Ministry of Finance
Department for Financial Policy

Fiscal Outlook

of the Czech Republic

November 2013

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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:

Fiscal.Outlook@mfcr.cz

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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)
ESA 2010 .... European System of Accounts (2010)
ESCB .... European System of Central Banks
EU, EU28 .... European Union (EU28 coverage)
EUR .... euro currency code
GFCF .... gross fixed capital formation
GFS 2001 .... Government Finance Statistics 2001
GDP .... gross domestic product
IMF .... International Monetary Fund
MF CR .... Ministry of Finance of the Czech Republic
OP .... Operational Programme
p.a. .... *per annum* (per year)
p.p. .... percentage point
ROP .... Regional Operational Programme
s.p. .... constant (stable) prices
USD .... US dollar currency code

Symbols Used in Tables

A dash (–) in place of number indicates that the phenomenon did not occur or is not possible for logical reasons. “Billion” means a thousand million.

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 9 October 2013 release, fiscal data to the 5 November 2013 release, government bond yields to the 10 October 2013 release and data for international comparison to the 25 October 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

Since the April update of the Convergence Programme of the Czech Republic and the last issue of the Fiscal Outlook of the Czech Republic this May, events have started to take an unexpected turn. In June, a part of the territory of the Czech Republic was stricken by floods and an unsustainable political situation resulted in the resignation of PM Petr Nečas's Cabinet in the middle of the same month. According to the preliminary statistical information, the second wave of the economic recession has also probably ended.

In response to the government's resignation, the President of the Czech Republic appointed a new government led by Jiří Rusnok. Following a vote of no confidence in the Chamber of Deputies, Jiří Rusnok's Cabinet resigned in August. In accordance with their constitutional powers, 140 Members of the Parliament voted for the proposal to dissolve the Chamber of Deputies, which the President of the Czech Republic carried out on 28 August 2013. One of the first tasks of the new Chamber of Deputies, established after the snap elections in October, will be to discuss and approve the bill on the state budget for 2014 and agree new amounts for the medium-term expenditure framework for the state budget and budgets of state funds for 2015 and 2016.

According to the Czech Statistical Office's current data, the Czech economy emerged from an 18-month long recession, while the confidence indicators and composite leading indicators suggest that economic activities will continue to recover in the next few quarters. Economic developments in the countries of the main trading partners and still weak domestic demand for imports have had a positive impact. The low inflation rate, the monetary policy of minimal interest rates and investors' confidence in Czech government bonds, as well as the still unsolved issues of the government sector in the Eurozone countries and the weak recovery in the EU, combine to keep revenues from the reference 10-Y government bonds of the Czech Republic at very low levels, i.e. at 2.1% on average from January to September 2013.

The submitted Fiscal Outlook is based on the Macroeconomic Forecast of the Ministry of finance from October and the draft state budget and state funds budgets for 2014, including the draft medium-term outlook until 2016. The budgetary documents reflect PM Rusnok's Cabinet programme, in particular the pro-growth orientation of economic policy. Nevertheless, the overriding target is to leave, based on the result of general government's performance in 2013, the excessive deficit procedure. Therefore, fiscal targets in the form of government sector deficits have been set so that fiscal policy weakens economic growth as little as possible while at the same time meeting the main obligation arising from the Stability and Growth Pact in terms of the budget deficit.

In 2013, the result of the government sector balance is estimated at −2.9% of GDP. The same values formed the basis on which fiscal targets for 2014 and 2015 are defined. In 2016, the government sector balance should reach −2.8% of GDP. In terms of the expected position of the economy in the economic cycle, this is an expansive fiscal policy.

Thanks largely to the reversal of the provision created by pre-financing the state debt from the last few years, government sector debt should not increase so quickly in the monitored horizon. Nonetheless, in 2016 it should reach nearly 50% of GDP, which would represent an increase of 3.8p.p. compared to the end of 2012.

A special chapter of the autumn issue is devoted to the topic of excessive deficit procedures in the European Union Member States. We have included this matter precisely because of the Czech Republic's own efforts to end this procedure. With respect to the procedures already ended in some EU countries over the last two years, or their planned ending, or, on the contrary, the extension of the procedure experienced by other countries, as well as the interpretation of the European Commission, this chapter becomes highly relevant.

As usual, the Fiscal Outlook includes an extensive annex of tables, freely downloadable in full numerical series at the website of the Ministry of Finance of the Czech Republic (www.mfcr.cz/FiscalOutlook).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

A surprisingly deep QoQ decline in real GDP of 1.3% in Q1 2013 was followed by growth of 0.6% in Q2 2013. The economy thereby technically emerged from an 18-month long recession; however, real GDP was 1.3% lower than in Q2 2012. We expect GDP to decline by 1.0% in the whole of 2013, in particular due to a considerable fall in gross capital formation. At the beginning, economic recovery will be mainly driven by exports, but together with rebuilding confidence in the economy, the recovery should make itself felt in the dynamics of household consumption and investment. GDP may increase by 1.3% in 2014, given the positive contribution of both domestic expenditure and net exports. In the years of the outlook, economic growth should gradually accelerate up to 2.7% in 2016.

Growth in consumer prices should reach 1.4% this year, and only 0.7% in 2014 – primarily the result of a decrease in electricity prices. With renewed growth in household consumption, inflation will approach the 2% inflation target in 2015. In 2016, however, price growth will slow down to 0.9%, mostly owing to the unification of VAT rates at 17.5% as of 1 January 2016 (current legislative status). A moderate growth in unit labour costs and well anchored inflation expectations should mitigate any marked increase in consumer prices over the entire forecast horizon. Neither should USD prices of crude oil or the exchange rate represent a pro-inflationary factor. (Note: with respect to the cut-off date, the macroeconomic scenario could not have taken into account the CNB's announcement from 7 November that it would use exchange rate interventions against the Czech koruna as an additional tool for achieving the inflation target.)

Employment, despite the recession, was accelerating throughout the last year and should increase by 1.2% this year. This seemingly paradoxical development was caused by a rise in the number of part-time jobs and a decline in the ratio of total hours worked to employment, which were accompanied by a drop in the average real wage. Gradual increase in the utilisation of labour as a factor of production will only lead to a slight increase in employment in 2014, and its stagnation in 2015 and 2016.

The unemployment rate (Labour Force Survey definition) should gradually rise from the last year's average of 7.0%. We expect it to reach 7.1% in 2013 and 7.3% in 2014, due to the lag behind the economic cycle. During the years of the outlook, the unemployment rate should be falling down to 6.6% in 2016 thanks to economic growth.

Total wage bill should increase by only 0.8% this year. In the context of an envisaged improvement in the overall economic situation, while taking into account the government's decision to increase the state administration wage bill by 2%, we expect total wage bill to increase by 2.5% in 2014.

Table 1.1: Main Macroeconomic Indicators (2012–2016)

		2012	2013	2014	2015	2016	2013	2014	2015	2016
		Actual	Current Forecast and Outlook				May 2013 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	3846	3852	3924	4070	4221	3858	3939	4079	4228
	% growth, s.p.	-1.0	-1.0	1.3	2.2	2.7	0.0	1.2	2.1	2.6
Private consumption	*% growth, s.p.*	-2.1	0.2	0.9	2.1	2.5	-1.2	1.0	2.1	2.5
Government consumption	*% growth, s.p.*	-1.9	0.8	0.2	-0.3	0.2	-0.2	-1.7	-0.8	0.1
Gross fixed capital formation	*% growth, s.p.*	-4.5	-4.8	-0.8	2.6	3.1	-0.4	0.9	2.6	3.1
Contr. of net exports to GDP growth	*p.p., s.p.*	1.7	0.6	0.6	0.5	0.7	0.4	0.3	0.4	0.5
GDP deflator	*% growth*	1.6	1.2	0.5	1.5	0.9	0.4	0.9	1.4	1.1
Inflation	*in %*	3.3	1.4	0.7	1.9	0.9	2.1	1.7	1.9	1.1
Employment	*% growth*	0.4	1.2	0.4	0.1	0.1	0.1	-0.2	0.1	0.2
Unemployment rate	*average in %*	7.0	7.1	7.3	7.1	6.6	7.5	7.7	7.3	6.6
Wages and salaries	*% growth, c.p.*	1.8	0.6	2.5	4.6	3.9	1.4	2.7	4.4	4.0
Current account to GDP ratio	*in %*	-2.4	-1.7	-1.4	-1.5	-1.7	-2.3	-2.3	-2.5	-2.8
Assumptions:										
Exchange rate CZK/EUR		25.1	25.8	25.8	25.8	25.8	25.4	25.2	24.9	24.6
Long-term interest rates	*% p.a.*	2.8	2.1	2.4	2.7	3.1	2.2	2.3	2.7	3.1
Crude oil Brent	*USD/barrel*	111.6	108.1	102.8	98.0	95.3	108.0	102.0	98.8	95.8
GDP in Eurozone EA12	*% growth, s.p.*	-0.6	-0.4	1.0	1.2	1.5	-0.4	0.6	1.2	1.6

Note: Figures for employment and unemployment rate are based on Labour Force Survey.
Source: MF CR (2013a, 2013c).

During the outlook years, the wage bill dynamics will be influenced not only by economic growth but also by shifting a part of the tax burden from employers to employees (2p.p. of the social security contributions rate). We expect this change to create an upward pressure on the wage bill (compensation of the higher burden on the employee enabled by a decrease in the burden on the employer). Total wage bill could increase by 4.6% in 2015 and by 3.9% in 2016. Throughout the entire forecast horizon, the wage bill growth rate is expected to exceed the dynamics of nominal GDP.

As a percentage of GDP, the current account deficit should not exceed 2%, which is a sustainable level fully consistent with the external macroeconomic balance.

In spite of the uncertain development abroad, we assess the forecast risks as balanced with respect to the signs of improving economic sentiment.

1.2 Fiscal Policy Objectives

After three years of strong consolidation of general government sector finances, the structural balance improved by 2.8p.p. to −1.7% of GDP in 2012. The practically neutral setting of fiscal policy this year is to be followed by slight fiscal expansion in 2014–2016. Fiscal policy should support the Czech economy as much as it can during a period of expected fragile recovery.

According to the October Notifications (Eurostat, 2013c), general government deficit should reach 2.9% of GDP in 2013. The same result should also be reached in 2014 and 2015. For 2016, the medium-term budgetary outlook expects a deficit of 2.8% of GDP. The priority for fiscal policy is to end the excessive deficit procedure; this should occur based on the actually achieved deficit in 2013 (see MF CR, 2013b) and by subsequently keeping deficits below the reference limit of 3%, which should be achieved using the selected deficit trajectory.

The fiscal outlook is based on the current macroeconomic forecast and the valid legislative framework, while also taking into account already approved measures impacting on government sector finances. At the same time, it is in accordance with the bill on the state budget for 2014 and the draft medium-term outlook of the state budget and budgets of state funds for 2015 and 2016, approved by the Government resolution No. 729 from 25th September 2013. The current fiscal forecast does not anticipate any legislative changes or changes during the budgetary process that could occur following the formation of the Chamber of Deputies or the Government based on the results of the snap election for the Chamber of Deputies.

In the horizon of the outlook, the structure of discretionary measures inclines to the revenues side. In 2015 and 2016, we expect a negative impact of discretionary measures on the balance at the level of 0.5% of GDP in each of these two years. This will mainly be caused by the already approved changes in taxation, although effects will also be felt in 2016 on the expenditure side of government sector budgets. A more detailed view of the forecast development of government sector revenues and expenditures is provided in Chapter 3.

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	**-4.7**	**-3.2**	**-4.4**	**-2.9**	**-2.9**	**-2.9**	**-2.8**
Cyclical component	-0.8	-0.2	-0.6	-1.2	-1.0	-0.7	-0.4
One-off and other temporary measures	0.0	-0.2	-2.1	-0.2	0.2	-0.1	-0.1
Structural balance	-4.0	-2.8	-1.7	-1.5	-2.0	-2.1	-2.4
Change in structural balance	**0.5**	**1.2**	**1.0**	**0.2**	**-0.5**	**-0.1**	**-0.3**
Cyclical component according to ESCB method	-0.1	0.2	-0.5	-0.8	-0.5	-0.1	0.5
Structural balance according to ESCB method	-4.7	-3.2	-1.9	-1.9	-2.6	-2.7	-3.3
Change in structural balance according to ESCB method	**1.0**	**1.5**	**1.3**	**0.0**	**-0.6**	**-0.2**	**-0.5**

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.

2 Short-term Development of General Government Sector Finances

2.1 General Government Sector Development in 2012 and 2013

2.1.1 General Government Sector in 2012

According to government deficit and debt notifications (CZSO, 2013b), there was a general government deficit of 4.4% of GDP last year. Compared to previous notifications in April, the result is the same in relative terms, however, in absolute terms it represents a slight deterioration of approximately CZK 1.4 billion (CZK 0.9 billion for the subsector of local government institutions, CZK 0.4 billion for central government institutions, for social security funds the change is marginal).

Compared to 2011, the government sector balance deteriorated by 1.2p.p. However, the result was substantially affected by one-off measures totalling approximately CZK 71 billion. This primarily involved the imputation of a capital transfer of CZK 59 billion in connection with the approval of church restitutions. Further, it involved to a lesser extent overall corrections of non-validated EU expenditure (see more: e.g. MF CR, 2012). These are funds that were already paid out by the state budget as part of pre-financing, however, the EU did not find these expenditures eligible and thus they would not be refunded. Despite this, total allocation from the programming period 2007 to 2013 has not been reduced by these resources, and these funds can be obtained for other projects. After adjusting for the two aforementioned extraordinary one-off effects, the deficit was 2.6% of GDP, thus 0.7p.p. lower compared to 2011. With respect to the considerably higher negative output gap in 2012 compared to the preceding year, the resulting improvement after adjustment for the cycle and one-off operations is even 0.3p.p. higher.

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 2.7%.

The most significant increase was apparent in value added tax, 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 was a slight growth in household consumption in 2012 (nominally by approximately 0.5%). After adjusting for the cyclical effects of household consumption on tax revenue, its growth would have been undoubtedly 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 insensitive to the development of macroeconomic bases; thus in spite of a 2.1% fall in real household consumption, 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.

In 2012, revenues from personal income tax increased by 1.5%. In relative terms, this increase was noticeably decelerated by discretionary measures totalling approximately CZK 8 billion (primarily the increase in child tax credit by CZK 1,800 annually and ending the temporary decrease in basic tax credit per taxpayer). Revenues from corporate income tax decreased by 1.3%, which is basically in accordance with a decrease in net operating surplus. No discretionary measures with any significant fiscal impact were taken here.

As far as other excise taxes are concerned, payment from lotteries and other similar types of gambling 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 for slot machines were decreased or abolished (CZK 1.2 billion).

The collection of social security contributions increased by 1.3%. This is essentially a fully autonomous development, approximately corresponding to the increase in the wage bill in the economy.

On the revenue side, capital transfers decreased by 22.3%. This was mainly caused by a decrease in the expenditure of projects financed from EU funds with the final beneficiary from the government sector. In absolute value this decrease was about CZK 12 billion, and is primarily attributed to central government entities – to the Road and Motorway Directorate and, to a lesser extent, to the Railway Infrastructure Administration. One fact which perhaps underpins this development is that from 14 March 2012 to 15 October 2012 certification for the operational programme (OP) Transport was suspended. This programme has the greatest weighting for allocations for the current programming period and is being used mainly for investment in transport infrastructure provided, on behalf of the government sector, by the two aforementioned institutions. In addition to the operational programme Transport, certifications for numerous other operational programmes were suspended in 2012, such as the 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.

Nevertheless, 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 already invested. If the given projects continue to run and continue to be pre-financed from the state budget, under the ESA 95 methodology this will mean an increase in both European expenditure and in accrual investment subsidies from the EU. Nonetheless, suspension of certification does result 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 development last year.

In 2012, total general government expenditure increased by 3.7%. The increase was caused by the two aforementioned capital transfers totalling CZK 71 billion. Adjusting for these transfers, total expenditure would have decreased by nearly 0.6%. Government final consumption expenditure decreased by 0.5%, which supported the government's economizing behaviour. Savings occurred in the operating expenditure of the government sector, where intermediate consumption fell by nearly 6% year-on-year across nearly the whole government sector. As far as wages are concerned, compensation of employees increased by 2.3%. There was an autonomous increase in healthcare expenditure, where austerity discretionary measures were largely eliminated by higher outlays due to the VAT reduced rate increase.

A considerable decrease was recorded in gross capital formation. In central government it fell by approximately CZK 4 billion, which closely corresponded to the development of revenue investment subsidies from the EU. Nonetheless, the figures prove that the considerable decrease in European investment in 2012 was partially compensated by an increase in investment from domestic sources. A much more dramatic decrease was recorded in gross capital formation in local government institutions. Since the decrease in EU revenues was not especially pronounced in this area, the fall is attributable to a drop in national investment (nearly CZK 11 billion).

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

Other expenditure items mostly developed relatively autonomously. Efforts to implement an austerity policy can be seen 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, tax discretions and especially government purchases.

In 2009–2012, government sector debt also increased by approximately CZK 12–16 billion as a result of a change in the calculation of secured bonds. Instead of the current exchange rate, the exchange rate from the derivative contract is now employed.

Table 2.1: General Government Revenue (2007–2013)
(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
General government revenue	**40.3**	**38.9**	**38.9**	**39.1**	**40.0**	**40.1**	**40.5**
tax revenue	**19.8**	**18.6**	**18.3**	**18.1**	**18.8**	**19.1**	**19.6**
individual income tax	4.3	3.7	3.6	3.5	3.7	3.8	4.0
corporate income tax	4.7	4.2	3.5	3.4	3.4	3.3	3.2
value added tax	6.2	6.6	6.8	6.8	6.9	7.1	7.6
excise taxes	3.9	3.3	3.7	3.7	3.9	3.9	3.8
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**	**15.5**	**15.6**	**15.5**
sales	**2.6**	**2.7**	**2.8**	**2.6**	**2.7**	**2.7**	**2.8**
other revenues	**2.1**	**2.1**	**3.0**	**3.1**	**3.0**	**2.7**	**2.6**

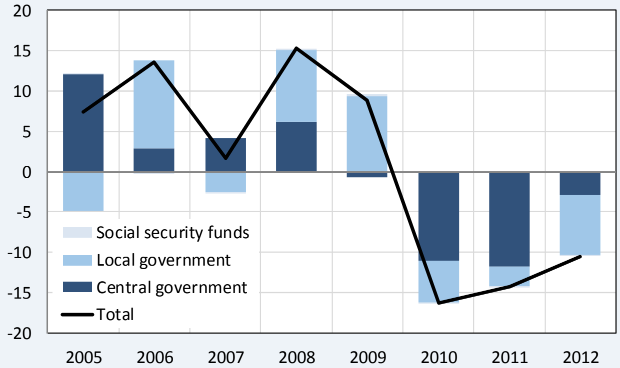
Source: CZSO (2013b). Year 2013 MF CR.

Box 1: Investments of General Government Sector during 2009–2012

Gross fixed capital formation (GFCF) (according to the ESA 95 methodology, Eurostat, 1996) includes acquisitions and disposals of tangible and intangible fixed assets of residential producers over a given period of time, plus an increase to the value of non-produced assets resulting from the production activities of producers or institutional units. Assets are used in the production process repeatedly or continuously for a period of more than one year. Acquisitions of tangible fixed assets include new investment in buildings, structures, machinery and equipment, costs of major repairs, reconstruction, modernisation, and improvement of capital goods, change in livestock and major land improvement. According to the ESA 95 methodology, they do not include items purchased by the government for military purposes or research and development expenditure; nevertheless, according to the new ESA 2010 methodology valid from the middle of 2014, these cases will also be classified as GFCF. Intangible fixed assets include geological survey work, software and original cultural and artistic works. Acquisitions or disposals of assets do not include only purchases or sales, but a major portion of GFCF also takes the form of the free transfer of these assets. In the government sector it involves a reciprocal relationship that does not usually have any impact on the balance of property of the whole sector – the accrual of assets (an increase of the beneficiary's GFCF) is compensated by the disposal of assets (a decrease in the provider's GFCF).

Graph 2.1: Growth of Gross Fixed Capital Formation (2005–2012)

(growth in %, contributions to growth in percentage point)



Source: CZSO (2013b).

When calculating GFCF for the government sector, not only data sources are drawn upon (i.e. ascertained data on the acquisition and disposal of tangible and intangible fixed assets, and accounting entries of units in the given sector), but also model calculations and extrapolations. For example, in this way is calculated the contribution of software created on own-account, i.e. in the form of the so-called capitalisation of costs of its creation. As part of conceptual modifications, the purpose of which is to ensure compliance between accounting and the ESA 95 methodology, GFCF is enlarged, among other modifications, by including low-value fixed assets with a period of use longer than 1 year and a cost price higher than CZK 20,000.

General government sector expenditure on investment experienced a growth trend in 2005–2009 of 9.3% p.a. (Graph 2.1) on average.

The trend subsequently reversed, and was GFCF decreasing in 2010–2012 at an annual rate of nearly 14%. Investment expenditure decreased to 64% of the 2009 level, i.e. by nearly CZK 69 billion.

In addition to the central government subsector (in particular the Road and Motorway Directorate [ŘSD], the Railway Infrastructure Administration [SŽDC], state budget, public universities and public research institutions), local government institutions also participate greatly in GFCF. The subsector of social security funds participates only negligibly (Table 2.2). The aforementioned trend in decreasing investment activities over recent years reflects a considerable drop in GFCF both in the general government subsector and the subsector of local government institutions.

GFCF issues are closely related to financing the investment activities of individual government institutions, i.e. to awarding and using investment transfers. The mechanism for disbursing subsidies to finance individual projects whose value is included in GFCF can be illustrated using the example of investment in transport infrastructure. A decisive proportion of funds in this sphere is allocated through two agencies in the government sector – the Road and Motorway Directorate and the Railway Infrastructure Administration. These obtain investment subsidies in particular through the State Fund for Transport Infrastructure (SFTI), including funds from the Operational Programme Transport, and further from the state budget and EU funds. That proportion of sources received from the State Fund for Transport Infrastructure which is relatively unimportant includes subsidies for pre-financing of EU projects.

Table 2.2: Gross Fixed Capital Formation in Selected Institutions of General Government Sector (2010–2016)

(in CZK billion)

	2007	2008	2009	2010	2011	2012
State budget	17.8	10.0	13.0	11.5	8.1	8.9
Public universities and public research institutions	11.3	9.4	8.2	8.4	9.7	13.5
Road and Motorway Directorate	37.6	40.5	46.4	37.8	24.7	17.2
Railway Infrastructure Administration	17.8	34.1	22.2	13.6	10.8	8.7
Local budgetary organizations	48.5	58.6	73.3	63.5	59.3	55.6
Local semi-budgetary organizations	16.6	20.0	21.8	21.8	21.8	15.2

Note: Data adjusted according to October Government Deficit and Debt Notification.

Source: CZSO, internal document. Data adjustment according to October Notification MF CR.

Road and Motorway Directorate and Railway Infrastructure Administration

Analysis by and large confirms the logical connection between the amount of received investment transfers and the contribution of the Road and Motorway Directorate and the Railway Infrastructure Administration to GFCF of the government sector. The average year-on-year drop in investment funds (including pre-financing) obtained by the Road and Motorway Directorate in 2009–2012 through the State Fund for Transport Infrastructure and the state budget was almost 24%. The average decrease in GFCF attributed to the Road and Motorway Directorate in the same period was even 4p.p. higher. A similar trend was also recorded for the Railway Infrastructure Administration, with average year-on-year change in the volume of received investment transfers of −21% and with a contribution to GFCF on average lower by nearly 27% annually.

Lower revenues of the State Fund for Transport Infrastructure were caused, among other factors, by lower disbursement of subsidies from the Operational Programme Transport due to insufficient resources to cover national shares of co-financed projects (SFTI, 2011). In 2012, the considerable decrease in capital transfers could relate to the suspension of certifications of the Operational Programme Transport from March to October of that year (MF CR, 2013a). The aforementioned reasons can explain the smaller amount of funds put into transport infrastructure from the state budget and the State Fund for Transport Infrastructure, or from the Operational Programme Transport. However, agencies have also partially contributed to lower investment expenditure since they have been unable to utilise the whole volume of awarded budgeted funds. Specifically, in the case of the Road and Motorway Directorate there was a considerable worsening in budget implementation (the share of actually obtained funds – investment transfers – in the budget after changes) during the whole period (2009–2012), whereby in 2012 only 85.8% of budgeted funds were obtained, i.e. 12p.p. less than in 2009. According to the Road and Motorway Directorate as a beneficiary of funds, this fact in 2010 was caused in particular by a lack of time to obtain special purpose subsidies used for removing damage after the floods in May and August (State Fund for Transport Infrastructure, 2010), and the unfinished property settlement of constructions a year later (purchases of lands, etc.; see State Fund for Transport Infrastructure [2011]). The failure to utilise funds completely in 2012 had several causes: a) delays in tenders due to modifications of the General Business Conditions of the Road and Motorway Directorate (response to the results of checks performed by the EU and the European Court of Auditors in summer 2012), b) delay of a large number of investment activities until decisions were made by the Anti-Monopoly Office regarding the correctness of the tender, and c), last but not least, shifting schedules in the preparation of certain construction activities. Implementation of some activities was postponed by several months in H1 2012 also due to legal uncertainty caused by missing implementing regulations on the amendment to the Act on Public Contracts (State Fund for Transport Infrastructure, 2012).

The non-utilised funds in relation to each aforementioned activity, which make up the balances of the State Fund for Transport Infrastructure's revenues from the previous budgetary year, are transferred under certain conditions by the State Fund for Transport Infrastructure into its budget for the following year. In this year, awarded funds must now be utilised, since it is no longer possible to transfer them to the following budgetary year in order to finance the given investment (State Fund for Transport Infrastructure, 2013). This mechanism for disbursing investment transfers has had a positive effect, as it has extended the time-limit for investing awarded sources of financing, which ultimately can positively impact GFCF. On the other hand, the risk arises of a situation that is characteristic of the Czech Republic in recent years when financing investment in transport infrastructure in the government sector – a systematic failure to fully utilise budgeted sources in the current year (in particular by the Road and Motorway Directorate). In the case of the Road and Motorway Directorate, possible sources of financing investment amounting to almost CZK 1 billion were not used in 2009, and a negative trend followed in the next few years. In 2012, it already amounted to CZK 3.3 billion. Thus funds are cumulated that could otherwise contribute to GFCF and support economic growth.

Public universities and research institutions

In contrast, GFCF increased in public universities and public research institutions following greater investment in 2012 than in previous years. Particularly for universities, it seems that after the exceptional year of 2011 (in terms of non-utilised received subsidies) they renewed investment activities and implemented projects co-financed by the EU in 2012.

Local budgets

The subsector of local government institutions is characterised by the largest number of units (out of the total number of 16,939 units, it has 6,273 municipalities and 9,863 allowance organisations), whereby the very number of institutions makes it difficult to conduct any analysis and further multiplies individual small changes. Another difference compared to big investors in central government is the fact that municipalities and regions finance their investment not only from subsidies, but also using their own resources emanating from the budgetary designation of taxes, the disposal of property, the provision of services and the sale of goods. They can also take on debt and can issue bonds if additional sources of finance are required. For this reason, municipalities and regions are not entirely limited in their investment by the amount of assigned funds, their purpose and any subsequent settlement with providers in the case of not fully utilizing funds in a given year.

The GFCF of local budgets decreased by 13% in 2010. This decrease was caused by three, approximately equally weighted factors: a decrease in free acquisitions, more extensive privatisation of municipal flats and a decrease in investment. In the following years, the decrease is more moderate and a reduction in investment is only 6.5% in 2011 and 6% in 2012 (approximately CZK 4 billion in both years). A more marked decrease in GFCF in 2012 was recorded for allowance organisations. The annual amount of investment of around CZK 22 billion in 2009–2010 decreased rapidly in 2012 by CZK 7 billion, thus accounting for a large part of the total decrease in investment of the whole government sector. From the perspective of their contribution to investment, while the regions were stable, the municipalities' contribution to GFCF decrease was decisive. In subsidy relations regarding municipality budgets there was a considerable decrease compared to 2011 (by CZK 5 billion); nevertheless, the investment activities of municipalities showed the greater decline (by approximately CZK 10 billion). Brakes on investment were applied in particular in transport (transport infrastructure) and construction (urban infrastructure) because of the non-implementation of construction, modernisation and repair projects. The reasons for failing to implement the capital expenditure budget also included poor climatic conditions which prevented the performance of investment activities, meaning that parts of non-utilised funds were transferred to subsequent years. The Capital City of Prague as the main investor in local government participated in the total decrease in GFCF by its failure to use the capital expenditure budget of CZK 1.9 billion for construction of the Blanka tunnel complex, where invoicing was checked against the extent of work done, and a further suspension of disbursement was reflected in an amount of approximately CZK 0.5 billion for not awarding a subsidy for the urban construction project on Císařský Ostrov in the Operational Programme Transport (Capital City of Prague, 2013).

No entity can be identified among allowance organisations as an investor with a significant share; nevertheless, in terms of investment volumes the regional allowance organisations of the Road Administration and Maintenance are exceptional in ensuring transport infrastructure projects. Even if at first sight the decrease in GFCF for allowance organisations in 2012 seems alarming, after a more detailed analysis it is clear that in terms of new investment, there was no considerable change in this segment compared to previous development. As mentioned above, free transfers of assets also enter into GFCF calculations; these are a common way of disposing property at the level of local government institutions. In 2012, there were half the transfers compared to the previous year, which meant a decrease in the GFCF of allowance organisations by approximately CZK 6 billion. When adjusting GFCF for this factor, the investment activities of allowance organisations decreased only slightly. Of course, this transaction leads to an implicit increase in GFCF in another entity of the subsector due to lower property transfers. This phenomenon can be observed in local budgets, whose decrease in investment expenditure is more significant (over CZK 9 billion) than the GFCF decrease (almost CZK 4 billion), roughly corresponding to just the amount of asset transfers, and largely explaining the difference in the reduction of investments and the recorded decrease in GFCF.

2.1.2 General Government Sector in 2013

In this year, we expect to reach a government sector deficit of 2.9% of GDP, which means a deterioration of 0.4p.p. after adjusting for one-off operations. This impact is mainly attributable to an increase in the negative output gap, which negatively influences tax revenues. After adjusting for the cycle and one-off operations, the government balance should improve by 0.1p.p.

Compared to the last estimate of MF CR (2013a, 2013**b**), there has only been a slight reassessment of government deficit by 0.1p.p. The structure of revenue and expenditure categories was reassessed more substantially.

On the revenue side, the most marked change was recorded for tax revenues, where their estimate was revised downwards by approximately CZK 7 billion. The main reason is the worse than originally expected payments, in particular of corporate income tax and excise taxes. In contrast, a more favourable development is expected for government sector sales (by approximately CZK 4 billion), where more favourable than originally expected economic development should have an impact. Other revenue categories were reassessed only marginally.

There were several significant changes on the expenditure side. Government intermediate consumption decreased by more than CZK 10 billion. The main reason was a change in the base in 2012, when CZSO originally reported a year-on-year decrease of 1.8% which has now been revised to a nearly 6% decrease. In addition, the assumption of growth in this item has also been decreased slightly, in particular due to only moderate development in H1 2013. In the subsector of central government institutions, a slight decrease or stagnation can be expected this year in government purchases. In contrast, an increase in intermediate consumption is expected by local governments.

Another more significant change was the increase in the estimate for employees' compensation by approximately CZK 10 billion. Once again this case involves the concurrence of two impacts: when the base of 2012 increased by more than CZK 4 billion and at the same time growth in the wage bill in public administration was reassessed. In total, compensation of employees should grow by 2% in 2013, while somewhat quicker wage development should be seen more particularly in the local government institutions subsector.

A noticeable increase (of more than CZK 11 billion) was seen in the estimate for development in social benefits, in particular in contribution to living allowances, sickness benefits, supplementary payments for accommodation, and contributions to care. With respect to the relatively uncertain and volatile development in this group of benefits, a very conservative development scenario was chosen for the remainder of 2013. The new estimate of social benefits must be understood, therefore, to represent a rather pessimistic scenario.

A better result is now assumed for interest expenditure, where current data indicate savings of up to CZK 3 billion. In a year-on-year comparison, there will be a slight decrease in interest costs related to debt repayment. Similarly large savings compared to the original estimates are also expected for social benefits in kind (expenditure of health insurance companies on health care). This development was mainly caused by the relatively restrictive operation of the Reimbursement Decree, resulting in decreasing expenditure of health insurance companies on health care. The full utilisation of the General Health Insurance Company's reserve funds has also contributed to this restriction. To a lesser extent, lower administrative costs are reflected here thanks to the modification of cost limits for health insurance companies' activities.

In an update to the spring notifications, the estimate now also includes income from the sale of emission allowances in the amount of CZK 1.7 billion, of which more than CZK 1 billion has already been implemented. Moreover, an estimate of non-validated EU expenditure of CZK 1.6 billion has also been included.

Total revenues of the government sector should increase by 1.1% in 2013, after cyclical adjustment by 2.4% as a result of a significant negative output gap. A large number of discretionary measures are reflected in government revenues, where without doubt the most significant impact was due to the increase in the VAT of reduced and standard rates by 1p.p., with a total effect of CZK 15.1 billion. Thanks to tax discretion, VAT collection should increase by 6.8% compared to last year as the macroeconomic tax base will grow by 1.3% only. If the output gap is closed, the expected increase could be about 9%.

Conversely, with the approximate stagnation of real household consumption can be expected a considerable decline of 3.5% in excise taxes, even in spite of positive discretionary measures of over CZK 2 billion (primarily increasing the rate in relation to tobacco products and the modification of green diesel fuel taxation). The collection of mineral oil tax influences the unfavourable development of the whole group.

Higher collection (an increase of 5.9%) is also predicted for personal income tax, where the total effect of discretionary measures is expected to be nearly CZK 7 billion (for example, the abolition of the basic discount for working pensioners, the introduction of statutory progression for higher incomes, and the restriction of expenditure lump-sums).

Social insurance contributions should decrease by 0.4%. According to the current pattern, the loss of revenues related to introducing the voluntary savings pension pillar appears to be negligible.

In comparison with last year, we can expect approximately the same volume of government sector investment co-financed by EU funds. The original uncertainty relating to 2012, when the two largest operational programmes (OP Transport and OP Environment) were suspended, has already to a large extent abated in the case of entities at the central government level. Nonetheless, according to current data no significant increase in volume can be expected this year.

In the course of 2013, the concurrence of the rules n+2 and n+3 for obtaining European funds occurs, when allocations for 2008–2010 have to be fully utilised (certified) this year according to the rule n+3, and allocations for 2011–2013 in the case of the rule n+2. With this fact in mind, it is possible to expect more significant cash income from the EU (see Box 2). As far as the ESA 95 methodology is concerned, this fact has no significant impact because the moment of actual 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%; the aforementioned one-off measures are playing an important role here. If adjusted for these influences, expenditure would increase by 1.8%.

Government final consumption expenditure should increase by 1.6%, mainly due to the growth of intermediate consumption, where, as a result of autonomous development and a change in the value added tax rates, a 1.6% growth is expected compared to the sharp declines in recent years. A newly expected 2% increase in the wage bill will also contribute to an increase in government consumption.

For government sector investment we expect approximately the same volume as last year; the significant rate of decline in the volume of investment should now slacken off. Compared to 2009, gross capital formation is at a relatively low level (approximately 60%), and it is not possible therefore to expect any further marked decline in investment.

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**	**43.2**	**44.5**	**43.4**
government consumption	19.8	19.7	21.5	21.3	20.7	20.5	20.8
social benefits other than social transfers in kind	12.5	12.4	13.5	13.7	13.8	13.9	14.4
gross fixed capital formation	4.2	4.6	5.1	4.2	3.6	3.2	3.2
other expenditure	4.6	4.4	4.5	4.5	5.1	6.9	4.9

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

Box 2: EU Funds and their Uptake

This box briefly summarises uptake from EU funds in the programming period 2007–2013, specifically from the Cohesion Fund, the European Social Fund and the European Regional Development Fund. For financing from European funds, the Czech Republic uses both thematic operational programmes (for example, OP Transport, OP Environment) and supplementary regional operational programmes. The total number of operational programmes is 26, while 18 of them are managed by a Czech managing body (OPs outside Czech managing bodies are mainly those relating to cross-border cooperation). The principal targets that should be fulfilled by operational programmes mainly include:

a) Convergence (thematic and most regional OPs); this is where an overwhelming majority of funds is allocated,
b) Regional competitiveness and employment; two operational programmes have been allocated to this target – OP Prague Competitiveness and OP Prague Adaptability,
c) European territorial cooperation, which is dealt with by OPs for cross-border cooperation.

For using these sources, the system of the so-called pre-financing is used, the first stage of which is the announcement that proposals for subsidies are being accepted. Applicants then file their applications, and if the given applications are approved as eligible, contracts are concluded based on which final beneficiaries are financed from the state budget. This financing can be both *ex post* (i.e. final beneficiaries invest using their own resources which are subsequently paid out from the state budget) and *ex ante* (where a payment is made before investment is started). Funds paid out in this way are then claimed by the state budget from the National Fund at the Ministry of Finance of the Czech Republic (the certification authority of the Czech Republic), which subsequently accounts them, after which they are paid out to it from the EU funds.

The total allocation of the aforementioned funds for the programming period of 2007–2013 is, including national sources after conversion using the current exchange rate, approximately CZK 795.3 billion. The total allocation is divided both by individual programmes and by the individual years of the programming period; in addition the so-called rule n+2/n+3 applies, whereby the allocation for a given year must be used (certified by the European Union) within three (for 2008–2010), or within two (for 2011–2013) years from the end of the given year. Funds not utilised from the respective allocation by the end of the given year are subject to so-called automatic cancellation of obligation. The allocation of subsidy for the given year is decreased by non-utilised funds that are returned to the EU budget. This fact puts great emphasis on 2013, as allocations for 2010 and 2011 have to be certified at the end of 2013 (this year there is concurrence of the rules n+2/n+3). At the end of this year, individual OPs have to have certified expenditure in the amount of approximately 65% of the whole OP allocation.

In order to reduce the risks of "forfeiting" funds from the EU, so-called preliminary payments (advance payments) can be applied. They are funds provided by the European Commission to the Czech Republic for each OP at the beginning of the programming period; in total they equal 9–10% of the allocation. At present, approximately 36.5% are certified from the total allocation, which means a large amount of funds is thus at risk. At present, we have not fulfilled the limits for the uptake of OP Environment, OP Human Resources and Employment, Integrated OP, OP Technical Assistance, ROP Moravia-Silesia, OP Enterprise and Innovation, OP Research and Development for Innovations, OP Education for Competitiveness and ROP North-West. On the other hand, the uptake limit has been met by OP Transport. Other OPs are more or less able to fulfil allocation using preliminary payment tools, or other correction tools permitted by the EU.

Table 2.4: Operational Programmes and their Uptake in 2007–2013

(in CZK billion., in % of allocation)

	Allocation	Submitted applications		Approved projects		Payments to beneficiaries		Amounts certified	
	in % of total alloc.	*CZK bill.*	*% of alloc.*	*CZK bill.*	*% of alloc.*	*CZK bill.*	*% of alloc.*	*CZK bill.*	*% of alloc.*
OP Transport	21.8	243.6	139.9	176.6	101.4	140.9	80.9	80.0	46.0
OP Environment	18.4	235.0	159.2	68.7	46.5	54.8	37.1	44.3	30.0
OP Enterprise and Innovation	11.7	169.9	181.6	90.2	96.4	50.7	54.2	29.6	31.7
OP Research and Develop. for Innovations	7.7	103.1	165.3	57.3	91.8	29.9	47.9	11.9	19.0
OP Education for Competitiveness	6.6	143.8	270.8	51.1	96.2	35.2	66.3	19.0	35.7
OP Human Resources and Employment	7.1	115.4	203.3	56.5	99.6	30.6	53.8	24.6	43.3
Integrated Operational Programme	6.1	70.2	144.5	41.2	84.7	19.7	40.6	12.1	24.9
OP Technical Assistance	0.7	9.4	159.7	4.8	80.9	2.2	37.4	2.0	33.4
ROP NUTS II North-West	2.9	40.0	176.0	17.9	78.6	12.1	53.4	5.3	23.5
ROP NUTS II Moravia-Silesia	2.7	38.3	174.5	19.8	90.3	13.9	63.6	9.1	41.3
ROP NUTS II South-East	2.7	41.1	190.5	21.7	100.4	15.2	70.3	12.5	58.0
ROP NUTS II Central Moravia	2.5	39.1	193.7	16.5	81.6	13.1	64.8	10.3	51.1
ROP NUTS II North-East	2.5	42.1	209.8	20.8	103.7	15.6	77.6	9.1	45.2
ROP NUTS II South-West	2.4	56.1	295.2	19.3	101.3	11.8	62.1	10.4	54.5
ROP NUTS II Central Bohemia	2.1	34.9	204.0	17.3	101.5	12.1	70.5	5.5	32.0
OP Prague - Competitiveness	0.9	16.7	231.2	6.3	86.5	5.0	68.4	3.0	42.0
OP Prague - Adaptability	0.4	16.3	476.4	3.2	94.4	2.3	68.4	1.5	44.8

Source: MMR (2013).

At the end of this September, the total funds in filed applications for subsidies were in the amount of CZK 1,415.1 billion, representing 177.9% of the programming period allocation; funds covered by a decision or contract granting a subsidy reach CZK 689.0 billion, corresponding to 86.6% of the allocation. Funds amounting to CZK 465.0 billion, i.e. 58.5%, are being paid out to final beneficiaries. As was already mentioned above, certified funds reach only CZK 290.2 billion, i.e. 36.5%. The situation in specific programmes is described in the Table 2.4.

The largest portion of the total allocation falls on OP Transport, where 21.8% of all funds are directed; second place is occupied by OP Environment with 18.4%. The programmes OP Research and Development for Innovations, OP Enterprises and Innovations, OP Education for Competitiveness, OP Human Resources and Employment and Integrated OP each have an allocation of 6–12%. The regional operational programmes have allocations of 2–3% each. The other OPs are relatively marginal, with each allocation below 1%.

OP Transport also has the biggest share of funds already paid to final beneficiaries, i.e. 80.9% of its allocation. Total filed applications for the whole period even make up nearly 140% of the allocation, thus exceeding the programme's financial possibilities by nearly 40%. The overwhelming majority of expenditure of this operational programme is implemented through the Railway Infrastructure Administration and the Road and Motorway Directorate. Most funds are used for gross fixed capital formation, thereby representing an investment impulse for the economy and contributing positively to the rate of potential product. With respect to programme character, OP Transport also has the biggest projects in terms of volume, including, for example, the D3 Motorway Tábor – Veselí nad Lužnicí (CZK 8.1 billion paid so far) and the R6 highway – Jenišov – Kamenný Dvůr section (CZK 7.0 billion paid so far).

OP Environment has filed applications in a total amount of nearly 160.0% of the allocation, but here the step from filing applications to actually implementing projects has been problematic. Projects covered with signed contracts amount to only 46.5%, which is the lowest number of any operational programme, and only 37.1% of the total allocation has been paid out. Considering it is the second biggest operational programme, low uptake means a relatively large potential loss of funds.

As summarised in the Table 2.4, there is considerable over execution for all OPs in terms of filed applications (even four-fold and more). Projects covered by decisions or contracts are also at a relatively solid level, for most projects above 90%, for some even slightly above 100%. Higher reserves can be seen for both paid out funds and even more for EU certified funds.

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 matched those in the year at the start of the first wave of the recession, the deficit would very probably be, other things being equal, significantly above 3% of GDP, which would also be true in the years of the outlook.

On the other hand, there is a positive factor for government expenditure stemming from the pressure on price reduction that arises from the unfavourable situation in the construction sector, for example, and thus tougher competition in the submission of tenders for public contracts.

In the forecast for 2013, the sale of frequency domains to mobile operators is not taken into account: this sale is included in the following year. The forecast is drawn up very conservatively, and an economic result worse than the expected value is thus very unlikely.

According to the current forecast, we expect government debt in 2013 to more or less stagnate at the level of the end of last year (or very slightly decrease). The main reason is the dissolution of debt-financing reserves issued in the last few years (mainly in 2012), the absorption of which is reflected in the debt portfolio as a more significant decrease in state treasury bills. At the end of the year, debt should reach 46.1% of GDP.

The predominant part of debt development is overwhelmingly the debt generated by the performance of the state budget; a significantly smaller portion (nearly 3% of GDP) accounts for the subsector of local government institutions, while the participation of health insurance companies in the debt is negligible.

In their balance sheet liabilities, health insurance companies accumulate trade payables (mostly payments not made to medical facilities) that are not included in the debt according to the current definition. With respect to full utilisation of the provision of the General Health Insurance Company and the considerable issues facing the health care system, this problem may continue to grow in the next few years. It is necessary to add that if health insurance companies were to have high overdue payables, the state budget would have to intervene, probably by increasing payments for state insured persons, and in this indirect way the system of health insurance companies would cause government sector growth. Thus, despite the fact that most liabilities of the health care system are not part of the debt, they demand great vigilance, as sooner or later they will put demands on the state budget debt.

Box 3: Floods in 2013

During May and June 2013, the Czech Republic was hit by devastating floods. In addition to momentary troubles in the form of the reduced accessibility of some services and the cutting off a number of areas from the surrounding world, they also resulted in sizeable costs for the repair of property as a consequence of the damages caused. In total seven regions were affected in the Czech Republic – the South Bohemian region (374 municipalities and one military area affected), the Plzeň region (169 municipalities affected), the Ústí region (86 municipalities affected), the Liberec region (75 municipalities affected), the Hradec Králové region (10 municipalities affected), the Central Bohemian region (480 municipalities affected) as well as the capital city of Prague (18 out of 22 city districts affected). Approximately 36% of the inhabitants of the Czech Republic were directly affected by these floods.

Immediately after the beginning of the floods, the Government released, by means of Government Resolution No. 411 of 2 June 2013, the amount of CZK 300 million for eliminating the consequences of the floods and subsequently it transferred CZK 2 billion from the chapter State debt to SFTI for eliminating the damages inflicted on the transport infrastructure. Then the Government approved (Resolution No. 461 of 12 June 2013) the allocation of nearly CZK 0.6 billion to the affected regions and CZK 0.1 billion for covering additional costs of the integrated rescue system. It was transferred (Resolution No. 468) CZK 0.5 billion in the first portion to the Ministry of Transport at the expense of the General Treasury Management chapter, and the same also happened in the second portion regarding the same amount (Government Resolution No. 492 of 19 June 2013). From the Government Budgetary Reserve for 2013 (Government Resolution No. 531 of 3 July 2013) additional funds were released for eliminating the consequences of the floods to the Ministry of Agriculture (CZK 0.2 billion), the Ministry of the Interior (CZK 0.2 billion), and to the Administration of State Material Reserves, The Ministry of Health and the Ministry of Defence. Furthermore, funds were allocated to the Ministry of the Environment for implementation of the project Evaluation of floods in June 2013 (Government Resolution No. 533) and the Ministry of Agriculture for granting loans to restore agricultural production (Government Resolution No. 534) in the amount of CZK 0.2 billion).

Table 2.5: Cost on damaged property according to owners
(in CZK million)

Ministry	Liberec Region	South Bohemia Region	Plzeň Region	Ústí Region	Central Bohemia Region	Hradec Králové Region	City of Prague	Total
Ministry of Transportation	347	205	90	331	1123	106	57	**2259**
Ministry of Local Development	131	707	87	1158	1624	306	942	**4956**
Ministry of Agriculture	89	994	87	846	889	263	1386	**4555**
Ministry of Industry and Trade	-	29	1	356	190	19	610	**1203**
Ministry of Education	1	10	0	35	56	19	179	**300**
Ministry of Environment	0	63	7	228	186	155	304	**942**
Ministry of Health	-	0	-	0	27	1	0	**29**
Ministry of Labour and Social Affars	-	0	0	10	32	-	13	**54**
Ministry of Culture	-	4	7	553	41	2	126	**732**
Ministry of Interior	-	0	0	6	7	0	225	**240**
Ministry of Defence	0	0	0	1	0	0	0	**1**
Total	**568**	**2 013**	**279**	**3 523**	**4 176**	**872**	**3 841**	**15 272**

Source: MF CR.

The estimation of costs is rather complicated and has been changed several times. As far as damages to property of the public and the private sector are concerned, their estimates exceed CZK 15 billion. A division of these costs by owners is shown in the Table 2.5. The Czech Republic is currently asking for a subsidy from the European Solidarity Fund. The application was filed as part of the so-called neighbour criterion, thus the Czech Republic is entitled to receive a max. of 2.5% of the total damages that were calculated in the application in the amount of EUR 637 million (CZK 16.4 billion). The application has been approved by the European Commission, which proposed to the European Parliament and the EU Council to approve a grant in the amount of EUR 15.9 million (CZK 411 million). The European Parliament and the Council are deciding on releasing the funds as part of the standard budgetary process.

Table 2.6: 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 2.7: 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 2.8: 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 Eurostat (2013c).

2.2 International Comparison

2.2.1 General Government Balance

In 2012, the government sector deficit of the EU28 countries, i.e. including newly joined Croatia, reached the value of 3.8% of GDP, if we take into account the financial year for the United Kingdom (see Note 1), otherwise 3.9% in the case of the calendar year as for the other countries. In both cases, it was lower compared to the previous year of 2011, by 0.6 or 0.5p.p., respectively. On this occasion, the CR with a deficit of 4.4% of GDP was above the EU28 average, nevertheless, the balance has been extraordinarily negatively affected by one-off and temporary measures (see Chapter 2.1). Without these adjustments, the deficit would be below the Maastricht level of 3% of GDP.

In 2012, the worst government sector balance was recorded in Spain and Greece, with respective deficits of 10.6% and 9.0% of GDP. Other high deficits in relative terms were achieved by Ireland (8.2% of GDP), Portugal and Cyprus (6.4% of GDP) and the United Kingdom (5.2% of GDP)[1]. The only country that achieved a surplus in 2012 was Germany, with +0.1% of GDP. Sweden and Estonia, generally disciplined countries, did not achieve a positive economic result this time; nevertheless, their deficits were minimal (identically 0.2% of GDP), deeply below the limit required by the Maastricht criterion. In terms of Sweden it is interesting that compared to April it notified a deficit in autumn nearly three times lower in absolute terms, due to modifications in the economy of the local governments. Hungary proved that its high surplus for 2011 was not accidental, but was due to an extraordinary administrative adjustment of the balance as a consequence of the nationalisation of obligatory pension funds. The Maastricht criterion of deficit was not fulfilled for 2012 neither by the CR, nor by another 16 EU countries, while Italy and Romania recorded the threshold value.

In 2013, all EU 28 countries expect a financial deficit in the government sector, of which Germany and Estonia in a minimal amount of 0.2% of GDP and Sweden and Luxembourg still below 1% of GDP. Germany, as Sweden in the previous year, decreased its notified deficit compared to the spring value by more than half; nevertheless, the reason still cannot be precisely identified.

The highest deficits would be probably recorded in Ireland and Cyprus (7.3% of GDP), then in the United Kingdom and Spain (identically 6.8% of GDP, while the value of 5.6% of GDP corresponds to the calendar year in the United Kingdom). Greece, which has generally been known to struggle in the fiscal regard, is set to

[1] This data relates to the financial year, not the calendar year, and therefore it differs from the amount for the calendar year in the Eurostat database – there the deficit is 6.1% of GDP. A similar situation is for the debt-to-GDP ratio – in 2012 we provide the value of 88.1% of GDP for the financial year, while Eurostat 88.7% of GDP for the calendar year. We prefer the data for the financial year here, as in the United Kingdom this data is relevant for launching the excessive deficit procedure.

record an unprecedentedly low negative balance for 2013 of 2.1% of GDP[2], which corresponds to the situation somewhere between Bulgaria and Finland. Moreover, this level is lower than the targets set until 2016. A better result than in Greece is expected in only seven EU countries. Slovenia, which has had to cope with serious economic difficulties in 2013 due to problems of its local banks, reported a deficit of 4.2% of GDP in spring for the current year and 5.7% of GDP in autumn, while in the meantime the media reported a possible increase of up to 7.9% of GDP. A deficit higher than 3% is expected in 11 countries in 2013 – see Table B.15 in the annex. Italy will again record a threshold value. Compared to 2012, a worse result of finances in the government sector in relative terms is anticipated also in 11 countries.

2.2.2 General Government Debt

Government sector debt approximately reflects the long-term development of the deficit of the respective country. In the EU28 countries, government sector debt reached a consolidated value of 85.1% of GDP in 2012, i.e. it was 2.8p.p. higher than in 2011. To achieve completeness, the non-consolidated amount is 86.6% of GDP, in the case of the financial year in the United Kingdom it is 86.5% of GDP.

Based on the government debt indicator, the CR reports still relatively good results. 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 46.2% of GDP.

Greece remains the most indebted country in the EU28. Although a portion of total government debt was forgiven by private creditors, resulting in its reduction in 2012 by approximately 14.5%, nevertheless, because of the continuing economic depression, the relative indicator of government debt will probably further deepen to 175.5% of GDP in 2013. Other countries that would not be able to cover their government debts even with the entirety of their annual production include Italy, Ireland and Portugal, and in 2013 also Cyprus, affected by a recent banking crisis. Belgium, the United Kingdom, Spain and France are faring only slightly better with debt equal to their annual GDP. The debt indicator is developing favourably in Denmark, less so in Germany, Hungary and Lithuania. Debt as a proportion of GDP is easily the lowest in Estonia, although in 2013 it reached a double-digit value for the first time (in absolute terms, debt increased almost twofold compared to 2011). The majority of EU countries are recording a relative worsening of 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, 14 countries would satisfy the Maastricht debt criterion, and only 13 countries a year later, as Slovenia already exceeded its limit. The other countries approaching it quickly include Finland, Slovakia, Poland and also the new EU country, Croatia.

Note: In Austria in connection with the autumn notification of government deficit and debt Eurostat gave a reservation pursuant to Art. 15, Section 1 of the Council Regulation EC No. 479/2009, as subsequently amended. The reason is said to be the implausibility of the state of Salzburg data in the year 2012 and the preceding years, discovered by the local federal inspection authority. It is expected that government debt could increase by up to 0.5p.p. of GDP, while a minor modification of deficit is not ruled out.

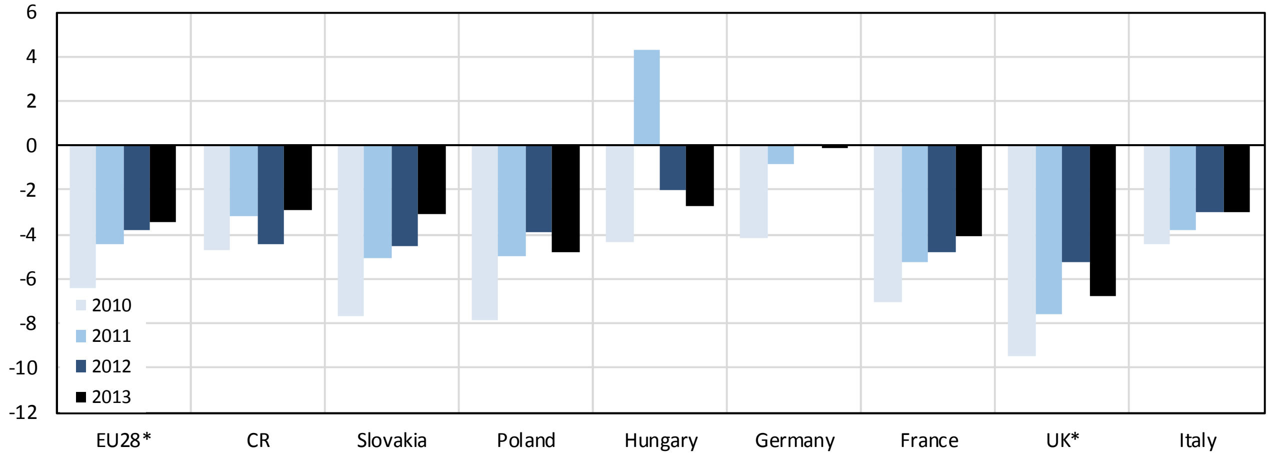
2.2.3 State Debt Financing

The debt service costs are given by the confidence of the financial markets in the ability of countries to meet their obligations, which is reflected in yields of government securities of all maturity periods. This is shown in Graph 2.4 in the form of spreads of yields of ten-year state bonds until maturity on the secondary markets against the reference level of Germany or the differences in yields of ten-year state bonds towards German bonds of the same kind in the period from January 2008 to September 2013. It can generally be said that the development correlates to a certain extent with fiscal indicators of government deficit and debt, but it best characterises confidence in the given country as a risk premium. To achieve greater clarity, we have divided the selected EU countries into four groups.

Except for Belgium, the upper graph on the left includes countries with a very low spread, while in some periods revenues from British bonds (and those of Denmark and Sweden) were even lower than from 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 (see the previous Chapter 2.2.2).

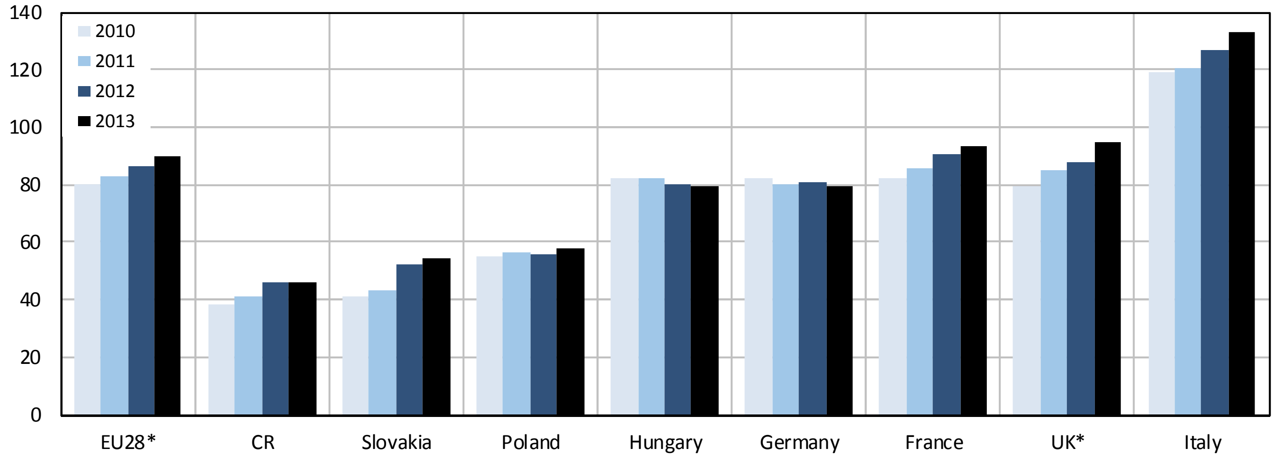
[2] European Commission's last forecast (EC, 2013) states for Greece a high value of deficit of 13.5% of GDP, of which 10.6% of GDP corresponds to banking recapitalization costs. From the perspective of the Irish situation in 2010 it is not clear, however, why Eurostat, falling under the EC competence, did not take this fact into account while approving the last Greek notifications of government deficit and debt.

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



*Note: *) For UK, the data for fiscal year (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2013c).

Graph 2.3: General Government Debt in Selected EU Countries (2010–2013)
(in % of GDP)

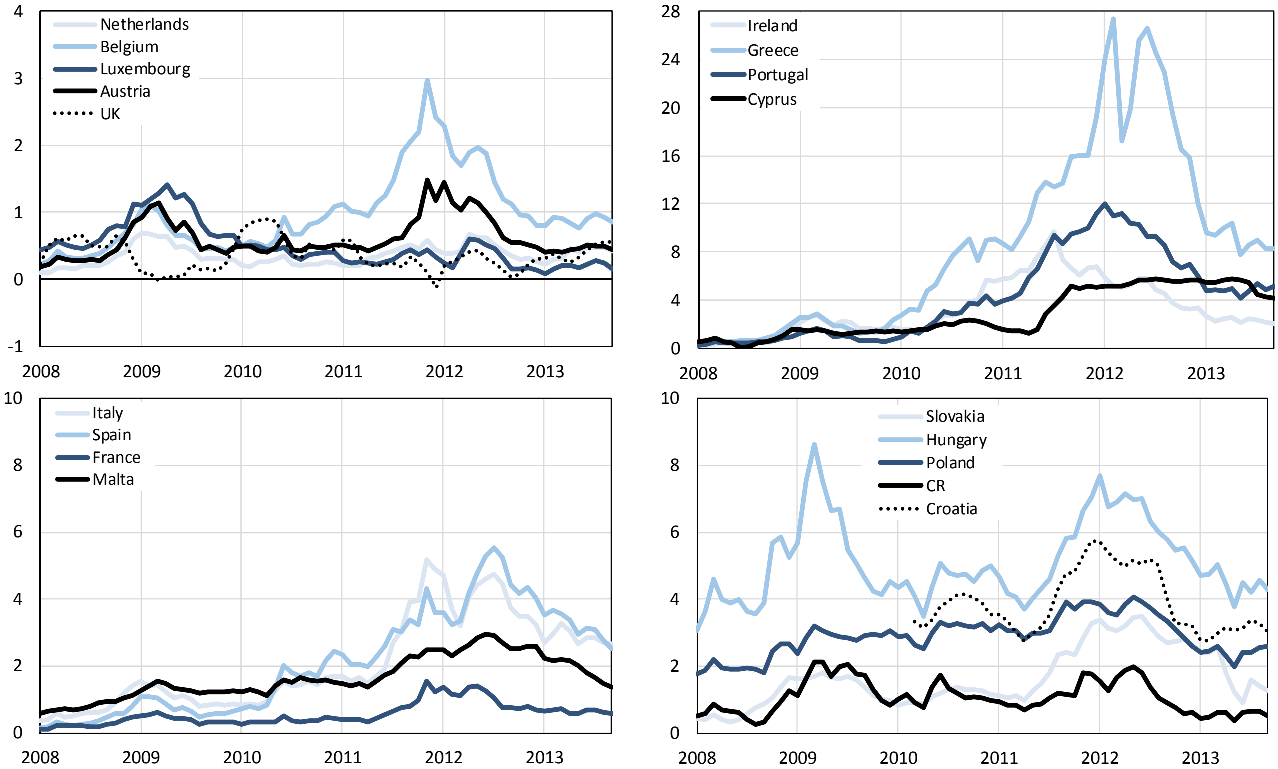


*Note: *) The debt in EU28 is non-consolidated. For UK, the data for fiscal year (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2013c). For CR in 2013 MF CR.

The right upper and left lower graphs show the development in countries in the south of the EU and Ireland, where economic turbulence over recent years has laid bare internal problems and imbalances. France, whose rating has also been reduced several times recently, has been added to this group. The development in Greece in recent months has reflected positively received steps taken by the Greek government and the slowly 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. Croatia as the newest EU member has been added to this group; nevertheless, its data has only been available since March 2010.

Graph 2.4: Spreads between National and German Bonds in EU Countries (January 2008 to September 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 Medium-term Fiscal Outlook

The medium-term outlook for government sector finances proceeds from interaction of the government's fiscal strategy and the macroeconomic outlook. The binding medium-term expenditure framework for the state budget and state funds is a technical instrument used for budgetary planning and the government's consolidation objectives.

The prime minister Jiří Rusnok's Cabinet, until a new government is nominated, has been orienting fiscal policy in a similar direction as the previous government. The target is to decrease the general government deficit below 3% of GDP in 2013, and thereby end the excessive deficit procedure that has been launched since the end of 2009. The excessive deficit procedure should be ended based on the result for 2013, when the deficit should be reduced to 2.9% of GDP according to our conservative estimates. A similar level of government sector deficit is also targeted in the following years, which – given the expected improving economic condition - means the pro-growth orientation of economic policy. In the draft state budget and the draft state funds budgets, investment in education, science, research and transport infrastructure are accentuated, among other things.

3.1 Medium-term Expenditure Framework

The binding force of the medium-term expenditure framework (hereinafter the Framework) is generally founded on Act No. 218/2000 Coll., on Budgetary Rules, and specific amounts of the Framework are defined by resolutions of the Chamber of Deputies.

The current Framework for 2014 and 2015 was approved by the Chamber of Deputies in December 2012 (Resolution No. 1446/2012), and the amounts of the Framework are CZK 1,122.0 billion for 2014 and CZK 1,145.8 billion for 2015 (in non-consolidated terms).

Without concurrence by the Chamber of Deputies, an approved Framework can only be adjusted in relation to specifically enumerated items, such as: significant divergence in consumer prices, changes in the estimate of expenditure co-financed by funds from the EU and from financial mechanisms, impacts of changes of tax assignment on expenditures, and exceptional situations. The Framework can also be increased by 1 one-thousandth of the total expenditures for the year of the draft state budget and by 2 thousandths for the following year. For 2014, the Framework amount has been increased by CZK 100 billion due to expected expenditures co-financed from EU funds and from financial mechanisms. There has been also an increase by CZK 59.4 billion in 2014, and by CZK 1.2 billion in 2015, made in line with different subsidy relations between the state budget and state funds (consolidation). No other adjustments mentioned above are considered during the period of the outlook.

Amounts of the approved framework updated in this way would most likely lead to general government deficits at 2.2% of GDP in 2014 and 2.5% of GDP in 2015. In its effort to support recovery of the Czech economy and in order to implement intentions of its policy, the government approved higher amounts for compiling the budget and medium-term outlook. In 2014, state budget expenditures and expenditures of state funds should be increased by CZK 28.0 billion, in 2015 by CZK 17.1 billion. However, this increase must be approved by the Chamber of Deputies during the process of the state budget approval. An increase in the framework amounts should not cause exceeding of the threshold limit for deficit known from the Stability and Growth Pact of 3% of GDP. The procedure of deriving new amounts of the expenditure framework from the target in the ESA 95 methodology for 2014–2016 is shown in Table 3.1.

In terms of relations between the accrual deficit from national accounts adjusted for derivative operations and the cash principle of the national methodology of "fiscal targeting", it is necessary to accept several other assumptions and carry out forecasting balances of other components of the government sector. The assumption for general government beyond the state budget and state funds anticipates to be more or less balanced. The estimate of the difference between the fiscal targeting and the deficit according to the ESA 95 methodology is a factor which also influences the planned general government balance. For the coming period we forecast this difference moving in the direction from the negative value in 2014 to positive values in the following years. The reasons are mainly differences between collection of taxes based on the cash principle and accrualization of tax incomes that have a tendency to "get ahead of" cash values in the years of economic recovery (for example, see MF CR, 2009 or Hrdlička *et al.*, 2010).

A general overview of the approved, updated and newly defined Framework is presented in Table 3.2, which recapitulates the relaxing of the amounts of the budgetary Framework.

In Table 3.1 and Table 3.2, the amounts of the medium-term expenditure framework and of revenues for 2015 and 2016 are diminishing significantly. This drop, however, is due to a calculation of the Framework, where for years t+2 and t+3, funds from the EU and from financial mechanisms and their financing is not included in either revenues or expenditures.

Table 3.1: Targets of General Government Balance and Actualised Medium-term Expenditure Framework
(in CZK billion, % of GDP)

			2012	2013	2014	2015	2016
Target for government sector (ESA 95 methodology)	*% of GDP*	1	**-4,4**	**-2,9**	**-2,9**	**-2,9**	**-2,8**
	bn CZK	2	-170,4	-111,6	-112,0	-118,7	-119,3
Difference between ESA 95 and Fiscal targeting methodology	*bn CZK*	3	**-64,8**	**-3,2**	**-0,8**	**2,1**	**0,1**
Target for public budgets (Fiscal targeting methodology)	*bn CZK*	4=2-3	**-105,6**	**-108,4**	**-111,2**	**-120,8**	**-119,4**
	% of GDP	5	-2,7	-2,8	-2,8	-3,0	-2,8
Public budgets other than state budget and state funds	*% of GDP*	6	**-0,4**	**-0,2**	**0,0**	**0,0**	**0,0**
Target for state budget and state funds	*% of GDP*	7=5-6	**-2,4**	**-2,6**	**-2,8**	**-3,0**	**-2,8**
	bn CZK	8	-91,6	-98,9	-111,2	-120,8	-119,4
State budget	*bn CZK*	8a	-83,8	-90,1	-108,2	-118,3	-118,3
State funds	*bn CZK*	8b	-7,8	-8,8	-3,0	-2,5	-1,1
Revenue forecast of state budget and state funds	*bn CZK*	9	**1112,6**	**1183,1**	**1198,2**	**1043,3**	**1055,3**
State budget	*bn CZK*	9a	1014,9	1083,1	1098,6	1001,7	1014,3
State funds	*bn CZK*	9b	97,8	100,1	99,6	41,6	41,0
New expenditure framework	*bn CZK*	10=9-8	**1204,3**	**1282,1**	**1309,4**	**1164,1**	**1174,7**
State budget	*bn CZK*	10a	1098,7	1173,2	1206,8	1120,0	1132,6
State funds	*bn CZK*	10b	105,6	108,8	102,6	44,1	42,1

Note: A drop in the levels of revenues and expenditures between 2014 and 2015 results from the fact that in the outlook of the state budget for 2015 and 2016 are not included expected revenues from EU funds and financial mechanisms and the expenditure financed thereby.
Source: MF CR.

Table 3.2: Assessment of the Fulfilment of Expenditure Framework
(in CZK billion, cash, "Fiscal targeting" methodology)

		2014	2015	2016
Adjusted expenditure framework approved in 2012	1	**1281.4**	**1147.0**	**-**
New expenditure framework	2	**1309.4**	**1164.1**	**1174.7**
Tightening (-) / breach (+) of expenditure framework	3=2-1	28.0	17.1	-

Note: A drop in the levels of revenues and expenditures between 2014 and 2015 results from the fact that in the outlook of the state budget for 2015 and 2016 are not included expected revenues from EU funds and financial mechanisms and the expenditure financed thereby.
Source: MF CR.

3.2 General Government Medium-term Outlook

With respect to the improved macroeconomic outlook, forecasted general government revenues were revised compared to the April Forecast (MF CR, 2013c), when their year-on-year growth and share in GDP were increased. The expenditure side of the general government budgets was also subsequently modified in a corresponding manner, so compared to the previous forecast there was only a minimal change in the level of deficit targets for 2014–2016. A clear development of the general government as well as of individual subsectors of general government in the CR in 2012–2016 is provided in Table 3.3. It is apparent from the Table that the decisive part of the general government budget balance occurs at the central level (state budget and state funds), and thus its development for the most part determines the overall general government balance. Table 3.3 also compares the dynamics of general government revenues and expenditures. It is apparent that the rate of growth in revenues and expenditures should be roughly equal in the years of the outlook.

Table 3.3: General Government Development

		2012	2013	2014	2015	2016
General government balance	*% of GDP*	**-4.4**	**-2.9**	**-2.9**	**-2.9**	**-2.8**
Central government	*% of GDP*	-4.2	-2.9	-3.0	-3.0	-2.8
Local governments	*% of GDP*	-0.1	0.1	0.1	0.0	0.0
Social security funds	*% of GDP*	-0.2	-0.2	0.0	0.0	0.0
Total revenue	*% of GDP*	**40.1**	**40.5**	**40.8**	**40.3**	**39.7**
	growth in %	0.9	1.1	2.6	2.5	2.1
Total expenditure	*% of GDP*	**44.5**	**43.4**	**43.6**	**43.2**	**42.5**
	growth in %	3.7	-2.4	2.5	2.7	2.0

Source: Year 2012 CZSO (2013b). Forecast MF CR.

3.2.1 General Government Revenue

In comparison with 2012 and 2013, we expect more than double year-on-year increases in total general government revenues for the years of the outlook. The repeated slowdown in the rate of growth throughout the forecast horizon is caused mainly by the development of taxes. In their case, the structure of approved discretionary measures will work against slight autonomous growth relating to increasing the macroeconomic bases of the individual taxes that reduce the level of tax burden. In 2015, there are mainly changes in relation with reform of direct taxes and payments, in 2016 tax burden will decrease due to terminating the validity of temporary measures of the autumn 2012 consolidation package (see MF CR, 2012).

In addition to a continuously growing volume of wages and salaries in the economy (average growth of 3.7% in the years of the outlook), a number of major measures will cause considerable fluctuations in the collections of personal income tax. In 2014, tax credits for children will only apply to residents from the EU, Norway and Iceland (impact of CZK 2.5 billion), additional impacts of the abolition of the basic discount for working pensioners and introducing the second tax bracket will increase collection by a further CZK 0.8 billion. In 2015, the collection of personal income tax will be influenced by the reform of direct taxes and payments. The total drop in revenue due to discretionary measures is estimated at CZK 14.7 billion. Compared to the April Forecast, the expected impact is by CZK 2.5 billion lower, as the planned exemption of dividends from taxation will not be implemented. In 2016, terminating statutory progression (approximately CZK 2.1 billion) and repeated introduction of the basic discount for working pensioners (CZK 2.5 billion) will impact negatively on tax revenue that is basically stagnating in a year-on-year comparison.

For social security contributions as the most important source of the general government revenue, we expect relatively strong growth in the whole period of 2014–2016. Similarly as in personal income tax, an increase in the wage bill in the economy will positively influence the collection of insurance premium. The collection of insurance premium will also be influenced by the reform of direct taxes and payments, however, the accepted changes will have a total positive impact on the balance. From 2015, some employee benefits will be burdened with an insurance premium, which will lead to an increase in revenues by approximately CZK 2 billion. From the same year, 2p.p. of the statutory rate of insurance premium will be transferred from employers to employees. Due to a decrease in burden on the employer's part, we expect subsequent pressure on growth in wages and salaries, which will imply a higher taxation base for personal income tax and social security contributions. Accumulative growth in the collection of social security contributions for 2015 and 2016 due to this modification is quantified at approximately CZK 10.5 billion. The reform of direct taxes and payments also changes the burden level for the self-employed. From 2015, self-employed persons will pay 13% from gross profit to social security and health insurance. Their total burden will decrease after this modification by CZK 5.8 billion. In 2016, the abolition of ceilings for health insurance contributions will be terminated with a negative impact on the balance of approximately CZK 1.8 billion. With respect to low interest in joining the 2nd pillar of the pension system, the estimate of a drop in the collection of social security contributions was considerably revised, when at present we forecast practically an additional zero impact for the whole period of the forecast.

For the collection of corporate income tax we expect a slight increase in the following three years. In the horizon of the forecast, we do not consider any major discretionary changes. Unlike the May update of the Fiscal Outlook (MF CR, 2013a), we no longer expect any further impact of accelerated depreciation (this measure has not gone through the legislative process) and, as with personal income tax, no exemption of dividends.

In 2014 a 2015, the collection of value added tax will be determined in particular with the expected recovery of the domestic economy or household consumption. From 2015, the registration limit for value added tax payers will be decreased from CZK 1 billion to CZK 750,000 with an additional contribution of CZK 2.4 billion in the first year of validity. In 2016, according to the applicable legislation, value added tax rates will be unified at 17.5%, which will cause a drop in collection by approximately CZK 16 billion and a total decrease in collection by 2% compared to the previous year.

For excise taxes we expect stagnation of the total collection in the upcoming period. In 2014, payments from electricity produced from solar radiation will be limited, on the contrary, the rate of excise tax on cigarettes will increase and the impact of the green diesel fuel abolition will take full effect. The total impact of these measures on the balance will practically be zero.

In the items “Other revenues”, the revenue from the auction sale of frequency bands to mobile operators is included in 2014 with an expected profit of CZK 10 billion. We do not expect any other major one-off revenues for 2014–2016.

Table 3.4: General Government Revenue

	2012	2013	2014	2015	2016
bn CZK					
Total revenue	**1542**	**1559**	**1600**	**1641**	**1675**
Tax revenue	**736**	**754**	**773**	**781**	**780**
Taxes on production and imports	460	474	478	492	487
Value added tax	273	292	299	311	305
Excise taxes	152	146	144	145	146
Current taxes on income, wealth, etc.	276	280	294	288	294
Personal income tax	145	153	162	154	155
Corporate income tax	127	125	129	131	135
Capital taxes	0	0	0	0	0
Social contributions	**600**	**597**	**615**	**644**	**672**
Property income	**28**	**26**	**26**	**26**	**27**
Other	**178**	**182**	**186**	**189**	**195**
growth in %					
Total revenue	**0.9**	**1.1**	**2.6**	**2.5**	**2.1**
Tax revenue	**2.3**	**2.4**	**2.5**	**1.0**	**0.0**
Taxes on production and imports	3.5	3.0	1.0	2.9	-1.1
Value added tax	2.9	6.8	2.7	4.0	-2.0
Excise taxes	1.3	-3.5	-1.6	0.9	0.1
Current taxes on income, wealth, etc.	0.2	1.5	5.2	-2.1	1.8
Personal income tax	1.5	5.9	5.8	-4.9	0.2
Corporate income tax	-1.3	-2.0	3.3	1.4	3.7
Capital taxes	-0.9	-30.1	-93.8	2.0	2.0
Social contributions	**1.3**	**-0.4**	**3.0**	**4.7**	**4.4**
Property income	**0.9**	**-7.8**	**-1.5**	**2.3**	**3.4**
Other	**-5.5**	**2.3**	**2.4**	**1.7**	**3.0**
Tax burden *% of GDP*	**34.9**	**35.2**	**35.5**	**35.1**	**34.5**

Note: The tax-to-GDP ratio (tax burden) includes both the share of value added tax transferred towards EU as its own income and customs revenue.
Source: MF CR.

3.2.2 General Government Expenditure

The current fiscal strategy anticipates the average year-on-year growth of total general government expenditures to be at 2.4% in the three years of the outlook. The growth rate will be more than double in comparison with 2013 when (after abstracting from the impact of the methodical including of church restitutions of CZK 59 billion in 2012) total expenditures increased by 1.1% year-on-year.

Unlike the May update, the assumption of nominal stagnation of the wage bill in state administration was abandoned, and we now expect 2% growth in 2014 and 1% growth in 2015 and 2016. The volume of compensation of employees in the whole general government will grow in the period of the forecast even more quickly, by 1.8% year-on-year on average.

For mandatory social expenditures, in 2014 and 2015 lower pension indexation will continue, according to the valorisation formula approved as part of the consolidation package in 2012. Starting from 2016, in addition to the 1/3 growth of real wages, also 100% growth of the price level in pension valorisation (instead of a 1/3 price growth for 2013–2015). From 2014, the state will pay out sick benefit from the 15th day of incapacity to work, instead of the current 22nd day. This measure will lead to an increase in revenues by approximately CZK 2 billion. Between 2013 and 2016, there will only be a slight relative increase in mandatory social expenditures. Their share in the total expenditures of the general government will increase by 0.5p.p.

After three years of a sharp decline in gross fixed capital formation and the expected stagnation in 2013, in the following period we expect investment activity recovery. In 2014–2016, we expect the average year-on-year increases in gross fixed capital formation by 4%. In a conservative way, we consider a practically constant inflow of money from EU funds at the level of 2013. Growth should be driven by investment funds from domestic sources.

Thanks to continuing of very favourable conditions for placing government debt at the financial markets, in comparison with the April update, the forecast of interest costs of the general government was again decreased. The costs of government debt serving should reach CZK 61 billion in 2016 and their share in the total expenditures should increase, compared to 2013, by 0.1p.p. to 3.4%.

Table 3.5: General Government Expenditure

	2012	2013	2014	2015	2016
CZK bn					
Total expenditure	**1712**	**1671**	**1712**	**1759**	**1794**
Final consumption expenditure	**789**	**801**	**814**	**826**	**837**
Collective consumption	373	384	387	393	399
Individual consumption	416	417	427	432	438
Social benefits in kind	233	233	237	242	246
Transfers of individual non-market goods and services	183	185	189	191	193
Social transfers other than in kind	**534**	**557**	**574**	**595**	**606**
Interest	**56**	**55**	**58**	**59**	**61**
Subsidies	**76**	**77**	**80**	**81**	**82**
Gross fixed capital formation	**123**	**123**	**130**	**134**	**139**
Other	**134**	**57**	**56**	**64**	**69**
Compensation of employees	**286**	**292**	**301**	**302**	**308**
Total social transfers	**767**	**789**	**811**	**837**	**852**
growth in %					
Total expenditure	**3.7**	**-2.4**	**2.5**	**2.7**	**2.0**
Final consumption expenditure	**-0.5**	**1.5**	**1.7**	**1.5**	**1.4**
Collective consumption	-1.9	2.8	1.0	1.6	1.3
Individual consumption	0.9	0.3	2.3	1.4	1.4
Social benefits in kind	2.4	-0.2	2.0	1.8	1.8
Transfers of individual non-market goods and services	-1.0	1.0	2.6	0.8	0.8
Social transfers other than in kind	**1.3**	**4.3**	**3.1**	**3.8**	**1.7**
Interest	**6.5**	**-1.0**	**4.5**	**2.2**	**3.0**
Subsidies	**-3.1**	**0.7**	**3.7**	**1.0**	**2.0**
Gross fixed capital formation	**-10.5**	**0.4**	**5.5**	**2.9**	**3.7**
Other	**115.4**	**-57.1**	**-1.7**	**12.9**	**8.5**
Compensation of employees	**2.3**	**2.0**	**3.1**	**0.4**	**2.0**
Total social transfers	**1.6**	**2.9**	**2.7**	**3.2**	**1.7**

Source: MF CR.

Table 3.6: Structure of Discretionary Measures (2014–2016)

(in CZK billion)

	2014	2015	2016
Total revenue measures	**13.6**	**-18.4**	**-13.9**
Direct taxes	3.9	-11.8	1.6
Personal income tax	3.2	-14.7	-5.2
Corporate income tax	0.7	-1.0	0.0
Social security contributions	0.0	3.9	6.8
Indirect taxes	-0.5	3.4	-15.5
Value added tax	0.0	2.4	-15.5
Excises	-0.5	1.0	0.0
Other revenues	10.2	-10.0	0.0
Total expenditure measures	**-3.9**	**-0.4**	**-5.4**
Social benefits	3.9	0.8	-6.2
Compensation of employees in government sector	-5.4	-1.5	0.6
Public sector reforms	2.0	0.3	0.2
Other expenditures	-4.4	0.0	0.0
Total impact on balance	**9.7**	**-18.8**	**-19.3**
% GDP	0.2	-0.5	-0.5

Note: Figures in the table represent year-on-year discretional changes that are stemming from all envisaged and approved measures on revenue and expenditure side of the general government budget.
Source: MF CR

3.2.3 General Government Debt

Government debt as a percentage of GDP was increasing from 2009 to 2012 at a faster rate due to economic development. A moderate decrease in the debt quota in 2013 is mainly caused by a reversal of financial provisions.

In the period of the outlook, the growth in that ratio should slow in relation to the anticipated economic recovery and due to the effects of the adopted consolidation measures. Interest outlays show a tendency for stagnation across the entire time period. The impacts of other factors are minimal in the years of the outlook.

The current outlook anticipates no privatisation activities. In the event that such are realised and the revenues from privatisation are used for financing government expenditures, the debt quota would slow further.

The difference between the operating balance (flow value) and change in debt (stock value) is expressed by factors acting on the level of debt (the so-called stock-flow adjustment). Different values of the change in debt and the amount of government sector deficit can be explained in the forecast horizon with the development of nominal GDP, when with respect to GDP growth the debt-to-GDP ratio decreases under otherwise unchanged circumstances. As far as other factors are concerned, accrualization differences and net acquisition of financial assets have the most significant impact. For net financial assets accumulation, in 2013 financial assets decreased or a provision was reversed that was created in 2012. In the following years, we expect only slight reversal of the provision due to continuing uncertainty on the financial markets.

Accrualization differences originate from the difference between cash and accrual interests. In 2011 and 2012, issues of bonds with premium increased considerably, when there were one-off entries made in the case of cash approach or they were distributed over the maturity period of bonds in the case of the accrual approach. In 2012, one-off inclusion of financial compensation to churches and religious companies was also reflected as accrualization factor, as well as the inclusion of the flat-rate EU correction, whose effect was negative, and total debt not influenced by either compensation or correction in 2012. An increase in other payables in the horizon of the forecast also has an impact in accrualization, a stronger role of the government sector in business relations and a better ability to shift the maturity period are expected, as well as the recovery of intermediate consumption growth in the horizon of the forecast.

We anticipate that under the current conditions the government debt will reach nearly 50% of GDP in 2016. The debt-to-GDP ratio‘s medium-term trend will probably not change from increasing to decreasing, even in spite of a decrease in the debt quota this year.

Table 3.7: Gross Consolidated Government Debt

		2011	2012	2013	2014	2015	2016
General government	*CZK bn*	**1583**	**1775**	**1775**	**1880**	**1993**	**2107**
Central government	*CZK bn*	1484	1668	1670	1768	1883	1997
Local government	*CZK bn*	101	110	115	115	113	113
Social security funds	*CZK bn*	0	0	0	0	0	0
General government debt to GDP ratio	*% of GDP*	**41.4**	**46.2**	**46.1**	**47.9**	**49.0**	**49.9**
Contributions to change in debt							
Change in debt	*p.p.*	3.0	4.8	-0.1	1.9	1.0	0.9
Primary balance	*p.p.*	**1.8**	**3.0**	**1.5**	**1.4**	**1.5**	**1.4**
Interest	*p.p.*	**1.4**	**1.5**	**1.4**	**1.5**	**1.5**	**1.4**
Nominal GDP growth	*p.p.*	**-0.3**	**-0.2**	**-0.1**	**-0.8**	**-1.7**	**-1.7**
Stock-flow adjustment	*p.p.*	**0.2**	**0.6**	**-2.9**	**-0.2**	**-0.1**	**-0.1**
Difference between cash and accruals	*p.p.*	0.8	-2.6	0.2	0.0	0.0	0.0
Net acquisition of financial assets	*p.p.*	-0.8	3.2	-3.1	-0.2	-0.1	-0.1
Revaluation effects and other	*p.p.*	0.2	-0.1	0.0	0.0	0.0	0.0

Source: MF CR.

3.2.4 Cyclical Development and Breakdown of the Balance

The recession in which the Czech Republic has been since the second half of 2011 and the end of which we forecast to the middle of this year has brought an intensification of the negative output gap, which should persist throughout the entire forecast horizon despite its gradual closing. The cyclical component of the balance should probably remain negative throughout the entire forecast period.

The item “One-off and other temporary measures” in 2013 reflects a decrease in revenues due to a decrease in tax duty amounting to damages caused by the floods in this year of CZK 2 billion. One-off expenditures are also increased this year slightly by overall correction of the EU funds intended for refunding by the European Commission of CZK 1.6 billion. Other temporary outlays include the transfer of capital for non-standard state guarantees (guarantees resulting from solving the crisis of IPB in 2000) of CZK 2 billion. This every-year expenditure transfer is expected in the same volume until 2016. The total extent of one-off and temporary operation is estimated at −0.2% of GDP in 2013.

In 2014, we expect one-off revenue from the auction sale of newly released frequency domains in an expected volume of CZK 10 billion.

Fiscal effort, the positive values of which in the recent past and again this year represented improvement in the structural balance, will be negative in 2014–2016. The general government balance should thus basically stagnate, even despite expected recovery of GDP growth at a value slightly above −3% of GDP. This development is mainly caused by the paradigm shift of fiscal policy from fiscal restriction to stimulation of economic growth.

Table 3.8: Structural Balance of the General Government

		2012	2013	2014	2015	2016
Real GDP growth	*%*	-1.0	-1.0	1.3	2.2	2.7
Potential GDP growth	*%*	0.3	0.6	0.9	1.3	1.6
Output gap	*% PP*	-1.2	-2.9	-2.5	-1.7	-0.7
General government balance	*% of GDP*	**-4.4**	**-2.9**	**-2.9**	**-2.9**	**-2.8**
Cyclical budgetary component	*% of GDP*	-0.6	-1.2	-1.0	-0.7	-0.4
Cyclically adjusted balance	*% of GDP*	**-3.8**	**-1.7**	**-1.8**	**-2.2**	**-2.4**
One-off and other temporary measures	*% of GDP*	-2.1	-0.2	0.2	-0.1	-0.1
Structural balance	*% of GDP*	**-1.7**	**-1.5**	**-2.0**	**-2.1**	**-2.4**
Change in structural balance	*p.p.*	**1.0**	**0.2**	**-0.5**	**-0.1**	**-0.3**
Interest	*% of GDP*	1.5	1.4	1.5	1.5	1.4
Structural primary balance	*% of GDP*	**-0.3**	**-0.1**	**-0.5**	**-0.7**	**-0.9**
Change in structural primary balance	*p.p.*	**1.1**	**0.2**	**-0.4**	**-0.1**	**-0.3**

Source: MF CR.

3.3 Sensitivity Analysis

The sensitivity analysis is conducted by means of the dynamic model of general equilibrium developed by the Ministry of Finance. The model enables the analysis of the impact of both macroeconomic and fiscal shocks on the economy. At present, the third version of this model is already working. After the previous more detailed elaboration of the fiscal block, this version extends the macroeconomic part and works with the whole expenditure structure of GDP, not only with aggregated quantities of domestic and foreign demand (see Aliyev *et al.*, 2013).

The CR is a small and open economy, largely dependent on external developments – and especially upon developments in the EU. The first two scenarios of the sensitivity analysis were thus selected to show the extent of impacts from development of economic growth in the EU other than expected. We consider both the situation of a sudden drop in the GDP growth dynamics in the first year of the simulation and a case of long-term deterioration in economic development, where the EU's decreased growth rate is simulated as permanent. The third alternative scenario simulates the impacts of an increased domestic interest rate on the Czech economy. The alternative scenarios are derived from the macroeconomic framework of this Fiscal Outlook.

3.3.1 Slower Economic Growth in the European Union in 2014

The first scenario for EU development is based on an assumption of weaker economic growth in the year 2014, defined as 1p.p. lower growth of real GDP versus the basic scenario.

This scenario would be reflected in the Czech economy primarily through exports, of which more than 80% are directed to EU countries. Lower foreign demand would lead to a decrease in export activities and overall deterioration of the current account balance. This would be negatively reflected in real GDP growth and development of unemployment. This effect would be most marked in 2014. The impacts on inflation appear negligible, as two opposing effects would be at work here: (i) wage pressures would diminish due to lower production in the Czech economy, pressing down on inflation; (ii) on the other hand, deterioration of the current account balance would have a depreciating influence on the Czech koruna, thus increasing the prices of imported inputs.

The general government balance would be affected by lower income tax collections (due to lower wages) from consumption and profits of companies. At the same time, the expenditure side would grow due to higher benefits paid out in relation to unemployment. Larger government deficits would then also be accumulated into the debt in the following years.

Along with the gradual recovery of foreign demand in the following years, the Czech economy should also gradually recover.

3.3.2 Permanently Slower Economic Growth in the European Union

The second scenario considers long-term unfavourable economic development in the EU, defined as 1p.p. lower growth of real GDP in each year of the outlook (2014–2016).

Under this scenario, the Czech economy's negative response in each year of the presumed pessimistic development in the EU would be caused by the same mechanism as in the previous scenario.

Table 3.9: Model Scenarios of Macroeconomic Simulations

		2013	2014	2015	2016
Baseline Scenario					
Gross domestic product	*Y-o-Y in %*	**-1.0**	**1.3**	**2.2**	**2.7**
Private consumption	*Y-o-Y in %*	0.2	0.9	2.1	2.5
Gross fixed capital formation	*Y-o-Y in %*	-4.8	-0.8	2.6	3.1
Exports	*Y-o-Y in %*	-0.1	3.3	4.6	5.2
Imports	*Y-o-Y in %*	-0.9	2.7	4.4	4.8
Inflation (CPI)	*Y-o-Y in %*	**1.4**	**0.7**	**1.9**	**0.9**
Unemployment rate	*in %*	**7.1**	**7.3**	**7.1**	**6.6**
General government balance	*% of GDP*	**-2.9**	**-2.9**	**-2.9**	**-2.8**
Gross government debt	*% of GDP*	**46.1**	**47.9**	**49.0**	**49.9**
Alternative Scenario I - Lower GDP Growth in EU in 2014					
Gross domestic product	*Y-o-Y in %*	**-1.0**	**0.8**	**2.2**	**2.7**
Private consumption	*Y-o-Y in %*	0.2	0.9	2.1	2.5
Gross fixed capital formation	*Y-o-Y in %*	-4.8	-0.8	2.6	3.1
Exports	*Y-o-Y in %*	-0.1	2.3	4.6	5.2
Imports	*Y-o-Y in %*	-0.9	2.3	4.5	4.8
Inflation (CPI)	*Y-o-Y in %*	**1.4**	**0.7**	**1.9**	**0.9**
Unemployment rate	*in %*	**7.1**	**7.9**	**7.2**	**6.6**
General government balance	*% of GDP*	**-2.9**	**-3.1**	**-3.0**	**-2.8**
Gross government debt	*% of GDP*	**46.1**	**48.4**	**49.4**	**50.3**
Alternative Scenario II - Permanently Lower GDP Growth in EU					
Gross domestic product	*Y-o-Y in %*	**-1.0**	**0.8**	**1.6**	**2.1**
Private consumption	*Y-o-Y in %*	0.2	0.9	2.0	2.4
Gross fixed capital formation	*Y-o-Y in %*	-4.8	-0.8	2.6	3.1
Exports	*Y-o-Y in %*	-0.1	2.3	3.6	4.2
Imports	*Y-o-Y in %*	-0.9	2.3	4.1	4.5
Inflation (CPI)	*Y-o-Y in %*	**1.4**	**0.7**	**1.9**	**0.9**
Unemployment rate	*in %*	**7.1**	**7.9**	**7.8**	**7.3**
General government balance	*% of GDP*	**-2.9**	**-3.1**	**-3.2**	**-3.1**
Gross government debt	*% of GDP*	**46.1**	**48.4**	**49.9**	**51.2**
Alternative Scenario III - Higher Interest Rate					
Gross domestic product	*Y-o-Y in %*	**-1.0**	**1.2**	**2.1**	**2.7**
Private consumption	*Y-o-Y in %*	0.2	0.9	2.1	2.5
Gross fixed capital formation	*Y-o-Y in %*	-4.8	-0.9	2.4	3.0
Exports	*Y-o-Y in %*	-0.1	3.3	4.6	5.2
Imports	*Y-o-Y in %*	-0.9	2.9	4.5	4.8
Inflation (CPI)	*Y-o-Y in %*	**1.4**	**0.7**	**1.9**	**0.9**
Unemployment rate	*in %*	**7.1**	**7.4**	**7.2**	**6.6**
General government balance	*% of GDP*	**-2.9**	**-3.0**	**-3.0**	**-2.8**
Gross government debt	*% of GDP*	**46.1**	**48.0**	**49.1**	**50.0**

Source: Baseline Scenario MF CR (2013c). MF CR calculations.

The situation would be at its worst in 2015, when only the negative effects of the permanent worsening of GDP growth in the EU would be accumulated. However, the economy would tend gradually to begin to recover, and therefore the negative impacts of development abroad would be gradually mitigated in the following years (however, rather behind the horizon of the outlook). Nevertheless, debt as a percentage of GDP would continue to grow more quickly in the government sector.

3.3.3 Rise in the Domestic Interest Rate

The last considered scenario is an assumed sudden growth in the short-term domestic interest rate by 1p.p. in 2014.

A higher interest rate reduces domestic supply, in particular through investments that would be hampered by higher interest rates (increasing costs of investments by means of higher rates on loans to companies). This would be reflected in decreased GDP growth in 2014 and 2015, approximately by 0.1p.p., and the related higher unemployment.

As in the case of lower GDP growth in the EU, but to a lesser extent, general government revenues would be influenced by little bit lower collection of taxes both from businesses and from individuals. With higher unemployment, government outlays would also rise. A negative balance would then be reflected in debt accumulation, on which higher interest rates would also have an impact.

3.4 Long-term Sustainability of General Government Finance

In May 2012, the Ageing Report update was issued (EC, 2012), as it is every three years jointly by the European Commission and the Economic Policy Committee within the Ageing Working Group. The Report contains projections of long-term expenditures until 2060 in five traditional areas – pensions, medical services from the public health insurance system, long-term care, education and unemployment benefits. The Ministry of Finance actively participates in preparing this report and processes projections of pension expenditures. The projections of other expenditures are calculated on the basis of a model developed by the European Commission.

In addition to macroeconomic and demographic assumptions (Table 3.10), approved reform measures are understandably influencing new projections.

First and foremost, the further prolonging of the statutory retirement age should be mentioned. In contrast to the original intentions to shift that age to 63 and then to 65 (for women, the age is differentiated according to the number of children raised), retirement age will now differ according to date of birth while the number of children raised will no longer be taken into consideration for women. Unification of the retirement age should occur after 2040, when for people born in 1977 the retirement age will be precisely 67 years. For each subsequent year, the retirement age will shift by two months per year (i.e. the year 1978 will have a statutory retirement age of 67 years and 2 months, the year 1979 will be entitled to a regular old-age pension at 67 years and 4 months, etc.).

Extending of the statutory retirement age also influences the conditions of pensions for permanent widows and widowers, as well as early retirements. The limits for both types of pensions will also increase.

Since 2011, valorisation of pensions has been determined according to a fixed rule, not, as heretofore, by a minimal rule. Thus the government has no room for increasing it artificially.

Pension projections also markedly reflect the influence of lower costs for disability pensions. In extending the number of disability pension types (from two – full and partial – to three groups), some previously full pensions have been shifted to the second level (with the previous partial pension rate) and some of the previously partial disability pensions have been shifted to the first level (which has a rate at two-thirds of the formerly partial disability pensions).

Table 3.10: Main Macroeconomic and Demographic Assumptions
(in %)

	2010	2020	2030	2040	2050	2060
Labour productivity growth	**2.2**	**2.0**	**1.8**	**1.8**	**1.7**	**1.5**
Real GDP growth	**2.1**	**1.8**	**1.7**	**1.5**	**1.1**	**1.2**
Participation rate - total (20-64)	**75.9**	**77.9**	**77.6**	**77.1**	**79.0**	**79.7**
Men	85.1	86.9	86.1	85.5	86.8	87.3
Women	66.5	68.7	68.8	68.4	70.9	71.7
Unemployment rate	**7.1**	**6.2**	**6.0**	**5.9**	**5.9**	**5.9**
Share of population 65+	**15.4**	**19.8**	**22.1**	**25.1**	**28.8**	**30.6**

Source: EC (2012).

The change in the calculation of pensions (in response to a decision of the Constitutional Court) essentially means a change of the progressive taxation rate´ of the pension assessment base (see Act No. 155/1995 Coll., Section 15, as subsequently amended). This 'taxation rate' occurs across the so-called reduction brackets. Their development from the status cancelled by the Constitutional Court (MF CR, 2011) to the final status in 2015 is illustrated by Table 3.11, MF CR 2012. The assessment base (determined by the income of the given individual when he or she was economically active) will be divided into parts according to the reduction brackets. Only the first (lowest) part is considered in its full amount in the other parts, a reduced base for those parts enters into the formula for calculating pensions (e.g. only 30%, etc.). The new regulation decreases the solidarity within the pension system. Apart from the full calculation of income at the lowest reduction interval, now only 26% of the wage will be taken into account beyond this level up to the amount of 400% of the average wage (with a gradual transition – see Table 3.11, MF CR 2012). An assessment base exceeding 400% of the average wage will not be taken into account at all, as pension insurance is not paid from this part of income either.

In the meantime, there was a certain revision of long-term projections due to two additional measures. The first of them is a temporary changing in valorisation from the total sum of the consumer price index growth and one third of real wages growth into the total sum of one third of the consumer price index growth and one third of real wage growth for 2013 to 2015. The second measure is, of course, the pension reform valid from 1 January 2013, when the pension savings pillar came into force.

Pension savings pillar with voluntary entry is intended primarily for persons younger than 35 years at the moment of the reform launching. The persons who were older than 35 years at the moment of the reform launching and did not receive old-age pension could decide on their entering the system during a period of six months, i.e. the first half of 2013. However, this measure is valid only for those persons who were employed (or self-employed persons) at the time of the reform launching, not for unemployed or economically inactive persons. The time limit of six months will start running for those not working persons from the moment when they become, for the first time from the reform launching, pension insurance payers. It will not be possible to change the decision taken by each insured person in the future.

Financing of pension savings pillar is ensured by funds of participants transferred from the 1st pillar in the amount of 3p.p. from the total contribution rate of 28% (employees pay 6.5p.p. and employers 21.5p.p.). In addition to that, each insured person must add additional 2p.p. from his or her own funds. The total contribution rate was increased for persons opted out to 30%, while 25p.p. is paid to the current ongoing system and the remaining 5p.p. to the newly established pension savings pillar. A more detailed description of the reform can be found, for example, in the Convergence Programme 2013 (MF CR, 2013b).

The original assumptions of the government and pension funds concerning the participation in the pension savings pillar appeared to be very optimistic. At present, pension savings pillar involve approximately 83,000 participants, which is roughly a tenth of the originally estimated number. PM Nečas's Cabinet prepared and submitted to the Parliament of the Czech Republic certain modifications of the system (e.g. shifting the limit for decision-making from 35 years to 40 years, the option to leave the system after 5 years of savings, etc.), but these measures were not discussed.

Nevertheless, even the assumption of opting out of two upper deciles (i.e. the persons for whom opting out would pay off, just on the basis of financial calculation), which is roughly 1,000,000 participants, did not lead to any significant decrease in expenditures. The comparison of the original results (see Table 3.12) and the results with inclusion of the change in valorisation is shown in Table 3.12. It is apparent from this Table that the difference is roughly 0.1% of GDP. With respect to the fact that the figures on actual numbers of participants are roughly at the level of one tenth, so the effect on expenditures is practically negligible in the long run.

Therefore it was agreed that the European Commission will use, until the next peer review for the 2015 Ageing Report, the results from the previous Report (EC, 2012). These results of pension projections in the horizon of 2010–2060 are summarised in Table 3.11. For the sake of illustration and completeness, the Table provides also the projection of other long-term expenditures, including the projection of unemployment benefits for which no change has been made compared to the Fiscal Outlook of November 2012 (MF CR, 2012).

Table 3.11: Long-term Expenditures Projections (2010–2060)
(in % of GDP)

	2010	2020	2030	2040	2050	2060
Public pension expenditures	**9.1**	**8.7**	**8.9**	**9.7**	**11.0**	**11.8**
old-age	7.2	6.9	6.9	7.5	8.8	9.5
disability	1.2	1.1	1.3	1.3	1.4	1.4
survivors	0.7	0.7	0.8	0.9	0.9	0.9
Health care	**6.9**	**7.3**	**7.8**	**8.1**	**8.4**	**8.5**
Long-term care	**0.8**	**0.9**	**1.1**	**1.2**	**1.3**	**1.5**
Education	**3.4**	**3.4**	**3.6**	**3.3**	**3.4**	**3.7**
Unemployment benefits	**0.4**	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**

Source: MF CR calculations.

Table 3.12: Comparison of Expenditure Projections on Old-age Pensions with respect to Reforms valid since 2013
(in % of GDP)

	2010	2020	2030	2040	2050	2060
2012 projections	**7.2**	**6.9**	**6.9**	**7.5**	**8.8**	**9.5**
Effect of indexation	0.0	-0.1	-0.1	0.0	0.0	0.0
Effect of opt-out	0.0	-0.1	-0.2	-0.2	-0.1	-0.1
2013 update	**7.2**	**6.6**	**6.5**	**7.3**	**8.7**	**9.4**

Source: MF CR calculations.

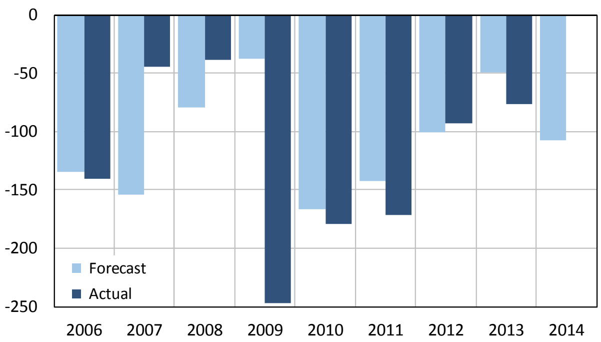
4 Public Finances – GFS 2001 Methodology

4.1 Public Budgets in 2013

There will be slight year-on-year improvement in the development of public finances. In comparison with assumptions of the budget documentation for 2013, however, a more marked deterioration has taken place. This has been especially caused by a decrease in the expected surplus of the National Fund. The National Fund expected revenues from the EU higher than their transfers to the state budget; at the same time higher expenditures were implemented. Last but not least, the situation is influenced by unfavourable expected results of the macroeconomic development of the CR that are reflected in a decrease in expected tax revenues.

Figure 4.1 shows a comparison of the expected (budgeted) results and those actually achieved in public budget balances during 2006 to 2012, as well as projected and currently expected deficits for 2013 and 2014.

Graph 4.1: Public Budget Balance (2006–2014)
(in CZK billion)



Note: In 2013 the current forecast in place of actual data.
Source: MF CR.

It is possible to expect year-on-year increase in the public budget balance by CZK 15.9 billion to CZK −77.0 billion (−2.0% of GDP). The fact that the Czech economy is gradually recovering from the recession continues to be reflected in the expected development of public budget deficit and debt. Except for extra-budgetary funds there will be year-on-year improvement in the majority of public budget entities, while consolidation effort will largely be reflected in the state budget deficit.

Revenues will increase by 3.3% (CZK 50.2 billion) year-on-year, expenditures only by 2.2% (CZK 34.3 billion). Tax revenues except for insurance premium for social security and public health insurance should increase by 2.0%, i.e. by CZK 14.8 billion year-on-year, while the fastest year-on-year increase will be recorded for the collection of value-added tax, by 7.2% (CZK 19.8 billion). On the contrary, the collection of excise taxes will decrease by 1.1%, i.e. by CZK 1.6 billion. In total, indirect taxes should develop better than direct taxes and their growth is expected to be 4.5%. Personal income tax should increase by 3.6% (by CZK 4.9 billion) on the contrary, corporate income tax should be 5.8% (by CZK 7.8 billion) lower year-on-year. Total direct taxes should decrease by 1.0% year-on-year.

On the expenditure side, the highest year-on-year increase in interests on debt (by 29.6%) is expected. On the contrary, on the expenditure side a year-on-year increase in purchasing fixed assets by 1.5% is positive, whereby growth of sources for fixed assets acquisition will be recovered after 4 years. The majority of these sources will be implemented by municipal governments and by the state budget. In case of subsidies provided to companies, the same share in total expenditures is expected in 2013 as in 2012, i.e. 19.7%, while again roughly 1/3 goes to private enterprises and the remaining roughly 2/3 to public corporations. Subsidies to private enterprises have been growing since 2008, in particular due to subsidies to operators of the transmission system and distribution systems in relation to the government's effort to prevent growth of electricity prices. This should be prevented by an amendment to the Act on Supported Energy Sources that was approved by the Senate on 13 September 2013 in its wording forwarded by the Chamber of Deputies before its dissolution.

Compared to 2012, the state budget deficit should decrease by CZK 39.6 billion to CZK 63.1 billion. In comparison with the supporting budget documents, it should be by CZK 37.5 billion lower. It is expected that health insurance companies will reduce their deficit by CZK 3.7 billion to CZK 2.3 billion year-on-year. The economic result of local municipalities will also improve, by CZK 4.2 billion, reaching CZK +5.6 billion. On the contrary, extra-budgetary funds should record a year-on-year deterioration in their economic results in total of CZK 5.5 billion to CZK −8.4 billion.

In comparison with the original projections in the Documentation on the bill on state budget for 2013, some differences occur in public budgets. A considerably less favourable development can be seen in grants from international organisations in the form of current and capital revenues from the EU funds (CZK 24.8 billion lower) and tax revenues, including social security contributions (their non-fulfilment should occur in a total amount of CZK 22.3 billion). A higher expected collection will only be recorded for value-added tax (by CZK 0.6 billion) and property taxes in total (by CZK 0.2 billion). On the contrary, a lower collection is expected for insurance premium for social security and public health insurance (by CZK 7.7 billion), personal income tax (by CZK 5.6 billion), excise taxes (by CZK 4.3 billion) and corporate income tax (by CZK 5.1 billion).

In comparison with the budgetary documentation, lower expenditures can be expected in the state budget (by CZK 12.0 billion) and, on the contrary, higher revenues (by CZK 25.5 billion), after taking into account the National Fund's operations and privatisation resources, expenditures lower by CZK 8.0 billion and revenues lower by CZK 32.3 billion. Less should be spent from the state budget mainly for interest for debt-servicing costs (by CZK 11.6 billion), use of goods and services (by CZK 9.2 billion) and also for social benefits (by CZK 7.8 billion). On the contrary, capital subsidies to the government sector units will grow (by CZK 11.9 billion). Despite relatively considerable efforts to reduce the total volume of public budget expenditures in recent years, there is still space for their systematic restructuring and making them more effective; their current growth seems to be the reflection of efforts for economic recovery and an increase in investment activities.

According to current estimates, other entities of public budgets will reach, except for municipal governments, worse economic results compared to the original projections – extra-budgetary funds in total by CZK 4.5 billion (of which the State Fund of Transport Infrastructure expects even a deficit by CZK 6.1 billion higher) and public health insurance companies by CZK 2.6 billion.

The expected volume of loans and state bonds increased by CZK 8.1 billion year-on-year to CZK 1,768.8 billion. In comparison with 2012, debt should only increase minimally by 0.5%, as the reserve created in recent years has been used in the form of the issue of bonds above the framework of the necessity to cover the state budget deficit. Compared to 2012, in relative terms the debt will increase by 0.1p.p. to 45.9% of GDP. This once again will slightly increase the weight of state debt within total public indebtedness and will reach 93.3% (the share of state consolidated debt in total public non-consolidated debt). However, its year-on-year dynamics will slow down by 12.6p.p. to 0.3% compared to 2012, thanks to amortizing the aforementioned reserve.

The proportions of the individual segments of public budgets within total indebtedness remain essentially stabile. After state debt, municipal governments have the greatest weight in total public debt. Their debt in 2012 compared to the previous year will rise slightly (by CZK 4.2 billion). A slight decrease in the debt of extra-budgetary funds can be expected as a result of a decrease in the debt payable from the still indebted State Environmental Fund and especially the State Agricultural Intervention Fund.

4.2 Public Budgets in 2014

The necessity to continue in the fiscal consolidation process with the aim to maintain public budget finances just below the level of the Maastricht convergence criterion also influenced compiling the budget for 2014. A year-on-year increase in the public budget deficit will be reflected exclusively in the state budget. On the contrary, extra-budgetary funds and public health insurance companies' finances will improve; in local governments a surplus will decrease slightly. In a year-on-year comparison, growth development trends are expected in the economic result of public finances. Nevertheless, the public budgets deficit increases is largely due to efforts to support growth tendencies in the economy, at the same time the principles of economic sustainability of the public budgets system are respected in the long-time horizon.

The public budget deficit will increase year-on-year by CZK 30.6 billion (0.7p.p. of GDP) and will be CZK −107.6 billion (−2.7% of GDP). The main factor of this development is the state budget deficit that will reach CZK 113.1 billion, i.e. will be by CZK 49.9 billion higher. Finances will improve in extra-budgetary funds (by CZK 5.4 billion to CZK −3.0 billion) and in public health insurance companies (from a deficit of CZK 2.3 billion to a surplus of CZK 1.5 billion). A surplus of local governments will be CZK 1.9 billion lower and will amount to CZK 3.7 billion.

A year-on-year increase in revenues will basically stagnate compared to growth of 3.3% achieved in the last year growth of expenditures will remain more or less at the level of 2013, reaching 2.1%. Tax revenues (without insurance premium for social security and public health insurance) will grow by 3.8% (CZK 28.3 billion). The collection of direct taxes will improve by 6.3%, in particular due to a better expected collection of personal income tax. Indirect taxes will grow more than 2p.p. slower than in 2013 and will increase only by 2.3%. On the expenditure side, there will be year-on-year savings, in particular in some capital expenditures.

In 2014, the growth dynamics of public debt will increase to 6.0% and its expected level will increase by CZK 105.5 billion to CZK 1,874.3 billion. As a percentage of GDP, compared to 2013 it will increase by 1.9p.p. to 47.8% of GDP in relative terms. This once again will slightly increase the weight of state debt within total public indebtedness and will reach 93.7%. Compared to 2013, its year-on-year dynamics will increase by 6.2p.p. to 6.4%.

There will be no major changes in the share of the individual segments of public budgets in total indebtedness. After state debt, municipal governments have the greatest weight in total public debt. Their debt in 2014 compared to the previous year will slightly decrease. After a decrease in debt in 2013, its increasing amount in extra-budgetary funds can again be expected in 2014. As indebtedness will be recorded by the State Environmental Fund in 2013, the State Agricultural Intervention Fund will record it in 2014. Using its own sources of extra-budgetary funds for financing, its deficits represent another potential risk for growth of public budget debts. As in the last two years, health insurance companies should report no debt in 2014.

5 Excessive Deficit Procedure in EU Member States

The crisis that hit the European Union in 2008 (first as the financial crisis, then followed by the economic crisis) considerably deteriorated public finances in the majority of the member states, in some of them to such an extent that we have also started talking about the debt crises since 2010.

On the following pages, the excessive deficit procedures are described that were maintained during the last four years in the EU member states. At present, 16 countries are in the excessive deficit procedure (thereafter EDP), while this procedure is "suspended" for eight of them. Suspension means that the procedure continues, but no new procedure steps are taken towards the given state. On an on-going basis, the Commission assesses fulfilment of the currently valid recommendations or decisions of the Council. And if the Commission at any time delivers a decision that the country is not acting in accordance with recommendations or previous decisions, it will immediately propose to the Council to take further steps under the EDP.

5.1 Introduction

The aforementioned development has been observed in the number of member states whose general government deficit exceeded the value of 3% of GDP. This was often accompanied by breaching the criterion for the general government debt, according to which it should not exceed or should satisfactorily decrease to 60% of GDP. Generally, the excessive deficit procedure can be initiated with the countries breaching one or both of these criteria, or with the countries with a risk of their breaching.[3]

The purpose of the excessive deficit procedure is to ensure that the member state returns the deficit and debt levels credibly on a sustainable path. The correction is considered to be sustainable if a deficit (according to the Commission's economic forecast current at the assessment period) is to remain up to 3% of GDP throughout the entire horizon of this forecast. The excessive deficit procedure consists of the consequence of several steps approved by the EU Council, based on the European Commission's recommendation. At the beginning, there is the Council's decision on the existence of excessive deficit in the given member state, followed by the Council's recommendation on correction and monitoring the fulfilment of this recommendation. The excessive deficit procedure may be terminated by the Council only based on the confirmed economic results.

If a euro area member state fails to meet its obligations of the excessive deficit procedure, the Council might impose financial sanctions[4]. For the countries using funds from the Cohesion Fund, the Council could accede, using the rules valid by the end of 2012, to suspension of the funds. According to the legislation proposals discussed, at the beginning of 2014 the Council should have the possibility to suspend obligations or payments from any of the EU cohesion policy funds.

In addition to the year of the excessive deficit elimination, the Council's recommendations also include partial targets of the deficit[5] and of the structural deficit for the individual years of correction. The structural deficit is understood as a deficit adjusted for the economic cycle as well as for one-off and other temporary measures. Instead of the annual targets of the structural deficit, the Council's recommendations define the annual improvement of the structural deficit during the correction period.

From the perspective of the rules applicable within the excessive deficit procedure, it is necessary to mention that at the moment four member states (Cyprus, Greece, Ireland and Portugal) are taking loans from the euro area and the International Monetary Fund (IMF), as well as the EU loans in case of Ireland and Portugal, connected with the Economic Adjustment Programme. In order to remove duplicities and decrease administrative burden, the deficit targets recommended by the Council for these countries are included in the Adjustments Programmes and the evaluation of their fulfilment is an integral part of the Programmes. A positive conclusion from these quarterly conducted evaluations is a necessary condition for releasing other parts of financial aid according to the time schedule defined in advance.

[3] In terms of terminology, also if the debt criterion is breached, it is considered to be an excessive deficit procedure, as it is defined so in the Treaty on the Functioning of the European Union and in the Protocol of the Excessive Deficit Procedure attached to the Treaty and in the Treaty on the European Union.

[4] The faster possibility to impose financial sanctions on the euro area countries has been legally effective since December 2011. With respect to the prohibition of retroactivity, however, imposing these sanctions is only possible for the countries to which the Council has given its recommendation to eliminate the excessive deficit as late as after this date.

[5] According to convention, the term "deficit" is used here as a synonym of the nominal deficit.

The countries in this chapter are ordered according to the deadline for correction of their excessive deficit and furthermore, according to the relevant importance of the budgetary situation. The main sources for processing the text was the Commission's autumn economic forecast (EC, 2013), the October Notification of the member states' deficit and debt (Eurostat, 2013b); for some countries also the report on effective measures in relation to the Council's newest decisions or recommendations; or for the euro area countries also the draft budgetary plans and/or the of Economic Partnership Programmes submitted according to Council Regulation No. 473/2013.

5.2 Countries with a deadline for eliminating excessive deficits by 2011

5.2.1 Bulgaria (in EDP from July 2010 to July 2012)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2011; to ensure a reduction in the structural deficit in % of GDP by 0.75p.p in 2011.

EDP phase: On 22 June 2012, the Council confirmed the Commission's opinion that the country had eliminated the excessive deficit, and it ended the EDP.

Fulfilment course: The deficit decreased from 4.3% of GDP in 2009 to 2.0% of GDP in 2011, and further to 0.8% in 2012, which is a markedly better result than originally planned. In 2013, the deficit is expected to increase to 2.0% of GDP.

Comments: Bulgaria's debt does not reach the reference value of 60% of GDP at all and correction of the deficit appears (with respect to relatively favourable outlooks of the economic situation) sustainable. According to the Commission's autumn economic forecast the deficit is to remain at 2.0% of GDP in 2013 and 2014, and decrease to 1.8% of GDP in 2015. Possibility of repeated starting of EDP seems unlikely in the near future.

5.2.2 Finland (in EDP from July 2010 to July 2011)

EDP obligation: To correct the excessive deficit in a permanent and reliable way by 2011, and to ensure fiscal efforts of at least 0.5p.p. of GDP in 2011.

EDP phase: On 12 July 2011, the Council confirmed the Commission's opinion that the country had eliminated the excessive deficit, and it ended the excessive deficit procedure.

Fulfilment status: The excessive deficit procedure was initiated based on the deficit expected by the government for 2010 of 4.1% of GDP. However, according to the notifications of April 2011, the real deficit in 2010 was at 2.5% of GDP. At the same time, the Commission's spring economic forecast of 2011 expected a further decrease in the deficit to 1% of GDP in 2011 and to 0.7% of GDP in 2012.

Comments: According to this year's October notifications, the deficit reached 1.8% of GDP in 2012. Nevertheless, according to the Commission's autumn economic forecast of this year, the deficit is to increase to 2.2% of GDP in 2013, and subsequently decrease to 2.0% of GDP by 2015. Debt should reach 61.0% of GDP in 2014 and 62.5% of GDP in 2015. The Commission will have to analyse whether Finland is to breach the debt criterion and whether to start EDP. However, general government balance around 2% of GDP and relatively cyclically neutral fiscal policy as well as economic recession during 2012 and 2013 would not suggest initiating the EDP.

5.3 Countries with a deadline for removing excessive deficits until 2012

5.3.1 Latvia[6] (in EDP from July 2009 to June 2013)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2012; to ensure an average annual decrease in the structural deficit in % of GDP by 2.75p.p. in 2010–2012.

EDP phase: On 21 June 2013, the Council confirmed the Commission's opinion that the country had eliminated its excessive deficit, and it ended the excessive deficit procedure.

Fulfilment status: After strong fiscal consolidation, Latvia succeeded in reducing its deficit from 9.8% of GDP in 2009 to 1.2% of GDP in 2012. The Commission's autumn forecast of 2013 anticipates a deficit of 1.4% of GDP in 2013 and 1.0% of GDP in 2014 and 2015. According to the October notifications, the debt in 2012 was 40.6% of GDP. In its autumn forecast, the Commission expects its increase from 40.6% of GDP in 2012 to 42.5% of GDP in 2013. This increase is related to the government's pre-financing for the payment of debt instalments in 2014 to 2015. In 2014, the Commission expects in its autumn forecast a decrease in

[6] After negotiations held in December 2008, an agreement was reached on international financial aid to Latvia to support the balance payments of a total of EUR 7.5 billion. This aid was provided by the EU as well as bilaterally to some of its member states, the IMF, World Bank (WB), EBRD and Norway. The aid programme was successfully terminated on 19 January 2012.

the debt to 39.3% of GDP, and further to 33.4% of GDP in 2015.

Comments: We expect that the country will not return back to EDP, and will fulfil its obligations in the eurozone to which it will join on 1 January 2014. Latvia is a country that has fulfilled successfully the conditions of the Economic Adjustment Programme related to EU and IMF loans. Preliminarily, it terminated its drawing of assistance, and now it is under the so-called subsequent supervision by creditors that can be terminated after Latvia repays 70% of the principle amount. The economic dynamics are strong, its real growth exceeds 4%, and the country's determination to sustainably fulfil the Maastricht criteria is high.

5.3.2 Lithuania (in EDP since July 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2012; to ensure an average annual decrease in the structural deficit in % of GDP by 2.25p.p. in 2010–2012.

EDP phase: On 21 June 2013, the Council confirmed the Commission's opinion that the country had eliminated its excessive deficit, and ended the excessive deficit procedure.

Fulfilment status: The deficit decreased from 9.4% of GDP in 2009 to 3.2% of GDP in 2012. According to the Commission's autumn forecast, the deficit will decrease in 2013 to 3.0% of GDP, further to 2.5% of GDP in 2014 and to 1.9% of GDP in 2015. This improvement was achieved by consolidation measures on the expenditure side of the budget, in particular, by a continuing decrease in expenditure growth in accordance with the Lithuanian act on fiscal discipline and favourable cyclical conditions. As the deficit in 2012 of 3.2% of GDP could be considered as approaching the reference value and the country's debt ratio was sustainably below 60% of GDP, it was possible to take into consideration net direct budgetary costs of the system pension reform of 0.2% of GDP in 2012.

Comments: Considering the facts that Lithuania is intensively getting ready for its joining the eurozone and intends to follow Latvia with a one-year delay, and it is experiencing economic growth exceeding 3%, we do not expect the country to go back to EDP in the near future. On the other hand, there are major risks, such as the Constitutional Court's decision, according to which the previous decrease in state pensions and wages of employees in the public sector should be compensated, even if the compensation timing and extent have not been decided on yet.

5.3.3 Romania[7] (in EDP from July 2009 to June 2013)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2012; to ensure an average annual decrease in the structural deficit in % of GDP by 1.75p.p. in 2010–2012.

EDP phase: On 21 June 2013, the Council confirmed the Commission's opinion that the country had eliminated the excessive deficit, and it ended the excessive deficit procedure.

Fulfilment status: The deficit decreased from 9.0% of GDP in 2009 to 3.0% of GDP in 2012. According to the Commission's autumn economic forecast, it is to decrease down to 1.8% of GDP by 2015. The modified average annual decrease in the structural deficit in 2010–12 reached 2.5% of GDP.

Comments: In July 2013, Romania asked for the EU preventive financial aid from the financial aid system that is in place for the support of payment balances of the member states outside the eurozone. This aid is now just before its final approval. The aid conditions should include achieving a deficit of 2.4% of GDP already this year and 2.0% of GDP in 2014. According to the Commission's forecasts of October 2013 the debt of the government institution sector should basically remain around 39% of GDP by 2015. Therefore, it is unlikely that Romania could find itself again in the excessive deficit procedure in the next few years.

5.3.4 Italy (in EDP from December 2009 to June 2013)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2012; to ensure an average annual decrease in the structural deficit in % of GDP by 0.5p.p. in 2010–2012.

EDP phase: On 21 June 2013, the Council decided to end the excessive deficit procedure, as it resulted from the overall evaluation that the excessive deficit in Italy had been corrected.

Fulfilment status: Italy decreased its deficit gradually from 5.5% of GDP in 2009 to 3.0% of GDP in 2012. According to the Commission's autumn economic forecast, the deficit is to reach 3.0% of GDP this year, 2.7% of GDP in 2014 and 2.5% of GDP in 2015.

Comments: According to the October Notification, the deficit in 2013 should have reached 3.0% of GDP; compared to the notified value of 2.9% in April. There was a deterioration that may be related to this year's

[7] In May 2009, an agreement was reached on international financial aid to Romania to support the balance payments of a total of EUR 20 billion. This aid was provided by the EU countries, the IMF, WB and EBRD/EIB. The programme was successfully terminated in April 2011 and it was followed by a two-year preventive programme of the EU and MMF in the amount of EUR 5 billion, from which Romania in the end used no funds.

real decrease in GDP by 1.8% (the data on the decrease according to the Commission's autumn forecast). The draft budgetary plan for 2014 forecasts a deficit of 2.5% of GDP. Italy has been coping for a long time with a high debt as a proportion of GDP that increased by 10.6p.p. to 127.0% of GDP between 2009 and 2012 being one of the highest in the EU. From this year, the three-year transitional period started to apply to Italy during which it has to improve its structural balance in such a rate that would create a downward tendency of the debt as a proportion of GDP.

5.3.5 Hungary[8] (in EDP from July 2004 to June 2013)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2012; to ensure fiscal effort in 2012 of 2.4% of GDP.

EDP phase: On 21 June 2013, the Council confirmed the Commission's opinion that the country had eliminated the excessive deficit, and it ended the excessive deficit procedure.

Fulfilment status: The deficit decreased from 4.6% of GDP in 2009 to 2.0% of GDP in 2012. At the time of deciding on the deficit termination, the Commission[9] forecast a deficit of 2.7% of GDP in 2013 and of 2.9% of GDP in 2014.

Comments: In 2013, the government expects a deficit of 2.7% of GDP according to the October Notifications. For 2014, the government is targeting at 2.9% of GDP in the discussed bill on state budget. The Hungarian Fiscal Council (2013) has identified this target as achievable, adding that there are high risks that it will not be fulfilled in case of lower economic growth, lower inflation or worse economic result at the local level than the government forecasts. It also drew attention to the reserve of mere 0.1p.p. of GDP towards the Maastricht criterion.

The excessive deficit procedure is usually initiated based on the notified economic result for the past. Therefore, if Hungary exceeds the 3% threshold value for deficit in 2014, and if this exceeding would be quite high, not temporary and exceptional, this process might be started again against Hungary in spring 2015. With respect to the debt level (according to the October Notifications, it is to be 79.2% of GDP), the excessive deficit procedure could be theoretically launched against Hungary also earlier due to the debt, if the structural deficit improvement would not be found sufficient for creating a decreasing debt-to-GDP ratio – it is the rule for the transitional period applying to Hungary from this year.

[8] In November 2008, an agreement was reached on international financial aid to Hungary to support the balance payments of a total of EUR 20 billion. This aid was provided by the EU countries, the IMF and WB. The programme was terminated without paying out the total planned amount of aid.

[9] Hungary adopted additional measures after the Commission's spring economic forecast had been published.

5.4 Countries with a deadline for eliminating excessive deficits by 2013

5.4.1 Germany (in EDP from December 2009 to June 2012)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2013; to ensure an average annual decrease in the structural deficit in % of GDP by 0.5p.p. in 2011–2013.

EDP phase: On 22 June 2012, the Council confirmed the Commission's opinion that the country had removed the excessive deficit, and ended the excessive deficit procedure.

Fulfilment course: The deficit decreased from 4.2% of GDP in 2010 to 0.8% of GDP in 2011. The average annual improvement of the structural balance in 2011–2013 forecast by the Commission in spring 2012 was 0.7p.p.

Comments: In 2012, Germany has even reached a slight surplus of nearly 0.1% of GDP, and in 2013, the government expects a deficit of 0.2% of GDP according to the October Notifications. The draft budgetary plan for 2014 anticipates a balanced budget. Even if Germany's debt exceeds 60% of GDP, it meets requirements of the transitional period for the debt rule, as its structural balance is developing in a manner that should ensure a descending debt tendency. Therefore, re-launching of EDP in the nearest period is not expected.

5.4.2 Austria (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2013; to ensure the average annual decrease in the structural deficit in % of GDP by 0.75p.p. in 2011–2013.

EDP phase: On 13 July 2010, the Council confirmed the Commission's opinion that the country fulfils the Council's recommendations to eliminate the excessive deficit of 2009. EDP has been formally suspended.

Fulfilment status: The deficit decreased from 4.5% of GDP to 2.5% of GDP in 2012. According to the October Notifications, the government expects a deficit of 2.3% of GDP in 2013.

Comments: It is likely that Austria will eliminate the excessive deficit on the regular date, i.e. in 2013, as the country has achieved considerably better results in the last two years than it had originally planned. The deficit fell below the reference limit of 3% of GDP already back in 2011, and since then it has not exceeded this limit. The correction of the excessive deficit will most probably be evaluated by the Commission as sustainable, as it should remain under the reference limit of 3% until 2015. This is also supported by the favourable economic situation. Austria's GDP has been increasing more quickly than the eurozone's GDP since 2011, and it has not decreased since the financial crisis. Public finance consolidation is also supported by the low costs of government debt service.

5.4.3 Denmark (in EDP since July 2010)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way until 2013; to ensure the average annual decrease in the structural deficit in % of GDP by 0.5p.p. in 2011–2013.

EDP phase: On 15 February 2011, the Council confirmed the Commission's opinion that the country fulfils the Council's recommendations to eliminate the excessive deficit of 2009. EDP has been formally suspended.

Fulfilment status: The deficit increased from 2.7% of GDP in 2009 to 4.1% of GDP in 2012. In 2013, the deficit should reach 1.6% of GDP. With respect to the Commission's autumn forecast anticipating deficits throughout the entire horizon of up to 3% of GDP (specifically 1.7% of GDP in 2013 and 2014 and 2.7% of GDP in 2015), nothing prevents ending the excessive deficit procedure in spring 2014.

Comments: At the moment, Denmark's fiscal consolidation can be considered as sustainable. The excessive deficit procedure was launched based on the expected deficit of 5.4% of GDP in 2010, but this deficit only reached 2.5% of GDP, thus not exceeding the 3% limit. Moreover, the Danish government decided to determine medium-term expenditure ceilings for 2014–2017 for both the state and local municipalities that should ensure that the country remains at its medium-term budgetary target, i.e. a structural deficit not exceeding 0.5% of GDP. The "growth plan" of February 2013 also comes with some other measures. Denmark fulfils the debt criterion with a sufficient reserve towards the Maastricht criterion. The Commission's autumn economic forecast expects slight debt increase in 2015 to 45.1% of GDP.

5.4.4 Slovakia (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2013; to ensure an average annual decrease in the structural deficit in % of GDP by 1p.p. in 2010–2013.

EDP phase: On 13 July 2010, the Council confirmed the Commission's opinion that the country fulfils the Council's recommendations to eliminate the excessive deficit of 30 November 2009. EDP has been formally suspended.

Fulfilment status: The deficit decreased from 8.0% of GDP in 2009 to 4.5% of GDP in 2012. This year a deficit of 3.1% of GDP is to be reached according to the October Notification. In 2014, according to the Commission's autumn economic forecast, it should increase slightly to 3.2% of GDP, and in 2015 even to 3.8% of

GDP, according to the draft budgetary plan for 2014, it is to reach 2.8% of GDP. In its statement on the Stability Programme 2013 and the National Programme of Reforms 2013 of July 2013, the Council stated that according to the data available at that time Slovakia was well on the way to eliminating the excessive deficit within the defined time-limit.

Comments: Public finance consolidation in Slovakia is being performed within the limit values. According to the current data, Slovakia seems to be well on the way to eliminating the excessive deficit. However, the measures are mainly focused on the revenue side rather than on the expenditure side. Therefore, the success of these measures cannot be completely guaranteed (increasing the collection of taxes using the so-called voucher lottery, leaving the second pillar of the pension system), also because some of them have a one-off effect (the sale of crude oil stocks). Moreover, there is a risk of a negative impact on public finances caused by arbitration proceedings against the Slovak Republic concerning the controversial act limiting health insurance companies in their free disposal of profits. The Commission's forecast for the deficit in 2015 will also be important, however, it is not available yet. The Slovak Republic also meets the debt criterion; however, the room here is gradually shrinking. The Commission's autumn economic forecast expects the total debt in 2013 to be 54.3% of GDP, in 2014 it should increase to 57.2% of GDP and in 2015 to 58.1% of GDP.

5.4.5 Czech Republic (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2013; to ensure an average annual decrease in the structural deficit in % of GDP by 1p.p. in 2010–2013.

EDP phase: On 13 July 2010, the Council confirmed the Commission's opinion that the country fulfils the Council's recommendations to eliminate the excessive deficit of 30 November 2009. EDP has been formally suspended.

Fulfilment status: The deficit decreased from 5.8% of GDP in 2009 to 4.4% of GDP in 2012[10]. In its statement on the Convergence Programme 2013 and the National Programme of Reforms 2013 of July 2013, the Council stated that according to the data available at that time the Czech Republic was well on the way to eliminating the excessive deficit within the defined time limit. According to the October Notification (Eurostat, 2013c), the Czech Republic expects a deficit of 2.9% of GDP in 2013. According to the draft on state budget and state funds, the deficit is expected to reach 2.9% of GDP in 2014–2015 and 2.8% of GDP in 2016 (see chapter 3.1). The autumn Commission forecast estimates the deficit target for 2013 to be met in 2013, deficit in 2014 close to 3% of GDP and in 2015 its increase to 3.5% of GDP.

Comments: Adjusted fiscal effort for changes in output gap (for the common European methodology of adjustment see for example MF CR, 2013b) estimates is fully in accordance with the Council recommendation. Nevertheless, the termination of EDP will depend on both real notified result for 2013 as well as spring 2014 Commission forecast that will assess the sustainability of the deficit below 3% threshold and path towards a medium-term objective.

5.4.6 Belgium (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by the end of this year and ensure a deficit of 2.7% of GDP this year, corresponding to an improvement of the structural balance in % of GDP by 1p.p.

EDP phase: On 21 June 2013, the Council decided that the country has not taken effective measures in the reaction to its earlier recommendation to eliminate the excessive deficit, and accelerated the excessive deficit procedure by giving call to Belgium to eliminate the excessive deficit by the end of 2013. At the same time, it imposed on Belgium to submit the report on the measures taken to eliminate the excessive deficit.

Fulfilment status: According to the October Notification, the government expects a deficit of 2.5% of GDP in 2013 and according to the draft budgetary plan for 2014 it plans a deficit of 2.1% of GDP in 2014 and an improvement of the structural balance by 1.1% of GDP in 2013 and 0.6% of GDP in 2014.

Comments: The October Notification suggests that Belgium is likely to decrease the deficit below the defined limit of 2.7% of GDP this year. An improvement of the structural balance is also to be in accordance with the Council's decision on calling for measures to eliminate the excessive deficit. The evaluation of the measures taken will therefore be dependent on the fact how the Commission will evaluate the individual measures taken or being prepared by Belgium. The country is coping with high indebtedness, reaching 99.8% of GDP in 2012.

[10] The data of the deficit for 2012 includes a one-off increase in the deficit due to passing the act on property compensation to churches and religious companies (1.5% of GDP) and flat-rate corrections of non-validated EU expenditures (0.3% of GDP).

5.5 Countries with a deadline for eliminating excessive deficits by 2014

5.5.1 The Netherlands (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2014; to ensure the deficits of 3.6% of GDP in 2013 and 2.8% of GDP in 2014, which correspond to the decrease in structural deficit in % of GDP by 0.6p.p. in 2013 and 0.7p.p. in 2014.

EDP phase: On 21 June 2013, the Council concluded that the country had taken effective measures in the reaction to the Council's earlier recommendations to eliminate the excessive deficit, but an unfavourable economic development will probably prevent it from eliminating the excessive deficit within the original time-limit (by the end of 2013). Therefore, it extended the period for eliminating the excessive deficit until 2014. At the same time, it imposed a duty on the Netherlands to take effective measures by 1 October 2013 for its elimination, and to publish a report on them as of the same day.

Fulfilment status: The deficit decreased from 5.6% of GDP in 2009 to 4.1% of GDP in 2012. In 2013 the draft budgetary plan expects a further decrease down to 3.2% of GDP. For 2014, the Netherlands presented a package of additional measures of a total of 1% of GDP, yet it anticipates a deficit of 3.3% of GDP in the draft budgetary plan in 2014. According to the draft budgetary plan, the decrease in the structural deficit is to reach 1.0% of GDP in 2013 and 0.2% of GDP in 2014.

Comments: The deficit of 3.3% of GDP in 2014 should not be a barrier to a positive conclusion of the evaluation of effective measures, unless the Commission's forecasts point out a considerable worsening of the position of the economy in the economic cycle compared to the assumptions on which the Council's June recommendation is based. An aggravating circumstance can be the fact that for 2013–2014 the Netherlands plans a fiscal effort 0.1p.p. lower than what was recommended by the Council, no matter how such a difference can be given, e.g. by rounding off. If the Commission arrives at the conclusion that the Netherlands has not taken effective measures, and the Council confirms this conclusion, the fine of 0.2% of GDP may be imposed on the country (non-refundable) amounting 0.2% of the previous year's GDP. If the Commission evaluates the measures taken as effective, the EDP will be suspended.

5.5.2 Poland (in EDP since July 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2014; to achieve a deficit of up to 3.6% of GDP in 2013 and up to 3.0% of GDP in 2014; to ensure a decrease in the structural deficit in % of GDP by 0.8 or 1.3% in 2013 or 2014.

EDP phase: On 21 June 2013, the Council found out that the country had taken effective measures in the reaction to the Council's earlier recommendations to eliminate the excessive deficit, but an unfavourable economic development has prevented it from eliminating the excessive deficit within the original time limit (by the end of 2013). Therefore, it extended the time limit for eliminating the excessive deficit by two years. At the same time, the Council ordered Poland to take effective measures by 1 October 2013 for its elimination, and to publish the report on them as of the same day.

Fulfilment status: The deficit decreased from 7.9% of GDP in 2010 to 3.9% of GDP in 2012. For 2013 the government planned a deficit of 3.5% of GDP in the convergence programme. However, with reference to a considerable worsening of the position of the economy within the economic cycle[11], it revised this target in the report on effective measures to 4.8% of GDP. The net volume of discretionary measures included in the report for this year is 1.2% of GDP, in which the main share is the cancellation of early pensions and cutting expenditures in the state budget for this year in the area of national defence, transport, foreign debt servicing, and others. In 2014, the government institution sector should see a surplus of 4.5% of GDP, but it will be due to the transfer of assets from private pension funds to the state ongoing system in the amount of approximately 8.8% of GDP and the related savings in the debt service of nearly 0.3% of GDP[12]. The Commission's autumn forecast expects a deficit of 3.3% of GDP in 2015.

Comments: It is not obvious from the report of effective measures what impact the deficit target revision for this year will have on the structural balance, and what structural balance is planned by the government for 2014. The intention that the deficit is to reach 4.8% of GDP this year and 4.6% of GDP in 2014, as stated by the government, will probably make things worse for Poland without one-off measures in the pension sphere. The crucial role of one-off measures in 2014 could force the Commission to closely examine the sustainability of eliminating the excessive deficit, especially if according to news from media (Reuters, 2013) the planned transfer of assets from private pension funds to the state system could be refused due to its unconstitutional character. Therefore, the evalua-

[11] According to the Government, the deterioration of the cyclical position of the economy is also to have a higher impact on public budgets than originally expected.

[12] This savings is also created by the fact that government bonds are also included in the transferred assets.

tion of the measures taken seems to be burdened with risks to the disadvantage of Poland.

5.5.3 Malta (in EDP since June 2013)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2014; to ensure a deficit of 3.4% of GDP in 2013 and 2.7% of GDP in 2014; to improve the structural deficit in % of GDP by 0.7p.p. in both years and take effective measures by 1 October 2013.

EDP phase: The Council decided on the existence of the excessive deficit in Malta on 21 June 2013 both due to the failure to meet the deficit and the debt criteria. According to the April Notifications, the country reaches a deficit of 3.3% of GDP and debt of 72.1% of GDP in 2012. According to the Commission's spring economic forecast, the deficit was to constantly exceed 3% of GDP by 2014, and according to the autumn forecast the same will also be in 2015. After the Council ended EDP in December 2012, the three-year transitional period for the debt criterion evaluation started being applied to Malta starting with 2012 according to the new rules of budgetary supervision. In this period, the Council monitored Malta's efforts to decrease the structural deficit that would ensure descending tendency of debt-to-GDP ratio. Malta did not meet this requirement in 2012.

Fulfilment status: In the submitted report of effective measures and the Economic Partnership Programme the government undertook to decrease the deficit to 2.7% of GDP in 2013 and to 2.1% of GDP in 2014. In the Economic Partnership Programme it obliged to adopt reforms leading to higher investment and support of economic growth on the one side, and sustainable development of budgetary revenues and expenditures on the other side. The debt should stabilise in 2013 at 73.2% of GDP. The structural balance should be 2.5% of GDP in 2013 and 2.0% of GDP in 2014.

Comments: Malta is the first country with which EDP has been launched according to the reformed Stability and Growth Pact since December 2011. The assessment of the Commission will depend on the effectiveness and long-lasting impacts of those measures in order to achieve deficit targets. A big risk is the financial situation of the energy company Enemalta that could require additional subsidies. A deterioration of the deficit in 2012 seems to be caused primarily by the political instability that weakened domestic demand with further impact on general government balance. Now, the economic situation seems to be improving, however without improvements in general government revenue.

5.6 Countries with a deadline for eliminating excessive deficits by 2015 or afterwards

5.6.1 Ireland (in EDP since April 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2015; to ensure the cumulative decrease in the structural deficit in % of GDP by 9.5p.p in 2011–2015.

EDP phase: In August 2011, the Commission concluded that the country meets the Council's recommendation to eliminate the excessive deficit. EDP has been formally suspended. Ireland is one of the states that is subject to the Economic Adjustment Programme, and it meets the defined targets and conditions of this programme according to the newest evaluation of Troika (2013a).

Fulfilment status: The deficit decreased from 13.7 % of GDP in 2009 to 8.2% of GDP in 2012. According to the Stability Programme, the deficit will decrease to 2.2% of GDP in 2015. The Commission's autumn forecast expects a decrease in the deficit from 7.4% of GDP in 2013 to 5.0% in 2014 and 3.0% in 2015.

Comments: At the moment, Ireland seems to be well on the way to eliminating the excessive deficit in the defined time limit, in particular with respect to the extent of consolidation measures and the relatively good outlook of the economic growth starting from 2014, It reflects, among other things, continuing recovery of domestic demand, considerable increase in competition and improvement of the economic activity of the main trading partners of Ireland. Nevertheless, the aforementioned conclusion must be understood in light of the relatively distant time limit for correction, when it is not possible to exclude any unforeseen events with a negative impact on the deficit. Starting from 2014, the debt as a proportion of GDP should be gradually decreasing after reaching its peak of 124.1% in 2013.

5.6.2 France (in EDP since April 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2015; in 2013–2015 to ensure the deficit to be 3.9% of GDP, 3.6% of GDP and 2.8% of GDP, those correspond to fiscal efforts of 1.3p.p in 2013, 0.8p.p. in 2014 and 0.8p.p. in 2015. France is to fully implement the measures taken in the budget for 2013, and carry out a thorough review of expenditures. However, it should not undermine measures leading to consolidation.

EDP phase: On 21 June 2013, the Council decided that the country had taken effective measures in the reaction to the Council's earlier recommendation to eliminate the excessive deficit, but an unfavourable economic development will probably prevent it from doing so within the original time limit (by the end of 2013). Therefore, it extended the time limit for eliminating the excessive deficit for two more years, i.e. by 2015. At the same time, it imposed a duty on France to take effective measures by 1 October 2013 for its elimination, and to publish a report on them as of the same day.

Fulfilment status: The deficit decreased from 7.5% of GDP in 2009 to 4.8% in 2012. According to the October Notification, the deficit is expected to reach 4.1% of GDP this year. According to the draft budgetary plan, the government intends to reach a deficit of 3.6% of GDP in 2014 and 2.8% of GDP in 2015. The structural balance as a proportion of GDP should improve by 1.3p.p. this year and 0.9p.p. in 2014 and 2015.

Comments: According to the October Notifications, this year's deficit is to be higher than as stated in the Council's recommendations. At the same time, the change in the structural balance required by the Council is to be reached. The Council's recommendations for deficit and change in the structural balance in 2014 and 2015 are also to be fulfilled, even if there is almost no reserve for higher deficit. The evaluation of the measures taken by the Commission will depend on the individual measures taken or planned by France.

5.6.3 Spain (in EDP since April 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2016; to ensure the deficit as a proportion of GDP in 2013–2016 at 6.5%, 5.8%, 4.2% and 2.8%, and in the same years, to ensure an improvement in the structural balance in % of GDP by 1.1%, 0.8%, 0.8%, and 1.2%.

EDP phase: On 21 June 2013, the Council found out that the country had taken effective measures in the reaction to the Council's earlier recommendations to eliminate the excessive deficit, but an unfavourable economic development will probably prevent it from doing so within the original time limit (by the end of 2014). Therefore, the Council extended – also considering the existence of excessive macroeconomic imbalances – the time limit for eliminating the excessive deficit for two more years, i.e. by 2016. At the same time, it imposed the duty on Spain to take effective measures by 1 October 2013 for its elimination, and to publish a report on them as of the same day.

Fulfilment status: The deficit decreased from 11.1% of GDP in 2009 to 10.6% of GDP in 2012. For this year, according to the October Notifications, the government is planning a deficit of 6.8% of GDP, which is a value higher by 0.5p.p. than as that targeted by Spain in this year's Stability Programme.

Comments: The success of public finance consolidation will largely depend on the further development of the economic situation that is very weak at the moment (e.g. unemployment rate is around 26 %), despite some favourable news appeared recently (the estimate of GDP for Q3 suggesting the end of the recession, growth of exports, achieving a surplus of the current account of the balance payments). It will also be crucial for the economic situation that the government continues in the current reform efforts. A big problem of the country is the debt that should be 94.3% of GDP this year according to the October Notifications.

5.6.4 Portugal (in EDP since December 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2015; to ensure the deficit in percent of GDP in 2013–2015 at 5.5 %, 4.0 %, and 2.5%; and in the same years, to ensure an improvement in the structural balance in % of GDP by 0.6p.p., 1.4p.p. and 0.5p.p.

EDP phase: On 21 June 2013, the Council found out that the country had taken effective measures in the reaction to the Council's earlier recommendation to eliminate the excessive deficit, but an unfavourable economic development will probably prevent it from eliminating the excessive deficit within the original time-limit (by the end of 2014). Therefore the Council extended the time limit for eliminating the excessive deficit by a year, i.e. by 2015. At the same time, it imposed obligation on Portugal to take effective measures by 1 October 2013. Portugal is one of the countries that is subject to the Economic Adjustment Programme, as it fulfils the defined targets and conditions of this programme according to the newest evaluation of Troika (2013b). Portugal's debt is very high, according to the Commission's autumn forecast the debt quota should culminate in 2013 at 127.8% of GDP.

Fulfilment status: The deficit decreased from 10.2% of GDP in 2009 to 6.4% of GDP in 2012. This year, the government plans to reach a deficit of 5.5% of GDP according to the October Notification.

Comments: As in Spain, public finance consolidation in Portugal is also burdened by a not favourable economic situation, even if the economic outlook of the country has slightly improved recently. In comparison with the Commission's spring economic forecast, the decrease in GDP would be 0.5p.p. lower this year reaching −1.8% and 0.2 p.b. higher in 2014 reaching 0.8%. A specific risk for the general government balance development remains the possibility of cancelling some reforms or consolidation measures by the Portugal Constitutional Court that has hindered the government's efforts for permanent savings so far with its decisions.

5.6.5 Slovenia (in EDP since December 2009)

EDP obligation: Correct the excessive deficit in a reliable and sustainable way by 2015 inclusive; in 2013–2015 ensure the deficit at 4.9% of GDP, or 3.7% without one-off expenditures of bank recapitalisation in 2013, deficit of 3.3% of GDP in 2014 and 2.5% of GDP in 2016, which corresponds to a decrease in the structural deficit in % of GDP of 0.7p.p. in 2013 and by 0.5p.p. in both 2014 and 2015.

EDP phase: On 21 June 2013, the Council decided that the country had taken effective measures in the reaction to the Council's earlier recommendation to eliminate the excessive deficit, but an unfavourable economic development will very probably prevent it from doing so within the original time limit (end of 2013). Therefore, the Council (also considering the existence of excessive macroeconomic imbalance) has extended the time limit for eliminating the excessive deficit for two more years, i.e. by 2015. Nevertheless, Slovenia must take effective measures for deficit reduction by 1 October 2013, and provide information on them as of the same date.

Fulfilment status: The deficit decreased from 6.3% of GDP in 2009 to 3.8% of GDP in 2012. According to the draft budgetary plan the government expects a deficit of 5.7% of GDP this year, without including expenditures on bank recapitalisation around 3.8% of GDP. According to the same document, the deficit should reach 6.7% of GDP in 2014, without recapitalisation 3.3% of GDP[13]. According to the Economic Partnership Programme, the deficit should be around 2.5% of GDP in 2015. Slovenia's economic problems are also reflected in the development of government debt that will increase, according to the Commission's autumn forecast, from 63.2% in 2013 to 74.2% in 2015.

Comments: The specified deficit targets defined by the government seem to be in accordance with the Council's recommendation. Therefore, it will be crucial whether the Commission evaluates these targets as sufficiently supported by implemented measures, and agrees with the value of the structural balance.

5.6.6 United Kingdom (in EDP since July 2008)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by the fiscal year of 2014/15[14]; to ensure an average annual decrease in the structural deficit (in % of GDP) of 1.75p.p. in the fiscal years of 2010/11–2014/15.

EDP phase: On 13 July 2010, the Council confirmed the Commission's opinion that the country meets the Council's recommendation to eliminate the excessive deficit. EDP has been formally suspended.

Fulfilment status: The deficit decreased from 6.9% of GDP in 2008/9 to 5.2% of GDP in 2012/13. According to the Convergence Programme, the deficit will reach 6.8% of GDP in 2013/14 and 6.0% of GDP in 2014/15 and it is to fall below the reference value as late as in 2017/18 when it will decrease, as estimated, to 2.3% of GDP.

Comments: As part of the cohesion policy, in 2014–2020 it should be possible to use the so-called macroeconomic conditionalities when the Council could suspend all obligations and payments (or part of them) to a member state that failed to take effective measures in the reaction to the Council's earlier recommendations to remove the excessive deficit. The question is whether these sanctions could be applied to the United Kingdom that is obliged to "strive to avoid excessive public finance deficits", but it is not explicitly obliged to avoid them. According to the October Notification, the debt as a proportion of GDP should be at 88.1% in 2012/13. According to the Convergence Programme, this share should start decreasing from 100.8% of GDP from 2017/2018.

5.6.7 Cyprus (in EDP since July 2010)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2016; in 2013–2016 to achieve the deficit as a proportion of GDP of 6.5%, 8.4%, 6.3% and 2.9%, respectively. This should correspond to a structural improvement in % of GDP by 1.3p.p. in 2013, by 0.3p.p. in 2014, by 0.7p.p. in 2015 and by 1.8p.p. in 2016.

EDP phase: On 16 May 2013, the Council decided that the country had taken effective measures in the reaction to the Council's earlier recommendations, but an unfavourable economic development has prevented it from eliminating the excessive deficit within the original time limit (by the end of 2012). Therefore, the Council extended the time limit for four more years, by 2016. Cyprus is one of the states that are subject to the macroeconomic recovery programme, and it meets the defined targets and conditions of this programme according to the newest evaluation of Troika (2013c). At the beginning of September, the Commission arrived at the conclusion that Cyprus had taken effective measures; therefore, EDP has been formally suspended.

Fulfilment status: In its September evaluation, the Commission found out that due to compensation for losses incurred to Cypriot pension funds in restructuring the local financial sector, the general government deficit should be considerably higher than as recommended by the Council. Considering uncertain eco-

[13] According to the Economic Partnership Programme, the deficit without recapitalization should be 4.0% of GDP in 2013 and 3.2% of GDP in 2014.

[14] The fiscal (budgetary, financial) year in the United Kingdom is running from the beginning of April of the current year to the end of March of the following year.

nomic situation, the Commission selected the total impact of discretionary measures for the assessment, and arrived at the conclusion that Cyprus had taken effective measures.

Comments: Cyprus asked for financial aid from ESM on 25 June, and the decision on providing aid from ESM was approved on 24 April 2013. For the stabilisation of the economy, Cyprus was provided with a medium-term loan of up to EUR 10 billion (EUR 9 billion from the ESM bailout mechanism and EUR 1 billion from IMF). The individual portions are to be released in connection with the control mission results. Even if the Cypriot government fulfils the agreed programme, significant risks continue to remain. Real GDP should decrease by 8.7% in 2013 due to the banking sector restructure, decreased lending dynamics, decreased indebtedness of companies and households, restriction on deposit withdrawal and capital flows, fiscal consolidation and high degree of uncertainty in economic decision-making. The tax revenues collection is also uncertain. Involvement of depositors with uninsured deposits above EUR 100,000, shareholders and bondholders in recapitalisation of problematic banks enabled a lower burden of public budgets. Also, according to the Commission's autumn forecast, Cyprus is one of the member states that has high and increasing debt level throughout the entire horizon of the outlook. The debt is expected to reach 127.4% of GDP in 2015.

5.6.8 Greece (in EDP since April 2009)

EDP obligation: To correct the excessive deficit in a reliable and sustainable way by 2016.

EDP phase: On 3 December 2012, the Council decided that the country had taken effective measures in reaction to the Council's earlier recommendation to eliminate the excessive deficit, but an unfavourable economic development will probably prevent it from doing so within the original time limit (by the end of 2014). Therefore, it took a new decision to extend the time limit for eliminating the excessive deficit for two more years, i.e. by 2016, and ordered Greece to take immediate effective measures in this direction. Greece is one of the states that are subject to the Economic Adjustment Programme.

Fulfilment status: The deficit decreased from 15.7% of GDP in 2009 to 9.0% of GDP in 2012. Nevertheless, fiscal efforts led to cumulative improvement of the structural deficit in percent of GDP by 13.8p.p. in 2010–2012.

Comments: Out of the euro area countries, Greece is exceptional with the number of immediately consecutive calls for measures to decrease the deficit addressed by the Council at Greece. This must be perceived, of course, in the context of the considerable uncertainty regarding the economic development present in Greece. Greece is permanently monitored by Troika. The most serious problems in fulfilling the programme remain the collection of taxes, the privatisation process, financial sector restructuring, structural reforms in public administration, reforms in energy sector, transport infrastructure and regulated profession reforms. Ending the EDP depends on the economic growth recovery that is partially conditioned by fulfilling the Adjustment Programme, and on increasing the credibility of Greek economic policy in the eyes of foreign investors. According to the autumn Notifications, the total debt reached 156.9% of GDP in 2012, and should culminate at 175.5% of GDP in 2013.

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Resolution of the Government of the CR of 19 June 2013 No. 492, on the Preliminary Assessment of the Damage caused by Floods of May and June 2013 on Local Communications and other Property of Municipalities.

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Resolution of the Government of the CR of 16 July 2013 No. 538, on the Regulation of the Government on Calling Soldiers of the Czech Army to the Liquidation of Consequences of the Natural Disaster Caused by Floods in the Period to 31 July 2013.

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A Annex of Tables – GFS 2001 Methodology

Table A.1: Consolidated General Government – Revenue
(in CZK billion)

	2006	2007	2008	2009	2010	2011	2012
Total revenue	**1248**	**1391**	**1478**	**1384**	**1423**	**1430**	**1498**
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**	**37.5**	**37.4**	**39.1**
Revenue from operating activities	36.8	37.6	38.0	36.1	37.0	37.1	38.8
Taxes	**19.0**	**19.5**	**19.3**	**17.6**	**18.2**	**18.5**	**19.0**
Taxes on income, profits, and capital gains	8.3	8.7	8.6	6.8	6.9	6.7	7.1
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	11.2	11.4
Value added tax[1]	6.4	6.3	6.5	6.6	7.0	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**	**13.7**	**13.9**	**14.1**
Social security contributions	13.6	13.8	13.8	13.2	13.3	13.6	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	1.1	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**	**2.8**	**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

(in CZK billion)

	2006	2007	2008	2009	2010	2011	2012
Total expense	**1 389**	**1 436**	**1 517**	**1 631**	**1 602**	**1 601**	**1 591**
Expense for operating activities	**1 290**	**1 346**	**1 421**	**1 513**	**1 495**	**1 508**	**1 506**
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**	**42.3**	**41.9**	**41.5**
Expense for operating activities	**38.5**	**36.7**	**36.9**	**40.3**	**39.4**	**39.4**	**39.3**
Compensation of employees	**3.8**	**3.7**	**3.7**	**3.9**	**3.8**	**3.6**	**3.6**
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	5.4	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**	**18.0**	**18.4**
Social security benefits	16.2	16.0	16.1	17.7	17.7	18.0	18.4
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

(in CZK billion, in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
CZK bn							
Cash deficit/surplus	**-141**	**-44**	**-39**	**-248**	**-180**	**-171**	**-93**
Fiscal targeting cash deficit/surplus[1]	**-101**	**-38**	**-37**	**-230**	**-151**	**-131**	**-106**
Deficit / surplus of operating balance[2]	-57	31	40	-158	-94	-90	-21
Deficit / surplus of primary balance	-107	-7	6	-198	-137	-124	-48
% of GDP							
Cash deficit/surplus	**-4.2**	**-1.2**	**-1.0**	**-6.6**	**-4.7**	**-4.5**	**-2.4**
Fiscal targeting cash deficit/surplus[1]	**-3.0**	**-1.1**	**-1.0**	**-6.1**	**-4.0**	**-3.4**	**-2.8**
Deficit / surplus of operating balance[2]	-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

(in 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

(in 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

(in 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**	**1 506**
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

(in CZK billion, in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
CZK bn							
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
% of GDP							
Consolidated general government debt	**26.2**	**26.6**	**27.8**	**33.5**	**37.6**	**40.9**	**46.0**
Consolidated state debt	23.7	24.1	25.5	30.8	34.9	38.2	43.1
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
CZK bn										
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	28
Interest	16	13	12	12	15	11	9	8	6	7
Other property income	7	9	9	13	13	19	22	23	22	21
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	33
Investment grants	3	3	5	14	15	27	50	53	51	38
Other capital transfers	88	7	5	5	13	3	3	3	3	3
% growth										
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	0.2
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	-0.9
Property income	-18.8	-6.2	-5.9	23.1	7.2	11.9	3.2	-2.2	-8.3	0.9
Interest	-23.6	-19.4	-7.5	3.4	18.3	-24.5	-17.5	-14.7	-18.5	9.4
Other property income	-6.1	22.7	-3.6	50.2	-3.3	53.9	15.0	2.9	-4.8	-1.5
Sales [4)]	13.5	0.5	2.7	2.5	15.9	8.2	1.2	-5.2	3.8	0.8
Other current transfers and subsidies	27.7	53.2	-7.1	-2.7	-7.8	-8.2	26.0	20.7	-1.8	2.5
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	21.4
% of GDP										
Total revenue	**43.3**	**40.4**	**39.8**	**39.6**	**40.3**	**38.9**	**38.9**	**39.1**	**40.0**	**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	15.5	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	0.7
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	0.1

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
CZK bn										
Taxes and social contributions	**954**	**1047**	**1102**	**1175**	**1303**	**1314**	**1246**	**1263**	**1312**	**1336**
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	145
corporations	119	129	135	154	171	162	132	127	129	127
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**
% growth										
Taxes and social contributions	**7.4**	**9.7**	**5.2**	**6.6**	**10.9**	**0.8**	**-5.1**	**1.3**	**3.9**	**1.8**
Current taxes on income, wealth, etc.	**10.2**	**8.3**	**3.1**	**7.3**	**11.5**	**-6.9**	**-11.7**	**-3.4**	**4.8**	**0.2**
individuals or households	9	9	1	1	12	-9	-4	-3	8	1
corporations	11	8	5	14	11	-5	-18	-4	1	-1
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	-14.5
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	83.6
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**	**-0.9**

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**	**33.3**	**34.3**	**34.7**
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**	**15.5**	**15.6**
Actual social contributions	15.7	15.4	15.5	15.6	15.7	15.6	14.9	15.2	15.5	15.6
of employers	10.1	9.9	9.9	9.9	9.9	9.9	9.3	9.7	9.9	9.9
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	2.5	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	11.1	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	3.7	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
CZK bn										
Total revenue	**835**	**830**	**845**	**900**	**1006**	**1013**	**970**	**986**	**1026**	**1035**
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
% growth										
Total revenue	**19.0**	**-0.6**	**1.7**	**6.6**	**11.7**	**0.7**	**-4.2**	**1.7**	**4.0**	**0.9**
Current taxes on income, wealth, etc.	10.4	8.6	-4.2	7.7	11.9	-7.8	-11.8	-3.0	4.9	0.2
Social contributions	5.5	8.3	6.2	7.5	9.8	4.3	-10.4	3.7	2.7	0.9
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	1.9
Property income	-23.3	-14.8	-1.2	30.6	5.9	10.8	9.8	0.6	-10.0	-4.1
Sales	15.5	-0.4	2.9	3.8	26.4	6.0	-4.4	6.8	6.0	4.7
Other revenue	918.3	-73.8	4.3	7.2	10.9	10.3	38.3	4.1	2.3	-19.2

Source: CZSO (2013b).

Table B.5: Local Government Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
Total revenue	**328**	**348**	**352**	**376**	**410**	**416**	**431**	**429**	**422**	**392**
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	7
Sales	50	50	51	52	57	63	66	58	59	58
Other revenue	157	160	132	148	160	155	179	186	172	141
% growth										
Total revenue	**22.3**	**6.1**	**1.2**	**6.7**	**9.0**	**1.5**	**3.6**	**-0.5**	**-1.6**	**-7.1**
Current taxes on income, wealth, etc.	9.7	7.7	21.8	6.6	10.7	-5.0	-11.4	-4.2	4.7	0.3
Social contributions	4.2	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6	36.7	2.3
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	17.9
Sales	12.6	1.0	2.6	1.8	10.0	9.6	4.7	-12.1	2.2	-2.1
Other revenue	40.5	1.9	-17.4	12.4	8.0	-3.1	15.6	3.9	-7.6	-18.3

Source: CZSO (2013b).

Table B.6: Social Security Funds Revenue

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
Total revenue	**146**	**159**	**170**	**185**	**203**	**211**	**211**	**216**	**221**	**225**
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	1
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	2	6	6	2	2	2	2	2	3	2
% growth										
Total revenue	**7.2**	**8.8**	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**	**2.4**	**1.8**
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	10.8
Sales	-25.4	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	-7.9	-1.0
Other revenue	132.0	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5	29.2	-19.3

Source: CZSO (2013b).

Table B.7: General Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
Total expenditure	**1344**	**1268**	**1340**	**1407**	**1503**	**1584**	**1680**	**1658**	**1650**	**1712**
Compensation of employees	214	222	238	252	269	280	293	286	280	286
Intermediate consumption	196	193	206	211	219	228	238	235	224	211
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	74	70	79	76
Gross fixed capital formation	182	123	132	150	153	176	192	160	137	123
Capital transfers 2)	124	86	152	119	79	104	62	62	58	126
Investment grants 3)	37	37	36	38	37	36	34	33	37	35
Other capital transfers	88	50	116	81	42	68	27	29	21	91
Other expenditure	35	31	-20	-4	40	18	45	54	65	67
Final consumption expenditure	**610**	**630**	**667**	**694**	**726**	**759**	**809**	**807**	**793**	**789**
Collective consumption 4)	310	302	336	349	363	380	399	398	380	373
Individual consumption	300	328	331	345	363	380	410	409	412	416
% growth										
Total expenditure	**14.8**	**-5.7**	**5.7**	**5.0**	**6.8**	**5.3**	**6.1**	**-1.3**	**-0.5**	**3.7**
Compensation of employees	11.8	3.7	7.1	6.1	6.4	4.1	4.7	-2.5	-2.1	2.3
Intermediate consumption	12.9	-1.4	6.5	2.9	3.4	4.2	4.6	-1.4	-4.7	-5.9
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	6.5
Interest	-4.5	12.3	7.7	3.7	12.8	-0.9	20.2	7.7	2.9	6.5
Other property income	-25.4	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9	16.7	-47.1
Subsidies	19.7	-14.3	-7.4	13.4	1.0	2.4	18.8	-5.0	12.1	-3.1
Gross fixed capital formation	131.4	-32.2	7.4	13.6	1.6	15.2	8.9	-16.3	-14.4	-10.5
Capital transfers 2)	-9.9	-30.3	76.0	-21.6	-34.2	32.8	-40.9	0.7	-6.5	116.8
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	-59.7	6.2	-27.4	328.9
Final consumption expenditure	**9.5**	**3.3**	**5.9**	**4.0**	**4.6**	**4.6**	**6.6**	**-0.2**	**-1.8**	**-0.5**
Collective consumption 4)	12.3	-2.3	11.2	3.9	3.8	4.7	5.0	-0.2	-4.4	-1.9
Individual consumption	6.8	9.1	1.1	4.1	5.3	4.5	8.1	-0.2	0.7	0.9

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**	**43.2**	**44.5**
Compensation of employees	8.0	7.6	7.6	7.5	7.3	7.3	7.8	7.5	7.3	7.4
Intermediate consumption	7.3	6.6	6.6	6.3	6.0	5.9	6.3	6.2	5.9	5.5
Social benefits other than in kind	12.8	12.3	12.0	12.2	12.5	12.4	13.5	13.7	13.8	13.9
Social benefits in kind	5.7	5.6	5.5	5.2	5.1	5.2	5.8	5.9	6.0	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	4.2	3.6	3.2
Capital transfers	4.6	3.0	4.9	3.6	2.1	2.7	1.6	1.6	1.5	3.3
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	0.7	0.8	0.6	2.4
Other expenditure	1.3	1.1	-0.7	-0.1	1.1	0.5	1.2	1.4	1.7	1.7
Final consumption expenditure	**22.7**	**21.5**	**21.4**	**20.7**	**19.8**	**19.7**	**21.5**	**21.3**	**20.7**	**20.5**
Collective consumption	11.5	10.3	10.8	10.4	9.9	9.9	10.6	10.5	9.9	9.7
Individual consumption	11.2	11.2	10.6	10.3	9.9	9.9	10.9	10.8	10.8	10.8

Source: CZSO (2013b), MF CR.

Table B.9: Central Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
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	96
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	36	27	36	33
Gross fixed capital formation	128	62	77	81	87	97	96	74	55	51
Capital transfers	118	88	148	117	74	102	65	62	61	120
Other expenditure	143	140	72	95	150	131	163	174	178	157
% growth										
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	3.4
Intermediate consumption	11.9	-3.7	11.5	-3.2	6.4	0.6	4.4	-1.7	-6.9	-6.6
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	20.7	-26.0	33.7	-8.0
Gross fixed capital formation	278.1	-51.5	24.0	4.9	7.8	10.9	-1.3	-22.2	-25.4	-7.2
Capital transfers	-9.1	-25.4	67.8	-21.1	-36.7	38.1	-36.5	-4.4	-1.6	97.9
Other expenditure	43.4	-1.7	-48.9	32.7	57.4	-12.4	24.4	6.5	2.4	-11.8

Source: CZSO (2013b).

Table B.10: Local Government Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
Total expenditure	**342**	**352**	**354**	**385**	**397**	**421**	**453**	**444**	**434**	**395**
Compensation of employees	103	109	114	121	129	133	139	135	137	139
Intermediate consumption	97	98	99	109	109	118	123	121	118	112
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	85	81	71
Capital transfers	33	33	28	26	28	20	16	17	12	13
Other expenditure	11	10	11	11	10	10	12	12	12	11
% growth										
Total expenditure	**22.2**	**3.0**	**0.4**	**9.0**	**3.0**	**6.0**	**7.5**	**-1.8**	**-2.4**	**-8.9**
Compensation of employees	27.3	5.7	5.1	6.1	6.1	3.8	4.3	-2.7	1.3	1.3
Intermediate consumption	13.7	0.8	1.7	9.5	0.6	7.4	4.3	-1.4	-2.1	-5.4
Social benefits other than in kind	15.6	0.6	3.8	7.3	47.7	17.4	6.8	7.3	-2.5	-84.6
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	14.7
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	-10.4	-4.8	-12.7
Capital transfers	14.9	-1.0	-14.2	-5.8	5.0	-27.5	-21.2	9.3	-33.0	16.3
Other expenditure	8.9	-11.3	19.6	-7.0	-9.7	1.4	23.8	-2.8	7.1	-15.1

Source: CZSO (2013b).

Table B.11: Social Security Fund Expenditure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
Total expenditure	**151**	**162**	**170**	**173**	**187**	**201**	**222**	**224**	**228**	**232**
Compensation of employees	3	3	3	3	3	4	4	4	4	4
Intermediate consumption	2	2	2	2	2	2	3	3	2	3
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
% growth										
Total expenditure	**5.8**	**7.2**	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**	**1.5**	**1.7**
Compensation of employees	5.4	2.7	5.7	5.3	6.5	12.0	9.6	-0.2	-2.3	-3.3
Intermediate consumption	22.9	1.4	8.0	-13.3	10.5	22.2	26.1	10.0	-22.5	2.6
Social benefits other than in kind	-	-	-	100.0	-	-	600.0	0.0	-28.6	-20.0
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	-23.7
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	12.5

Source: CZSO (2013b).

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CZK bn										
General government	**-180**	**-83**	**-101**	**-80**	**-27**	**-86**	**-218**	**-179**	**-122**	**-170**
Central government	-162	-77	-100	-82	-56	-91	-186	-155	-104	-161
Local governments	-14	-4	-1	-9	13	-5	-22	-16	-12	-3
Social security funds	-5	-3	0	12	16	10	-11	-9	-7	-7
% of GDP										
General government	**-6.7**	**-2.8**	**-3.2**	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.7**	**-3.2**	**-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	-0.4	-0.3	-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
CZK bn										
General government debt	**768**	**848**	**885**	**948**	**1023**	**1104**	**1299**	**1454**	**1583**	**1775**
Currency and deposits	4	3	1	0	-	-	-	-	-	-
Securities other than shares	528	634	698	789	871	951	1124	1278	1402	1592
Loans	236	211	187	159	152	153	175	177	181	183
Central government debt	**719**	**783**	**813**	**867**	**939**	**1016**	**1202**	**1359**	**1484**	**1668**
Currency and deposits	4	3	1	0	-	-	-	-	-	-
Securities other than shares	517	612	675	766	848	929	1108	1262	1388	1580
Loans	197	169	137	101	90	87	94	96	96	88
Local government debt	**59**	**72**	**79**	**87**	**88**	**92**	**100**	**98**	**101**	**110**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	12	23	24	23	23	23	17	17	15	15
Loans	47	49	55	64	65	69	83	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
% growth										
General government debt	**10.6**	**10.4**	**4.4**	**7.1**	**7.9**	**7.9**	**17.7**	**11.9**	**8.9**	**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	18.2	13.6	9.8	13.5
Loans	-3.0	-10.5	-11.6	-14.5	-4.4	0.4	14.3	1.0	2.3	1.3
Central government debt	**10.0**	**8.9**	**3.8**	**6.6**	**8.3**	**8.2**	**18.3**	**13.1**	**9.2**	**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	19.3	13.9	10.0	13.8
Loans	-7.5	-14.6	-18.5	-26.6	-10.4	-4.2	8.0	3.1	-1.0	-7.5
Local government debt	**18.1**	**22.1**	**9.8**	**9.5**	**2.1**	**3.9**	**8.8**	**-1.9**	**2.8**	**9.6**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-3.4	90.7	5.8	-3.5	0.6	0.0	-26.5	-0.6	-11.5	2.4
Loans	25.1	4.8	11.7	15.1	2.6	5.3	20.7	-2.1	5.8	10.8
Social security funds debt	**-19.8**	**-25.7**	**17.5**	**-30.5**	**-69.1**	**62.7**	**-44.8**	**-26.4**	**415.4**	**-9.0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-19.8	-25.7	17.5	-30.5	-69.1	62.7	-44.8	-26.4	415.4	-9.0

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.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**	**34.6**	**38.4**	**41.4**	**46.2**
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	29.9	33.7	36.7	41.4
Loans	8.8	7.2	6.0	4.8	4.2	4.0	4.7	4.7	4.7	4.8
Central government debt	**26.7**	**26.7**	**26.1**	**25.9**	**25.6**	**26.4**	**32.0**	**35.8**	**38.8**	**43.4**
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	29.5	33.3	36.3	41.1
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**	**2.7**	**2.6**	**2.6**	**2.9**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.4	0.8	0.8	0.7	0.6	0.6	0.5	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
EU28 [1, 2]	-6.9	-6.4	-4.4	-3.8	-3.4	74.8	80.0	82.7	86.5	89.7
EA17 [3]	-6.4	-6.2	-4.2	-3.7	-2.9	80.0	85.7	88.0	92.7	95.6
Austria	-4.1	-4.5	-2.5	-2.5	-2.3	69.2	72.3	72.8	74.0	74.6
Belgium	-5.6	-3.7	-3.7	-4.0	-2.5	95.7	95.7	98.0	99.8	100.0
Bulgaria	-4.3	-3.1	-2.0	-0.8	-2.0	14.6	16.2	16.3	18.5	19.3
Croatia	-5.3	-6.4	-7.8	-5.0	-3.6	36.6	44.9	51.6	55.5	56.6
Cyprus	-6.1	-5.3	-6.3	-6.4	-7.3	58.5	61.3	71.5	86.6	114.4
Czech Republic	-5.8	-4.7	-3.2	-4.4	-2.9	34.6	38.4	41.4	46.2	46.1
Denmark	-2.7	-2.5	-1.8	-4.1	-1.6	40.7	42.7	46.4	45.4	43.9
Estonia	-2.0	0.2	1.1	-0.2	-0.2	7.1	6.7	6.1	9.8	10.1
Finland	-2.5	-2.5	-0.7	-1.8	-2.2	43.5	48.7	49.2	53.6	58.3
France	-7.5	-7.1	-5.3	-4.8	-4.1	79.2	82.4	85.8	90.2	93.4
Germany	-3.1	-4.2	-0.8	0.1	-0.2	74.5	82.5	80.0	81.0	79.6
Greece	-15.7	-10.7	-9.5	-9.0	-2.1	129.7	148.3	170.3	156.9	175.5
Hungary	-4.6	-4.3	4.3	-2.0	-2.7	79.8	82.2	82.1	79.8	79.2
Ireland	-13.7	-30.6	-13.1	-8.2	-7.3	64.4	91.2	104.1	117.4	124.1
Italy	-5.5	-4.5	-3.8	-3.0	-3.0	116.4	119.3	120.7	127.0	132.9
Latvia	-9.8	-8.1	-3.6	-1.3	-1.6	36.9	44.4	41.8	40.6	44.3
Lithuania	-9.4	-7.2	-5.5	-3.2	-2.9	29.3	37.8	38.3	40.5	39.7
Luxembourg	-0.7	-0.8	0.1	-0.6	-0.9	15.5	19.5	18.7	21.7	24.9
Malta	-3.7	-3.5	-2.8	-3.3	-2.7	66.5	66.8	69.5	71.3	73.2
Netherlands	-5.6	-5.1	-4.3	-4.1	-3.2	60.8	63.4	65.7	71.3	75.0
Poland	-7.5	-7.9	-5.0	-3.9	-4.8	50.9	54.9	56.2	55.6	58.0
Portugal	-10.2	-9.8	-4.3	-6.4	-5.5	83.7	94.0	108.2	124.1	127.8
Romania	-9.0	-6.8	-5.6	-3.0	-2.4	23.6	30.5	34.7	37.9	38.5
Slovakia	-8.0	-7.7	-5.1	-4.5	-3.1	35.6	41.0	43.4	52.4	54.5
Slovenia	-6.3	-5.9	-6.3	-3.8	-5.7	35.2	38.7	47.1	54.4	63.1
Spain	-11.1	-9.6	-9.6	-10.6	-6.8	54.0	61.7	70.5	86.0	94.3
Sweden	-0.7	0.3	0.2	-0.2	-0.9	42.6	39.4	38.6	38.2	41.9
United Kingdom [2]	-11.4	-9.5	-7.6	-5.2	-6.8	73.0	79.1	85.1	88.1	94.9

Note: 1) Non-consolidated debt.

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

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 (2013c).

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
EU28	45.4	49.3	10.7	16.9	21.7	2.3	2.9
EA [3]	46.3	49.9	10.5	17.6	21.6	2.1	3.1
Austria	49.2	51.7	9.5	19.3	19.0	1.0	2.6
Belgium	51.0	55.0	12.9	17.7	25.0	1.8	3.5
Bulgaria	35.2	35.9	8.9	11.7	15.6	3.4	0.9
Croatia	40.6	45.5	12.0	14.1	20.4	2.0	3.0
Cyprus	40.0	46.4	15.9	15.1	19.3	2.5	3.2
Czech Republic	40.1	44.5	7.4	13.9	20.5	3.2	1.5
Denmark	55.3	59.5	18.4	17.3	28.6	2.5	1.8
Estonia	39.2	39.5	10.5	11.0	19.2	5.4	0.2
Finland	54.4	56.6	14.5	18.7	25.1	2.6	1.4
France	51.8	56.6	13.2	19.9	24.7	3.1	2.6
Germany	44.8	44.7	7.6	16.1	19.3	1.5	2.4
Greece	44.6	53.6	12.4	19.9	20.6	1.8	5.0
Hungary	46.6	48.7	10.0	15.5	20.4	3.4	4.4
Ireland	34.5	42.6	11.5	15.0	18.0	1.9	3.6
Italy	47.7	50.6	10.6	19.9	20.1	1.9	5.4
Latvia	35.1	36.5	9.1	9.6	16.0	4.2	1.4
Lithuania	32.7	36.1	9.8	12.1	17.6	3.7	1.9
Luxembourg	43.7	44.3	8.4	16.0	17.5	3.8	0.5
Malta	40.1	43.4	13.4	13.0	21.2	3.1	3.1
Netherlands	46.4	50.4	9.8	12.2	28.5	3.3	1.8
Poland	38.3	42.2	9.4	14.2	17.8	4.6	2.8
Portugal	40.9	47.4	10.0	18.0	18.2	1.7	4.3
Romania	33.6	36.6	7.8	11.3	15.2	4.7	1.8
Slovakia	33.2	37.8	7.1	13.8	17.6	1.9	1.9
Slovenia	44.2	48.1	12.7	17.6	20.8	3.2	2.2
Spain	37.1	47.8	11.2	16.3	20.2	1.7	3.0
Sweden	51.6	52.0	14.3	14.5	26.9	3.5	0.9
United Kingdom	41.8	47.9	10.8	15.4	21.7	2.2	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
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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
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