

Fiscal Outlook

of the Czech Republic

May 2013

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The Fiscal Outlook of the CR is published by the Department for Financial Policies of the MF CR with a half-year periodicity (published generally at the end of May and November). It contains forecast of the current and next year (i.e. up to 2014) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2016). The Outlook is available on internet pages of MF CR at:

<http://www.mfcr.cz/fiscaloutlook>

As an integral part of the Fiscal Outlook stands the Methodological Manual, which defines, specifies and explains terms, methods and statistics used in the Outlook.

Relevant comments and ideas helping to improve the quality of the publication are welcomed at:

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List of Abbreviations

c.p.	current prices
CZK	Czech koruna currency code
CZSO	Czech Statistical Office
EA12	Eurozone consisting of 12 original countries
EC	European Commission
EDP	Excessive Deficit Procedure
EDP B.9	net lending/borrowing of the general government applied under EDP
ESA 95	European System of Accounts (1995)
ESCB	European System of Central Banks
EU, EU27	European Union (EU27 coverage)
EUR	euro currency code
GFS 2001	Government Finance Statistics 2001
GDP	gross domestic product
MF CR	Ministry of Finance of the Czech Republic
OP	Operational Programme
p.a.	<i>per annum</i> (per year)
p.p.	percentage point
s.p.	constant (stable) prices
USD	US dollar currency code
VAT	value added tax

Symbols Used in Tables

A dash (–) in place of number indicates that the phenomenon did not occur or is not possible for logical reasons.

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 25 March 2013 release, fiscal data to the 5 April 2013 release, data for international comparison to the 22 April 2013 release and government bond yields to the 2 May 2013 release, respectively.

Note

In some cases, published aggregates do not match the sum of individual items to the last decimal point due to rounding.

Introduction

The second wave of the economic recession, with its long duration and consistently restricted outlook for future, is forcing economic policy makers to make difficult decisions. On the one hand there are efforts to consolidate public budgets, whose position is dismal in most developed economies as a result of persistent structural deficits and the previous stage of the crisis. On the other hand we cannot ignore the fact that budget savings in combination with increase in taxation have their impact into domestic economy. Preparation and implementation of consolidation strategies are increasingly confronted with the limits, which are caused both by the institutional quality of government sector and the current economic development. The effort is therefore oriented towards adaptation of structural reforms and politics, which contribute to the increase in competitiveness and growth of potential product, which subsequently have a positive spillover effect to the government sector performance.

On 24 April 2013, the Czech government approved the update of the Convergence Programme of the Czech Republic for 2013–2016, wherein it presented its realized and planned measures in the area of fiscal policy, as well as of other policies with quantitative or qualitative consequences into government sector. The priority for government fiscal policy in 2013 is to ensure such a performance of the state budget and state funds, which would end the excessive deficit procedure (EDP). Compliance with the requirements for termination of EDP will be judged both on the basis of the actual government sector performance in 2013 and on setting of the fiscal policy in a demonstrably sustainable way below the excessive deficit in the future.

In the conditions of expected fragile recovery of the Czech economy, government decided to continue in consolidation on the expenditure side, while stabilising future expectations primarily regarding tax policy, which is supposed to boost domestic demand and help to the business environment. This step leads to the postponement of some reform measures to the subsequent years of the outlook. These often have a stimulating effect and should help speed up the recovery of the convergence process to developed world economies. The government is also committed to support economy with additional active measures in the current and next year.

This May Fiscal Outlook is conceived as a supplement to the Convergence Programme, from which the data and information are drawn. It is also based on the Macroeconomic Forecast of the Ministry of Finance and on the update of the medium-term expenditure

framework for the state budget and state funds, which was approved by the government in April.

Current and expected macroeconomic and fiscal developments are briefly outlined in the first chapter. In the first quarter of this year, the Czech economy was in recession for six consecutive quarters. Nevertheless, we expect that the fall in the first quarter was the minimum and the economy is bouncing back from the bottom. Yet it is likely, that the economy will be in a relatively deep output gap for this and next year, comparable to the extent of output gap in 2009. The slower pace of consolidation accompanied by economic incentives is therefore welcome with regard to the economic growth.

General government sector finances, which are under scrutiny of financial markets and international institutions, have been achieving very good results for several years in a row. Relatively low interest rates on newly issued Czech government bonds are tangible bonus of successful consolidation. Yields to maturity of all 10-years bonds were around 1.82%, a level comparable with French government bonds and 0.62% higher than German government bonds. Government sector performance, including international comparison, is discussed in the second chapter.

The third chapter expands the Convergence Programme with a review of the budgetary outcome based on cash-flow methodology. As usual, the Fiscal Outlook also includes an extensive annex of tables, which is also available to readers in electronic format on the website of the Ministry of Finance (<http://www.mfcr.cz/fiscaloutlook>).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

According to the Czech Statistical Office's (CZSO) current data (note: the Macroeconomic Forecast of April 2013 was drawn up based on data available as of 25 March, and is therefore based on national accounts data before data revision for 2009–2012), real GDP decreased by 1.2% last year. The economy was in recession for the duration of 2012, where it continued to remain in Q1 of 2013, according to the CZSO's preliminary estimate (CZSO, 2013a). However, economic activity should already start to recover from Q2 of 2013, although very gradually. Nonetheless, in the best case scenario GDP should show year-on-year stagnation for the whole of 2013. This year, the economy should be driven by net exports and also to a lesser extent by gross capital formation. The joint contribution of these components to GDP growth should compensate the expected decline in household consumption.

GDP may increase by 1.2% in 2014, given the positive contribution of both foreign trade and gross domestic expenditure. In the following years, economic growth could accelerate up to 2.6% by 2016. Except for general government consumption, all main expenditure components should contribute positively to economic growth in the years of the outlook, especially household consumption and investment.

In spite of an increase in both VAT rates by 1 p.p. as of 1 January 2013, the average inflation rate should

reach only 2.1% this year, and the growth rate of consumer prices should also remain close to the Czech National Bank inflation rate in 2014 and 2015. In 2016 we expect a slowdown in the inflation rate to 1.1%, when in compliance with the applicable legislation we are considering the unification of VAT rates at 17.5% as of 1 January 2016.

The employment rate, which increased by 0.4% in 2012, is likely to decrease by 0.2% this year; in 2014 it is expected to stagnate. The unemployment rate should increase from 7.0% last year to 7.6%; there could also be a slight increase in 2014. Growth in terms of wages could reach 1.4% this year and 2.7% in 2014. In both years the wage growth rate is therefore expected to slightly exceed the dynamics of nominal GDP. In the years of the outlook, the situation on the labour market should improve slightly – employment should grow slightly, whereas the unemployment rate should gradually decline. Wage growth should accelerate to roughly 4% in 2015 and 2016.

The current account deficit as a proportion of GDP should not exceed 3% and should thus remain at a sustainable level.

Forecast risks are tilted to the downside. In addition to further developments in the euro zone, there is also the risk of low confidence in terms of the Czech economy.

Table 1.1: Main Macroeconomic Indicators (2012–2016)

		2012	2013	2014	2015	2016	2012	2013	2014	2015
		Actual	Current Forecast and Outlook				November 2012 Fiscal Outlook			
Gross domestic product	<i>bn CZK, c.p.</i>	3843	3858	3939	4079	4228	3820	3882	4015	4179
	<i>% growth, s.p.</i>	-1.3	0.0	1.2	2.1	2.6	-1.0	0.7	1.9	2.6
Private consumption	<i>% growth, s.p.</i>	-3.5	-1.2	1.0	2.1	2.5	-3.0	-0.5	1.2	2.3
Government consumption	<i>% growth, s.p.</i>	-1.0	-0.2	-1.7	-0.8	0.1	-1.1	-1.3	-1.2	0.1
Gross fixed capital formation	<i>% growth, s.p.</i>	-1.7	-0.4	0.9	2.6	3.1	-0.6	0.3	1.8	2.8
Contr. of net exports to GDP growth	<i>p.p., s.p.</i>	1.5	1.5	1.5	1.5	1.5	2.7	2.7	2.7	2.7
GDP deflator	<i>% growth</i>	1.4	0.4	0.9	1.4	1.1	1.3	0.9	1.5	1.4
Inflation	<i>in %</i>	3.3	2.1	1.7	1.9	1.1	3.3	2.1	2.3	2.0
Employment	<i>% growth</i>	0.4	0.1	-0.2	0.1	0.2	0.0	-0.2	0.2	0.3
Unemployment rate	<i>average in %</i>	7.0	7.5	7.7	7.3	6.6	6.9	7.3	7.2	7.0
Wages and salaries	<i>% growth, c.p.</i>	2.0	1.4	2.7	4.4	4.0	2.0	2.1	4.3	3.9
Current account to GDP ratio	<i>in %</i>	-2.4	-2.3	-2.3	-2.5	-2.8	-1.3	-1.2	-1.0	-1.3
Assumptions:										
Exchange rate CZK/EUR		25.1	25.4	25.2	24.9	24.6	25.1	24.9	24.7	24.5
Long-term interest rates	<i>% p.a.</i>	2.8	2.2	2.3	2.7	3.1	2.9	2.7	3.0	3.3
Crude oil Brent	<i>USD/barrel</i>	111.7	108.0	102.0	98.8	95.8	112.9	115.3	118.3	120.0
GDP in Eurozone EA12	<i>% growth, s.p.</i>	-0.6	-0.4	0.6	1.2	1.6	-0.5	0.3	1.1	1.8

Note: Figures for employment and unemployment rate are based on Labour Force Survey.

Source: MF CR (2012a), MF CR (2013b).

1.2 Fiscal Policy Objectives

In the last three years, the structural position of the domestic general government sector improved significantly when the average fiscal efforts in 2010–2012 reached 1.1 p.p. These consolidation efforts resulted in a decline in the total deficit of the general government sector.

Even though the deficit reached 4.4% of GDP in 2012, the result was influenced by the statistical and accounting imputation of the capital transfer of CZK 59 billion in relation to passing the Act on Property Settlement with Churches and Religious Societies (for the methodology – see MF CR, 2011). After adjusting for this item, the deficit would only reach 2.8% of GDP in 2012, despite including across-the-board corrections of refunds from the EU of another 0.3% of GDP (see MF CR, 2012a). Thus, the improvement in the economic result of the government sector reached 0.5 p.p.

Based on the forecast of the economic result for the government sector in 2013, we expect the excessive deficit procedure, which has been maintained in the Czech Republic since 2009, to end in 2014. This year, we forecast a balance of –2.8% of GDP. The sustainable long-term decrease in government deficit below the limit of 3% of GDP, by which the end of the excessive deficit procedure is conditioned (MF CR, 2013a), continues to represent the priority target of the government in the area of planning and implementing fiscal policy. Once this target has been achieved, however, there will be no further deepening of fiscal efforts. On the contrary, fiscal policy will be used, even if only to a limited extent, to stimulate the domestic economy, which should record a gradual recovery in the years of the outlook. The medium-term outlook of the budget for 2014–2016 essentially assumes a stable government sector deficit ratio at 2.9% of GDP in 2014 and 2.8% of GDP in the following

two years. With this trajectory of deficit and with respect to the expected closing of the negative output gap, the current restrictive fiscal policy should be transformed into a more expansive one, especially towards the end of the Fiscal Outlook horizon.

Provided the economy is below its potential throughout the period of this forecast, the current setting for the trajectory of the general government sector's balances is essentially countercyclical.

Further, the government's targets include stabilizing the tax environment, not increasing the burden of economic entities and at the same time helping to boost their confidence in the economy. Some planned discretionary measures within the consolidation package of 2012 have therefore been limited or cancelled, for example (to compare the originally intended and resulting content of the package see MF CR, 2012b and MF CR, 2013a).

As a consequence of the above, no major tax discretionary changes are planned for 2014. It was also decided to hold back current legislation concerning the efficiency of establishing the Single Collection Point and the related set of tax measures until 2015 (the only exception are some measures subject to private law recodification).

In the years of the outlook, we expect the implementation of reforms in the area of organizing and financing tertiary education, science, research and innovation, as well as the active employment policy. A positive fiscal effect is also expected in connection to making the system of public contracts more effective and cutting the cost of public sector operation as a consequence of simplifying the given public sector duties and workloads and by reducing duplicate activities.

Table 1.2: Fiscal Policy Stance (2010–2016)

(in % of GDP, change in structural balance in percentage points)

	2010	2011	2012	2013	2014	2015	2016
General government balance	-4.8	-3.3	-4.4	-2.8	-2.9	-2.8	-2.8
Cyclical component	-0.5	0.0	-0.6	-1.0	-1.0	-0.7	-0.3
One-off and other temporary measures	0.0	-0.2	-2.1	-0.1	-0.1	-0.1	-0.1
Structural balance	-4.4	-3.0	-1.7	-1.8	-1.8	-2.1	-2.4
Change in structural balance	0.5	1.4	1.3	-0.1	-0.1	-0.2	-0.4
Cyclical component according to ESCB method	-0.1	0.2	-0.5	-0.9	-0.7	-0.1	0.5
Change in structural balance according to ESCB method	1.1	1.5	1.4	-0.1	-0.3	-0.4	-0.7

Note: Different development of the cyclical component of the balance (and therefor of the structural balance) according to the EC and the ESCB methods is primarily caused by a different definition of the economic cycle. While the EC methods is based on the economic cycle defined by the relative output gap, the ESCB method models the cyclical development of cyclically-dependent government revenue and expenditure according to relevant macroeconomic bases (compensation of employees in the private sector, wages and salaries in the private sector, net operating surplus, consumption of households and unemployment). These have different cyclical behaviour than the GDP and its potential.

Source: CZSO (2013b). Forecast and calculations by MF CR.

The fiscal impact of discretionary measures in 2013 will be more or less evenly distributed between an increase in (mainly indirect) taxes and consolidation on the expenditure side. The positive impact of discretionary measures in 2014 will be generated almost exclusively on the expenditure side of public budgets

(see Table 1.3). In 2015 and 2016, we expect a negative impact of discretionary measures at a level of about 0.4 p.p. in each of these two years. This will be mainly caused by the aforementioned changes in terms of tax, although effects will also be felt in 2016 on the expenditure side of public sector budgets.

Table 1.3: Structure of Discretionary Measures (2014–2016)

(CZK billion)

	2014	2015	2016
Total revenue measures	-1.1	-18.2	-13.9
Direct taxes	1.4	-20.6	1.6
Personal income tax	3.2	-17.2	-5.2
Corporate income tax	-0.8	-6.5	0.0
Social security contributions	-1.0	3.1	6.8
Indirect taxes	-2.7	2.4	-15.5
Value added tax	0.4	2.4	-15.5
Excises	-3.1	0.0	0.0
Other revenues	0.2	0.0	0.0
Total expenditure measures	16.1	-0.1	-4.7
Social benefits	3.9	0.8	-6.2
Compensation of employees in government sector	1.1	0.0	1.7
Public sector reforms	7.7	1.6	0.0
Other expenditures	3.4	-2.5	-0.2
Total impact on balance	15.0	-18.3	-18.6
	<i>% GDP</i>		
	0.4	-0.4	-0.4

Note: Figures in the table represent year-on-year discretionary changes that are stemming from all envisaged and approved measures. For further details on discretionary measures see MF CR (2013a).

Source: MF CR

Table 1.4: General Government Revenue (ESA 95)

	2012	2013	2014	2015	2016
	<i>bn CZK</i>				
Total revenue	1542	1560	1582	1610	1644
Tax revenue	737	761	771	771	769
Taxes on production and imports	460	478	477	489	481
Value added tax	273	290	293	304	298
Excise taxes	152	151	147	148	147
Current taxes on income, wealth, etc.	276	283	294	282	287
Personal income tax	144	152	159	148	148
Corporate income tax	129	130	132	130	135
Capital taxes	0	0	0	0	0
Social contributions	600	598	612	638	668
Property income	29	25	22	21	24
Other	176	176	176	179	183
	<i>growth in %</i>				
Total revenue	0.9	1.2	1.4	1.8	2.1
Tax revenue	2.4	3.3	1.3	0.0	-0.3
Taxes on production and imports	3.5	3.8	-0.2	2.6	-1.5
Value added tax	2.9	6.1	1.3	3.7	-2.2
Excise taxes	1.3	-0.3	-2.6	0.4	-1.0
Current taxes on income, wealth, etc.	0.5	2.5	3.9	-4.3	1.9
Personal income tax	1.1	5.0	4.8	-6.8	0.2
Corporate income tax	-0.4	0.9	1.7	-1.3	3.7
Capital taxes	-0.4	-12.3	1.9	3.5	3.6
Social contributions	1.3	-0.4	2.3	4.4	4.6
Property income	3.0	-13.3	-11.0	-4.8	12.3
Other	-6.5	0.2	0.1	1.6	2.3
Tax burden	34.9	35.3	35.2	34.7	34.1
	<i>% of GDP</i>				

Note: The given tax-to-GDP ratio (tax burden) includes both the share of VAT transferred towards EU as its own income and customs revenue.

Source: MF CR.

Table 1.5: General Government Expenditure (ESA 95)

	2012	2013	2014	2015	2016
	<i>CZK bn</i>				
Total expenditure	1710	1669	1694	1723	1762
Final consumption expenditure	795	805	801	805	813
Collective consumption	381	389	374	372	374
Individual consumption	414	417	427	433	439
Social benefits in kind	233	236	240	245	250
Transfers of individual non-market goods and services	181	181	187	188	190
Social transfers other than in kind	534	545	559	578	594
Interest	56	58	60	62	64
Subsidies	77	79	80	80	82
Gross fixed capital formation	119	124	130	133	139
Other	128	58	63	65	70
Compensation of employees	281	282	283	280	283
Total social transfers	767	781	799	823	844
	<i>growth in %</i>				
Total expenditure	3.4	-2.4	1.5	1.7	2.2
Final consumption expenditure	0.4	1.2	-0.5	0.5	1.0
Collective consumption	0.2	2.0	-3.7	-0.6	0.6
Individual consumption	0.6	0.5	2.5	1.4	1.4
Social benefits in kind	2.4	1.1	1.8	2.0	2.0
Transfers of individual non-market goods and services	-1.7	-0.3	3.4	0.6	0.6
Social transfers other than in kind	1.3	2.1	2.7	3.4	2.7
Interest	6.6	4.1	3.7	2.0	3.5
Subsidies	-3.1	1.8	1.0	1.0	2.0
Gross fixed capital formation	-15.2	4.1	5.4	2.3	4.0
Other	109.9	-54.4	7.6	2.5	8.6
Compensation of employees	0.6	0.1	0.4	-0.9	1.0
Total social transfers	1.6	1.8	2.4	3.0	2.5

Source: MF CR.

2 Public Finances – ESA 95 Methodology

2.1 General Government Sector in 2012

According to government deficit and debt notifications, there was a general government deficit of 4.4% of GDP last year. Compared to the previous year, this represents a marked deterioration of 1.1 p.p. at first sight. However, the result has been substantially affected by one-off measures totalling approximately CZK 71 billion. First, it includes the imputation of a capital transfer of CZK 59 billion in connection with the approval of church restitutions; second, to a lesser extent, the deficit was influenced by flat-rate corrections of non-validated EU expenditure of CZK 12 billion. These are funds that were already paid out by the state budget as part of pre-financing. Nevertheless, the EU didn't find these expenditures as eligible, and thus will not be refunded. However, the total allocation from the funding period 2007-2013 is not decreased by these cuts. Thus, these EU funds can be used for other projects. After adjusting for these two one-off measures, the deficit was 2.5% of GDP, and thus it was better by 0.8 p.p. compared to 2011.

Government sector revenues in 2012 increased by nearly 1%, mainly due to the dynamics of tax revenues and social security contributions. After adjusting for the cycle and one-off and temporary measures, they increased by 2.6%, mainly due to a deeper negative output gap in 2012.

The most significant increase was apparent in value-added tax, the collection of which increased by 2.9%. This was a relatively poor result in light of the increase in the reduced rate of this tax in 2012. The reason is the considerable decrease in household consumption in 2012 (nominally by approximately 1.4%), the primary effect of which has worked against the tax discretion. After adjusting for the cyclical effects of household consumption on tax revenue, its growth would probably have been considerably higher. At present, the impact of the increase in the reduced rate is estimated to be nearly CZK 10 billion.

Unlike value added tax, excise taxes are relatively impervious to the development of macroeconomic bases; thus in spite of a considerable fall in real household consumption (3.5%), tax revenue increased by 1.3%. From the perspective of discretionary measures, the only increase was in tobacco tax, the impact of which slightly exceeded CZK 2 billion. As far as other excise taxes are concerned, payment from lotteries was introduced with a discretionary effect of CZK 7.7 billion. Nonetheless, the net impact of gambling taxation has been lower (in total CZK 6.5

billion) since several fees from slot machines were decreased or abolished (CZK 1.2 billion).

In 2012, revenues from personal income tax increased by 1.1%. In relative terms, this increase was markedly curtailed by discretionary measures in a total amount of approximately CZK 8 billion (mainly concerning child tax credit by CZK 1,800 annually and ending the temporary decrease in the basic tax credit per taxpayer). Corporate tax revenue decreased by 0.4%; no discretionary measures were taken here which had any significant fiscal impact. At present, we only have preliminary estimates for data on corporate taxes; the actual data will be set out in detail in the October Notification of government deficit and debt based on filed tax returns. The 1.3% increase in the collection of social security contributions was basically a fully autonomous development.

On the revenue side, capital transfers decreased by 26.1%. This was mainly caused by a decrease in the expenditure of projects financed from EU funds where the final beneficiary was an entity belonging to the government sector. In absolute value, this decrease was about CZK 12 billion and is primarily attributable (CZK 11 billion) to central government entities, i.e. to the Road and Motorway Directorate and, to a lesser extent, to the Railway Infrastructure Administration and public universities. One fact which perhaps underpins this development is that from 14 March 2012 to 15 October 2012 certifications for the operational programme (OP) Transport were suspended. This programme has the greatest weighting for allocations for the current programming period and is being used mainly for investment in the transport infrastructure provided, on behalf of the government sector, by the Road and Motorway Directorate and the Railway Infrastructure Administration. In addition to the operational programme Transport, certifications for a number of other operational programmes were suspended in 2012, such as Integrated OP, OP Environment, OP Education for Competitiveness, and for several regional operational programmes. The majority of these cases were resolved by the end of 2012.

The impact of suspending certification on government sector expenditure in the ESA 95 methodology is somewhat indirect, as it means only stopping the payment of money invested from EU funds. If the given projects continue to run and continue to be pre-financed from the state budget, under the ESA 95 methodology it means an increase in both European expenditure and accrued investment subsidies from

the EU. Nevertheless, the suspension of certification clearly results in a large degree of uncertainty for all entities involved and certainly leads to the preventive suspension of a number of projects.

The dynamics of other revenue items was very similar to developments last year and basically reflected their autonomous development.

In 2012, general government expenditure increased by 3.4%, which was caused by the two aforementioned capital transfers totalling CZK 71 billion. Were adjustment to be carried out, total expenditure would have decreased by nearly 1%.

Government final consumption expenditure increased by 0.4% – an extremely slow pace exemplifying the government's economizing behaviour. Savings occurred in the operating expenditure, where intermediate consumption fell by 1.8% year on year across nearly the whole government sector. Wage development was also relatively moderate and compensation of employees only increased by 0.6% (an increase mainly in the wages of pedagogical employees). There was autonomous development in health care expenditure when austerity discretionary measures were largely eliminated by higher outlays due to VAT rates adjustments.

A considerable decrease was recorded in gross capital formation. In central government it decreased by

approximately CZK 10 billion, which closely corresponded to the development of revenue investment subsidies from the EU. A decrease could also be seen in similar entities, where revenue investment subsidies decreased. The source of the remaining amount of decrease was units of the local general government subsector, where financing primarily from national sources decreased. The participation in investment by the subsector of social security funds is negligible.

Another item on the expenditure side which in relative terms is undergoing a marked decrease was capital transfers (after adjusting for the one-off capital operations already mentioned in the introduction to this chapter). The dominant part of the total decrease of CZK 6.5 billion was the decrease in capital transfers in the form of lower contributions to building savings (CZK 5.5 billion).

Other expenditure items mostly developed relatively autonomously. Efforts to implement an austerity policy can be seen to a certain extent in their lower than average dynamics. As a result, considerable fiscal efforts were made across entities and in all transactions, the consequences of which were manifest in savings on investment expenditure, capital transfers and tax discretions.

2.2 General Government Sector in 2013

This year we expect to reach a government sector deficit of 2.8% of GDP, which means a deterioration of 0.3 p.p. after adjusting for one-off operations. Adjusting the balance further for the impact of the business cycle, the change in the balance is more or less zero because of the continuing deepening of output gap.

Total revenues of the government sector should increase by 1.2%, after cyclical adjustment by 2.3%. A large number of discretionary measures are reflected on the revenues side, where the most significant impact was due to the increase in the VAT reduced and standard rates by 1 p.p., with a total effect of approximately CZK 15 billion. VAT collection will thus increase by 6.1% compared to last year, while nominal household demand will stagnate. In contrast, a slight decline of 0.3% in the collection of excise taxes is expected, with a real decrease in household demand of 1.2%. The impact of discretionary measures is only approximately CZK 2 billion, and mainly involves increasing the rate in relation to cigarettes and the abolition of green diesel fuel.

Higher collection is also predicted for personal income tax, where the total effect of discretionary measures is

expected to be nearly CZK 7 billion (this concerns, for example, the abolition of the basic discount for working pensioners, introducing statutory progression for the tax rate with a surcharge of 7 p.p. for higher incomes, and the restriction of expenditure lump-sums). Conversely, a negative impact is expected on social insurance, which should suffer losses in terms of collection caused by transferring funds into the pension savings system (on an accrualized basis approximately CZK 6 billion). Social insurance contributions should thus decrease by 0.4%. According to the current pattern, the loss of revenues related to introducing the voluntary savings pension pillar appears to be considerably lower. Nevertheless, for the sake of caution, the given estimate is for the time being a conservative one and has not been significantly moderated.

In comparison with last year, we can once more expect a marked increase in investment in the government sector co-financed by the EU funds. The original uncertainty relating to 2012, when certain operational programmes, including the two largest (OP Transport and OP Environment), were suspended, has already to a large extent abated in the case of entities at the central government level. The problem

still persists for local government entities since at the beginning of this year the certification of a number of regional operational programmes was suspended. Possible corrections (flat-rate, extrapolated and

individual) are still being discussed. During this year, we can expect an approximate 6% increase in investment subsidies, especially as a result of the repeated resolution of problems with OP Transport.

Box 1: Satellite Account of Public Sector

At the end of April 2013, the Czech Statistical Office published the satellite account of the public sector (for more details, see CZSO, 2013c, 2013d) for 2009 to 2011. The national accounts manual defines the public sector as those institutional units "...which are residents in the given economy and which are controlled by the government..." (EU Council, 2011, p. 13). To define the public sector, it is necessary to determine the character of the production of a unit and the extent of control by units of the general government sector (Table 2.1).

Table 2.1: Distinctive Criteria of Public vs. Private Sector

		Under control of	
		private	general government
Production	market	private corporations	public corporations
	non-market	NPISH	general government
		private sector	public sector

The public sector thus consists of the general government sector and the public corporations sector. Public corporations represent the subsectors of market producers controlled by general government units, i.e. fully owned by a government sector unit or with ownership interest enabling such control.

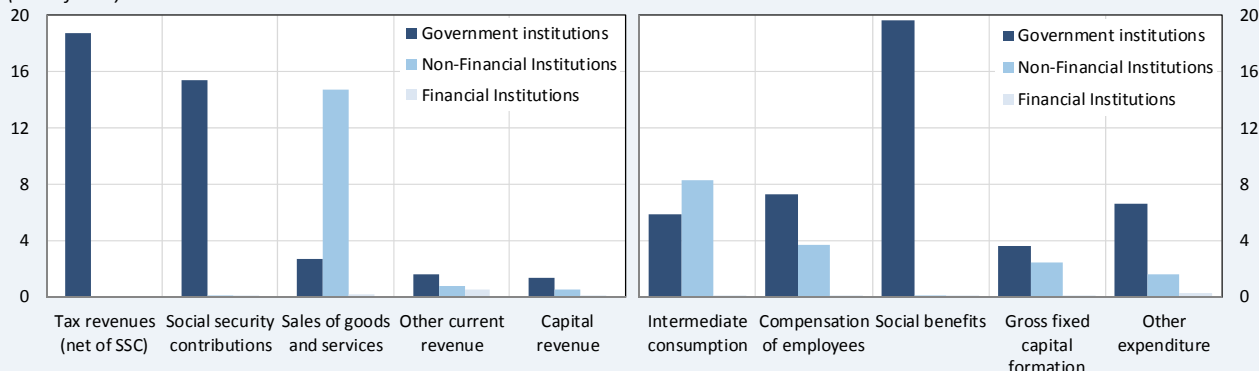
Source: EU Council (2011).

Specifically, public corporations include the subsector of public non-financial corporations (Czech Railways, municipal transport enterprises, ČEZ, the Czech Post, etc.) and units of monetary (Czech National Bank) and non-monetary financial institutions (Czech Export Bank, Export Guarantee and Insurance Corporation, the Czech-Moravian Guarantee and Development Bank, etc.)

Graph 2.1 sets out the structure of revenues and expenditure of the general government sector, non-financial corporations and financial institutions of the public sector. The structure of revenues and expenditure is predictable, i.e. the main source of revenues of the general government sector is taxes including social security contributions (which also stand as more than 60% of total public sector revenues), whereas in the subsector of non-financial corporations it is the sale of goods and services. Units of public sector financial institutions derive their main income from ownership, especially interest payments. Nearly a third of incomes are made up of the sale of goods and services. Expenditure on social benefits occurs almost exclusively in the government sector, where they reach over 45% (19.6% of GDP in 2011) of total expenditure. In non-financial corporations, the most important expenditure is intermediate consumption, constituting 51.6% of total expenditures in financial institutions it was especially paid interest payments – accounting for about 46% of total expenditure. In the public sector, compensation of employees totalled 11% of GDP in 2011. The higher volume of such expenditure is related to the number of employees in the given subsector (over 2,000 employees, measured in full-time equivalent, were employed in public financial institutions, ca. 316,000 in the non-financial public corporations and almost 653,000 in the government sector). When converting compensation of employees per employee, the amount of average compensation is similar in the government sector and the subsector of non-financial corporations. In contrast, average compensation in financial institutions is nearly twice as much.

Graph 2.1: Structure of Revenue and Expenditure of Public Sector (2011)

(in % of GDP)



Source: CZSO (2013c). MF CR calculations.

From the perspective of performance outcome, the balance of the public sector is determined by the result of the government sector. From 2009 to 2011, public non-financial corporations were in a limited surplus (0.1% of GDP in average), as well as public financial institutions (0.4% of GDP in average). Nevertheless, the weight of government sector with its size of fiscal imbalance in recent years could not be outweighed by public corporations. The non-consolidated public sector deficit decreased gradually from 4% of GDP in 2009 towards to 3% of GDP in 2011. Almost two thirds of the public sector debt is made up by the government debt, one quarter by the debt of government financial institutions. At the end of 2011, the debt reached almost to 66% of GDP. From the perspective of fiscal policy, however, neither deficit nor debt of the public sector represent a suitable tool for management as reasons for indebtedness and the essence of public sector units are significantly different.

Table 2.2: General Government Revenue (2007–2013)*(in % of GDP)*

	2007	2008	2009	2010	2011	2012	2013
General government revenue	40.3	38.9	38.9	39.0	39.8	40.1	40.4
tax revenue	19.8	18.6	18.3	18.0	18.7	19.2	19.7
individual income tax	4.3	3.7	3.6	3.5	3.7	3.8	3.9
corporate income tax	4.7	4.2	3.5	3.4	3.4	3.3	3.4
value added tax	6.2	6.6	6.8	6.8	6.9	7.1	7.5
excise taxes	3.9	3.3	3.7	3.6	3.9	3.9	3.9
other taxes and contributions	0.8	0.8	0.7	0.8	0.9	1.0	1.0
social security contributions	15.7	15.6	14.9	15.2	15.4	15.6	15.5
sales	2.6	2.7	2.8	2.6	2.7	2.7	2.6
other revenues	2.1	2.1	3.0	3.1	3.0	2.7	2.6

Source: CZSO (2013b). Year 2013 MF CR.

In the course of 2013, the concurrence of the rules n+2 and n+3 for obtaining European funds also occurs, when allocations for 2008–2010 have to be fully utilized (certificated) according to the rule n+3, and in the case of 2011–2013 according to the rule n+2. With respect to the fact that this year allocations have to be sourced for two years at a time (2010 and 2011) it is possible to expect more significant cash incomes from the EU. As far as the ESA 95 methodology is concerned, this fact has no significant impact because the moment of real investment expenditure is crucial here. This year, a much more distinctive difference between the ESA 95 methodology and the national cash flow methodology may become apparent since we expect that the national methodology will show much better results due to the inflow of European funds invested in the past.

Compared to the previous year, expenditure should decrease by 2.4%; here, the aforementioned one-off measures are playing an important role - after adjusting for these influences, expenditure would increase by 1.9%. Government final consumption expenditure should increase by 1.2%, mainly due to the quicker growth of intermediate consumption, where, as a result of autonomous development and a change in the VAT rate, a 2.2% growth is expected compared to the declines in recent years. Stagnation or slight autonomous growth is expected in compensation of employees and social benefits in kind.

In gross capital formation, a growth recovery of approximately 4% is expected after three successive

years of considerable decline. About half of it should have been co-financed from the European sources. Compared to 2009, gross capital formation is at about 60%, and therefore we should expect no further significant decline in investment. The decrease in the nominal amount of investment in the past has thus meant a relatively “unhealthy” use of savings that may result in the creation of implicit debt. If investment activities were equivalent to those in the year at the start of the crisis, the deficit would very probably be, under unchanged circumstances, significantly above 3% of GDP, which would also be true in the years of the outlook.

On the other hand, within the decline in the nominal amount of investment there may be reflected one impact which is hard to quantify, i.e. the quality of public procurement and its control. Robust control could result in the price reduction of winning projects where downward pressure would be felt in gross capital formation in nominal terms. However, this trend would be identified as unambiguously positive since the real amount of investment would remain unchanged. Another pressure on price reduction arises from the unfavourable situation in the construction sector, for example, and thus tougher competition in the submission of tenders for public contracts. These effects could be further magnified from the beginning of the year when the new public procurement act came into force.

Table 2.3: General Government Expenditure (2007–2013)*(in % of GDP)*

	2007	2008	2009	2010	2011	2012	2013
General government expenditure	41.0	41.1	44.7	43.7	43.0	44.5	43.3
government consumption	19.8	19.7	21.5	21.3	20.6	20.7	20.9
social benefits other than social transfers in kind	12.5	12.4	13.5	13.6	13.7	13.9	14.1
gross fixed capital formation	4.2	4.6	5.1	4.3	3.6	3.1	3.2
other expenditure	4.6	4.4	4.5	4.5	5.0	6.8	5.1

Source: CZSO (2013b). Year 2013 MF CR.

In the forecast for 2013, the sale of frequency bands to mobile operators is not being considered, nor is any income from the sale of EU emission allowances, which if implemented would otherwise have improved the balance. According to current cash receipts, development in the area of social benefits is also better than expected in the forecast; loss is also lower because of the introduction of the additional pillar of pension savings.

On the other hand, negative risks to government sector finances are represented by other potential corrections of refunds from the EU, whereby the resulting amount cannot be determined correctly at present. The amount will probably be considerably lower than last year, maybe to the tune of billions. Forecast risks are thus, based on the most current up-to-date data, tilted more to the upside, i.e. so as to improve the balance.

According to the current forecast, we expect growth in the nominal value of government debt throughout the forecast period. With respect to the slowdown of the consolidation rate and lower growth of GDP, we also predict a growth in the debt-to-GDP ratio over the

entire horizon of the Fiscal Outlook forecast. The expected dynamics of the development of total government debt of the Czech Republic have thus deteriorated compared to the last Fiscal Outlook update (MF CR, 2012a). Relative to GDP, the debt should grow from 48.5% in 2013 up to 51.9% in 2016. The level of contributions of both the primary balance and interest costs to the change in the debt-to-GDP ratio should remain virtually unchanged throughout the period. The forecast does not consider privatization incomes as the government has not yet decided to include any other major entities in the privatization process.

From the debt distributional point of view (Table 2.5), the decisive share of the subsector of central government institutions is obvious, and accounted for 94% of the total debt in 2012. This share should increase slightly in future. The local government institutions subsector represents the remaining roughly 6% of total debt, since the indebtedness of social security funds is negligible. Nearly all of central government debt is accounted for by state debt, i.e. debt generated by the state budget.

Table 2.4: Balance of General Government and of Subsectors (2007–2013)

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
General government balance	-0.7	-2.2	-5.8	-4.8	-3.3	-4.4	-2.8
Central government balance	-1.5	-2.4	-4.9	-4.1	-2.7	-4.2	-2.8
Local government balance	0.4	-0.1	-0.6	-0.5	-0.4	-0.1	0.0
Social security funds balance	0.4	0.3	-0.3	-0.2	-0.2	-0.2	0.0
Primary balance	0.4	-1.2	-4.5	-3.4	-1.9	-2.9	-1.3

Source: CZSO (2013b). Year 2013 MF CR.

Table 2.5: Debt of General Government and of Subsectors (2007–2013)

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
General government debt	27.9	28.7	34.2	37.8	40.8	45.8	48.5
Central government debt	25.6	26.4	31.6	35.3	38.3	43.0	45.7
Local government debt	2.4	2.4	2.6	2.6	2.6	2.8	3.0
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: CZSO (2013b). Year 2013 MF CR.

Table 2.6: Stock-flow Adjustment (2007–2013)*(gross debt in % of GDP; all other items in percentage points)*

	2007	2008	2009	2010	2011	2012	2013
Gross debt	27.9	28.7	34.2	37.8	40.8	45.8	48.5
Change in gross debt	-0.3	0.8	5.5	3.6	3.0	4.9	2.8
Decomposition of change in gross debt							
Nominal GDP growth	-2.4	-1.3	0.7	-0.4	-0.4	0.0	-0.2
General government net lending(+)/borrowing(-)	0.7	2.2	5.8	4.8	3.3	4.4	2.8
Other factors	1.3	-0.1	-1.0	-0.8	0.2	0.5	0.1
Difference between cash and accrual	0.0	-1.5	0.8	-0.4	0.8	-2.6	0.5
Net accumulation of financial assets	1.4	1.3	-1.7	-0.3	-0.7	3.2	-0.4
privatisation proceeds	0.3	0.6	0.1	0.0	0.0	0.0	0.0
Revaluation and other factors	-0.1	0.1	-0.1	-0.1	0.1	-0.1	0.0

Source: CZSO (2013b). Year 2013 MF CR.

2.3 International Comparison

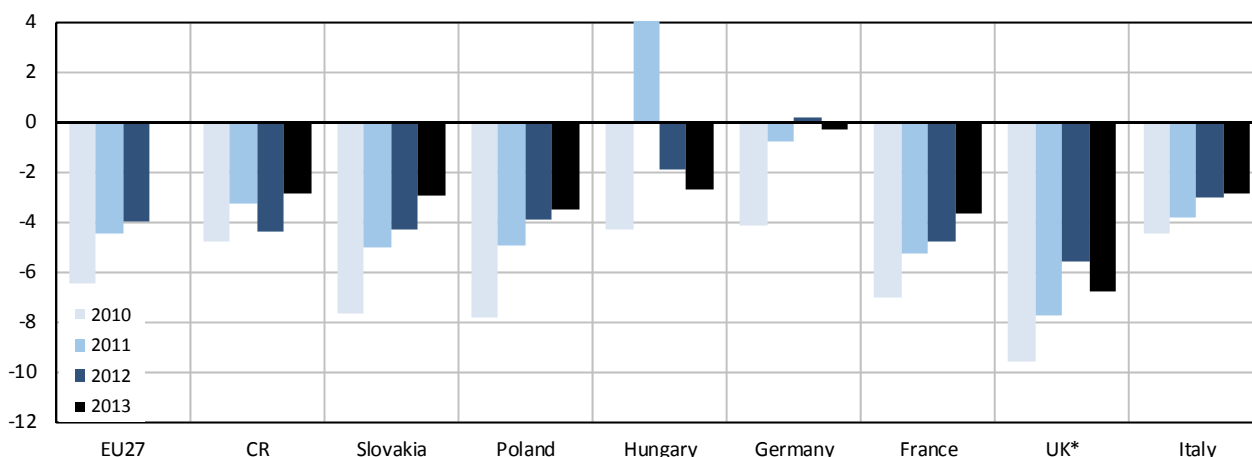
2.3.1 General Government Balance

In 2012, the government sector deficit of the EU27 countries reached the unfavourable value of 4.0% of GDP; nevertheless, following further economic recovery it was 0.4 p.p. lower compared to the previous year of 2011. On this occasion, the CR with a deficit of 4.4% of GDP was above the EU27 average. However, it is necessary to add that the balance has been adversely affected by the volume of total financial compensation in terms of church restitutions and also by corrections of European income flows. Without these two adjustments, the deficit would be below the Maastricht level of 3% of GDP.

In 2012, the worst development in government sector balance was recorded in Spain and Greece, with respective double-digit deficits of 10.6 and 10.0% of GDP. Other high deficits in relative terms were achieved by Ireland (7.6% of GDP), Portugal (6.4% of GDP), Cyprus (6.3% of GDP) and the United Kingdom

(5.6% of GDP for the financial year). The only country that achieved a surplus in 2012 was Germany, with 0.2% of GDP. Sweden and Estonia, generally disciplined countries, did not achieve a positive economic result this time; nevertheless, their deficits were minimal. Hungary proved that its large surplus for 2011 was not accidental, but was due to an extraordinary administrative adjustment of the balance for expenditure intended for its pension reform. The criterion of the Stability and Growth Pact of achieving a deficit level not in excess of 3% of GDP was not fulfilled for 2012 by the CR, nor by another 15 EU countries, while Italy recorded the threshold value.

In 2013, all EU27 countries expect deficit finances in the government sector, although they will only be minimal in the case of Germany, Estonia and Luxembourg.

Graph 2.2: General Government Balance in Selected EU Countries (2010–2013)*(in % of GDP)*

Note: *) Fiscal year data (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.

Source: Eurostat (2013a, 2013b). Data for the United Kingdom data for 2013 are based on its Notification.

The highest deficits should be recorded in Ireland as 7.5% of GDP and in the United Kingdom as 6.8% of GDP – and also in crisis-affected Cyprus (6.0% of GDP) in 2013. Greece, which has generally been known to struggle in this regard, is set to record an unprecedentedly low balance of –1.9% of GDP, which corresponds to the situation in Finland. The Greek deficit in absolute terms should decrease year-on-year more than fivefold in 2013. A better result than in Greece is

expected only in six EU countries. In the case of Slovenia, even though a figure of 4.2% of GDP has been notified, the media has reported plans for reform measures to decrease a budget deficit that is expected to nearly double in 2013 to 7.9% of GDP. A deficit higher than 3% in 2013 is only forecast in nine countries (see Table B.15 in the annex). Compared to 2012, eight countries expect a worse economic result for the government sector in relative terms.

Box 2: The Seventh Enlargement of the European Union – Croatia

On the first day of the Lithuanian Presidency (1 July 2013), Croatia will become the 28th EU Member State. This small, open economy with a high level of foreign debt has been a candidate country since mid-2004. Originally, Croatia was not willing to cooperate with the International Criminal Tribunal for the former Yugoslavia in prosecuting war criminals. With its change in attitude, it met the last condition for starting EU accession negotiations. However, these negotiations did not run entirely smoothly, when as the result of a border dispute in the region of Piran Bay they were blocked for several months in 2009 by Slovenia. Nevertheless, on 30 June 2011 the negotiations were concluded and on 1 December of the same year the European Parliament approved its accession. On 16 December 2011, Croatia signed the Treaty of Accession and on 22 January 2012 this was confirmed by referendum.

After a recession lasting nearly five years (from Q3 of 2008, except for Q3 of 2010 and H1 of 2011), the Croatian government wants to kick start both short- and long-term economic growth by massive investment (also with assistance of European financial mechanisms) in the sectors of science and research, information technology, water management and transport and in the area of electricity production and aviation. Entry to the single internal market promises an inflow of foreign direct investments as well as exports. In order to support investment and increase competitiveness and employment, new legislation has been brought in and a more favourable tax regime has been set up; other measures have also been adopted that should result in strengthening the potential for innovation, increasing the performance of small- and medium-sized enterprises, linking up the education system with the labour market and in greater legal certainty. In 2013, Croatia expects growth in real GDP of 0.7%, in 2014 of 2.4% and in the following years 2015 and 2016 growth of 3.5% (see Graph 2.4).

Table 2.7: Public Sector Development of Croatia (2012–2016)

(in % of GDP)

		2012	2013	2014	2015	2016
Total revenue	<i>TR</i>	38.2	38.4	37.9	37.7	37.2
Market output and output for own final use	<i>P.11+P.12</i>	3.1	3.1	2.9	2.9	2.9
Social contributions, receivable	<i>D.61R</i>	11.7	11.5	11.3	11.0	10.9
Current taxes on income, wealth etc., receivable	<i>D.5R</i>	5.6	5.3	5.1	5.0	4.9
<i>of which</i> personal income tax	<i>D.51A</i>	3.0	2.9	2.9	2.8	2.8
<i>of which</i> corporate income tax	<i>D.51B</i>	2.3	2.1	2.0	1.9	1.9
Value added tax	<i>D.211</i>	12.3	12.7	12.7	12.6	12.6
Taxes and duties on imports excluding VAT	<i>D.212</i>	0.5	0.3	0.2	0.2	0.2
Taxes on products, except VAT and import taxes	<i>D.214</i>	3.9	4.0	3.9	3.7	3.5
Property income, receivable	<i>D.4R</i>	0.5	0.4	0.2	0.2	0.2
Total expenditure	<i>TE</i>	42.0	42.0	41.3	40.8	39.9
Intermediate consumption	<i>P.2</i>	4.6	4.7	4.4	4.2	4.1
Compensation of employees	<i>D1.P</i>	10.7	9.9	9.5	9.2	9.0
Subsidies, payable	<i>D.3P</i>	2.1	2.1	2.0	1.8	1.7
Property income, payable	<i>D.4P</i>	2.7	3.0	3.1	3.0	3.0
Social benefits other than social transfers in kind, payable	<i>D.62P</i>	13.8	13.6	13.2	12.6	12.0
Social transfers in kind	<i>D.63P</i>	3.7	3.1	3.1	2.9	2.8
Other current transfers, payable	<i>D.7P</i>	1.4	1.9	2.3	2.3	2.2
Capital transfers, payable	<i>D.9P</i>	1.4	1.5	1.7	2.4	2.7
Gross capital formation	<i>P.5</i>	1.4	1.8	1.9	2.0	2.0
Net lending (+) / borrowing (-)	<i>B.9</i>	-3.8	-3.6	-3.4	-3.1	-2.6
one-off and temporary measures		0.3	0.4	0.0	0.0	0.0
cyclical balance		-1.7	-1.3	-0.4	0.8	1.9
structural balance		-2.4	-2.7	-3.1	-3.9	-4.5

Source: Economic Programme of Croatia (2013).

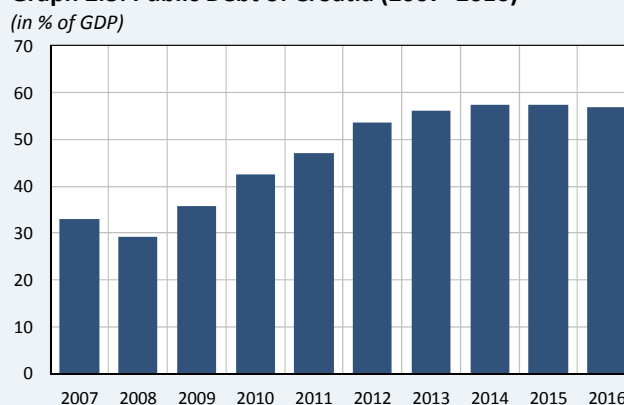
According to the Labour Force Survey, the unemployment rate (Graph 2.6) for the first three quarters of 2012 reached 15.1% (a year-on-year increase of 1.8 p.p.), in 2013 its further increase to about 16% is expected. In the following years, it should decline down to 13% in 2016. The average inflation rate (measured by the consumer price index) increased by 1.1 p.p. to 3.4% in 2012. Administrative factors, including an increase in the VAT base rate from 23 to 25% and the introduction of a VAT reduced rate of 10%, contributed to this rise; without such factors the inflation rate would have reached 1.9%. For the first two months of 2013, the inflation rate increased to 5.1%, while for the whole year it is expected to be 3.2%, then 2.3% in 2014 and 2% in 2015 and 2016 (Graph 2.5). The current account deficit (Graph 2.7) of 0.9% of GDP in 2011 changed in 2012 to a slight excess of 0.1% of GDP thanks to services offered in tourism and also due to a decline in domestic demand for imported goods. Nevertheless, since the beginning of 2012 the Croatian kuna has been under pressure to depreciate against the EUR, forcing the central bank to intervene several times. The current account balance in 2013 is estimated to be 0.6%; in the following years it will be slightly negative in relation to the economic recovery. The banking sector, which is predominantly under foreign ownership with two dominant banks, is very stable with high liquidity. At the end of 2012, average capital adequacy reached a high of 20.6%. The discount rate is now set at 7%.

Croatia is aware of the necessity to continue in fiscal consolidation with the aim of cutting debt-servicing costs, especially that of interest paid, which is nearly 3% of GDP; on the other hand, it does not want to pursue such course at the expense of inhibiting economic growth. The medium-term fiscal policy will be based on strengthening numerical fiscal rules (zero primary balance, debt maximally 60% of GDP and the temporary cutting of expenditure by 1 p.p. of GDP annually as long as the primary deficit is recorded), the independence of the Fiscal Committee and medium-term budgetary planning. Government consumption should decrease by 1.7% in 2013. Investment expenditure will be focused especially on transport infrastructure, health care, education and water management. Modernization of the social and pension system and the implementation of structural changes to the health care system will continue. On the revenues side, from 2013 catering and dining services have been transferred under the reduced VAT rate of 10%, while the zero rate has been abolished (the respective goods and services will be subject to a rate of 5%). Excise taxes will continue to be adapted to EU law. Generally, indirect and property taxes are being strengthened to the detriment of income taxes and social security contributions, while the efficiency of the tax administration in collecting taxes and fighting tax evasion is also increasing. Cash registers, a specialized tax office for large corporations and a centralized payment system for state employees have been introduced. Income taxes for employees are based on progressive sliding rates of 12, 25 and 40%. Large privatization projects in the area of postal services, insurance, railways, shipyards and ship manufacture are also being carried out or planned. Government sector finances according to the ESA 95 methodology in 2012–2016 are shown in Table 2.7.

The Budget Act of 2013 defines the maximum level of total government sector debt at 58% of GDP. At the end of 2012, its real level reached 53.7% of GDP (Graph 2.3), of which slightly above 5% is accounted for by extra-budgetary funds and about 1% by local budgets. Total general government debt increased from nearly 30% of GDP in 2008 up until 2012 by more than 24 p.p.

Most debt is held by local investors and the corresponding share is growing. Approximately two thirds of the debt is accounted for by long-term bonds, about one fourth for loans and 10% for treasury bills. The debt is denominated mainly in EUR (about two thirds), and also in Croatian kunas (over one fourth) or US dollars (around 7%). Four fifths of the debt is bearing fixed interest, the remaining part has a variable interest rate. In terms of implicit obligations, Croatian state guarantees reached 11.7% of GDP at the end of 2012.

Graph 2.3: Public Debt of Croatia (2007–2016)

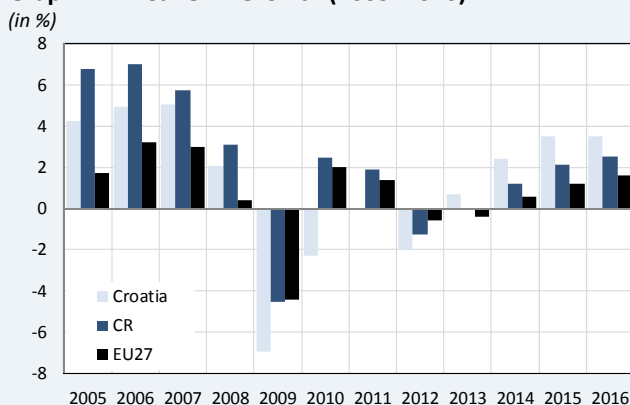


General Characteristics

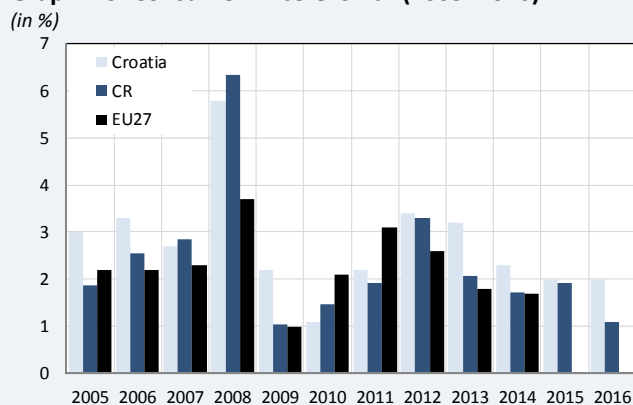
Croatia is a unitary parliamentary republic with nearly 4.5 million inhabitants with its President as head of state. Executive power is held by the President (elected for 5 years), the Prime Minister and the Council of Ministers as the government, while legislative power is held by the unicameral parliament – the “Sabor” (151 deputies, elected for 4 years). In terms of international organizations, it has been a member of the OSCE and UN since 1992, and further of the Council of Europe (1996), WTO (2000), CEFTA (2002), and NATO (2009). As a foundation member, it has been included, as have all EU countries, in the Union for the Mediterranean since 2008. Its currency unit is the kuna (HRK), which is subdivided into 100 lipa and is equal to CZK 3.441 according to the exchange rate valid as of 15 May 2013.

About Government Financial Statistics

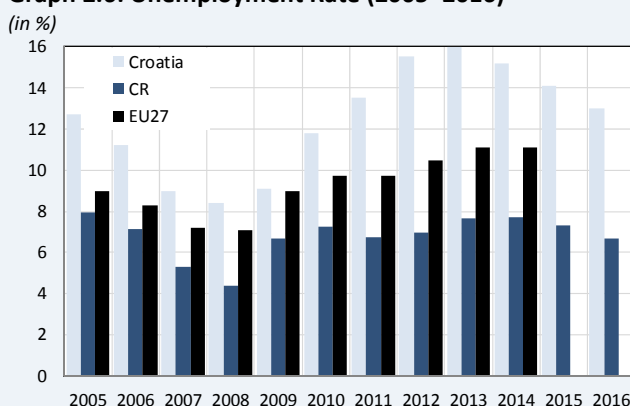
Croatia records government financial statistics under the GFS 2001 methodology. Since 2006, the fiscal notification of government deficit and debt has been recorded under the European ESA 95 methodology; responsibility for its preparation was delegated from the Ministry of Finance to the National Statistical Office, which compiled the notification for the first time in 2013. Non-financial accounts fall within the competence of the National Statistical Office, while the central bank is responsible for financial accounts and debt.

Graph 2.4: Real GDP Growth (2005–2016)

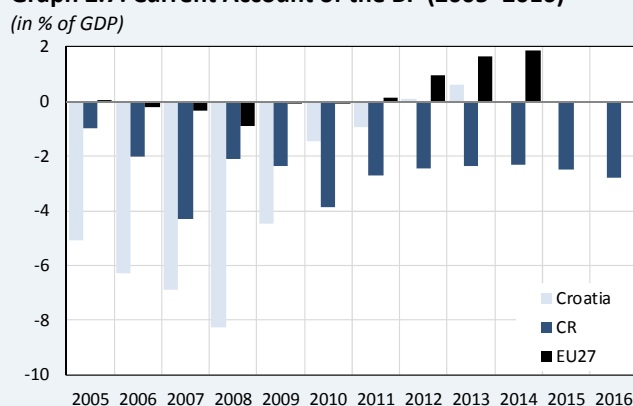
Source: Economic Programme of Croatia (2013) for Croatia, Eurostat (2013a) for the EU27, MF CR (2013b) for the CR.

Graph 2.5: Consumer Price Growth (2005–2016)

Note: CPI series for Croatia and the CR, HICP series for the EU27. Source: Economic Programme of Croatia (2013) for Croatia, Eurostat (2013a) for the EU27, MF CR (2013b) for the CR.

Graph 2.6: Unemployment Rate (2005–2016)

Source: Economic Programme of Croatia (2013) for Croatia, Eurostat (2013a) for the EU27, MF CR (2013b) for the CR.

Graph 2.7: Current Account of the BP (2005–2016)

Source: Economic Programme of Croatia (2013) for Croatia, Eurostat (2013a) for the EU27, MF CR (2013b) for the CR.

2.3.2 General Government Debt

Government sector debt approximately reflects the long-term development of the deficit of the respective country. In the EU27 countries, government sector debt reached 85.3% of GDP in 2012, i.e. it was 2.8 p.p. higher than in 2011.

Based on the government debt indicator, the CR is still relatively well off. However, the acceleration in its growth dynamics over recent years is very alarming. In 2011, general government debt breached two-thirds of the value of the Maastricht debt convergence criterion and in 2012 it had already climbed to 45.8% of GDP. In 2013, its further growth to 48.5% of GDP is expected (for more detail see Subchapter 2.2).

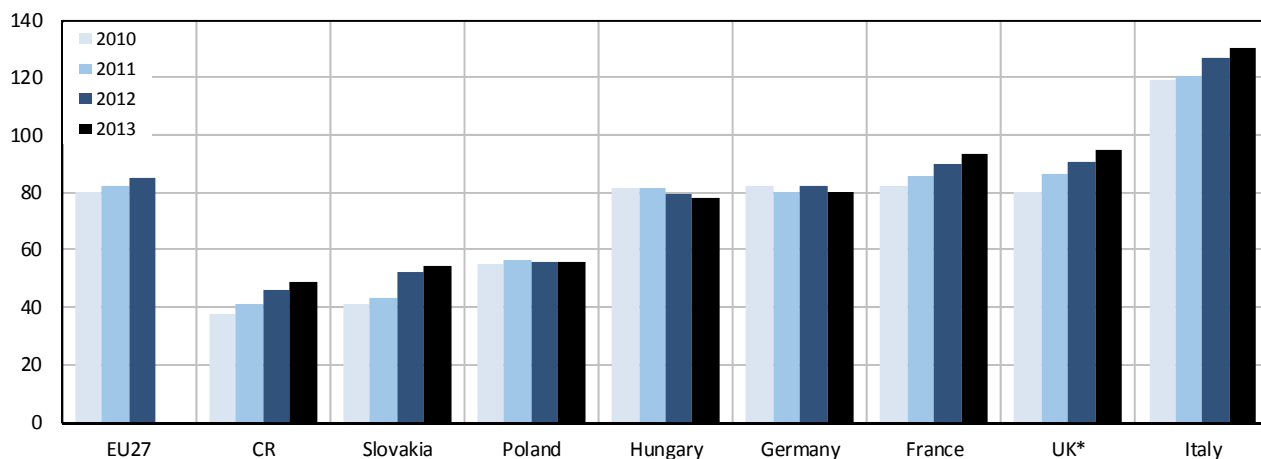
Greece remains the most indebted country in the EU27. Although a portion of total government debt was forgiven by private creditors, resulting in its reduction in absolute terms by approximately 14% in 2012, nevertheless, because of the impact of the continuing economic depression, the relative indicator

of government debt further deepened to 173.7% of GDP.

Other countries that would not be able to cover their general government debts even with the entirety of their annual GDP include Italy, Ireland and Portugal. Belgium, the United Kingdom and France are faring only slightly better. The debt indicator is developing favourably in Denmark and Germany, and, of the new countries, in Bulgaria, Lithuania and Hungary. Debt as a proportion of GDP is easily the lowest in Estonia, although in 2012 it reached a double-digit value for the first time (in absolute terms, debt increased almost twofold year on year). The majority of EU countries are recording a relative worsening in their amounts of debt. During 2009–2013, this trend can be seen most markedly in Ireland, Cyprus and Spain (see Table B.15 in the annex). In 2012 and 2013, 14 countries failed to satisfy the Maastricht debt criterion, i.e. a slight majority of EU countries.

Graph 2.8: General Government Debt in Selected EU Countries (2010–2013)

(in % of GDP)



Note: *) Fiscal year data (from April 1 year t to March 31 year $t+1$), which are relevant to EDP implementation.

Source: Eurostat (2013a, 2013b). Data for the United Kingdom data for 2013 are based on its Notification.

2.3.3 State Debt Financing

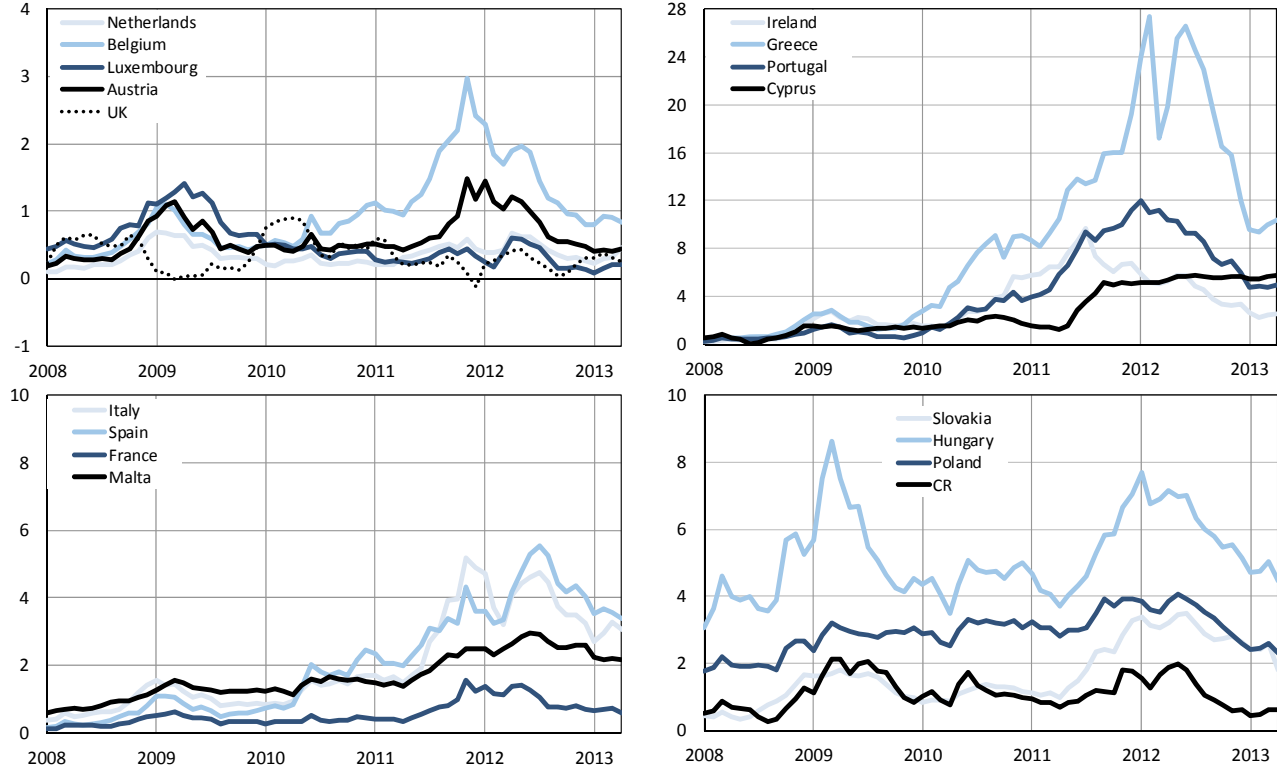
The graphs below show the development of spreads (based on monthly averages) or the differences in yields of ten-year state bonds towards German bonds of the same kind in the period from January 2008 to April 2013. It can be said generally that the development correlates to a certain extent with fiscal indicators of government deficit and debt, but it best characterizes confidence in the given country as a risk premium.

To achieve greater clarity, we have divided the selected EU countries into four groups. The upper graph on the left includes countries with very low spread, where in some periods revenues from British bonds (and those of Denmark and Sweden) were even lower than German ones. It can be said that these states enjoy the highest confidence in the EU. Belgium's relatively higher spreads are caused by the high indebtedness of the government sector. The right

upper and left lower graphs show the development in countries in the south of the eurozone and Ireland, where economic turbulence over recent years has laid bare internal problems and imbalances. France, whose rating has already been reduced several times recently, has been added to this group. In Greece, positively received steps taken by the Greek government over recent months have signalled the possible gradually recovering confidence of investors. Finally, the last group in the lower graph on the right shows the development in those central European countries which have undergone large economic, political and social changes over the last 20 years. Thanks to the trajectory of fiscal consolidation which is already underway, the financial markets perceive the Czech Republic in this geographical region most positively. This is reflected in a low risk surcharge for issued bonds and in lower debt-servicing costs.

Graph 2.9: Spreads between National and German Bonds in EU Countries (January 2008 to April 2013)

(in percentage points)



Note: Spreads are calculated as the difference in yields of 10Y bonds of the specific country and those of Germany.

Source: ESCB (2013). MF CR calculations.

3 Public Finances – GFS 2001 Methodology

This chapter presents data on public budgets under the Government Finance Statistics 2001 standard (hereinafter “GFS 2001”). The basic differences between the current methodology and the methodology used previously are contained, among other items, in the Methodological Manual to the Fiscal Outlook (MF CR, 2012c).

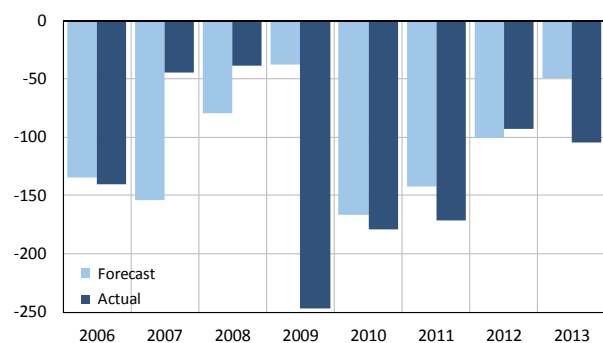
3.1 Public Budgets in 2012

In 2012, the public budget balance improved year-on-year by CZK 78.5 billion and the deficit was CZK 92.9 billion (2.4% of GDP). The public budget balance decreased sharply year-on-year during the continuing economic recession. The public budget result was significantly influenced by continuing fiscal consolidation, the results of which are most apparent for the state budget. Implemented consolidation measures had a positive impact especially on the expenditure side; nevertheless, the revenue side was also partially strengthened thanks to measures taken. Also, in comparison with the budget documentation approved for 2012, the deficit was CZK 8.1 billion lower.

Graph 3.1 shows a comparison of the expected (budgeted) results and those actually achieved in public budget balances during 2006 to 2012, as well as the projected and currently expected deficit for 2013.

Graph 3.1: Public Budget Balance (2006–2013)

(CZK billion)



Source: MF CR.

Compared to the original projections, revenue was CZK 54.4 billion lower, whereby almost identical amounts stemmed from the non-fulfilment of expected revenue from the EU and tax revenue. However, the development of total revenue continued year on year on a trajectory of slight growth. While in 2011 public budget revenue increased by only 0.5% compared to the previous year level, in 2012 the increase was already 4.8%. An increase in the tax burden resulted in the year-on-year growth of the tax-to-GDP ratio, including insurance premium, by 0.8 p.p. to 33.0% of GDP.

Compared to the projections included in the draft state budget for 2012, total tax revenues, including insurance premium for social security and health insurance, were CZK 38.3 billion lower; however, they

did increase by 2.4% year-on-year. Collection declined considerably compared to the budgeted amount for indirect taxes, especially for value-added tax (CZK 30.5 billion). The originally projected collection of excise tax was also CZK 3.1 billion lower. The projected higher collection of these taxes was not fulfilled primarily because of a decline in consumer demand. After several years, the portion of direct taxes increased in the structure of tax revenues. The volume of social security contributions again increased slightly year-on-year; nevertheless, it did not reach either the originally budgeted amount nor (as in the case of income tax) the pre-crisis level of 2008. On the other hand, the collection of corporate income tax, compared to the original budget, was higher (by CZK 4.6 billion) as was that of personal income tax (by CZK 1.3 billion).

Total public budget expenditure was CZK 62.5 billion lower than the original projection. Its amount decreased year-on-year by CZK 9.4 billion, i.e. by 0.6% (compared to last year decline of 0.1%). Operating expenditure was lower by more than CZK 50 billion in comparison with the budget documentation. Significant savings were recorded in costs related to repaying the public budget debt. Interest payments decreased by CZK 3.2 billion in comparison with 2011 (corresponding to a year-on-year decrease of 6.7%). Compared to the budget documentation they were even CZK 31.0 billion lower. This decrease has been especially influenced by the Czech Republic’s high credibility with the financial markets, resulting in a lower risk premium. In comparison with the original budget, there were savings of CZK 18.0 billion in the purchasing of goods and services and also in social benefits (CZK 6.5 billion). In contrast, slightly higher expenditure in comparison with the supporting budget documents was recorded in the category “Others” (CZK 4.0 billion) and in current transfers to private companies (CZK 3.0 billion). The remaining savings were largely generated by purchasing fewer fixed assets (CZK 9.9 billion).

Compared to 2011, the state budget deficit decreased by CZK 41.8 billion to CZK 102.7 billion. In comparison with the supporting budget documents, the state budget deficit was CZK 3.7 billion lower; after taking into account the National Fund’s operations and privatization resources, the deficit was CZK 85.4 billion and was CZK 0.4 billion higher than its originally budgeted amount.

In comparison with the original budget, there was improvement in nearly all public budget entities, with the greatest improvement being recorded in extra-budgetary funds as a whole (CZK 7.5 billion). The positive development of economic results could be seen in nearly all funds, with only the Land Fund of the Czech Republic (now dissolved) and negligibly also the State Fund of Culture showing any deterioration. Municipal governments performed CZK 4.4 billion better, and instead of the deficit expected in the budget documentation we recorded an excess of CZK 1.4 billion. On the other hand, in comparison with the original projections, the deficit of health insurance companies deepened by CZK 3.4 billion to CZK 6.0 billion.

The expected volume of loans and state bonds increased by CZK 195.5 billion year-on-year to CZK

1,760.7 billion. In comparison with 2011, debt increased by 12.5%, which is a 2.8 p.p. higher growth rate than in the previous year. In relative terms, the debt increased by 5.1 p.p. to 45.8% of GDP. This once again slightly increased the weight of state debt within total public indebtedness (it reached 93.4%).

The proportions of the individual segments of public budgets within total indebtedness remain essentially stable. After state debt, municipal governments have the greatest weight in total public debt. Their debt in 2012 compared to the previous year has risen only slightly (by CZK 10.4 billion). The debt of extra-budgetary funds fell by almost one half as a result of a decrease in the debt of the State Environmental Fund and especially of the State Agricultural Intervention Fund.

3.2 Public Budgets in 2013

Drawing up the budget for 2013 was largely determined by the necessity to continue in the fiscal consolidation process in order to achieve the fiscal target set in the Convergence Programme of April 2012 (MF CR, 2012b), i.e. a government sector deficit of 2.9% of GDP (in the ESA 95 methodology). In order to strengthen the revenue side, the Chamber of Deputies of the Parliament of the CR passed a number of acts, especially in the area of taxes and social insurance, and on the expenditure side in the area of social benefits. Other consolidation efforts on the expenditure side will be implemented by further reduction and rationalization of the state administration as well as across-the-board cuts.

In spite of a slight year-on-year increase, the expected total economic result of public finances can be assessed as positive. The public budget balance will increase year-on-year by CZK 11.9 billion and will be CZK -104.7 billion (-2.7% of GDP). In comparison with the budget documentation for 2013, a marked deterioration has taken place. This has been especially caused by a decrease in the expected balance of the National Fund by CZK 45.0 billion to CZK 17.7 billion. The National Fund in the Forecast of August 2012 expected revenues from the EU higher than their transfer to the state budget. The state budget deficit will reach CZK 104.1 billion (compared to the expected CZK 100.6 billion), and it will be CZK 1.4 billion higher year-on-year. There will also be a slight year-on-year deterioration in extra-budgetary funds (by CZK 2.5 billion) and in local governments, the balance of which will be CZK 1.2 billion worse – meaning the excess will thus become a deficit of CZK 0.2 billion. Conversely, public health insurance will see a year-on-year improvement (by CZK 6.3 billion) to an excess of CZK 0.3 billion. In comparison with the budget documentation for 2013, the estimate for the expected economic

result of extra-budgetary funds deteriorated by CZK 1.6 billion and that of health insurance companies by CZK 0.1 billion; in contrast, there will be an improvement for local budgets of CZK 0.7 billion.

The approved measures on the revenue side will lead to a further year-on-year increase in revenues (the dynamics of which will be, however, 1.0 p.p. lower than in 2012) and thus growth should be 3.9%. Expenditure should increase by 4.4% year-on-year. Tax revenues (without insurance premium for social security and public health insurance) will increase by 3.1% (CZK 22.2 billion). The expected favourable development of the wage bill, together with a number of newly taken measures, will lead to a faster year-on-year increase in the collection of direct taxes of 5.0%. Indirect taxes will grow by 1.9%. On the expenditure side, it is possible to expect slight savings in social benefits.

In 2013, public budget debt will increase more slowly year-on-year by 6.7 p.p., and will be 5.8%. The expected debt will thus increase by CZK 102.3 billion to CZK 1,862.9 billion. As a proportion of GDP, compared to 2012 it will increase by 2.4 p.p. to 48.2%. The weight of state debt in the aforementioned indebtedness will again increase slightly and will reach 93.6%. Its year-on-year dynamics in comparison with 2012 will also slow down by 6.9 p.p. to 6.0%.

The proportions of the individual segments of public budgets within total indebtedness will essentially continue to remain stable in 2013. The debt of local governments in 2013 in comparison with the previous year will grow more slowly. On the other hand, a further relatively large decrease in the amount of debt of extra-budgetary funds can be expected. Indebtedness is recorded, as in 2012, by the State Environmental Fund and especially by the State Agricultural Intervention Fund.

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A Annex of Tables – GFS 2001 Methodology

Table A.1: Consolidated General Government – Revenue

(CZK billion)

	2006	2007	2008	2009	2010	2011	2012
Total revenue	1248	1391	1478	1384	1423	1430	1499
Revenue from operating activities	1233	1377	1461	1355	1401	1418	1486
Taxes	638	716	743	660	691	706	728
Taxes on income, profits, and capital gains	279	318	331	255	261	257	271
Payable by individuals	137	151	143	128	131	134	137
Payable by corporations and other enterprises	142	166	188	127	130	123	134
Taxes on property	13	16	16	14	16	20	21
Taxes on goods and services	346	382	396	391	413	428	436
Value added tax ¹	213	230	249	248	264	269	273
Excises	120	139	133	131	138	147	147
Social contributions	473	522	548	510	517	533	541
Social security contributions	457	505	530	496	503	519	526
Employee contributions	113	123	130	114	117	120	122
Employer contributions	316	346	365	338	349	359	365
Self-employed or nonemployed contributions	27	33	33	39	35	37	37
Other social contributions	16	17	18	14	14	14	14
Grants	36	47	60	80	85	74	112
From international organizations	36	47	60	79	85	73	111
Current	20	23	27	33	36	40	41
Capital	16	24	34	46	48	33	70
Other revenue	86	92	110	106	108	105	106
Property income	22	23	34	34	35	30	29
Interest	6	7	10	7	7	3	4
Dividends	10	10	16	19	20	19	17
Sales of goods and services	37	41	43	43	44	48	49
Sales of market establishments	20	19	19	20	20	22	21
Administrative fees	16	21	24	23	24	25	27
Fines, penalties, and forfeits	5	5	4	5	5	4	4
Voluntary transfers other than grants	12	13	12	15	16	13	13
Miscellaneous and unidentified revenue	10	9	17	9	8	11	11
Sales of nonfinancial assets	15	14	17	29	22	12	12
Fixed assets	9	7	10	9	10	6	6
Nonproduced assets	6	7	8	19	12	6	6

Note: 1) VAT consistent with the GFS 2001 methodology is reduced by the EU budget levies.

Source: MF CR.

Table A.2: Consolidated General Government – Revenue*(in % of GDP)*

	2006	2007	2008	2009	2010	2011	2012
Total revenue	37.2	38.0	38.4	36.8	37.4	37.2	39.0
Revenue from operating activities	36.8	37.6	38.0	36.1	36.9	36.9	38.7
Taxes	19.0	19.5	19.3	17.6	18.2	18.4	18.9
Taxes on income, profits, and capital gains	8.3	8.7	8.6	6.8	6.9	6.7	7.0
Payable by individuals	4.1	4.1	3.7	3.4	3.5	3.5	3.6
Payable by corporations and other enterprises	4.2	4.5	4.9	3.4	3.4	3.2	3.5
Taxes on property	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Taxes on goods and services	10.3	10.4	10.3	10.4	10.9	11.1	11.3
Value added tax ¹	6.4	6.3	6.5	6.6	6.9	7.0	7.1
Excises	3.6	3.8	3.5	3.5	3.6	3.8	3.8
Social contributions	14.1	14.3	14.2	13.6	13.6	13.9	14.1
Social security contributions	13.6	13.8	13.8	13.2	13.2	13.5	13.7
Employee contributions	3.4	3.4	3.4	3.0	3.1	3.1	3.2
Employer contributions	9.4	9.4	9.5	9.0	9.2	9.4	9.5
Self-employed or nonemployed contributions	0.8	0.9	0.9	1.0	0.9	1.0	1.0
Other social contributions	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Grants	1.1	1.3	1.6	2.1	2.2	1.9	2.9
From international organizations	1.1	1.3	1.6	2.1	2.2	1.9	2.9
Current	0.6	0.6	0.7	0.9	1.0	1.0	1.1
Capital	0.5	0.7	0.9	1.2	1.3	0.9	1.8
Other revenue	2.6	2.5	2.8	2.8	2.8	2.7	2.8
Property income	0.7	0.6	0.9	0.9	0.9	0.8	0.8
Interest	0.2	0.2	0.3	0.2	0.2	0.1	0.1
Dividends	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Sales of goods and services	1.1	1.1	1.1	1.1	1.2	1.2	1.3
Sales of market establishments	0.6	0.5	0.5	0.5	0.5	0.6	0.5
Administrative fees	0.5	0.6	0.6	0.6	0.6	0.7	0.7
Fines, penalties, and forfeits	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Voluntary transfers other than grants	0.4	0.4	0.3	0.4	0.4	0.3	0.3
Miscellaneous and unidentified revenue	0.3	0.3	0.4	0.2	0.2	0.3	0.3
Sales of nonfinancial assets	0.5	0.4	0.4	0.8	0.6	0.3	0.3
Fixed assets	0.3	0.2	0.2	0.3	0.3	0.1	0.2
Nonproduced assets	0.2	0.2	0.2	0.5	0.3	0.2	0.2

Note: 1) VAT consistent with the GFS 2001 methodology is reduced by the EU budget levies.

Source: MF CR.

Table A.3: Consolidated General Government – Expenditure*(CZK billion)*

	2006	2007	2008	2009	2010	2011	2012
Total expense	1 389	1 436	1 517	1 631	1 602	1 601	1 592
Expense for operating activities	1 290	1 346	1 421	1 513	1 495	1 508	1 507
Compensation of employees	128	136	141	147	146	136	136
Wages and salaries	96	102	106	111	111	103	103
Social contributions	31	34	35	35	35	33	34
Actual social contributions	31	34	35	35	35	33	34
Use of goods and services	126	125	133	148	142	129	122
Interest	34	37	45	50	42	48	45
Subsidies	254	266	273	302	300	308	314
To public corporations	180	187	206	206	205	205	207
To private enterprises	74	79	66	96	95	103	107
Grants	24	27	29	30	31	34	33
To international organizations	24	27	29	30	31	34	33
Current	24	27	29	30	31	34	33
Social benefits	544	588	618	664	671	687	704
Social security benefits	544	588	618	664	671	687	704
Other expense	181	168	182	173	164	166	152
Miscellaneous other expense	181	168	182	173	164	166	152
Current	29	25	31	32	34	31	35
Capital	153	143	151	141	130	135	117
Purchases of nonfinancial assets	99	90	96	118	107	93	85
Fixed assets	96	87	93	116	105	92	83
Nonproduced assets	3	2	3	2	2	1	2

Source: MF CR.

Table A.4: Consolidated General Government – Expenditure*(in % of GDP)*

	2006	2007	2008	2009	2010	2011	2012
Total expense	41.4	39.2	39.4	43.4	42.2	41.7	41.4
Expense for operating activities	38.5	36.7	36.9	40.3	39.3	39.3	39.2
Compensation of employees	3.8	3.7	3.7	3.9	3.8	3.5	3.5
Wages and salaries	2.9	2.8	2.8	3.0	2.9	2.7	2.7
Social contributions	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Actual social contributions	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Use of goods and services	3.7	3.4	3.5	3.9	3.7	3.4	3.2
Interest	1.0	1.0	1.2	1.3	1.1	1.2	1.2
Subsidies	7.6	7.3	7.1	8.0	7.9	8.0	8.2
To public corporations	5.4	5.1	5.4	5.5	5.4	5.3	5.4
To private enterprises	2.2	2.2	1.7	2.6	2.5	2.7	2.8
Grants	0.7	0.7	0.8	0.8	0.8	0.9	0.9
To international organizations	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Current	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Social benefits	16.2	16.0	16.1	17.7	17.7	17.9	18.3
Social security benefits	16.2	16.0	16.1	17.7	17.6	17.9	18.3
Other expense	5.4	4.6	4.7	4.6	4.3	4.3	4.0
Miscellaneous other expense	5.4	4.6	4.7	4.6	4.3	4.3	4.0
Current	0.9	0.7	0.8	0.8	0.9	0.8	0.9
Capital	4.6	3.9	3.9	3.8	3.4	3.5	3.1
Purchases of nonfinancial assets	3.0	2.5	2.5	3.1	2.8	2.4	2.2
Fixed assets	2.9	2.4	2.4	3.1	2.8	2.4	2.2
Nonproduced assets	0.1	0.1	0.1	0.1	0.1	0.0	0.0

Source: MF CR.

Table A.5: Consolidated General Government – Balance*(CZK billion, % of GDP)*

	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>							
Cash deficit/surplus	-141	-44	-39	-248	-180	-171	-93
Fiscal targeting cash deficit/surplus	-101	-38	-37	-230	-151	-131	-106
Deficit / surplus of operating balance	-57	31	40	-158	-94	-90	-21
Deficit / surplus of primary balance	-107	-7	6	-198	-137	-124	-48
<i>% of GDP</i>							
Cash deficit/surplus	-4.2	-1.2	-1.0	-6.6	-4.7	-4.5	-2.4
Fiscal targeting cash deficit/surplus	-3.0	-1.1	-1.0	-6.1	-4.0	-3.4	-2.7
Deficit / surplus of operating balance	-1.7	0.9	1.0	-4.2	-2.5	-2.3	-0.5
Deficit / surplus of primary balance	-3.2	-0.2	0.1	-5.3	-3.6	-3.2	-1.3

Source: MF CR.

Table A.6: General Government Balance Structure*(CZK billion)*

	2006	2007	2008	2009	2010	2011	2012
State budget ¹	-138	-63	-78	-221	-176	-157	-85
Extrabudgetary funds total	-1	-10	12	5	3	-8	-3
Social security funds	3	17	11	-6	-7	-5	-6
Local governments	-4	11	16	-25	0	-1	1
Cash deficit/surplus	-141	-44	-39	-248	-180	-171	-93

Note: 1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2006–2007 incl. Czech Consolidation Agency loss remuneration from state bonds.

Source: MF CR.

Table A.7: Fiscal Targeting Balance Structure*(CZK billion)*

	2006	2007	2008	2009	2010	2011	2012
State budget ¹	-98	-55	-75	-206	-140	-114	-91
Extrabudgetary funds total	-1	-10	12	5	2	-8	-8
Social security funds	3	17	11	-6	-7	-5	-6
Local governments	-4	9	15	-22	-7	-5	0
Fiscal targeting cash deficit/surplus	-101	-38	-37	-230	-151	-131	-106

Note: 1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2006–2007 incl. Czech Consolidation Agency loss remuneration from state bonds.

Source: MF CR.

Table A.8: Consolidated General Government – Sources and Use*(CZK billion)*

	2006	2007	2008	2009	2010	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash receipts from operating activities	1 233	1 377	1 461	1 355	1 401	1 418	1 486
Taxes	638	716	743	660	691	706	728
Social contributions	473	522	548	510	517	533	541
Grants	36	47	60	80	85	74	112
Other receipts	86	92	110	106	108	105	106
Cash payments for operating activities	1 290	1 346	1 421	1 513	1 495	1 508	1 507
Compensation of employees	128	136	141	147	146	136	136
Purchases of goods and services	126	125	133	148	142	129	122
Interest	34	37	45	50	42	48	45
Subsidies	254	266	273	302	300	308	314
Grants	24	27	29	30	31	34	33
Social benefits	544	588	618	664	671	687	704
Other payments	181	168	182	173	164	166	152
Net cash inflow from operating activities	-57	31	40	-158	-94	-90	-21
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:							
Purchases of nonfinancial assets	99	90	96	118	107	93	85
Fixed assets	96	87	93	116	105	92	83
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	3	2	3	2	2	1	2
Sales of nonfinancial assets	15	14	17	29	22	12	12
Fixed assets	9	7	10	9	10	6	6
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	6	7	8	19	12	6	6
Net cash outflow: investments in nonfinancial assets	84	76	79	90	86	82	72
Cash surplus / deficit	-141	-44	-39	-248	-180	-171	-93

Source: MF CR.

Table A.9: Consolidated General Government – Debt*(CZK billion, % of GDP)*

	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>							
Consolidated general government debt	878	973	1 071	1 258	1 426	1 565	1 761
State debt consolidated	794	882	980	1 160	1 324	1 461	1 649
Extrabudgetary funds	1	4	1	1	3	2	1
Social security funds	0	0	0	0	0	0	0
Local governments	89	91	95	100	102	105	115
<i>% of GDP</i>							
Consolidated general government debt	26.2	26.6	27.8	33.5	37.5	40.7	45.8
Consolidated state debt	23.7	24.1	25.5	30.8	34.8	38.0	42.9
Extrabudgetary funds	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Social security funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	2.7	2.5	2.5	2.7	2.7	2.7	3.0

Source: MF CR.

B Annex of Tables – ESA 95 Methodology

The data on government revenue and expenditure are consolidated at the relevant levels. The consolidation stands for exclusion of flows of interest, current and capital transfers in a subsector and also between different subsectors of the government sector.

Table B.1: General Government Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total revenue	1164	1185	1239	1328	1476	1499	1462	1481	1528	1542
Current taxes on income, wealth, etc.	247	268	276	296	330	308	272	262	275	276
Social contributions ¹⁾	421	453	482	525	577	599	560	578	592	600
Taxes on production and imports ²⁾	285	326	343	353	395	407	415	423	445	460
Capital taxes ³⁾	1	1	1	1	0	0	0	0	0	0
Property income	23	22	21	25	27	30	31	31	28	29
Interest	16	13	12	12	15	11	9	8	6	7
Other property income	7	9	9	13	13	19	22	23	22	22
Sales ⁴⁾	78	78	80	82	95	103	104	99	102	103
Other current transfers and subsidies	18	28	26	26	24	22	27	33	32	34
Investment grants	3	3	5	14	15	27	50	53	51	38
Other capital transfers	88	7	5	5	13	3	3	3	3	1
<i>% growth</i>										
Total revenue	16.1	1.8	4.6	7.2	11.2	1.5	-2.4	1.3	3.2	0.9
Current taxes on income, wealth, etc.	10.2	8.3	3.1	7.3	11.5	-6.9	-11.7	-3.4	4.8	0.5
Social contributions ¹⁾	5.9	7.4	6.5	8.8	9.9	3.9	-6.6	3.2	2.5	1.3
Taxes on production and imports ²⁾	7.2	14.4	5.2	3.0	11.9	2.9	2.0	1.9	5.2	3.5
Capital taxes ³⁾	15.6	-28.1	18.5	9.2	-42.4	-44.8	-8.2	-3.4	0.9	-0.4
Property income	-18.8	-6.2	-5.9	23.1	7.2	11.9	3.2	-2.2	-8.3	3.0
Interest	-23.6	-19.4	-7.5	3.4	18.3	-24.5	-17.5	-14.7	-18.5	17.9
Other property income	-6.1	22.7	-3.6	50.2	-3.3	53.9	15.0	2.9	-4.8	-1.3
Sales ⁴⁾	13.5	0.5	2.7	2.5	15.9	8.2	1.2	-5.2	3.8	0.2
Other current transfers and subsidies	27.7	53.2	-7.1	-2.7	-7.8	-8.2	26.0	20.7	-1.8	4.7
Investment grants	201.5	10.1	62.8	187.1	1.0	86.1	84.7	5.0	-4.1	-24.8
Other capital transfers	4160.8	-92.3	-21.8	2.3	147.0	-78.0	-3.0	5.7	-5.9	-50.5
<i>% of GDP</i>										
Total revenue	43.3	40.4	39.8	39.6	40.3	38.9	38.9	39.0	39.8	40.1
Current taxes on income, wealth, etc.	9.2	9.1	8.9	8.8	9.0	8.0	7.2	6.9	7.2	7.2
Social contributions ¹⁾	15.7	15.5	15.5	15.7	15.7	15.6	14.9	15.2	15.4	15.6
Taxes on production and imports ²⁾	10.6	11.1	11.0	10.5	10.8	10.6	11.0	11.1	11.6	12.0
Capital taxes ³⁾	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.9	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.7	0.8
Interest	0.6	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2
Other property income	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.6	0.6
Sales ⁴⁾	2.9	2.7	2.6	2.4	2.6	2.7	2.8	2.6	2.7	2.7
Other current transfers and subsidies	0.7	1.0	0.8	0.8	0.6	0.6	0.7	0.9	0.8	0.9
Investment grants	0.1	0.1	0.2	0.4	0.4	0.7	1.3	1.4	1.3	1.0
Other capital transfers	3.3	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.1	0.0

Note: 1) Compulsory and voluntary payments of employers (on behalf of employees), employees, self-employed and self-payers to social security institutions and health insurance enterprises.

2) Compulsory payments, which are levied by general government, in respect of the production or import and/or usage of production factors (for example VAT, excises etc.).

3) Irregular taxes to the government on the values of the property, assets or net worth owned by institutional (e.g. inheritance tax, gift tax).

4) Consists of market output, output produced for own final use and payments for other non-market output.

Source: CZSO (2013b).

Table B.2: General Government Tax Revenue and Social Contributions

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Taxes and social contributions	954	1047	1102	1175	1303	1314	1246	1263	1312	1337
Current taxes on income, wealth, etc.	247	268	276	296	330	308	272	262	275	276
individuals or households	125	136	138	139	156	142	136	132	143	144
corporations	119	129	135	154	171	162	132	127	129	129
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	3	2	3	3	3	3	3	3	3	4
Social security contributions	421	453	482	525	577	599	560	578	592	600
Actual social contributions	421	452	482	524	576	599	559	577	592	599
of employers	271	290	309	332	364	380	350	368	378	383
of employees	95	101	108	117	128	133	112	117	120	122
of self- and non-employed persons	56	61	65	75	85	86	97	93	94	95
Imputed social contributions	0	0	0	0	0	0	1	1	1	1
Taxes on production and imports	285	326	343	353	395	407	415	423	445	460
Taxes on products ¹⁾	271	313	330	340	381	392	401	406	424	441
VAT	164	202	211	209	227	255	254	259	265	273
Excises	88	99	111	121	143	126	137	138	150	152
Other taxes on products ²⁾	20	11	9	10	12	12	9	9	9	16
Other taxes on production ³⁾	13	13	13	13	14	14	14	16	21	19
Capital taxes	1	1	1	1	0	0	0	0	0	0
<i>% growth</i>										
Taxes and social contributions	7.4	9.7	5.2	6.6	10.9	0.8	-5.1	1.3	3.9	1.9
Current taxes on income, wealth, etc.	10.2	8.3	3.1	7.3	11.5	-6.9	-11.7	-3.4	4.8	0.5
individuals or households	9	9	1	1	12	-9	-4	-3	8	1
corporations	11	8	5	14	11	-5	-18	-4	1	0
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	12.1	-7.1	17.4	5.0	4.8	0.2	3.1	0.8	-3.5	8.0
Social security contributions	5.9	7.4	6.5	8.8	9.9	3.9	-6.6	3.2	2.5	1.3
Actual social contributions	5.9	7.4	6.5	8.9	9.9	3.9	-6.7	3.3	2.5	1.3
of employers	5.8	7.0	6.5	7.7	9.4	4.5	-7.9	5.1	2.7	1.4
of employees	5.9	6.8	6.9	7.6	9.5	4.4	-15.8	4.2	2.8	1.5
of self- and non-employed persons	6.2	10.4	5.6	16.5	12.6	0.7	13.0	-4.1	1.4	0.9
Imputed social contributions	17.5	36.6	-1.5	2.0	-26.2	-4.7	190.5	-27.5	23.2	9.1
Taxes on production and imports	7.2	14.4	5.2	3.0	11.9	2.9	2.0	1.9	5.2	3.5
Taxes on products ¹⁾	7.4	15.2	5.5	2.9	12.2	3.0	2.1	1.4	4.4	4.0
VAT	5.9	23.0	4.2	-0.8	8.6	12.3	-0.3	1.9	2.5	2.9
Excises	10.0	13.4	11.4	9.4	17.9	-11.5	8.8	0.9	8.2	1.3
Other taxes on products ²⁾	8.4	-41.6	-22.4	11.5	17.8	-0.5	-20.0	-3.8	0.1	84.1
Other taxes on production ³⁾	3.4	-1.7	-1.7	4.2	5.2	-1.1	1.3	14.7	26.4	-7.4
Capital taxes	15.6	-28.1	18.5	9.2	-42.4	-44.8	-8.2	-3.4	0.9	-0.4

Note: 1) Taxes that are payable per unit of good or service produced or transacted.

2) This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.

3) All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).

Source: CZSO (2013b).

Table B.3: General Government Tax Revenue and Social Contributions*(in % of GDP)*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes and social contributions	35.5	35.7	35.4	35.0	35.6	34.1	33.2	33.2	34.2	34.8
Current taxes on income, wealth, etc.	9.2	9.1	8.9	8.8	9.0	8.0	7.2	6.9	7.2	7.2
individuals or households	4.7	4.7	4.4	4.2	4.3	3.7	3.6	3.5	3.7	3.8
corporations	4.4	4.4	4.3	4.6	4.7	4.2	3.5	3.4	3.4	3.3
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.7	15.5	15.5	15.7	15.7	15.6	14.9	15.2	15.4	15.6
Actual social contributions	15.7	15.4	15.5	15.6	15.7	15.6	14.9	15.2	15.4	15.6
of employers	10.1	9.9	9.9	9.9	9.9	9.9	9.3	9.7	9.8	10.0
of employees	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.1	3.1	3.2
of self- and non-employed persons	2.1	2.1	2.1	2.3	2.3	2.2	2.6	2.4	2.4	2.5
Imputed social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	10.6	11.1	11.0	10.5	10.8	10.6	11.0	11.1	11.6	12.0
Taxes on products ¹⁾	10.1	10.7	10.6	10.1	10.4	10.2	10.7	10.7	11.0	11.5
VAT	6.1	6.9	6.8	6.2	6.2	6.6	6.8	6.8	6.9	7.1
Excises	3.3	3.4	3.5	3.6	3.9	3.3	3.7	3.6	3.9	3.9
Other taxes on products ²⁾	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.4
Other taxes on production ³⁾	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Capital taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: 1) Taxes that are payable per unit of good or service produced or transacted.

2) This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.

3) All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).

Source: CZSO (2013b).

Table B.4: Central Government Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total revenue	835	830	845	900	1006	1013	970	986	1026	1036
Current taxes on income, wealth, etc.	177	192	184	198	221	204	180	175	183	184
Social contributions	277	300	319	343	376	392	352	365	374	378
Taxes on production and imports	239	270	272	283	319	320	328	332	352	367
Capital taxes	1	1	1	1	0	0	0	0	0	0
Property income	17	14	14	18	19	22	24	24	21	21
Sales	28	28	29	30	38	40	38	41	43	45
Other revenue	97	25	27	28	32	35	48	50	51	41
<i>% growth</i>										
Total revenue	19.0	-0.6	1.7	6.6	11.7	0.7	-4.2	1.7	4.0	1.0
Current taxes on income, wealth, etc.	10.4	8.6	-4.2	7.7	11.9	-7.8	-11.8	-3.0	4.9	0.4
Social contributions	5.5	8.3	6.2	7.5	9.8	4.3	-10.4	3.7	2.7	1.0
Taxes on production and imports	7.1	13.1	0.7	3.8	12.8	0.2	2.6	1.4	6.0	4.1
Capital taxes	15.0	-28.7	18.8	10.0	-42.6	-45.7	-10.4	-2.7	-2.3	2.3
Property income	-23.3	-14.8	-1.2	30.6	5.9	10.8	9.8	0.6	-10.0	-1.7
Sales	15.5	-0.4	2.9	3.8	26.4	6.0	-4.4	6.8	6.0	5.4
Other revenue	918.3	-73.8	4.3	7.2	10.9	10.3	38.3	4.1	2.3	-20.8

Source: CZSO (2013b).

Table B.5: Local Government Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total revenue	328	348	352	376	410	416	431	429	422	390
Current taxes on income, wealth, etc.	70	76	92	98	109	103	92	88	92	92
Social contributions	0	0	0	0	0	0	0	0	0	0
Taxes on production and imports	46	56	71	70	76	87	87	90	92	93
Capital taxes	0	0	0	0	0	0	0	0	0	0
Property income	6	7	6	7	7	7	7	6	6	8
Sales	50	50	51	52	57	63	66	58	59	57
Other revenue	157	160	132	148	160	155	179	186	172	139
<i>% growth</i>										
Total revenue	22.3	6.1	1.2	6.7	9.0	1.5	3.6	-0.5	-1.6	-7.6
Current taxes on income, wealth, etc.	9.7	7.7	21.8	6.6	10.7	-5.0	-11.4	-4.2	4.7	0.5
Social contributions	4.2	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6	36.7	-21.1
Taxes on production and imports	7.3	21.7	27.3	-0.3	8.2	13.8	0.1	3.7	2.3	1.4
Capital taxes	-	80.0	0.0	-55.6	0.0	50.0	83.3	-18.2	77.8	-37.5
Property income	-3.1	17.4	-15.5	5.6	6.3	5.8	-10.8	-4.7	-0.9	22.1
Sales	12.6	1.0	2.6	1.8	10.0	9.6	4.7	-12.1	2.2	-3.5
Other revenue	40.5	1.9	-17.4	12.4	8.0	-3.1	15.6	3.9	-7.6	-19.3

Source: CZSO (2013b).

Table B.6: Social Security Funds Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total revenue	146	159	170	185	203	211	211	216	221	224
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	144	153	163	182	200	207	208	213	218	222
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	0	0	0	0	1	1	1	1	0	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	2	6	6	2	2	2	2	2	3	2
<i>% growth</i>										
Total revenue	7.2	8.8	6.7	9.0	10.1	3.6	0.2	2.1	2.4	1.7
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	6.7	5.9	7.1	11.4	10.0	3.2	0.4	2.6	2.2	2.0
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	-32.7	-8.6	22.1	30.0	75.3	111.3	-23.9	-46.2	-18.6	-32.5
Sales	-25.4	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	-7.9	0.0
Other revenue	132.0	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5	29.2	-20.0

Source: CZSO (2013b).

Table B.7: General Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total expenditure	1344	1268	1340	1407	1503	1584	1680	1662	1653	1710
Compensation of employees	214	222	238	252	269	280	293	286	280	281
Intermediate consumption	196	193	206	211	219	228	238	235	224	220
Social benefits other than in kind ¹⁾	345	359	375	408	456	477	509	518	527	534
Social benefits in kind	153	163	170	174	187	199	219	222	228	233
Property income	28	32	34	35	40	40	48	51	53	56
Interest	28	32	34	35	40	39	47	51	53	56
Other property income	0	0	0	0	0	0	0	0	0	0
Subsidies	67	57	53	60	61	62	75	71	80	77
Gross fixed capital formation	182	123	132	150	153	176	192	164	140	119
Capital transfers ²⁾	124	86	152	119	79	104	90	61	57	121
Investment grants ³⁾	37	37	36	38	37	36	34	33	37	35
Other capital transfers	88	50	116	81	42	68	56	28	20	87
Other expenditure	35	31	-20	-4	40	18	16	54	65	68
Final consumption expenditure	610	630	667	694	726	759	809	807	793	795
Collective consumption ⁴⁾	310	302	336	349	363	380	399	398	380	381
Individual consumption	300	328	331	345	363	380	410	409	412	414
<i>% growth</i>										
Total expenditure	14.8	-5.7	5.7	5.0	6.8	5.3	6.1	-1.1	-0.5	3.4
Compensation of employees	11.8	3.7	7.1	6.1	6.4	4.1	4.7	-2.5	-2.1	0.6
Intermediate consumption	12.9	-1.4	6.5	2.9	3.4	4.2	4.6	-1.4	-4.7	-1.8
Social benefits other than in kind ¹⁾	3.8	4.1	4.5	8.7	11.8	4.5	6.8	1.7	1.8	1.3
Social benefits in kind	5.5	6.7	4.0	2.1	7.8	6.1	10.3	1.5	2.3	2.4
Property income	-4.5	12.3	7.7	3.8	12.8	-0.9	20.2	7.6	2.9	6.6
Interest	-4.5	12.3	7.7	3.7	12.8	-0.9	20.2	7.7	2.9	6.6
Other property income	-25.4	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9	16.7	-40.0
Subsidies	19.7	-14.3	-7.4	13.4	1.0	2.4	20.0	-4.5	11.9	-3.1
Gross fixed capital formation	131.4	-32.2	7.4	13.6	1.6	15.2	8.9	-14.5	-14.6	-15.2
Capital transfers ²⁾	-9.9	-30.3	76.0	-21.6	-34.2	32.8	-13.8	-32.1	-6.6	113.1
Investment grants ³⁾	-3.0	1.1	-3.5	7.4	-3.4	-2.0	-5.7	-3.8	12.0	-5.4
Other capital transfers	-12.5	-43.4	135.1	-30.4	-48.7	63.7	-18.2	-49.4	-28.3	329.1
Final consumption expenditure	9.5	3.3	5.9	4.0	4.6	4.6	6.6	-0.2	-1.8	0.4
Collective consumption ⁴⁾	12.3	-2.3	11.2	3.9	3.8	4.7	5.0	-0.2	-4.4	0.2
Individual consumption	6.8	9.1	1.1	4.1	5.3	4.5	8.1	-0.2	0.7	0.6

Note: 1) Social benefits, which should serve households to relieve their costs or losses stemming from existence or development of some risks or needs. Mainly benefits paid in case of old age, disability, sickness, motherhood, unemployment, work injury, work sickness, current social need etc.

2) Transactions of capital distribution, which have no influence either on beneficiary's ordinary income or these transaction's payer but on amount of their net property. Both in cash and in kind.

3) Capital transfers in cash or in kind made by governments to other institutional units to finance all or part of the costs of their gross fixed capital formation.

4) Value of all collective services provided to the whole society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development and economy.

Source: CZSO (2013b), MF CR.

Table B.8: General Government Expenditure*(in % of GDP)*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total expenditure	50.0	43.3	43.0	42.0	41.0	41.1	44.7	43.7	43.0	44.5
Compensation of employees	8.0	7.6	7.6	7.5	7.3	7.3	7.8	7.5	7.3	7.3
Intermediate consumption	7.3	6.6	6.6	6.3	6.0	5.9	6.3	6.2	5.8	5.7
Social benefits other than in kind	12.8	12.3	12.0	12.2	12.5	12.4	13.5	13.6	13.7	13.9
Social benefits in kind	5.7	5.6	5.5	5.2	5.1	5.2	5.8	5.9	5.9	6.1
Property income	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.3	1.4	1.5
Interest	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.3	1.4	1.5
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	2.5	2.0	1.7	1.8	1.7	1.6	2.0	1.9	2.1	2.0
Gross fixed capital formation	6.8	4.2	4.3	4.5	4.2	4.6	5.1	4.3	3.6	3.1
Capital transfers	4.6	3.0	4.9	3.6	2.1	2.7	2.4	1.6	1.5	3.2
Investment grants	1.4	1.3	1.1	1.1	1.0	0.9	0.9	0.9	1.0	0.9
Other capital transfers	3.3	1.7	3.7	2.4	1.1	1.8	1.5	0.7	0.5	2.3
Other expenditure	1.3	1.1	-0.7	-0.1	1.1	0.5	0.4	1.4	1.7	1.8
Final consumption expenditure	22.7	21.5	21.4	20.7	19.8	19.7	21.5	21.3	20.6	20.7
Collective consumption	11.5	10.3	10.8	10.4	9.9	9.9	10.6	10.5	9.9	9.9
Individual consumption	11.2	11.2	10.6	10.3	9.9	9.9	10.9	10.8	10.7	10.8

Source: CZSO (2013b), MF CR.

Table B.9: Central Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total expenditure	997	907	944	982	1061	1103	1155	1139	1129	1195
Compensation of employees	109	111	121	128	137	143	150	146	139	143
Intermediate consumption	97	94	104	101	107	108	113	111	103	101
Social benefits other than in kind	333	347	363	395	437	454	485	492	501	530
Social benefits in kind	5	4	3	3	2	2	3	4	5	9
Interest	26	29	32	33	37	36	45	50	51	54
Subsidies	38	31	24	29	30	30	37	28	37	34
Gross fixed capital formation	128	62	77	81	87	97	96	74	55	48
Capital transfers	118	88	148	117	74	102	93	61	60	118
Other expenditure	143	140	72	95	150	131	134	174	178	157
<i>% growth</i>										
Total expenditure	16.9	-9.0	4.1	4.0	8.1	3.9	4.7	-1.3	-0.9	5.8
Compensation of employees	0.4	1.9	9.1	6.1	6.7	4.2	5.0	-2.3	-5.2	3.2
Intermediate consumption	11.9	-3.7	11.5	-3.2	6.4	0.6	4.4	-1.7	-6.9	-1.7
Social benefits other than in kind	3.4	4.2	4.5	8.7	10.6	3.9	6.8	1.4	2.0	5.7
Social benefits in kind	-20.2	-12.5	-22.8	-7.2	-23.9	-18.2	36.6	53.3	20.0	83.4
Interest	-6.0	11.1	11.1	3.4	12.4	-2.2	23.8	9.9	3.1	6.3
Subsidies	-0.2	-17.5	-23.4	22.2	2.2	0.2	23.1	-24.7	32.5	-7.8
Gross fixed capital formation	278.1	-51.5	24.0	4.9	7.8	10.9	-1.3	-22.2	-25.4	-12.8
Capital transfers	-9.1	-25.4	67.8	-21.1	-36.7	38.1	-8.9	-34.5	-1.7	97.7
Other expenditure	43.4	-1.7	-48.9	32.7	57.4	-12.4	2.3	29.5	2.4	-12.0

Source: CZSO (2013b).

Table B.10: Local Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total expenditure	342	352	354	385	397	421	453	448	436	392
Compensation of employees	103	109	114	121	129	133	139	135	137	135
Intermediate consumption	97	98	99	109	109	118	123	121	118	116
Social benefits other than in kind	12	12	12	13	20	23	24	26	26	4
Social benefits in kind	2	3	3	3	3	3	3	2	3	0
Interest	2	3	2	2	3	3	2	2	2	2
Subsidies	29	26	29	31	31	33	38	44	43	44
Gross fixed capital formation	53	60	54	69	65	79	95	89	84	70
Capital transfers	33	33	28	26	28	20	16	17	12	10
Other expenditure	11	10	11	11	10	10	12	12	12	11
<i>% growth</i>										
Total expenditure	22.2	3.0	0.4	9.0	3.0	6.0	7.5	-1.0	-2.6	-10.2
Compensation of employees	27.3	5.7	5.1	6.1	6.1	3.8	4.3	-2.7	1.3	-1.7
Intermediate consumption	13.7	0.8	1.7	9.5	0.6	7.4	4.3	-1.4	-2.1	-1.7
Social benefits other than in kind	15.6	0.6	3.8	7.3	47.7	17.4	6.8	7.3	-2.5	-85.3
Social benefits in kind	69.9	4.5	2.4	8.9	19.0	-11.3	0.2	-16.4	11.1	-99.0
Interest	18.0	28.3	-26.5	8.2	15.8	17.7	-21.8	-33.2	-5.8	19.6
Subsidies	60.7	-10.2	11.6	6.3	-0.1	4.4	17.1	14.9	-1.1	0.9
Gross fixed capital formation	21.2	13.7	-9.8	26.6	-5.7	20.7	21.1	-6.7	-5.7	-16.6
Capital transfers	14.9	-1.0	-14.2	-5.8	5.0	-27.5	-21.2	9.3	-33.0	-11.3
Other expenditure	8.9	-11.3	19.6	-7.0	-9.7	1.4	23.8	-2.8	7.1	-8.6

Source: CZSO (2013b).

Table B.11: Social Security Fund Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
Total expenditure	151	162	170	173	187	201	222	224	228	231
Compensation of employees	3	3	3	3	3	4	4	4	4	4
Intermediate consumption	2	2	2	2	2	2	3	3	2	2
Social benefits other than in kind	-	-	0	0	-	0	0	0	0	0
Social benefits in kind	146	156	164	168	181	194	213	216	220	224
Interest	0	0	0	-	0	0	0	-	0	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	1	1	0	0	1	1	1	1	1
Capital transfers	0	0	-	-	-	-	-	-	-	-
Other expenditure	0	0	0	0	0	0	0	0	1	1
<i>% growth</i>										
Total expenditure	5.8	7.2	5.0	1.9	8.3	7.1	10.5	1.2	1.5	1.6
Compensation of employees	5.4	2.7	5.7	5.3	6.5	12.0	9.6	-0.2	-2.3	-4.5
Intermediate consumption	22.9	1.4	8.0	-13.3	10.5	22.2	26.1	10.0	-22.5	-13.5
Social benefits other than in kind	-	-	-	100.0	-	-	600.0	0.0	-28.6	-30.0
Social benefits in kind	6.0	7.4	4.8	2.2	8.3	6.8	10.2	1.1	1.9	1.8
Interest	-33.3	-25.0	-66.7	-	-	-50.0	0.0	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	-30.5	11.1	19.1	-41.7	-0.4	64.4	48.4	-15.7	-14.1	-30.3
Capital transfers	-18.6	74.3	-	-	-	-	-	-	-	-
Other expenditure	-70.6	-35.4	571.4	27.7	23.9	-15.5	7.7	14.8	25.3	48.6

Source: CZSO (2013b).

Table B.12: General Government Net Lending/Borrowing by Subsectors

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
General government	-180	-83	-101	-80	-27	-86	-218	-183	-125	-169
Central government	-162	-77	-100	-82	-56	-91	-186	-155	-104	-160
Local governments	-14	-4	-1	-9	13	-5	-22	-19	-14	-2
Social security funds	-5	-3	0	12	16	10	-11	-9	-7	-7
<i>% of GDP</i>										
General government	-6.7	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3	-4.4
Central government	-6.0	-2.6	-3.2	-2.4	-1.5	-2.4	-4.9	-4.1	-2.7	-4.2
Local governments	-0.5	-0.1	0.0	-0.3	0.4	-0.1	-0.6	-0.5	-0.4	-0.1
Social security funds	-0.2	-0.1	0.0	0.4	0.4	0.3	-0.3	-0.2	-0.2	-0.2

Source: CZSO (2013b).

Table B.13: General Government Debt by Subsectors and Instruments

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>CZK bn</i>										
General government debt	768	848	885	948	1023	1104	1286	1437	1569	1759
Currency and deposits	4	3	1	0	-	-	-	-	-	-
Securities other than shares	528	634	698	789	871	951	1111	1260	1388	1576
Loans	236	211	187	159	152	153	175	177	181	183
Central government debt	719	783	813	867	939	1016	1189	1343	1471	1653
Currency and deposits	4	3	1	0	-	-	-	-	-	-
Securities other than shares	517	612	675	766	848	929	1096	1246	1375	1565
Loans	197	169	137	101	90	87	94	96	96	88
Local government debt	59	72	79	87	88	92	99	97	100	109
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	12	23	24	23	23	23	16	16	14	14
Loans	47	49	55	64	65	69	82	81	86	95
Social security funds debt	0	0	0	0	0	0	0	0	0	0
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	0	0	0	0
<i>% growth</i>										
General government debt	10.6	10.4	4.4	7.1	7.9	7.9	16.4	11.8	9.2	12.1
Currency and deposits	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-	-
Securities other than shares	23.6	19.9	10.2	12.9	10.5	9.2	16.8	13.4	10.2	13.5
Loans	-3.0	-10.5	-11.6	-14.5	-4.4	0.4	14.1	1.2	2.3	1.3
Central government debt	10.0	8.9	3.8	6.6	8.3	8.2	17.1	12.9	9.5	12.4
Currency and deposits	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-	-
Securities other than shares	24.6	18.2	10.3	13.5	10.7	9.5	18.0	13.7	10.4	13.8
Loans	-7.5	-14.6	-18.5	-26.6	-10.4	-4.2	7.9	3.2	-1.0	-7.6
Local government debt	18.1	22.1	9.8	9.5	2.1	3.9	7.4	-1.8	3.0	9.6
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-3.4	90.7	5.8	-3.5	0.6	0.0	-30.4	-2.1	-11.5	1.7
Loans	25.1	4.8	11.7	15.1	2.6	5.3	20.2	-1.7	5.8	10.9
Social security funds debt	-19.8	-25.7	17.5	-30.5	-69.1	62.7	-56.3	-7.1	415.4	-9.5
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-19.8	-25.7	17.5	-30.5	-69.1	62.7	-56.3	-7.1	415.4	-9.5

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. The debt is expressed in the nominal value, which is considered equivalent to the face value. Government debt is consolidated, i.e. the debt in holding of other subjects of a subsector resp. the government sector is omitted.

Source: CZSO (2013b).

Table B.14: General Government Debt by Subsectors and Instruments*(in % of GDP)*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government debt	28.6	28.9	28.4	28.3	27.9	28.7	34.2	37.8	40.8	45.8
Currency and deposits	0.1	0.1	0.0	0.0	-	-	-	-	-	-
Securities other than shares	19.7	21.6	22.4	23.5	23.8	24.7	29.6	33.2	36.1	41.0
Loans	8.8	7.2	6.0	4.8	4.2	4.0	4.6	4.7	4.7	4.8
Central government debt	26.7	26.7	26.1	25.9	25.6	26.4	31.6	35.3	38.3	43.0
Currency and deposits	0.1	0.1	0.0	0.0	-	-	-	-	-	-
Securities other than shares	19.2	20.9	21.7	22.8	23.2	24.1	29.2	32.8	35.8	40.7
Loans	7.3	5.8	4.4	3.0	2.5	2.3	2.5	2.5	2.5	2.3
Local government debt	2.2	2.5	2.5	2.6	2.4	2.4	2.6	2.6	2.6	2.8
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.4	0.8	0.8	0.7	0.6	0.6	0.4	0.4	0.4	0.4
Loans	1.8	1.7	1.8	1.9	1.8	1.8	2.2	2.1	2.2	2.5
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. The debt is expressed in the nominal value, which is considered equivalent to the face value. Government debt is consolidated, i.e. the debt in holding of other subjects of a subsector resp. the government sector is omitted.

Source: CZSO (2013b).

Table B.15: General Government Balance and Debt of EU Countries*(in % of GDP)*

	Balance					Debt				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
EU27	-6.9	-6.5	-4.4	-4.0	.	74.6	80.0	82.5	85.3	.
EA17¹	-6.4	-6.2	-4.2	-3.7	-2.6	80.0	85.4	87.3	90.6	.
Austria	-4.1	-4.5	-2.5	-2.5	-2.3	69.2	72.0	72.5	73.4	73.6
Belgium	-5.6	-3.8	-3.7	-3.9	-2.5	95.7	95.5	97.8	99.6	99.9
Bulgaria	-4.3	-3.1	-2.0	-0.8	-1.3	14.6	16.2	16.3	18.5	17.9
Cyprus	-6.1	-5.3	-6.3	-6.3	-6.0	58.5	61.3	71.1	85.8	96.8
Czech Republic	-5.8	-4.8	-3.3	-4.4	-2.8	34.2	37.8	40.8	45.8	48.5
Denmark	-2.7	-2.5	-1.8	-4.0	-2.4	40.7	42.7	46.4	45.8	43.9
Estonia	-2.0	0.2	1.2	-0.3	-0.5	7.2	6.7	6.2	10.1	11.9
Finland	-2.5	-2.5	-0.8	-1.9	-1.9	43.5	48.6	49.0	53.0	56.3
France	-7.5	-7.1	-5.3	-4.8	-3.7	79.2	82.4	85.8	90.2	93.6
Germany	-3.1	-4.1	-0.8	0.2	-0.3	74.5	82.4	80.4	81.9	80.4
Greece	-15.6	-10.7	-9.5	-10.0	-1.9	129.7	148.3	170.3	156.9	173.7
Hungary	-4.6	-4.3	4.3	-1.9	-2.7	79.8	81.8	81.4	79.2	78.1
Ireland	-13.9	-30.8	-13.4	-7.6	-7.5	64.8	92.1	106.4	117.6	123.3
Italy	-5.5	-4.5	-3.8	-3.0	-2.9	116.4	119.3	120.8	127.0	130.4
Latvia	-9.8	-8.1	-3.6	-1.2	-1.4	36.9	44.4	41.8	40.7	44.5
Lithuania	-9.4	-7.2	-5.5	-3.2	-2.5	29.3	37.9	38.5	40.7	39.7
Luxembourg	-0.8	-0.9	-0.2	-0.8	-0.7	15.3	19.2	18.3	20.8	23.9
Malta	-3.7	-3.6	-2.8	-3.3	-2.7	66.4	67.4	70.3	72.1	74.2
Netherlands	-5.6	-5.1	-4.5	-4.1	-3.3	60.8	63.1	65.5	71.2	74.0
Poland	-7.4	-7.9	-5.0	-3.9	-3.5	50.9	54.8	56.2	55.6	55.8
Portugal	-10.2	-9.8	-4.4	-6.4	-5.5	83.7	94.0	108.3	123.6	122.4
Romania	-9.0	-6.8	-5.6	-2.9	-2.4	23.6	30.5	34.7	37.8	38.6
Slovakia	-8.0	-7.7	-5.1	-4.3	-2.9	35.6	41.0	43.3	52.1	54.4
Slovenia	-6.2	-5.9	-6.4	-4.0	-4.2	35.0	38.6	46.9	54.1	59.5
Spain	-11.2	-9.7	-9.4	-10.6	-4.5	53.9	61.5	69.3	84.2	90.3
Sweden	-0.7	0.3	0.2	-0.5	-1.4	42.6	39.4	38.4	38.2	42.0
United Kingdom²	-11.5	-9.6	-7.8	-5.6	-6.8	73.9	80.0	86.4	90.7	94.9

Note: 1) 17 current member states – Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Germany, Netherlands, Portugal, Austria, Greece, Slovakia, Slovenia and Spain.

2) Data for fiscal year (1 April of year t to 31 March of year t+1) relevant for implementation of the excessive deficit procedure.

Source: Eurostat (2013a, 2013b). United Kingdom data for 2013 are based on its Notification.

Table B.16: Transactions of General Government of EU Countries in 2012*(in % of GDP)*

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Consumption ¹	Investments ²	Interest expenditure
EU27	45.4	49.4	10.7	16.9	21.7	2.3	2.9
EA³	46.2	49.9	10.5	17.6	21.6	2.1	3.1
Belgium	50.8	54.8	12.8	17.6	24.8	1.7	3.5
Bulgaria	34.9	35.7	8.9	11.7	15.6	3.3	0.9
Czech Republic	40.1	44.5	7.3	13.9	20.7	3.1	1.5
Denmark	55.5	59.6	18.4	17.3	28.6	2.5	1.8
Estonia	40.2	40.5	10.8	11.3	19.6	5.6	0.2
Finland	53.7	56.0	14.3	18.5	24.8	2.6	1.4
France	51.7	56.6	13.2	19.8	24.6	3.1	2.6
Ireland	34.6	42.1	11.5	15.0	17.8	2.0	3.6
Italy	47.7	50.6	10.6	19.9	20.1	1.9	5.4
Cyprus	40.0	46.3	15.8	15.0	19.2	2.7	3.2
Lithuania	32.9	36.2	9.6	12.1	17.6	3.9	1.9
Latvia	35.2	36.5	9.1	9.8	15.3	3.9	1.4
Luxembourg	42.1	43.0	8.1	15.4	16.9	3.9	0.4
Hungary	46.5	48.5	9.9	15.4	20.3	3.0	4.3
Malta	40.5	43.9	13.5	13.1	21.4	3.1	3.2
Germany	45.2	45.0	7.7	16.3	19.5	1.5	2.5
Netherlands	46.4	50.4	9.7	12.1	28.4	3.4	1.8
Poland	38.4	42.3	9.7	14.2	17.9	4.6	2.8
Portugal	41.0	47.4	9.9	18.0	18.3	1.8	4.4
Austria	48.7	51.2	9.4	19.1	18.8	1.0	2.6
Romania	33.5	36.4	7.8	11.3	15.7	4.6	1.8
Greece	44.7	54.8	12.5	20.0	20.6	1.8	5.0
Slovakia	33.1	37.4	7.0	13.7	17.5	1.9	1.9
Slovenia	45.0	49.0	12.6	17.6	20.6	2.9	2.1
Spain	36.4	47.0	11.1	16.1	20.1	1.7	3.0
Sweden	51.3	52.0	14.2	14.5	26.9	3.5	0.9
United Kingdom	42.2	48.5	10.8	15.7	22.0	2.1	3.0

Note: 1) Collective and individual consumption of general government.

2) Gross fixed capital formation.

3) 17 current member states – Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Germany, Netherlands, Portugal, Austria, Greece, Slovakia, Slovenia and Spain.

Source: Eurostat (2013a).

C Lists of Thematic Chapters and Boxes of Previous Fiscal Outlooks of the CR

List of Thematic Chapters of Previous Fiscal Outlooks of the CR

Published	Topic
April 2007	Fiscal Rules
October 2007	Selected Aspects of the State Guarantees System in the Czech Republic from 1993 to 2006
May 2008	Flat Tax in Practice
October 2008	Fiscal Impacts of the EU Funds Inflows
May 2009	The Concept of Tax Accrual and the Methods for its Calculation in the Czech Republic
October 2009	Long-term Fiscal Projections
October 2010	Selected Principles of Public–Private Partnership and its Impacts on General Government Operations
November 2011	Causes of the European Debt Crisis and its Consequences for Czech Public Finances
November 2012	Pension Reform – Introducing an Opt-Out

List of Thematic Boxes of Previous Fiscal Outlooks of the CR

Published	Box Topic
April 2007	Box 1: Cash Flow Methodology Box 2: Output of the General Government Sector Box 3: Expenditures on General Government Final Consumption Box 4: Relation between the Deficit and Debt (so-called Stock-flow Adjustment) Box 5: The ESA 95 National Accounts Methodology Box 6: Differences between the Fiscal Targeting Methodology (State Budget's Outlook, Expenditure Frameworks) and the ESA 95 National Accounts Methodology (Maastricht Criteria, Convergence Programme)
October 2007	Box 1: Recording the Guarantees in the ESA 95 National Accounts System Box 2: Recognising State Guarantees under the GFSM 2001 International Statistic Standard Box 3: The Most Important Non-standard State Guarantees
May 2008	Box 1: An Appraisal of Prediction Error in the 2007 Government Balance
May 2009	Box 1: Overview of Government Measures in the National Counter-Crisis Plan and their Impacts on the General Government Budgets in 2009 (Annual Basis) Box 2: Decomposition of the Balance Box 3: Differences between the Cash and Accrual Amounts of VAT
October 2009	Box 1: Effects of Anti-crisis Measures Box 2: Austerity Measures in 2010
October 2010	Box 1: Methodology (Transition from the GFS 1986 to GFS 2001) Box 2: Measures to reduce General Government Deficits in the ESA 95 Methodology, related to the Medium-Term Outlook from 2009 Box 3: Proposed Pension Reform
May 2011	Box 1: Ruling of the Constitutional Court of the Czech Republic and Public Finances
November 2011	Box 1: Selected Changes in Methodology for General Government Statistics Box 2: Settlement of the Property Relations of the State and the Churches
May 2012	Box 1: Accident Insurance – Current State of Affairs Box 2: Stability and Growth Pact versus the Treaty on Stability Coordination and Governance in the EMU
November 2012	Box 1: Drawing of EU Funds and Impact on the Public Finances Balances Box 2: European System of Trading in Greenhouse Gas Emission Allowances
May 2013	Box 1: Satellite Account of Public Sector Box 2: The Seventh Enlargement of the European Union – Croatia

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