Three Essays on Tight Exchange Rate Regimes and Fiscal Discipline in Transition Economies

Inaugural-Dissertation
zur Erlangung des Grades eines Doktors
der Wirtschafts- und Gesellschaftswissenschaften
durch die
Rechts- und Staatswissenschaftliche Fakultät
der Rheinischen Friedrich-Wilhelms-Universität Bonn

vorgelegt von Dalia Grigonytė
aus Kaunas, Litauen
Contents

Acknowledgements i

1 Introduction 1

2 The Influence of Currency Boards on Fiscal Discipline in Central and Eastern European Countries 5
   2.1 Introduction 5
   2.2 Theoretical Background 7
      2.2.1 Basic Features of the Discipline Hypothesis 8
      2.2.2 Adjustment to Monetary Dominance 9
      2.2.3 The Choice of Nominal Anchor in Stabilisation 12
   2.3 The Model 12
      2.3.1 The Private Agent 13
      2.3.2 Fiscal and Monetary Authorities 15
      2.3.3 Determining the Equilibrium Consumption and Money Demand of the Private Sector 15
      2.3.4 Two Alternative Stabilisation Programs 16
      2.3.5 Determining the Fiscal Transfers 17
      2.3.6 Fiscal Policy under Two Alternative Stabilisation Programs 18
      2.3.7 Comparison of Fiscal Discipline under Alternative Nominal Anchors 20
      2.3.8 Implications for Empirical Research 21
   2.4 Empirical Results in the Literature 22
   2.5 Currency Boards in Central and Eastern European Countries 24
      2.5.1 Estonia 25
      2.5.2 Lithuania 27
      2.5.3 Bulgaria 29
   2.6 Descriptive Statistics 30
   2.7 Empirical Analysis 32
      2.7.1 Testing for Panel Heteroskedasticity 34
      2.7.2 Testing for Correlation across Countries 34
      2.7.3 Testing for Serial Correlation 35
   2.8 Results 35