

New budget responsibility rules: How did the Czech municipalities respond?

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ABSTRACT: Czech municipal management is cautious and municipalities keep high fiscal savings. We apply a quasi-experimental approach to evaluate the immediate fiscal reaction to the introduction of the debt rule in the Czech municipalities in 2018. We focus on the first year of application of the debt rule and assess the growth and volume of municipal bank deposits. Our analysis used the sharp regression discontinuity design and showed that municipalities that exceeded the debt limit at the end of 2017 had higher bank deposits at the end of 2018 and also the annual growth of the bank deposits was higher than in municipalities that did not exceed the limit.