the budgetary deficit to 3.9% of GDP and an increase in the deficit in the balance of the current transactions to 7.3% of GDP;
- ◆ in Croatia there was a decrease in the budgetary deficit to 0.4% of GDP, but there was also a deficit in the balance of the current transactions to 7.6% of GDP.

One can say that in Czech Republic, Poland, Hungary, Slovakia and Romania it can be claimed that the deficits in the budget and in the balances of the current transactions move in the same directions, whereas it cannot be claimed for Croatia and Slovenia.

However, because of the above quoted reasons a strong interdependence between these two deficits cannot be found.

5. Conclusion

In the analyzed period there was improvement in the economic situation in the countries in transition which is reflected on the higher rates of increase in GDP, increase in GDP per capita, as well as on the decrease in inflation and unemployment, which gives evidence of the efficiency of the transition process.

Along with the progress in the general economic trends there was deterioration in the balance of the current transactions in Croatia, Slovakia, Czech Republic, Slovenia and

Romania, which is noticed in the emerging and an increase in deficit of the balance of current transactions, which is largely conditioned by high trade deficits of the examined countries. Because of this connection in work there have been done significant relations which explain the dependence of the trend of balance of the current transactions on the balance of foreign trade and on the trend of income transfers.

From the analysis carried out in the examined four year period one can conclude that in most observed countries there was also an increase in the budgetary deficit, because most of the countries had deficit in the budget (estimate) in comparison with the beginning period. The high deficit is a sign that the fiscal policy should be more restrictive, but again not too restrictive, because it could aggravate the process of transition and the transformation of economy.

We must say that the volume of the budgetary deficits in the countries in transition is not quite definitive yet, because the period of transition and turmoil has still been going on. As the countries in transition have been in the upward phase of recovery, it is realistically to be expected that the budgetary deficits have to decrease in the following period.

Although the trends of these two deficits move in the same direction in most of the observed countries some general regularity cannot be found. However, a struggle against either of the deficits remains an important segment of the economic policy by which the stability of the national economies is guaranteed.

6. References

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