Ministry of Finance
Department for Financial Policy

Fiscal Outlook

of the Czech Republic

November 2012

Fiscal Outlook of the Czech Republic
November 2012

Ministry of Finance of the Czech Republic
Letenská 15, 118 10 Prague 1

Tel.: 257 041 111
E-mail: Fiscal.Outlook@mfcr.cz

ISSN 1804-7998

Issued 2× per year, free distribution

Electronic archive:
http://www.mfcr.cz/FiscalOutlook

Fiscal Outlook
of the Czech Republic

November 2012

Table of Contents

The Fiscal Outlook of the CR is published by the Department for Financial Policies MF CR with a half-year periodicity (published generally at the end of May and November). It contains forecast of the current and next year (i.e. up to 2013) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2015). The Outlook is available on the internet pages of MF CR at:

http://www.mfcr.cz/fiscaloutlook

As an integral part of the Fiscal Outlook stands the Methodological Manual, which defines, specifies and explains terms, methods and statistics used in the Outlook. The Manual can be downloaded at:

http://www.mfcr.cz/cps/rde/xbcr/mfcr/Methodological_Manual.pdf

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

Fiscal.Outlook@mfcr.cz

List of Tables

List of Charts

List of Abbreviations

CNB ..... Czech National Bank
CP ..... Convergence Programme
c.p. ..... current prices
CZK ..... Czech koruna currency code
CZSO ..... Czech Statistical Office
EDP ..... Excessive Deficit Procedure
EDP B.9 ..... net lending/borrowing of the general government applied under EDP
ESA 95 ..... European System of Accounts (1995)
EU, EU27 ..... European Union (EU27 coverage)
EUR ..... euro currency code
GFS 2001 ..... Government Finance Statistics Manual 2001
GDP ..... gross domestic product
MF CR ..... Ministry of Finance of the Czech Republic
MTO ..... Medium Term Objective
OP ..... Operational Programme
p.a. ..... *per annum* (per year)
p.p. ..... percentage point
s.p. ..... constant (stable) prices
USD ..... US dollar currency code
VAT ..... value added tax

Symbols Used in Tables

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

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 8 November 2012 release, fiscal data to the 16 November 2012 release and data for international comparison to the 22 October 2012 release, respectively.

Note

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

Introduction

In the previous issue of the Fiscal Outlook of the Czech Republic, we wrote here in the introduction that “the pace of deficit reduction should be determined not only by the size of the imbalance in public finances, but also by current and expected economic output in relation to its potential as well as by the state of other economic imbalances”. This by now generally accepted fact was taken into account by the Government of the Czech Republic in July when formulating its fiscal strategy. It is not a new strategy, but an updated one, as a number of reform measures and objectives, as well as the Government’s intention to continue consolidating public finances, remain the same. On the other hand, the element of short-term and medium-term economic development is now also given emphasis.

This Fiscal Outlook contains a considerable amount of unique information. In addition to an updated estimate of the results for general government finances for 2012, and it analyses in detail changes in the revenues and expenditures sides of public budgets. The issues of suspended and non-refunded European funds occupy a specific place in the document, where we demonstrate the impacts on the cash and accrual balances of the government sector in the short and medium-term horizon. Updated forecast of the general government balance (ESA95 methodology) estimates the deficit for year 2012 to 5.0% of GDP. Compared to the October notifications of government deficit and debt, when we estimated a deficit of 3.2% of GDP, the deficit has increased, firstly by CZK 11.2 billion (0.3% of GDP) due to the issues of suspended and non-refunded European funds in selected operational programs; and secondly by CZK 59.0 billion (1.5% GDP) due to the inclusion of the full amount of financial compensation to churches and religious societies (this is just a methodological adjustment of accrual accounting system, not the actual cash payment).

Data for the Fiscal Outlook were assembled on the basis of the updated Macroeconomic Forecast of the Ministry of Finance from October, the new 2013 state budget proposal, and the new medium-term outlook for 2014 and 2015. It therefore reflects the latest economic–political circumstances, which are projected into the aggregates of the development in public sector finances.

Among the government’s fiscal objectives, we would like to highlight that of achieving such a balance in 2013, which would clearly close the excessive deficit procedure maintained in the Czech Republic since 2009 (i.e. to achieve and maintain the general government deficit below 3% of GDP).

The updated Convergence Programme of the Czech Republic for 2012–2015 approved by the Government in April presented the recovery steps taken and planned in the public finances area, as well as the impacts of structural reforms. The consolidation mix clearly indicated that the two sides of the budget are connected. The Fiscal Outlook continues in this spirit and presents a range of consolidating and other discretionary measures, reaching almost 2% of GDP cumulatively for the years of the outlook.

The implications of a slightly relaxed consolidation strategy are most apparent at the end of the forecast horizon. In comparison with the April Convergence Programme of the Czech Republic, the Fiscal Outlook also differs in terms of its macroeconomic scope. General government deficits are therefore more than one percentage point higher on average in 2014 and 2015.

In an international comparison (to which we dedicated more space this time), the Czech Republic is among the more responsible half of European Union countries in the deficit and debt area. The comparison is now extended to include the development of state bond yields and the amount and structure of taxation.

Long-term projections upon which the Ministry of Finance collaborates with the European Commission also have their specific place in the Fiscal Outlook. The projections contain adjustments of the previous year’s parametric system, which are crucial for the pay-as-you-go pension system. Results indicate that spending on old-age pensions from public funds (under given assumptions) will rise from 7.2% of GDP in 2010 to 9.5% of GDP in 2060.

As is usual in the autumn issue, the final chapter is dedicated to a special topic closely related to Czech public finance. This time, we have focused on calculations of various scenarios for impacts from introducing the voluntary fund-based savings pillar (opt-out) on the long-term sustainability of the pension system, and, in turn, on public finances. These are simulations of more or less probable variants. The results indicate that, due to the system’s voluntariness and parameters, the initial impact is rather negative, though not so very significant. Moreover, savings in expenditures will come in longer horizon together with retiring of people participating in opt-out and thus differences to the scenario without opt-out will shrink.

As usual, the Fiscal Outlook also includes an extensive annex of tables, which also are fully available in MS Excel format on the Ministry of Finance website (www.mfcr.cz/FiscalOutlook).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

The macroeconomic development described in this part of the Fiscal Outlook is taken from the Macroeconomic Forecast of the Ministry of Finance of the Czech Republic from October 2012, with specification here as to the structure of GDP expenditure components in 2014 and 2015, in particular in government consumption and change in inventories.

The Czech economy has been in a shallow recession since the second half of 2011, which situation will likely continue for the remainder of this year. Economic activity should gradually recover during 2013, however, and this trend should continue also in 2014 and 2015.

We expect GDP to decrease by 1.0% this year, while in 2013 economic output could expand by 0.7%. In future years of the outlook, growth should accelerate up to 2.6% in 2015. In this and the next year, the Czech economy should be driven by significant foreign trade surpluses. In 2014 and 2015, on the other hand, gross domestic expenditures should constitute the dominant growth factor.

We look for consumer prices to rise by around 3.3% for 2012, while in 2013 the average inflation rate should reach 2.1%. The inflation rate should be close to the CNB's inflation target in the additional years of the outlook as well.

Albeit with a lag, the labour market should be negatively influenced by the current unfavourable economic situation. Employment, which should hold steady this year, could decrease by 0.2% in 2013. For 2014 and 2015, employment is expected to rise slightly by 0.2% and 0.3%, respectively.

The unemployment rate should reach 6.9% this year and 7.3% in 2013. The unemployment rate should diminish only very slowly in 2014 and 2015.

The wage bill could grow by about 2% in this year and the next. Growth dynamics should accelerate to 4% in future years.

The current account deficit as a percentage of GDP should slightly exceed 1% for the entire outlook horizon, which would be a substantial improvement compared to previous years.

The forecast remains subject to downside risks. Further development of the debt crisis in the euro zone continues to represent the main risk. Its future escalation cannot be entirely ruled out, nor can be the possibility that contagion will spread to other countries of the EU, including the Czech Republic.

Table 1.1: Main Macroeconomic Indicators (2011–2015)

		2011	2012	2013	2014	2015	2012	2013	2014	2015
		Actual	Current Forecast and Outlook				May 2012 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	3808	3820	3882	4015	4179	3891	3996	4143	4325
	% growth, s.p.	1.7	-1.0	0.7	1.9	2.6	0.2	1.3	2.2	2.8
Private consumption	*% growth, s.p.*	-0.6	-3.0	-0.5	1.2	2.3	-0.4	0.2	2.0	2.8
Government consumption	*% growth, s.p.*	-1.7	-1.1	-1.3	-1.2	0.1	-3.7	-0.5	-1.8	-0.2
Gross fixed capital formation	*% growth, s.p.*	-0.9	-0.6	0.3	1.8	2.8	-0.5	2.1	2.8	3.2
Contr. of net exports to GDP growth	*p.p., s.p.*	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.6
GDP deflator	*% growth*	-0.8	1.3	0.9	1.5	1.4	2.0	1.4	1.4	1.5
Inflation	*in %*	1.9	3.3	2.1	2.3	2.0	3.3	2.3	1.8	2.0
Employment	*% growth*	-0.3	0.0	-0.2	0.2	0.3	-0.4	0.0	0.2	0.4
Unemployment rate	*average in %*	6.7	6.9	7.3	7.2	7.0	7.0	7.2	7.1	6.9
Wages and salaries	*% growth, c.p.*	2.3	2.0	2.1	4.3	3.9	1.5	2.6	4.7	4.4
Current account to GDP ratio	*in %*	-2.9	-1.3	-1.2	-1.0	-1.3	-2.4	-2.3	-2.2	-2.5
Assumptions:										
Exchange rate CZK/EUR		24.6	25.1	24.9	24.7	24.5	25.0	24.9	24.7	24.6
Long-term interest rates	*% p.a.*	3.7	2.9	2.7	3.0	3.3	3.4	3.5	3.8	4.0
Crude oil Brent	*USD/barrel*	111.0	112.9	115.3	118.3	120.0	115.4	113.0	115.0	115.3
GDP in Eurozone EA-12	*% growth, s.p.*	1.4	-0.5	0.3	1.1	1.8	-0.3	0.7	1.4	1.8

Note: Figures for employment and unemployment rate are based on Labour Force Survey. "S.p." depicts constant prices," c.p." current prices.
Source: MF CR (2012b), MF CR (2012d).

1.2 Fiscal Policy Objectives

While the main priority of government fiscal policy in 2010 and 2011 was consolidation of the general government sector and improvement of its structural parameters, economic development is being emphasised in subsequent years.

In July 2012, the Government of the Czech Republic adopted a decree concerning the adjusted fiscal policy strategy. The updated strategy abandons strict adherence to general government deficit targets through the year in which the excessive deficit procedure is expected to end and preserves room for the working of automatic stabilisers while maintaining similar consolidation efforts. The general government deficit targets for 2014 and 2015 noted in the April government decree and Convergence Programme of the Czech Republic (MF CR, 2012f) thus will probably not be fulfilled, as the expected worsening macroeconomic situation should result in an intensification of fiscal effort and escalation of the pro-cyclical effects of consolidation measures. This step is associated with slight relaxing of the consolidation strategy and enables at least in part and to the extent possible to support the Czech economy in a time of expected recovery. The indicated approach using 'fiscal space' was also recommended to the Czech Republic by such international institutions as the IMF (2012) and OECD (2012). We believe this is particularly legitimate for front-loaded consolidation strategies.

Following sharp reduction in the structural deficit in 2011 by 1.4 p.p. to 3.0% of GDP, we expect fiscal effort of 0.9% of GDP and a general government deficit of 5.0% of GDP for all of 2012, due to high one-off expenditure items (see subchapter 2.2.2). In compiling the state budget and budget of state funds, the government moved forward on the EU Council's recommendations (2009, 2011 and 2012) for the Czech Republic to reduce the general government deficit to below 3% of GDP by credible and sustainable means before 2013. The current forecast indicates that if the planned consolidation course is maintained the excessive deficit procedure should be cancelled within the set deadline, the general government deficit in 2013 should reach 2.9% of GDP. In subsequent years, development will then be accompanied by gradually improving government finances.

Viewed in terms of change in the structural balance, fiscal policy in the years of the outlook is more or less neutral, with perhaps very slight pro-cyclical elements (see Table 1.2 ; for more see 3.2.4).

In addition to consolidation measures, a number of structural reform measures with varying impacts on the general government balance also have been enacted. Among the most significant of these are the parametric adjustment of the existing pay-as-you-go system for financing pension insurance benefits, diversification of financing for retirement pensions by introducing a savings fund pillar, and reform of the financing and conception or approach to health care. Labour market reforms also have been implemented to create greater flexibility and motivation to work. The next long-planned reform measures to be implemented during the outlook period will address financing of tertiary education, science, research and innovation. The public administration system also will be adjusted to make it more simple, efficient and transparent. Fundamental changes in the area of direct taxes and contributions will occur in 2014 in connection with creating a Unified Revenue Collection Agency.

In the years of the outlook, the total amount of discretionary measures should gradually fall from 0.9% of GDP in 2013 to 0.4% of GDP in 2015, thus averaging less than 0.6% of GDP annually. Starting especially in 2013 and 2014, a number of stabilisation measures impacting both the revenues and expenditures sides of public budgets will come into effect. Some measures will be adopted with only temporary validity until 2015. The primary impact in 2013 will be growth on the revenues side of the balance (Table 1.3), while in 2014 and 2015 the expenditures side will have greater weight. More detailed information on the consolidation package for 2013–2015 is provided in subchapter 3.2.

Table 1.2: Fiscal Policy Stance (2009–2015)

(in % of GDP, change in structural balance in p.p.)

	2009	2010	2011	2012	2013	2014	2015
General government balance	**-5.8**	**-4.8**	**-3.3**	**-5.0**	**-2.9**	**-2.7**	**-2.4**
Cyclical component	-1.1	-0.5	-0.2	-0.9	-1.0	-0.8	-0.4
One-off and other temporary measures	0.3	0.0	-0.1	-2.1	0.1	0.0	0.0
Structural balance	-5.1	-4.3	-3.0	-2.1	-2.0	-1.9	-2.0
Change in structural balance	**-1.9**	**0.7**	**1.4**	**0.9**	**0.1**	**0.2**	**-0.2**

Source: CZSO (2012b). Forecast and calculations by MF CR.

Table 1.3: Structure of Discretionary Measures (2013–2015)
(in CZK bill.)

	2013	2014	2015
Total revenue measures	**32.0**	**8.2**	**4.9**
Direct taxes	3.6	2.9	-1.0
Personal income tax	7.9	7.2	-3.1
Corporate income tax	0.0	-1.8	-5.5
Social security contributions	-4.3	-2.5	7.6
Indirect taxes	20.6	18.5	0.9
Value added tax	18.5	6.9	0.9
Excises	2.1	11.6	0.0
Other revenues	7.8	-13.2	5.0
Total expenditure measures	**1.8**	**17.9**	**9.9**
Social benefits	7.0	5.0	8.5
Compensation of employees in government sector	-0.6	0.0	0.0
Public sector reforms	5.1	11.5	-
Other expenditures	-9.7	1.4	1.4
Total impact on balance	**33.8**	**26.1**	**14.8**
% GDP	0.9	0.6	0.4

Note: Figures in the table represent year-on-year discretional changes that are stemming from all envisaged and approved measures. For further details on discretional measures see the Subchapter 3.2. Non-refunded European funds and financial compensation to churches and religious societies are not included in this table.
Source: MF CR.

2 Short-term Development of Public Finances

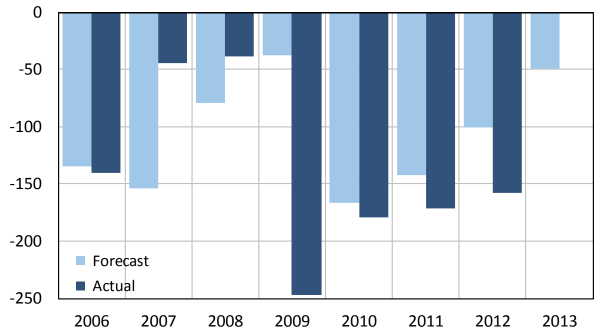
2.1 Public Finances – GFS 2001 Methodology

2.1.1 Public Budgets in 2012

The continuing fiscal consolidation process is reflected by the YoY improvement in results of public budgets. This improvement will, however, be more moderate than originally expected in the budget documentation for 2012. Deviation from the original assumptions will occur mainly due to the lower influx of European funds and lower tax revenues as a result of deterioration in the expected macroeconomic development. Earmarking of expenditures and other savings will probably not cover the decrease on the revenues side.

The following graph shows a comparison of expected (budgeted) and actually achieved results in public budget finances in the period 2006–2011 and the presumed and expected deficit for 2012 and 2013.

Graph 2.1: Public Budget Balance (2006–2013)
(CZK bn)



Source: MF CR.

In a YoY comparison, we may expect the **public budget balance** to decrease by CZK 13.2 billion to CZK 158.2 billion (4.1% of GDP). The expected development of the deficit and public budget debt continues to reflect the fact that the Czech economy is only slowly recovering from an economically unfavourable period. The expected YoY deterioration in most public budget entities' finances will be compensated by a drop in the state budget deficit, where the consolidation effort has the greatest impact. An updated outlook of their finances is already included in the government-approved earmarking of expenditures amounting to CZK 23.6 billion.

Revenues will probably increase by 2.8% YoY (CZK 40.5 billion) and expenditures only by 1.7% (CZK 27.3 billion). Tax revenues should grow by 2.9% YoY, i.e. by CZK 20.3 billion (including social security contributions by 2.5%, i.e. by CZK 30.8 billion). VAT collection should register the greatest increase due to the rise in the reduced VAT rate by 4 p.p. Its YoY growth should reach CZK 12.4 billion, i.e. 4.6%. Collection of excise taxes will likely remain unchanged YoY. Overall, indirect taxes should develop somewhat better than direct taxes, with expected growth of 3.8%. Income from the personal income tax should increase by 1.8% and that from the corporate income tax by 2.4%. Direct tax collections should grow by 1.4% YoY.

On the expenditures side, interest on debt (by 15.1%) and purchase of non-produced assets (i.e. land plots) are expected to record the highest relative YoY growth.

The **state budget deficit** should decrease by CZK 33.4 billion to CZK 111.2 billion in comparison with 2011. A YoY increase in revenues is expected (by CZK 46.6 billion), especially due to improved collection of tax revenues. State budget expenditures should increase by CZK 13.3 billion YoY. The state budget deficit should be CZK 4.7 billion higher as compared to the budget documentation. Health insurance companies are expected to reduce their deficits by CZK 1.3 billion YoY to CZK 3.8 billion, while the deficit of municipal governments will remain almost unchanged at CZK 1.5 billion. The financial results of state funds, on the other hand, should markedly worsen by a total of CZK 7.4 billion to CZK 15.6 billion.

Certain deviations in public budgets have occurred as compared to the original assumptions in the approved documentation for the 2012 State Budget Proposal. Grants from international organisations in the form of current and capital revenues from European funds have developed considerably less favourably (CZK 53.4 billion lower). Tax revenues and social security contributions are also lower (in total, their collection should be CZK 37.2 billion less). Only personal income tax has recorded a higher expected collection (by CZK 0.4 billion). Income from the value added tax (by CZK 21.9 billion), excise taxes (by CZK 3.4 billion), social security contributions (by CZK 9.7 billion) and corporate income tax (by CZK 2.8 billion), on the other hand, is expected to be lower.

As compared to the original assumptions, expenditures are expected to be CZK 25.8 billion lower. Interest (by CZK 20.6 billion), use of goods and services (by CZK 12.5 billion), and social benefits (by CZK 6.4 billion) all show favourable circumstances. Capital expenditures, on the other hand, should rise significantly by CZK 17.1 billion.

We forecast a YoY increase in **loans and government bonds** by CZK 160.2 billion to CZK 1,725.4 billion. Debt should increase by 10.2% in comparison to 2011, representing slightly higher growth than in the previous year. Debt expressed as a proportion of GDP will increase by 4.1 p.p. to 45.2% in comparison to 2011. The weight of state budget in total public indebtedness will again increase slightly, reaching 93.6%. However, its YoY dynamics in comparison to 2011 will accelerate by 0.3 p.p. to 10.7%.

The proportions of the individual segments of public budgets in the total indebtedness remain essentially stable. After the state debt, municipal governments have the greatest weight in the total public debt. Their debt in 2012 as compared to the previous year will rise only slightly (by CZK 5.1 billion). The debt of extra-budgetary funds can be expected to decrease slightly, due to its decrease in the currently indebted State Environmental Fund and especially in the State Agricultural Intervention Fund.

2.1.2 Public Budgets in 2013

The main determining factor in creating the 2013 budget was continuation of the fiscal consolidation process in order to achieve the fiscal objective defined in the Convergence Programme of April 2012 (MF CR, 2012a), i.e. a general government deficit of 2.9% of GDP (according to ESA 95 methodology). With the objective of reinforcing the revenues side, the Chamber of Deputies of the Parliament of the Czech Republic approved a number of acts especially in the areas of taxes, social insurance and social benefits. Consolidation efforts also will continue on the expenditures side, where state administration should be reduced and rationalised with across-the-board cuts.

Favourable trends may be generally expected in the results for public finance balances. We predict, that the **public budget balance** will decrease YoY to less than a third and will be CZK −49.8 billion (−1.3% of GDP). All general government entities should show improvement. The considerable decline is influenced, however, particularly by the amount of revenues of the National Fund from the EU designated for cofinancing European projects, and therefore this improvement should not be overestimated. In a YoY comparison, this result should improve by almost CZK 75 billion. The **state budget deficit** will reach CZK 100.6 billion and will thus evidently be CZK 10.5 billion lower YoY. The finances of extra-budgetary funds will improve by CZK 13.8 billion, finances of public health insurance companies by CZK 4.2 billion, and those of municipal governments by CZK 0.6 billion.

Approved measures for reinforcing the revenues side will considerably affect YoY growth in revenues, which will probably increase by 5.6 p.p. faster than in 2012. Thus they should grow by 8.4%, while expenditures should only grow by 1%. Tax revenues (excluding social security and public health insurance contributions) should increase by 4.3% (CZK 31.3 billion). Newly approved taxation measures were designed to yield an increase in income tax collection of 6.1%, 3.7 p.p. of which comes from increase in the corporate income tax. On the expenditures side, YoY savings should be recorded mainly in other capital expenditures (i.e. investment transfers and subsidies, state contributions to building savings and additional pension insurance, as well as expenditures on the realisation of state guarantees), purchase of fixed assets, and current transfers to private companies.

In 2013, the growth dynamics of the public debt will probably slow to 5.5% and the expected debt will increase by CZK 95.0 billion to CZK 1,820.4 billion. This debt as a proportion of GDP will rise by 1.7 p.p. to 46.9% in comparison with 2012. This would again slightly increase the weight of state debt to 94.1%. Its dynamics would therefore slow by 4.6 p.p. to 6.0% in comparison with 2012. After the state debt, municipal governments have the greatest weight in the total public debt. Their forecasted debt in 2013 as compared to 2012 will decrease slightly. The amount of debt of extra-budgetary funds can be expected to grow. As in 2012, the State Environmental Fund and especially the State Agricultural Intervention Fund are indebted. As in 2012, health insurance companies should no longer show any debt.

Although the development of public budgets will attain more favourable values, it is nevertheless necessary to continue their consolidation and to implement cautious fiscal policy.

2.2 Public Finances – ESA 95 Methodology

2.2.1 General Government Sector in 2011

In 2011, the general government balance reached −3.3% of GDP (CZSO, 2012c). It therefore improved by a significant 1.6 p.p. in comparison with 2010. After adjusting for cyclicality and one-off operations, fiscal effort reached 1.4 p.p.

The general government balance was revised downward by 0.2 p.p. of GDP (originally −3.1% of GDP) against the notification of the government deficit and debt from April of this year (CZSO, 2012b). The revision reflected primarily adjustments in tax revenues and the estimate of interest costs in the area of financial leasing.

Developments on the revenues side in 2011 reflected the state of the economy and positive impacts from a number of discretionary measures, as total revenues rose by 3.2% compared to 2010. Total tax revenues inclusive of social security contributions, which represent more than 90% of overall revenues, increased by approximately 3.9%.

Revenues from the value added tax grew by 2.5%. No major legislation was approved in 2011, as only minor changes with no significant fiscal impacts (domestic reverse-charge[1], among others) were adopted.

Receipts from excise taxes increased by more than 8.2% and their dynamics notably exceeded the development in real consumption, which should correlate significantly with excise taxes. One reason for this is the increase in the tax on tobacco products in 2012, which led to stockpiling in 2011; the second significant reason is taxation of photovoltaic power station operators, which was first collected in 2011.

The personal income tax underwent a number of legislative changes in 2011 and overall collection therefore grew by 8.4%. The most significant impact on collections came from decrease in a taxpayer credit by CZK 100 per month (relating to past flood-damage measures). Other measures (such as cancellation of the tax exemption on early retirement contributions for members of the armed forces and public security personnel, cancellation of the tax exemption on interest from deposits in a building savings scheme, cancellation of the exemption on reimbursements of expenses by state authority representatives) had a significantly lesser fiscal impact.

Corporate income tax collection increased by 1.1% compared to 2010. This tax underwent no significant legislative change other than an exemption on licensing fees (with negative impact of CZK 2.8 billion) and cancellation of the 50% tax discount for companies employing people with disabilities, with a positive impact of approximately CZK 0.2 billion. The temporary introduction of accelerated depreciation from 2009 continued to have a positive effect on collections. It is expected that 2012 will be the final year in which the lingering of this measure will have some effect. The corporate income tax's macroeconomic base – the gross operating surplus – grew by 0.8% in 2011.

Revenues from social security contributions rose by 2.5%. Compared to autonomous developments, retaining the same insurance rate as in 2010 had a positive effect (also influencing the spending side). Preserving the ceiling of the annual assessment base at the level from 2010, when this ceiling had been raised temporarily, also had a positive impact. These adjustments had total impact on collections of almost CZK 13 billion in 2011.

Other taxes are not so significant in volume terms. The only fundamental change was the taxation of donated emission permits. The first collection occurred in 2011 in the amount of approximately CZK 4.1 billion.

General government revenues grew by 3.9%, reflecting 25% growth in motorway toll rates. Other current and capital transfers remained approximately at the 2010 level, comprised primarily of EU funds used to finance various projects on the expenditure side. Investment grants are used primarily to finance gross fixed capital formation. The impact of EU monetary funds on the general government balance is determined only by the amount of domestic financing.

General government expenditure fell by 0.5% in 2011, which exemplifies the government's continuing consolidation efforts inasmuch as these expenditures dropped for the second year in a row.

General government consumption declined by 1.8%. This reflects efforts to implement an austere budget policy, and especially in the areas of payment policy and intermediate consumption (mainly purchases of goods and services). The most significant savings are apparent in intermediate consumption, which decreased by 4.6% YoY. This is the result of overall savings across the sector, especially in the form of current non-mandatory expenditures. The 2.1% YoY reduction of salary outlays is primarily due to reducing the wage bill in the regulated sector (other than constitutional officials and educators) by 10% and decreasing salaries of constitutional officials by 9%. The increased wages of educators, on the other hand, had a negative impact. The higher wages for physicians in 2011 do not have a direct effect on compensations to general government employees, as most hospitals are not in the general government sector. Despite the 10% cut in the wage bill, the total decline in compensation of employees was significantly less, as the decrease in wages related only to the part of the central government (i.e. that subsector upon which the government has a direct influence in most cases). Local budgets did not participate much in austerity measures, and wage costs grew slightly, by approximately 1.3%.

In the social area, benefits increased by 1.8%. Two opposing effects were at work here. On the one hand, social security benefits grew by 4% due to a marked rise in the number of pensioners. On the other hand, cash social assistance benefits declined by 5.1%. The drop is due to legislative changes, which were, among others, reduction of the childbirth allowance, adjust-

[1] Reverse charge is a system of transferring tax liability used primarily for VAT. Liability to declare and pay tax passes to the customer in the event that the supplier and customer are both VAT payers. The introduction of this system in 2011 applied to construction and assembly work.

ment of parental benefits, cancellation of the social allowance, reduction of the contribution for care in social services, and extension of the employer's payment of sick pay.

Positive development is apparent in interest costs, which grew only by some 3% versus the year earlier. This development confirms the positive perception in financial markets regarding the government's consolidation effort, which helps to maintain the risk premium for issued bonds at a relatively favourable level.

As in 2010, gross fixed capital formation again recorded a significant decline by slightly less than 15%. Considering the stable investment grants received from the EU, the drop therefore occurred especially in investments financed from domestic sources. Government entities thus prepared themselves in earnest for additional austerity measures and maintained potential reserves for financing projects from EU funds. This represents a negative impulse for the economy, and these savings cannot be seen as strictly positive from a long-term perspective. It is very likely that the drop in investments in 2010 and 2011 will generate an internal debt within the system, as a number of these postponed investments will eventually be implemented. This constitutes, therefore, a shift of investment outlays over time rather than full-fledged savings.

2.2.2 General Government Sector in 2012

The general government deficit for 2012 sent to Eurostat on the 1st of October was originally notified at 3.2% of GDP, which is approximately the same value as in the July Macroeconomic Forecast (MF CR, 2012x). This deficit had to be further adjusted by newly established circumstances concerning the reimbursement of European funds and due to the approval of the Act on property settlement with churches and religious societies.

At the same time, the unpaid portion of EU sources for the operational programmes 'Transport' and 'Environment' was CZK 11.2 billion. Considering the requirements of the ESA 95 methodology, it is necessary to adjust the deficit for 2012 by this amount and record this overall adjustment as a one-time capital transfer for entities that had been provided pre-financing from the state budget.

The Chamber of Deputies reapproved in early November its original law proposal on property settlement with churches and religious societies, which was returned by the Senate. As the president did not sign the law nor did he return it to the Chamber, the Act will take effect in 2012. This law undertook the state to return fixed assets in the value of CZK 75 billion and pay financial compensation of CZK 59 billion to churches and religious organizations. The financial compensation will be returned over the course of 30 years, while the unpaid parts of the compensation should be indexed to the rise in consumer prices. Transitional period of 17 years is set, over which churches will be receiving a decreasing contribution for payments to clergy. The final objective is to ensure the full independence of churches from the state (for more information see MFCR, 2011).

Based on ESA95 methodology, the whole financial compensation to churches is recorded as a one-off expenditure in the amount of CZK 59 billion, which fully affect the general government deficit in 2012 by 1.5% of GDP. However, it is only a methodological adjustment of accrual accounting system, not the actual cash payment. According to ESA95, the recovery of fixed assets does not affect general government deficit.

The current estimate of the deficit for 2012 is thus 5.0% of GDP. To assess the effectiveness of fiscal consolidation, it is necessary to adjust the presented deficit by one-off and temporary operations (such as the aforementioned capital transfers) and the impact of the economic cycle. The YoY change of the adjusted balance (fiscal effort) is estimated at 0.9 p.p. for 2012, and thus supports continuation in the established consolidation trend.

Apart from the change concerning European funds, the structure of revenues and expenditures also changed significantly compared to the Ministry of Finance's original assumption. On the revenue side, the new estimate necessarily responded to the worsening economic environment and considerable pessimism of consumers. The anticipated VAT income and contributions to social security were thus adjusted by approximately 0.3% of GDP.

Newly adjusted, too, were expectations regarding the drawing of investment grants from EU funds. Due in particular to problems with determining the eligibility of selected expenditures in individual operating programmes, these were reduced by approximately 0.3% of GDP versus the original estimates. The majority of problems associated with payments under operating programmes should be resolved by the end of this year, and those remaining at the start of next year. The outlook for the ensuing years should be influenced only very slightly by these negative circumstances.

Certain expectations regarding expenditures also came to fruition on the expenditure side. Expenditures on compensation of employees in the government sector, the original expectation for which was based on data from the first two quarters, were rather significantly increased by approximately 0.3% of GDP. On the other hand, substantial savings are anticipated in social spending (with the exception of pensions), for which cash performance data show favourable results. Savings relative to plan also are anticipated for interest costs.

Box 1: Drawing of EU Funds and Impacts on the Public Finance Balances

During 2012, the complications with drawing funds from the EU in certain operational programmes (OPs) escalated. Although certification was successfully renewed for selected OPs (confirmation of data accuracy, efficiency of management and control systems), this will increase the public budgets deficit in cash and accrual terms both this year and probably also in the following years.

In October of this year, the suspended certifications of the Transport OP and Environment OP were renewed after resolving inconsistencies. In the current programme period, these are the two largest operating programmes with over 40% of the total allocation. Reimbursement of funds spent within these operating programmes was suspended as from 2011.

However, certification of expenditures still has not been renewed in certain other operational programmes. This is due to audit findings of the European Commission (Education for Competitiveness OP), findings of the Audit Department in Annual Monitoring Reports (regional North-East OP), and police investigations (regional North-West and Central Bohemia OPs). These four OPs have a combined 14.5% share in total allocation.

The European Commission has at its disposal several types of reparatory instruments that can be applied when errors in implementation of an OP are discovered. In addition to exclusion of a specific project from financing and reimbursement of mistakenly used funds in conflict with rules for drawing, these consist of so-called corrections. Corrections are of a comprehensive nature and define the share of ineligible expenditures in the amount of paid funds. The correction amount is defined by a specific percentage of the volume of funds that were pre-financed for the given OP from national sources from the start of its implementation.

Comprehensive corrections are realised in the Transport OP and Environment OP. For the Transport OP, the correction amount for EU funds is 10% of the pre-financed portion. In absolute terms, the amount is CZK 9.5 billion. For the Environment OP, the correction was set at 5%, on the basis of which payments are cut by CZK 1.7 billion. It is important to note that these corrections do not represent a reduction of the allocation to the relevant operating programme, but rather they denote that the EU will not fully cover expenditures that were previously paid from national sources up to a certain date. To draw the allocation, managing authorities may use other additionally included projects that conform to the conditions for payment from the EU budget within the given OP. In the case of other OPs that were burdened by the suspension of payments, it has not yet been decided whether correctional measures will occur and in what amount.

It is necessary to distinguish the impacts on public budgets in terms of methodology and according to time horizon. From a 2012 perspective, the state budget (or public finances) deficit will increase in cash terms due to non-payment of a portion of pre-financed funds and to the suspension of payments. From an accrual perspective (ESA 95 methodology), only the general correction of the Transport OP and Environment OP in the amount of CZK 11.2 billion (ca 0.3% of GDP) will be reflected into the state budget deficit (or general government balance) for 2012. It will then be possible to specify the impacts of the suspended OPs once the form of remedy and date of the European Commission's decision are known.

From a medium-term perspective, additional expenditures from national public sources not co-financed by European funds will negatively impact public budgets in both methodologies. The scope of these expenditures will be connected to the tendency to draw that portion of the allocation which was previously not recognised by the European Commission as eligible for reimbursement..

Expenditures were adjusted for these two operations by 0.4% of GDP overall.

Gross capital formation should decrease this year. The uncertainty regarding future drawing of European funds and overall concerns about future economic development are reflected in the development of gross capital formation.

Given the change in the structure of revenues and expenditures, anticipated government final consumption was significantly reassessed, nominally declining only very slightly (by 0.1%) versus the original expectation (decrease by 1.6%). Fiscal policy for 2012 is thus significantly less restrictive than originally anticipated.

In comparison with the previous year, growth in revenues this year will slow to 0.5% and tax revenues will expand by 1.8%.

Among tax receipts, the most significant gain is expected in VAT, for which we expect 5.6% higher income than in the preceding year. The main reason for this is the rise in the reduced VAT rate from 10% to 14%. Greater VAT income in relation to the higher excise tax on tobacco also has a certain, albeit lower, impact (VAT is paid from the price inclusive of the excise tax). In spite of significant adjustments, revenues growth can be assessed as very moderate, and primarily due to a drop in household consumption.

A decrease of 2.1% is expected for excise taxes this year. Although rates have risen, lower household consumption is also forecast for 2012. Last but not least, this year's collection will very probably be influenced by last year's stockpiling.

Personal income tax yield will perhaps decrease by 0.2%, despite almost 2% nominal growth in the wage bill, especially due to the impact of raising the child credit by CZK 1,800 annually to compensate for increasing the reduced VAT rate.

Corporate income tax, which according to current expectations will grow by ca. 1%, will not show dynamic development. Legislative changes to this tax are fiscally negligible. It can be positively assessed that, after the substantial slump during 2008–2010, tax collection will once again return to an at least moderate growth trajectory.

Direct taxes are still being positively affected by the introduction of taxation of incomes from lotteries. This tax will be abolished in 2013 and replaced with a gambling tax. Collections of CZK 8.2 billion are expected in 2012. The total net effect on the government sector is approximately just half of that, as fees from slot machines were reduced concurrently with the introduction of taxation of incomes from lotteries. The estimated drop is CZK 4 billion.

Social security contributions will probably rise by 1.0%, which is very close to the growth of wages and salaries in the overall economy. Two legislative changes approximately identical in amounts offsetting one another are relevant in this area. The first is an amendment to the Health Insurance Act, extending the range of persons insured within this system to include statutory bodies of companies. The second is reduction of the annual ceiling for social insurance from 72 back to 48 times the average wage.

After a long period of uninterrupted growth, a considerable slump in revenue transfers (both current and capital) is estimated to be more than 24% for investment grants and just fewer than 13% for current grants, which is affected by the aforementioned European funding. This decline actually impacts the spending side even more so than the revenue side (due to national financing). For the government sector, then, this negative development paradoxically represents short-term savings. From the perspective of the economy, however, it constitutes a reduction of the investment impetus.

Following a two-year decline in general government outlays, a 1.0% rise is expected. Nevertheless, a 0.1% decrease is expected in outlays for government final consumption. In contrast to the previous year, fiscal policy will thus much less restrictively influence the GDP dynamic.

Intermediate consumption will contribute most substantially to the decrease in final consumption (down by 4.5%), primarily due to the impact of the government-approved spending freeze of CZK 23.6 billion. Significant budget savings in operating expenses have thus been ongoing for three years, and can be expected to continue also in the coming years. Increase of the reduced VAT rate has the opposite effect, however, inasmuch as government purchases of taxed goods and services will lead to a rise in intermediate consumption. Nevertheless, this will have no effect on the general government balance. Social benefits in kind (especially health insurance payments for health care) should develop very conservatively, growing by only 0.3% this year, primarily due to approved changes in health care (such as categorisation for levels of hospital care, increase in the fee for hospital stays, payment for medication, among others). On the other hand, unfavourable development can be expected in wage expenditures, which will likely rise by 3.5%.

According to current conservative estimates, interest payments for servicing the government debt will rise this year by 6.1%. This reflects both higher indebtedness due to the deficit and somewhat poorer conditions than last year on international markets.

The development of these costs must be closely monitored, as financial markets are quite volatile and the current debt crisis is far from resolved. It is also necessary to maintain consolidation efforts in the coming years, so that investors are convinced of the credibility and reliability of the government's fiscal policy. Otherwise, the risk premium would probably grow and repayment of the debt portfolio could become significantly more costly.

Cash social benefits should rise by 2.3% in comparison with the previous year. In the social area, only slight adjustments were approved this year, and these have a total negative impact of approximately CZK 3 billion on the government sector. These adjustments concern an increase of the subsistence minimum, amendment of the Social Services Act, and amendment of the Act on State Social Support.

Following considerable slumps in investment spending in the past two years, further decline is anticipated, but this time by only approximately 5%. This primarily reflects the continuing caution of economic entities, but also the problems and slowdown in financing from European sources. It is anticipated that the cause for the negative impact in the development of European funding will be eliminated by the end of this year, or, at very latest, by the beginning of next year.

Substantial growth of grant outlays and transfers is thus caused by the necessity to credit an expenditure capital transfer of CZK 11.2 billion due to nonrepayment of non-approved EU funds. (See Box No. 1).

The largest deficit will occur in the central government subsector, due in particular to the state budget, which should end with a deficit of around CZK 187 billion and representing 4.9% of GDP. The local government balance should reach CZK −1.6 billion, and the social security funds deficit will be near CZK 4.5 billion.

General government debt rose by 9.1% to CZK 1,567.9 billion at the close of 2011, representing 41.2% of GDP, and thus exceeded the psychological threshold of 40%. By the end of 2012, the general government debt is expected to reach CZK 1,736.6 billion, assuming YoY growth of 10.8%, and to equal 45.5% of GDP. This substantial growth in debt is especially visible in the state budget, chiefly due to an increase in reserves for continuous coverage of state budget expenditures. Inclusion of the full amount of financial compensation to churches and religious societies into the general government deficit in 2012 does not have any impact on debt in current year, because the compensation would be paid back over the course of next 30 years. Debt will therefore be affected each year by the installment amount, which will be indexed to the rise in consumer prices (assuming that this expenditure would not be covered by income or accumulated financial reserve of the state).

Table 2.1: General Government Revenue (2006–2012)
(in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
General government revenue	**39.6**	**40.3**	**38.9**	**39.1**	**39.2**	**40.1**	**40.2**
tax revenue	**19.4**	**19.8**	**18.6**	**18.4**	**18.2**	**18.9**	**19.3**
individual income tax	4.2	4.3	3.7	3.6	3.5	3.7	3.7
corporate income tax	4.6	4.7	4.2	3.5	3.4	3.4	3.4
value added tax	6.2	6.2	6.6	6.8	6.9	7.0	7.3
excise taxes	3.6	3.9	3.3	3.7	3.7	3.9	3.8
other taxes and contributions	0.8	0.8	0.8	0.7	0.8	0.9	1.0
social security contributions	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**	**15.6**	**15.7**
sales	**2.4**	**2.6**	**2.7**	**2.8**	**2.6**	**2.7**	**2.7**
other revenues	**2.1**	**2.1**	**2.1**	**3.0**	**3.2**	**3.0**	**2.5**

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

Table 2.2: General Government Expenditure (2006–2012)
(in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
General government expenditure	**42.0**	**41.0**	**41.1**	**44.9**	**44.0**	**43.4**	**45.2**
government consumption	20.7	19.8	19.7	21.6	21.4	20.8	20.7
social benefits other than social transfers in kind	12.2	12.5	12.4	13.6	13.7	13.8	14.1
gross fixed capital formation	4.5	4.2	4.6	5.1	4.3	3.7	3.5
other expenditure	4.6	4.6	4.4	4.5	4.6	5.1	6.9

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

Table 2.3: Balance of General Government and of Subsectors (2006–2012)
(in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
General government balance	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**	**-3.3**	**-5.0**
Central government balance	-2.4	-1.5	-2.4	-5.0	-4.1	-2.7	-4.9
Local government balance	-0.3	0.4	-0.1	-0.6	-0.5	-0.4	0.0
Social security funds balance	0.4	0.4	0.3	-0.3	-0.2	-0.2	-0.1
Primary balance	**-1.3**	**0.4**	**-1.2**	**-4.5**	**-3.4**	**-1.9**	**-3.5**

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

Table 2.4: Debt of General Government and of Subsectors (2006–2012)
(in % of GDP)

	2006	2007	2008	2009	2010	2011	2012
General government debt	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**	**45.5**
Central government debt	25.9	25.6	26.4	31.8	35.6	38.6	42.8
Local government debt	2.6	2.4	2.4	2.6	2.6	2.6	2.7
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 2.5: Stock-flow Adjustment (2006–2012)
(gross debt in % of GDP; all other items in p.p.)

	2006	2007	2008	2009	2010	2011	2012
Gross debt	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**	**45.5**
Change in gross debt	-0.1	-0.3	0.8	5.7	3.7	3.1	4.3
Decomposition of change in gross debt							
Nominal GDP growth	**-2.0**	**-2.4**	**-1.3**	**0.8**	**-0.3**	**-0.3**	**-0.1**
General government net lending(+)/borrowing(-)	**2.4**	**0.7**	**2.2**	**5.8**	**4.8**	**3.3**	**5.0**
Other factors	**-0.5**	**1.3**	**-0.1**	**-1.0**	**-0.8**	**0.2**	**-0.6**
Difference between cash and accrual	0.5	0.0	-1.5	0.8	-0.4	1.1	-1.5
Net accumulation of financial assets	-0.8	1.4	1.3	-1.7	-0.3	-0.9	0.9
privatisation proceeds	0.0	0.3	0.6	0.1	0.0	0.0	0.0
Revaluation and other factors	-0.2	-0.1	0.1	-0.1	-0.2	0.1	0.1

Source: CZSO (2012b). Year 2012 MF CR(2012a).

2.3 International Comparison

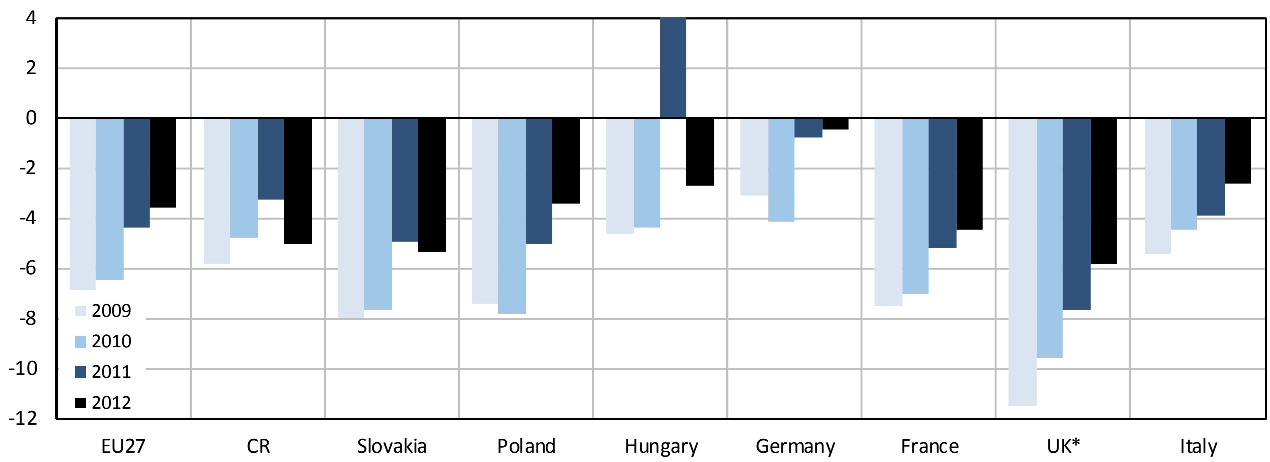
2.3.1 General Government Balance

In 2011, the general government balance of the EU27 countries reached the value of –4.4% of GDP. Reflecting the partial economic recovery and consolidation policy of European countries, however, this was 2.0 p.p. better than in 2010. With its deficit at 3.3% of GDP, the Czech Republic finds itself better than the EU27 average.

Ireland once again recorded the highest general government deficit in 2011 with a double-digit value at 13.4% of GDP. This amount is no longer influenced by the state's financial injection into the banking sector but by the central government's primary working balance. Greece, Spain (both 9.4%), the UK (7.7% of GDP), Slovenia (6.4%) and Cyprus (6.3%) also had high deficits in relative terms. Estonia (1.1%) and Sweden (0.4%) both recorded surpluses in 2011, albeit minimal ones. Moreover, Hungary achieved a rather unexpected result with a record-breaking positive balance of 4.3% of GDP. This resulted not from a sudden, strictly conservative Hungarian fiscal policy, but rather from an adjustment in the balance for transfers from private pension funds into the government sector (Pension Reform and Debt Reduction Fund) totalling approximately HUF 2.3 trillion (over EUR 7.7 billion). Without this adjustment, Hungary would have recorded a deficit of 3.8% of GDP, i.e. around the same level as Belgium and Italy. For 2011, 16 more EU countries in addition to the Czech Republic did not meet the Stability and Growth Pact deficit criterion stipulating a maximum deficit 3% of GDP.

According to notifications, all EU27 countries are expecting general government deficits in 2012 (although for Sweden a mere −0.1% of GDP). For the third year in a row, the largest deficits should be in Ireland (8.4% of GDP) and in Spain (7.3% of GDP), in traditionally problematic Greece (6.9% of GDP), in the UK (5.9% of GDP,) and in Slovakia (5.3% of GDP).

Graph 2.2: General Government Balance in Selected EU Countries (2009–2012)
(in % of GDP)



*Note: *) Fiscal year data (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2012a, 2012b), UK data for 2012 are based on its Notification; Czech data for 2012 are based on the MFCR forecast.

In comparison to the spring notification, the Spanish deficit worsened the most – by 2.0 p.p. – while on the other hand the Danish deficit improved by 1.6 p.p. In both cases, this was due to the impact of a change in the absolute amount of the balance.

Due to the persisting economic problems, 14 EU countries expect deficits exceeding 3% in 2012, (see the annex). As compared to 2011, 9 countries are expected to record poorer results for general government finances in relative terms. It is interesting to note that for the most part these countries essentially are fiscally disciplined.

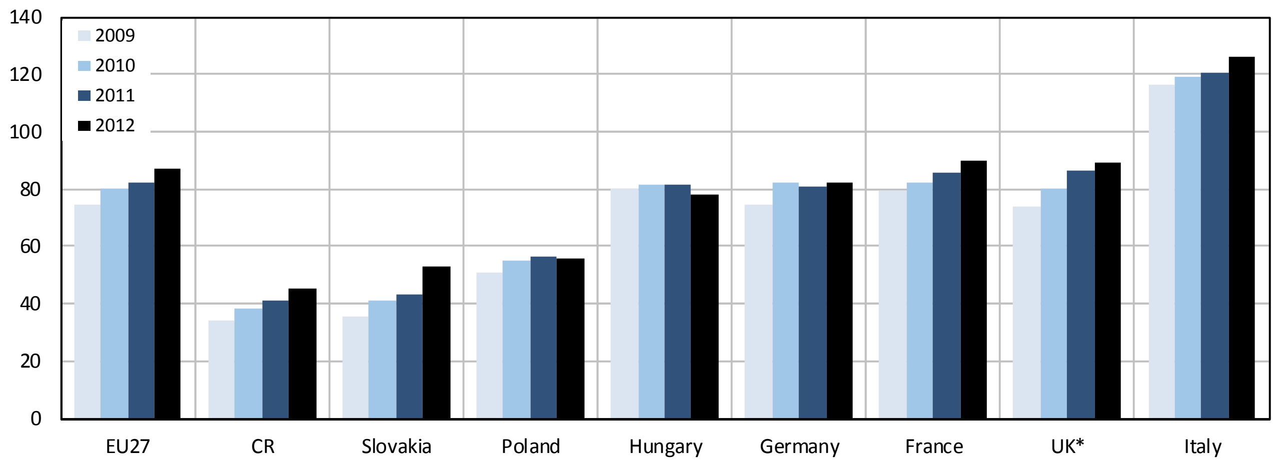
2.3.2 General Government Debt

General government debt approximately reflects the long-term development of budget deficits in the given countries. In the EU27 countries, the general government debt reached 82.5% of GDP in 2011, which is 2.5 p.p. greater than in 2010.

Based on the state debt indicator, the Czech Republic is still relatively well off, but the acceleration in its growth dynamics over the last two years is alarming. In 2011, general government debt (at 40.8% of GDP) breached two-thirds of the value for the Stability and Growth Pact criterion, and further increase to 45.2% of GDP is anticipated for 2012. For more see subchapter 2.2.

It is certainly not news that nearly bankrupt Greece is the most indebted country in the EU27. Although its debt is expected to be reduced in absolute terms by ca. 4.2% in 2012, this reduction is greatly influenced by private creditors' forgiving a portion of the total government debt. Nevertheless, due to the impact from further substantial worsening of GDP, its state debt will reach an even more frightening value than reported in the spring notification: 170.6% of GDP in 2011 and 174.9% of GDP in 2012. Other countries not able to cover their general government debts even with the entirety of their annual GDP include Italy, Portugal, Ireland and, in 2012, also Belgium. The 'leading' EU countries (i.e. Germany, France and the UK) are doing only slightly better. The debt indicator is developing favourably in Sweden. While in Estonia the debt as a proportion of GDP is easily the lowest, in 2012 it nevertheless will reach a double-digit value for the first time (in absolute terms, debt will increase almost twofold YoY). Spain will record the most dynamic YoY growth in debt – by 16.1 p.p. The majority of EU countries are recording a sharp worsening in their relative volumes of debt. During 2008–2012, this trend can be most markedly seen in the Baltic countries of Lithuania and Latvia, as well as in Ireland, Romania and Slovenia (see Graph 2.2). In 2011 and 2012, the debt criterion would not be satisfied by 14 countries, i.e. a slight majority of EU countries.

Graph 2.3: General Government Debt in Selected EU Countries (2009–2012)
(in % of GDP)



*Note: *) Fiscal year data (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2012a, 2012b), UK data for 2012 are based on its Notification; Czech data for 2012 are based on the MFCR forecast.

2.3.3 General Government Tax Revenue

For illustrative description of the Czech government sector in international comparison, given the significant involvement of the revenue side in the consolidation process in 2012 and 2013, we decided to focus both on the level and structure of taxation.

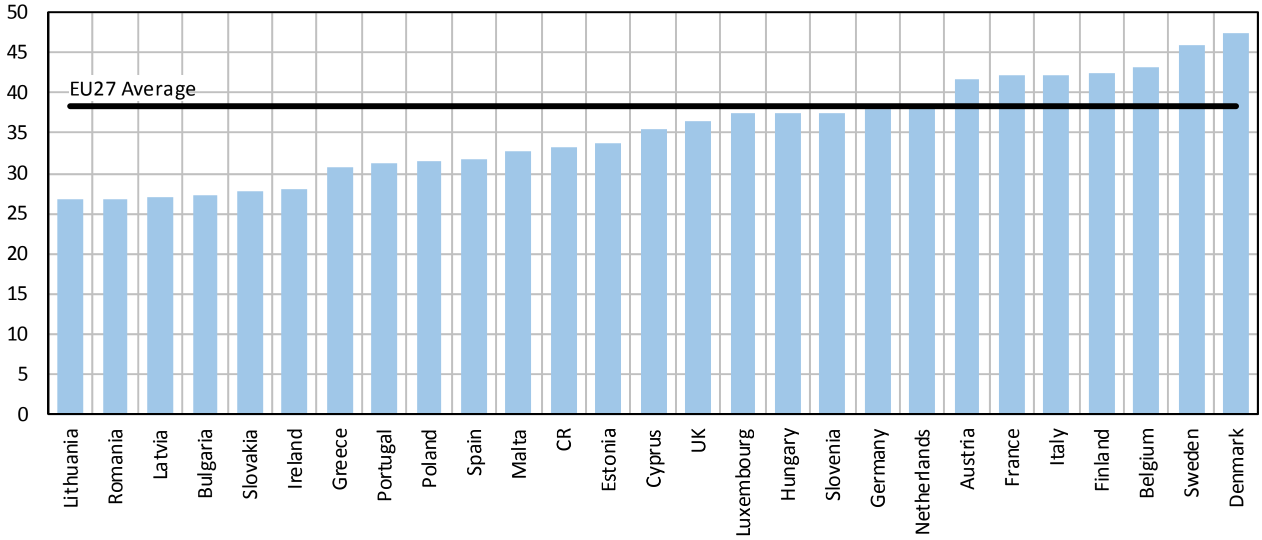
Although data for all EU countries are available only until 2010, it is clearly visible from Figure 2.4, that the relative tax revenues (including social security contributions) in 2010 were about 5 percentage points lower in the Czech Republic compared to an EU average.

On the other hand, the tax burden itself does not say us anything about the level of services, which are provided by the government sector (regardless of the cost-effectiveness), nor about the overall needs of the economy. Still, the difference between Lithuania or Romania, as countries with the lowest relative levels of taxation, and Denmark at the opposite end, were almost 21 pp.

It is also appropriate to assess the level of the tax burden in its structure. Figure 2.5 clearly shows that the structure of taxation in the Czech Republic corresponds more to the developed Nordic countries and countries with more developed welfare state, than is the case in the Czech Republic. Labor taxation amounts to 52% of the total tax burden and along with taxes on consumption exceed 84%.

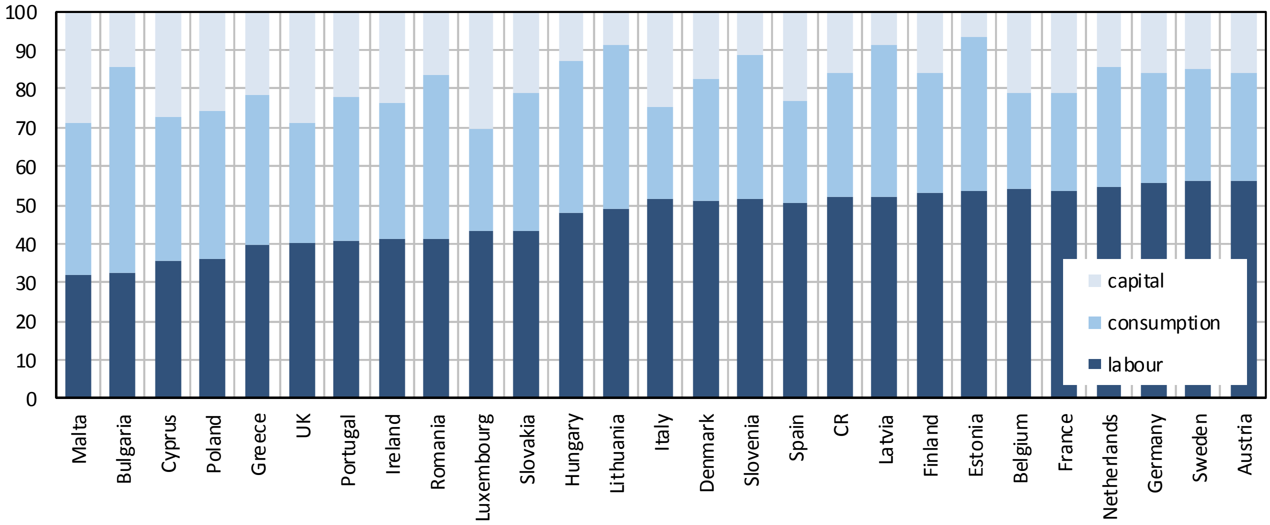
Almost equally among labor, consumption and capital is the tax burden distributed in Malta, while in countries such as Belgium, France, Netherlands, Germany, Sweden and Austria is the primary source of tax revenues the production factor labor.

Graph 2.4: Tax Burden in EU Countries (2010)
(in % of GDP)



Source: Eurostat (2012a).

Graph 2.5: Structure of Taxation in EU Countries (2010)
(in % of total tax revenue)



Source: Eurostat (2012a).

2.3.4 Financing of the State Debt

The graphs show the development of spreads between the yields of 10-year state bonds and German bonds of the same type on the basis of monthly averages in the period from January 2008 to September 2012. In general, it can be stated that development correlates to a certain degree with the fiscal indicators of government deficit and debt, but as a risk premium it best expresses the confidence in the given country.

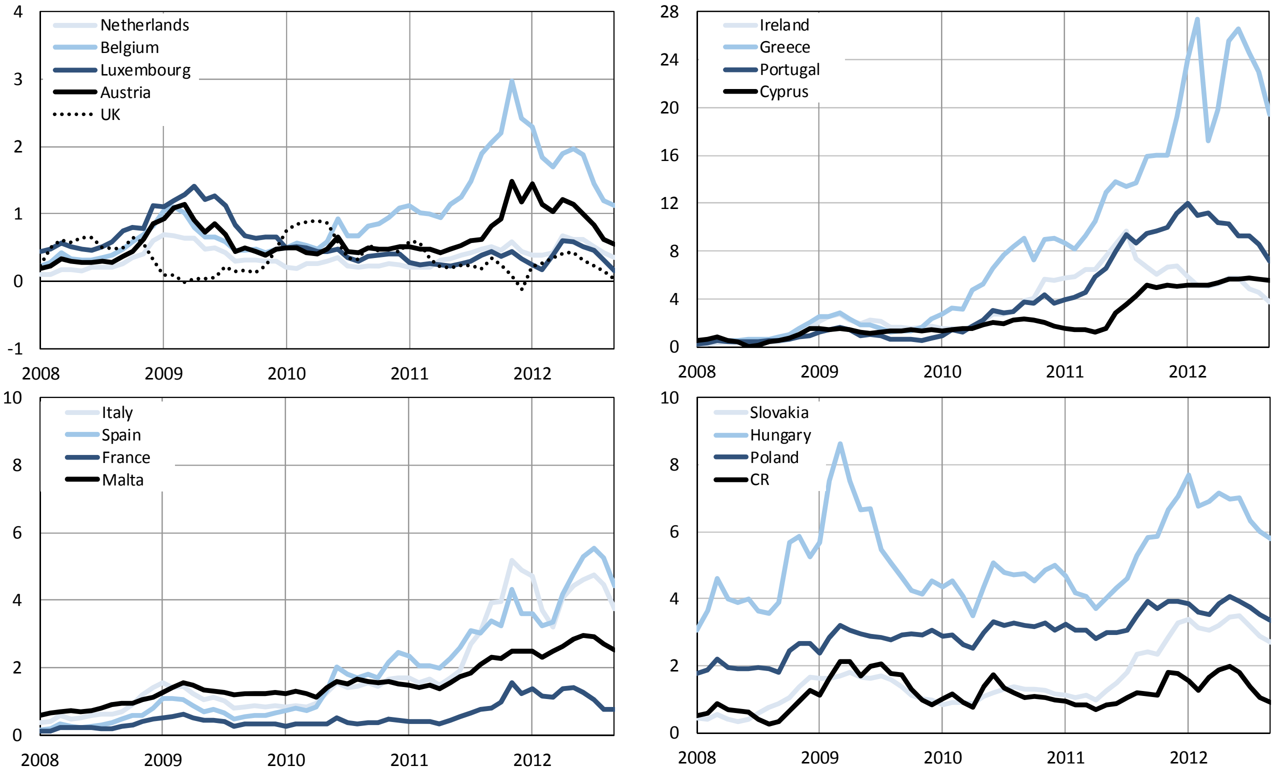
For greater clarity and transparency, we divided the selected EU countries into several groups. In the upper left graph are countries with very low spreads. At certain times, the yield of e.g. U.K.(but also Swedish and Danish) bonds were even lower than those of

Germany. It can be asserted that these countries enjoy the highest confidence within the EU. Relatively higher spreads of Belgium are caused by substantial indebtedness of the government sector (see Subchapter **Chyba! Nenalezen zdroj odkazů.**).

In the upper right and in the lower left corner is depicted the development in the southern EU countries and in Ireland, where the economical turbulences of last years totally uncovered their internal problems and imbalances. France, which rating has been decreased several times in the current period, was added to this group and Malta and Cyprus also. The unsustainable spread development in Greece needn't be commented.

Finally, the last group of graphs shows the development of the central European countries, which have undergone significant economic, political and social changes in the last 20 years. Due to the initiated fiscal consolidation trajectory, of the countries from this geographical area financial markets perceive the Czech Republic the most positively in recent times. This is reflected in a low risk premium for issued bonds, and thus lower debt-service costs.

Graph 2.6: Spreads between National and German Bonds in EU Countries (January 2008 to September 2012)
(in p.p.)



Note: Spreads are calculated as the difference in yields of 10Y bonds of the specific country and those of Germany.
Source: ECB (2012).MF CR calculations.

3 Medium-term Fiscal Outlook

The medium-term outlook for fiscal policy proceeds from interaction of the government's fiscal strategy and the macroeconomic outlook. The binding medium-term expenditure framework for the state budget and state funds is a technical instrument used in the processes of budget planning and achieving the government's consolidation objectives. Among other purposes, it contributes to the maintenance of fiscal discipline and limits the risk of fiscal policy's pro-cyclical effects.

The current amounts of the medium-term expenditure framework have been established as necessary so that the requirement of the European Council to decrease the general government deficit by credible and sustainable means to below 3% of GDP will be fulfilled in 2013. Within the period of the outlook, some room is more or less reserved for the effects of automatic stabilisers and so that the impacts of the already designated consolidation on the recovering Czech economy are minimised.

3.1 Medium-term Expenditure Framework

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

The current Framework for 2013 and 2014 was approved by the Chamber of Deputies in December 2011 (Resolution No. 918/2011), and the amounts of the Framework are CZK 1,126.3 billion for 2013 and CZK 1,127.6 billion for 2014 (in non-consolidated terms).

Without concurrence by the Chamber of Deputies of the Czech Republic, an approved Framework can only be adjusted in relation to specifically enumerated items, such as: significant divergence in consumer prices, changes in the estimate of expenditures financed by funds from the European Union and from financial mechanisms, impacts of changes of budgetary designation of taxes on expenditures, and exceptional situations. The Framework can also be increased by one-thousandth of the total expenditures for the year of the state budget proposal and by two-thousandths for the following year. For 2013, the Framework amount has been increased by CZK 103.8 billion due to expected expenditures co-financed from EU funds and from financial mechanisms, and by CZK 56 billion (and CZK 2.8 billion in 2014), which presumes different subsidy relations (consolidation) between the state budget and state funds. No other adjustments are considered during the period of the outlook. Thusly updated amounts of the approved framework would most likely lead to general government deficits at 3.2% of GDP in 2013 and 2.9% of GDP in 2014.

Table 3.1: Actualised Medium-term Outlook of Public Budgets (Fiscal Targeting)
(bn CZK, % of GDP)

			2011	2012	2013	2014	2015
Target for government sector (ESA 95)	*% of GDP*	1	**-3.3**	**-5.0**	**-2.9**	**-2.7**	**-2.4**
	bn CZK	2	-125.2	-192.9	-111.9	-107.5	-101.5
Difference between ESA 95 and Fiscal targeting methodology	*bn CZK*	3	**6.2**	**-56.0**	**12.0**	**-3.9**	**-9.7**
Target for public budgets (Fiscal targeting)	*bn CZK*	4=1-3	**-131.4**	**-136.9**	**-123.9**	**-103.6**	**-91.8**
	% of GDP	5	-3.5	-3.6	-3.2	-2.6	-2.2
Public budgets other than state budget and state funds	*% of GDP*	6	**-0.1**	**-0.5**	**-0.6**	**-0.4**	**-0.3**
Target for state budget and state funds	*% of GDP*	7=5-6	**-3.4**	**-3.1**	**-2.6**	**-2.2**	**-1.9**
	bn CZK	8	-127.8	-117.8	-100.6	-87.5	-79.3
State budget	*bn CZK*	8a	-119.0	-101.7	-97.5	-85.4	-77.4
State funds	*bn CZK*	8b	-8.7	-16.1	-3.1	-2.1	-1.9
Revenue forecast of state budget and state funds	*bn CZK*	9	**1094.5**	**1181.9**	**1173.9**	**1034.5**	**1066.5**
State budget	*bn CZK*	9a	994.2	1083.9	1080.0	993.6	1025.5
State funds	*bn CZK*	9b	100.3	98.0	93.9	40.9	41.0
New expenditure framework	*bn CZK*	10=9-8	**1222.3**	**1299.6**	**1274.5**	**1122.0**	**1145.8**
State budget	*bn CZK*	10a	1113.2	1185.6	1177.5	1079.0	1102.9
State funds	*bn CZK*	10b	109.0	114.0	97.0	43.0	42.9

Note: Reduction in the levels of revenues and expenditures between 2013 and 2014 results from the fact that in the outlook of the state budget for 2014 and 2015 are not included expected revenues from EU funds and financial mechanisms and the expenditure financed thereby.
Source: MF CR.

It is apparent that the figure for 2013 would not correspond to the deficit target of 2.9% of GDP for that year, and the deficit in 2014 would not necessarily meet the definition of a demonstrably sustainable balance under the 3% threshold. Therefore, new and stricter amounts were proposed for the Framework. In accordance with fiscal targeting, a new amount of the Framework for 2015 was also established, which should, if there is fulfilment of the Macroeconomic Forecast scenario, of effectiveness of the acts under consideration, and of assumptions as to the balances of the other components of the general government, lead to a deficit of 2.4% of GDP. The procedure for deriving the amounts of the expenditure framework from the objective within the ESA 95 methodology for 2013–2015 is depicted in Table 3.1.

Although the deficits in 2014 and 2015 are higher than in the Convergence Programme of the Czech Republic (MF CR, 2012a), they correspond to the spirit of the Czech Republic's fiscal strategy update approved by the government in July 2012 (MF CR, 2012f); for more details concerning that strategy, see Subchapter 1.2.

For 2013, the assumption for public budgets beyond the state budget and state funds anticipates a modest deficit among municipal governments and health insurance companies, and an almost balanced deficit in the following years. Last but not least, the planned use of privatisation resources will probably also deepen the deficits in the individual years by ca 0.3 to 0.4% of GDP.

The estimate of the difference between the fiscal targeting deficit and the deficit according to the ESA 95 methodology is a factor which also influences the planned general government balance. We forecast this difference at an average rate of around 0.2% of GDP for the coming period. This is primarily caused by accounting differences between the cash and accrual principles and differences in the individual methodologies defining the public sector (see MF CR 2011e).

A general overview of the approved, updated and newly defined Framework is presented in Table 3.2, which once again demonstrates the tightening of the amounts of the budgetary Framework.

In Table 3.1 and Table 3.2, the amounts of the medium-term expenditure framework and of revenues for 2014 and 2015 are diminishing significantly. This dynamic decrease, however, is due to a calculation of the Framework, where for the years t+2 and t+3, funds from the EU and from financial mechanisms and their financing are included in neither revenues nor expenditures.

Table 3.2: Assessment of the Fulfilment of Expenditure Framework

(bn CZK, fiscal targeting methodology)

		2013	2014	2015
Adjusted expenditure framework approved in 2011	1	**1286.0**	**1130.4**	**-**
New expenditure framework	2	**1274.5**	**1122.0**	**1145.8**
Tightening (-) / breach (+) of expenditure framework	3=2-1	-11.5	-8.4	-

Note: Reduction in the levels of revenues and expenditures between 2013 and 2014 results from the fact that in the outlook of the state budget for 2014 and 2015 are not included expected revenues from EU funds and financial mechanisms and the expenditure financed thereby.

Source: MF CR.

3.2 General Government Medium-term Outlook

Developments for the entire general government sector and its individual subsectors in the Czech Republic from 2011 to 2015 are summarised in Table 3.3. From the table, it is apparent that the decisive part of the government budget balance occurs at the central level (state budget and state funds), and thus its development for the most part determines the overall government balance. Table 3.3. also compares the dynamics of overall revenues and expenditures. The higher rate of growth in revenues, and especially of tax receipts, over that of expenditures is on the one hand given by the reforms of direct and indirect taxes and on the other by reforms on the spending side which dampen growth on this side of the budget. The following subchapters analyse in detail those factors crucial for future changes.

Table 3.3: General Government Development (ESA 95)

		2011	2012	2013	2014	2015
General government balance	*% of GDP*	**-3.3**	**-5.0**	**-2.9**	**-2.7**	**-2.4**
Central government	*% of GDP*	-2.7	-4.9	-2.7	-2.6	-2.4
Local governments	*% of GDP*	-0.4	0.0	-0.1	0.0	0.0
Social security funds	*% of GDP*	-0.2	-0.1	-0.1	0.0	0.0
Total revenue	*% of GDP*	**40.1**	**40.2**	**40.8**	**40.5**	**40.0**
	growth in %	3.2	0.5	3.1	2.8	2.7
Total expenditure	*% of GDP*	**43.4**	**45.2**	**43.7**	**43.2**	**42.4**
	growth in %	-0.5	4.5	-1.9	2.3	2.1

Source: CZSO (2011b). MF CR.

3.2.1 General Government Revenue

After very low nominal growth of total government sector revenues in 2012, we expect YoY increases in total revenues of ca 3% for 2013–2015. This is due on the one hand to an acceleration of economic growth (especially in 2015) and the associated gradual growth in the relevant macroeconomic bases, and on the other hand to the structure of discretionary measures which will significantly increase the revenues of public budgets, especially in 2013. It should be noted, however, that in contrast to the last issue of this publication in May 2012 there occurred a marked decrease of forecast revenues (by as much as CZK 69 billion in 2015) due to general worsening of the outlook for the Czech economy.

On 7 November 2012, the Chamber of Deputies approved a proposal on changes to taxes, insurance and other acts in relation to decreasing public budget deficits. The consolidation package, covering both revenue and expenditure measures, is presented in Table 3.4. The most important from the fiscal perspective is the increase of both value-added tax rates by 1 p.p. (to 15% and 21%, respectively), due to which revenues will increase by ca CZK 15 billion in 2013.

Table 3.4: Y-o-Y impact of Planned Consolidation Package Measures on the General Government Balance
(bn CZK)

	2013	2014	2015
Personal income tax	**8.8**	**27.2**	**0.0**
Abolition of employees tax credit	-	13.0	-
Abolition of basic allowance for working pensioners	2.5	-	-
Increase of the personal income tax rate by 1pp	-	13.9	-
Tax surcharge of 7% above the social insurance contribution cap	1.8	0.3	-
Reduction of flat-expense deductions for self-employed	3.5	-	-
Increase of the withholding tax against tax havens to 35%	1.0	-	-
Social security contributions	**1.8**	**0.0**	**0.0**
Abolition of the health insurance contributions cap	1.8	-	-
Value added tax and excises	**17.2**	**11.6**	**0.0**
VAT rates change (reduced rate 15%, basic 21%)	15.1	-	-
Abolition of selected excises exemptions [1)]	0.7	2.4	-
Introduction of excise on selected commodities [2)]	1.4	9.2	-
Other revenues	**2.5**	**0.0**	**5.0**
Increase of real estate transfer tax by 1pp (to 4%)	2.5	-	-
Introduction of tax on premiums	-	-	5.0
Social benefits	**9.5**	**5.9**	**5.7**
Change in pension indexation formula (1/3 of CPI percentage change)	9.5	5.9	5.7
State administration optimisation	**12.7**	**11.5**	**0.0**
Simplification of the state administration agendas, elimination of duplicities	-	11.5	-
Expenditure decrease according to the state budget freeze in 2012	12.7	-	-
Other expenditures	**2.0**	**0.0**	**0.0**
Reduction of renewable energy sources subvention	2.0	-	-
Total impact on balance	**54.5**	**56.2**	**10.7**
% of GDP	1.4	1.4	0.3

Note: 1) Abolition of the green oil, abolition of the tax exemption on the natural gas for households.
2) Increase of cigarette taxation, increase of tobacco taxes on the level of cigarette taxation, taxation of still wine, introduction of carbon tax.
Source: MF CR.

From 2014, moreover, the turnover ceiling for mandatory registration of VAT payers will be decreased from CZK 1 million to CZK 750 thousand, which should generate an additional CZK 5 billion. After considerable growth in VAT revenues from 2012 due to an increase of the reduced rate from 10% to 14%, we expect further growth in the year-on-year dynamics also in 2013 (to 6.3%). In the following years of the outlook, collection growth should converge with the development of nominal expenditures on final consumption. Unification of the two rates at 17.5%, which should originally have occurred from the start of 2013, should now begin only in 2016.

Following a nominal decrease in the collection of excise taxes in 2012, renewed growth should occur in the following years, which will be to a considerable extent the result of measures already approved and planned. The wide range of measures, most of which will become effective from 2014, includes an increase of current taxes (on cigarettes and cut tobacco – in accordance with EU legislation), application of excise tax to other commodities (taxation of still wine, carbon tax) and cancelling of existing exemptions from excise tax in relation to other selected commodities (green diesel fuel, natural gas for household heating). The total impact of discretionary changes in the excise taxes area is estimated at CZK 2.1 billion in 2013 and another CZK 11.6 billion in 2014.

In relation to the personal income tax, the changes in collections will be positively influenced particularly by a number of stabilising measures adopted as part of the consolidation package along with an accelerating rate of growth in the wage bill, which is predicted. In 2013 and 2014, the collection of the personal income tax should increase by 8.8% and 7.3%, respectively, and only very low growth is expected in the last year of the outlook. Starting from 2013, the possibility of using lump-sum expense deductions by self-employed persons will be limited (increasing government sector revenues by CZK 3.5 billion).

Box 2: European System of Trading in Greenhouse Gas Emission Allowances

The European Union (greenhouse gas) Emission Trading System (EU ETS) is regulated by a revised directive of the European Parliament and of the Council 2003/87/ES. In 2013, the system enters its third trading phase (2013–2020), which introduces fundamental changes in its operation. One of these changes is the method of assigning permits, where auction has been designated as the basic instrument.

The electricity production and carbon dioxide sequestration sectors will acquire allowances exclusively via auctions. Transitionally, a certain number of allowances will be allocated to other sectors for free (in the amount of 80% in 2013), although the given numbers will be gradually decreasing to zero in 2020. Auctions will be initiated in autumn 2012 via a common European auction platform. So-called primary permits are to be sold thereupon, and the proceeds from their sales will be distributed among the individual EU member states.

In 2010, a regulation of the Commission had established a schedule of auctions, dividing the volume of permits over eight years. Last year, however, it was decided to change the schedule, with certain auctioned volumes shifting from 2013 and 2014 to 2012. The aim was to ensure a smooth transition from trading phase II to III. As the system currently is struggling with a surplus of permits, due to excessive allocation in the 2008–2012 trading period and a decrease in production caused by the economic crisis, the introduction of auctions according to the original schedule would only amplify this surplus. Therefore, another change in the schedule is now being considered, the intention of which is to move a certain part of the auctioned volume of permits from the period 2013–2015 to 2018–2020 (so-called back-loading), whereby the total number of permits would be unchanged.

Directive 2003/87/ES in the wording of Directive 2009/29/ES further establishes an exemption for facilities in the member states in which at least one of the conditions for time-limited exemptions/derogations according to Article 10c – transitional assigning of free-of-charge permits in connection with modernisation of electricity production processes, is fulfilled. The Czech Republic fulfils these conditions, allowing it to use the transitional gradual assigning of permits to the energy sector free of charge under the assumption that funds corresponding to the market value of the permits assigned free of charge will be invested into equipment and modernisation of infrastructure and into clean technologies. For this purpose, the member states had to prepare national action plans for investments and present these to the European Commission along with annual reports on financial resources invested into modernisation of infrastructure and into clean technologies. The total number of transitionally assigned free-of-charge permits in 2013 will correspond to a maximum 70% of the assigned permits and then will gradually decrease with a target of 100% auction in 2020. This provision is justified by the fact that the member states whose energy industries are based mainly on burning fossil fuels would be significantly disadvantaged versus those that have other sources of energy available (e.g. natural renewable sources). The derogation thus provides certain EU countries with the opportunity to modernise their energy producing facilities and at least partially to balance the impacts of the legislation.

Auctions of emission permits will influence the state budget in relation to both revenues (receipts from auctions) and expenditures (administrative costs). It is currently very difficult to define the impacts of the proposed changes to the auction procedures and their conditions. A forecast of impacts on the state budget must be based upon analysis as to the operation of the carbon market, which is itself, however, distorted by impacts of the global crisis and has not been fulfilling its function in recent years. From the logic of the proposed measure (back-loading), however, it follows that in 2013 the Czech Republic could face the risk of zero revenues from auctions of permits in combination with assigning free-of-charge permits to producers of electricity in accordance with Article 10c of Directive 2003/87/ES.

In the same year, two measures the effectiveness of which is limited only to 2013–2015 will come into effect. In those years, it will not be possible to apply the basic tax credit for working pensioners (CZK 2.5 billion), and, at the same time, an element of progressiveness will be introduced into the structure of the personal income tax in the form of a 'solidarity' surcharge to the tax in the amount of 7% from revenues above the ceiling for social insurance (ca CZK 2 billion).

In 2014, the statutory personal income tax rate will increase by 1 p.p. (ca CZK 14 billion) and the employee lump sum will be cancelled (CZK 13 billion). Although the approved reform of direct taxes and payments will also become effective from 2014, in which year we estimate that it will decrease the tax burden on income from work by ca CZK 19 billion, the total effect of discretionary measures will be positive, and that will contribute to the aforementioned growth dynamics in personal income tax collection.

For the following years, we expect only very low growth rates in autonomous corporate income tax revenues. Moreover, the planned discretionary changes in this title have a negative fiscal effect. Due to the tax exemption on dividends (decreasing revenues by CZK 5.5 billion), total collections of the corporate tax will most likely decrease YoY in 2015.

Slight growth is estimated in social security contributions for 2013, versus a ca 1% decline as presented in the May issue of the Fiscal Outlook. This change is due primarily to revision in the number of persons who will decide to enter the newly introduced pension fund pillar and the related estimate of the revenue shortfall in connection with the binding 3 p.p. contribution to social insurance to be paid by these persons. While we originally calculated using a technical estimate causing a decrease in revenues on the order of CZK 20 billion, the current forecast anticipates a more realistic decrease of accrued revenues in the pay-as-you-go pension pillar by only CZK 6.1 billion in 2013 and by another ca CZK 1 billion in each of the two remaining years of the outlook (i.e. CZK 7.1 billion in 2014 and CZK 8.1 billion in 2015).

In 2013–2015, the ceilings for payment of contributions to health insurance will be removed (increasing revenues by CZK 1.8 billion). In connection with creation of the Unified Revenue Collection Agency, from 2014 a number of changes will occur in social and health insurance, the effect of which will be negative in 2014 (CZK −2.5 billion) but positive in 2015 (CZK 8.4 billion). There will be corresponding YoY changes in total collections of social contributions, which should gradually grow through the years of the outlook.

A considerable YoY rise in other revenues for 2013 is caused primarily by an anticipated higher accrued subsidy from EU funds and from including revenues from the auction sale of LTE frequencies to mobile operators (estimated revenues of CZK 7 billion). Among the planned stabilisation steps, the real estate transfer tax should be increased from 2013 (revenues of CZK 2.5 billion) and from 2015 an insurance premiums tax, as is common in relation to insurance in a number of other EU countries, will be introduced (collection of ca CZK 5 billion). Among other revenues, in 2014 the discontinuation of payments introduced for certain solar power plants will have a negative effect. We anticipate a related decrease in receipts of CZK 6.2 billion. There would be a positive impact of Gas emission allowances sale (see Box No. 2).

3.2.2 General Government Expenditure

Following a decrease of total outlays in 2011 and only very low growth in 2012, we anticipate nominal growth of general government expenditures just above the level of 2% per year during the years of the outlook. Consolidation efforts on the expenditure side of public budgets are still apparent in compensation of employees, which should be practically flat in the period until 2015. Within the government sector, a real decrease in total spending on salaries will occur. This by itself does not mean a decrease in the average real salary, as the manner by which the number of jobs will be optimised always depends on the given administrator of the chapter or fund.

In the case of mandatory social expenditures, considerable savings will occur due to a change in the valorisation formula for pensions during 2013–2015. Pensions will be increased by 1/3 of the growth in prices and by 1/3 of the growth in real wages, and thus the current 100% adjustment for rise in the price level will be limited (see also chapter 3.4). Due to this measure, cumulative expenditures on pensions in the outlook period will be decreased by CZK 46 billion. In contrast, growth of expenditures on pensions will occur in 2013 due to an increase in the price level, which will be caused by change in VAT rates. Other legislative changes in the area of cash social benefits with significant fiscal impacts are not expected.

In connection with the growth of VAT rates, other additional general government expenditures for the purchase of goods and services (intermediate consumption) will occur, as will expenditures on social benefits in kind (totalling ca CZK 2.7 billion in 2013).

A considerable part of the savings realised in general government finances should occur in government consumption, which will be affected by the planned revisions to the agendas of ministries, state funds and a number of other central government offices. Revisions will be connected to reducing duplication, unifying and merging offices, general spending cuts and freezes. The estimated decrease in expenditures is CZK 12.7 billion in 2013 and another CZK 10.5 billion from 2014.

Table 3.5: General Government Revenue (ESA 95)

	2011	2012	2013	2014	2015
bn CZK					
Total revenue	**1528**	**1537**	**1584**	**1628**	**1671**
Tax revenue	**720**	**737**	**771**	**802**	**819**
Taxes on production and imports	440	458	480	497	510
Value added tax	265	280	298	309	319
Excise taxes	150	147	149	154	155
Current taxes on income, wealth, etc.	275	276	290	304	308
Personal income tax	143	142	155	166	169
Corporate income tax	129	130	132	135	135
Capital taxes	4	3	0	0	0
Social contributions	**592**	**598**	**606**	**621**	**642**
Property income	**28**	**28**	**18**	**16**	**16**
Other	**188**	**174**	**190**	**190**	**194**
growth in %					
Total revenue	**3.2**	**0.5**	**3.1**	**2.8**	**2.7**
Tax revenue	**5.0**	**2.4**	**4.6**	**4.1**	**2.1**
Taxes on production and imports	4.2	4.0	4.9	3.6	2.7
Value added tax	2.5	5.6	6.3	3.7	3.5
Excise taxes	8.2	-2.1	1.5	3.8	0.5
Current taxes on income, wealth, etc.	4.7	0.4	5.2	4.9	1.2
Personal income tax	8.4	-0.2	8.8	7.3	1.8
Corporate income tax	1.1	1.0	1.6	2.2	-0.3
Capital taxes	1849.3	-35.7	-91.4	1.0	1.0
Social contributions	**2.5**	**1.0**	**1.2**	**2.5**	**3.4**
Property income	**-7.7**	**-1.8**	**-33.5**	**-15.9**	**4.0**
Other	**0.5**	**-7.6**	**9.0**	**0.2**	**2.3**
Tax burden *% of GDP*	**34.6**	**35.1**	**35.6**	**35.6**	**35.1**

Note: The given tax quota (tax burden) includes both the share of VAT transferred towards EU as its own income and customs revenue.
Source: MF CR.

Starting from 2014, further administrative savings of CZK 1 billion should occur in connection with establishing the Unified Revenue Collection Agency.

Following significant drops in gross fixed capital formation during 2010–2012, we anticipate substantial recovery in general government's investment activity with average YoY growth at 6%. While in 2013 that growth will be due to greater investments co-financed from EU funds, increases in the following years will be driven by investments from national sources. In the following years, moreover, we expect the public procurement system to become more effective, which should be connected with gradual implementation of the State Treasury system. Total savings to ensue from these measures are estimated at approximately CZK 5 billion.

Despite notable relative growth in interest costs during 2013–2015, the expected absolute outlays to service the government debt has decreased in comparison with previous forecasts. Government debt-service costs should reach CZK 68 billion in 2015, which is CZK 7 billion less than expected in the May issue of the Fiscal Outlook.

Table 3.6: General Government Expenditure (ESA 95)

	2011	2012	2013	2014	2015
CZK bn					
Total expenditure	**1653**	**1728**	**1695**	**1734**	**1771**
Final consumption expenditure	**793**	**792**	**795**	**791**	**810**
Collective consumption	381	382	373	364	376
Individual consumption	412	410	421	428	434
Social benefits in kind	228	228	232	236	240
Transfers of individual non-market goods and services	185	182	190	192	194
Social transfers other than in kind	**527**	**539**	**556**	**568**	**581**
Interest	**53**	**56**	**58**	**63**	**68**
Subsidies	**80**	**75**	**76**	**76**	**77**
Gross fixed capital formation	**140**	**133**	**140**	**150**	**159**
Other	**61**	**133**	**71**	**85**	**76**
Compensation of employees	**280**	**289**	**291**	**289**	**290**
Total social transfers	**755**	**767**	**787**	**804**	**822**
growth in %					
Total expenditure	**-0.5**	**4.5**	**-1.9**	**2.3**	**2.1**
Final consumption expenditure	**-1.8**	**-0.1**	**0.3**	**-0.4**	**2.4**
Collective consumption	-4.3	0.3	-2.3	-2.5	3.3
Individual consumption	0.7	-0.4	2.7	1.5	1.6
Social benefits in kind	2.3	0.3	1.4	1.8	2.0
Transfers of individual non-market goods and services	-1.4	-1.3	4.2	1.0	1.0
Social transfers other than in kind	**1.8**	**2.3**	**3.1**	**2.3**	**2.3**
Interest	**2.9**	**6.1**	**4.5**	**8.9**	**6.8**
Subsidies	**11.9**	**-6.3**	**1.0**	**1.0**	**1.0**
Gross fixed capital formation	**-14.6**	**-5.0**	**5.1**	**6.9**	**6.4**
Other	**21.7**	**118.7**	**-46.7**	**20.0**	**-10.8**
Compensation of employees	**-2.1**	**3.5**	**0.7**	**-1.0**	**0.5**
Total social transfers	**1.9**	**1.7**	**2.6**	**2.2**	**2.2**

Source: MF CR.

3.2.3 General Government Debt

The government debt as a proportion of GDP has been increasing from 2009 to the present at a faster rate due to economic development. In the period of the outlook, the growth in that ratio should slow in relation to the anticipated economic recovery and due to the effects of the adopted consolidation measures. Interest outlays show a tendency for slight growth across the entire time period. The impacts of other factors are minimal in the years of the outlook.

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

The difference between the operating balance (flow value) and change in debt (stock value) is expressed by factors acting on the level of debt (so-called stock-flow adjustment). Different changes in general government deficit and debt can be mainly explained by the development of nominal GDP in the forecast horizon, when due to the GDP growth, ceteris paribus, decrease the debt quota. As for the other factors, considerable effects have accrualization differences and net acquisition of financial assets. These items, however, operate in the opposite direction and to a large extent offset each other. We assume slight decrease in the net accumulation of financial assets in 2013, or slight dissolution of the reserve, which was created in 2012, respectively. Due to the uncertainty in financial markets, it is expected to keep the reserves in the following years. Accrualization differences are attributable to the difference between cash and accrued interests. In 2011 and 2012 there was a significant increase in issuance of premium bonds, where in the case of cash approach, there is a one-off record of interest payments, while in the case of accrual methodology, these payments are decomposed to the maturity of the bond. In 2012 accrualization factors also include the one-off measures of financial compensation to churches, the effect of which is negative and does not affect the total debt in 2012. Impact on accrualization has also the increase in other liabilities in the forecast horizon. It is expected a stronger government role in business relations and stronger ability to defer the date of maturity, as well as milder decrease (or growth, respectively) of intermediate consumption in the forecast horizon. It is very likely that under current conditions, the general government debt will be very close to the threshold of 50 % of GDP in 2015. Despite the decreasing pace, the trend of debt quota growth will not be probably changed in the years of outlook.

Table 3.7: Gross Consolidated Government Debt (ESA 95)

		2010	2011	2012	2013	2014	2015
General government	*CZK bn*	**1437**	**1568**	**1737**	**1849**	**1953**	**2055**
Central government	*CZK bn*	1342	1470	1636	1752	1853	1954
Local government	*CZK bn*	97	99	105	102	104	105
Social security funds	*CZK bn*	0	0	0	0	0	0
General government debt to GDP ratio	*% of GDP*	**38.1**	**41.2**	**45.5**	**47.6**	**48.6**	**49.2**
Contributions to change in debt							
Change in debt	*p.p.*	3.7	3.1	4.3	2.2	1.0	0.5
Primary balance	*p.p.*	**3.5**	**1.9**	**3.6**	**1.4**	**1.1**	**0.8**
Interest	*p.p.*	**1.4**	**1.4**	**1.5**	**1.5**	**1.6**	**1.6**
Nominal GDP growth	*p.p.*	**-0.3**	**-0.3**	**-0.1**	**-0.7**	**-1.6**	**-1.9**
Stock-flow adjustment	*p.p.*	**-0.8**	**0.2**	**-0.6**	**0.0**	**-0.1**	**0.0**
Difference between cash and accruals	*p.p.*	-0.4	1.1	-1.5	0.1	-0.2	-0.2
Net acquisition of financial assets	*p.p.*	-0.3	-0.9	0.9	-0.1	0.1	0.3
Revaluation effects and other	*p.p.*	-0.2	0.1	0.1	0.0	0.0	0.0

Source: MF CR.

3.2.4 Cyclical Development and Breakdown of the Balance

The shallow recession in which the Czech Republic has been since the second half of 2011 has brought intensification of the negative production gap, which would persist throughout the entire forecast horizon despite its gradual closing from 2013.

The item "One-off and other temporary measures" in 2012 reflects outlays connected with receipts from sales of emission permits according to the Kyoto Protocol of CZK 10.5 billion. Deficit of 5.0% GDP in 2012 includes also the comprehensive correction of EU funds (CZK 11.2 billion) and full amount of financial compensation to churches – CZK 59.0 billion (see also subchapter 2.2.2). The Ministry of Finance accounts for these spending as one-offs, which means that they are excluded from the structural balance. As they are not of structural nature, they should not affect the fiscal effort. The total extent of one-off and temporary operations for the year 2012 is estimated at a high level of 2% of GDP.

The auction sale of LTE frequencies to mobile operators (estimated revenues of CZK 7 billion) has been set as a one-off operation in 2013 on the revenue side, while on the expenditure side the one-off character would have the capital transfer for non-standard state guarantees (guarantee resulting from the IPB Bank crisis in the year 2000) amounting to CZK 2 billion. This annual expenditure transfer is expected in the same volume temporarily until 2016.

Fiscal effort, the positive values of which in the recent past and again this year represented improvement in the structural balance, will be essentially unchanged during 2013–2015. The anticipated improvement of the total general government balance should thus be caused mainly by recovery in GDP growth.

Within the framework of the EU's fiscal regulations, the Czech Republic is obliged to achieve its **medium-term budgetary target** as soon as possible by credible and sustainable means. This target corresponds to a structural deficit at a maximum 1.0% of GDP. The fiscal effort trajectory suggests that in the current fiscal policy setup, the medium-term target will not be fulfilled within the years of the outlook.

Table 3.8: Structural Balance of the General Government (ESA 95)

		2011	2012	2013	2014	2015
Real GDP growth	%	1.7	-1.0	0.7	1.9	2.6
Potential GDP growth	%	0.6	1.1	1.1	1.2	1.3
Output gap	% PP	-0.7	-2.7	-3.1	-2.4	-1.2
General government balance	% of GDP	**-3.3**	**-5.0**	**-2.9**	**-2.7**	**-2.4**
Cyclical budgetary component	% of GDP	-0.2	-0.9	-1.0	-0.8	-0.4
Cyclically adjusted balance	% of GDP	**-3.1**	**-4.2**	**-1.9**	**-1.9**	**-2.1**
One-off and other temporary measures	% of GDP	-0.1	-2.1	0.1	0.0	0.0
Structural balance	% of GDP	**-3.0**	**-2.1**	**-2.0**	**-1.9**	**-2.0**
Change in structural balance	p.p.	**1.4**	**0.9**	**0.1**	**0.2**	**-0.2**
Interest	% of GDP	1.4	1.5	1.5	1.6	1.6
Structural primary balance	% of GDP	**-1.6**	**-0.6**	**-0.5**	**-0.3**	**-0.4**
Change in structural primary balance	p.p.	**1.4**	**1.0**	**0.1**	**0.2**	**-0.1**

Source: MF CR.

3.3 Sensitivity Analysis

Because the Czech economy is small and open, it is largely dependent on external developments – and especially upon developments in the EU. Due to the EU debt crisis, the EU forecast is burdened by considerable uncertainty. Therefore, the first two scenarios in the sensitivity analysis were selected to demonstrate the extent of the impacts from economic growth in the EU different than anticipated. We consider both the situation of a sudden drop in the GDP growth dynamics in the first year of the simulation and a case of long-term deterioration in the economic development, where the EU's decreased growth rate is simulated as permanent. The third alternative scenario simulates the impacts on the Czech economy of an increased domestic interest rate. The alternative scenarios are derived from the macroeconomic framework of this Fiscal Outlook.

3.3.1 Slower Economic Growth in EU in 2013

The first scenario for the EU is based on an assumption of weaker economic growth, defined as 1 p.p. lower growth of real GDP versus the basic scenario, and that only in 2013.

Such a scenario would be reflected in the Czech economy primarily via exports, of which more than 80% are directed to EU countries. Lower foreign demand would lead to a decrease in net exports and deterioration of the current account balance, which would be negatively reflected in real GDP growth and development of unemployment. This effect would be most marked in 2013, although that weakness would be notable also in the following year. The impacts on inflation appear very moderate, as two opposing effects would be at work here: (i) wage pressures would diminish due to lower production in the Czech economy, pressing down on inflation; and (ii) on the other hand, deterioration of the current account would have a depreciating influence on the Czech koruna, thus increasing the prices of imported inputs for companies. As a result, inflation would decrease only modestly in 2013.

The general government balance would be affected by lower tax collections from both corporations and individuals. At the same time, the expenditure side would grow due to higher benefits paid out in relation to unemployment. Larger government deficits would then also be accumulated into the debt in the following years.

Along with the gradual recovery of foreign demand from 2014, the Czech economy should also gradually recover, and especially in the following year.

3.3.2 Permanently Slower Economic Growth in EU

The second scenario considers long-term unfavourable economic development in the EU, defined as 1 p.p. lower growth of real GDP in each year of the Fiscal Outlook's forecast horizon.

Under this scenario, the Czech economy's negative response in each year of the presumed pessimistic development in the EU would be caused by the same mechanism as in the previous scenario. The situation would be at its worst in 2014, when only the negative effects of the permanent worsening of GDP growth in the EU would be accumulated. However, the economy would tend gradually to begin to recover, and therefore the negative impacts of development abroad would be slightly mitigated in the following years. Nevertheless, the debt quota would continue to grow in the government sector.

3.3.3 Rise in the Domestic Interest Rate

The final scenario is based on an assumption of sudden growth in the domestic interest rate by 0.5 p.p., and only in 2013.

A higher interest rate makes current consumption dearer due to higher opportunity costs in the case of postponing consumption in time. Domestic demand and prices would thus decrease and growth in investment spending would be hampered by higher interest rates on loans. This would all be reflected in decreased GDP growth and increased unemployment.

As in the case of lower GDP growth in the EU, general government revenues would be influenced by lower collection of taxes both from businesses and from individuals. With higher unemployment, government outlays would also rise. A negative balance would then be reflected in debt accumulation.

Changes to the interest rate generally occur bit by bit, and therefore reversion to the original level would also occur over a longer period. This implies that the influence of the examined sudden increase in the interest rate on the Czech economy would have a longer-term character.

Table 3.9: Model Scenarios of Macroeconomic Simulations

		2012	2013	2014	2015
Baseline Scenario					
Gross domestic product	*Y-o-Y in %*	-1.0	0.7	1.9	2.6
Inflation (HICP)	*Y-o-Y in %*	3.5	2.1	2.3	1.9
Unemployment rate	*in %*	6.9	7.3	7.2	7.0
Current account	*% of GDP*	-1.3	-1.2	-1.0	-1.3
General government balance	*% of GDP*	-5.0	-2.9	-2.7	-2.4
Gross government debt	*% of GDP*	45.5	47.6	48.6	49.2
Alternative Scenario I - Lower GDP Growth in EU in 2013					
Gross domestic product	*Y-o-Y in %*	-1.0	0.0	1.8	2.8
Inflation (HICP)	*Y-o-Y in %*	3.5	2.0	2.2	2.1
Unemployment rate	*in %*	6.9	7.6	7.3	6.8
Current account	*% of GDP*	-1.3	-2.0	-1.5	-1.2
General government balance	*% of GDP*	-5.0	-3.3	-2.7	-2.3
Gross government debt	*% of GDP*	45.5	48.3	49.7	49.5
Alternative Scenario II - Permanently Lower GDP Growth in EU					
Gross domestic product	*Y-o-Y in %*	-1.0	0.0	1.1	2.0
Inflation (HICP)	*Y-o-Y in %*	3.5	2.0	2.1	2.0
Unemployment rate	*in %*	6.9	7.6	7.5	7.2
Current account	*% of GDP*	-1.3	-2.0	-2.4	-2.5
General government balance	*% of GDP*	-5.0	-3.3	-3.2	-2.8
Gross government debt	*% of GDP*	45.5	48.3	50.4	51.3
Alternative Scenario III - Higher Interest Rate					
Gross domestic product	*Y-o-Y in %*	-1.0	0.4	1.6	2.4
Inflation (HICP)	*Y-o-Y in %*	3.5	1.9	1.8	1.5
Unemployment rate	*in %*	6.9	7.5	7.6	7.3
Current account	*% of GDP*	-1.3	-1.1	-1.1	-1.5
General government balance	*% of GDP*	-5.0	-3.2	-3.0	-2.6
Gross government debt	*% of GDP*	45.5	48.0	49.8	50.4

Source: MF CR calculations.

3.4 Long-term Sustainability of General Government Finance

In May 2012, the Ageing Report (2012) update was issued, as it is every three years jointly by the European Commission and the Economic Policy Committee within the Ageing Working Group. The report contains projections of expenditures until 2060 in five traditional areas – pensions, medical services from the public health insurance system, long-term care, education and unemployment benefits. The Ministry of Finance actively participates in preparing this report and processes forecasts of pension expenditures. The projections of other expenditures are calculated on the basis of a model developed by the European Commission. The basic scenarios for these expenditures are therefore stated only for reference in Table 3.13.

Table 3.10: Main Macroeconomic and Demographic Assumptions

(%)

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

Source: EC (2012).

The basic macroeconomic and demographic assumptions are displayed in Table 3.10. In addition to macroeconomic and demographic assumptions of projections, approved reform measures are factors influencing new projections.

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

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

Valorisation of pensions is from 2011 onwards determined according to a fixed rule, not, as heretofore, by a minimal rule. Thus there is no longer room for the government to increase it artificially.

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

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

Table 3.11: Reduction Brackets (RB) and Relevant Income for Pension Calculations

	2011a	2011b	2012	2013	2014	2015
Relevant income up to 1st RB	100%	100%	100%	100%	100%	100%
Relevant income between 1st and 2nd RB	30%	29%	28%	27%	26%	26%
Relevant income between 2nd and 3rd RB	10%	13%	16%	19%	22%	0%
Relevant income above 3rd RB	10%	10%	8%	6%	3%	0%
1st RB as % of average gross wage	44	44	44	44	44	44
2nd RB as % of average gross wage	116	116	116	116	116	400
3rd RB as % of average gross wage	400	400	400	400	400	0

Note: Notation 2011a means until the 29th of September 2011, 2011b from 30th of September 2011.
Source: Act No. 155/1995 Coll.

Table 3.12: Pension Expenditures Projections (2010–2060)
(% of GDP)

	2010	2020	2030	2040	2050	2060
Public pension expenditures	9.1	8.7	8.9	9.7	11.0	11.8
old-age	7.2	6.9	6.9	7.5	8.8	9.5
disability	1.2	1.1	1.3	1.3	1.4	1.4
survivors	0.7	0.7	0.8	0.9	0.9	0.9

Source: MF CR calculations.

The results of the current pension projection for the 2010–2060 horizon are summarised in Table 3.12. The projections do not include the influence from the planned introduction of the so-called opt-out. The thematic chapter 4 is devoted to pension projection inclusive of an opt-out in several sensitivity scenarios.

The main factor influencing the expenditures trajectory is demography – the ageing of the population, as documented by Table 3.10, on the share of people aged 65+ in the total population. It will be doubled from recent 15% to 30.4% over the projection horizon until 2060. However, the parametric changes made in the pay-as-you-go system, and specifically the shift of the statutory retirement age, work significantly against this trend. This will influence the number of pensioners and their proportion in the population. However, this measure is accompanied by the negative effect for the pension system shown in higher levels of earnings, calculation bases, and subsequently also pensions paid. On the other hand, the change in valorisation has a positive effect; it is hereafter strictly defined by law, not as a minimal value that could be increased at the government's discretion (note: the approved change of the valorisation scheme from full credit of growth in consumer prices and one third of real wages to one third of growth in index of consumer prices and one third of growth in real wages in the 2013–2015 period is not reflected in the projections, as it was only approved after their creation and publication). The result of these cumulated effects is an increase of pension expenditures from recent 9.1% in base year 2010 to 11.8% at the end of projection horizon as shown in Table 3.12. Outlays on old-age pensions have the biggest share in the expenditure increase have as they grow from 7.2% to 9.5%.

Two effects counteract in the case of disability pensions. The first concerns the division of pensioners into three groups (instead of the original two), thereby moving some of the pensioners to lower groups with lower pensions. On the other hand, there is the effect from shifting retirement age, which very probably will be balanced by an increasing number of disabled pensioners. The dynamics of this type of pension, as well as those survivors', is relatively very moderate, amounting to 0.2 p.p. within the range of five decades.

For purposes of illustration, we present the projections of other long-term expenditures, including a forecast of unemployment benefits, shown in Table 3.13.

The mentioned scenarios are basic and reference. Unfortunately, in the case of health care and long-term care, the reference scenario is not so intuitive as it is for pensions and education outlays. In the basic scenario, it is not completely correct to consider only the influence of the macroeconomic and demographic assumptions for these types of expenditures, as other factors commonly affect them, such as the health status (the increasing lifespan still does not account for whether those additional years will be spent in good or ill health) and pension elasticity.

In the case of costs for medical services in the reference scenario, it is assumed that of future increases in average lifespan the first half will be spent in good health and the second half in illness. It is also assumed that income elasticity (i.e. the ratio of the percentage changes in income within the economy and in outlays for health care services) will converge from 1.1 in 2010 to 1.0 in 2060. The same assumption about the increasing lifespan and health is used in the scenario for long-term care. The result is an increase of outlays on health care from 6.9% to 8.5% in 2060. These are, besides outlays on pensions, second biggest factor of growth in social security expenditures.

Table 3.13: Other Long-term Expenditures (2010–2060)
(% of GDP)

	2010	2020	2030	2040	2050	2060
Health care	6.9	7.3	7.8	8.1	8.4	8.5
Long-term care	0.8	0.9	1.1	1.2	1.3	1.5
Education	3.4	3.4	3.6	3.3	3.4	3.7
Unemployment benefits	0.4	0.3	0.2	0.2	0.2	0.2

Source: EC (2012).

4 Pension Reform – Introducing an Opt-Out

4.1 Basic Features of the Reform

The pension system reform consists of the introduction of pension savings. The Parliament of the Czech Republic approved the reform in November 2011, and the pension savings are supposed to begin operating from the start of 2013.

The Act introduces a (fund-based) pension savings with voluntary entrance for persons younger than 35 years at the time of the reform's activation. Persons older than 35 years and not receiving an old-age pension at the time of activation will be given half a year from the start of the reform to decide – i.e. the first half of 2013. Persons younger than 35 years can decide to enter the funded pillar until the end of the year, in which they reach the age of 35 years. However, this measure is only valid for those who will be employed (or self-employed) at the time of the reform's activation, not for unemployed and economically non-active persons. For these individuals, the six-month period will start running only from the time they become payers of pension insurance for the first time since activation of the reform. The insured person will be unable to change his or her decision in future.

Financing of pension savings will be provided by participants' funds being transferred from the first pillar in the amount of 3 p.p. from the total contribution rate of 28% (the employee pays 6.5 p.p. and the employer 21.5 p.p.). Each insured person will have to add to this an additional 2 p.p. from his or her own funds. Therefore, for participants in the second, fund-based pillar, the total contribution rate will increase to 30%, whereas 25 p.p. will be paid into the current pay-as-you-go system and the remaining 5 p.p. into the newly established pension savings.

In the accumulation phase, the funds will be administered by pension companies, which will be obliged to offer their clients four funds with respect to level of riskiness: state bonds only, conservative, balanced and dynamic. The payment phase of the funds saved in pension savings will be provided by a life insurance company selected by the participant. It will be possible to draw paid benefits either in the form of a lifetime annuity (or alternatively with arranged payment of a survivor's pension for 3 years from the death of the participant to a person designated by the participant in the pension insurance agreement; this need not necessarily be the same person designated as the survivor of the pensioner from the first pillar) or an annuity paid over 20 years (in case of the participant's earlier death, the undrawn funds will be subject to inheritance).

Fees to pension companies are explicitly defined by the Act on Retirement Savings (No. 426/2011 Coll., Section 32). Fees are defined for the management of pension fund assets and for investment returns on assets in the pension funds (except for the state bonds fund).

Participation in the pension savings system will understandably influence the amount of the old-age pension, but not the amount of other pensions (disability and survivor's). In the case of old-age pensions, for those participants in the pension savings system, the percentage calculation of the pension was decreased from 1.5% to 1.2% in calculating the old-age pension from the first pillar, but only during the period of employment when enrolled to funded pillar.

The founding of the pension savings will cause an immediate decrease in revenues to the pay-as-you-go first pillar, compensated by lower outlays in future.

4.2 Motivation

It is not currently possible to precisely determine the specific impact of the reform, as every such estimate is essentially speculative. As the participants will start opting out only after the reform is initiated, and as everything depends to a considerable extent on confidence in the reform, as well as, for example, on the information campaign, no qualified estimate can be made at this time. The sensitivity scenarios we have selected for estimating the impact of introducing the opt-out are presented below. These are not estimates as to the actual development upon activation of the reform.

We almost must add that we in no way deal with estimates as to future levels of paid out pensions. The point of this exercise is only to determine the costs for public finance on the basis of the selected assumptions. This analysis assesses impacts on financing of the pay-as-you-go pillar and does not take adequacy of the pension for individuals into consideration as well as it does not analyse advantages and disadvantages of the system. These long-term projections should be considered as trend projections which has a potential in information about the relative trends of long-term development.

4.3 Model Solutions and Assumptions

Slight modification of the model, which Ministry of Finance uses, was employed for the purpose of impact analysis. Within the first approach to estimates, modifications that allow adjusting revenues and expenditures of the pay-as-you-go system, modifications have been done regarding the expecting opt-out of some people from the first pillar.

Very uncertain variable is the share of people which will opt-out in particular calendar years. It is very difficult to assume behaviour of individuals that is why this variable enters the model from outside (exogenously) as an assumption. Level of income will be with the highest probability crucial for decision about participating in the II. pillar, so also here the model accounts for an income distribution. Scenarios of probable development are based on this distribution when specifying assumption about the participation of individuals on the II. pillar. Another type of assumption is speculation in what age will people decide about opting out. It is thus possible to think about different probabilities of decision in particular ages between entering the labour market and 35 years of age, which has been set as marginal. In the first year (half of the year respectively) after the reform is initiated, all economically active persons are allowed to decide.

To capture the total impact into the state pay-as-you-go pillar it is necessary to analyse effects on both, revenues with the effect of partial decrease in contributions to the system and also on expenditures that will decline in the future with retiring of people that accrued lower pension rights. In case of first mentioned revenue side it was necessary to incorporate the income distribution in particular years so it is possible to lower contributions of those from respective income groups which opt-out by 3 p.p. of contribution rate. The expenditure side is prepared in a rather detailed manner within the model (regarding the categories of individual pensions, sex and age units), which allows a relatively detailed approach to the analyses. As in case of revenues, also here pension income distribution of individual age cohorts plays a role.

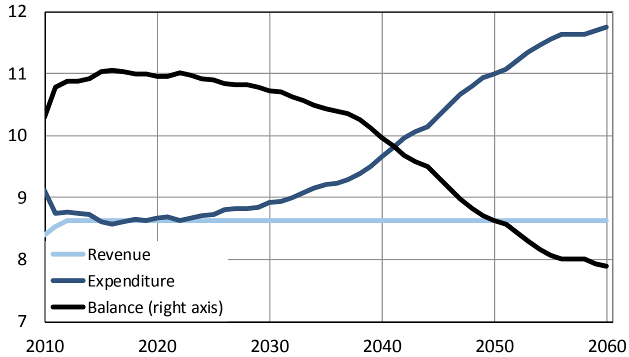
4.4 Sensitivity Scenarios

As explained above, sensitivity scenarios are selected entirely arbitrarily. For that reason, as the starting point of the entire analysis we present the scenario where no one opts out of the PAYG system.('no-policy-change' scenario) that is identical to the one presented in the subchapter 3.4).

The initial scenario is of course an extreme variant with zero impact versus the current state. Therefore, a second scenario is immediately offered, which is on the counterpart, where all participants in the labour market will opt out ('100% opt-out' scenario).

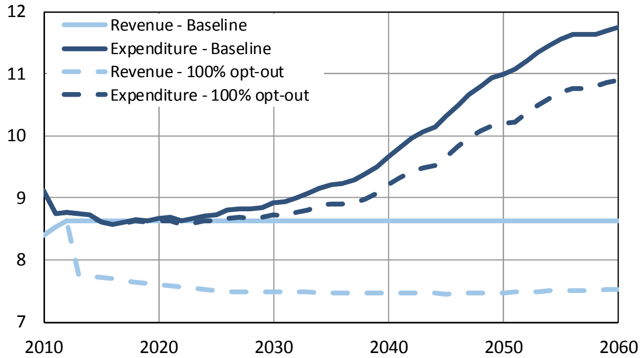
The rationale behind results of this scenario is applicable to following opt-out scenarios as well with a difference of intensity of the impact. 'Realistic' scenarios are based on the fact that opting out will be advantageous for people of a certain income. This depends on the length of insurance and the expectations of individual participants about the future returns of pension funds. We therefore selected two scenarios from this perspective. In the first ('average wage' scenario), all people with incomes at the level of average wage and higher will opt out. In the second scenario ('wealthiest' scenario), we assume that only people with incomes in the highest income groups (over two times average wage per month) will opt out.

Graph 4.1: No-Policy-Change Scenario
(% of GDP)



Source: MF CR.

Graph 4.2: 100% Opt-out Scenario
(% of GDP)



Source: MF CR.

Similar phenomenon to previous scenario of 100% opt-out occurs here however, differences from the baseline are smaller. This is naturally determined by smaller share of opting-out persons and people with lower than average wage staying in the pay-as-you-go system only.

The "Richest" Scenario has even milder impacts, where only groups of persons with an income higher than two-times average wage chooses opt-out. Revenues are permanently lower by slightly more than half of percentage point under this assumption (after initial more significant drop), expenditures then decline by the same share, but at the end of the horizon.

Another unknown in the overall opt-out decision process is the behavioural pattern of persons younger than 35 years, who must decide before reaching 35 years of age. The entire matter can be resolved by assigning a certain probability to each age as to whether they will make a decision to opt out (while logically the probability will equal 1 at 35 years of age).

In this respect, we select for the initial scenario a variant where persons decide about opt-out with gradual intensity with approaching 35 years of age (thus probability of decision linearly grow from 0 to 1 between 15 and 35 years of age). As an alternative scenario, we assume the decision at the latest possible age of 35 years. For persons aged 34 and younger the probability of making a decision will be 0 and for persons aged 35 equal to 1.

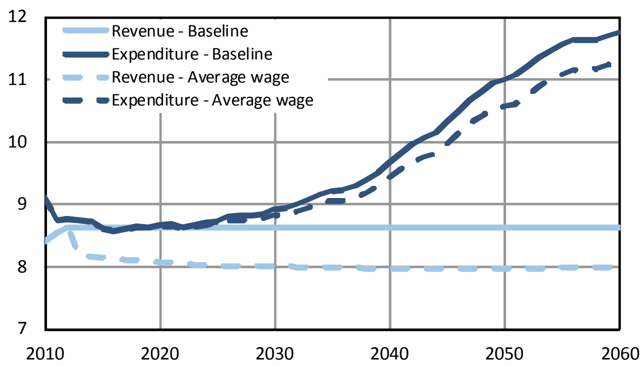
It is clear from the results that the sooner will people opt-out from the first pillar, less revenues will flow to the system and less will be paid out on old-age pension expenditures at the long end of projections.

For the sake of comparability of previous more or less extreme scenarios it is possible to calculate balance of the system as shown on Graph 4.6. Common feature of opt-out scenarios is the initial drop, which is the more significant the more people will leave the first pillar with their contributions. The relative difference with the baseline scenario is decreasing in the longer run regarding the lower accrued pension rights of these persons.

In conclusion it is true that opt-out system deepen deficits of the system due to immediate drop in revenues. Savings in expenditures will come in longer horizon together with retiring of people that accrued lower pension rights.

Graph 4.3: Average Wage Scenario

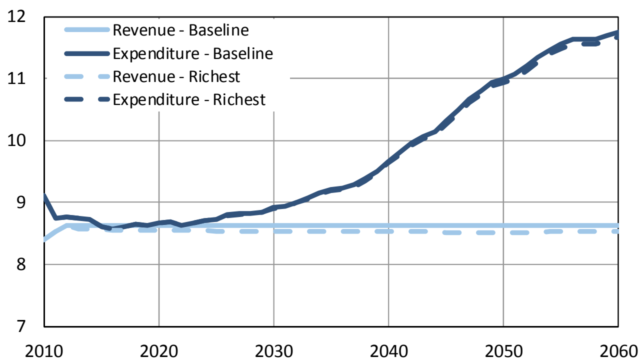
(% of GDP)



Source: MF CR.

Graph 4.4: The "Richest" Scenario

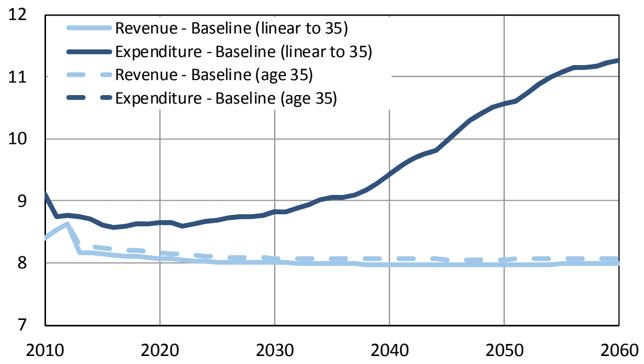
(% of GDP)



Source: MF CR.

Graph 4.5: Probability of Decision

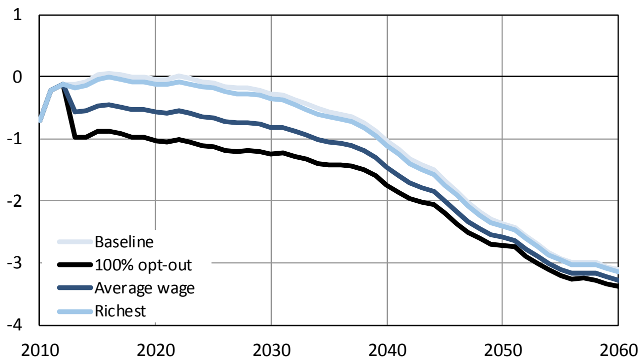
(% of GDP)



Source: MF CR.

Graph 4.6: Balance of the System

(% of GDP)



Source: MF CR.

5 References

Act No. 155/1995 Coll., on Pension Insurance, as amended.

Act No. 218/2000 Coll., on Budgetary Rules and on amendments of some related acts (budgetary rules)

Act No. 455/2011 Coll., on the State Budget of the Czech Republic in 2012.

Closing Account of the State Budget of the Czech Republic in 2010

Council of the EU (2009): Council Recommendation to the Czech Republic with a View to Bringing an End to the Situation of an Excessive Government Deficit. Council of the European Union, Brussels, November 30, 2009, No.15755/09 [cit. 8.11.2012], <http://ec.europa.eu/economy_finance/sgp/pdf/30_edps/104-07_council/2009-12-02_cz_126-7_council_en.pdf>.

Council of the EU (2011): Council recommendation on the National Reform Programme 2011 of the Czech Republic and delivering a Council opinion on the updated Convergence Programme of the Czech Republic, 2011-2014. Council of the European Union, Brussels, July 1, 2011, No. 11389/2/11, [cit. 8.11.2012], <http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2011/04_council/cz_2011-07-12_council_recommendation_en.pdf>.

Council of the EU (2012): Council recommendation on the National Reform Programme 2012 of the Czech Republic and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2012-2015. Council of hte European Union, Brussels, July 10 2012, No. 11248/22, [cit. 8.11.2012], <http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2012/04_council/cz_2012-07-10_council_recommendation_en.pdf>.

CZSO (2012a): General Government Sector, Government Deficit and Debt. Prague, Czech Statistical Office, 2.4.2012, [cit. 1.10.2012], <http://www.czso.cz/eng/redakce.nsf/i/notifications_of_the_government_deficit_and_debt_20120402>.

CZSO (2012b): General Government Sector, Government Deficit and Debt. Prague, Czech Statistical Office, 1.10.2012, [cit. 1.10.2012], <http://www.czso.cz/eng/redakce.nsf/i/notifications_of_the_government_deficit_and_debt_20121001>.

Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC

Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community

EC (2012): The 2012 Ageing Report: Economic and Budgetary Projections for the 27 EU Member States (2010-2060). Brussels, May 2012, European Economy No. 2.

ECB (2012): Interest Rate Statistics. European Central Bank, October 2012 [cit. 7.11.2012], <http://www.ecb.europa.eu/stats/money/long/html/index.en.html>.

Eurostat (2012a): Eurostat Database. Luxemburg, Eurostat, October 2012 [cit. 22.10.2012], <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database>.

Eurostat (2012b): Provision of Deficit and Debt Data for 2011 – Second Notification. Luxemburg, Eurostat, 22. 10 2012 [cit. 22.10.2012], <http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22102012-AP/EN/2-22102012-AP-EN.PDF>.

IMF (2012): Czech Republic: 2012 Article IV Consultation - Staff Report: Staff Supplements; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Czech Republic. International Monetary Fund, 18 May 2012. Country Report No. 12/115: http://www.imf.org/external/pubs/cat/longres.aspx?sk=25924.0.

MF CR (2011a): Fiscal Outlook of the CR (May 2011). Prague, Ministry of Finance of the CR, May 2011 [cit. 8.11.2012], < http://www.mfcr.cz/cps/rde/xbcr/mfcr/Fiscal-Outlook_2011-05.pdf>.

MF CR (2011b): Fiscal Outlook of the CR (November 2011). Prague, Ministry of Finance of the CR, November 2011 [cit. 8.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/FiscalOutlook_2011-11_pdf.pdf>.

MF CR (2012a): Convergence Programme of the CR (2012). Prague, Ministry of Finance of the CR, April 2012 [cit. 8.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/Convergence-Programme-CR_2012-04.pdf>.

MF CR (2012b): Fiscal Outlook of the CR (May 2012). Prague, Ministry of Finance of the CR, May 2012 [cit. 8.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/FiscalOutlook_2012-05.pdf>.

MF CR (2012c): Macroeconomic Forecast of the CR. Prague, Ministry of Finance of the CR, July 2012 [cit. 8.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/Macroeconomic-Forecast_2012-Q3.pdf>.

MF CR (2012d): Macroeconomic Forecast of the CR. Prague, Ministry of Finance of the CR, October 2012 [cit. 8.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/Macroeconomic-Forecast_2012-Q4.pdf>.

MF CR (2012e): Methodological Manual to the Fiscal Outlook of the CR (May 2012 update). Prague, Ministry of Finance of the CR, May 2012 [cit. 16.11.2012], <http://www.mfcr.cz/cps/rde/xbcr/mfcr/Methodological_Manual.pdf>.

MF CR (2012f): Fiscal Strategy in Light of the New Macroeconomic Forecast. Prague, Ministry of Finance of the CR, July 2012.

OECD (2012): OECD Economic Outlook. OECD Publishing, Vol. 2012/1, May 2012 [cit. 5.11.2012], <http://dx.doi.org/10.1787/eco_outlook-v2012-1-en>.

Proposal of Act on the State Budget of the Czech Republic in 2012, 29.7.2011

Resolution of the European Council on the Stability and Growth Pact. Amsterdam, 17 June, 1997.

Resolution No. 918/2011 of the Chamber of Deputies of the Parliament of the Czech Republic of 14 December 2011, on the Proposal of Medium-term Expenditure Framework for 2013 and 2014.

Resolution No. 275 of the Government of the Czech Republic of 11 April 2012, on the Preparation of the State Budget for 2013 to 2015 and on the Proposal of Medium-term Expenditure Framework for 2013 to 2015.

A Annex of Tables – GFS 2001 Methodology

Table A.1: Consolidated General Government – Revenue

(CZK bn)

	2005	2006	2007	2008	2009	2010	2011
Total revenue	**1190**	**1248**	**1391**	**1478**	**1384**	**1423**	**1430**
Revenue from operating activities	1176	1233	1377	1461	1355	1401	1418
Taxes	**626**	**638**	**716**	**743**	**660**	**691**	**706**
Taxes on income, profits, and capital gains	287	279	318	331	255	261	257
Payable by individuals	142	137	151	143	128	131	134
Payable by corporations and other enterprises	145	142	166	188	127	130	123
Taxes on property	13	13	16	16	14	16	20
Taxes on goods and services	325	346	382	396	391	413	428
Value added tax[1]	202	213	230	249	248	264	269
Excises	111	120	139	133	131	138	147
Social contributions	**446**	**473**	**522**	**548**	**510**	**517**	**533**
Social security contributions	431	457	505	530	496	503	519
Employee contributions	147	113	123	130	114	117	120
Employer contributions	255	316	346	365	338	349	359
Self-employed or nonemployed contributions	27	27	33	33	39	35	37
Other social contributions	15	16	17	18	14	14	14
Grants	**32**	**36**	**47**	**60**	**80**	**85**	**74**
From international organizations	32	36	47	60	79	85	73
Current	24	20	23	27	33	36	40
Capital	7	16	24	34	46	48	33
Other revenue	**73**	**86**	**92**	**110**	**106**	**108**	**105**
Property income	**18**	**22**	**23**	**34**	**34**	**35**	**30**
Interest	5	6	7	10	7	7	3
Dividends	7	10	10	16	19	20	19
Sales of goods and services	**32**	**37**	**41**	**43**	**43**	**44**	**48**
Sales of market establishments	17	20	19	19	20	20	22
Administrative fees	15	16	21	24	23	24	25
Fines, penalties, and forfeits	**4**	**5**	**5**	**4**	**5**	**5**	**4**
Voluntary transfers other than grants	**13**	**12**	**13**	**12**	**15**	**16**	**13**
Miscellaneous and unidentified revenue	**6**	**10**	**9**	**17**	**9**	**8**	**11**
Sales of nonfinancial assets	**14**	**15**	**14**	**17**	**29**	**22**	**12**
Fixed assets	8	9	7	10	9	10	6
Nonproduced assets	6	6	7	8	19	12	6

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

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

	2005	2006	2007	2008	2009	2010	2011
Total revenue	**38.2**	**37.2**	**38.0**	**38.4**	**37.0**	**37.7**	**37.5**
Revenue from operating activities	37.7	36.8	37.6	38.0	36.2	37.1	37.2
Taxes	**20.1**	**19.0**	**19.5**	**19.3**	**17.7**	**18.3**	**18.5**
Taxes on income, profits, and capital gains	9.2	8.3	8.7	8.6	6.8	6.9	6.8
Payable by individuals	4.6	4.1	4.1	3.7	3.4	3.5	3.5
Payable by corporations and other enterprises	4.6	4.2	4.5	4.9	3.4	3.4	3.2
Taxes on property	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Taxes on goods and services	10.4	10.3	10.4	10.3	10.5	11.0	11.2
Value added tax[1]	6.5	6.4	6.3	6.5	6.6	7.0	7.1
Excises	3.5	3.6	3.8	3.5	3.5	3.7	3.8
Social contributions	**14.3**	**14.1**	**14.3**	**14.2**	**13.6**	**13.7**	**14.0**
Social security contributions	13.8	13.6	13.8	13.8	13.3	13.3	13.6
Employee contributions	4.7	3.4	3.4	3.4	3.0	3.1	3.2
Employer contributions	8.2	9.4	9.4	9.5	9.1	9.3	9.4
Self-employed or nonemployed contributions	0.9	0.8	0.9	0.9	1.0	0.9	1.0
Other social contributions	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Grants	**1.0**	**1.1**	**1.3**	**1.6**	**2.1**	**2.2**	**1.9**
From international organizations	1.0	1.1	1.3	1.6	2.1	2.2	1.9
Current	0.8	0.6	0.6	0.7	0.9	1.0	1.1
Capital	0.2	0.5	0.7	0.9	1.2	1.3	0.9
Other revenue	**2.3**	**2.6**	**2.5**	**2.8**	**2.8**	**2.9**	**2.8**
Property income	**0.6**	**0.7**	**0.6**	**0.9**	**0.9**	**0.9**	**0.8**
Interest	0.1	0.2	0.2	0.3	0.2	0.2	0.1
Dividends	0.2	0.3	0.3	0.4	0.5	0.5	0.5
Sales of goods and services	**1.0**	**1.1**	**1.1**	**1.1**	**1.1**	**1.2**	**1.3**
Sales of market establishments	0.5	0.6	0.5	0.5	0.5	0.5	0.6
Administrative fees	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Fines, penalties, and forfeits	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Voluntary transfers other than grants	**0.4**	**0.4**	**0.4**	**0.3**	**0.4**	**0.4**	**0.3**
Miscellaneous and unidentified revenue	**0.2**	**0.3**	**0.3**	**0.4**	**0.2**	**0.2**	**0.3**
Sales of nonfinancial assets	**0.4**	**0.5**	**0.4**	**0.4**	**0.8**	**0.6**	**0.3**
Fixed assets	0.3	0.3	0.2	0.2	0.3	0.3	0.1
Nonproduced assets	0.2	0.2	0.2	0.2	0.5	0.3	0.2

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

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

	2005	2006	2007	2008	2009	2010	2011
Total expense	**1 294**	**1 389**	**1 436**	**1 517**	**1 631**	**1 602**	**1 601**
Expense for operating activities	**1 212**	**1 290**	**1 346**	**1 421**	**1 513**	**1 495**	**1 508**
Compensation of employees	**121**	**128**	**136**	**141**	**147**	**146**	**136**
Wages and salaries	91	96	102	106	111	111	103
Social contributions	30	31	34	35	35	35	33
Actual social contributions	30	31	34	35	35	35	33
Use of goods and services	**114**	**126**	**125**	**133**	**148**	**142**	**129**
Interest	**25**	**34**	**37**	**45**	**50**	**42**	**48**
Subsidies	**235**	**254**	**266**	**273**	**302**	**300**	**308**
To public corporations	166	180	187	206	206	205	205
To private enterprises	69	74	79	66	96	95	103
Grants	**24**	**24**	**27**	**29**	**30**	**31**	**34**
To international organizations	24	24	27	29	30	31	34
Current	24	24	27	29	30	31	34
Social benefits	**503**	**544**	**588**	**618**	**664**	**671**	**687**
Social security benefits	503	544	588	618	664	671	687
Other expense	**190**	**181**	**168**	**182**	**173**	**164**	**166**
Miscellaneous other expense	190	181	168	182	173	164	166
Current	24	29	25	31	32	34	31
Capital	166	153	143	151	141	130	135
Purchases of nonfinancial assets	**81**	**99**	**90**	**96**	**118**	**107**	**93**
Fixed assets	79	96	87	93	116	105	92
Nonproduced assets	3	3	2	3	2	2	1

Source: MF CR.

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

	2005	2006	2007	2008	2009	2010	2011
Total expense	**41.5**	**41.4**	**39.2**	**39.4**	**43.6**	**42.4**	**42.0**
Expense for operating activities	**38.9**	**38.5**	**36.7**	**36.9**	**40.5**	**39.6**	**39.6**
Compensation of employees	**3.9**	**3.8**	**3.7**	**3.7**	**3.9**	**3.9**	**3.6**
Wages and salaries	2.9	2.9	2.8	2.8	3.0	2.9	2.7
Social contributions	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Actual social contributions	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Use of goods and services	**3.7**	**3.7**	**3.4**	**3.5**	**4.0**	**3.8**	**3.4**
Interest	**0.8**	**1.0**	**1.0**	**1.2**	**1.3**	**1.1**	**1.3**
Subsidies	**7.5**	**7.6**	**7.3**	**7.1**	**8.1**	**7.9**	**8.1**
To public corporations	5.3	5.4	5.1	5.4	5.5	5.4	5.4
To private enterprises	2.2	2.2	2.2	1.7	2.6	2.5	2.7
Grants	**0.8**	**0.7**	**0.7**	**0.8**	**0.8**	**0.8**	**0.9**
To international organizations	0.8	0.7	0.7	0.8	0.8	0.8	0.9
Current	0.8	0.7	0.7	0.8	0.8	0.8	0.9
Social benefits	**16.1**	**16.2**	**16.0**	**16.1**	**17.8**	**17.8**	**18.0**
Social security benefits	16.1	16.2	16.0	16.1	17.7	17.8	18.0
Other expense	**6.1**	**5.4**	**4.6**	**4.7**	**4.6**	**4.3**	**4.4**
Miscellaneous other expense	6.1	5.4	4.6	4.7	4.6	4.3	4.4
Current	0.8	0.9	0.7	0.8	0.8	0.9	0.8
Capital	5.3	4.6	3.9	3.9	3.8	3.4	3.5
Purchases of nonfinancial assets	**2.6**	**3.0**	**2.5**	**2.5**	**3.2**	**2.8**	**2.4**
Fixed assets	2.5	2.9	2.4	2.4	3.1	2.8	2.4
Nonproduced assets	0.1	0.1	0.1	0.1	0.1	0.1	0.0

Source: MF CR.

Table A.5: Consolidated General Government – Balance

(CZK bn, % of GDP)

	2005	2006	2007	2008	2009	2010	2011
CZK bn							
Cash deficit/surplus	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**	**-171**
Fiscal targeting cash deficit/surplus[1]	**-56**	**-101**	**-38**	**-37**	**-230**	**-151**	**-131**
Deficit / surplus of operating balance[2]	-36	-57	31	40	-158	-94	-90
Deficit / surplus of primary balance	-78	-107	-7	6	-198	-137	-124
% of GDP							
Cash deficit/surplus	**-3.3**	**-4.2**	**-1.2**	**-1.0**	**-6.6**	**-4.8**	**-4.5**
Fiscal targeting cash deficit/surplus[1]	**-1.8**	**-3.0**	**-1.1**	**-1.0**	**-6.1**	**-4.0**	**-3.5**
Deficit / surplus of operating balance[2]	-1.2	-1.7	0.9	1.0	-4.2	-2.5	-2.4
Deficit / surplus of primary balance	-2.5	-3.2	-0.2	0.1	-5.3	-3.6	-3.2

Source: MF CR.

Table A.6: General Government Balance Structure

(CZK bn)

	2005	2006	2007	2008	2009	2010	2011
State budget[1]	-64	-138	-63	-78	-221	-176	-157
Extrabudgetary funds total	-47	-1	-10	12	5	3	-8
Social security funds	0	3	17	11	-6	-7	-5
Local governments	7	-4	11	16	-25	0	-1
Cash deficit/surplus	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**	**-171**

Note: 1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2005–2007 incl. Czech Consolidation Agency loss remuneration from state bonds.
Source: MF CR.

Table A.7: Fiscal Targeting Balance Structure

(CZK bn)

	2005	2006	2007	2008	2009	2010	2011
State budget[1]	-17	-98	-55	-75	-206	-140	-114
Extrabudgetary funds total	-47	-1	-10	12	5	2	-8
Social security funds	0	3	17	11	-6	-7	-5
Local governments	7	-4	9	15	-22	-7	-5
Fiscal targeting cash deficit/surplus	**-56**	**-101**	**-38**	**-37**	**-230**	**-151**	**-131**

Note: 1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2005–2007 incl. Czech Consolidation Agency loss remuneration from state bonds.
Source: MF CR.

Table A.8: Consolidated General Government – Sources and Use

(CZK bn)

	2005	2006	2007	2008	2009	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash receipts from operating activities	**1 176**	**1 233**	**1 377**	**1 461**	**1 355**	**1 401**	**1 418**
Taxes	626	638	716	743	660	691	706
Social contributions	446	473	522	548	510	517	533
Grants	32	36	47	60	80	85	74
Other receipts	73	86	92	110	106	108	105
Cash payments for operating activities	**1 212**	**1 290**	**1 346**	**1 421**	**1 513**	**1 495**	**1 508**
Compensation of employees	121	128	136	141	147	146	136
Purchases of goods and services	114	126	125	133	148	142	129
Interest	25	34	37	45	50	42	48
Subsidies	235	254	266	273	302	300	308
Grants	24	24	27	29	30	31	34
Social benefits	503	544	588	618	664	671	687
Other payments	190	181	168	182	173	164	166
Net cash inflow from operating activities	**-36**	**-57**	**31**	**40**	**-158**	**-94**	**-90**
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:							
Purchases of nonfinancial assets	**81**	**99**	**90**	**96**	**118**	**107**	**93**
Fixed assets	79	96	87	93	116	105	92
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	3	3	2	3	2	2	1
Sales of nonfinancial assets	**14**	**15**	**14**	**17**	**29**	**22**	**12**
Fixed assets	8	9	7	10	9	10	6
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	6	6	7	8	19	12	6
Net cash outflow: investments in nonfinancial assets	**67**	**84**	**76**	**79**	**90**	**86**	**82**
Cash surplus / deficit	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**	**-171**

Source: MF CR.

Table A.9: Consolidated General Government – Debt

(CZK bn, % of GDP)

	2005	2006	2007	2008	2009	2010	2011
CZK bn							
Consolidated general government debt	**762**	**878**	**973**	**1 071**	**1 258**	**1 426**	**1 565**
State debt consolidated	684	794	882	980	1 160	1 324	1 461
Extrabudgetary funds	2	1	4	1	1	3	2
Social security funds	0	0	0	0	0	0	0
Local governments	82	89	91	95	100	102	105
% of GDP							
Consolidated general government debt	**24.5**	**26.2**	**26.6**	**27.8**	**33.6**	**37.8**	**41.1**
Consolidated state debt	22.0	23.7	24.1	25.5	31.0	35.1	38.4
Extrabudgetary funds	0.1	0.0	0.1	0.0	0.0	0.1	0.0
Social security funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	2.6	2.7	2.5	2.5	2.7	2.7	2.7

Source: MF CR.

B Annex of Tables – ESA 95 Methodology

The data on government revenue and expenditure are consolidated at the relevant levels.

Table B.1: General Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**1003**	**1164**	**1185**	**1239**	**1328**	**1476**	**1499**	**1462**	**1481**	**1528**
Current taxes on income, wealth, etc.	224	247	268	276	296	330	308	272	262	275
Social contributions [1)]	398	421	453	482	525	577	599	560	578	592
Taxes on production and imports [2)]	266	285	326	343	353	395	407	415	423	440
Capital taxes [3)]	1	1	1	1	1	0	0	0	0	4
Property income	29	23	22	21	25	27	30	31	31	28
Interest	21	16	13	12	12	15	11	9	8	6
Other property income	8	7	9	9	13	13	19	22	23	22
Sales [4)]	68	78	78	80	82	95	103	104	99	103
Other current transfers and subsidies	14	18	28	26	26	24	22	27	33	32
Investment grants	1	3	3	5	14	15	27	50	53	51
Other capital transfers	2	88	7	5	5	13	3	3	3	3
% growth										
Total revenue	**6.9**	**16.1**	**1.8**	**4.6**	**7.2**	**11.2**	**1.5**	**-2.4**	**1.3**	**3.2**
Current taxes on income, wealth, etc.	10.2	10.2	8.3	3.1	7.3	11.5	-6.9	-11.7	-3.4	4.7
Social contributions [1)]	8.5	5.9	7.4	6.5	8.8	9.9	3.9	-6.6	3.2	2.5
Taxes on production and imports [2)]	3.5	7.2	14.4	5.2	3.0	11.9	2.9	2.0	1.9	4.2
Capital taxes [3)]	8.9	15.6	-28.1	18.5	9.2	-42.4	-44.8	-8.2	-3.4	1849.3
Property income	9.6	-18.8	-6.2	-5.9	23.1	7.2	11.9	3.2	-2.2	-7.7
Interest	35.6	-23.6	-19.4	-7.5	3.4	18.3	-24.5	-17.5	-14.7	-16.3
Other property income	-27.6	-6.1	22.7	-3.6	50.2	-3.3	53.9	15.0	2.9	-4.8
Sales [4)]	5.4	13.5	0.5	2.7	2.5	15.9	8.2	1.2	-5.2	3.9
Other current transfers and subsidies	7.6	27.7	53.2	-7.1	-2.7	-7.8	-8.2	26.0	20.7	-1.9
Investment grants	71.8	201.5	10.1	62.8	187.1	1.0	86.1	84.7	5.0	-4.1
Other capital transfers	-62.2	4160.8	-92.3	-21.8	2.3	147.0	-78.0	-3.0	5.7	-5.9
% of GDP										
Total revenue	**39.1**	**43.3**	**40.4**	**39.8**	**39.6**	**40.3**	**38.9**	**39.1**	**39.2**	**40.1**
Current taxes on income, wealth, etc.	8.7	9.2	9.1	8.9	8.8	9.0	8.0	7.3	7.0	7.2
Social contributions [1)]	15.5	15.7	15.5	15.5	15.7	15.7	15.6	15.0	15.3	15.6
Taxes on production and imports [2)]	10.3	10.6	11.1	11.0	10.5	10.8	10.6	11.1	11.2	11.6
Capital taxes [3)]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Property income	1.1	0.9	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.7
Interest	0.8	0.6	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2
Other property income	0.3	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.6
Sales [4)]	2.7	2.9	2.7	2.6	2.4	2.6	2.7	2.8	2.6	2.7
Other current transfers and subsidies	0.6	0.7	1.0	0.8	0.8	0.6	0.6	0.7	0.9	0.8
Investment grants	0.0	0.1	0.1	0.2	0.4	0.4	0.7	1.3	1.4	1.3
Other capital transfers	0.1	3.3	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.1

Note: 1) 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 social insurance policy holders, whose contributions are paid by state.
2) 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.).
3) 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.
4) Consists of market output, output produced for own final use and payments for other non-market output.
Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Taxes and social contributions	**889**	**954**	**1047**	**1102**	**1175**	**1303**	**1314**	**1246**	**1263**	**1312**
Current taxes on income, wealth, etc.	**224**	**247**	**268**	**276**	**296**	**330**	**308**	**272**	**262**	**275**
individuals or households	115	125	136	138	139	156	142	136	132	143
corporations	107	119	129	135	154	171	162	132	127	129
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	2	3	2	3	3	3	3	3	3	3
Social security contributions	**398**	**421**	**453**	**482**	**525**	**577**	**599**	**560**	**578**	**592**
Actual social contributions	398	421	452	482	524	576	599	559	577	592
of employers	256	271	290	309	332	364	380	350	368	378
of employees	90	95	101	108	117	128	133	112	117	120
of self- and non-employed persons	52	56	61	65	75	85	86	97	93	94
Imputed social contributions	0	0	0	0	0	0	0	1	1	1
Taxes on production and imports	**266**	**285**	**326**	**343**	**353**	**395**	**407**	**415**	**423**	**440**
Taxes on products [1)]	253	271	313	330	340	381	392	401	406	424
VAT	155	164	202	211	209	227	255	254	259	265
Excises	80	88	99	111	121	143	126	137	138	150
Other taxes on products [2)]	18	20	11	9	10	12	12	9	9	9
Other taxes on production [3)]	13	13	13	13	13	14	14	14	16	16
Capital taxes	**1**	**1**	**1**	**1**	**1**	**0**	**0**	**0**	**0**	**4**
% growth										
Taxes and social contributions	**7.4**	**7.4**	**9.7**	**5.2**	**6.6**	**10.9**	**0.8**	**-5.1**	**1.3**	**3.9**
Current taxes on income, wealth, etc.	**10.2**	**10.2**	**8.3**	**3.1**	**7.3**	**11.5**	**-6.9**	**-11.7**	**-3.4**	**4.7**
individuals or households	9	9	9	1	1	12	-9	-4	-3	8
corporations	13	11	8	5	14	11	-5	-18	-4	1
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	-31.9	12.1	-7.1	17.4	5.0	4.8	0.2	3.1	0.8	-3.5
Social security contributions	**8.5**	**5.9**	**7.4**	**6.5**	**8.8**	**9.9**	**3.9**	**-6.6**	**3.2**	**2.5**
Actual social contributions	8.5	5.9	7.4	6.5	8.9	9.9	3.9	-6.7	3.3	2.5
of employers	8.4	5.8	7.0	6.5	7.7	9.4	4.5	-7.9	5.1	2.7
of employees	8.4	5.9	6.8	6.9	7.6	9.5	4.4	-15.8	4.2	2.8
of self- and non-employed persons	9.1	6.2	10.4	5.6	16.5	12.6	0.7	13.0	-4.1	1.4
Imputed social contributions	2.4	17.5	36.6	-1.5	2.0	-26.2	-4.7	190.5	-27.5	23.2
Taxes on production and imports	**3.5**	**7.2**	**14.4**	**5.2**	**3.0**	**11.9**	**2.9**	**2.0**	**1.9**	**4.2**
Taxes on products [1)]	3.6	7.4	15.2	5.5	2.9	12.2	3.0	2.1	1.4	4.4
VAT	3.9	5.9	23.0	4.2	-0.8	8.6	12.3	-0.3	1.9	2.5
Excises	3.6	10.0	13.4	11.4	9.4	17.9	-11.5	8.8	0.9	8.2
Other taxes on products [2)]	0.5	8.4	-41.6	-22.4	11.5	17.8	-0.5	-20.0	-3.8	0.1
Other taxes on production [3)]	2.0	3.4	-1.7	-1.7	4.2	5.2	-1.1	1.3	14.7	0.7
Capital taxes	**8.9**	**15.6**	**-28.1**	**18.5**	**9.2**	**-42.4**	**-44.8**	**-8.2**	**-3.4**	**1849.3**

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

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

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

Source: CZSO (2012b).

Table B.3: General Government Tax Revenue and Social Contributions

(in % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Taxes and social contributions	**34.6**	**35.5**	**35.7**	**35.4**	**35.0**	**35.6**	**34.1**	**33.3**	**33.5**	**34.5**
Current taxes on income, wealth, etc.	**8.7**	**9.2**	**9.1**	**8.9**	**8.8**	**9.0**	**8.0**	**7.3**	**7.0**	**7.2**
individuals or households	4.5	4.7	4.7	4.4	4.2	4.3	3.7	3.6	3.5	3.7
corporations	4.2	4.4	4.4	4.3	4.6	4.7	4.2	3.5	3.4	3.4
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	**15.5**	**15.7**	**15.5**	**15.5**	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**	**15.6**
Actual social contributions	15.5	15.7	15.4	15.5	15.6	15.7	15.6	14.9	15.3	15.5
of employers	10.0	10.1	9.9	9.9	9.9	9.9	9.9	9.4	9.7	9.9
of employees	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.1	3.2
of self- and non-employed persons	2.0	2.1	2.1	2.1	2.3	2.3	2.2	2.6	2.5	2.5
Imputed social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	**10.3**	**10.6**	**11.1**	**11.0**	**10.5**	**10.8**	**10.6**	**11.1**	**11.2**	**11.6**
Taxes on products [1)]	9.8	10.1	10.7	10.6	10.1	10.4	10.2	10.7	10.8	11.1
VAT	6.0	6.1	6.9	6.8	6.2	6.2	6.6	6.8	6.9	7.0
Excises	3.1	3.3	3.4	3.5	3.6	3.9	3.3	3.7	3.7	3.9
Other taxes on products [2)]	0.7	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Other taxes on production [3)]	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Capital taxes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**

Note: 1) Taxes that are payable per unit of some good or service produced or transacted.
2) This item contains, for example, customs duty, taxes from financial and capital transactions, payments from entertainment, lottery taxes and other.
3) All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, etc.).
Source: CZSO (2012b).

Table B.4: Central Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**702**	**835**	**830**	**845**	**900**	**1006**	**1013**	**970**	**986**	**1026**
Current taxes on income, wealth, etc.	160	177	192	184	198	221	204	180	175	183
Social contributions	263	277	300	319	343	376	392	352	365	374
Taxes on production and imports	223	239	270	272	283	319	320	328	332	348
Capital taxes	1	1	1	1	1	0	0	0	0	4
Property income	22	17	14	14	18	19	22	24	24	22
Sales	24	28	28	29	30	38	40	38	41	43
Other revenue	10	97	25	27	28	32	35	48	50	51
% growth										
Total revenue	**3.9**	**19.0**	**-0.6**	**1.7**	**6.6**	**11.7**	**0.7**	**-4.2**	**1.7**	**4.0**
Current taxes on income, wealth, etc.	5.8	10.4	8.6	-4.2	7.7	11.9	-7.8	-11.8	-3.0	4.9
Social contributions	7.8	5.5	8.3	6.2	7.5	9.8	4.3	-10.4	3.7	2.7
Taxes on production and imports	1.4	7.1	13.1	0.7	3.8	12.8	0.2	2.6	1.4	4.7
Capital taxes	8.9	15.0	-28.7	18.8	10.0	-42.6	-45.7	-10.4	-2.7	1922.5
Property income	-0.8	-23.3	-14.8	-1.2	30.6	5.9	10.8	9.8	0.6	-9.6
Sales	4.3	15.5	-0.4	2.9	3.8	26.4	6.0	-4.4	6.8	6.3
Other revenue	-34.8	918.3	-73.8	4.3	7.2	10.9	10.3	38.3	4.1	2.3

Source: CZSO (2012b).

Table B.5: Local Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**269**	**328**	**348**	**352**	**376**	**410**	**416**	**431**	**429**	**422**
Current taxes on income, wealth, etc.	64	70	76	92	98	109	103	92	88	92
Social contributions	0	0	0	0	0	0	0	0	0	0
Taxes on production and imports	42	46	56	71	70	76	87	87	90	92
Capital taxes	-	0	0	0	0	0	0	0	0	0
Property income	7	6	7	6	7	7	7	7	6	6
Sales	44	50	50	51	52	57	63	66	58	59
Other revenue	111	157	160	132	148	160	155	179	186	172
% growth										
Total revenue	**13.7**	**22.3**	**6.1**	**1.2**	**6.7**	**9.0**	**1.5**	**3.6**	**-0.5**	**-1.6**
Current taxes on income, wealth, etc.	23.2	9.7	7.7	21.8	6.6	10.7	-5.0	-11.4	-4.2	4.4
Social contributions	-40.0	4.2	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6	36.7
Taxes on production and imports	16.3	7.3	21.7	27.3	-0.3	8.2	13.8	0.1	3.7	2.3
Capital taxes	-	-	80.0	0.0	-55.6	0.0	50.0	83.3	-18.2	77.8
Property income	79.0	-3.1	17.4	-15.5	5.6	6.3	5.8	-10.8	-4.7	-0.2
Sales	6.7	12.6	1.0	2.6	1.8	10.0	9.6	4.7	-12.1	2.2
Other revenue	8.4	40.5	1.9	-17.4	12.4	8.0	-3.1	15.6	3.9	-7.6

Source: CZSO (2012b).

Table B.6: Social Security Funds Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**136**	**146**	**159**	**170**	**185**	**203**	**211**	**211**	**216**	**221**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	135	144	153	163	182	200	207	208	213	218
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	0	0	0	0	0	1	1	1	1	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	1	2	6	6	2	2	2	2	2	3
% growth										
Total revenue	**9.1**	**7.2**	**8.8**	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**	**2.4**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	9.9	6.7	5.9	7.1	11.4	10.0	3.2	0.4	2.6	2.2
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	-31.0	-32.7	-8.6	22.1	30.0	75.3	111.3	-23.9	-46.2	-13.4
Sales	-65.4	-25.4	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	-7.9
Other revenue	-37.0	132.0	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5	29.2

Source: CZSO (2012b).

Table B.7: General Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**1171**	**1344**	**1268**	**1340**	**1407**	**1503**	**1584**	**1680**	**1662**	**1653**
Compensation of employees	192	214	222	238	252	269	280	293	286	280
Intermediate consumption	173	196	193	206	211	219	228	238	235	224
Social benefits other than in kind [1)]	333	345	359	375	408	456	477	509	518	527
Social benefits in kind	145	153	163	170	174	187	199	219	222	228
Property income	30	28	32	34	35	40	40	48	51	53
Interest	29	28	32	34	35	40	39	47	51	53
Other property income	0	0	0	0	0	0	0	0	0	0
Subsidies	56	67	57	53	60	61	62	75	71	80
Gross fixed capital formation	79	182	123	132	150	153	176	192	164	140
Capital transfers [2)]	138	124	86	152	119	79	104	90	92	87
Investment grants [3)]	38	37	37	36	38	37	36	34	33	37
Other capital transfers	100	88	50	116	81	42	68	56	59	50
Other expenditure	26	35	31	-20	-4	40	18	16	23	35
Final consumption expenditure	**557**	**610**	**630**	**667**	**694**	**726**	**759**	**809**	**807**	**793**
Collective consumption [4)]	276	310	302	336	349	363	380	399	398	381
Individual consumption	281	300	328	331	345	363	380	410	409	412
% growth										
Total expenditure	**8.9**	**14.8**	**-5.7**	**5.7**	**5.0**	**6.8**	**5.3**	**6.1**	**-1.1**	**-0.5**
Compensation of employees	10.8	11.8	3.7	7.1	6.1	6.4	4.1	4.7	-2.5	-2.1
Intermediate consumption	13.2	12.9	-1.4	6.5	2.9	3.4	4.2	4.6	-1.4	-4.6
Social benefits other than in kind [1)]	6.8	3.8	4.1	4.5	8.7	11.8	4.5	6.8	1.7	1.8
Social benefits in kind	13.9	5.5	6.7	4.0	2.1	7.8	6.1	10.3	1.5	2.3
Property income	23.9	-4.5	12.3	7.7	3.8	12.8	-0.9	20.2	7.6	2.9
Interest	23.9	-4.5	12.3	7.7	3.7	12.8	-0.9	20.2	7.7	2.9
Other property income	50.0	-25.4	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9	16.7
Subsidies	-13.1	19.7	-14.3	-7.4	13.4	1.0	2.4	20.0	-4.5	11.9
Gross fixed capital formation	6.4	131.4	-32.2	7.4	13.6	1.6	15.2	8.9	-14.5	-14.6
Capital transfers [2)]	1.7	-9.9	-30.3	76.0	-21.6	-34.2	32.8	-13.8	2.2	-5.2
Investment grants [3)]	31.9	-3.0	1.1	-3.5	7.4	-3.4	-2.0	-5.7	-3.8	12.0
Other capital transfers	-6.3	-12.5	-43.4	135.1	-30.4	-48.7	63.7	-18.2	5.9	-14.8
Final consumption expenditure	**11.9**	**9.5**	**3.3**	**5.9**	**4.0**	**4.6**	**4.6**	**6.6**	**-0.2**	**-1.8**
Collective consumption [4)]	13.4	12.3	-2.3	11.2	3.9	3.8	4.7	5.0	-0.2	-4.3
Individual consumption	10.4	6.8	9.1	1.1	4.1	5.3	4.5	8.1	-0.2	0.7

Note: 1) 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.).

2) 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.

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

4) 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.

Source: CZSO (2012b), MF CR.

Table B.8: General Government Expenditure

(in % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total expenditure	**45.6**	**50.0**	**43.3**	**43.0**	**42.0**	**41.0**	**41.1**	**44.9**	**44.0**	**43.4**
Compensation of employees	7.5	8.0	7.6	7.6	7.5	7.3	7.3	7.8	7.6	7.3
Intermediate consumption	6.8	7.3	6.6	6.6	6.3	6.0	5.9	6.4	6.2	5.9
Social benefits other than in kind	13.0	12.8	12.3	12.0	12.2	12.5	12.4	13.6	13.7	13.8
Social benefits in kind	5.7	5.7	5.6	5.5	5.2	5.1	5.2	5.9	5.9	6.0
Property income	1.2	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4
Interest	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	2.2	2.5	2.0	1.7	1.8	1.7	1.6	2.0	1.9	2.1
Gross fixed capital formation	3.1	6.8	4.2	4.3	4.5	4.2	4.6	5.1	4.3	3.7
Capital transfers	5.4	4.6	3.0	4.9	3.6	2.1	2.7	2.4	2.4	2.3
Investment grants	1.5	1.4	1.3	1.1	1.1	1.0	0.9	0.9	0.9	1.0
Other capital transfers	3.9	3.3	1.7	3.7	2.4	1.1	1.8	1.5	1.6	1.3
Other expenditure	1.0	1.3	1.1	-0.7	-0.1	1.1	0.5	0.4	0.6	0.9
Final consumption expenditure	**21.7**	**22.7**	**21.5**	**21.4**	**20.7**	**19.8**	**19.7**	**21.6**	**21.4**	**20.8**
Collective consumption	10.7	11.5	10.3	10.8	10.4	9.9	9.9	10.7	10.5	10.0
Individual consumption	11.0	11.2	11.2	10.6	10.3	9.9	9.9	11.0	10.8	10.8

Source: CZSO (2012b), MF CR.

Table B.9: Central Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**853**	**997**	**907**	**944**	**982**	**1061**	**1103**	**1155**	**1139**	**1129**
Compensation of employees	108	109	111	121	128	137	143	150	146	139
Intermediate consumption	87	97	94	104	101	107	108	113	111	103
Social benefits other than in kind	322	333	347	363	395	437	454	485	492	501
Social benefits in kind	6	5	4	3	3	2	2	3	4	5
Interest	28	26	29	32	33	37	36	45	50	51
Subsidies	38	38	31	24	29	30	30	37	28	36
Gross fixed capital formation	34	128	62	77	81	87	97	96	74	56
Capital transfers	130	118	88	148	117	74	102	93	92	90
Other expenditure	99	143	140	72	95	150	131	134	143	148
% growth										
Total expenditure	**6.7**	**16.9**	**-9.0**	**4.1**	**4.0**	**8.1**	**3.9**	**4.7**	**-1.3**	**-0.9**
Compensation of employees	10.9	0.4	1.9	9.1	6.1	6.7	4.2	5.0	-2.3	-5.2
Intermediate consumption	16.4	11.9	-3.7	11.5	-3.2	6.4	0.6	4.4	-1.7	-6.9
Social benefits other than in kind	6.6	3.4	4.2	4.5	8.7	10.6	3.9	6.8	1.4	2.0
Social benefits in kind	105.1	-20.2	-12.5	-22.8	-7.2	-23.9	-18.2	36.6	53.3	20.0
Interest	26.2	-6.0	11.1	11.1	3.4	12.4	-2.2	23.8	9.9	3.1
Subsidies	-21.1	-0.2	-17.5	-23.4	22.2	2.2	0.2	23.1	-24.7	32.4
Gross fixed capital formation	-2.4	278.1	-51.5	24.0	4.9	7.8	10.9	-1.3	-22.2	-25.2
Capital transfers	-1.1	-9.1	-25.4	67.8	-21.1	-36.7	38.1	-8.9	-1.4	-1.9
Other expenditure	15.8	43.4	-1.7	-48.9	32.7	57.4	-12.4	2.3	6.6	3.5

Source: CZSO (2012b).

Table B.10: Local Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**280**	**342**	**352**	**354**	**385**	**397**	**421**	**453**	**448**	**436**
Compensation of employees	81	103	109	114	121	129	133	139	135	137
Intermediate consumption	85	97	98	99	109	109	118	123	121	118
Social benefits other than in kind	10	12	12	12	13	20	23	24	26	26
Social benefits in kind	1	2	3	3	3	3	3	3	2	3
Interest	2	2	3	2	2	3	3	2	2	2
Subsidies	18	29	26	29	31	31	33	38	44	43
Gross fixed capital formation	44	53	60	54	69	65	79	95	89	84
Capital transfers	29	33	33	28	26	28	20	16	17	12
Other expenditure	10	11	10	11	11	10	10	12	12	12
% growth										
Total expenditure	**13.4**	**22.2**	**3.0**	**0.4**	**9.0**	**3.0**	**6.0**	**7.5**	**-1.0**	**-2.6**
Compensation of employees	10.6	27.3	5.7	5.1	6.1	6.1	3.8	4.3	-2.7	1.3
Intermediate consumption	10.4	13.7	0.8	1.7	9.5	0.6	7.4	4.3	-1.4	-2.1
Social benefits other than in kind	13.4	15.6	0.6	3.8	7.3	47.7	17.4	6.8	7.3	-2.5
Social benefits in kind	15.6	69.9	4.5	2.4	8.9	19.0	-11.3	0.2	-16.4	11.1
Interest	-0.8	18.0	28.3	-26.5	8.2	15.8	17.7	-21.8	-33.2	-4.3
Subsidies	9.6	60.7	-10.2	11.6	6.3	-0.1	4.4	17.1	14.9	-1.1
Gross fixed capital formation	13.5	21.2	13.7	-9.8	26.6	-5.7	20.7	21.1	-6.7	-5.7
Capital transfers	19.9	14.9	-1.0	-14.2	-5.8	5.0	-27.5	-21.2	9.3	-33.0
Other expenditure	78.5	8.9	-11.3	19.6	-7.0	-9.7	1.4	23.8	-2.8	7.1

Source: CZSO (2012b).

Table B.11: Social Security Fund Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**143**	**151**	**162**	**170**	**173**	**187**	**201**	**222**	**224**	**228**
Compensation of employees	3	3	3	3	3	3	4	4	4	4
Intermediate consumption	1	2	2	2	2	2	2	3	3	3
Social benefits other than in kind	-	-	-	0	0	-	0	0	0	0
Social benefits in kind	137	146	156	164	168	181	194	213	216	220
Interest	0	0	0	0	-	0	0	0	-	0
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	1	1	1	0	0	1	1	1	1
Capital transfers	0	0	0	-	-	-	-	-	-	-
Other expenditure	0	0	0	0	0	0	0	0	0	1
% growth										
Total expenditure	**11.6**	**5.8**	**7.2**	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**	**1.5**
Compensation of employees	11.1	5.4	2.7	5.7	5.3	6.5	12.0	9.6	-0.2	-2.3
Intermediate consumption	3.7	22.9	1.4	8.0	-13.3	10.5	22.2	26.1	10.0	-21.6
Social benefits other than in kind	-	-	-	-	100.0	-	-	600.0	0.0	-28.6
Social benefits in kind	11.6	6.0	7.4	4.8	2.2	8.3	6.8	10.2	1.1	1.9
Interest	-53.8	-33.3	-25.0	-66.7	-	-	-50.0	0.0	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	54.6	-30.5	11.1	19.1	-41.7	-0.4	64.4	48.4	-15.7	-14.1
Capital transfers	-	-18.6	74.3	-	-	-	-	-	-	-
Other expenditure	-17.8	-70.6	-35.4	571.4	27.7	23.9	-15.5	7.7	14.8	25.3

Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
General government	**-168**	**-180**	**-83**	**-101**	**-80**	**-27**	**-86**	**-218**	**-183**	**-125**
Central government	-150	-162	-77	-100	-82	-56	-91	-186	-155	-104
Local governments	-11	-14	-4	-1	-9	13	-5	-22	-19	-15
Social security funds	-6	-5	-3	0	12	16	10	-11	-9	-7
% of GDP										
General government	**-6.5**	**-6.7**	**-2.8**	**-3.2**	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**	**-3.3**
Central government	-5.8	-6.0	-2.6	-3.2	-2.4	-1.5	-2.4	-5.0	-4.1	-2.7
Local governments	-0.4	-0.5	-0.1	0.0	-0.3	0.4	-0.1	-0.6	-0.5	-0.4
Social security funds	-0.2	-0.2	-0.1	0.0	0.4	0.4	0.3	-0.3	-0.2	-0.2

Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
General government debt	**695**	**768**	**848**	**885**	**948**	**1023**	**1104**	**1286**	**1437**	**1568**
Currency and deposits	24	4	3	1	0	-	-	-	-	-
Securities other than shares	427	528	634	698	789	871	951	1111	1260	1388
Loans	243	236	211	187	159	152	153	175	176	180
Central government debt	**653**	**719**	**783**	**813**	**867**	**939**	**1016**	**1189**	**1342**	**1470**
Currency and deposits	24	4	3	1	0	-	-	-	-	-
Securities other than shares	415	517	612	675	766	848	929	1096	1246	1375
Loans	213	197	169	137	101	90	87	94	96	95
Local government debt	**50**	**59**	**72**	**79**	**87**	**88**	**92**	**99**	**97**	**99**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	12	12	23	24	23	23	23	16	16	14
Loans	38	47	49	55	64	65	69	82	81	85
Social security funds debt	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	0	0	0	0
% growth										
General government debt	**18.8**	**10.6**	**10.4**	**4.4**	**7.1**	**7.9**	**7.9**	**16.4**	**11.7**	**9.1**
Currency and deposits	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-
Securities other than shares	20.5	23.6	19.9	10.2	12.9	10.5	9.2	16.8	13.4	10.2
Loans	9.0	-3.0	-10.5	-11.6	-14.5	-4.4	0.4	14.1	1.0	1.9
Central government debt	**18.1**	**10.0**	**8.9**	**3.8**	**6.6**	**8.3**	**8.2**	**17.1**	**12.9**	**9.5**
Currency and deposits	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-
Securities other than shares	19.4	24.6	18.2	10.3	13.5	10.7	9.5	18.0	13.7	10.4
Loans	7.7	-7.5	-14.6	-18.5	-26.6	-10.4	-4.2	7.9	3.1	-1.0
Local government debt	**23.4**	**18.1**	**22.1**	**9.8**	**9.5**	**2.1**	**3.9**	**7.4**	**-2.1**	**2.4**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	72.4	-3.4	90.7	5.8	-3.5	0.6	0.0	-30.4	-2.1	-11.5
Loans	13.0	25.1	4.8	11.7	15.1	2.6	5.3	20.2	-2.1	5.1
Social security funds debt	**-19.8**	**-19.8**	**-25.7**	**17.5**	**-30.5**	**-69.1**	**62.7**	**-56.3**	**-42.9**	**225.0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-19.8	-19.8	-25.7	17.5	-30.5	-69.1	62.7	-56.3	-42.9	225.0

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.
Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government debt	**27.1**	**28.6**	**28.9**	**28.4**	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**
Currency and deposits	1.0	0.1	0.1	0.0	0.0	-	-	-	-	-
Securities other than shares	16.6	19.7	21.6	22.4	23.5	23.8	24.7	29.7	33.4	36.5
Loans	9.5	8.8	7.2	6.0	4.8	4.2	4.0	4.7	4.7	4.7
Central government debt	**25.4**	**26.7**	**26.7**	**26.1**	**25.9**	**25.6**	**26.4**	**31.8**	**35.6**	**38.6**
Currency and deposits	1.0	0.1	0.1	0.0	0.0	-	-	-	-	-
Securities other than shares	16.2	19.2	20.9	21.7	22.8	23.2	24.1	29.3	33.0	36.1
Loans	8.3	7.3	5.8	4.4	3.0	2.5	2.3	2.5	2.6	2.5
Local government debt	**1.9**	**2.2**	**2.5**	**2.5**	**2.6**	**2.4**	**2.4**	**2.6**	**2.6**	**2.6**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.5	0.4	0.8	0.8	0.7	0.6	0.6	0.4	0.4	0.4
Loans	1.5	1.8	1.7	1.8	1.9	1.8	1.8	2.2	2.1	2.2
Social security funds debt	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. 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.
Source: CZSO (2012b).

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

	Balance					Debt				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
EU27	-2.4	-6.9	-6.5	-4.4	-3.6	62.2	74.6	80.0	82.5	87.0
EA17 [1]	-2.1	-6.3	-6.2	-4.1	-3.3	70.2	80.0	85.4	87.3	93.1
Austria	-0.9	-4.1	-4.5	-2.5	-3.1	63.8	69.2	72.0	72.4	74.7
Belgium	-1.0	-5.5	-3.8	-3.7	-2.8	89.2	95.7	95.5	97.8	100.2
Bulgaria	1.7	-4.3	-3.1	-2.0	-1.3	13.7	14.6	16.2	16.3	19.7
Cyprus	0.9	-6.1	-5.3	-6.3	-4.7	48.9	58.5	61.3	71.1	84.9
Czech Republic	-2.2	-5.8	-4.8	-3.3	-5.0	28.7	34.4	38.1	41.2	45.5
Denmark	3.2	-2.7	-2.5	-1.8	-3.8	33.4	40.6	42.9	46.6	45.4
Estonia	-2.9	-2.0	0.2	1.1	-1.2	4.5	7.2	6.7	6.1	10.7
Finland	4.4	-2.5	-2.5	-0.6	-1.7	33.9	43.5	48.6	49.0	53.0
France	-3.3	-7.5	-7.1	-5.2	-4.5	68.2	79.2	82.3	86.0	89.9
Germany	-0.1	-3.1	-4.1	-0.8	-0.5	66.8	74.5	82.5	80.5	82.2
Greece	-9.8	-15.6	-10.7	-9.4	-6.9	112.9	129.7	148.3	170.6	174.9
Hungary	-3.7	-4.6	-4.4	4.3	-2.7	73.0	79.8	81.8	81.4	78.3
Ireland	-7.4	-13.9	-30.9	-13.4	-8.4	44.5	64.9	92.2	106.4	118.0
Italy	-2.7	-5.4	-4.5	-3.9	-2.6	106.1	116.4	119.2	120.7	126.4
Latvia	-4.2	-9.8	-8.1	-3.4	-1.8	19.8	36.7	44.5	42.2	42.4
Lithuania	-3.3	-9.4	-7.2	-5.5	-2.9	15.5	29.3	37.9	38.5	42.0
Luxembourg	3.2	-0.8	-0.8	-0.3	-2.0	14.4	15.3	19.2	18.3	21.4
Malta	-4.6	-3.9	-3.6	-2.7	-2.3	62.0	67.7	68.3	70.9	70.9
Netherlands	0.5	-5.6	-5.1	-4.5	-3.8	58.5	60.8	63.1	65.5	71.5
Poland	-3.7	-7.4	-7.9	-5.0	-3.4	47.1	50.9	54.8	56.4	55.5
Portugal	-3.6	-10.1	-9.8	-4.4	-5.0	71.7	83.2	93.5	108.1	119.1
Romania	-5.7	-9.0	-6.8	-5.5	-2.8	13.4	23.6	30.5	33.4	34.3
Slovakia	-2.1	-8.0	-7.7	-4.9	-5.3	27.9	35.6	41.0	43.3	53.0
Slovenia	-1.9	-6.0	-5.7	-6.4	-4.2	22.0	35.0	38.6	46.9	53.8
Spain	-4.5	-11.2	-9.7	-9.4	-7.3	40.2	53.9	61.5	69.3	85.3
Sweden	2.2	-0.7	0.3	0.4	-0.1	38.8	42.6	39.5	38.4	37.7
United Kingdom [2]	-7.0	-11.5	-9.6	-7.7	-5.9	56.1	74.1	79.8	86.0	89.0

Note: 1) 17 current member states – Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Germany, Netherlands, Portugal, Austria, Greece, Slovakia, Slovenia and Spain.
2) Data for fiscal year (1 April of year t-1 to 31 March of year t) relevant for implementation of the excessive deficit procedure.
Source: Eurostat (2012a, 2012b). The United Kingdom data for 2012 are based on its Notification. The Czech Republic data for 2012 are MF CR estimates.

Table B.16: Transactions of General Government of EU Countries in 2011
(in % of GDP)

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Consumption [1]	Investments [2]	Interest expenditure
EU27	44.7	49.1	10.8	16.7	21.7	2.5	2.9
EA [3]	45.4	49.5	10.6	17.4	21.6	2.3	3.0
Belgium	49.4	53.3	12.6	17.2	24.4	1.7	3.4
Bulgaria	33.6	35.6	9.0	11.9	15.8	3.4	0.6
Czech Republic	39.8	43.0	7.3	13.7	20.6	3.6	1.4
Denmark	56.1	58.0	18.5	17.2	28.6	2.2	1.9
Estonia	39.4	38.3	11.1	11.7	19.5	4.2	0.1
Finland	53.9	54.8	14.2	18.0	24.3	2.5	1.4
France	50.8	56.0	13.2	19.5	24.5	3.1	2.6
Ireland	34.9	48.1	12.0	15.0	18.6	2.5	3.3
Italy	46.1	49.9	10.7	19.3	20.5	2.0	4.8
Cyprus	39.8	46.1	16.1	14.6	20.1	3.5	2.4
Lithuania	31.9	37.4	10.3	11.2	18.7	4.4	1.8
Latvia	35.0	38.4	9.5	10.6	17.3	4.2	1.5
Luxembourg	41.6	42.0	8.0	15.1	16.4	3.8	0.5
Hungary	53.9	49.6	10.2	15.5	20.8	3.0	4.2
Malta	39.6	42.3	13.4	12.9	20.7	2.5	3.1
Germany	44.5	45.3	7.7	16.4	19.3	1.6	2.5
Netherlands	45.4	49.8	9.8	11.8	27.9	3.4	2.0
Poland	38.5	43.6	9.8	14.1	18.0	5.7	2.7
Portugal	45.0	49.4	11.4	17.3	20.1	2.6	4.0
Austria	48.0	50.5	9.4	19.0	18.9	1.0	2.6
Romania	32.3	37.9	7.6	11.5	14.5	5.2	1.6
Greece	42.3	51.8	12.4	22.6	17.4	1.6	7.2
Slovakia	33.2	38.2	7.1	13.5	18.0	2.3	1.6
Slovenia	44.3	50.7	12.8	17.6	20.8	3.6	1.9
Spain	35.7	45.2	11.6	15.4	20.9	2.9	2.5
Sweden	51.3	51.1	14.0	14.0	26.4	3.4	1.2
United Kingdom [4]	40.7	48.5	11.2	15.1	22.0	2.2	3.2

Note: 1) Collective and individual consumption of general government.
2) Gross fixed capital formation.
3) 17 current member states – Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Germany, Netherlands, Portugal, Austria, Greece, Slovakia, Slovenia and Spain.
4) Calendar year.
Source: Eurostat (2012a).

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

List of Thematic Chapters of Previous Fiscal Outlooks of the CR

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

List of Thematic Boxes of Previous Fiscal Outlooks of the CR

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

Ministry of Finance of the Czech Republic
Department for Financial Policies
Letenská 15
118 10 Prague 1

http://www.mfcr.cz