



**Ministry of Finance**  
**Department for Financial Policies**

# **Fiscal Outlook**

## **Czech Republic**

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### List of abbreviations used:

curr. p., const. p. ....	current prices, constant prices
ESA 95 .....	European System of National and Regional Accounts 1995
SB .....	state budget
SF .....	state funds
PB .....	public budgets

### Selected terms:

public budgets .....	general government institutions whose operations are monitored based on the cash flow principle; they represent the predominant part of the general government
general government sector.....	general government institutions according to the definition of national accounts; their operations are monitored on the accrual principle under the ESA 95 methodology
forecast.....	forecast of the economic results of a current year, macroeconomic forecast
outlook.....	a medium-term forecast that is based on the state budget proposal, its medium-term outlook and approved medium-term expenditure frameworks
projection.....	a long-term forecast that is based on the projection of expected trends resulting from the assumptions adopted regarding macroeconomic development and the demographic scenario.

### Data sources:

Macroeconomic development: Czech Statistical Office, Czech National Bank, Ministry of Labour and Social Affairs, forecast of the Ministry of Finance

Data concerning general government in the national accounts methodology up to 2006: Czech Statistical Office, Eurostat

Other data: Ministry of Finance

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Current issue presents fiscal outlook until 2010.

Summary data published in tables does not in some cases match sums of individual items to the final decimal place due to rounding.

# 1 Introduction

This second issue of the Fiscal Outlook presents a projection of general government finances, which is based upon the state budget proposal for 2008 and its medium-term outlook for 2009 and 2010. The main event affecting the outlook for general government sector is approval of the Public Budget Stabilization Act. The publication is limited to analysing fiscal impacts of the approved measures.

In contrast to the first issue, the current number of the Fiscal Outlook does not include a detailed description of the methodology used and other explanatory boxes. Those interested in such information are directed to either the first issue, from April 2007, or the regular annex explaining the differences in methodology and other terminology. This annex is available, together with the publication, in electronic format at the Ministry of Finance's web pages.

The publication's content has been extended by a chapter on international comparison, presenting information about general government balances and debts in EU countries.

The featured topic of the current issue is state guarantees. This is the first part in a planned series of topics providing information about indirect liabilities of Czech public finances. Although the potential risk of state guarantees has decreased substantially since the 1990s, these still represent a substantial burden for public finances. Other areas of indirect obligations that we are preparing to investigate include the finances of transformation institutions and long-term liabilities arising from the expected negative fiscal effects of population ageing.

## 1.1 Macroeconomic development

The Czech Republic finds itself today in a favourable macroeconomic situation. Gross domestic product in constant prices has been growing since 2005 at rates exceeding 6%. The Czech economy's output is running above the level of its potential. Within the outlook's time horizon, we expect that this positive output gap will close around 2010, and therefore real GDP will come closer to its potential. The expected GDP growth at the outlook's horizon will not drop below 5%.

At this phase of the cycle, real GDP growth is driven mainly by final consumption expenditure. Closing of the output gap will again bring increased contribution of foreign trade at the expense of domestic demand. Changes in tax rates approved together with the public budgets stabilisation measures are expected to support investment activities. Gross fixed capital formation is also to be supported by investments into infrastructure co-financed by European funds. On the other hand, government savings should be reflected in the decrease of real government consumption by about 0.5% annually. This trend will not be affected by expenditures incurred due to the EU presidency in 2009.

In 2008, private consumption growth will be limited by reform measures. Decreasing the personal income tax will have a lesser impact than will restrictions on social transfers. Moreover, a one-time increase in inflation is expected. Within the time frame of the outlook, private expenditures will grow disproportionately less in comparison to GDP development.

A switch of the terms of trade to positive values is currently accelerating growth in the implicit GDP deflator. The growth rate of nominal GDP should slow from 9.6% in 2007 to around 7.5% in 2010.

In recent years, consumer inflation hovered steadily beneath the CNB's inflation target. For 2008, the outlook anticipates a one-time jump in inflation due to an increase in indirect taxes. However, the Czech currency's strengthening exchange rate will ensure low-inflationary development in the coming years.

As a consequence of the continuing economic growth, the unemployment rate is declining and, in the coming years, we anticipate that it will gradually decrease to 5.5% (Ministry of Labour and Social Affairs methodology). In addition to the cyclical effects, the labour market should gradually reflect the structural changes aiming at stronger motivation for employment. These are the determining steps toward stabilising public finances and consequent changes in the payments of social benefits. We expect that a lack of labour force – rather than unemployment – will be the limiting factor for economic growth. Even hiring employees from other countries will not solve the problem.

The deficit in the current account payment balance will continue to decline, and growth in the trade balance surplus will outweigh a decrease in the revenues balance. Export growth and imports substitution from newly built capacities will exceed profit repatriations from those investments.

**Table 1-1: Main macroeconomic indicators**

		2003	2004	2005	2006	2007	2008	2009	2010
						Forecast	Forecast	Outlook	Outlook
Gross domestic product	(bn CZK, curr.p.)	2 577	2 815	2 988	3 232	3 529	3 821	4 110	4 421
	(growth in %, const.p.)	3.6	4.6	6.5	6.4	5.9	5.0	5.1	5.3
Private consumption	(growth in %, const.p.)	6.0	3.0	2.5	4.4	6.5	4.2	4.6	4.2
Government consumption	(growth in %, const.p.)	7.1	-3.1	2.3	1.1	-0.6	-0.4	-0.3	-0.5
Gross fixed capital formation	(growth in %, const.p.)	0.4	3.9	2.3	7.6	6.0	9.0	7.8	7.2
Contr. of net exports to GDP growth	(p.p., const.p.)	-0.6	1.3	4.8	1.0	-0.1	-0.1	1.0	1.5
GDP deflator	(growth in %)	0.9	4.5	-0.2	1.1	3.5	3.1	2.3	2.2
Inflation	(in %)	0.1	2.8	1.9	2.5	2.3	3.8	2.2	2.0
Employment (LFS)	(growth in %)	-0.7	-0.6	1.2	1.3	1.5	1.1	0.5	0.2
Unemployment rate (reg.)	(average in %)	.	9.2	9.0	8.1	6.7	5.9	5.6	5.5
Wages and salaries	(growth in %, curr.p.)	6.0	6.3	6.8	7.4	9.1	7.4	7.1	7.0
Current account to GDP ratio	(in %)	-6.2	-5.2	-1.6	-3.1	-2.8	-2.5	-1.7	-1.0

## 1.2 Fiscal policy objectives

In 2008 and in the medium-term outlook to 2010, fiscal policy is to be driven mainly by efforts to reduce the general government deficit. Moreover, the approved medium-term state budget outlook counts upon initiating a restructuring of government spending away from mandatory toward non-entitlement expenditure and on continuing shift of the tax burden from taxing labour and profits of legal entities to indirect taxes.

The fiscal outlook includes the expected effects of an approved set of measures to stabilise public finances. On the other hand, the outlook does not take into consideration reform measures that are as yet unapproved. The following steps will have the greatest impacts on the fiscal policy settings:

- Adherence to fiscal targets specified as a proportion of the general government balance (in the ESA 95 methodology) to GDP at -3.0% in 2008, -2.6% in 2009 and -2.3% in 2010.
- Implementation of tax reforms that will bring about a decrease of the tax quota between the years 2006 and 2010 by roughly 3 percentage points of GDP. Reduction of income and property taxes will be partially compensated by an increase in the reduced value-added tax rate, in excise taxes and by implementation of environmental taxes.



- Changes in the area of social benefits and social and health insurance, which in total will decrease the general government balance in individual years by roughly 0.6% to 0.7% of GDP. Greater directness and efficiency of the social system should simultaneously improve motivation for economic activity and limit infective use or misuse of the social system and health care.
- Decelerating growth in total salaries and wages in public administration, which, apart from budgetary savings, should also increase pressure for efficiency in state administration. Higher growth in the average salary should be achieved by reducing the number of employees. In time, the positive impact on the balance should rise to as much as 0.3% of GDP.
- Other measures to restructure expenditures and partially to strengthen financing of spending priorities, namely investments into infrastructure.

A complete review of impacts from active budgetary measures is in Table 3-5.

The fiscal policy stance will be restrictive in 2008. A negative fiscal impulse will be manifested especially by deceleration of the growth rate in household disposable income and consequently also by lower growth in final private consumption. Moreover, government consumption will rise very slowly.

In the medium-term horizon, we expect that the reform's positive impacts will be seen on the potential growth. Besides reducing the tax burden on labour and businesses, the main benefit should be increased motivation for economic activity, and that should help to solve the present negative trend of decline in economic activity rate.

**Table 1-2: Fiscal policy stance (ESA 95, % of GDP)**

	<b>2006</b> <i>Preliminary</i>	<b>2007</b> <i>Forecast</i>	<b>2008</b> <i>Outlook</i>	<b>2009</b> <i>Outlook</i>	<b>2010</b> <i>Outlook</i>
General government balance	-2.9	-3.4	-2.9	-2.6	-2.3
Cyclical component	0.2	0.3	0.2	0.1	0.0
One-off and other temporary measures	-0.2	0.0	0.0	0.0	0.0
Structural balance	-3.0	-3.7	-3.1	-2.7	-2.3
Fiscal effort <sup>1)</sup>	-0.7	-0.8	0.6	0.5	0.4

<sup>1)</sup> Fiscal effort is defined as year-on-year change of the structural balance.

Due to rather extensive legislative changes influencing the revenue and expenditure sides of the general government sector, the fiscal outlook is burdened by an increased level of uncertainty.

## 2 Development of public finances

### 2.1 Public budgets – cash flows

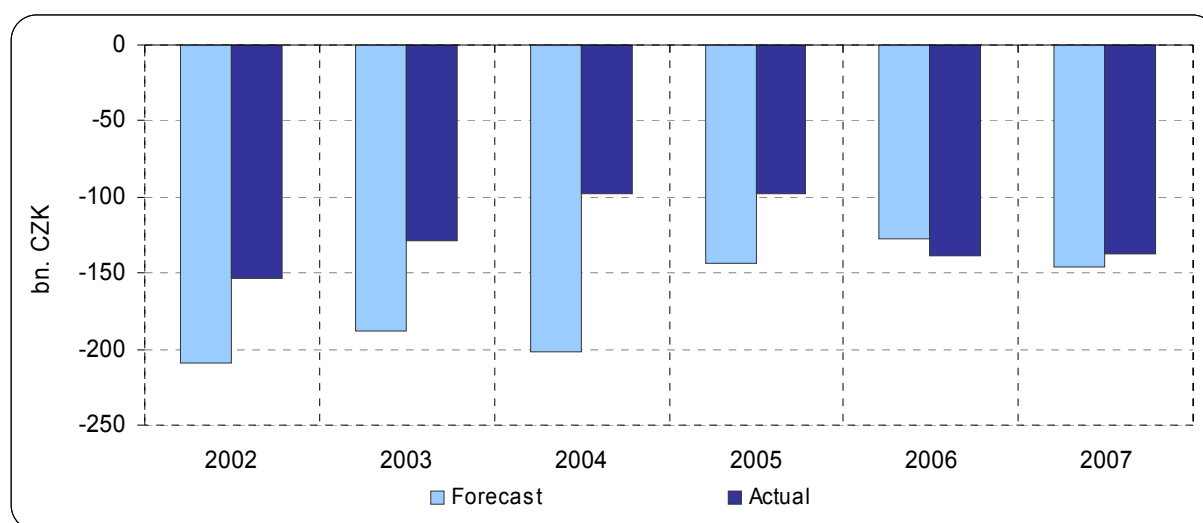
#### Public budgets in 2007

In 2007, the balance of public budgets net of financial operations is expected to be CZK -137.5 bn, or -3.9% of GDP. Compared to the original expectations in the draft Czech Republic State Budget Act documentation for 2007, it will be lower by CZK 8.6 bn. The deficit for fiscal targeting will be CZK 137.0 bn, and in comparison to the original assumptions it will be reduced by CZK 11.9 bn.

The total deficit differs from the original objective due to changes on both the revenue and the expenditure sides of public budgets. Compared to the original expectations, it can be anticipated that total revenues will be higher by CZK 7.1 bn and expenditures will be lower by CZK 1.5 bn. This trend corresponds to the situation from past years, with the exception of 2006, when the total public budget deficit developed better than originally predicted. Changes in the expected balance are to be found in all components of the public budgets.

The following graph shows a comparison of the results expected and actually achieved for public budgets balances during 2001 to 2006 and the change of the expected deficit for 2007.

**Graph 2-1: Anticipated and actual balances in 2002—2007<sup>1</sup>**



Total tax revenues (including social security and health insurance) will exceed expectations, according to the updated estimates, by CZK 29.5 bn. Contrary to the original expectations, the collection of social security insurance contributions will develop better (higher by CZK 17.3 bn), resulting from positive economic development (favourable labour market development, growth of salaries and wages, growth of health insurance payments from the state for the state insurees). Furthermore, the VAT

<sup>1</sup> Data are always compared with the budget documents of the previous year.

income will be higher by CZK 8.8 bn, and a positive development can be also expected in income taxes from individuals (higher by CZK 9.2 bn). Income from privatisation is expected at the CZK 33.3 bn level of the original expectations. On the contrary, a level lower than original expectations is expected in excise taxes (CZK -9.4 bn) and non-tax revenues (CZK -3.7 bn), relating primarily to revenues from businesses and property income (dividends, returns of transfers from past years, and the like).

One can expect that subsidies from international institutions will fall CZK 18.0 bn short of the expected level, namely because the respective programs to be financed from EU funds have not yet been approved. There remain deficiencies in the system of drawing money from EU funds, and most likely the Czech Republic will continue unable to fully utilise the resources available from the EU.

Total expenditure savings of CZK 1.5 bn are expected, as the originally presumed current spending will not reach the presumed level (saving of CZK 16.8 bn), but capital expenditures will be higher by CZK 15.3 bn. On the current expenditures side, lower spending can be expected in particular for the item "other non-investment purchases and related expenditures" (saving of CZK 9.9 bn), and, on the other hand, spending for subsidies to financial institutions will be exceeded by CZK 8.7 bn (see the state budget below). The higher capital spending is to a certain extent connected with using reserve funds for expenditures and increase of capital transfers into the State Fund of Transport Infrastructure.

**The state budget deficit** is presented here, in contrast to commonly publicised data, net of financial operations (CZK 4.5 bn) including the Czech Consolidation Agency loss (CZK 13.2 bn) and adjusted by the reserve funds impact<sup>2</sup> (greater deficit by CZK 8.7 bn). As a result of changes of revenues and expenditures in comparison to budget documentation for the year 2007, it will be higher by CZK 7.0 bn. The final balance will reach CZK 97.4 bn.

**State budget revenues** will miss their originally expected amount by CZK 1.1 bn. Noticeably lower is the expected amount of subsidies from international institutions (CZK 19.6 bn). Better results can be expected for total tax revenues (including social and health insurance contributions) in the amount of CZK 11.5 bn. Predictions are especially optimistic for social insurance contributions (CZK 11.7 bn) and VAT (CZK 3.8 bn), while the revenue target for excise taxes will be missed by CZK 9.4 bn.

The expected **state budget expenditures** will be higher by CZK 5.9 bn than the original projection. The expected spending growth includes, on the one hand, higher payment for the loss of the Czech Consolidation Agency than the originally budgeted CZK 7.0 bn, at CZK 13.2 bn, and also spending of reserve funds (CZK -8.7 bn). Without those operations, the expenditure side would have been in better shape than under the original budget. On the other hand, the drawing of interest expenditures and other expenditures for goods and services is expected to be lower by about CZK 12.9 bn.

Changes of expected economic results are foreseen for other public budget subjects. Contrary to the original expectations for the approved 2007 state budget, state funds are anticipating a deficit higher by CZK 6.9 bn, while the presumed results of the local budgets are likely to be higher by CZK 2.7 bn. Markedly better earnings (CZK 6.5 bn) are expected also by the health insurance companies.

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<sup>2</sup> Contrary to the state budget methodology, transfers to reserve funds are not considered as expenditures, as in reality they are not. Likewise, drawing from the reserve funds is not considered a state budget revenue.

Public budgets will have insufficient assets available, and the development described will therefore result in growing **debt**. That will reach CZK 994.7 bn by 31 December 2007 (compared to the projected CZK 981.0 bn), which is 28.2% of GDP. The main reason for the rising public debt – as in past years – will be the state budget deficit.

## Public budgets in 2008

In 2008, we are expecting substantial improvement in the development of public budget cash flows. The predicted total deficit, net of financial operations, will be CZK 74.1 bn (i.e. 1.9% of GDP). The balance selected for fiscal targeting will reach CZK -94.8 bn, or -2.5% of GDP (for more details, see Chapter 3.1).<sup>3</sup> In absolute figures, revenues will grow year on year faster than expenditures, and that will bring a decrease in public budget deficits. The public budget development is strongly influenced by impacts of the Act on Public Budget Stabilisation, which was approved by the Czech Parliament on 21 August 2007. The key consolidation measures concentrate on expenditures, and particularly on the mandatory segment. On the revenue side, the tax burden is decreased and change in the structure of public budget revenues continues to be seen especially in a shift from direct to indirect taxation.

The reform measures will positively influence especially the **state budget deficit** net of financial operations. It will be reduced by CZK 31.8 bn compared to 2007, reaching CZK 65.6 bn.

The bulk of the public budget deficit is to be financed by **loans and government bonds**. Their volume will reach CZK 1,088.4 bn (i.e. 28.5% of GDP). No major changes are expected in the proportions of the individual subjects in the public budget debts. The state budget (at 91.6%) will continue to carry the greatest weight in the debt of public budgets. Following will be the municipal governments and state funds (State Agricultural Intervention Fund and State Environmental Fund), which already have used up their own assets and, therefore, will finance their negative balances using debt instruments.

## 2.2 General government – national accounts (ESA 95)

General government finances came to a deficit of CZK 94.5 bn as of the end of 2006 (i.e. 2.9% of GDP). As usual, the majority of the deficit belonged to the central government subsector, represented in particular by the state budget and which ended with a deficit of CZK 91.6 bn.

In 2007, the general government's deficit is further expected to grow to CZK 121.4 bn, which is 3.4% of GDP. The deficit in the central government subsector is expected to rise to CZK 124.7 bn.

### General government revenues

In 2006, general government revenues reached CZK 1,314.7 bn and grew year on year by 6.5%. In comparison with the April outlook, revenues growth was adjusted by CZK 47.6 bn. This difference can be explained primarily by increase in the social contributions item by CZK 43.0 bn. Most of the difference has been caused by a change in the methodology for recording payments of the state for

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<sup>3</sup> Substantial difference has been caused by, among other reasons, exclusion of the National Fund surplus from the fiscal targeting deficit. The surplus of the National Fund has been caused by a deposit payment from EU funds, a cash operation that according to ESA 95 has no influence on the government balance.

state insurees (for public health insurance). Under the new methodology, this payment is not consolidated within the general government (from the state budget to health insurance companies), but it increases by the same amounts the social benefits on the expenditure side (from the state budget to households) and the social contributions on the revenue side (revenue of health insurance companies from the households).

At present, high growth in GDP is positively influencing revenues growth. Revenues grew by a record-breaking 13.2% in 2004. Total revenues from taxes and social insurance grew in 2006 by 5.8%. This is the absolutely dominant revenue item, commonly contributing about 90% of the total revenues.

**Individual income tax**, which generally manifests a relatively high sensitivity to GDP growth, almost stagnated in 2006 and neither did it show significant growth in the past year. The main reason for such development relates to effects following changes in tax law (replacement of tax deduction by a tax discount, joint taxation for married couples, accelerated depreciation, lower rates in the two lowest tax brackets, and expanded deductible expenses).

**Corporate income tax** accelerated in 2006 and, after very slow growth in 2005, grew by 8.2%. This can be attributed mainly to decreasing the tax rate to 26%, phasing down of accelerated depreciation, abolishment of a reinvestment deduction, and other legislative changes.

**Social contributions** in 2006 grew by 8.9%, which represents a rather dramatic growth. This item has been mainly influenced by the income level of the population and size of the working population. Its significant growth can be attributed to dynamic growth in the domestic economy and a drop in unemployment. Significant growth in 2004 had been due especially to the methodology change described above.

**Value added tax** dropped in 2006 by 0.8%, despite rather significant growth in GDP and household consumption. The drop was caused by reclassification of some goods to the reduced VAT rate. Lower growth in household expenditures had a negative impact on the tax in 2005, as it strongly correlates with VAT. Significant VAT dynamics in 2004 had been related especially to the Czech Republic's accession to the EU and harmonising of indirect tax laws with EU law.

**Excise taxes** grew by 8.5% in 2006, which, in comparison with other taxes, represents above-average growth. Viewed in time, this rather reflects a slowdown in dynamics. Rapid growth of this tax in recent years can be attributed especially to legislative changes harmonising excise tax laws with EU law, increased fuels consumption, and stricter inspection resulting in reduced illegal sales of alcohol.

As can be seen from Table 2-1, total general government revenues show moderately decreasing growth as a percent of GDP. An increased proportion in 2004 had been caused by the above described change in methodology. This decline is most significant for tax revenues and also other revenues (sales, property income, subsidies, other current transfers). Many items on the revenues side of the general government have been positively influenced by GDP growth (namely income taxes, VAT, social contributions). The GDP dynamics do not themselves significantly decrease the revenue as a proportion of GDP, and without possible legislative changes it could show much lower decrease than would expenditures.

**Table 2-1: Structure of general government revenue**

		2002	2003	2004	2005	2006	2007
General government revenue	<i>(in % GDP)</i>	39.5	40.7	42.2	41.3	40.7	39.8
-tax revenue	<i>(in % GDP)</i>	19.9	20.7	21.2	20.6	19.7	19.7
-social contributions	<i>(in % GDP)</i>	14.9	15.1	16.1	16.1	16.2	16.2
-sales	<i>(in % GDP)</i>	2.7	2.9	2.8	2.7	2.6	2.5
-other revenues	<i>(in % GDP)</i>	2.0	2.0	2.2	1.9	2.2	1.4

**Table 2-2: Tax revenue and social contributions**

		2002	2003	2004	2005	2006	2007
Social contributions and tax revenue	<i>(in % GDP)</i>	34.8	35.8	37.3	36.8	36.0	35.9
-individual income tax	<i>(in % GDP)</i>	4.7	4.9	4.8	4.6	4.2	4.3
-corporate income tax	<i>(in % GDP)</i>	4.3	4.6	4.7	4.5	4.5	4.5
-VAT	<i>(in % GDP)</i>	6.3	6.4	7.2	7.0	6.5	6.5
-excise taxes	<i>(in % GDP)</i>	3.2	3.4	3.5	3.7	3.7	3.7
-social contributions	<i>(in % GDP)</i>	14.9	15.1	16.1	16.1	16.2	16.2
-other taxes and contributions	<i>(in % GDP)</i>	1.5	1.5	1.0	0.9	0.8	0.8

For 2007, we expect general government revenues to grow by 6.9% to CZK 1,405.4 bn, which represents 39.8% of GDP. Contributing most to this growth should be personal income tax, where we expect to see the impacts subside from the aforementioned legislative changes in 2005 and 2006.

In comparison to April's presumptions, general government revenues grew by CZK 85.1 bn. The changes in methodology discussed above most influenced the change (by about CZK 47.7 bn). The rise in general government revenues was also caused by the higher year-on-year growth of tax revenues (namely VAT and personal income tax) and social contributions.

### General government expenditures

In 2006, general government expenditures grew by 5.1% and reached CZK 1,409.2 bn, representing 43.6% of GDP. Compared to the development in April's Fiscal Outlook, expenditures were adjusted by CZK 48.1 bn. Again, as on the revenues side, the changes were especially affected by the methodology for recording the state's payments for the state's insurees. Changes in the remaining items on the expenditure side have to a large extent offset one another.

The year 2006 is showing a slowdown in **government final consumption expenditures**, which grew by only 4.1%. Government consumption is divided into individual and final, and their long-term ratio has been oscillating at around one-half.

Rather significant growth of 8.2% has been recorded in **social benefits**, which have been growing especially due to valorisation of pensions, increased amounts for the subsistence minimum and other social benefits, and accelerated growth in the number of people reaching retirement age.

Relatively high dynamics in 2006 were seen also for production **subsidies** and **gross fixed capital**. The high growth rate of general government investments is a long-term trend.

General government expenditures are systematically declining as a percent of GDP. Contrary to revenues, the bulk of expenditures does not directly correlate with GDP growth. Some expenditures (e.g. social benefits) can even show a negative correlation. Therefore, spending should not be influenced by short-term cyclical fluctuations or copy them. The most significant expenditures drop relative to GDP is in government consumption. On the other hand, social benefits have been showing growth and therefore contribute to the negative development.

**Table 2-3: Structure of general government expenditure**

	2002	2003	2004	2005	2006	2007
General government expenditure <i>(in % GDP)</i>	46.3	47.3	45.1	44.9	43.6	43.3
-government consumption <i>(in % GDP)</i>	22.3	23.4	22.1	22.0	21.2	20.0
-social benefits other than social transfers <i>(in % GDP)</i>	12.4	12.2	12.9	12.6	12.6	13.0
-gross fixed capital formation <i>(in % GDP)</i>	3.9	4.5	4.8	4.9	5.0	5.1
-other expenditure <i>(in % GDP)</i>	7.8	7.1	5.3	5.3	4.8	5.2

In 2007, general government expenditures are expected to rise by 8.3% to CZK 1,526.8 bn (i.e. 43.3% of GDP). In comparison to April's presumptions, expenditures rose by CZK 68.4 bn. The most significant proportion of the increase is again attributable to adjustments of methodology, followed by growth in expenditures for compensations of employees, subsidies and other current transfers.

Social benefits following from social legislation passed in the election year 2006 will be a one-time dominant contributor to expenditures growth in 2007. Gross fixed capital formation and production subsidies have also retained significant dynamics.

### General government balance

In 2006, the general government deficit reached CZK 94.5 bn, which represents 2.9% of GDP. This is below the reference value of the Maastricht convergence criterion for government deficit. In comparison to the April outlook, the change is CZK 0.5 bn higher than the original CZK 94.0 bn.

It should be mentioned, however, that these values were achieved in periods of rapid economic growth, and the cyclically positive effects influencing the budget are likely to fade away in coming years.

Due to legislation approved in the election year 2006, we can expect in 2007 a more significant deepening of the deficit to CZK 121.4 bn, representing 3.4% of GDP. In comparison to April, the deficit is lower by CZK 16.7 bn, which is mostly due to higher tax revenues caused by strong economic growth.

The crucial influence on the government deficit has been the central government subsector, which regularly recorded deficits through the entire period. The second-most significant segment from the deficit perspective is the local government subsector. Its balance is most often slightly negative. The long-term balance of social security funds (strictly speaking, in the Czech Republic this includes health insurance companies<sup>4</sup>) is about zero, with a markedly more positive result reached only in 2006. A similar surplus is expected for 2007.

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<sup>4</sup> Result of operations from the Association of Health Insurance Companies and the Centre of International Payments are insignificant from the budgetary perspective.

**Table 2-4: General government balance**

		2002	2003	2004	2005	2006	2007
General government balance	(in % GDP)	-6.8	-6.6	-2.9	-3.5	-2.9	-3.4
Central government balance	(in % GDP)	-6.1	-6.0	-2.7	-3.5	-2.8	-3.5
Local government balance	(in % GDP)	-0.5	-0.5	-0.2	-0.1	-0.5	-0.2
Social security funds balance	(in % GDP)	-0.2	-0.1	-0.1	0.0	0.4	0.3
Primary balance <sup>1)</sup>	(in % GDP)	-5.5	-5.5	-1.8	-2.4	-1.8	-2.3

<sup>1)</sup> The primary balance is the balance of the general government excluding expenditure interest payments.

## General government debt

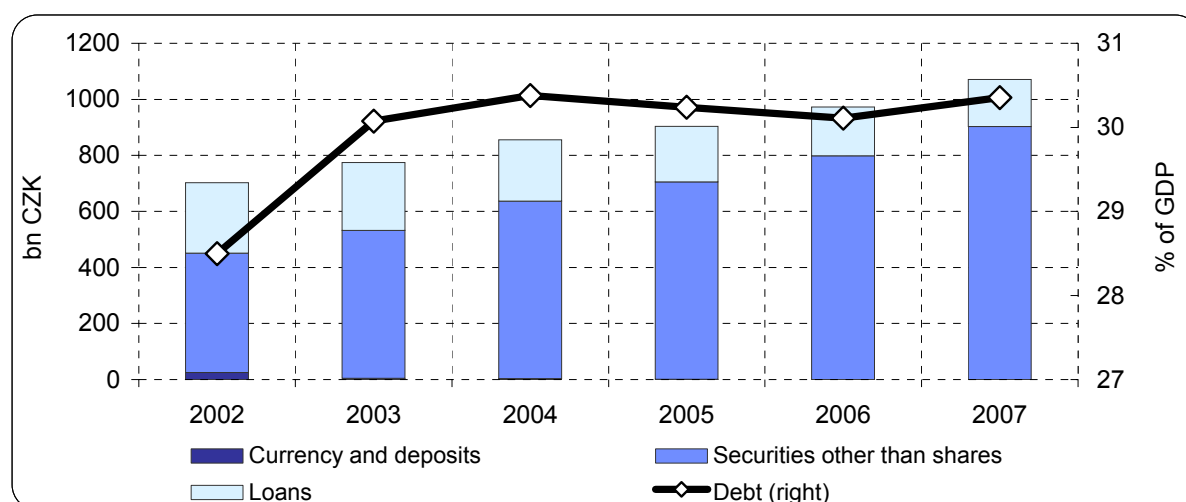
In 2006, general government debt reached CZK 973.0 bn, which represented 30.1% of GDP. After a slowdown in 2005, the debt's growth began accelerating, and in 2006 the debt grew by 7.7%. The greatest part of the debt has been generated by the central government, and local government is in second place far behind. The social security funds contribute only slightly to the total debt, recording low indebtedness rates in the long term.

For 2007, we are expecting a rather significant 10.1% growth in debt, particularly due to strongly accelerating social expenditures, reaching CZK 1,071.2 bn (i.e. 30.4% of GDP).

**Table 2-5: Debt**

		2002	2003	2004	2005	2006	2007
General government debt	(in % GDP)	28.5	30.1	30.4	30.2	30.1	30.4
Central government debt	(in % GDP)	26.8	28.2	28.1	27.8	27.6	27.8
Local government debt	(in % GDP)	2.0	2.3	2.6	2.6	2.7	2.6
Social security funds debt	(in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0

Government debt is defined as the following financial instruments: currency and deposits, securities issued other than shares but excluding financial derivatives, and loans. Government debt is recorded at its nominal value, which is regarded as equivalent to the face value and is consolidated (i.e. debt instruments held by other entities in the subsector or in the general government are excluded).

**Graph 2-2: Debt by instruments**

The structure of government debt by individual instruments is shown in Graph 2-2. The greatest part of the government debt is in the form of debt securities. The process of debt securitisation is



continuing. The second most frequent debt instrument is loans, whose share in the debt has been declining in recent years. A part of the debt consisted of deposits in previous years. Currency and deposits on the liabilities side of the balance sheets are especially in commercial banks and the central bank and are included in the financial institutions sector. In this case, the deposits were those received by the Consolidation Bank and assumed by the Czech Consolidation Agency as the legal successor to the bank. Currently, they have zero value.

**Table 2-6: Stock-flow adjustment**

		2002	2003	2004	2005	2006
Gross debt	<i>(in % GDP)</i>	28.5	30.1	30.4	30.2	30.1
Change in gross debt	<i>(p.p.)</i>	3.4	1.6	0.3	-0.1	-0.1
Decomposition of change in gross debt						
Nominal GDP growth	<i>(p.p.)</i>	-1.1	-1.2	-2.5	-1.8	-2.3
General government net lending (+) /net borrowing (-)	<i>(p.p.)</i>	6.8	6.6	2.9	3.5	2.9
Other factors	<i>(p.p.)</i>	-2.3	-3.8	-0.1	-1.9	-0.8
- Difference between cash and accrual	<i>(p.p.)</i>	-1.4	-0.4	-0.7	-0.8	0.0
- Net accumulation of financial assets	<i>(p.p.)</i>	-1.5	-3.6	0.6	-1.1	-0.8
<i>of which: privatisation proceeds</i>	<i>(p.p.)</i>	5.1	1.0	0.6	3.6	0.1
- Revaluation and other factors	<i>(p.p.)</i>	0.7	0.2	0.0	0.0	0.0

In recent years, the debt level has been stable as a proportion of GDP, despite the rather significant general government deficits. Growth of the general government debt as a percent of GDP is therefore prevented especially by very rapid growth in the domestic economy and also revenues<sup>5</sup> from privatisation included in the general government expenditures (the highest privatisation revenues were recorded in the years 2002 and 2005).

## 2.3 International comparison

### General government deficit

The general government deficit of EU27 member states has reached 1.6 % GDP in 2006. Development over the past several years indicates gradual distinctive and systematic reduction of the EU27 deficit.

The Czech Republic is with its deficit value of 2.9 % GDP above EU27 average and thus falls into the group of fiscal “sinners”. Clearly the worst development in the general government sector has been recorded by Hungary with its 2006 deficit value of 9.2 % GDP. For 2007 Hungary expects larger fiscal discretion and a deficit reduction approximately to the level of 2004. Neither Italy has experienced favourable development as over the past several years it has recorded gradual increases in its deficits up to the level of 4.4 % GDP in 2006. More distinctive fiscal consolidation is expected in

<sup>5</sup> The privatisation revenues themselves have no connection with the deficit and no influence on the debt (it is only an exchange of one asset for another one without any influence on the deficit). They lower the need for debt financing only once they are included in expenditures.

2007 when the deficit should decrease even below the Maastricht convergence criterion. Nor Portugal, Slovakia and United Kingdom enjoy overly positive developments of their public budgets. For 2007, however, these countries expect improvements in their general government finances.

Interesting development may be observed in case of Cyprus, Malta, Germany, Poland and Greece. Though some of these countries have their deficits still rather high, they all have demonstrated over the past several years an effort to consolidate their public budgets as manifested by significant reductions of their respective deficits.

Among the most fiscally disciplined countries that consistently produce relatively sizable surpluses rank Bulgaria, Denmark, Estonia, Finland, Ireland and Sweden.

### General government debt

General government debt should in the long-term reflect deficit developments in the respective countries. In case of EU27 member states, the general government debt has reached the level of 61.4 % GDP in 2006. In the context of the past several years this translates into only very modest decrease.

The situation of the Czech Republic is from the perspective of its general government debt a good one. In the long-term its debt ranges around the level of 30 % GDP and CR would for the time being easily meet the Maastricht convergence criterion.

Among the most indebted EU27 countries rank especially Italy, Belgium and Greece. Compared to Italy, however, Greece and Belgium have already launched a process of consolidation of their public finances and began to reduce their deficit-to-GDP shares. At the same time, Italy is the only EU27 member state that would not be able to cover all its debts not even by its annual gross domestic product. Worth mentioning is unequivocally debt development in Bulgaria and Romania with a truly remarkable dynamics of reduction of their indebtedness.

**Table 2-7: General government balance and debt in selected EU countries**

		Balance					Debt				
		2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
EU27	<i>(in % GDP)</i>	-3.1	-2.8	-2.4	-1.6	.	61.8	62.1	62.7	61.4	.
Czech Republic	<i>(in % GDP)</i>	-6.6	-3.0	-3.5	-2.9	-3.4	30.1	30.4	30.2	30.1	30.4
Slovakia	<i>(in % GDP)</i>	-2.7	-2.4	-2.8	-3.7	-2.7	42.4	41.4	34.2	30.4	30.4
Poland	<i>(in % GDP)</i>	-6.3	-5.7	-4.3	-3.8	-3.0	47.1	45.7	47.1	47.6	47.1
Hungary	<i>(in % GDP)</i>	-7.2	-6.5	-7.8	-9.2	-6.4	58.0	59.4	61.6	65.6	65.6
Germany	<i>(in % GDP)</i>	-4.0	-3.8	-3.4	-1.6	-0.1	63.8	65.6	67.8	67.5	65.1
France	<i>(in % GDP)</i>	-4.1	-3.6	-2.9	-2.5	-2.4	62.9	64.9	66.7	64.2	64.2
United Kingdom	<i>(in % GDP)</i>	-3.3	-3.4	-3.3	-2.7	-2.5	38.7	40.4	42.1	43.2	44.3
Italy	<i>(in % GDP)</i>	-3.5	-3.5	-4.2	-4.4	-2.4	104.3	103.8	106.2	106.8	105.0

## 3 Medium-term fiscal outlook

### 3.1 Medium-term outlook of the state budget and expenditure frameworks

The state budget outlook for the years 2008 to 2010 is based upon fiscal targets set by the government. The general government balance should reach -3.0% of GDP in 2008, -2.6% in 2009, and -2.3% in 2010.

In comparison with the April outlook, there is an important change in the calculation of expenditure frameworks of the state budget (SB) and state funds (SF). In the past, the balance of the national methodology for fiscal targeting had been used as the basis for the calculation. The duty to fulfil the EU obligations, which are specified in an internationally comparable methodology ESA 95, has brought about a change in the method. The basic parameters of the state budget proposal for 2008 and its medium-term outlook were set so that the Czech Republic is able to achieve targets in the ESA 95 methodology and fulfil its obligations within the EU's multilateral fiscal surveillance.

The current estimates are showing that the general government deficit under the ESA 95 methodology will in coming years reach slightly higher values than measured under the national methodology for fiscal targeting. The target public budget deficit according to the national methodology has therefore been set to a lower level of 2.5% of GDP for 2008, 2.3% for 2009, and 2.1% for 2010 (see Table 3-1).

**Table 3-1: Calculation of expenditure frameworks from fiscal targets**

		2006	2007 <i>Forecast</i>	2008 <i>Budget</i>	2009 <i>Outlook</i>	2010 <i>Outlook</i>
<b>Target for government sector <sup>1)</sup></b>	<i>(bn CZK) [ 1 ]</i>	<b>-95.0</b>	<b>-121.5</b>	<b>-112.1</b>	<b>-106.4</b>	<b>-101.4</b>
<b>(ESA 95)</b>	<i>(% of GDP) [ 2 ]</i>	-2.9	-3.4	-2.9	-2.6	-2.3
Difference ESA 95 - Fiscal targeting	<i>(bn CZK) [ 3 ]</i>	4.4	15.5	-17.3	-12.7	-8.3
<b>Target for public budgets</b>	<i>(bn CZK) [ 4=1-3 ]</i>	<b>-99.4</b>	<b>-137.0</b>	<b>-94.8</b>	<b>-93.7</b>	<b>-93.1</b>
<b>(national fiscal targeting)</b>	<i>(% of GDP) [ 5 ]</i>	<b>-3.1</b>	<b>-3.9</b>	<b>-2.5</b>	<b>-2.3</b>	<b>-2.1</b>
Public budgets other than SB and SF	<i>(% of GDP) [ 6 ]</i>	-0.2	-0.1	-0.5	-0.5	-0.5
	<i>(% of GDP) [ 7=5-6 ]</i>	-2.9	-3.7	-2.0	-1.8	-1.6
Target for state budget and state funds	<i>(bn CZK) [ 8 ]</i>	-95.2	-133.2	-74.6	-75.6	-71.4
State budget	<i>(bn CZK) [ 8a ]</i>	-72.0	-86.1	-68.2	-69.8	-70.1
State funds	<i>(bn CZK) [ 8b ]</i>	-23.2	-47.1	-6.4	-5.8	-1.3
Revenue forecast of SB and SF	<i>(bn CZK) [ 9 ]</i>	915.4	1012.9	1140.5	1025.4	1066.0
State budget	<i>(bn CZK) [ 9a ]</i>	855.9	944.0	1031.9	981.7	1017.9
State funds	<i>(bn CZK) [ 9b ]</i>	59.6	68.9	108.6	43.7	48.1
<b>New expenditure frameworks</b>	<i>(bn CZK) [ 10=9-8 ]</i>	<b>1010.6</b>	<b>1146.1</b>	<b>1215.1</b>	<b>1100.9</b>	<b>1137.4</b>
State budget	<i>(bn CZK) [ 10a ]</i>	927.9	1030.0	1100.1	1051.5	1088.0
State funds	<i>(bn CZK) [ 10b ]</i>	82.7	116.0	115.0	49.4	49.5

<sup>1)</sup> The general government balance for the purpose of the Maastricht criterion and excessive deficit procedure (EDP B.9). There is general government balance (B.9) adjusted for interest from swap operations, hence there is a slight difference from the balance presented in Chapter 2.2.

The presumption on public budget operations excluding SB and SF is rather conservative, and during 2008–2010 it includes a deepening of the deficit to 0.5% of GDP. Budgets of regional and local governments will operate with a deficit roughly equal to 0.1% of GDP. The finances of health insurance companies will be roughly in balance or slightly in surplus. Increased costs of payments for obligations connected with removal of old environmental burdens will cause a higher deficit in

comparison to the past years. Planned use of resources from privatisation for those purposes can cause deepening of the deficit in individual years by up to 0.5% of GDP.

To reach the established fiscal targets, new expenditure frameworks for the state budget and state funds have been derived based upon the stated assumptions and revenue prediction. They are CZK 1,215.1 bn in 2008, CZK 1,100.9 bn in 2009, and CZK 1,137.4 bn in 2010. A drop in the level from 2008 to 2009 is caused by the fact that the outlook after 2008 does not include the expected revenues from the EU funds. Later increase in the frameworks by expenditures financed from those resources is among the permitted adjustments.

According to legal regulations on budgetary rules, approved expenditure frameworks can be adjusted only in specifically enumerated instances. Expenditure frameworks for 2008 and 2009 were approved in 2006 alongside the state budget for the year 2007. The expenditure frameworks approved in 2006 – after adjustment for changes of mutual subsidy relationships between the state budget and state funds (consolidation) and after adjustments allowed by budgetary rules – reach the level of CZK 1,229.7 bn for 2008 and 1,135.8 bn CZK for 2009.

**Table 3-2: Adjustments of approved expenditure frameworks according to the budgetary rules (fiscal targeting methodology, bn CZK)**

		2008	2009
<b>Frameworks approved in 2006 - unconsolidated</b>	[ 1 ]	<b>1088.7</b>	<b>1130.7</b>
Consolidation in 2006	[ 2 ]	18.0	18.1
<b>Frameworks approved in 2006 - consolidated</b>	[ 3=1-2 ]	<b>1070.7</b>	<b>1112.6</b>
Adjustments according to budgetary rules	[ 4=5+6+7 ]	76.1	-
- change in tax assignment	[ 5 ]	-	-
- change in expenditure financed from EU funds	[ 6 ]	76.1	-
- unforeseen major influences	[ 7 ]	-	-
<b>Frameworks approved in 2006 adjusted - consolidated</b>	[ 8=3+4 ]	<b>1146.8</b>	<b>1112.6</b>
Consolidation (2007)	[ 9 ]	82.9	23.2
<b>Frameworks approved in 2006 adjusted - unconsolidated</b>	[ 10=8+9 ]	<b>1229.7</b>	<b>1135.8</b>

The newly derived expenditure frameworks are coming to lower values than those originally approved and which represent the maximum limit for expenditures of the state budget and state funds in 2008 and 2009. This is especially due to the fact that the new frameworks are based upon more ambitious fiscal targets. Therefore, after two years of significantly exceeding expenditure frameworks, the budgetary policy has seen a significant tightening of spending discipline.

**Table 3-3: Assessment of the fulfilment of expenditure frameworks (fiscal targeting methodology, bn CZK)**

		2008	2009
Frameworks approved in 2006 adjusted	[ 1 ]	1229.7	1135.8
New expenditure frameworks	[ 2 ]	1215.1	1100.9
<b>Tightening (-) / breach (+) of expenditure frameworks</b>	[ 3=2-1 ]	<b>-14.6</b>	<b>-34.9</b>

## 3.2 General government medium-term outlook

### General government balance

The state budget medium-term outlook presented in the previous section represents the most important component of the general government sector. At the same time, it is the government's main tool for implementing macroeconomic policy and executing other public finance functions. Nevertheless, the economic development and results of the entire general government may deviate from the government's objectives for many reasons. A considerable part of government institutions is not under the government's direct control – in particular, municipal and regional self-governments, health insurance companies, and others. Moreover, the statistical record of the general government is different from the budgeting method. While the budgeting process deals with planning cash transactions, the general government is recorded on an accrual basis in the national accounts system.

The transition between the public budget balance in the fiscal targeting methodology, which has been based upon cash flows, and the general government balance in the accrual methodology of national accounts is shown in Table 3-4. It should be noted that the itemisation shown, and depicting the difference between the two methodologies, had a rather normative characteristic in the past, and the expected influence of the individual factors in the future must be considered as only approximate.

**Table 3-4: Balance according to national fiscal targeting methodology and national accounts**

		2006	2007	2008	2009	2010
		<i>Preliminary</i>	<i>Forecast</i>	<i>Budget</i>	<i>Outlook</i>	<i>Outlook</i>
Balance of public budgets (fiscal targeting)	<i>(bn CZK)</i>	-99.4	-137.0	-94.8	-93.7	-93.1
	<i>(% of GDP)</i>	<b>-3.1</b>	<b>-3.9</b>	<b>-2.5</b>	<b>-2.3</b>	<b>-2.1</b>
Differences between ESA 95 and fiscal targeting	<i>(bn CZK)</i>	4.4	15.5	-17.3	-12.7	-8.3
- differences between cash and accruals	<i>(bn CZK)</i>	20.3	21.0	-12.0	-5.0	0.0
- coverage of the sector	<i>(bn CZK)</i>	-7.0	-5.0	-3.0	0.0	0.0
- other methodological differences	<i>(bn CZK)</i>	-8.9	-0.5	-2.3	-7.7	-8.3
General government balance <sup>1)</sup> (ESA 95)	<i>(bn CZK)</i>	-95.0	-121.5	-112.1	-106.4	-101.4
	<i>(% of GDP)</i>	<b>-2.9</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-2.3</b>

<sup>1)</sup> The general government balance for the purpose of the Maastricht criterion and excessive deficit procedure (EDP B.9). There is general government balance (B.9) adjusted for interest from swap operations, hence there is a slight difference from the balance presented in Chapter 2.2.

One of the important factors that will influence the differences between the balances in both methodologies in the fiscal outlook's horizon is the different cash and accrual impacts of tax reform on tax revenues (see Table 3-8). While the accrual revenues (tax liability) will decrease immediately in case of a tax rate reduction, the cash impact is delayed in time due to the method of advance payment. In a period of decreasing taxes, the accrual revenues come to a smaller amount than do the cash collections, and we can expect that this factor will moderately deepen the deficit according to the national accounts relative to the fiscal targeting.

The fiscal outlook for the period 2008 to 2010 is influenced by an approved set of reform measures. A part of these measures is motivated by fiscal reasons, namely by the necessity to decrease the

government deficit. At the same time, the majority of the measures have been motivated by an effort to support economic performance and improve the labour market's functioning.

Changes in the fiscal scenario compared to last year's outlook are shown in Table 3-5.

**Table 3-5: Year-on-year change in fiscal outlook (ESA 95, % of GDP)**

		2007 <i>Forecast</i>	2008 <i>Outlook</i>	2009 <i>Outlook</i>	2010 <i>Outlook</i>
<b>No-policy-change scenario</b>					
<b>Government balance - October 2006</b>	[ 1 ]	<b>-4.0</b>	<b>-3.5</b>	<b>-3.2</b>	.
Change in no-policy-change scenario	[ 2 ]	0.6	0.3	0.5	.
<b>Government balance - October 2007</b>	[ 3=1+2 ]	<b>-3.4</b>	<b>-3.2</b>	<b>-2.7</b>	<b>-2.4</b>
<b>Impacts of budgetary measures</b>					
<b>Revenue</b>	[ 4 ]	-	<b>0.2</b>	<b>-0.4</b>	<b>-0.8</b>
Taxes	[ 4a ]	-	0.2	-0.4	-0.6
Social contributions	[ 4b ]	-	0.0	0.0	-0.1
<b>Expenditures</b>	[ 5 ]	-	<b>-0.2</b>	<b>-0.5</b>	<b>-0.9</b>
Social transfers	[ 5a ]	-	-0.8	-0.8	-0.9
Compensations of employees	[ 5b ]	-	-0.1	-0.2	-0.3
Other expenditure cuts and savings	[ 5c ]	-	0.0	-0.1	-0.4
Increase in investment to infrastructure	[ 5d ]	-	0.3	0.2	0.3
Other expenditure measures	[ 5e ]	-	0.4	0.3	0.4
<b>Government balance</b>	[ 6=4-5 ]	-	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>
<b>Fiscal targets</b>					
<b>Government balance - October 2007</b>	[ 7=3+6 ]	<b>-3.4</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-2.3</b>

The year-on-year deficit reduction in the autonomous scenario has been based upon more favourable assumptions on macroeconomic development that are projected into the higher estimated revenues from taxes and social contributions. While the April outlook was based upon a poorer autonomous scenario than the outlook from October 2006, a favourable development of tax incomes since April has led to re-evaluation of estimates and to increasing the autonomous prediction of incomes. This translated into an improved autonomous scenario for the balance (for more details, see the general government revenues section).

In addition to improvement in the autonomous scenario, also contributing to reduction in the general government balance will be fiscally motivated expenditure savings in the amount of roughly 0.9 percentage points of GDP in 2008, 1.1 percentage points of GDP in 2009, and 1.6 percentage points in 2010 (sum of lines 5a, 5b and 5c). Such savings are to be used for gradually decreasing the tax burden on labour and profits of legal entities and partially also to strengthen expenditure priorities (namely, for investments into infrastructure).

Additional revenues collected by segments of public budgets with no expenditure limits (local government budgets, health insurance companies) will be another contributor to higher expenditures. Such institutions will probably not utilise all additional resources for improving their balances but partially also to increase spending (a component of the "Other expenditure measures" item).

A positive feature of the current outlook is the fact that the additional state budget revenues, due to better-than-expected macroeconomic development, are being used fully for deficit reduction. The impact of active budgetary measures is also positive, and, at the same time, restructuring on the expenditures side is in process from mandatory to non-entitlement expenditures and on the revenues side from direct to indirect taxation.

We assume that in 2008, the general government deficit will reach a rather lower value than the fiscal target due to better-than-expected results in the previous years, conservative tax prediction, and rather cautious assumptions on public budget performance other than for the state budget and state funds (see Table 3-1).

A certain risk in the outlook is represented by reduction in the aggregate positive impact of reform measures over time. While, according to present estimates, the fiscal target for 2008 should be achievable with relative certainty, reduction of the deficits during 2009 and 2010 is achieved in the outlook through other savings and cuts. These, in contrast to savings in the social area, however, do not have a systematic character. The consolidation fiscal effort is focused until 2008, and it is likely that maintaining the consolidation strategy will require accepting additional measures for 2009 and 2010.

Another risk is represented by the possibility that resources accumulated in reserve funds will be used for expenditures. Resources in reserve funds at the end of 2006 totalled 2.1% of GDP. We expect that gradual tightening of conditions for using such resources will strengthen the motivation for their use, which significantly increases the uncertainty of the balance estimate in the coming years.

**Table 3-6: General government developments (ESA 95)**

		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
		<i>Preliminary</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>	<i>Outlook</i>
General government balance	<i>(% of GDP)</i>	<b>-2.9</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-2.3</b>
Total revenue	<i>(% of GDP)</i>	<b>40.7</b>	<b>39.8</b>	<b>39.5</b>	<b>38.1</b>	<b>37.1</b>
	<i>(growth in %)</i>	6.5	6.9	7.3	3.8	4.8
Total expenditure	<i>(% of GDP)</i>	<b>43.6</b>	<b>43.3</b>	<b>42.4</b>	<b>40.7</b>	<b>39.4</b>
	<i>(growth in %)</i>	5.1	8.3	6.1	3.2	4.2

By 2010, we expect revenues and expenditures to represent a reduced proportion of GDP due to the autonomous decline in the tax quota, active reduction of the tax burden, and active expenditure measures.

The general government balance will stabilise safely below the level of 3% of GDP, but a shift closer towards a budgetary balance is conditioned upon acceptance of more reform measures.

### General government revenues

The dynamics of general government revenues will be influenced in particular by tax reform. Tax revenues will mark a rather rapid growth during 2008, since the positive impacts of increasing the value-added tax and excise taxes while introducing environmental taxes will outweigh the impact of income tax reduction (see Table 3-8).

During 2009 and 2010, both tax and total revenues will grow at only a very low rate. Another reduction in the direct tax rates is expected, while indirect taxes will grow at a rate slower than GDP due to their lower than unit elasticity.

Slower growth is also expected in contributions to social and health insurance in comparison to the volume of salaries and wages. Introduction of a maximum assessment base for insurance and modifications of sickness and injury insurance, which will come into force in 2009 and 2010, respectively, will impact negatively on revenues. As a result, the aforementioned measures will bring a rather significant drop in the compound tax quota between the years 2007 and 2010 of about 2.6 percentage points of GDP.

Restructuring from direct to indirect taxes will especially have an impact in 2008. Reduction of the share of taxes on income and wealth will be compensated by higher collections of taxes on production.

Decreased property income has been caused mostly by the anticipated reduction of dividend income from state-owned companies. The most dynamic item on the revenues side will be transfers received (included in the item "Other") due to the increased drawing from EU funds. The inflow of those funds does not have a direct influence on the balance, as it is projected to the same extent into the general government sector as expenditure.

The level of general government revenues is increasing substantially in comparison with the April outlook. A portion of the increase has been caused by the changes in the methodology of recording social contributions paid by the state for state insurees. Those contributions are newly recorded by the Czech Statistical Office as general government revenue from the household sector. On the expenditures side, this payment is recorded as a social transfer to the household sector.

A significant proportion of the revenues increase has been caused by a more optimistic prediction of tax revenues. The taxes prediction in the April state budget outlook had been negatively influenced by very low tax collection during the first months of 2007. The subsequent development is showing that, most probably, this was a one-time deviation, and the prediction of taxes was again increased for the state budget proposal and outlook.

**Table 3-7: General government revenue**

		2006	2007	2008	2009	2010
		<i>Preliminary</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>	<i>Outlook</i>
<b>Total revenue</b>	<i>(bn CZK)</i>	<b>1314.7</b>	<b>1405.4</b>	<b>1508.6</b>	<b>1565.3</b>	<b>1640.3</b>
	<i>(growth in %)</i>	6.5	6.9	7.3	3.8	4.8
<b>Tax revenue</b>	<i>(bn CZK)</i>	<b>637.2</b>	<b>695.8</b>	<b>754.0</b>	<b>776.4</b>	<b>810.6</b>
	<i>(growth in %)</i>	3.4	9.2	8.4	3.0	4.4
Taxes on production and imports	<i>(bn CZK)</i>	<b>351.4</b>	<b>383.4</b>	<b>438.9</b>	<b>457.0</b>	<b>476.0</b>
	<i>(growth in %)</i>	2.7	9.1	14.5	4.1	4.2
<i>of which: Value added tax</i>	<i>(bn CZK)</i>	<b>208.8</b>	<b>229.6</b>	<b>271.5</b>	<b>287.2</b>	<b>303.4</b>
	<i>(growth in %)</i>	-0.8	9.9	18.2	5.8	5.6
<i>Excise taxes</i>	<i>(bn CZK)</i>	<b>119.9</b>	<b>129.4</b>	<b>142.6</b>	<b>144.2</b>	<b>146.3</b>
	<i>(growth in %)</i>	8.5	7.9	10.2	1.1	1.5
Current taxes on income, wealth, etc.	<i>(bn CZK)</i>	<b>284.8</b>	<b>311.4</b>	<b>314.1</b>	<b>318.4</b>	<b>333.5</b>
	<i>(growth in %)</i>	4.2	9.3	0.8	1.4	4.8
<i>of which: Personal income tax</i>	<i>(bn CZK)</i>	<b>136.6</b>	<b>150.3</b>	<b>141.6</b>	<b>151.8</b>	<b>163.3</b>
	<i>(growth in %)</i>	0.2	10.0	-5.8	7.2	7.6
<i>Corporate income tax</i>	<i>(bn CZK)</i>	<b>144.4</b>	<b>157.1</b>	<b>168.3</b>	<b>162.3</b>	<b>165.7</b>
	<i>(growth in %)</i>	8.2	8.8	7.1	-3.6	2.1
Capital taxes	<i>(bn CZK)</i>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>
	<i>(growth in %)</i>	26.7	1.9	4.2	4.2	4.4
<b>Social contributions</b>	<i>(bn CZK)</i>	<b>524.8</b>	<b>572.0</b>	<b>609.2</b>	<b>633.6</b>	<b>662.7</b>
	<i>(growth in %)</i>	8.9	9.0	6.5	4.0	4.6
<b>Property income</b>	<i>(bn CZK)</i>	<b>25.6</b>	<b>20.1</b>	<b>19.1</b>	<b>19.0</b>	<b>18.7</b>
	<i>(growth in %)</i>	20.5	-21.5	-4.9	-0.5	-1.3
<b>Other</b>	<i>(bn CZK)</i>	<b>127.2</b>	<b>117.5</b>	<b>126.3</b>	<b>136.4</b>	<b>148.2</b>
	<i>(growth in %)</i>	10.6	-7.6	7.5	8.0	8.7
<b>Tax burden</b>	<i>(% of GDP)</i>	<b>36.0</b>	<b>35.9</b>	<b>35.7</b>	<b>34.3</b>	<b>33.3</b>



**Table 3-8: Impact of tax reform on tax revenues (bn CZK)**

	Cash terms			Accrual terms		
	2008	2009	2010	2008	2009	2010
Value added tax	26.5	27.9	29.1	27.2	28.0	29.2
Personal income tax	-20.3	-28.7	-33.7	-21.2	-30.1	-34.3
Corporate income tax	0.0	-20.1	-40.7	-9.3	-23.8	-34.0
Excise taxes	11.1	11.4	11.4	11.6	11.6	11.6
Property taxes	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
<b>Total impact</b>	<b>16.9</b>	<b>-9.9</b>	<b>-34.3</b>	<b>7.9</b>	<b>-14.7</b>	<b>-27.9</b>
<b>Total impact (% of GDP)</b>	<b>0.4</b>	<b>-0.2</b>	<b>-0.8</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.6</b>

### General government expenditures

The approved expenditure frameworks imply that between 2008 and 2010, the government expenditures will grow only very slowly. The growth rate will be lower than the growth rate of revenues and far below the nominal GDP dynamic. Observing the expenditure frameworks will be permitted especially through austerity measures in the area of social benefits, wages and salaries.

During the first half of 2007, general government final consumption expenditures grew year on year in nominal value by only 2.6%. We presume that, due to further planned savings, real government consumption will slightly decrease and in nominal value its growth will not exceed 3% in the outlook horizon.

A second item that will contribute strongly to the low growth of government expenditures is that of social benefits in cash. An overview of impacts in the social area is shown in Table 3-10.

The only expenditures with dynamic growth should therefore be investments into fixed capital. Investments into infrastructure have been strengthened already in the budget for 2008, and greater inflow of money from EU funds can be expected. Assumptions on the rate of drawing structural funds have been lowered slightly; still, the inflow of money will generate rather rapid growth in investments.

Other items of expenditures, subsidies and current and capital transfers are showing very volatile development. We expect that after their significant increase during 2007 and 2008, and corresponding to the current government's intentions, a slight reduction will follow.

**Table 3-9: General government expenditure**

		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
		<i>Preliminary</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>	<i>Outlook</i>
<b>Total expenditure</b>	<i>(bn CZK)</i>	<b>1409.2</b>	<b>1526.8</b>	<b>1620.6</b>	<b>1671.7</b>	<b>1741.7</b>
	<i>(growth in %)</i>	5.1	8.3	6.1	3.2	4.2
<b>Final consumption expenditure</b>	<i>(bn CZK)</i>	<b>685.4</b>	<b>706.7</b>	<b>728.2</b>	<b>749.4</b>	<b>767.2</b>
	<i>(growth in %)</i>	4.1	3.1	3.0	2.9	2.4
Collective consumption	<i>(bn CZK)</i>	<b>343.4</b>	<b>344.6</b>	<b>347.1</b>	<b>350.3</b>	<b>353.6</b>
	<i>(growth in %)</i>	3.9	0.3	0.7	0.9	0.9
Individual consumption	<i>(bn CZK)</i>	<b>341.9</b>	<b>362.1</b>	<b>381.1</b>	<b>399.1</b>	<b>413.6</b>
	<i>(growth in %)</i>	4.4	5.9	5.3	4.7	3.6
Social transfers in kind	<i>(bn CZK)</i>	<b>171.2</b>	<b>183.5</b>	<b>194.5</b>	<b>204.3</b>	<b>212.4</b>
	<i>(growth in %)</i>	2.3	7.2	6.0	5.0	4.0
Transfers of individual non-market goods and services	<i>(bn CZK)</i>	<b>170.7</b>	<b>178.6</b>	<b>186.6</b>	<b>194.9</b>	<b>201.2</b>
	<i>(growth in %)</i>	6.5	4.6	4.5	4.4	3.2
<b>Social transfers other than in kind</b>	<i>(bn CZK)</i>	<b>407.4</b>	<b>457.7</b>	<b>468.8</b>	<b>485.2</b>	<b>508.0</b>
	<i>(growth in %)</i>	8.2	12.3	2.4	3.5	4.7
<b>Interest</b>	<i>(bn CZK)</i>	<b>35.5</b>	<b>41.7</b>	<b>48.7</b>	<b>51.2</b>	<b>53.1</b>
	<i>(growth in %)</i>	3.3	17.5	16.7	5.1	3.8
<b>Subsidies</b>	<i>(bn CZK)</i>	<b>62.0</b>	<b>69.4</b>	<b>83.3</b>	<b>79.1</b>	<b>79.1</b>
	<i>(growth in %)</i>	12.2	12.0	20.0	-5.0	0.0
<b>Gross fixed capital formation</b>	<i>(bn CZK)</i>	<b>161.5</b>	<b>179.5</b>	<b>200.8</b>	<b>222.5</b>	<b>246.8</b>
	<i>(growth in %)</i>	10.2	11.2	11.9	10.8	10.9
<b>Other</b>	<i>(bn CZK)</i>	<b>57.5</b>	<b>71.8</b>	<b>90.8</b>	<b>84.3</b>	<b>87.5</b>
	<i>(growth in %)</i>	-17.4	24.9	26.6	-7.2	3.8
<i>Compensation of employees</i>	<i>(bn CZK)</i>	<b>251.0</b>	<b>267.5</b>	<b>277.2</b>	<b>287.1</b>	<b>295.7</b>
	<i>(growth in %)</i>	6.0	6.6	3.6	3.6	3.0
<i>Total social transfers</i>	<i>(bn CZK)</i>	<b>578.6</b>	<b>641.2</b>	<b>663.3</b>	<b>689.5</b>	<b>720.4</b>
	<i>(growth in %)</i>	6.4	10.8	3.4	3.9	4.5

**Table 3-10: Impact of the public finance reform in the social area (bn CZK)**

	2008	2009	2010
<b>Impact on revenue</b>			
Introduction of maximum assessment base for social and health care contributions	-6.6	-6.9	-7.2
Postponement of the act on casualty insurance to 2010	-5.9	-5.1	1.0
Postponement of the act on sickness insurance to 2009	11.3	10.1	0.0
<b>Total impact on social revenue</b>	<b>-1.1</b>	<b>-1.9</b>	<b>-6.2</b>
<b>Impact on expenditure</b>			
Postponement of the act on casualty insurance to 2010	-3.4	-3.5	0.0
Postponement of the act on sickness insurance to 2009	-6.8	-2.6	-6.5
Government welfare benefits	-8.5	-9.8	-13.1
State's payment into the public health insurance system	-3.4	-6.4	-2.0
Other changes to the health insurance system from 2010	0.0	0.0	-6.6
Introduction of regulatory fees in health care system	-4.0	-4.0	-4.0
Pension insurance benefits	-1.6	-1.1	0.0
Other changes in the social area	-1.6	-7.1	-6.7
<b>Total impact on social expenditure</b>	<b>-25.3</b>	<b>-30.5</b>	<b>-34.9</b>
<b>Impact on balance</b>			
<b>Total impact on balance</b>	<b>24.2</b>	<b>28.6</b>	<b>28.7</b>
<b>Total impact on balance (% of GDP)</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>

<sup>1)</sup> According to last year's budgetary outlook, the negative impact of the Sickness Insurance Act on revenues amounted to CZK 11.9 bn in the first year of its planned effectiveness (2008) and CZK 22.7 bn in the second year of its effectiveness (2009). Postponing the Act by one year and a slight modification of the impact estimates will lead to increase of the expected revenues compared to last year's outlook by the amounts listed in the table.

<sup>2)</sup> The government is expecting more austerity measures in 2010 in the amount of CZK 6.6 bn. However, relevant legislative changes for this year have not yet been approved. Freezing of state payment into the health insurance system is valid only until 2009.

## General government debt

Government debt as a proportion of GDP will likely be lower than expected in the April outlook. The main factors are a lower expected need to finance deficits during the entire period 2007 to 2010 and an increase in nominal GDP estimates. We expect that the debt as a proportion of GDP will be almost stable within the outlook horizon, with slight reduction in 2010.

The GDP-proportional change in debt also has been very much influenced by other factors having influence on the relationship between the deficit and debt (so called stock-flow adjustment). Since debt is based upon a cash approach, while the general government balance is expressed using the accrual principle, the relationship between the two figures is influenced by, among other things, the difference between tax collections on the cash and accrual bases. An increase of the difference in

favour of cash collections due to changes in the tax system will manifest itself in a lower need for cash financing than would correspond to the level of the accrual deficit<sup>6</sup>.

**Table 3-11: Gross consolidated government debt**

		2005	2006	2007	2008	2009	2010
			<i>Preliminary</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>	<i>Outlook</i>
<b>General government</b>	<i>(bn CZK)</i>	<b>903.5</b>	<b>973.0</b>	<b>1071.2</b>	<b>1159.0</b>	<b>1241.4</b>	<b>1327.9</b>
Central government	<i>(bn CZK)</i>	830.9	891.7	982.3	1067.6	1146.0	1226.6
Local government	<i>(bn CZK)</i>	79.1	86.6	92.0	94.5	98.5	104.5
Social security funds	<i>(bn CZK)</i>	0.3	0.2	0.0	0.0	0.0	0.0
<b>Government debt to GDP ratio</b>	<i>(% of GDP)</i>	<b>30.2</b>	<b>30.1</b>	<b>30.4</b>	<b>30.3</b>	<b>30.2</b>	<b>30.0</b>
<b>Contribution to change in debt</b>							
<b>Change in debt</b>	<i>(p.p.)</i>	<b>-0.1</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.2</b>
<b>Primary balance</b>	<i>(p.p.)</i>	<b>2.4</b>	<b>1.8</b>	<b>2.3</b>	<b>1.7</b>	<b>1.3</b>	<b>1.1</b>
<b>Interest</b>	<i>(p.p.)</i>	<b>1.2</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>
<b>Nominal GDP growth</b>	<i>(p.p.)</i>	<b>-1.8</b>	<b>-2.3</b>	<b>-2.5</b>	<b>-2.3</b>	<b>-2.1</b>	<b>-2.1</b>
<b>Stock-flow adjustment</b>	<i>(p.p.)</i>	<b>-1.9</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.3</b>
Difference between cash and accruals	<i>(p.p.)</i>	-0.8	0.0	0.0	-0.3	-0.2	0.0
Net acquisition of financial assets	<i>(p.p.)</i>	-1.1	-0.8	-0.7	-0.4	-0.3	-0.3
<i>of which: privatisation</i>	<i>(p.p.)</i>	3.6	0.1	0.9	0.0	0.0	0.0
Revaluation effects and other	<i>(p.p.)</i>	0.0	0.0	0.0	0.0	0.0	0.0

Another factor limiting the necessity of debt financing in the long run is the use of privatisation proceeds for financing deficits to the detriment of the financial assets position. We expect that until 2010 the privatisation revenues accumulated in the preceding period will be gradually involved in financing the deficits (see the negative net acquisition of financial assets). This outlook does not count upon other, as yet unapproved privatisation projects. In view of the fact that these are quite likely to be realised, the debt projection includes a risk that the debt as a percentage of GDP will be smaller.

### Cyclical development

According to current estimates of GDP potential and the macroeconomic prediction, the Czech economy is at the peak of the economic cycle. Through 2010, the positive output gap will be gradually closing due to a slowing of the real GDP growth rate to below its potential level. This will be manifest by a lowering of the positive cyclical balance component of general government, which will hamper efforts to decrease the nominal deficit.

<sup>6</sup> For more information about the relationship between the deficit and debt and differences between cash and accrual methodologies, see the April 2007 Fiscal Outlook or the regular methodology annex which is, together with this publication, available at the Internet pages of the Ministry of Finance ([www.mfcr.cz](http://www.mfcr.cz)).

Fiscal effort, defined as the year-on-year change of the structural balance, will peak in 2008 and, unless additional consolidation measures are adopted, it will decrease in the following years. Within the framework of the EU fiscal rules, the Czech Republic is nevertheless bound by the condition to make fiscal effort at the minimum level of 0.5 percentage points of GDP annually.

**Table 3-12: Structural government balance (% of GDP)**

	2006 <i>Preliminary</i>	2007 <i>Forecast</i>	2008 <i>Outlook</i>	2009 <i>Outlook</i>	2010 <i>Outlook</i>
Real GDP growth <i>(in %)</i>	6.4	5.9	5.0	5.1	5.3
Potential GDP growth <i>(in %)</i>	5.3	5.2	5.5	5.6	5.7
Output gap	0.7	1.3	0.9	0.4	0.0
<b>General government balance</b>	<b>-2.9</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-2.3</b>
Cyclical budgetary component	0.2	0.3	0.2	0.1	0.0
<b>Cyclically adjusted balance</b>	<b>-3.2</b>	<b>-3.8</b>	<b>-3.2</b>	<b>-2.7</b>	<b>-2.3</b>
One-off and other temporary measures	-0.2	0.0	0.0	0.0	0.0
<b>Structural balance</b>	<b>-3.0</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.7</b>	<b>-2.3</b>
Interest	1.1	1.2	1.3	1.2	1.2
<b>Structural primary balance</b>	<b>-1.9</b>	<b>-2.6</b>	<b>-1.9</b>	<b>-1.4</b>	<b>-1.1</b>
<b>Fiscal effort</b>	<b>-0.7</b>	<b>-0.8</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>

In an international context, particularly worthy of note are the low interest payments and very high primary deficit. Most countries fighting a high level of government deficit are at the same time facing high costs of servicing the government debt. To achieve financial balance, such countries would have to maintain considerable surpluses on the primary balance. The Czech Republic is not making use of its advantage of low-cost debt servicing, and it shows the second worst primary balance among all EU countries.

### 3.3 Long-term sustainability of public finances

A weak point of public finances is their long-term sustainability. The results have not changed substantially in comparison to the general government long-term projection published in the April Fiscal Outlook. The greatest risk for public finances continues to be the predicted demographic development, which will, in the coming decades, dramatically increase the proportion of people of retirement age in the economically active population. The government is presently addressing the issue of the ageing population and its impacts on the long-term sustainability of public finances. The reforms being prepared for the retirement and health care systems are becoming more specific.

#### Pension system

The solution of the pension system issue has been divided into three stages. The first stage has been already prepared and is currently being discussed by the Chamber of Deputies of the Parliament of the Czech Republic. The proposal includes stabilising parametric modifications of the current system, which is financed on pay-as-you-go basis. Among the main points are continued gradual increase of the retirement age up to 65 years, unifying the age for the right to “permanent” widow’s and widower’s pensions in connection with retirement age, and transformation of a full disability pension to a retirement pension at the age of 65. Implementation of the above measures should lead to savings on pension system expenditures of about 1 percentage point of GDP in 2050. Moreover it is proposed to extend the minimum length of insurance period, limit its compensatory periods, adjust the current definitions of disability, and create a reserve account for retirement reform.

A second phase will bring separation of ownership of shareholders and clients in the system of voluntary contributory retirement insurance and further modifications aiming to increase the motivation of clients and participation of employers to support the contributory retirement insurance. There will be introduced, as well, a guaranteed minimum income for pensioners at the level of the subsistence minimum.

In a third phase, another possible voluntary pension system pillar is to be introduced, which will be based upon the possibility of (partial) opt-out from the state's pay-as-you-go system.

Political debate has been renewed over the strategic issues regarding the direction of the pension system. In June 2007, a team of top representatives from individual parliamentary parties who have been involved in the pension system reform in the long term met for the first time. The goal of the team is to negotiate a generally accepted proposal of pension system reform, based upon outputs of a task force from 2005.<sup>7</sup> At the same time, a professional discussion is under way about options for resolving the separation of the assets of shareholders and clients of pension funds, which should allow a possible use of those funds for the considered introduction of an opt-out system.

## **Health care system**

Health care system reform has been divided into several stages. The first stage has begun, and it has been included into the set of measures aimed at stabilising public finances. Starting from 1 January 2008, an amendment of the Public Health Insurance Act comes into force. The amendment introduces regulatory fees for visiting a doctor, fees for prescription drugs, and fees for hospital stay. The new fees will not apply to some lower-income citizens, people with long-term illnesses, and others. The annual amount of the fees for visiting a doctor, fees for prescription drugs and some other additional payments for drugs paid by a single individual is limited to CZK 5,000. Other legislative changes have been made in the area of pricing and payments for drugs.

Reduction of the state budget mandatory expenditures on health care will be achieved through a temporary freezing of state payments for state insurees.

Specific system changes are currently being prepared that aim at strengthening fair competition among health care institutions, including transformation of health insurance companies into joint-stock companies with increased operating transparency. Also planned is a revision of the scope of health insurance and introduction of an option for selecting other than the standard level of insurance with the possibility to pay extra fees for extra care (or to take out additional insurance for such extra care).

By a decree from June 2007, the government has established a committee of independent experts (similar to the task force for the pension system reform) whose objective is to evaluate the current state of the health care system and its outlook. The committee should also analyse professionally the strategic reform proposals presented by the political parties. However, results from work of the committee will most likely be implemented after the next parliamentary elections.

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<sup>7</sup> The independent expert team has analysed in detail the current state of the pension system and has evaluated the fiscal implications of the reform scenarios proposed by the major political parties. It has prepared comprehensive documentation for decisions on the pension system concept.

## 4 Topic: Selected aspects of the state guarantees system in the Czech Republic from 1993 to 2006

### 4.1 Introduction

The subject of contingent liabilities is a topic of interest today in both the private and public sectors. This interest is accentuated by the continually growing competition, globalisation and securitisation in the financial markets where the associated risks are traded and valued. These issues are discussed especially in the context of obligations ensuing from the aging of the population and of their impacts on the social security systems in individual countries. The following text, however, deals with another type of implicit obligations that wrote an interesting chapter in the development of the Czech Republic's public finances in the past decade. These obligations are state guarantees – a subject frequently discussed in political debates and still of interest, even though it is presented only in fragments in the professional and popular press.

#### Definition of guarantees and their selected economical connections

A guarantee represents a guarantor's explicit potential financial obligation, in the case of certain events leading to substantial worsening of the creditworthiness of an institution supported by the guarantee (the "recipient"), to pay one or more amounts to the recipient or directly to creditors. Therefore, it is a legal promise to assume an obligation in case that a clearly predetermined event occurs. The conditional nature of a guarantee is given by the fact that the guarantor is requested to pay off the loan only if the debtor fails.

If it concerns a credit guarantee, the obligation is directly linked to the respective loan and represents the guarantor's duty to fulfil the debtor's payment obligation in case of the debtor's failure. In such case, the creditor's right to request payment from the guarantor can be regarded as the guarantor's providing a sell option to the creditor. In fact, the creditor has an option to sell the guaranteed debt to the guarantor at the agreed nominal value of the debt.

Another type of guarantee is a so-called permanent guarantee, whereby the guarantor undertakes to pay to the recipient a predetermined amount or guarantees its ability to meet financial obligations, thus preventing liquidation of the recipient. Examples of permanent guarantees are guarantees provided to the Czech Consolidation Agency (CCA) or the Czech Export Bank (CEB).

*Credit guarantees as well as contingent liabilities generally can lead to moral hazard and overall disproportionate assumption of risks by the government and excessive offer of credits. An excessive use of state guarantees also negatively influences the effective allocation of resources. Occasionally, one finds the opinions in the literature that guarantees for foreign credits lead to the so-called investment booms affecting the level and trajectory of the economy's output. Moreover, it may also interfere with macroeconomic adjustment mechanisms and forestall the closing or liquidation of insolvent financial institutions.*

Government guarantees may be an efficient tool in cases when markets are unable to spread risk optimally, although in practice they are more often used for other purposes. In particular, they are used to support projects or activities that involve significant social benefits, even though they often are not the most suitable form of support for achieving the given purpose.

State guarantees are frequently seen only as a tool to overcome the budget constraint, but they should be provided only for projects where the benefit or risk sharing is efficient and purposeful. Neither should one overlook the importance of adjusting the accounting methods for the need to recognise the hidden obligations. Certain risk management tools that are used in the private sector may also be applied successfully in the public sector.<sup>8</sup>

Although guarantees may be an appropriate form of government intervention, it is good to be aware of the fact that they usually do not go through the same examination and approval process that is common for the standard budget process. This may bring with it a series of problems, as it is very difficult to properly demonstrate that guarantees represent the right tools to fulfil the government's objectives. Moreover, as stated above, the guarantees are often used as a means for overcoming the budget constraints and may from their nature have a procyclical effect.

After issuing guarantees, there is almost no subsequent monitoring of credit risks. Missing, therefore, are the systematic assessment of risks and valuation of guarantees that should always be the point of departure for the government when making decisions relating to providing support to projects or debtors in the form of a guarantee.

Similarly, ongoing monitoring of guarantees is also important in order to allow the government to actively manage its risks. In the case of a project with a higher risk rate, the state may require greater security or a change in the project's management. In general terms, the state should use the same apparatus as would any commercial bank and should try to manage its obligations efficiently. The general government should bear those risks which it believes itself to have adequate potential to manage and which it expects to bring adequate benefits. Those risks that are more efficiently borne by the market should be spread and transferred through the securitisation process. If it is impossible to use such a process, derivative transactions may be used. Another frequently used method is the so-called special-purpose vehicle (SPV) that is used to securitize risk and sell cash flows from SPV's assets to institutional investors.

## **4.2 State guarantees system in the Czech Republic**

### **Drawbacks of the system providing state guarantees in the second half of the 1990s**

In the second half of the 1990s, the volume of state guarantees provided in the Czech Republic grew considerably. That these tools were used without the existence of an adequate institutional basis, however, inevitably led to the subsequent problems whose impacts on the Czech Republic's public finances are apparent up to the present day. What caused this negative development? It was primarily the aforementioned existence of a very weak regulatory framework that the government had used in assuming risks. The government was able to provide state guarantees and generally accept off-budget obligations without being obliged to quantify the potential receivables against the budget and to

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<sup>8</sup> The private sector uses namely the following risk management tools. For example, the market risk is usually measured by using the Value-at-Risk analysis, and the credit risk is commonly assessed by rating agencies, which base their analyses on the detailed financial reports of companies. Furthermore, the so-called stress tests are used which allow monitoring the impacts of unfavourable conditions on the company's operations. Last but not least, the risk is managed through derivative contracts.



compare the efficiency of these guarantees with direct state assistance. This led to the frequent use of the state guarantee system by the sector ministries, which thereby evaded their budget constraints. In fact, then, established budget limits were only seemingly effective for any given year. To a certain extent, therefore, the realisation of particular budget expenditures was delayed. Certain so-called non-standard guarantees provided in the second half of the 1990s by the World Bank, for example, were even described later as having been provided without authorisation.<sup>9</sup>

The law on the budget rules that was in force in the 1990s contained constraints upon providing state guarantees to secure loan payments and similar forms of financial assistance and associated interest payments. The total volume of instalments in the given calendar year could not exceed eight percent of the estimated state budget revenues.<sup>10</sup> However, the limit proved in practice to be too loose, and therefore not functional. The Ministry of Finance decided on the execution of a project and of the potential ability of a borrower to pay off the proposed guaranteed credit, but the guarantees were often provided due to emergency situations and urgent political pressures. Guarantees were usually provided for the entire credit amount (principal and interest). This required almost no risk sharing, but, to the contrary, created moral hazard.<sup>11</sup> As emerged from the conclusions of a World Bank report published in 1999, the interest rates charged on unsecured credits were only slightly greater than those on credits for which the government assumed the entire credit risk. The common practice, though, is that the interest rates on loans that are fully guaranteed by the government should be at the same rate as that for which the government itself would be able to borrow. Neither were reserves allocated in advance for utilisation of guarantees, and the amounts designated for that purpose were usually insufficient due to the efforts to achieve balanced budgets. This made fiscal and budgetary policy subject to unexpected pressure on the expenditure side of the general government budgets, leading to distortion of the information needed in order to make correct and efficient decisions in preparing healthy and sustainable fiscal policy. At the same time, this considerably limited the discretionary power of future political representations to pursue their economic-political programmes.

### **Certain corrective measures adopted**

The amended act on budget rules effective from 2001 allowed for providing state guarantees only on the basis of a special law, causing a dramatic reduction in the volume of newly provided state guarantees. The act also brought a new limitation upon the total volume of issued state guarantees. New guarantees could be granted only if the volume of guarantees issued before 2001 was less than 40% of state budget spending. Three years later, a new provision was added to the budget rules regulating establishment of the state guarantee fund. This provision required that, in preparing the stated budget, the Ministry of Finance should make a list of all payments that may become obligatory in the following year in relation to the utilisation of state guarantees and to estimate the probability of having to make those payments. Included in the state budget, then, is a volume of expenditures equal

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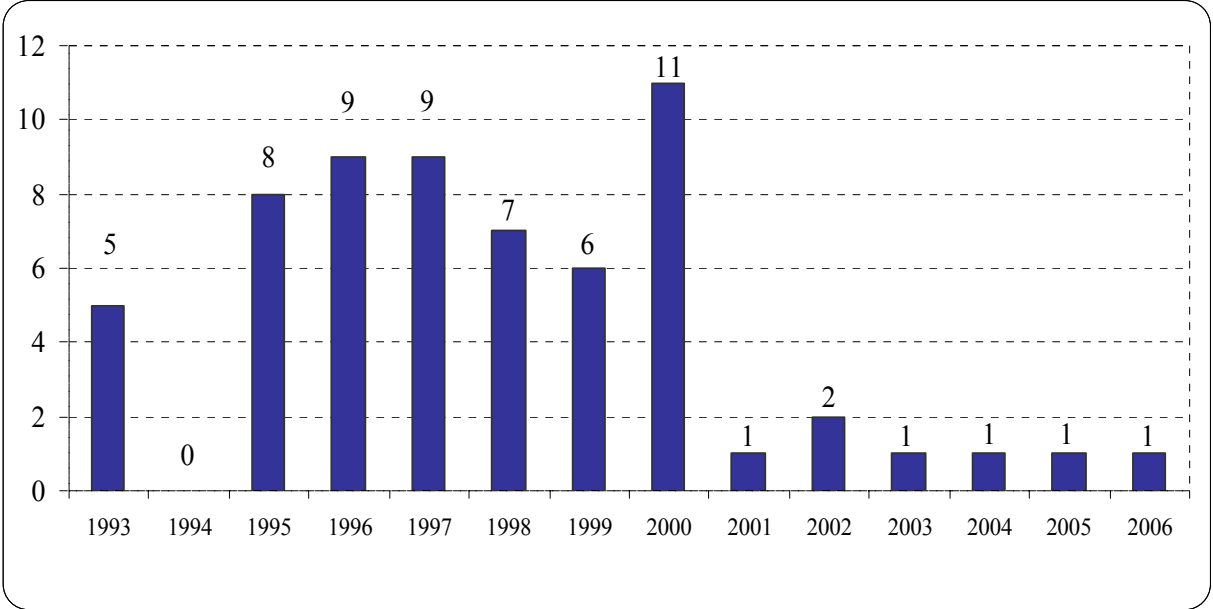
<sup>9</sup> For more information, see the World Bank Country Study: Czech Republic – Toward EU Accession, Part II, page 45, CERGE, Prague 1999.

<sup>10</sup> See Section 36 of Act No. 576/90 Coll.

<sup>11</sup> The government often assumed almost the entire credit-related risk, thus decreasing the creditors' motivation to closely monitor and assess the debtors' solvency. In case of a debtor's failure to repay the secured credit, the creditor dealt directly with the government. The debtors used the credits with state guarantee to finance their activities under projects that they would not have carried out without the state guarantee.

to the product of the probabilities of the utilisation and the expected payments, and these funds are transferred to the guarantee fund in the course of the budget year. At the time of a guarantee's utilisation, the Ministry of Finance will transfer the required amount to the state budget revenues and the approved spending will be exceeded by the same amount. This means that the estimate of the future requirements on the expenditure side of the state budget is made, but this method distorts information about the real revenues and expenditures of the state budget.<sup>12</sup>

**Graph 4-1: Number of state guarantees provided from 1993 to 2006**



The aforementioned measures did not, however, satisfy all the recommendations of the World Bank, which had suggested that after analysing the risk associated with each guarantee provided by the ministries there should have been fulfilled a Ministry of Finance requirement to create a reserve for each particular guarantee. Ideally, such reserve would have been equal to the hidden subsidy in the form of guarantee. The fund thus created should have been designated solely for the settlement of these future receivables due from the state budget. Moreover, the decision-making process concerning the guarantees and off-budget programmes should have been linked to the medium-term strategic fiscal framework and to allocation of the budget funds. The upper spending limits for individual ministries should have included the budgeted expenditures as well as guarantees.<sup>13</sup> After assessing the riskiness of these guarantees, the proposed medium-term upper limits should have been reduced by the amount of the expected fiscal costs that would have been transferred to the aforementioned guarantee fund, which would have been used solely to pay the future obligations of this nature. Therefore, the management of guarantees provided by the state was not yet optimal. Nevertheless, the legislative obstructions preventing further state guarantees from being issued led to a significant reduction in their volume, and this issue no longer received such strong attention.

<sup>12</sup> This drawback should be eliminated by the amended budget rules that are currently in preparation.

<sup>13</sup> The ministries would thus have been forced to consider whether to provide a guarantee, grant or financial assistance.

### 4.3 Measurement, recording and management of state guarantees

Measurement and reporting of the influence of the contingent liabilities on the general government deficit and debt remained outside the attention of the governments and international organisations for a long time. In the recent decades, however, this subject has become timely not only in the Czech Republic, which had painful experience with the institution of state guarantees in the 1990s and at the beginning of the new millennium, but also for the standards of the government financial statistics defined by such international organisations and multinational groups as the IMF or EU. Accurate measurement of contingent liabilities and associated risks is highly important for the aforementioned lending institutions and multinational groups as well as the legislative and executive bodies. It is immaterial whether these institutions require the given information in order to manage their credit policies or to assess the readiness of their countries to join the common monetary and economic union.

The measurement and management of risk in general government is quite difficult, due, for example, to the non-existence of stock analysts who provide information about the profit potential and general economic situations of private corporations, and thus help the market to work efficiently. Moreover, this subject remains challenging for the international rating agencies or, for example, for individual national audit offices.

In the specialised literature one can most often find that sell (or “put”) options (Black-Scholes model for valuing options) are used to value credit guarantees. Also used is Monte Carlo simulation, which is based on a different system. Nevertheless, the valuation of contingent liabilities in reporting the fiscal risks of a government is a qualitatively different issue. An opinion can be heard that the existence of a guarantee (as an example of a government’s contingent liability analysed here) primarily affects the stochastic process of a variable in relation to which the guarantee is issued. An example frequently mentioned is a guarantee provided to companies operating in an infrastructure field, such as energy companies.<sup>14</sup> This guarantee may include payments of interest and principal denominated in a foreign currency. The existence of such guarantee leads to an excessive supply of energy. If such response on the supply side of the economy is expected, the customers begin increasing their demand for more energy-intensive goods. This also affects the price of energy at which demand and supply are balanced, and it may of course have an essential impact on the valuation of the aforementioned guarantee. The standard paradigm for options valuation, based on the presumption of an exogenous stochastic process for the underlying assets that is constant in relation to the occurrence of a guarantee, may not be used to value a government’s contingent liabilities.

The issues concerning the valuation of government guarantees are among the most difficult due to their conditional nature. They also comprise one of the main reasons for recording the financial impacts of guarantees in the national accounts no sooner than at the time of the so-called “exercise of a guarantee”, although adjusting the deficit and debt by the potential costs associated with the guarantee at the time of its provision would certainly reflect the government’s fiscal position more realistically. To provide supporting information, the following boxes contain brief descriptions of the methods used for recording state guarantees under the ESA95 and GFSM 2001 methodologies.

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<sup>14</sup> This example also applies to the Czech Republic, where a guarantee for the borrowing of the energy company CEZ was issued in 1996 in the total amount of CZK 14.1 bn.

### **Box 1: Recording the guarantees in the ESA 95 national accounts system**

Excluded from the general regulation contained in the ESA 95 Manual on Government Deficit and Debt are two cases that, in terms of the national accounts, automatically do not represent a guarantee for a public company debt:

- A case where the company's shareholder and, therefore, a creditor of last resort is the state.
- A case where the state borrows directly on the market in its own name with the intention to provide funds to a certain public company.

In most cases the guarantee, whether concerning a particular borrowing or the entire debt, is recognised only in the company's balance sheet. The specific guarantee is then recognised depending on whether the company, when experiencing financial difficulties or restructuring, requests the guarantee to be fulfilled. If the guarantee is not an exercised guarantee, then it represents a contingent liability for the general government accounts and is recognised off the balance sheet.

If upon the entry of a company into a contractual relationship it is generally known (based on the law, for example) that the government is obliged to repay a debt (interest, principal) for the company, the situation may occur that the obligation is recognised in the balance sheets of both the company and the government.

If the company does not request the government to fulfil the guarantee, it is the debtor's guaranteed obligation. The obligation is recognised in the national accounts only in the company's balance sheet. The government records only the contingent liability. Therefore, the obligation is not taken into account when calculating the government debt.

In this regard, it is good to recognise that the so-called Excessive Deficit Procedure considers only the deficit and debt of the general government and not the public debt that would probably be influenced by this operation.

Upon the utilisation of a guarantee, the obligation is transferred to the government. This utilisation may concern the entire guaranteed debt or only its part. The amount to which the guarantee applies is recognised in the government's financial accounts (as a change in loans F.4) and will be reflected in the balance sheet (AF.4).

The net borrowings/loans balances are influenced as follows:

- The assumption of an obligation must be recognised through expenditure capital transfer (D.99) on behalf of the public company, and the corresponding record made in the system of national accounts is an increase in a liability (loan). Both records have the value of the total amount of the guaranteed principal.
- After the debt is assumed, the accrued interest is recognised each year on an accrual basis on account D.41, the primary distribution of income account.

The annuity payments of principal then constitute a mere financial transaction (i.e., decrease in cash F.2 and in loans F.4) recognised on the government's financial account. In this way, the government's debt is reduced.

However, settlement of part of the guaranteed obligation does not mean that the general government balance and debt are affected automatically. In practice, a situation may occur that in order to execute

its economic policy, the government decides to pay off a certain borrowing of a public company or its part without this borrowing being utilised (without its being “exercised”). In such case, the debt is not assumed and remains recognised only on the balance sheet of the company, which remains the sole legal debtor. The payments of this nature are recognised as capital transfers on behalf of the company (matched by the expended cash flow). This affects the general government balance, but not the debt.

On the other hand, another situation may occur, where provided that certain conditions are met, the company’s obligation is automatically considered as the government’s obligation. This may occur, for example, if there exists a statutory authorisation to issue a debt that imposes an obligation on the government to pay it, if the state budget for each year contains explicitly expressed payments, or if the company’s debt is systematically paid by the state. Upon its origin, an obligation of such nature must be recognised on the financial account and balance sheet of the government, and not on the accounts of the company. The amount of the obligation is included in the government debt. The interest paid subsequently is recognised each year on an accrual basis as a utilisation on the distribution of primary income account.

As soon as the funds from issue of the company’s debt (increase in cash F.2) are available, the capital transfer must be recognised on the capital account (D.99) on behalf of the company, by means of which the general government balance is affected.

#### **Box 2: Recognising state guarantees under the GFSM 2001 international statistic standard**

The given issues are also dealt with in the **GFSM 2001** methodology of the International Monetary Fund, which is based, similarly to ESA95, on the SNA93 international standard. This methodology recommends reporting all important contingent liabilities and receivables under the so-called memorandum items. In addition to the gross amount of the possible costs or revenues, it requires that their estimated amounts be reported. This position is somewhat different from the financial accounting standards, which recognise contingent liabilities no sooner than when the future events are likely to confirm the reduction in assets or the origin of a liability. If a government unit assumes the debt while obtaining an effective receivable due from the original debtor, it means not only an increase in the liability due to the creditor but also the acquisition of a financial asset. Therefore, the net assets of the government do not change.

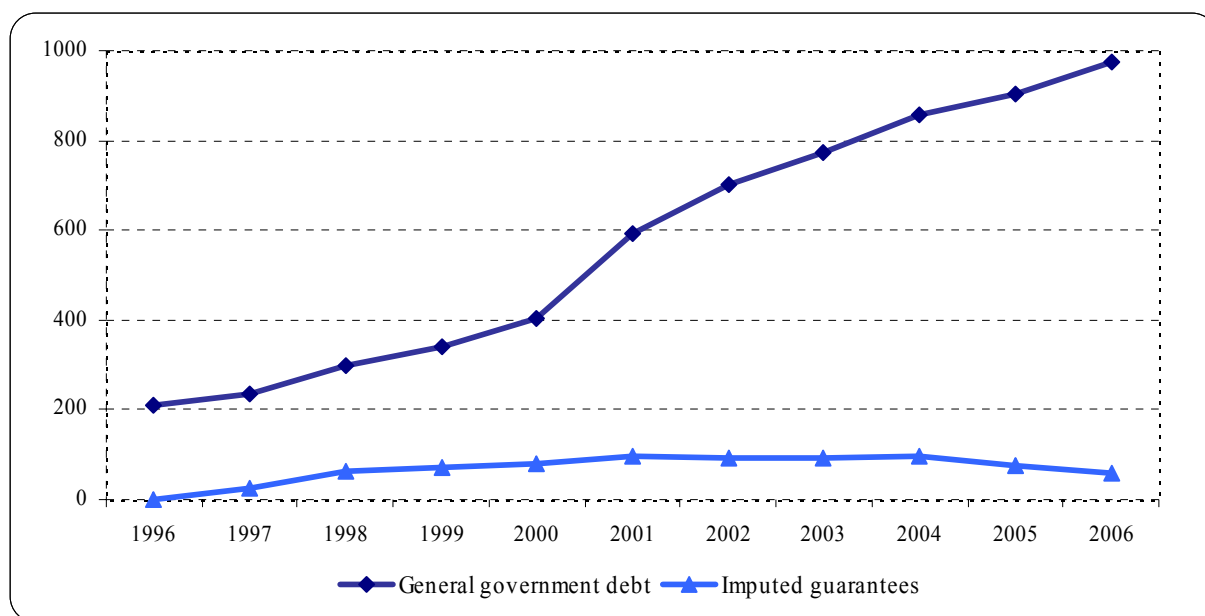
By contrast, if a government unit does not obtain an effective receivable due from the original debtor, then the operation is classified depending on the relation between the government unit and the original debtor. If the original debtor is a public corporation owned or controlled by a government unit which assumes the debt and the corporation continues its economic activities, the amount of the assumed debt also means an increase in the government’s financial assets. This causes an increase in the liability to the creditor and in the shares and other equity securities. In this case, again, the net assets of the government do not change. If, however, the original debtor becomes bankrupt and discontinues its activities or if it does not concern a unit owned or controlled by the government, then the so-called capital transfer is provided by a government unit. The recognition includes an increase in payables and a cost that is classified as the aforementioned capital transfer. Should the original debtor be a foreign government, a so-called capital grant is recognised. In such cases, the net assets are reduced by the amount of such operation.

Although the government, through its fiscal and particularly tax policy, is able to execute in the future such measures as could lead to dramatic changes in the future valuation of the guaranteed obligations, the creditors greatly welcome the accurate information about the valuation of the contingent liabilities.

Last but not least, we should mention that such contingent liabilities as guarantees need to be valued in relation to their impacts on both the liabilities and the assets sides in the government balance sheet. Nevertheless, the more difficult it is to determine the present value of the benefits and other costs generated by these governmental measures, the more important it is for the government to be able to make efficient and competent decisions.

Precise measurement of the general government deficit is important also in terms of tax policy. If we accept the presumptions of the so-called Ricardian Equivalence theorem which, with a certain degree of simplification, assumes the existence of subsidiarity between the financing of government spending through tax collection and debt, and which was later expanded by Barro's adding the presumption of an essential influence of the generated altruism on achieving the aforementioned neutrality of fiscal policy, then the present value of the government spending (herein in a broad concept that includes the contingent liabilities) must equal the present value of the tax revenues because the government budget constraint must be met in the medium-term horizon. Any deficit raised by tax reduction must be neutralised in the future by a tax increase of the same present value. At least in theory, any budget deficit leads to an increase in private savings which precisely substitute the reduction in government savings. Precise measurement and reporting of the deficit may also help in preparing adequate future tax policy. As deviation from the results of the Ricardian Equivalency can be expected in practice, it is ultimately important whether the tax cuts are eventually made or the situation results in a budget deficit.

**Graph 4-2: Development of government debt and share of the imputed state guarantees (under ESA 95 methodology, bn CZK)**



### Development of the institution of state guarantees in the Czech Republic

The volume of the state guarantees newly provided in the first years of the analysed period (1994 and 1995) was very small, partly due to the fact that the conditions for the provision of state guarantees were to a certain extent made more restrictive and partly due to the relatively good dynamics of

economic growth. We must point out, however, that certain trends began in 1995 and continued in the following years. These included the more extensive provision of guarantees for credits from the European Investment Bank, which were at the beginning administered by the state banking institution Consolidation Bank (Konsolidační banka s.p.ú., or COB) and later by the Czech-Moravian Guarantee and Development Bank (Českomoravská záruční a rozvojová banka, or CMGDB). In this case it did not concern the typical state guarantees but a mere drawing of loans by the state through these financial institutions. Therefore, these guarantees were also imputed directly to the deficit and debt because the probability that the payments would be made by the state in this case was 100%. Furthermore, it is also appropriate to point out the transformation of selected state guarantees related to credit instalments into subsidies made directly from the state budget.

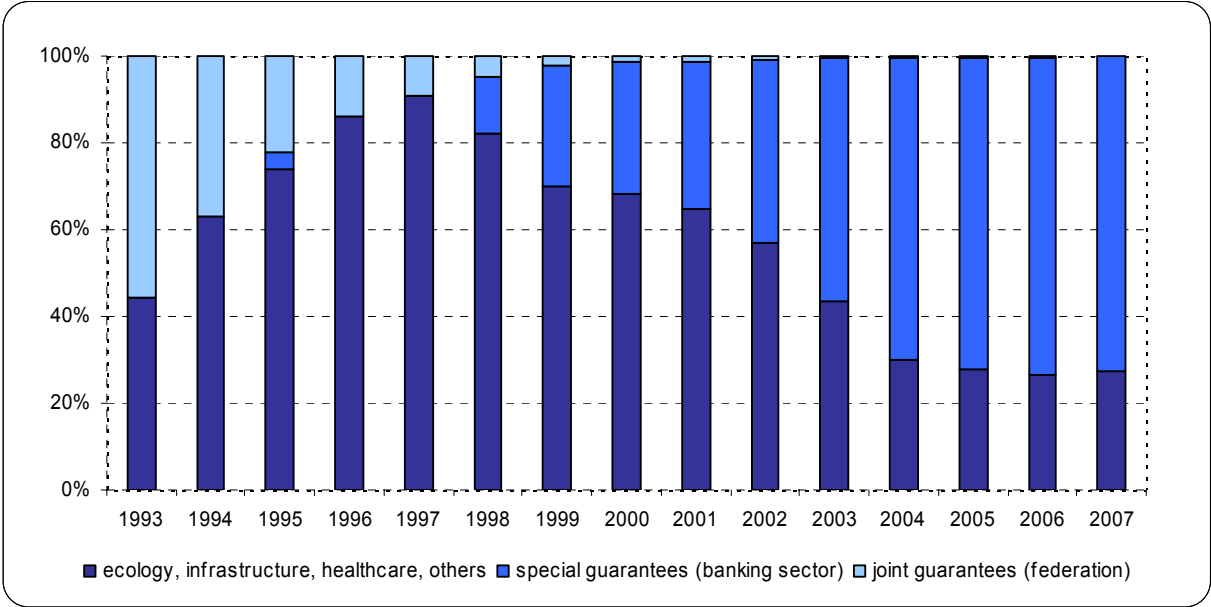
In 1996, the fiscal discipline became very much looser in terms of providing state guarantees, at which time the volume of provided state guarantees almost doubled. State guarantees were provided to the joint-stock company Aero Vodochody to finance the L-159 airplane project, the guarantees provided to the state organisation Czech Railways (CR) were extended, and other credits from EIB were drawn through COB. In addition to the aforementioned guarantees for loans used to finance the development of transportation infrastructure and assistance to state organisations, such guarantees were also provided that eventually fulfilled their function. An example is the credit to the joint-stock company CEZ for financing the management and control system and supplies of nuclear fuel for the nuclear power station being constructed in Temelín or a guarantee provided for the Czech Airport Administration (Česká správa letišť) one year earlier for a loan to construct a new terminal at the international airport in Prague-Ruzyně.

Without hesitation, 1997 can be called the record-breaking year in terms of providing state guarantees. During that year, the amount of guarantees provided more than doubled again, which was especially caused by the provision of guarantees in the greatest amounts to date to CR to finance modernisation of the transit railway corridors. Another, only slightly smaller guarantee was provided to Aero Vodochody through COB to finance the manufacturing of L-159 airplanes for the Czech Army. Furthermore, there was a guarantee for a foreign credit received by COB for executing the Prague-Nuremberg highway project. All these guarantees were issued on the basis of their respective government decrees and a majority of them had the nature of hidden subsidies, which were not utilised directly due to there being insufficient funds after budget cuts were made. The government thus evaded the given budget constraint and delayed its subsidies by redirecting them through an off-budget institution. In following years, the aforementioned guarantees proved to be risky. In the same year, the Ministry of Finance also issued a guarantee on behalf of the Czech National Bank for its receivables, and it issued guarantees and assumed assets in connection with the consolidation and stabilisation of the banking sector (for more information see Box 3).

In the following year, the development of the volume of state guarantees did not show such a high growth rate, due to the development of the Czech crown and, at the same time, due to the payments significantly exceeding the amount of the newly provided credit guarantees. In that year, however, another of the many guarantees was provided to support the project of the joint-stock company Aero Vodochody related to the lot production of L-159 airplanes (a syndicated revolving credit from CIBC and a bond programme). Also issued was a guarantee for credit from EIB to finance the cleanup of flood damage. The state budget was used, among other things, to make the loan payments of CR and Chepos Engineering, s.r.o. As for non-standard guarantees, a guarantee issued for the receivable of the Czechoslovak Business Bank (Československá obchodní banka, CSOB) due from the limited liability company Slovak Collection Company (Slovenská inkasní, s.r.o.) became the subject of a dispute between CSOB and the Slovak Republic, which was heard at an arbitration tribunal in Washington, D.C. More information about this guarantee can be found in the aforementioned box.

Likewise in 1999, the state continued drawing credits from EIB to carry out the infrastructure projects. The state budget was used for ongoing payments of principal and interest on the borrowing of CR. Also, interest was paid on the loans guaranteed by COB for the General University Hospital Prague and the University Hospital in Prague-Motol. In the same year, another non-standard guarantee of the state was issued, which was an obligation to participate in the financing of selected programmes within the future state budget chapters (declaration of the Ministry of Finance and Ministry of Transport and Communications (MTC) for the CR debt to settle their payables past due).

**Graph 4-3: Development of the structure of state guarantees provided**



In 2000, as in previous years, other guarantees were provided to CR for bank loans to finance modernisation of railway corridors and revitalisation of its vehicle fleet. Credits provided by EIB for developing road infrastructure continued to be drawn. Consolidation Bank provided a new non-standard guarantee to finance loans for the integrated emergency system known as MATRA. The state budget was used to pay the non-standard guarantees whose common attribute was the settlement of state obligations for financing selected programmes within future budgets of the respective state budget chapters (supplementing the funds in the State Fund for Market Regulation in Agriculture, CR loans for settling liabilities past due, payment of credit for financing the investment programmes of the MTC chapter). These practices continued in the following year. Furthermore, a non-standard state guarantee was provided to cover losses ensuing from an agreement promising to indemnify CSOB as a strategic investor. The impacts resulting from the state guarantee for the assets of the Investment and Postal Bank (Investiční a poštovní banka, or IPB), which had been provided to CSOB, were gradually coming to light after IPB’s low-quality assets were transferred to the Czech Consolidation Agency in the amount of its loss paid from the state budget (for more information see the separate box).

Another turning point in the providing of state guarantees was the year 2001, when the new budget rules came into force establishing a new condition for providing a new state guarantee in excess of CZK 1 bn. The new condition consisted in obtaining the approval of Parliament, which for that purpose would need to approve a special law. This change brought a considerable reduction in the volume of the state guarantees provided. It is also worth pointing out the involvement of the State Fund for Transport Infrastructure (SFTI) in the mechanism of repaying loans provided for executing transport infrastructure development programmes. The major instalments of guaranteed credits taken by CR were settled on the basis of contracts from SFTI funds. Therefore, the direct pressure on the

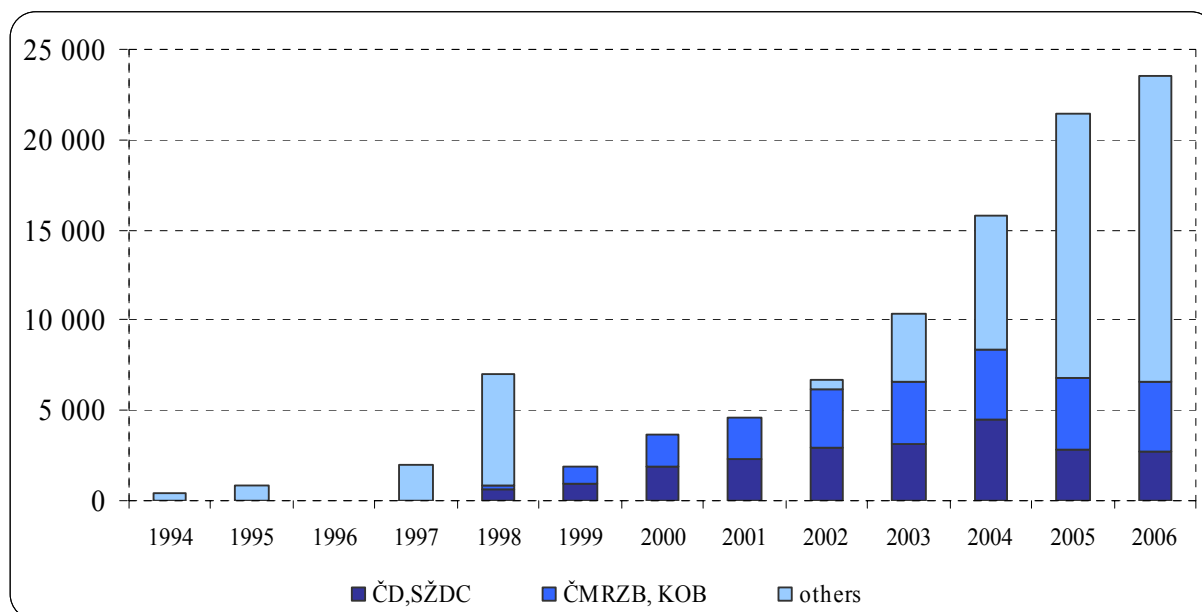


expenditure side of the state budget related to utilisation of state guarantees was reduced. Nevertheless, funds from privatisation or SFTI tax revenues were probably used for the payments. The amount of non-standard state guarantees grew considerably due to a guarantee provided on behalf of the licensed air transportation companies for liability for damage that might be incurred due to war or terrorist events. Nevertheless, this guarantee was imputed neither in the deficit nor in the debt, and its value was later reduced to zero due to the difficulty of its quantification.

The trend established in 2001 continued in 2002, when only one state guarantee was issued on behalf of CR to purchase electrified rolling stock. Due to the insolvency of that same company, its loans were paid from the state budget in that year. An increase in the amount of standard guarantees was partly caused by drawing upon additional tranches of previous loan guarantees. From that year, information began to be published by law on state guarantees, and in particular concerning liabilities of state organisations and companies 100% owned by the state. The state guarantees the obligations of the joint-stock company Export, Guarantee and Insurance Corporation (EGIC) resulting from credit risk insurance and the obligations of Czech Export Bank (CEB) for payment of credit sources obtained by the bank as well as the liabilities from its other operations on the money and capital markets to obtain funds for advantageous financing of exports, if approved by MF and CNB. The risk associated with utilisation of these guarantees consists especially in the payment of CEB losses from the state budget. The state also guarantees the obligations of CCA (the successor organisation of COB), which were gradually paid down from the state budget, from the National Property Fund and from the funds of a special bond programme.

The next few years brought no significant change in the previously established trends. Only one standard state guarantee was provided again in 2003, that being on behalf of the state organisation Railway Infrastructure Administration (Správa železniční a dopravní cesty, or RIA) for a loan to modernise the 1st Transit Railway Corridor. Loan payments from the state budget were made especially on behalf of the organisations CR and RIA, which were insolvent at the time. Also paid was the remaining part of the credit of the General University Hospital Prague and the University Hospital in Prague-Motol. As regards non-standard guarantees, the amount of the non-standard state guarantee issued in June 2000 under the agreement providing indemnity to CSOB as a strategic investor in IPB was calculated for the first time. It was estimated that payment of the advances coming from the state budget through CNB on behalf of CSOB could reach up to CZK 160 bn. However, this estimate proved in the coming year to be unrealistic. The credit for financing the investment programmes of the Ministry of Transport's chapter provided in the past by the Consolidation Bank was fully paid. At the beginning of 2003, Czech Railways underwent a transformation and a major part of its obligations was transferred to the state organisation RIA (Act No. 77/2002 Coll.). This organisation's liabilities are guaranteed by the state. In addition to the existing guarantee resulting from the standard state guarantees provided in the past, the state thus became a guarantor for the payment of commercial credits drawn by CR in the past and for which no state guarantee had been issued. Within the system of national accounts, the government deficit is affected especially by forgiving RIA's payables to the state due to its utilised guarantees. The state's receivables from RIA were reduced due to the offset of MD's payables to RIA arising from public railway transportation services against state budget receivables arising from the utilised state guarantees.

**Graph 4-4: Structure of state guarantees utilisations from the state budget (bn CZK)**



Regarding the standard guarantees provided in the following years, the only new standard state guarantees were provided for the borrowings of EUROFIMA (European Company for the Financing of Railroad Rolling Stock) that were drawn by the CD for purchase of rolling stock and drawing of other credit tranches within the limits of the individual credit lines. In 2004, payments from the state budget were made on behalf of the insolvent companies RIA and Aero Vodochody. There was a considerable impact, too, from the conversion of a receivable arising from the payment of liabilities of the state company Zetor Brno upon its privatisation and its reclassification from a receivable for returnable financial assistance to a receivable for the utilised state guarantee. In the same year, the first payment of the liability resulting from the non-standard state guarantee for consolidation and stabilisation of the banks was made on behalf of CNB. This liability was also paid in 2005 and especially in 2006 when the payments were made using proceeds from the bond programme. The receivables from utilised state guarantees were reduced in 2005 due to privatisation of the joint-stock company Aero Vodochody, which included the receivables of the Ministry of Finance. In the same year, the state guarantee for the receivable of CSOB from Slovenská inkasní, s.r.o. was settled. The case was resolved by the arbitration tribunal at ICSID in Washington, D.C. and resulted in an award at the end of 2004 on the basis of which the Slovak Republic paid a considerable part of the obligation to CSOB. The remaining part of the principal amount was paid from the State Guarantee Fund.

**Box 3: The most important non-standard state guarantees**

**Guarantee of CNB for consolidation and stabilisation of the banking sector**

Based on Government Decree No. 51/97 of 25 January 1997, the Minister of Finance issued a guarantee on behalf of the Czech National Bank for its receivables, issued guarantees and assumed assets in connection with the consolidation and stabilisation of the banking sector. The guarantee was provided in the amount of CZK 25 bn, and its utilisation period was for 10 year from its being issued if, in order to cover the net costs of consolidation and stabilisation of the banks,<sup>i</sup> the funds from the creation of provisions and reserves would not be sufficient for CNB.<sup>ii</sup> Utilisation of the guarantee began in 2004 with the payment of CZK 0.5 bn. Another CZK 5 bn was paid in 2005, and the remaining part of the guarantee was settled in 2006. To finance utilisation of the guarantee, part (CZK 14 bn) was used from funds that were received from issuing state bonds<sup>iii</sup> with a 40-year maturity. In

2004, the risk of this non-standard guarantee was reassessed, and the government deficit and debt for 1997 were reviewed in order to reflect that guarantee retrospectively.

### **State guarantees concerning IPB**

In June 2000, on the basis of an Agreement for Sale of the Company, CSOB acquired the assets and liabilities of the former Investment and Postal Bank (Investiční a poštovní banka, IPB). At the same time, the Ministry of Finance (MF) provided CSOB with financial assistance relating to this acquisition. In connection with this transaction, there should be mentioned four main agreements concluded in relation to the IPB sale. These included the aforementioned Agreement for Sale of the Company, which was concluded between the trustee in bankruptcy of IPB and CSOB. The assets and liabilities of IPB were transferred by this agreement to CSOB.

Another agreement concluded in relation to this transaction was the Agreement and State Guarantee, concluded between MF and CSOB, whereby CSOB was guaranteed indemnity for any possible deficit in net assets (the difference between the total assets and liabilities of IPB). In the course of time, this approach proved to be problematic, especially in relation to the so-called off-shore subjects, and MF and CSOB agreed on transferring such assets to the state, represented by the Czech Consolidation Agency (Česká konsolidační agentura, or CCA). In 2001, the Restructuring Plan Agreement was signed, based upon which low-quality assets totalling some CZK 170 bn were transferred to CCA by the end of July 2003. The loss resulting from this transaction was reflected in CCA's financial results.

Moreover, the Agreement and Promise of Indemnity was concluded between CNB and CSOB relating to the indemnity provided by CNB for loss and damage incurred by CSOB due to unexpected expenses and liabilities related to the purchase of IPB. In connection with this step, the government issued a state guarantee undertaking to cover CNB's losses arising from the unrecorded liabilities of IPB. The amount of this contingent liability was determined to be CZK 160 bn with a maximum payment term to 2016. This guarantee significantly influenced the reported amount of the government deficit and debt, into which it was imputed by way of a capital transfer in 2003. Due to this operation, the Czech Republic reported the largest general government deficit in the entire EU. Based on the decision of Eurostat, and especially due to the uncertainty concerning the amount of the imputed guarantee, the guarantee was reclassified and the deficit and debt were reduced retrospectively by the amount of the state guarantee. Therefore, the government deficit is influenced only by the expenditures realised in connection with the individual payments arising from this guarantee.<sup>iv</sup>

Mention should also be made of the Declaration on Compensation for Guarantee, concluded between MF and CSOB, which determined the amount of the settlement to be paid by CSOB for the assets it retained of the former IPB.

### **Guarantee for the Slovak Collection Company on behalf of CSOB**

In 1993, the finance ministries of the Czech and Slovak republics and CSOB concluded a general agreement on the basic principles for Phase II of the transformation of CSOB. On the basis of this agreement, a group of low-quality assets was transferred against consideration from CSOB to the so-called collection units established by the finance ministries of the two states. Both collection units are engaged in collecting difficult claims and are refinanced by CSOB. The state undertook to settle the loss from the activities of each. In accordance with the aforementioned agreement, the Czech ministry compensates for the loss of the Czech Collection Company. By contrast, Slovakia's ministry did not settle the loss of the Slovak Collection Company. That gave rise to another CSOB receivable

due from that company. In 1997, CSOB initiated an arbitration proceeding against the Slovak Republic before the International Centre for Settlement of Investment Disputes in Washington, D.C. In order to eliminate the risk of CSOB's financial destabilisation, the Ministry of Finance and CSOB entered into the "Stabilisation Agreement". **This Agreement contains an obligation of MF to ensure the receivables of CSOB in an amount of 90% of their nominal value as at the maturity date 31 December 2002.** Due to the lengthy arbitration proceedings and based upon the Amendment to the Agreement, the maturity of the obligation amounting to CZK 22 bn was postponed to 31 December 2005 with the option of a three-day postponement (i.e. to 3 January 2006). The amount of CZK 0.57 bn under this guarantee was settled in 2003. At the end of 2004, the arbitration tribunal at ICSID in Washington, D.C. made an award on the basis of which the Slovak Republic paid to CSOB nearly CZK 16.69 bn. The remaining part of the principal amount of CZK 4.9 bn was paid from the State Guarantee Fund at the end of 2005. In accordance with an amendment to the Agreement for Resolving Certain Issues Concerning the Balance Stabilisation of CSOB, concluded in 1998, the accrued interest totalling CZK 148.9 million was settled from the state budget in 2005 by utilising the state guarantee.

*i) These banks were, namely, AB Banka, Banka Bohemia, Bankovní dům Skala, COOP Banka, Ekoagrobanka, Evrobanka, Kreditní a průmyslová banka, Podnikatelská banka, První slezská banka, Realitní banka, Realitbanka and Velkomoravská banka.*

*ii) In addition to the standard reserves and provisions defined by the Reserves Act and the Accounting Act, there are two specific-purpose reserves created in CNB that relate to the activity of the central bank. Their creation and utilisation were always specified for the respective budget year in the CNB budget. Since 1993, a reserve against a receivable due from the Slovak National Bank has been created in the annual amount of 10% of the total receivable and a general reserve to cover extraordinary expenses relating to monetary measures carried out (in an amount determined by the Bank Board). This was based on the principle that the minimum creation of this reserve is limited to 1% of the bank's total assets, provided that its creation will not lead to a loss.*

*Upon issuance of the guarantee, CNB was expected to continue creating the reserve for general banking risk and to strengthen the bank's internal sources so that their amount would become sufficient over ten years in order to cover the loss associated with the aforementioned consolidation and stabilisation of the banking sector, and thus minimising the impacts on the state budget balance.*

*iii) The issue was carried out on the basis of Act No. 547/2005 Coll., on a state bond programme for settling obligations arising from the state guarantee for consolidation and stabilisation of the banking sector and financial impacts from the division of the assets of the Czechoslovak Federative Republic between CR and SR on behalf of CNB.*

*iv) Of the anticipated general amount of CZK 160 bn, there have been made from the state budget so far advance payments of CZK 2 bn in 2003, CZK 0.782 bn in 2004, and CZK 0.026 bn in 2005. In 2006, the amount of CZK 0.522 bn was paid from the state budget. The total amount of the payments is very low compared to the guaranteed framework, and at this time it is expected that the payments will be under CZK 2 bn annually in the coming years.*

**Table 4-1: Overview of payments for state guarantees from the state budget (mn CZK)**

Year	Debtor	Payment from SB		Year	Debtor	Payment from SB		
1993	Zetor (Irak embargo)	732		2002	České dráhy s.o.(corridor I)	1 321		
	Mitas a.s.	46			České dráhy s.o.(corridor II)	1 032		
	Konax (new plant)	22	<b>total</b>		České dráhy s.o.(renovation of railway cars)	100		
	Mesit a.s. Uherské Hradiště (factory building)	22	822		České dráhy, s.o. (pendolino)	88		
1994	Mitas a.s.	33	<b>total</b>		České dráhy, s.o. (investment)	307		
	PBS, a.s. Brno (powerstation in Iránsšahr)	386	418		České dráhy, s.o. (revitalization of railway cars)	100		
1995	Mitas a.s.	174			České dráhy, s.o. (renovation of railway cars)	9		
	Konax (new plant)	74			SEVAC, a.s. (frakcionační centrum krev.der.)	600		
	Mesit a.s. Uherské Hradiště (factory building)	53	<b>total</b>		loans - ČMRZB	2 643	<b>total</b>	
	PBS, a.s. Brno (powerstation in Iránsšahr)	488	789		Matra	523	6 723	
1996	Mitas a.s.	12			2003	Správa žel. dopr. cesty s.o.(corridor I)	1 474	
	PBS, a.s. Brno (powerstation in Iránsšahr)	12				SZDC, s.o.(corridor II)	1 091	
	Aero Vodochody, a.s. (plain L-159)	66	<b>total</b>	SZDC, s.o. (pendolino)		116		
	loans - ČMRZB	2	92	SZDC, s.o. (investment)		374		
1997	Healthcare institutions (claims settlement)	537		SZDC, s.o. (revitalizace vozů)		72		
	Aero Vodochody, a.s. (L-159)	75		SZDC, s.o. (renovation of railway cars R 471)		24		
	Chepos s.r.o. Brno (aluminium works in Jajarm)	1 376	<b>total</b>	FN Motol (loans for insolvency)		413		
	loans - ČMRZB	23	2 011	VFN Praha (loan for insolvency)		805		
1998	Chepos s.r.o. Brno (aluminium works in Jajarm)	2 040		ČNB - guarantee for IPB - ČSOB		2 000		
	České dráhy s.o.(renovation of railway cars)	300		ČSOB, a.s. - guarantee for Slovenskou inkasní		569		
	České dráhy s.o.(corridor I)	262		ČSOB, a.s. - guarantee for IPB		0		
	České dráhy s.o.(corridor II)	18		Liabilities of former CD assumed by SZDC		5 247		
	Česká spořitelna a.s. (payment for AB Bank)	4 063	<b>total</b>	loans - ČMRZB	2 573	<b>total</b>		
	loans - ČMRZB	286	6 969	Matra	892	15 648		
1999	České dráhy s.o.(corridor I)	596		2004	loans - CMZRB	3 050		
	České dráhy s.o.(corridor II)	83			SZDC (corridors I and II, investment of MoT, renovation of Aero Vodochody	4 455		
	České dráhy s.o.(renovation of railway cars)	300	<b>total</b>		ČNB - consolidation and stabilisation of small banks	5 548		
	loans - ČMRZB	858	1 837		ČNB - guarantee for IPB - ČSOB	500		
2000	České dráhy s.o.(corridor I)	1 255			ČSOB, a.s. - guarantee for IPB	782		
	České dráhy s.o.(corridor II)	309			ČSOB, a.s. - guarantee for Slovenskou inkasní	5		
	České dráhy s.o.(renovation of railway cars)	300			ČSOB, a.s. - guarantee for Slovenskou inkasní	576		
	loans - ČMRZB	1 746	<b>total</b>		MATRA	862	<b>total</b>	
	Matra	24	3 634		Liabilities of former CD assumed by SZDC (z.č. 77/202 Sb.)	4 468	15 776	
2001 *	České dráhy s.o.(corridor I)	25			2005	loans - CMZRB	3 116	
	České dráhy s.o.(corridor II)	13				SZDC (corridors I and II, renovation of railway cars etc.)	2 865	
	České dráhy s.o.(renovation of railway cars)	400				Aero Vodochody (insolvency) - guaranteed bonds	4 575	
	České dráhy, s.o. (pendolino)	107		ČNB - consolidation and stabilisation of small banks		5 000		
	České dráhy, s.o. (investment)	43		ČNB - guarantee for IPB - CSOB		26		
	České dráhy, s.o. (revitalizace vozů)	60		CSOB, a.s. - guarantee for Slovenskou inkasní		5 053		
	loans - ČMRZB	2 201	<b>total</b>	MATRA		842	<b>total</b>	
	Matra	90	2 939	Liabilities of former CD assumed by SZDC (z.č. 77/202 Sb.)		394	21 477	
2002	České dráhy s.o.(corridor I)	1 321		2006	loans - ČMRZB	3 042		
	České dráhy s.o.(corridor II)	1 032			SZDC (corridors I and II, renovation of railway cars etc. )	2 716		
	České dráhy s.o.(renovation of railway cars)	100			ČNB - consolidation and stabilisation of small banks	17 000		
	České dráhy, s.o. (pendolino)	88			ČNB - guarantee for IPB - CSOB	522		
	České dráhy, s.o. (investment)	307			MATRA	822	<b>total</b>	
	České dráhy, s.o. (revitalization of railway cars)	100			Liabilities of former CD assumed by SZDC (z.č. 77/202 Sb.)	395	24 103	
	České dráhy, s.o. (renovation of railway cars)	9						
	SEVAC, a.s. (blood deriv ate centre)	600						
	loans - ČMRZB	2 643	<b>total</b>					
	Matra	523	6 723					

\*In year 2001 were state guarantees for railways corridors construction funding (loans) paid from SFDI budget (in the amount of CZK1 665,774 mil.).

## 5 Annex of tables – general government in the ESA 95 methodology

Data for government revenues and expenditures are consolidated at the appropriate level. The consolidation represents the exclusion of mutual flows of interest, and of current and capital transfers within one subsector as well as among the individual subsectors of the general government.

### 5.1 Revenues

**Table 5-1: General government revenue**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total revenue</b>	<i>bn CZK</i>	<b>660.8</b>	<b>713.6</b>	<b>761.7</b>	<b>802.3</b>	<b>833.9</b>	<b>911.4</b>	<b>974.4</b>	<b>1049.4</b>	<b>1187.7</b>	<b>1234.8</b>	<b>1314.7</b>
	<i>prev. year=100</i>	109.8	108.0	106.7	105.3	103.9	109.3	106.9	107.7	113.2	104.0	106.5
Current taxes on income, wealth, etc.	<i>bn CZK</i>	<b>140.5</b>	<b>160.1</b>	<b>165.6</b>	<b>176.1</b>	<b>181.4</b>	<b>206.8</b>	<b>223.8</b>	<b>247.4</b>	<b>269.8</b>	<b>273.4</b>	<b>284.8</b>
	<i>prev. year=100</i>	100.1	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	104.2
Social contributions <sup>1)</sup>	<i>bn CZK</i>	<b>239.8</b>	<b>264.8</b>	<b>281.7</b>	<b>292.7</b>	<b>312.0</b>	<b>335.0</b>	<b>367.4</b>	<b>388.9</b>	<b>452.8</b>	<b>482.1</b>	<b>524.8</b>
	<i>prev. year=100</i>	113.5	110.4	106.4	103.9	106.6	107.4	109.7	105.8	116.4	106.5	108.9
Taxes on production and imports <sup>2)</sup>	<i>bn CZK</i>	<b>203.6</b>	<b>208.8</b>	<b>218.9</b>	<b>240.3</b>	<b>247.9</b>	<b>258.0</b>	<b>266.7</b>	<b>285.4</b>	<b>325.3</b>	<b>342.3</b>	<b>351.4</b>
	<i>prev. year=100</i>	113.3	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.7
Capital taxes <sup>3)</sup>	<i>bn CZK</i>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>
	<i>prev. year=100</i>	118.6	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	126.7
Property income	<i>bn CZK</i>	<b>13.8</b>	<b>15.6</b>	<b>15.7</b>	<b>12.8</b>	<b>18.3</b>	<b>26.2</b>	<b>29.8</b>	<b>24.5</b>	<b>23.2</b>	<b>21.2</b>	<b>25.6</b>
	<i>prev. year=100</i>	87.2	113.0	100.8	81.2	143.4	142.8	113.9	82.3	94.5	91.6	120.5
Interest	<i>bn CZK</i>	<b>11.3</b>	<b>12.3</b>	<b>13.1</b>	<b>9.9</b>	<b>15.0</b>	<b>15.4</b>	<b>22.0</b>	<b>17.2</b>	<b>14.2</b>	<b>12.6</b>	<b>12.8</b>
	<i>prev. year=100</i>	107.1	109.4	106.1	76.1	151.0	102.5	143.1	78.1	82.5	88.5	100.0
Other property income	<i>bn CZK</i>	<b>2.6</b>	<b>3.3</b>	<b>2.7</b>	<b>2.8</b>	<b>3.3</b>	<b>10.8</b>	<b>7.8</b>	<b>7.3</b>	<b>9.0</b>	<b>8.7</b>	<b>13.0</b>
	<i>prev. year=100</i>	47.8	128.9	81.0	106.6	116.7	325.2	72.4	93.9	122.7	96.4	150.2
Sales <sup>4)</sup>	<i>bn CZK</i>	<b>47.1</b>	<b>47.2</b>	<b>58.2</b>	<b>56.4</b>	<b>58.3</b>	<b>63.0</b>	<b>66.4</b>	<b>75.4</b>	<b>77.8</b>	<b>80.6</b>	<b>82.8</b>
	<i>prev. year=100</i>	112.3	100.2	123.2	96.9	103.5	108.0	105.5	113.4	103.3	103.6	102.6
Other current transfers and subsidies	<i>bn CZK</i>	<b>12.7</b>	<b>15.9</b>	<b>19.5</b>	<b>22.1</b>	<b>12.4</b>	<b>15.8</b>	<b>16.5</b>	<b>21.3</b>	<b>28.3</b>	<b>26.0</b>	<b>25.3</b>
	<i>prev. year=100</i>	269.0	124.9	122.6	113.5	56.2	126.8	104.2	129.7	132.5	91.9	97.2
Investment grants	<i>bn CZK</i>	-	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>0.9</b>	<b>2.8</b>	<b>3.1</b>	<b>4.7</b>	<b>14.0</b>
	<i>prev. year=100</i>	X	X	314.3	145.5	225.0	754.2	171.8	301.5	110.1	151.6	298.0
Other capital transfers	<i>bn CZK</i>	<b>2.8</b>	<b>0.7</b>	<b>1.5</b>	<b>1.4</b>	<b>2.9</b>	<b>5.5</b>	<b>2.1</b>	<b>2.8</b>	<b>6.8</b>	<b>3.6</b>	<b>5.2</b>
	<i>prev. year=100</i>	36.7	24.4	227.0	92.5	206.2	186.2	37.8	134.8	243.3	53.8	141.6

<sup>1)</sup> Compulsory and voluntary payments of employers (on behalf of employees), employees, self-employed and non-employed persons to social security funds and insurance enterprises. From 2004 onwards including contributions of so-called state insurees, whose contributions are paid by state.

<sup>2)</sup> Compulsory, unrequited payments, in cash or in kind, which are levied by general government, in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production. (for example VAT, excises etc.)

<sup>3)</sup> Taxes levied at irregular and very infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units as a result of legacies, gifts or other transfers.

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

**Table 5-2: General government revenue – ratios to GDP**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total revenue</b> (in % GDP)	39.3	39.4	38.2	38.6	38.1	38.7	39.5	40.7	42.2	41.3	40.7
Current taxes on income, wealth, etc. (in % GDP)	8.3	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	8.8
Social contributions (in % GDP)	14.2	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.2
Taxes on production and imports (in % GDP)	12.1	11.5	11.0	11.5	11.3	11.0	10.8	11.1	11.6	11.5	10.9
Capital taxes (in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income (in % GDP)	0.8	0.9	0.8	0.6	0.8	1.1	1.2	1.0	0.8	0.7	0.8
Interest (in % GDP)	0.7	0.7	0.7	0.5	0.7	0.7	0.9	0.7	0.5	0.4	0.4
Other property income (in % GDP)	0.2	0.2	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.4
Sales (in % GDP)	2.8	2.6	2.9	2.7	2.7	2.7	2.7	2.9	2.8	2.7	2.6
Other current transfers and subsidies (in % GDP)	0.8	0.9	1.0	1.1	0.6	0.7	0.7	0.8	1.0	0.9	0.8
Investment grants (in % GDP)	-	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4
Other capital transfers (in % GDP)	0.2	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.2

**Table 5-3: General government tax revenue and social contributions**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Taxes and social contributions</b>	<i>bn CZK</i> <b>584.3</b>	<b>634.2</b>	<b>666.7</b>	<b>709.6</b>	<b>741.8</b>	<b>800.5</b>	<b>858.7</b>	<b>922.6</b>	<b>1048.6</b>	<b>1098.6</b>	<b>1162.0</b>
	<i>prev. year=100</i>	109.9	108.5	105.1	106.4	104.6	107.9	107.3	107.4	113.7	104.8
<b>Current taxes on income, wealth, etc.</b>	<i>bn CZK</i> <b>140.5</b>	<b>160.1</b>	<b>165.6</b>	<b>176.1</b>	<b>181.4</b>	<b>206.8</b>	<b>223.8</b>	<b>247.4</b>	<b>269.8</b>	<b>273.4</b>	<b>284.8</b>
	<i>prev. year=100</i>	100.1	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3
Tax on individual or household income incl. holding gains	<i>bn CZK</i> <b>80.2</b>	<b>87.4</b>	<b>94.0</b>	<b>93.0</b>	<b>99.7</b>	<b>106.2</b>	<b>114.9</b>	<b>125.5</b>	<b>135.0</b>	<b>136.4</b>	<b>136.6</b>
	<i>prev. year=100</i>	114.0	108.9	107.6	98.9	107.2	106.5	108.2	109.3	107.6	101.0
Taxes on the income or profits of corporations incl. holding gains	<i>bn CZK</i> <b>56.5</b>	<b>69.4</b>	<b>67.5</b>	<b>79.5</b>	<b>76.2</b>	<b>96.3</b>	<b>105.7</b>	<b>117.8</b>	<b>131.7</b>	<b>133.5</b>	<b>144.4</b>
	<i>prev. year=100</i>	84.0	122.7	97.3	117.8	95.9	126.4	109.8	111.4	111.9	101.3
Levy on lottery revenue	<i>bn CZK</i>	-	-	-	-	-	-	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>
	<i>prev. year=100</i>	X	X	X	X	X	X	X	117.4	112.5	110.3
Other current taxes	<i>bn CZK</i> <b>3.8</b>	<b>3.4</b>	<b>4.2</b>	<b>3.6</b>	<b>5.6</b>	<b>4.3</b>	<b>3.2</b>	<b>3.6</b>	<b>2.5</b>	<b>2.9</b>	<b>3.1</b>
	<i>prev. year=100</i>	141.6	91.0	122.2	87.0	153.6	77.6	74.0	112.8	69.1	117.4
<b>Social contributions</b>	<i>bn CZK</i> <b>239.8</b>	<b>264.8</b>	<b>281.7</b>	<b>292.7</b>	<b>312.0</b>	<b>335.0</b>	<b>367.4</b>	<b>388.9</b>	<b>452.8</b>	<b>482.1</b>	<b>524.8</b>
	<i>prev. year=100</i>	113.5	110.4	106.4	103.9	106.6	107.4	109.7	105.8	116.4	106.5
Actual social contributions	<i>bn CZK</i> <b>239.7</b>	<b>264.7</b>	<b>281.5</b>	<b>292.5</b>	<b>311.5</b>	<b>334.8</b>	<b>367.2</b>	<b>388.6</b>	<b>452.4</b>	<b>481.7</b>	<b>524.4</b>
	<i>prev. year=100</i>	113.6	110.4	106.4	103.9	106.5	107.5	109.7	105.8	116.4	106.5
Employers' actual social contributions	<i>bn CZK</i> <b>167.6</b>	<b>185.0</b>	<b>197.0</b>	<b>204.6</b>	<b>216.9</b>	<b>233.2</b>	<b>255.9</b>	<b>270.7</b>	<b>289.8</b>	<b>308.7</b>	<b>332.4</b>
	<i>prev. year=100</i>	115.6	110.4	106.5	103.8	106.0	107.5	109.7	105.8	107.0	106.5
Employees' social contributions	<i>bn CZK</i> <b>59.9</b>	<b>65.9</b>	<b>70.2</b>	<b>73.0</b>	<b>77.3</b>	<b>82.7</b>	<b>89.6</b>	<b>94.9</b>	<b>101.3</b>	<b>108.3</b>	<b>116.6</b>
	<i>prev. year=100</i>	109.9	110.0	106.4	104.0	105.9	107.0	108.4	105.9	106.8	106.9
Social contributions by self- and non-employed persons	<i>bn CZK</i> <b>12.2</b>	<b>13.7</b>	<b>14.3</b>	<b>14.9</b>	<b>17.3</b>	<b>18.9</b>	<b>21.7</b>	<b>23.0</b>	<b>61.3</b>	<b>64.8</b>	<b>75.4</b>
	<i>prev. year=100</i>	105.1	112.5	104.4	104.3	115.9	109.1	114.9	106.1	266.0	105.6
Imputed social contributions	<i>bn CZK</i> <b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
	<i>prev. year=100</i>	69.9	95.3	197.6	124.7	209.4	57.9	102.4	117.5	136.6	98.5
<b>Taxes on production and imports</b>	<i>bn CZK</i> <b>203.6</b>	<b>208.8</b>	<b>218.9</b>	<b>240.3</b>	<b>247.9</b>	<b>258.0</b>	<b>266.7</b>	<b>285.4</b>	<b>325.3</b>	<b>342.3</b>	<b>351.4</b>
	<i>prev. year=100</i>	113.3	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2
Taxes on products <sup>1)</sup>	<i>bn CZK</i> <b>190.4</b>	<b>197.0</b>	<b>206.8</b>	<b>227.0</b>	<b>234.2</b>	<b>244.9</b>	<b>253.6</b>	<b>271.7</b>	<b>313.1</b>	<b>330.4</b>	<b>339.0</b>
	<i>prev. year=100</i>	114.0	103.5	105.0	109.8	103.1	104.6	103.5	107.2	115.2	105.5
VAT	<i>bn CZK</i> <b>107.6</b>	<b>114.5</b>	<b>121.1</b>	<b>136.5</b>	<b>141.3</b>	<b>149.3</b>	<b>155.1</b>	<b>164.3</b>	<b>202.1</b>	<b>210.6</b>	<b>208.8</b>
	<i>prev. year=100</i>	117.3	106.4	105.8	112.8	103.5	105.6	103.9	105.9	123.0	99.2
Excises	<i>bn CZK</i> <b>58.0</b>	<b>60.9</b>	<b>64.4</b>	<b>71.4</b>	<b>71.4</b>	<b>76.8</b>	<b>79.5</b>	<b>87.5</b>	<b>99.2</b>	<b>110.5</b>	<b>119.9</b>
	<i>prev. year=100</i>	108.0	104.9	105.7	110.9	100.0	107.6	103.6	110.0	113.4	108.5
Other taxes on products <sup>2)</sup>	<i>bn CZK</i> <b>24.8</b>	<b>21.6</b>	<b>21.3</b>	<b>19.2</b>	<b>21.5</b>	<b>18.9</b>	<b>18.9</b>	<b>20.0</b>	<b>11.8</b>	<b>9.2</b>	<b>10.3</b>
	<i>prev. year=100</i>	114.9	87.2	98.8	89.8	111.9	88.0	100.2	105.8	59.1	78.2
Other taxes on production <sup>3)</sup>	<i>bn CZK</i> <b>13.2</b>	<b>11.8</b>	<b>12.1</b>	<b>13.2</b>	<b>13.7</b>	<b>13.1</b>	<b>13.1</b>	<b>13.7</b>	<b>12.3</b>	<b>12.0</b>	<b>12.4</b>
	<i>prev. year=100</i>	103.6	89.2	102.7	109.1	103.8	95.1	100.6	104.2	89.6	97.7
<b>Capital taxes</b>	<i>bn CZK</i> <b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>
	<i>prev. year=100</i>	118.6	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5

<sup>1)</sup> Taxes that are payable per unit of some good or service produced or transacted.

<sup>2)</sup> This item contains, for example, customs duty, taxes from financial and capital transactions, payments from entertainment, lottery taxes and other.

<sup>3)</sup> All taxes that enterprises incur as a result of engaging in production, independent of the quantity or value of the goods and services produced or sold. (real estate tax, road tax, etc.)

**Table 5-4: General government tax revenue and social contributions – ratios to GDP**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Taxes and social contributions</b>	<i>in % GDP</i>	<b>34.7</b>	<b>35.0</b>	<b>33.4</b>	<b>34.1</b>	<b>33.9</b>	<b>34.0</b>	<b>34.8</b>	<b>35.8</b>	<b>37.3</b>	<b>36.8</b>	<b>36.0</b>
<b>Current taxes on income, wealth, etc.</b>	<i>in % GDP</i>	8.3	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	8.8
Tax on individual or household income incl. holding gains	<i>in % GDP</i>	4.8	4.8	4.7	4.5	4.6	4.5	4.7	4.9	4.8	4.6	4.2
Taxes on the income or profits of corporations incl. holding gains	<i>in % GDP</i>	3.4	3.8	3.4	3.8	3.5	4.1	4.3	4.6	4.7	4.5	4.5
Levy on lottery revenue	<i>in % GDP</i>	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0
Other current taxes	<i>in % GDP</i>	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1
<b>Social contributions</b>	<i>in % GDP</i>	<b>14.2</b>	<b>14.6</b>	<b>14.1</b>	<b>14.1</b>	<b>14.2</b>	<b>14.2</b>	<b>14.9</b>	<b>15.1</b>	<b>16.1</b>	<b>16.1</b>	<b>16.2</b>
Actual social contributions	<i>in % GDP</i>	14.2	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.2
Employers' actual social contributions	<i>in % GDP</i>	10.0	10.2	9.9	9.8	9.9	9.9	10.4	10.5	10.3	10.3	10.3
Employees' social contributions	<i>in % GDP</i>	3.6	3.6	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6
Social contributions by self- and non-employed persons	<i>in % GDP</i>	0.7	0.8	0.7	0.7	0.8	0.8	0.9	0.9	2.2	2.2	2.3
Imputed social contributions	<i>in % GDP</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Taxes on production and imports</b>	<i>in % GDP</i>	<b>12.1</b>	<b>11.5</b>	<b>11.0</b>	<b>11.5</b>	<b>11.3</b>	<b>11.0</b>	<b>10.8</b>	<b>11.1</b>	<b>11.6</b>	<b>11.5</b>	<b>10.9</b>
Taxes on products	<i>in % GDP</i>	11.3	10.9	10.4	10.9	10.7	10.4	10.3	10.5	11.1	11.1	10.5
VAT	<i>in % GDP</i>	6.4	6.3	6.1	6.6	6.5	6.3	6.3	6.4	7.2	7.0	6.5
Excise taxes	<i>in % GDP</i>	3.4	3.4	3.2	3.4	3.3	3.3	3.2	3.4	3.5	3.7	3.7
Other taxes on products	<i>in % GDP</i>	1.5	1.2	1.1	0.9	1.0	0.8	0.8	0.8	0.4	0.3	0.3
Other taxes on production	<i>in % GDP</i>	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4
<b>Capital taxes</b>	<i>in % GDP</i>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Table 5-5: Central government revenue**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total revenue</b>	<i>bn CZK</i>	<b>486.3</b>	<b>519.5</b>	<b>547.2</b>	<b>581.7</b>	<b>605.3</b>	<b>675.1</b>	<b>702.2</b>	<b>750.0</b>	<b>832.3</b>	<b>841.7</b>	<b>891.3</b>
	<i>prev. year=100</i>	108.6	106.8	105.3	106.3	104.1	111.5	104.0	106.8	111.0	101.1	105.9
Current taxes on income, wealth, etc.	<i>bn CZK</i>	<b>77.1</b>	<b>88.6</b>	<b>91.3</b>	<b>93.8</b>	<b>98.5</b>	<b>154.1</b>	<b>160.1</b>	<b>176.9</b>	<b>193.2</b>	<b>181.7</b>	<b>189.8</b>
	<i>prev. year=100</i>	95.6	115.0	103.0	102.8	105.0	156.4	103.9	110.5	109.2	94.1	104.4
Social contributions	<i>bn CZK</i>	<b>170.7</b>	<b>189.3</b>	<b>201.5</b>	<b>208.9</b>	<b>221.8</b>	<b>241.1</b>	<b>262.9</b>	<b>277.2</b>	<b>300.1</b>	<b>318.7</b>	<b>342.7</b>
	<i>prev. year=100</i>	112.9	110.9	106.4	103.7	106.2	108.7	109.0	105.5	108.3	106.2	107.5
Taxes on production and imports	<i>bn CZK</i>	<b>198.7</b>	<b>203.7</b>	<b>213.5</b>	<b>234.9</b>	<b>242.0</b>	<b>221.5</b>	<b>224.2</b>	<b>240.3</b>	<b>270.4</b>	<b>272.3</b>	<b>281.6</b>
	<i>prev. year=100</i>	113.5	102.5	104.8	110.0	103.0	91.5	101.2	107.2	112.5	100.7	103.4
Capital taxes	<i>bn CZK</i>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>
	<i>prev. year=100</i>	118.6	123.0	96.3	96.9	109.7	117.0	108.9	115.0	71.3	118.8	127.7
Property income	<i>bn CZK</i>	<b>10.7</b>	<b>11.7</b>	<b>10.7</b>	<b>7.9</b>	<b>13.5</b>	<b>22.0</b>	<b>22.6</b>	<b>17.4</b>	<b>15.0</b>	<b>14.5</b>	<b>18.4</b>
	<i>prev. year=100</i>	78.2	108.8	92.1	73.2	171.3	163.0	102.9	77.2	86.1	96.4	126.8
Sales	<i>bn CZK</i>	<b>17.4</b>	<b>14.6</b>	<b>14.6</b>	<b>17.6</b>	<b>18.1</b>	<b>21.2</b>	<b>22.2</b>	<b>25.7</b>	<b>27.6</b>	<b>29.5</b>	<b>30.6</b>
	<i>prev. year=100</i>	111.2	83.9	99.5	121.1	102.8	117.2	104.6	115.5	107.5	107.1	103.5
Other revenue	<i>bn CZK</i>	<b>11.3</b>	<b>11.0</b>	<b>15.1</b>	<b>18.1</b>	<b>10.9</b>	<b>14.6</b>	<b>9.5</b>	<b>11.6</b>	<b>25.4</b>	<b>24.2</b>	<b>27.4</b>
	<i>prev. year=100</i>	101.3	97.4	137.3	120.2	60.1	134.2	65.2	122.0	218.9	95.4	112.9



**Table 5-6: Local government revenue**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
<b>Total revenue</b>	<i>bn CZK</i>	<b>245.0</b>	<b>166.1</b>	<b>203.0</b>	<b>192.1</b>	<b>200.1</b>	<b>228.3</b>	<b>260.0</b>	<b>328.7</b>	<b>349.3</b>	<b>351.1</b>	<b>372.1</b>
	<i>prev. year=100</i>	145.8	67.8	122.2	94.6	104.2	114.1	113.9	126.4	106.3	100.5	106.0
Current taxes on income, wealth, etc.	<i>bn CZK</i>	<b>63.4</b>	<b>71.5</b>	<b>74.4</b>	<b>82.2</b>	<b>82.9</b>	<b>52.7</b>	<b>63.8</b>	<b>70.5</b>	<b>76.6</b>	<b>91.7</b>	<b>95.0</b>
	<i>prev. year=100</i>	106.3	112.8	104.0	110.6	100.9	63.5	121.1	110.5	108.8	119.6	103.6
Social contributions	<i>bn CZK</i>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
	<i>prev. year=100</i>	95.8	73.9	197.1	100.0	62.7	190.5	60.0	104.2	120.0	121.7	105.5
Taxes on production and imports	<i>bn CZK</i>	<b>4.9</b>	<b>5.0</b>	<b>5.3</b>	<b>5.3</b>	<b>5.9</b>	<b>36.5</b>	<b>42.5</b>	<b>45.1</b>	<b>55.0</b>	<b>70.0</b>	<b>69.8</b>
	<i>prev. year=100</i>	105.6	102.5	105.9	100.0	110.1	620.0	116.3	106.2	121.8	127.4	99.6
Capital taxes	<i>bn CZK</i>	-	-	<b>0.0</b>	-	-	-	-	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
	<i>prev. year=100</i>	X	X	X	0.0	X	X	X	X	180.0	100.0	44.4
Property income	<i>bn CZK</i>	<b>2.8</b>	<b>3.6</b>	<b>4.5</b>	<b>4.7</b>	<b>4.5</b>	<b>3.7</b>	<b>6.9</b>	<b>6.8</b>	<b>8.0</b>	<b>6.5</b>	<b>7.0</b>
	<i>prev. year=100</i>	148.5	126.7	125.9	102.8	95.9	82.0	187.2	99.7	116.6	82.2	107.1
Sales	<i>bn CZK</i>	<b>29.6</b>	<b>32.4</b>	<b>43.5</b>	<b>38.7</b>	<b>40.1</b>	<b>41.3</b>	<b>44.1</b>	<b>49.6</b>	<b>50.1</b>	<b>50.9</b>	<b>52.0</b>
	<i>prev. year=100</i>	113.7	109.5	134.0	88.9	103.8	103.0	106.6	112.5	101.0	101.7	102.2
Other revenue	<i>bn CZK</i>	<b>144.2</b>	<b>53.5</b>	<b>75.2</b>	<b>61.1</b>	<b>66.7</b>	<b>94.0</b>	<b>102.8</b>	<b>156.6</b>	<b>159.6</b>	<b>131.9</b>	<b>148.2</b>
	<i>prev. year=100</i>	190.5	37.1	140.7	81.2	109.1	141.0	109.4	152.3	101.9	82.6	112.4

**Table 5-7: Social security funds revenue**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
<b>Total revenue</b>	<i>bn CZK</i>	<b>85.8</b>	<b>95.1</b>	<b>104.9</b>	<b>112.5</b>	<b>119.4</b>	<b>127.4</b>	<b>138.4</b>	<b>149.1</b>	<b>159.1</b>	<b>169.6</b>	<b>184.8</b>
	<i>prev. year=100</i>	116.3	110.8	110.3	107.3	106.1	106.7	108.6	107.8	106.7	106.6	109.0
Current taxes on income, wealth, etc.	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Social contributions	<i>bn CZK</i>	<b>69.0</b>	<b>75.4</b>	<b>80.1</b>	<b>83.8</b>	<b>90.1</b>	<b>93.9</b>	<b>104.5</b>	<b>111.7</b>	<b>152.6</b>	<b>163.4</b>	<b>182.1</b>
	<i>prev. year=100</i>	115.1	109.2	106.3	104.5	107.6	104.2	111.3	106.8	136.7	107.1	111.4
Taxes on production and imports	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Capital taxes	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Property income	<i>bn CZK</i>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
	<i>prev. year=100</i>	113.2	135.8	147.8	54.9	147.9	128.2	74.9	73.7	95.1	106.5	94.5
Sales	<i>bn CZK</i>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
	<i>prev. year=100</i>	20.1	245.2	108.7	58.9	100.0	609.1	34.8	75.7	145.3	110.4	91.2
Other revenue	<i>bn CZK</i>	<b>16.5</b>	<b>19.2</b>	<b>24.1</b>	<b>28.4</b>	<b>28.7</b>	<b>32.5</b>	<b>33.3</b>	<b>37.1</b>	<b>6.0</b>	<b>5.7</b>	<b>2.3</b>
	<i>prev. year=100</i>	123.6	116.7	125.4	117.9	101.2	113.2	102.3	111.3	16.2	95.8	40.1

## 5.2 Expenditures

**Table 5-8: General government expenditure**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<i>bn CZK</i>	<b>716.6</b>	<b>782.5</b>	<b>861.7</b>	<b>879.6</b>	<b>915.4</b>	<b>1046.5</b>	<b>1141.2</b>	<b>1219.5</b>	<b>1270.5</b>	<b>1340.3</b>	<b>1409.2</b>
	<i>prev. year=100</i>	89.7	109.2	110.1	102.1	104.1	114.3	109.1	106.9	104.2	105.5	105.1
Final consumption expenditure	<i>bn CZK</i>	<b>340.4</b>	<b>379.3</b>	<b>399.7</b>	<b>440.6</b>	<b>460.9</b>	<b>496.7</b>	<b>549.5</b>	<b>603.2</b>	<b>621.6</b>	<b>658.2</b>	<b>685.4</b>
	<i>prev. year=100</i>	111.1	111.4	105.4	110.2	104.6	107.8	110.6	109.8	103.1	105.9	104.1
Collective consumption <sup>1)</sup>	<i>bn CZK</i>	<b>157.0</b>	<b>181.4</b>	<b>187.4</b>	<b>217.3</b>	<b>232.1</b>	<b>241.7</b>	<b>271.2</b>	<b>305.6</b>	<b>296.5</b>	<b>330.6</b>	<b>343.4</b>
	<i>prev. year=100</i>	107.2	115.5	103.3	116.0	106.8	104.2	112.2	112.7	97.0	111.5	103.9
Individual consumption	<i>bn CZK</i>	<b>183.4</b>	<b>198.0</b>	<b>212.3</b>	<b>223.3</b>	<b>228.9</b>	<b>254.9</b>	<b>278.3</b>	<b>297.6</b>	<b>325.1</b>	<b>327.6</b>	<b>341.9</b>
	<i>prev. year=100</i>	114.7	107.9	107.3	105.2	102.5	111.4	109.2	106.9	109.2	100.8	104.4
Social transfers in kind <sup>2)</sup>	<i>bn CZK</i>	<b>88.4</b>	<b>95.2</b>	<b>104.8</b>	<b>111.1</b>	<b>115.4</b>	<b>127.5</b>	<b>142.1</b>	<b>150.2</b>	<b>160.7</b>	<b>167.4</b>	<b>171.2</b>
	<i>prev. year=100</i>	118.0	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3
Transfers of individual non-market goods or services <sup>3)</sup>	<i>bn CZK</i>	<b>95.1</b>	<b>102.8</b>	<b>107.6</b>	<b>112.2</b>	<b>113.5</b>	<b>127.5</b>	<b>136.2</b>	<b>147.3</b>	<b>164.3</b>	<b>160.2</b>	<b>170.7</b>
	<i>prev. year=100</i>	111.8	108.1	104.7	104.3	101.1	112.3	106.9	108.2	111.5	97.5	106.5
Social benefits other than social transfers in kind <sup>4)</sup>	<i>bn CZK</i>	<b>183.3</b>	<b>208.1</b>	<b>225.6</b>	<b>243.8</b>	<b>263.9</b>	<b>280.5</b>	<b>305.1</b>	<b>315.6</b>	<b>361.9</b>	<b>376.4</b>	<b>407.4</b>
	<i>prev. year=100</i>	116.3	113.5	108.4	108.0	108.3	106.3	108.8	103.4	114.7	104.0	108.2
Interest	<i>bn CZK</i>	<b>20.4</b>	<b>20.3</b>	<b>23.2</b>	<b>21.2</b>	<b>18.4</b>	<b>23.8</b>	<b>30.5</b>	<b>29.3</b>	<b>32.6</b>	<b>34.4</b>	<b>35.5</b>
	<i>prev. year=100</i>	134.4	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3
Subsidies	<i>bn CZK</i>	<b>40.6</b>	<b>49.3</b>	<b>57.9</b>	<b>61.1</b>	<b>61.0</b>	<b>65.4</b>	<b>56.6</b>	<b>68.2</b>	<b>59.0</b>	<b>55.2</b>	<b>62.0</b>
	<i>prev. year=100</i>	96.7	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	93.6	112.2
Gross fixed capital formation	<i>bn CZK</i>	<b>76.7</b>	<b>77.3</b>	<b>83.8</b>	<b>67.7</b>	<b>79.1</b>	<b>83.4</b>	<b>95.2</b>	<b>117.2</b>	<b>136.4</b>	<b>146.5</b>	<b>161.5</b>
	<i>prev. year=100</i>	99.5	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2
Other expenditures	<i>bn CZK</i>	<b>55.3</b>	<b>48.2</b>	<b>71.6</b>	<b>45.2</b>	<b>32.1</b>	<b>96.7</b>	<b>104.3</b>	<b>86.0</b>	<b>59.0</b>	<b>69.6</b>	<b>57.5</b>
	<i>prev. year=100</i>	27.6	87.2	148.5	63.2	71.0	301.0	107.8	82.4	68.6	117.9	82.6

<sup>1)</sup> Value of all services provided to all members of society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development.

<sup>2)</sup> Social benefits in kind are social transfers in kind intended to relieve households of financial burden of social risks or needs, i.e. payments from insurance enterprises to health care institutions for services provided to households.

<sup>3)</sup> Goods or services provided to individual households free or at prices which are not economically significant by non-market producers (education, health service, housing, culture, sport, etc.).

<sup>4)</sup> From 2004 onwards including transfers (social contributions) paid by state for so-called state social insurees.

**Table 5-9: General government expenditure – ratios to GDP**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<i>(in % GDP)</i>	42.6	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	44.9	43.6
Final consumption expenditure	<i>(in % GDP)</i>	20.2	20.9	20.0	21.2	21.1	21.1	22.3	23.4	22.1	22.0	21.2
Collective consumption	<i>(in % GDP)</i>	9.3	10.0	9.4	10.4	10.6	10.3	11.0	11.9	10.5	11.1	10.6
Individual consumption	<i>(in % GDP)</i>	10.9	10.9	10.6	10.7	10.5	10.8	11.3	11.5	11.5	11.0	10.6
Social transfers in kind	<i>(in % GDP)</i>	5.2	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3
Transfers of individual non-market goods or services	<i>(in % GDP)</i>	5.6	5.7	5.4	5.4	5.2	5.4	5.5	5.7	5.8	5.4	5.3
Social benefits other than social transfers in kind	<i>(in % GDP)</i>	10.9	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6
Interest	<i>(in % GDP)</i>	1.2	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1
Subsidies	<i>(in % GDP)</i>	2.4	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9
Gross fixed capital formation	<i>(in % GDP)</i>	4.6	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0
Other expenditures	<i>(in % GDP)</i>	3.3	2.7	3.6	2.2	1.5	4.1	4.2	3.3	2.1	2.3	1.8

**Table 5-10: General government expenditure**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<i>bn CZK</i>	<b>716.6</b>	<b>782.5</b>	<b>861.7</b>	<b>879.6</b>	<b>915.4</b>	<b>1046.5</b>	<b>1141.2</b>	<b>1219.5</b>	<b>1270.5</b>	<b>1340.3</b>	<b>1409.2</b>
	<i>prev.year=100</i>	89.7	109.2	110.1	102.1	104.1	114.3	109.1	106.9	104.2	105.5	105.1
Compensation of employees	<i>bn CZK</i>	<b>126.7</b>	<b>133.9</b>	<b>135.0</b>	<b>151.4</b>	<b>154.7</b>	<b>172.9</b>	<b>191.6</b>	<b>214.2</b>	<b>222.1</b>	<b>236.7</b>	<b>251.0</b>
	<i>prev.year=100</i>	117.6	105.6	100.9	112.1	102.2	111.8	110.8	111.8	103.7	106.6	106.0
Intermediate consumption	<i>bn CZK</i>	<b>95.8</b>	<b>113.1</b>	<b>115.1</b>	<b>132.7</b>	<b>144.0</b>	<b>152.9</b>	<b>173.6</b>	<b>196.0</b>	<b>193.5</b>	<b>208.2</b>	<b>214.4</b>
	<i>prev.year=100</i>	98.9	118.1	101.8	115.3	108.5	106.2	113.5	112.9	98.7	107.6	103.0
Social benefits other than social transfers in kind <sup>1)</sup>	<i>bn CZK</i>	<b>183.3</b>	<b>208.1</b>	<b>225.6</b>	<b>243.8</b>	<b>263.9</b>	<b>280.5</b>	<b>305.1</b>	<b>315.6</b>	<b>361.9</b>	<b>376.4</b>	<b>407.4</b>
	<i>prev.year=100</i>	116.3	113.5	108.4	108.0	108.3	106.3	108.8	103.4	114.7	104.0	108.2
Social benefits in kind	<i>bn CZK</i>	<b>88.4</b>	<b>95.2</b>	<b>104.8</b>	<b>111.1</b>	<b>115.4</b>	<b>127.5</b>	<b>142.1</b>	<b>150.2</b>	<b>160.7</b>	<b>167.4</b>	<b>171.2</b>
	<i>prev.year=100</i>	118.0	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3
Property income	<i>bn CZK</i>	<b>20.4</b>	<b>20.3</b>	<b>23.2</b>	<b>21.2</b>	<b>18.4</b>	<b>23.9</b>	<b>30.6</b>	<b>29.3</b>	<b>32.6</b>	<b>34.4</b>	<b>35.6</b>
	<i>prev.year=100</i>	134.4	99.8	114.1	91.6	86.8	129.3	128.2	95.9	111.2	105.6	103.3
Interest	<i>bn CZK</i>	<b>20.4</b>	<b>20.3</b>	<b>23.2</b>	<b>21.2</b>	<b>18.4</b>	<b>23.8</b>	<b>30.5</b>	<b>29.3</b>	<b>32.6</b>	<b>34.4</b>	<b>35.5</b>
	<i>prev.year=100</i>	134.4	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3
Other property income	<i>bn CZK</i>	-	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
	<i>prev.year=100</i>	X	X	183.3	118.2	200.0	80.8	150.0	74.6	112.8	96.2	137.3
Subsidies	<i>bn CZK</i>	<b>40.6</b>	<b>49.3</b>	<b>57.9</b>	<b>61.1</b>	<b>61.0</b>	<b>65.4</b>	<b>56.6</b>	<b>68.2</b>	<b>59.0</b>	<b>55.2</b>	<b>62.0</b>
	<i>prev.year=100</i>	96.7	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	93.6	112.2
Gross fixed capital formation	<i>bn CZK</i>	<b>76.7</b>	<b>77.3</b>	<b>83.8</b>	<b>67.7</b>	<b>79.1</b>	<b>83.4</b>	<b>95.2</b>	<b>117.2</b>	<b>136.4</b>	<b>146.5</b>	<b>161.5</b>
	<i>prev.year=100</i>	99.5	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2
Capital transfers <sup>2)</sup>	<i>bn CZK</i>	<b>50.1</b>	<b>72.4</b>	<b>92.8</b>	<b>77.7</b>	<b>57.6</b>	<b>127.5</b>	<b>120.2</b>	<b>98.4</b>	<b>72.4</b>	<b>72.5</b>	<b>59.3</b>
	<i>prev.year=100</i>	23.2	144.6	128.2	83.7	74.2	221.3	94.3	81.8	73.7	100.0	81.8
Investment grants <sup>3)</sup>	<i>bn CZK</i>	<b>18.9</b>	<b>18.7</b>	<b>19.1</b>	<b>22.4</b>	<b>25.9</b>	<b>27.5</b>	<b>36.9</b>	<b>35.2</b>	<b>35.2</b>	<b>33.9</b>	<b>36.8</b>
	<i>prev.year=100</i>	76.2	98.7	102.1	117.8	115.6	105.8	134.5	95.2	100.1	96.3	108.5
Other capital transfers	<i>bn CZK</i>	<b>31.2</b>	<b>53.8</b>	<b>73.8</b>	<b>55.2</b>	<b>31.7</b>	<b>100.0</b>	<b>83.3</b>	<b>63.2</b>	<b>37.2</b>	<b>38.6</b>	<b>22.5</b>
	<i>prev.year=100</i>	16.3	172.5	137.3	74.8	57.4	315.8	83.2	75.9	58.9	103.6	58.3
Other expenditure	<i>bn CZK</i>	<b>34.8</b>	<b>13.0</b>	<b>23.5</b>	<b>13.0</b>	<b>21.3</b>	<b>12.5</b>	<b>26.3</b>	<b>30.3</b>	<b>31.8</b>	<b>42.9</b>	<b>46.9</b>
	<i>prev.year=100</i>	301.1	37.3	181.5	55.1	164.3	58.9	209.5	115.4	104.8	135.2	109.1

<sup>1)</sup> Transfers to households, in cash or in kind, intended to relieve them of financial burdens from a number of risks or needs (for example, sickness, disability, old age, unemployment, family, etc.).

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

<sup>3)</sup> Capital transfers in cash or in kind made by governments to other institutional units to finance all or part of the costs of their acquiring fixed assets.

**Table 5-11: General government expenditure – ratios to GDP**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b> <i>(in % GDP)</i>	42.6	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	44.9	43.6
Compensation of employees <i>(in % GDP)</i>	7.5	7.4	6.8	7.3	7.1	7.4	7.8	8.3	7.9	7.9	7.8
Intermediate consumption <i>(in % GDP)</i>	5.7	6.2	5.8	6.4	6.6	6.5	7.0	7.6	6.9	7.0	6.6
Social benefits other than social transfers in kind <i>(in % GDP)</i>	10.9	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6
Social benefits in kind <i>(in % GDP)</i>	5.2	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3
Property income <i>(in % GDP)</i>	1.2	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1
Interest <i>(in % GDP)</i>	1.2	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1
Other property income <i>(in % GDP)</i>	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies <i>(in % GDP)</i>	2.4	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9
Gross fixed capital formation <i>(in % GDP)</i>	4.6	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0
Capital transfers <i>(in % GDP)</i>	3.0	4.0	4.7	3.7	2.6	5.4	4.9	3.8	2.6	2.4	1.8
Investment grants <i>(in % GDP)</i>	1.1	1.0	1.0	1.1	1.2	1.2	1.5	1.4	1.3	1.1	1.1
Other capital transfers <i>(in % GDP)</i>	1.9	3.0	3.7	2.7	1.4	4.3	3.4	2.5	1.3	1.3	0.7
Other expenditure <i>(in % GDP)</i>	2.1	0.7	1.2	0.6	1.0	0.5	1.1	1.2	1.1	1.4	1.5

**Table 5-12: Central government expenditure**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<b>577.9</b>	<b>574.7</b>	<b>652.9</b>	<b>660.5</b>	<b>681.5</b>	<b>799.8</b>	<b>853.1</b>	<b>904.3</b>	<b>907.7</b>	<b>945.4</b>	<b>983.0</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	86.1	99.4	113.6	101.2	103.2	117.4	106.7	106.0	100.4	104.2	104.0
Compensation of employees	<b>92.3</b>	<b>95.4</b>	<b>94.8</b>	<b>106.0</b>	<b>107.2</b>	<b>106.4</b>	<b>117.0</b>	<b>108.8</b>	<b>110.8</b>	<b>120.6</b>	<b>127.8</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	114.0	103.4	99.4	111.8	101.1	99.3	109.9	93.0	101.9	108.8	106.0
Intermediate consumption	<b>45.9</b>	<b>58.1</b>	<b>53.9</b>	<b>65.3</b>	<b>74.8</b>	<b>74.2</b>	<b>86.7</b>	<b>96.9</b>	<b>93.5</b>	<b>105.3</b>	<b>102.2</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	88.6	126.7	92.7	121.3	114.4	99.3	116.8	111.8	96.5	112.6	97.1
Social benefits other than social transfers in kind	<b>153.4</b>	<b>204.3</b>	<b>220.5</b>	<b>236.2</b>	<b>254.6</b>	<b>271.5</b>	<b>294.9</b>	<b>303.8</b>	<b>350.0</b>	<b>364.7</b>	<b>395.5</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	100.4	133.2	107.9	107.1	107.8	106.6	108.6	103.0	115.2	104.2	108.4
Social benefits in kind	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>	<b>3.1</b>	<b>3.3</b>	<b>2.2</b>	<b>1.9</b>	<b>0.9</b>	<b>0.9</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	793.8	108.8	116.4	110.0	105.3	164.8	107.1	67.2	84.0	50.5	92.4
Interest	<b>18.4</b>	<b>18.6</b>	<b>20.4</b>	<b>18.6</b>	<b>16.7</b>	<b>21.9</b>	<b>28.5</b>	<b>26.9</b>	<b>29.6</b>	<b>32.3</b>	<b>33.2</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	131.1	100.9	110.0	90.9	89.7	131.3	130.5	94.4	109.9	109.0	102.9
Subsidies	<b>33.4</b>	<b>36.6</b>	<b>44.0</b>	<b>45.6</b>	<b>43.7</b>	<b>48.8</b>	<b>38.3</b>	<b>38.9</b>	<b>32.7</b>	<b>25.9</b>	<b>30.8</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	97.9	109.6	120.2	103.7	95.9	111.5	78.6	101.5	84.0	79.2	118.9
Gross fixed capital formation	<b>18.0</b>	<b>24.7</b>	<b>26.3</b>	<b>31.7</b>	<b>36.8</b>	<b>34.5</b>	<b>33.7</b>	<b>46.9</b>	<b>62.0</b>	<b>76.9</b>	<b>80.6</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	43.3	136.9	106.8	120.2	116.4	93.7	97.6	139.1	132.2	124.1	104.9
Capital transfers	<b>119.8</b>	<b>85.3</b>	<b>119.4</b>	<b>79.7</b>	<b>64.8</b>	<b>133.2</b>	<b>129.3</b>	<b>109.0</b>	<b>86.5</b>	<b>83.2</b>	<b>69.5</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	46.2	71.2	140.1	66.7	81.4	205.6	97.1	84.3	79.3	96.2	83.5
Other expenditure	<b>95.5</b>	<b>50.5</b>	<b>71.9</b>	<b>75.7</b>	<b>81.0</b>	<b>106.2</b>	<b>121.4</b>	<b>170.8</b>	<b>140.7</b>	<b>135.6</b>	<b>142.4</b>
<i>bn CZK</i>											
<i>prev.year=100</i>	258.9	52.8	142.4	105.3	107.1	131.0	114.3	140.7	82.4	96.4	105.0

**Table 5-13: Local government expenditure**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<i>bn CZK</i>	<b>204.8</b>	<b>178.6</b>	<b>196.2</b>	<b>191.2</b>	<b>209.3</b>	<b>238.4</b>	<b>271.7</b>	<b>342.8</b>	<b>354.0</b>	<b>352.6</b>	<b>386.8</b>
	<i>prev.year=100</i>	149.6	87.2	109.9	97.4	109.5	113.9	114.0	126.1	103.3	99.6	109.7
Compensation of employees	<i>bn CZK</i>	<b>32.8</b>	<b>36.7</b>	<b>38.4</b>	<b>43.4</b>	<b>45.5</b>	<b>64.2</b>	<b>72.1</b>	<b>102.8</b>	<b>108.6</b>	<b>113.2</b>	<b>120.1</b>
	<i>prev.year=100</i>	129.8	111.9	104.5	113.0	104.7	141.3	112.2	142.6	105.7	104.3	106.0
Intermediate consumption	<i>bn CZK</i>	<b>48.3</b>	<b>53.8</b>	<b>60.0</b>	<b>66.2</b>	<b>68.1</b>	<b>77.3</b>	<b>85.5</b>	<b>97.3</b>	<b>98.1</b>	<b>100.9</b>	<b>110.6</b>
	<i>prev.year=100</i>	110.4	111.3	111.5	110.4	102.9	113.5	110.6	113.9	100.8	102.9	109.6
Social benefits other than social transfers in kind	<i>bn CZK</i>	<b>29.9</b>	<b>3.8</b>	<b>5.1</b>	<b>7.5</b>	<b>9.3</b>	<b>9.0</b>	<b>10.2</b>	<b>11.8</b>	<b>11.9</b>	<b>11.7</b>	<b>11.9</b>
	<i>prev.year=100</i>	629.7	12.6	135.0	146.9	124.2	96.6	113.4	115.6	100.6	98.6	102.2
Social benefits in kind	<i>bn CZK</i>	<b>1.0</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>2.0</b>	<b>1.2</b>	<b>1.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>
	<i>prev.year=100</i>	164.5	145.4	111.1	114.3	109.1	61.1	115.6	169.9	104.5	102.4	108.9
Interest	<i>bn CZK</i>	<b>1.9</b>	<b>1.6</b>	<b>2.6</b>	<b>2.6</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>	<b>2.4</b>	<b>3.0</b>	<b>2.2</b>	<b>2.4</b>
	<i>prev.year=100</i>	180.3	85.3	160.6	99.4	67.6	110.3	104.5	118.9	126.8	72.9	107.9
Subsidies	<i>bn CZK</i>	<b>7.2</b>	<b>12.7</b>	<b>13.9</b>	<b>15.5</b>	<b>17.2</b>	<b>16.6</b>	<b>18.2</b>	<b>29.3</b>	<b>26.3</b>	<b>29.3</b>	<b>31.2</b>
	<i>prev.year=100</i>	91.8	176.8	109.7	111.4	111.3	96.6	109.6	160.7	89.8	111.6	106.3
Gross fixed capital formation	<i>bn CZK</i>	<b>58.1</b>	<b>51.9</b>	<b>56.5</b>	<b>35.2</b>	<b>41.6</b>	<b>48.3</b>	<b>60.7</b>	<b>69.7</b>	<b>73.8</b>	<b>68.9</b>	<b>80.4</b>
	<i>prev.year=100</i>	168.9	89.3	108.8	62.3	118.0	116.2	125.6	114.9	105.9	93.3	116.8
Capital transfers	<i>bn CZK</i>	<b>12.3</b>	<b>11.5</b>	<b>8.5</b>	<b>14.9</b>	<b>13.3</b>	<b>14.2</b>	<b>11.9</b>	<b>16.4</b>	<b>20.3</b>	<b>13.1</b>	<b>13.5</b>
	<i>prev.year=100</i>	121.1	93.6	73.9	176.0	89.4	106.7	83.4	138.2	123.7	64.5	103.5
Other expenditure	<i>bn CZK</i>	<b>13.3</b>	<b>5.2</b>	<b>9.7</b>	<b>4.0</b>	<b>10.5</b>	<b>5.5</b>	<b>9.8</b>	<b>10.7</b>	<b>9.5</b>	<b>10.7</b>	<b>13.9</b>
	<i>prev.year=100</i>	146.4	39.0	186.7	41.6	262.3	52.3	178.5	108.9	88.7	112.8	129.1

**Table 5-14: Social security fund expenditure**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total expenditure</b>	<i>bn CZK</i>	<b>90.2</b>	<b>96.2</b>	<b>106.0</b>	<b>112.0</b>	<b>115.5</b>	<b>127.7</b>	<b>142.6</b>	<b>150.8</b>	<b>161.7</b>	<b>169.9</b>	<b>173.0</b>
	<i>prev.year=100</i>	115.5	106.6	110.2	105.7	103.1	110.6	111.6	105.8	107.2	105.0	101.9
Compensation of employees	<i>bn CZK</i>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>
	<i>prev.year=100</i>	107.2	108.8	104.1	111.0	101.9	109.5	111.1	105.4	102.7	106.2	105.6
Intermediate consumption	<i>bn CZK</i>	<b>1.6</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.4</b>	<b>1.5</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>1.6</b>
	<i>prev.year=100</i>	118.6	76.1	105.5	92.9	94.8	127.3	105.3	123.4	102.1	105.7	81.4
Social benefits other than social transfers in kind	<i>bn CZK</i>	-	-	-	<b>0.0</b>	-	-	-	-	-	<b>0.0</b>	<b>0.0</b>
	<i>prev.year=100</i>	X	X	X	X	0.0	X	X	X	X	X	100.0
Social benefits in kind	<i>bn CZK</i>	<b>86.1</b>	<b>92.4</b>	<b>101.5</b>	<b>107.5</b>	<b>111.5</b>	<b>123.2</b>	<b>137.4</b>	<b>145.6</b>	<b>156.3</b>	<b>163.9</b>	<b>167.5</b>
	<i>prev.year=100</i>	116.1	107.3	109.9	105.8	103.8	110.4	111.6	106.0	107.4	104.8	102.2
Interest	<i>bn CZK</i>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
	<i>prev.year=100</i>	89.5	215.7	168.2	42.2	23.1	77.8	50.0	85.7	100.0	16.7	300.0
Subsidies	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Gross fixed capital formation	<i>bn CZK</i>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.9</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>0.5</b>
	<i>prev.year=100</i>	50.7	140.7	129.4	85.8	84.0	84.0	154.6	69.5	111.1	119.1	58.3
Capital transfers	<i>bn CZK</i>	-	-	-	<b>0.1</b>	<b>0.0</b>	-	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	-	-
	<i>prev.year=100</i>	X	X	X	X	6.6	0.0	X	81.4	174.3	0.0	X
Other expenditure	<i>bn CZK</i>	<b>0.4</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>
	<i>prev.year=100</i>	427.0	13.7	455.8	108.4	31.5	332.1	82.2	29.4	64.6	661.9	129.5

## 5.3 Balance

**Table 5-15: General government net lending/net borrowing by subsectors**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General government net lending (+)/net borrowing (-)</b> <i>bn CZK</i>	<b>-55.8</b>	<b>-68.8</b>	<b>-100.1</b>	<b>-77.3</b>	<b>-81.5</b>	<b>-135.0</b>	<b>-166.8</b>	<b>-170.0</b>	<b>-82.7</b>	<b>-105.5</b>	<b>-94.5</b>
Central government net lending (+) /net borrowing (-) <i>bn CZK</i>	<b>-91.6</b>	<b>-55.2</b>	<b>-105.7</b>	<b>-78.7</b>	<b>-76.2</b>	<b>-124.6</b>	<b>-150.9</b>	<b>-154.3</b>	<b>-75.4</b>	<b>-103.8</b>	<b>-91.6</b>
Local government net lending (+) /net borrowing (-) <i>bn CZK</i>	<b>40.2</b>	<b>-12.5</b>	<b>6.8</b>	<b>0.9</b>	<b>-9.2</b>	<b>-10.1</b>	<b>-11.7</b>	<b>-14.1</b>	<b>-4.6</b>	<b>-1.5</b>	<b>-14.7</b>
Social security funds net lending (+) /net borrowing (-) <i>bn CZK</i>	<b>-4.4</b>	<b>-1.2</b>	<b>-1.1</b>	<b>0.5</b>	<b>3.9</b>	<b>-0.3</b>	<b>-4.2</b>	<b>-1.7</b>	<b>-2.7</b>	<b>-0.2</b>	<b>11.8</b>

**Table 5-16: General government net lending/net borrowing by subsectors – ratios to GDP**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General government net lending (+)/net borrowing (-)</b> <i>(in % GDP)</i>	<b>-3.3</b>	<b>-3.8</b>	<b>-5.0</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-5.7</b>	<b>-6.8</b>	<b>-6.6</b>	<b>-2.9</b>	<b>-3.5</b>	<b>-2.9</b>
Central government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	<b>-5.4</b>	<b>-3.0</b>	<b>-5.3</b>	<b>-3.8</b>	<b>-3.5</b>	<b>-5.3</b>	<b>-6.1</b>	<b>-6.0</b>	<b>-2.7</b>	<b>-3.5</b>	<b>-2.8</b>
Local government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	<b>2.4</b>	<b>-0.7</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.5</b>
Social security funds net lending (+) /net borrowing (-) <i>(in % GDP)</i>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.4</b>

## 5.4 Debt

**Table 5-17: General government debt by subsectors and instruments**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General government debt by instruments</b>	<i>bn CZK</i>	<b>209.9</b>	<b>236.7</b>	<b>299.8</b>	<b>340.5</b>	<b>405.4</b>	<b>591.5</b>	<b>702.3</b>	<b>775.0</b>	<b>855.1</b>	<b>903.5</b>	<b>973.0</b>
	<i>prev.year=100</i>	97.9	112.8	126.7	113.6	119.1	145.9	118.7	110.3	110.3	105.7	107.7
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	<b>7.2</b>	<b>24.4</b>	<b>4.0</b>	<b>2.8</b>	<b>0.6</b>	<b>0.0</b>
	<i>prev.year=100</i>	X	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7
Securities other than shares	<i>bn CZK</i>	<b>147.7</b>	<b>160.3</b>	<b>196.4</b>	<b>232.1</b>	<b>275.6</b>	<b>354.8</b>	<b>427.4</b>	<b>528.4</b>	<b>633.8</b>	<b>704.6</b>	<b>798.7</b>
	<i>prev.year=100</i>	111.2	108.6	122.5	118.2	118.7	128.7	120.5	123.6	119.9	111.2	113.4
Loans	<i>bn CZK</i>	<b>62.2</b>	<b>76.4</b>	<b>103.4</b>	<b>108.4</b>	<b>129.8</b>	<b>229.5</b>	<b>250.5</b>	<b>242.6</b>	<b>218.5</b>	<b>198.3</b>	<b>174.2</b>
	<i>prev.year=100</i>	76.2	122.8	135.3	104.8	119.7	176.9	109.2	96.8	90.0	90.8	87.9
<b>Central government debt</b>	<i>bn CZK</i>	<b>187.5</b>	<b>211.2</b>	<b>271.7</b>	<b>314.6</b>	<b>378.3</b>	<b>559.8</b>	<b>660.6</b>	<b>725.6</b>	<b>790.4</b>	<b>830.9</b>	<b>891.7</b>
	<i>prev.year=100</i>	94.8	112.7	128.7	115.8	120.2	148.0	118.0	109.8	108.9	105.1	107.3
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	<b>7.2</b>	<b>24.4</b>	<b>4.0</b>	<b>2.8</b>	<b>0.6</b>	<b>0.0</b>
	<i>prev.year=100</i>	X	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7
Securities other than shares	<i>bn CZK</i>	<b>135.9</b>	<b>145.7</b>	<b>185.0</b>	<b>222.4</b>	<b>267.9</b>	<b>347.8</b>	<b>415.4</b>	<b>517.4</b>	<b>611.5</b>	<b>681.1</b>	<b>776.1</b>
	<i>prev.year=100</i>	109.4	107.2	126.9	120.2	120.5	129.8	119.4	124.6	118.2	111.4	113.9
Loans	<i>bn CZK</i>	<b>51.6</b>	<b>65.4</b>	<b>86.7</b>	<b>92.2</b>	<b>110.4</b>	<b>204.8</b>	<b>220.8</b>	<b>204.2</b>	<b>176.0</b>	<b>149.2</b>	<b>115.7</b>
	<i>prev.year=100</i>	70.1	126.9	132.5	106.4	119.7	185.5	107.8	92.5	86.2	84.7	77.5
<b>Local government debt</b>	<i>bn CZK</i>	<b>27.2</b>	<b>31.9</b>	<b>36.0</b>	<b>34.5</b>	<b>35.8</b>	<b>40.3</b>	<b>50.0</b>	<b>59.0</b>	<b>72.0</b>	<b>79.1</b>	<b>86.6</b>
	<i>prev.year=100</i>	136.8	117.3	112.7	95.7	103.9	112.7	124.0	118.0	122.1	109.8	109.5
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	<i>bn CZK</i>	<b>11.8</b>	<b>14.7</b>	<b>12.0</b>	<b>10.1</b>	<b>8.2</b>	<b>7.1</b>	<b>12.3</b>	<b>11.9</b>	<b>22.6</b>	<b>24.0</b>	<b>23.1</b>
	<i>prev.year=100</i>	138.0	124.1	81.9	83.9	81.5	86.8	172.4	96.6	190.7	105.8	96.5
Loans	<i>bn CZK</i>	<b>15.4</b>	<b>17.3</b>	<b>24.0</b>	<b>24.4</b>	<b>27.6</b>	<b>33.2</b>	<b>37.7</b>	<b>47.1</b>	<b>49.4</b>	<b>55.1</b>	<b>63.5</b>
	<i>prev.year=100</i>	135.9	112.1	138.9	101.6	113.1	120.4	113.6	125.0	104.8	111.6	115.2
<b>Social security funds debt</b>	<i>bn CZK</i>	<b>1.9</b>	<b>2.4</b>	<b>1.7</b>	<b>1.2</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>
	<i>prev.year=100</i>	323.9	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	68.0
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Loans	<i>bn CZK</i>	<b>1.9</b>	<b>2.4</b>	<b>1.7</b>	<b>1.2</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>
	<i>prev.year=100</i>	323.9	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	68.0

*Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.*

**Table 5-18: General government debt by subsectors and instruments – ratios to GDP**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General government debt based on instruments</b> <i>(in % GDP)</i>	12.5	13.1	15.0	16.4	18.5	25.1	28.5	30.1	30.4	30.2	30.1
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0
Securities other than shares <i>(in % GDP)</i>	8.8	8.9	9.8	11.2	12.6	15.1	17.3	20.5	22.5	23.6	24.7
Loans <i>(in % GDP)</i>	3.7	4.2	5.2	5.2	5.9	9.8	10.2	9.4	7.8	6.6	5.4
<b>Central government debt</b> <i>(in % GDP)</i>	11.1	11.7	13.6	15.1	17.3	23.8	26.8	28.2	28.1	27.8	27.6
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	8.1	8.0	9.3	10.7	12.2	14.8	16.9	20.1	21.7	22.8	24.0
Loans <i>(in % GDP)</i>	3.1	3.6	4.3	4.4	5.0	8.7	9.0	7.9	6.3	5.0	3.6
<b>Local government debt</b> <i>(in % GDP)</i>	1.6	1.8	1.8	1.7	1.6	1.7	2.0	2.3	2.6	2.6	2.7
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares <i>(in % GDP)</i>	0.7	0.8	0.6	0.5	0.4	0.3	0.5	0.5	0.8	0.8	0.7
Loans <i>(in % GDP)</i>	0.9	1.0	1.2	1.2	1.3	1.4	1.5	1.8	1.8	1.8	2.0
<b>Social security funds debt</b> <i>(in % GDP)</i>	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Loans <i>(in % GDP)</i>	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0



## 5.5 International comparison

Table 5-19: General government balance and debt in EU countries

		Saldo					Dluh				
		2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
EU 27	<i>(in % GDP)</i>	-3,1	-2,8	-2,4	-1,6	.	61,8	62,1	62,7	61,4	.
EA	<i>(in % GDP)</i>	-3,1	-2,8	-2,5	-1,5	.	69,3	69,7	70,5	68,8	.
Belgium	<i>(in % GDP)</i>	0,0	0,0	-2,3	0,4	.	98,6	94,2	92,2	88,2	.
Bulgaria	<i>(in % GDP)</i>	0,0	2,3	2,0	3,2	2,5	45,9	37,9	29,2	22,8	19,8
Czech Republic	<i>(in % GDP)</i>	-6,6	-3,0	-3,5	-2,9	-3,4	30,1	30,4	30,2	30,1	30,4
Denmark	<i>(in % GDP)</i>	-0,1	1,9	4,6	4,6	3,2	45,8	44,0	36,3	30,3	26,0
Estonia	<i>(in % GDP)</i>	1,8	1,8	1,9	3,6	2,4	5,5	5,1	4,4	4,0	2,8
Finland	<i>(in % GDP)</i>	2,5	2,3	2,7	3,8	4,4	44,3	44,1	41,4	39,2	36,1
France	<i>(in % GDP)</i>	-4,1	-3,6	-2,9	-2,5	-2,4	62,9	64,9	66,7	64,2	64,2
Ireland	<i>(in % GDP)</i>	0,4	1,3	1,2	2,9	0,9	31,1	29,5	27,4	25,1	24,2
Italy	<i>(in % GDP)</i>	-3,5	-3,5	-4,2	-4,4	-2,4	104,3	103,8	106,2	106,8	105,0
Cyprus	<i>(in % GDP)</i>	-6,5	-4,1	-2,4	-1,2	-1,0	68,9	70,2	69,1	65,2	60,5
Lithuania	<i>(in % GDP)</i>	-1,3	-1,5	-0,5	-0,6	-0,9	21,2	19,4	18,6	18,2	17,7
Latvia	<i>(in % GDP)</i>	-1,6	-1,0	-0,4	-0,3	0,4	14,4	14,5	12,5	10,6	11,3
Luxemburg	<i>(in % GDP)</i>	0,5	-1,2	-0,1	0,7	1,0	6,3	6,4	6,2	6,6	6,9
Hungary	<i>(in % GDP)</i>	-7,2	-6,5	-7,8	-9,2	-6,4	58,0	59,4	61,6	65,6	65,6
Malta	<i>(in % GDP)</i>	-9,9	-4,9	-3,1	-2,5	-1,6	69,3	72,7	70,8	64,7	63,0
Germany	<i>(in % GDP)</i>	-4,0	-3,8	-3,4	-1,6	-0,1	63,8	65,6	67,8	67,5	65,1
Netherlands	<i>(in % GDP)</i>	-3,1	-1,7	-0,3	0,6	-0,4	52,0	52,4	52,3	47,9	46,8
Poland	<i>(in % GDP)</i>	-6,3	-5,7	-4,3	-3,8	-3,0	47,1	45,7	47,1	47,6	47,1
Portugal	<i>(in % GDP)</i>	-2,9	-3,4	-6,1	-3,9	-3,0	56,9	58,3	63,7	64,8	64,4
Austria	<i>(in % GDP)</i>	-1,6	-1,2	-1,6	-1,4	-0,7	64,6	63,8	63,4	61,7	59,9
Romania	<i>(in % GDP)</i>	-1,5	-1,5	-1,4	-1,9	-2,9	21,5	18,8	15,8	12,4	12,0
Greece	<i>(in % GDP)</i>	-5,6	-7,3	-5,1	-2,5	-2,3	97,9	98,6	98,0	95,3	93,0
Slovakia	<i>(in % GDP)</i>	-2,7	-2,4	-2,8	-3,7	-2,7	42,4	41,4	34,2	30,4	30,4
Slovenia	<i>(in % GDP)</i>	-2,7	-2,3	-1,5	-1,2	-0,6	27,9	27,6	27,4	27,1	25,6
Spain	<i>(in % GDP)</i>	-0,2	-0,3	1,0	1,8	1,3	48,7	46,2	43,0	39,7	36,2
Sweden	<i>(in % GDP)</i>	-0,9	0,8	2,4	2,5	3,0	53,5	52,4	52,2	47,0	39,7
United Kingdom	<i>(in % GDP)</i>	-3,3	-3,4	-3,3	-2,7	-2,5	38,7	40,4	42,1	43,2	44,3

**Table 5-20: General government transactions of EU countries in 2006**

Country	Trans. (in % GDP)	Revenue	Expenditure	Taxes			Consumption <sup>3)</sup>	Investments <sup>4)</sup>	Interest expenditure
				Direct <sup>1)</sup>	Indirect <sup>2)</sup>	Total			
EU 27	(in % GDP)	45,2	46,8	.	13,6	.	.	2,5	2,7
EA	(in % GDP)	46,3	47,9	28,1	13,8	41,9	.	2,5	3,0
Belgium	(in % GDP)	49,1	48,9	33,2	13,3	46,5	22,5	1,7	4,0
Bulgaria	(in % GDP)	40,3	37,1	15,7	19,4	35,1	17,5	4,0	1,3
Czech Republic	(in % GDP)	40,7	43,6	25,0	10,9	35,9	21,2	5,0	1,1
Denmark	(in % GDP)	56,2	51,5	31,8	17,7	49,5	25,6	1,9	2,2
Estonia	(in % GDP)	36,6	33,0	17,4	13,3	30,7	16,4	4,5	0,2
Finland	(in % GDP)	52,5	48,8	29,7	13,6	43,3	21,7	2,4	1,6
France	(in % GDP)	50,8	53,4	30,6	15,4	46,0	23,6	3,4	2,6
Ireland	(in % GDP)	37,1	34,2	19,7	14,1	33,8	16,0	3,7	1,0
Italy	(in % GDP)	45,6	50,1	27,5	14,8	42,3	20,3	2,3	4,6
Cyprus	(in % GDP)	42,7	43,9	18,8	17,8	36,6	18,8	3,0	3,3
Lithuania	(in % GDP)	33,4	34,0	18,5	11,2	29,7	18,0	4,2	0,7
Latvia	(in % GDP)	37,0	37,2	17,3	12,7	30,0	17,0	4,3	0,5
Luxemburg	(in % GDP)	39,7	39,0	23,9	12,3	36,2	15,3	4,0	0,2
Hungary	(in % GDP)	42,6	51,9	22,0	15,0	37,0	22,9	4,4	4,0
Malta	(in % GDP)	41,6	44,1	20,0	15,1	35,1	20,1	4,3	3,6
Germany	(in % GDP)	43,8	45,4	28,3	12,1	40,4	18,3	1,4	2,8
Netherlands	(in % GDP)	46,7	46,1	27,1	12,8	39,9	25,4	3,3	2,2
Poland	(in % GDP)	40,1	43,9	19,7	14,2	33,9	18,3	3,9	2,7
Portugal	(in % GDP)	42,5	46,4	21,3	15,5	36,8	20,7	2,3	2,8
Austria	(in % GDP)	47,8	49,3	29,2	14,0	43,2	18,0	1,1	2,9
Romania	(in % GDP)	33,2	35,0	16,5	12,8	29,3	16,7	4,9	0,8
Greece	(in % GDP)	39,5	42,3	21,2	11,9	33,1	.	3,1	4,4
Slovakia	(in % GDP)	33,9	37,7	18,2	11,5	29,7	19,5	2,2	1,5
Slovenia	(in % GDP)	44,1	45,3	23,8	15,2	39,0	19,2	3,7	1,4
Spain	(in % GDP)	40,4	38,6	25,2	12,4	37,6	18,1	3,8	1,6
Sweden	(in % GDP)	57,9	55,6	33,4	17,1	50,5	26,8	3,1	1,9
United Kingdom	(in % GDP)	41,9	44,6	25,9	12,8	38,7	21,9	1,9	2,1

1) This item consists of taxes levied on income and property (current taxes on income and property, social contributions, capital taxes).

2) Taxes on production and imports (VAT, excises, etc.).

3) Collective and individual consumption of general government.

4) Gross fixed capital formation.