Ministry of Finance
of the Czech Republic

Fiscal Outlook

of the Czech Republic

January 2021

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

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

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List of Abbreviations

c. p. .... current prices
CR .... Czech Republic
CZK .... Czech koruna currency code
CZSO .... Czech Statistical Office
EC .... European Commission
ESA 2010 .... European System of National and Regional Accounts from year 2010
EU, EU27 .... European Union (EU27 coverage)
EUR .... euro currency code
GDP .... gross domestic product
MF CR .... Ministry of Finance of the Czech Republic
OECD .... Organisation for Economic Co-operation and Development
p. a. .... *per annum* (per year)
pp .... percentage point
s. p. .... constant prices (volumes)

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 13 January 2021 release, fiscal data to the 18 January 2021 release, international comparison to the 5 November 2020 release and government bond yields to the 18 January 2021 release, respectively.

Note

In some cases, published aggregates do not match the sum of individual items to the last decimal point due to rounding. "Billion" means a thousand million.

Introduction and Summary

The epidemic situation in 2020 affected the world economy in a way unprecedented in modern history. Finding a balance between preventing the spread of the disease as effectively as possible and the economic impact of measures adopted for that purpose has been very difficult. Therefore, especially at the beginning of the pandemic, the countries acted relatively differently in the choice of approach, intensity and speed of the anti-epidemic measures taken. At the same time, the approach of "natural infection of the population" seemed to be rather odd. Without constant massive testing or problematic monitoring of people's movements in democratic countries, the only other most effective solution in the absence of a vaccine was to reduce social contacts. In an effort to mitigate the negative effects of restrictions as much as possible, states have embarked on massive fiscal and monetary stimulus economies. Nevertheless, avoiding economic downturns and their social consequences at the cost of a significant increase in public debt could not be prevented.

The Czech economy did not escape the economic downturn either. We expect gross domestic product to decline by 6.1% in 2020. Except for public expenditure, the decline was seen in all its components. The recovery in 2021 should be gradual. The development of the economy, the solution of the epidemic and the package of stimulus measures significantly affected the performance of public finances in the Czech Republic. The general government balance probably ended with a deficit of −5.8% of GDP and the debt rose to 38.3% of GDP at the end of 2020.

Although in 2020 the legislation made it possible to use two escape clauses, namely the declaration of a state of emergency and a deep economic recession, it was necessary to proceed to the amendment of the legal framework in order to prepare the expenditure framework for 2021 to 2023. Otherwise, fiscal policy would undermine the potential recovery this year with drastic restrictions. The first amendment to the Act on Budgetary Responsibility Rules of April 2020 set a fixed value of the structural balance at −4% of GDP for 2021. In the second amendment from December 2020, the key is the predicted value of the structural balance in 2021, from which a gradual consolidation of public finances shall start. Its trajectory requires a reduction of the structural deficit by at least half a percentage point per year. In addition, according to our estimates, consolidation will begin just as the economy regains optimal use of its production capacities.

Both amendments were criticized for their own nature, i.e. the loosening of the fiscal rule for a limited period. However, efforts to put in place restrictive and austerity measures immediately to prevent debt growth are also questionable in terms of effectiveness: "*In the context of fiscal stimulus packages, there has been much talk of fiscal sustainability. This is as it should be. There is absolutely nothing wrong with fiscal sustainability; quite the contrary, it is target to be aimed at. What is wrong with much of the conversation on fiscal sustainability is the idea that it is to be secured by keeping in check the current government spending, deficits, and debt. In times of deep recession, however, what is needed is not less spending activity but more. If the aim is to balance the budget "tomorrow", during the slump we should not seek to balance it "today". In fact, were such a strategy of seeking balance to be tried in the present, the budgetary position would only worsen in the future. Similarly, if we wish to have a stable and sustainable ratio of public debt to GDP tomorrow, we will need to raise that ratio (perhaps dramatically) today.*" (Murray Milgate, director of economic studies at Queens' College, Cambridge). The specific form of the fiscal stimulus is the subject of a political agreement. However, the economic crisis cannot be expected to be managed without a temporary slump in the structural deficit and an increase in public debt.

We predict the structural balance in 2021, from which consolidation will be based according to the law, at −5.9% of GDP in 2021. However, we expect the general government balance in 2021 to reach a deficit of −6.6% of GDP, as the economy will face a negative output gap. The deficit then implies an increase in debt, specifically to 43.3% of GDP.

From the perspective of long-term social expenditure, there were several impulses in 2020. New pension projections were peer reviewed, but they are not much different from the previous ones. In early December, the Organisation for Economic Cooperation and Development (OECD) published its Review of the Czech Pension System, in which it made recommendations to the Czech Republic on social system reforms. Around the same time, the pension reform proposal of the Commission for Fair Pensions was put forward. However, the reform proposal and the OECD recommendations differ in many respects.

The thematic chapter deals with adopted anti-epidemic measures of the government during practically the whole of 2020. It provides a detailed view of individual measures divided into support for health and social services, households, the self-employed and companies; besides monetary credit measures are discussed. The total allocation exceeding 21% of GDP was not fulfilled mainly due to the non-use of provided guarantees. The government created a framework, the administration was entrusted to the financial sector. In the case of direct support, the drawdown in relation to the intended allocation was relatively high. The use of the allocation generally depended on the depth of the problem in individual sectors of the economy, the size of the liquidity gap, as well as other options for financing companies. In total, support amounting to 5% of GDP was implemented in 2020.

1 Macroeconomic Framework of the Fiscal Forecast

The Czech economy has been hit hard by the COVID-19 pandemic. Anti-epidemic measures triggered an extremely deep recession in the first half of 2020. The gradual easing of restrictions during the second quarter saw economic activity pick up significantly in the third quarter. However, last autumn the epidemic situation worsened dramatically. The government responded by re-taking numerous measures that stifled activity in many sectors, especially services and retail. As a result, the economic downturn probably deepened again at the end of 2020, with real GDP estimated to have fallen by 6.1% for the whole year.

Domestic and foreign demand both contributed to the decline in economic output last year. The only component of domestic use that had a positive effect on GDP was general government consumption. This year, the economy could grow by 3.1%, driven solely by the dynamics of domestic demand. The external balance's contribution should be almost zero. Although exports of goods and services could increase by almost 5% thanks to recovery of export markets and a slight increase in competitiveness, the recovery of import-intensive investment demand should be reflected in the pace of imports.

The forecast is based on the assumption that the significant and prolonged easing of restrictive measures will take place in the second quarter of 2021 at the earliest. As larger parts of society are vaccinated, the restrictions in the second half of the year should not be macroeconomically significant. Nor does the forecast anticipate that the coronavirus pandemic will have a long-term effect on the global supply chain.

Household final consumption expenditure in 2020 was negatively affected by a decline in real income from labour and business. However, a number of discretionary social changes and measures to support the economy had a positive effect. We estimate that, as a result, real disposable income growth only slowed to 1.5% (down from 3.1% in 2019). Nevertheless, consumption was severely inhibited by the increase in the savings rate, which is estimated to have come to 18.0% and was therefore over 4.5 pp more than the previous high recorded in 2009. Real household consumption thus evidently fell by 5.1% in 2020. In 2021, household consumption recovery is supported by a reduction in the effective tax burden and an expected decline in the savings rate, which will nevertheless remain high from the long run perspective. Real household consumption could therefore increase by 3.3%.

Gross fixed capital formation in 2020 apparently sagged by 8.2% under the weight of the global recession and the escalating uncertainty. However, monetary conditions had a positive impact on the momentum of investment activity. This year, this factor should be compounded by renewed economic growth abroad and the extraordinary depreciation of tangible assets, which should increase private investment again. However, the forecast recovery of investment in 2021 is fraught with significant risks. In the case of general government investments, we expect to see a rise in nationally sourced capital expenditure. Government investment will also be underpinned by the implementation of projects co-financed by EU funds (see section 3.2). Gross fixed capital formation should therefore increase by 3.8% this year.

In 2020, year-on-year inflation was generally above the upper limit of the tolerance band of the Czech National Bank's 2% inflation target. Despite slowing markedly in the fourth quarter, the average inflation rate last year was 3.2%. In 2021, it should fall to 1.9%. Administrative measures will probably add only 0.2 pp to the inflation rate. Inflation should be shaped primarily by market factors. However, significant upside factors, with the exception of the price of oil, will be absent. Renewed household consumption growth amid an enduring negative output gap should not have any significant inflationary effects. The fall in unit labour costs and the appreciation of the Czech koruna should also slow down inflation.

The effects of the deep decline in economic activity on the labour market have been softened considerably by government measures. The internationally comparable unemployment rate has so far grown only very slightly. Not even registered unemployment has risen significantly. Although, according to all available statistics, there was a year-on-year decline in employment, the number of vacancies has remained virtually unchanged. The number of employed foreigners has also grown.

We expect that government measures aimed at preserving jobs will continue to have a positive effect on the labour market situation in 2021. However, the delayed effects of the economic downturn and reduced labour demand will continue to be felt. Consequently, the unemployment rate should grow further, up from an estimated 2.6% in 2020 to 3.3% this year. Employment should also continue its decline, though this fall could slacken from 1.1% in 2020 to 0.6%.

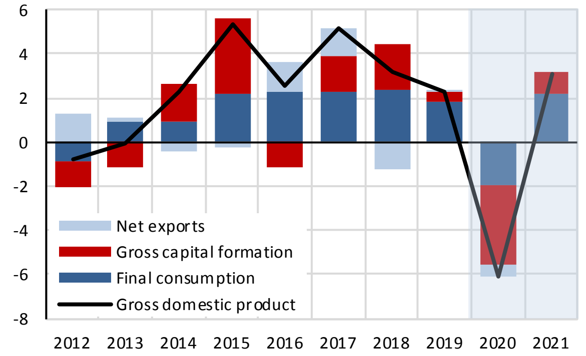
As regards wages and salaries, the negative impact of weaker economic activity has, again, been cushioned by government measures. Redundancies are more common among the lowest-paid professions and those employed under work agreements (not employment contracts). An exacerbating factor here is the more palpable influence that restrictive measures have on lower-paid sectors. This mitigates the effective impact on the momentum of overall earnings. Our estimates indicate that wage bill went up by just 0.2% in 2020. This year, we expect a driving factor, once again, to be the growth of salaries in the general government sector (driven by education, healthcare and social services), which are set to rise at a faster pace than in market sectors. The 4.1% increase in the minimum wage and the lowest levels of guaranteed wages is another faintly positive impulse. The tax package will lower the effective tax on labour, which could have a positive effect by giving people greater motivation to work. On the other hand, it will reduce pressure to increase gross wages. Reflecting all these factors, wage bill could increase by 1.2% this year.

The current account surplus could have reached 3.6% of GDP in 2020. The reduction in the primary income deficit evidently accounted for more than four fifths of the estimated year-on-year improvement in the surplus by almost 4% of GDP. In this respect, there was a fall in the profitability of foreign-controlled corporations, prompting lower outflow of direct investment income. The CNB's recommendation that banks suspend dividend payments at a time of heightened uncertainty may also have played a role. We forecast a reduction in the current account surplus to 1.4% of GDP in 2021. The most significant factor should once again be the trend in primary income. Here, the deficit should deepen as the momentum of corporate profits picks up again.

The forecast is weighted with a number of risks that we consider, on balance, to be significantly tilted towards lower economic growth. The main negative factors for the Czech Republic and other economies are developments in the epidemic situation and the vaccination of the population. Although the European Union and the United Kingdom reached a deal on the future arrangement of their relations, we still see some uncertainties in international trade, e.g. between the United States and China. Internal risks include developments in the automotive industry, labour market responses to possible structural changes in the economy, the overvaluation of residential real estate and a possible increase in non-performing loans.

Graph 1.1: Contributions to Real GDP Growth

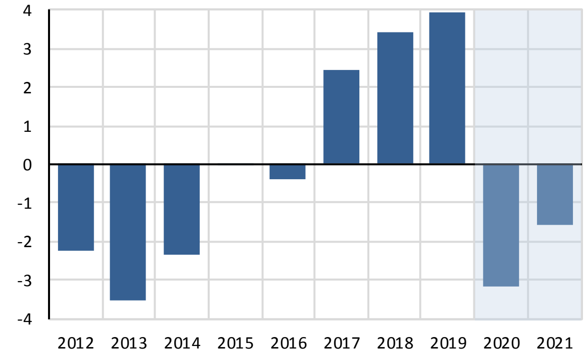
real GDP growth in %, contributions in pp



Source: MF CR (2021b).

Graph 1.2: Output Gap

% of potential product



Source: MF CR (2021b).

Table 1.1: Main Macroeconomic Indicators

		2019	2020	2021	2019	2020	2021
			Estimate	*Forecast*	IV/2020 Convergence Prog.		
Gross domestic product, nominal	*bn CZK, c.p.*	**5 749**	**5 613**	**5 874**	5 653	5 530	5 781
	% growth, c.p.	6.3	-2.4	4.7	6.2	-2.2	4.5
Private consumption	*% growth, c.p.*	5.9	-2.4	4.9	6.1	1.7	2.4
Government consumption	*% growth, c.p.*	8.1	6.6	4.8	8.1	5.8	4.9
Gross domestic product, real	*% growth, s.p.*	**2.3**	**-6.1**	**3.1**	2.6	-5.6	3.1
Private consumption	*% growth, s.p.*	3.0	-5.1	3.3	3.0	-1.5	0.8
Government consumption	*% growth, s.p.*	2.2	2.1	2.9	2.6	2.6	2.0
Gross fixed capital formation	*% growth, s.p.*	2.3	-8.2	3.8	2.8	-13.6	3.2
Contr. of net exp. to GDP growth	*pp, s.p.*	0.0	-0.6	-0.1	-0.3	-1.2	0.7
GDP deflator	*% growth*	**3.9**	**4.0**	**1.5**	3.5	3.7	1.4
Inflation	*in %*	**2.8**	**3.2**	**1.9**	2.8	3.2	1.6
Employment	*% growth*	**0.2**	**-1.1**	**-0.6**	0.7	-1.7	-0.2
Unemployment rate	*average in %*	**2.0**	**2.6**	**3.3**	2.0	3.3	3.5
Wages and salaries	*% growth, c.p.*	**6.7**	**0.2**	**1.2**	7.1	2.6	0.8
Current account balance	*in % of GDP*	**-0.3**	**3.6**	**1.4**	-0.4	0.2	0.3
Assumptions:							
Exchange rate CZK/EUR		**25.7**	**26.4**	**26.1**	25.7	26.5	26.2
Long-term interest rates	*% p.a.*	**1.5**	**1.1**	**1.2**	1.5	1.5	1.5
Crude oil Brent	*USD/barrel*	**64.3**	**41.8**	**51.1**	64.3	37.9	39.8
GDP in Eurozone EA19	*% growth, s.p.*	**1.3**	**-7.3**	**3.6**	1.2	-5.7	2.9

Note: Figures for employment and unemployment are based on the Labour Force Survey.
Source: MF CR (2020a, 2021b).

2 Public Finance in 2020

The unprecedented global situation resulting from the COVID-19 pandemic has required a raft of government interventions aimed at slowing down the spread of the disease while helping those affected. Consequently, the State Budget Act had to be amended several times as the original deficit of CZK 40 billion swelled to a proposed CZK 500 billion. Ultimately, the final result turned out rather better with a deficit of CZK 367.4 billion. Some of the unused expenditure was carried forward to 2021 to cover programmes that might be needed to respond to further waves of the pandemic.

2.1 General Government Sector Finances in the Czech Republic in 2019

Figures stemming from the autumn notification of the government deficit and debt, as published by the Czech Statistical Office (2020b), showed that the general government sector ended 2019 with a surplus of CZK 15.3 billion, corresponding to 0.3% of GDP. The negative balance reported for central government institutions was outweighed by the positive result of local governments and social security funds (health insurance companies). This was the fourth consecutive year to report a surplus. Adjusted for the impact of the business cycle and one-off and other temporary measures, the balance was −1.1% of GDP. This meant that the Czech Republic had met its medium-term budgetary objective, set at -1% of GDP for the year, because according to European rules there is a tolerance of 0.25 percentage points in order to accommodate uncertainties in the calculation of the structural balance.

Compared to the Czech Republic's 2020 Convergence Programme (Ministry of Finance, 2020a) and the April notification of the government deficit and debt, the Czech Statistical Office revised the data for 2019 with a minimal impact on the overall balance (CZK −0.1 billion). Revisions were made on both the revenue and expenditure side. The increase in total revenues by CZK 8.6 billion can be attributed to a higher volume of output (CZK +4.3 billion), especially output produced for own final use (CZK +3.0 billion), a positive adjustment to income taxes (CZK +2.2 billion), mainly corporate income taxes (CZK +2.0 billion), and transfers received (CZK +2.8 billion). Conversely, the amount of taxes on production and imports was adjusted downwards by CZK 0.7 billion. General government expenditure increased by CZK 8.7 billion following a revision of capital expenditure (CZK +4.0 billion), transfers (CZK +2.9 billion) and, to a lesser extent, the compensation of employees (CZK +1.4 billion), intermediate consumption (CZK +0.9 billion) and social transfers in kind (CZK +0.7 billion). However, the resulting increase in expenditure as a result of the revision was smaller, mainly due to lower subsidies (CZK −0.4 billion) and the net acquisition of non-produced non-financial assets (CZK −0.5 billion).

At the end of 2019, the general government debt was CZK 1,738.5 billion, corresponding to 30.2% of GDP. The decrease in the relative debt ratio by 0.5 pp compared to the April 2020 notification was mainly due to the revision of nominal GDP. Public budgets therefore entered the recession in 2020 well prepared with a relatively low level of indebtedness.

2.2 General Government Sector Finances in the Czech Republic in 2020

We estimate that the general government sector ended 2020 with a deficit of 5.8% of GDP and that it was encumbered with in particular by the result reported for the state budget, which bore the brunt of the stabilising role played by public finances. In contrast, local governments and health insurance companies evidently reported another surplus. From the perspective of the structural balance, the expansionary fiscal policy led to a deficit estimated at 2.0% of GDP. Figures on the performance of the general government sector using accrual methodology are currently available only for the first three quarters of the year, for which a deficit of CZK 195.4 billion was reported. However, it is the final quarter that plays heavily on the full-year balance, and its typical volatility was exacerbated in the last year by the second wave of the epidemic. The cash receipts of the state budget, state funds, local budgets and health insurance companies (MFCR, 2021a) are also used here as a basis for the estimated result.

Using national cash methodology, the state budget ended 2020 with a deficit of CZK 367.4 billion, which is CZK 338.9 billion worse than in 2019. The planned deficit, increased to as much as CZK 500 billion by three amendments to the State Budget Act (Act No. 129/2020 Coll., Act No. 208/2020 Coll., and Act No. 323/2020 Coll.), was CZK 132.6 billion more than the actual deficit. The overall economic performance was characterised by a sharp drop in tax revenues as a result of measures taken to combat the COVID-19 pandemic and an increase in expenditure aimed at helping households, the self-employed persons, companies, and other parts of public budgets. EU funding and financial mechanisms had little impact on state budgeting. Spending exceeded the revenues paid out by the EU and financial mechanisms by only CZK 3.8 billion, which proves that the state is capable of recouping pre-financed resources for its budget. Adjusted for these transactions on both the revenue and the expenditure side, the budget ended up with a deficit of CZK 363.7 billion. In contrast, local budgets reported a cash-based surplus of CZK 31.0 billion at the end of November 2020. This was just CZK 10 billion lower year-on-year. Over the same period, health insurance companies reported a CZK 7.8 billion worse result year-on-year, but still made a surplus of CZK 5.5 billion.

The general government sector forecast set out in the Czech Republic's 2020 Convergence Programme (Ministry of Finance, 2020a), which was based on different macroeconomic assumptions and facts known in the spring of 2020, was counting on a deficit equal to 5.1% of GDP. In the autumn forecast, the estimated deficit was adjusted by 1.3 pp to 6.4% of GDP, mainly due to higher expected government final consumption expenditure (+2.3 pp), investment (+7.1 pp), and subsidies to business entities (+25.1 pp). Income taxes (+9.4 pp), and specifically personal income tax, mainly reflected a change in the recording of compensatory bonuses. According to ESA 2010 methodology, these do not reduce tax revenues, but are treated as capital transfers payable. Compared to the April 2020 forecast, we expected a larger decline in taxes on production and imports (−2.0 pp), because, among other things, the abolition of the real estate transfer tax had already been reflected. Comparing the current estimate of economic developments with the prediction from September 2020, there is an improvement in the balance by 0.6 pp. This can be attributed to a better revenue side (+1.4 pp), with expenditures expected to grow only slightly faster (+0.3 pp). However, significant adjustments were made to the structure of the expenditure side, where we expect government final consumption expenditure (−1.5 pp) following a major reassessment of intermediate consumption (−8.1 pp) based on the results of national accounts for the first three quarters of 2020 and the projection for the rest of the year. By contrast, subsidies and transfers, taken as a whole, should grow faster (+8.7 pp) on the back of further measures taken to combat COVID-19 and programmes to mitigate the economic and social impact, steps taken to extend or broaden their scope, and to update their estimated effects.

General government revenue should fall by 1.6% year-on-year to 41.9% of GDP. It is estimated that tax revenues, including social security contributions, will be lower by 2.0%, with the steepest year-on-year slump, in relative terms, predicted in corporate income tax revenue. The overall tax-to-GDP ratio should report slight growth to 36.1% of GDP.

Value added tax revenues are predicted to fall by 1.2%. There was a marked slowdown in the year-on-year momentum due to the fall in nominal household consumption and the corresponding area of general government expenditure. The significant shortfall in revenue from purchases by foreign tourists could also evidently be felt. The rate for supplies of heat and cold changed from 15% to 10% with effect as of 1 January 2020 (Act No. 80/2019 Coll.). This measure, compensating for the increased costs due to a rise in emission allowance prices, should result in a decrease in revenues by CZK 2.0 billion. Act No. 256/2019 Coll. prompted some services and commodities to move to the second reduced rate (e.g. repairs of bicycles, footwear, leather goods and clothing, hairdressing and barber services, water and sewage rates, etc.), which should push down revenues by CZK 2.3 billion. With effect as of July 2020, tax revenue was further inhibited by a lower tax rate on accommodation services and cultural and sports events, with an overall estimated impact of CZK 1.3 billion (Act No. 299/2020 Coll.).

Excise duties (excluding renewable energy subsidies) fell by 2.6% according to the latest estimate. Duty on mineral oils was evidently affected by lower diesel and petrol consumption due to a significant drop in transport operations, as well as by a forecasted higher rebate for red diesel. Duties on manufactured tobacco were affected considerably by the curtailment of cross-border purchases and tourism. Subdued tourism and reductions in all social activities were also likely reflected in beer and spirit consumption. A change in rates on manufactured tobacco and alcohol had a positive income effect, with an estimated impact of approximately CZK 10.3 billion (Act No. 364/2019 Coll.). The taxation of heated tobacco, introduced in 2019, is estimated to have generated an additional CZK 0.4 billion (Act No. 80/2019 Coll.). Within the scope of taxes on production and imports, Act No. 364/2019 Coll. hiked up rates on gambling, with a projected impact of just under CZK 1 billion. The abolition of real estate acquisition tax had the opposite effect, pushing down receipts by an estimated CZK 13.8 billion (Act No. 386/2020 Coll.).

According to the current forecast, revenue from income taxes fell year-on-year by 4.6%, mainly due to a loss of corporate income tax revenue. Forced constraints on production and service provision, closures and the overall economic downturn linked to the pandemic had a significant impact on the economic performance of businesses, which are projected to pay almost 18% less in income tax to public budgets. We anticipate that discretionary measures under the approved tax package (Act No. 609/2020 Coll.) will include the introduction of extraordinary depreciation, with an estimated negative impact of around CZK 11 billion, and an increase in the limit for the depreciation of tangible fixed assets, bringing the balance down by CZK 2.4 billion. The extension of the exemption of dividends payable to the state and regions from corporate income tax (Act No. 364/2019 Coll.) will also have a negative impact, amounting to CZK 1.8 billion. Conversely, a change in the method for the creation and eligibility of insurance companies' technical provisions (Act No. 364/2019 Coll.) should have a budgetary positive impact of CZK 5.3 billion. Measures taken under the "liberation packages" should have a minimal fiscal impact on the accrual amount of tax revenues.

Personal income tax revenue is projected to grow by 3.9% year-on-year, partly thanks to employment stabilisation measures. Discretionary measures included the introduction of a limit of CZK 1 million for the exemption of gambling winnings and a change in rounding when determining the tax base for income from bonds issued before 1 January 2013 (Act No. 364/2019 Coll.), with a total expected positive impact of CZK 0.6 billion. The reduction in the sickness insurance rate in connection with the abolition of the waiting period for sick pay from July 2019 should have an impact of approximately CZK −0.3 billion (Act No. 32/2019 Coll.).

Developments in social security contributions, much like personal income tax, were determined primarily by a rise in the compensation of employees (with growth estimated at 0.8%). The CZK 25.4 billion increase in government payments for state-insured persons also figured prominently. Extraordinary pandemic-era measures included approval of a six-month waiver of the payment of minimum advances on social and health insurance for the self-employed, with an estimated impact of CZK 14.3 billion (Act No. 136/2020 Coll. and Act No. 134/2020 Coll.), as well as a three-month waiver of employer-paid social security and state employment policy contributions (Antivirus scheme – Line C), with an impact of CZK 13.3 billion (Act No. 300/2020 Coll.). The social security contributions should also be adversely affected by a reduction in the sickness insurance rate, introduced to make up for the abolition of the waiting period in the first three days of sickness (Act No. 32/2019 Coll.), with an impact of CZK 1.8 billion. On aggregate, all these factors contributed to a 0.4% year-on-year rise in social security contributions.

In property income, we expect a 56.3% year-on-year increase in dividend income, despite the assumption of a zero dividend from Prague Airport, which was heavily affected by the global pandemic and the associated air traffic restrictions. On the other hand, ČEZ should pay a much higher dividend to the state budget.

General government expenditure should increase by 12.8% and come to 47.7% of GDP, up by 6.4 pp year-on-year. The expenditure side was severely affected by measures taken to combat COVID-19 and schemes to mitigate its economic and social impacts.

General government final consumption evidently kept to a significant growth rate of 6.6%, consistent (among other things) with its average growth over the first three quarters of 2020. Of its individual components, we expect the fastest growth was in the compensation of employees (8.2%), with the salaries of education-sector workers increasing by 10%. In addition, the pandemic pushed up the outlay on the remuneration of workers in healthcare, social services and the security forces. The forecasted 7.6% growth of social transfers in kind factors in the increase in healthcare expenditure. To boost spa tourism, the COVID-Spa programme was approved with funding of CZK 1 billion (Government Resolution No. 703). In contrast, savings of CZK 2.0 billion are forecasted due to lower use of discounts on bus and train fares for students and seniors at a time of limited travel opportunities. Intermediate consumption expenditure is likely to have dipped (−0.4%), as a downtrend was evident back in the second and third quarters of 2020. Higher real consumption in the healthcare sector (expenditure on medical supplies, protective equipment, tests and vaccines), together with higher year-on-year inflation, appears to have been outweighed by lower intermediate consumption in areas such as transport and public universities.

There was a significant rise in cash social benefits in 2020. This reflected already approved measures (in particular for pension benefits and state social support benefits), on the one hand, and economic developments, on the other. The average old-age pension increased by CZK 900 with effect as of 1 January 2020 (Act No. 244/2019 Coll.). The impact of the discretionary step (i.e. a measure beyond statutory requirements) was approximately CZK 6 billion. A special CZK 5,000 contribution to pensioners as financial assistance to cover their rising living costs resulted in additional expenditure of CZK 15 billion (Act No. 469/2020 Coll.). Another measure, increasing social expenditure by CZK 14.1 billion, was to increase the parental allowance for all households with a child up to 4 years of age who are actively receiving this benefit (Act No. 363/2019 Coll.). The impact of the increase in the carer's allowance for persons with degrees 3 and 4 of dependence is estimated at CZK −1.9 billion (Act No. 47/2019 Coll.). The CZK 25.4 billion increase in the state's contributions for state-insured individuals was mirrored here from social security contributions on the revenue side. In addition, cash social benefits were estimated to have risen by CZK 12.8 billion as a result of the adjusted carer's allowance for persons looking after children while schools, day care centres and similar facilities were closed during the coronavirus epidemic, and which was also payable in cases where families were ordered to quarantine (Act No. 133/2020 Coll., Act No. 230/2020 Coll., Act No. 438/2020 Coll., Government Resolution No. 311, and other resolutions adjusting the parameters of the carer's allowance for self-employed persons). In total, cash social benefits should therefore have grown by 15%.

Higher government borrowing needs required to cover the increased state budget deficit and to boost the liquid reserves of the state treasury evidently saw interest payments rise by 4.3% to 0.8% of GDP.

Capital expenditure had reported double-digit growth in the previous three years, but its momentum is estimated to have slowed to 5.7% in 2020. This is also borne out by national account figures for the first three quarters. Investments should be nationally sourced from more than 80% (this includes the Czech financing of European projects). We assume that measures to prevent the spread of COVID-19, resulting in production constraints and a temporary reduction in the number of foreign workers, prompted a decline in investment activity. By postponing certain purchases of military equipment that, given the current situation, is not essential for the state's defence capabilities, capital expenditure was CZK 1.8 billion less than originally budgeted (Act No. 129/2020 Coll.).

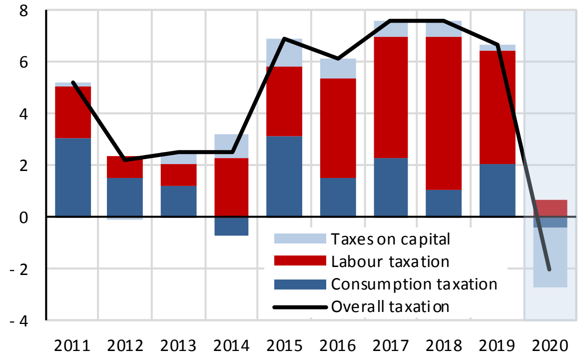
The current estimate anticipates an almost 46% rise in subsidies, comprising resources to support various groups of economic entities affected by the coronavirus pandemic and measures taken to prevent its spread. For the most part, this funding covers wage compensation in cases where quarantine or other measures related to COVID-19 prevented employees from working or employers from operating (Lines A/A plus and B of the Antivirus scheme), with an estimated impact of approximately CZK −27.3 billion (Government Resolution No. 353 and other resolutions regulating the parameters). Examining the measures by allocated funds, it is also worth mentioning the COVID-Rent programme for businesses that had to shutter their retail establishments for goods and services due to extraordinary measures, with an estimated impact of CZK −8.8 billion (Government Resolution Nos 513, 550, 1035, 1037, 1081, 1107 and 1329). Similarly, to support other sectors the government approved the COVID – Gastro – Closed Establishments programme (Government Resolution No. 10/2021) with an estimated impact of CZK −2.5 billion in 2020, and the Agricovid Food Industry programme with an allocation of CZK 3 billion (Government Resolution No. 1138). Funds to compensate for the effects of the pandemic and related measures were also channelled into the arts and sports (approximately CZK 4 billion each). Many programmes were aimed at supporting businesses that produce medical devices, supporting new technological solutions to combat COVID-19, and introducing innovations to cope with the fallout. Funds of approximately CZK 2 billion were earmarked for these purposes.

Other measures entailed a rise in transfers by more than 47%, primarily the "compensatory bonus" paid to eligible self-employed individuals, small private limited companies, and employees working on the basis of an "agreement on work activity" or an "agreement on the performance of work", with a total projected accrual-based impact of CZK −28.7 billion in 2020 (Act No. 159/2020 Coll. and amendments 234/2020, 262/2020 and 331/2020 thereto, and Act No. 461/2020 Coll. and amendment 584/2020 thereto). The 2020 forecast anticipates an accrual-based impact of approximately CZK −19 billion in connection with the introduction of the concept of loss carryback, which may be used both by individuals and by legal entities (Act No. 299/2020 Coll.). CZK 7.9 billion was allocated for the COVID-Accommodation and COVID-Accommodation II subsidy schemes in support of operators of accommodation facilities affected by the consequences of COVID-19 measures (Government Resolution Nos 766, 1070, 1184, 1331 and 50/2021). Besides these extraordinary measures, in the field of transfers we project that contributions to the EU budget derived from value added tax and gross national income will rise more than 20%.

The general government deficit, and especially the state budget, was also reflected in the level of debt. According to the current estimate, this increased by 8.1 pp to 38.3% of GDP.

Graph 2.2.1: General Government Tax Revenue

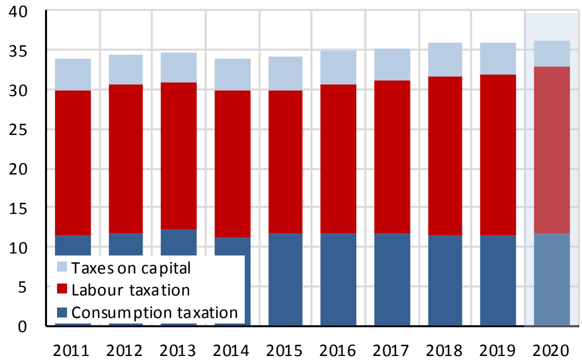
growth in %, contributions in pp



Source: CZSO (2021a, 2020b). Year 2020 MF CR.

Graph 2.2.2: Tax Quota

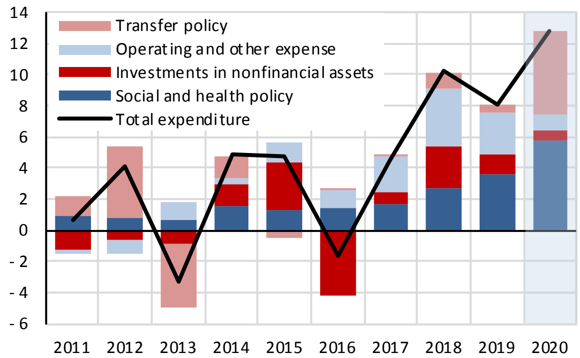
in % of GDP



Source: CZSO (2021a, 2020b). Year 2020 MF CR.

Graph 2.2.3: General Government Expenditure

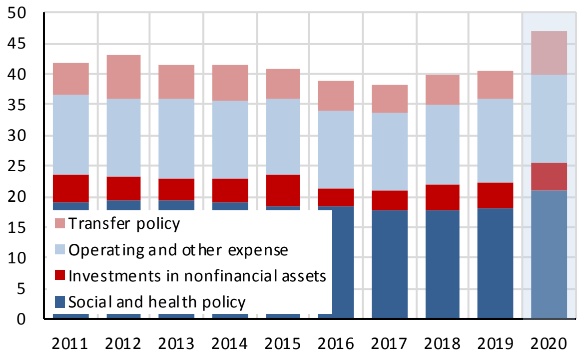
growth in %, contributions in pp



Source: CZSO (2021a, 2020b). Year 2020 MF CR.

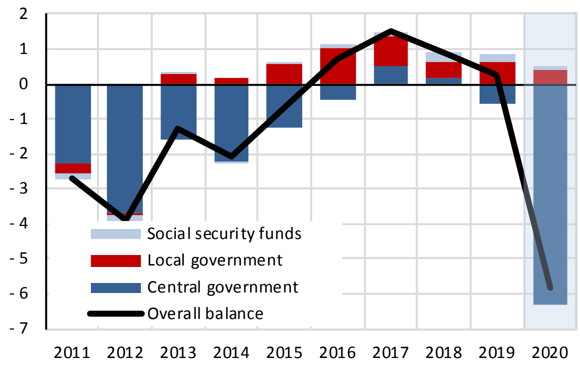
Graph 2.2.4: Composition of Government Expenditure

in % of GDP



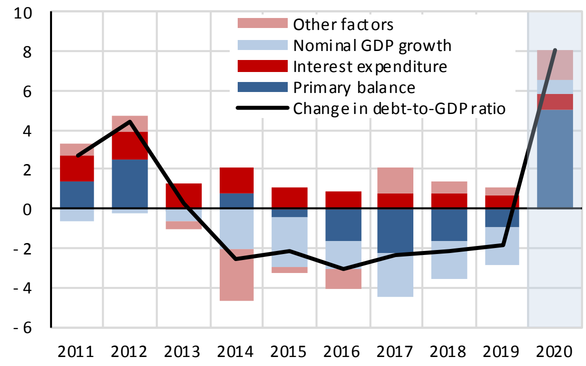
Source: CZSO (2021a, 2020b). Year 2020 MF CR.

Graph 2.2.5: General Government Balance
in % of GDP



Source: CZSO 2021a, 2020b). Year 2020 MF CR.

Graph 2.2.6: Contributions to Change in Gross Debt
in pp



Source: CZSO (2021a, 2020b). Year 2020 MF CR.

2.3 International Comparison

2.3.1 General Government Balance

The general government deficit of EU countries (excluding the United Kingdom) came to 0.5% of GDP in 2019. This was 0.1 pp higher than in 2018. The Czech Republic, together with Lithuania, recorded a general government surplus of 0.3% of GDP. A higher surplus relative to GDP was recorded in 13 EU countries (headed by Denmark at 3.8%, Luxembourg at 2.4%, and Bulgaria at 1.9% of GDP). The Stability and Growth Pact reference value was exceeded only by Romania (−4.4% of GDP). Excessive deficit procedure was initiated against that state in spring 2020 (Council Decision (EU) 2020/509). The exceedance of the deficit reference value was not exceptional under EU rules as it did not result from an unusual event or a sharp economic downturn in that year. According to the European Commission, Romania's structural deficit of 5.0% of GDP was the highest in the EU. France ran a deficit close to the threshold of 3.0% of GDP.

Eleven countries reported a better general government sector result than in 2018, with Cyprus leading the way (by 4.9 pp), followed by Denmark (by 3.1 pp). By contrast, the result was worse in 15 countries – mainly in Romania (by 1.4 pp) and Belgium (by 1.2 pp). Hungary remained at the same deficit level (2.1% of GDP). In 2019, surpluses were reported by 17 EU countries. According to the European Commission, the highest structural surpluses in the EU were achieved by Denmark (3.5% of GDP), Greece (2.8% of GDP) and Luxembourg (2.4% of GDP).

The epidemic resulted in seriously impaired public finances in 2020. All EU countries are set to report a deficit here that is higher than the reference value. The biggest deficits, in excess of 11% of GDP, are currently estimated in Poland, Slovakia, Belgium and Spain. Double-digit deficits are also projected in Italy and France. The lowest is estimated in Denmark, at 3.9% of GDP. However, having been made in September 2020, these predictions fraught with extremely high uncertainty in terms of how the remainder of last year affected the final results, which are due for publication by Eurostat in April 2021. In March 2020, the general escape clause under the Stability and Growth Pact was activated, allowing EU countries to deviate from the budgetary requirements set by the European fiscal framework.[1] This should enable Member States to pursue expansionary fiscal policies and defeat the crisis as soon as possible.

2.3.2 General Government Debt

In the EU-27, general government debt came to a consolidated 79.2% of GDP in 2019, i.e. 2.0 pp less than in 2018. The debt fiscal criterion of 60% of GDP in 2019 was not met by 11 member states, although the indebtedness fell in all of them but Italy and France.

Greece remained the most indebted EU country (180.5% of GDP). However, compared to 2018, the relative debt ratio here decreased the most (by 5.7 pp), due to both a 1.1% fall in absolute debt and 2.1% GDP growth. Elsewhere, significant decreases by over 5 pp were also recorded in Ireland and Cyprus. At the other end of the scale, the highest increase was reported by Lithuania (by 2.2 pp). Besides Greece, other countries to report debt in excess of or equal to 100% of GDP in 2019 were Italy and Portugal. By contrast, the lowest ratio, remaining in single digits, could be found in Estonia (8.4% of GDP).

The running of deficits and declines in GDP were reflected in increases in government debt. According to flash estimates stemming from the autumn government deficit and debt notification of October 2020, the countries where the relative general government debt ratio increased the most in 2020 were Italy (by 23.4 pp), Spain (by 21.7 pp) and

[1] See Articles 5(1) and 6(3) (for euro area countries) and Articles 9(1) and 10(3) (for other EU Member States) of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended, and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as amended.

Greece (by 20.9 pp), which means that the latter's debt exceeded 200% of GDP. Seven countries had debt exceeding 100% of GDP, the newcomers being Belgium, France, Cyprus and Spain. Conversely, in relative terms debt increased the least (by about 5 pp) in Ireland, Bulgaria and Luxembourg. Estonia should continue to report the lowest debt (18.2% of GDP), although absolute debt increased by more than 100%. The Czech Republic is on track to remain the country with the fourth lowest government debt. In 2020. It is likely that 17 countries (newly Finland, Ireland, Germany, Poland, Slovakia and perhaps also the Netherlands) found themselves above the reference value of 60% of GDP.

Note: In its spring government deficit and debt notification, Eurostat expressed a reservation about Denmark under Article 15(1) of Council Regulation (EC) No 479/2009, as amended, for the submission of incomplete output data for 2019. The Danish figures were incomplete because of the related law was not passed until later, a factor the Danish statistical office reportedly announced in advance. Denmark sent the complete data at the end of May 2020 and this reservation was withdrawn in autumn 2020.

2.3.3 General Government Debt Financing

Since September 2019, the yields to maturity of government bonds in EU countries have been declining. This is mainly due to the loosened monetary policy pursued by the European Central Bank, which has kept the primary interest rate at 0.0% and reduced the deposit rate to −0.5%. It has also made net asset purchases of EUR 20 billion per month. The decline in yields continued in early 2020. In March, the situation on the financial markets was worsened by the coronavirus pandemic. Government bond yields rapidly became more volatile and there was an increase in risk premiums.[2] The European Central Bank responded with several monetary policy measures. These included the expansion of the net asset purchase programme by a total of EUR 120 billion and the launch of the Pandemic Emergency Purchase Programme (see Box 1). However, after taking inflation into account it left interest rates unchanged (the deposit interest rate remained at −0.5%, the primary interest rate at 0.0%). In countries outside the euro area, monetary policy was eased through interest rate cuts. The Swedish central bank expanded the purchase of government and municipal bonds to SEK 300 billion by the end of 2020. The Hungarian or Polish central banks also started purchasing government bonds last year. The monetary policy pursued by the Czech National Bank included a gradual reduction in the 2-week repo rate by a total of 2 pp to 0.25%.

Institutional investors' risk aversion slowly waned from May, not only in response to central banks' measures, but also due to the extensive fiscal stimuli that governments had begun to implement to support households and companies affected by the pandemic. The situation on the bond markets therefore calmed down (in countries such as Poland and Sweden), but in countries that had less fiscal leeway but were severely affected by the first wave of the coronavirus pandemic, interest yields on ten-year government convergence bonds remained well above pre-crisis levels (e.g. by 1.1 pp in Cyprus, by 0.9 pp in Greece, and by 0.8 pp in Italy). In May, yields on ten-year government bonds were below pre-crisis yields in only five EU countries (Germany, the Czech Republic, Hungary, Poland and Sweden), but by the end of the year 22 EU countries were in the same position. In 12 EU countries, especially in the euro area, ten-year government bonds actually had negative yields by the end of 2020. Outside the euro area, negative government bond yields were reported only in Denmark (in Sweden, yields were in negative territory for virtually the whole of the year, but rose slightly to 0.01% pa from November). The decline in government bond yields was prompted by fiscal and monetary policy measures that resulted in high demand for government bonds among institutional investors to an extent well above their supply at primary auctions (e.g. in Germany and Denmark last year government bonds were oversubscribed[3] with demand averaging twice the supply, and in the Czech Republic by as much as three times).

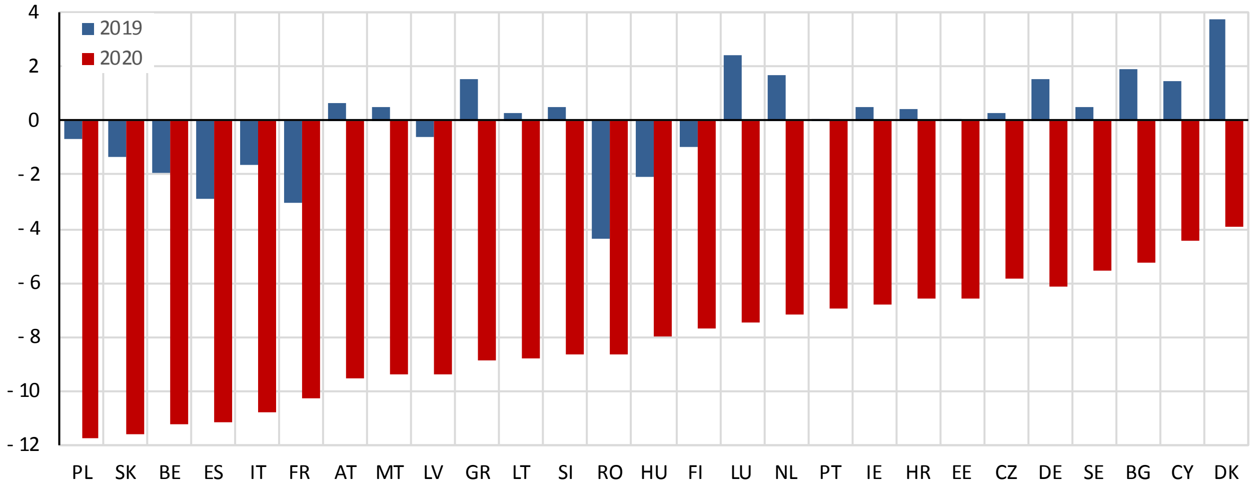
Of the countries that have received assistance from EU rescue funds and the International Monetary Fund in the past, only Ireland has achieved negative yields on ten-year government bonds (see Graph 2.3.7, top right panel). Following the crisis, Ireland rapidly resumed economic growth and improved its public finances thanks to the structure of its economy. As a result, it has long reported the lowest yields on government bonds in this group of countries. However, other countries have also recorded a significant decline in yields. Yields on Greek government bonds with ten years to maturity fell to 0.63% pa at the end of December, hovering 0.4 pp below pre-crisis levels.

[2] The increased credit risk of issuers is evidenced by a rise in the premiums on 5-year credit default swaps (CDSs) of government bond issuers in EU countries. In Germany, for example, the premiums on this swap increased threefold compared to the long-term average. CDS premiums started to decline again from May and have been hovering around pre-crisis levels since August.

[3] Measured by the bid-to-cover ratio, which measures the volume in demand among institutional investors for the purchase of government bonds in the primary auction and the volume of government bonds actually issued by the issuer.

Graph 2.3.1: General Government Balance in EU Countries

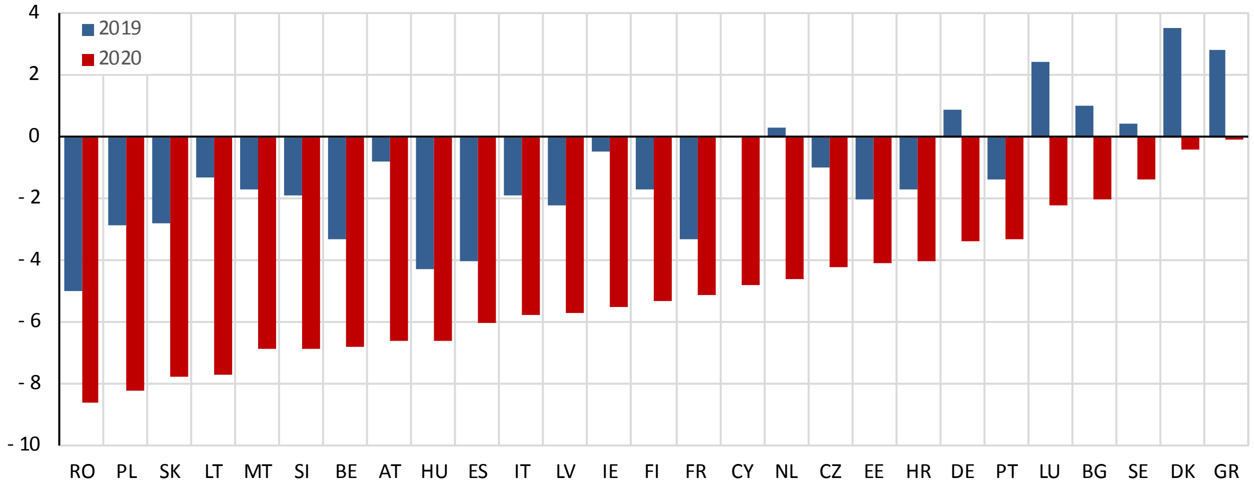
in % of GDP



Note: Data of the Czech Republic for 2020 are based on the current estimate of MF CR.
Source: Eurostat (2020b), Data of Belgium for 2020 from the EC (2020a).

Graph 2.3.2: Structural Balance of the General Government in EU Countries

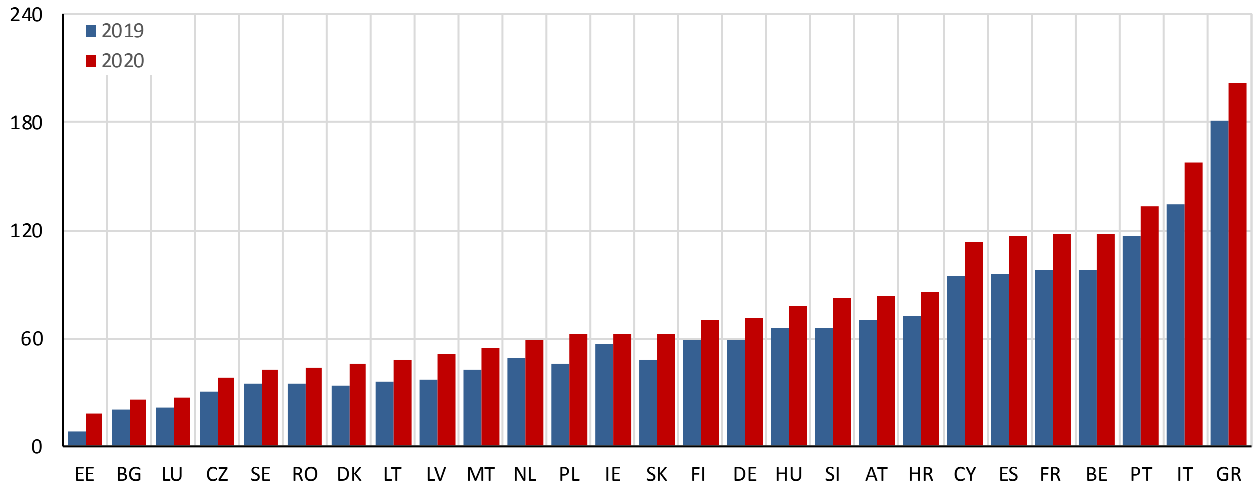
in % of GDP



Note: Data of the Czech Republic for 2020 are based on the current estimate of MF CR.
Source: EC (2020a).

Graph 2.3.3: General Government Debt in EU Countries

in % of GDP



Note: Data of the Czech Republic for 2020 are based on the current estimate of MF CR.
Source: Eurostat (2020b), Data of Belgium for 2020 from the EC (2020a).

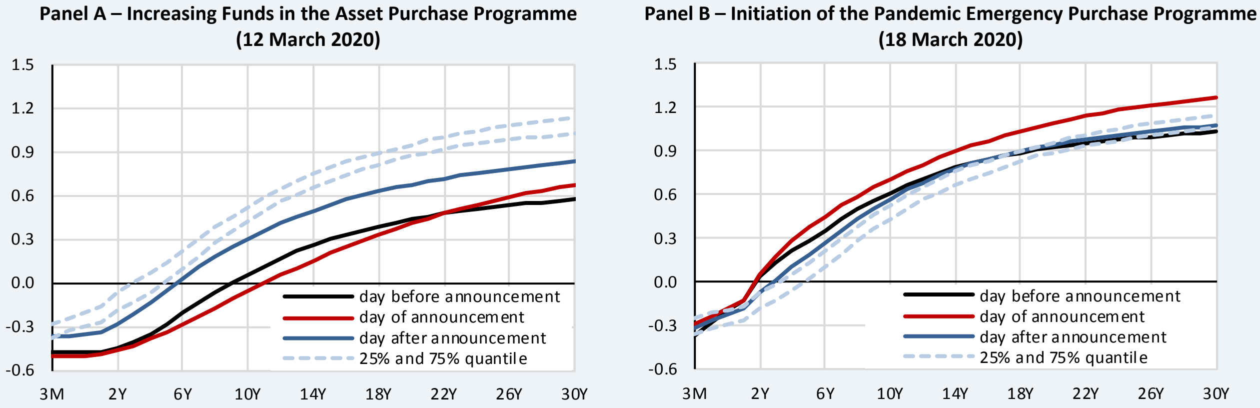
Box 1: Reaction of the Euro area Yield Curve of the Government Bonds on the ECB's measures

On 12 March 2020, the European Central Bank adopted a comprehensive set of monetary policy measures aimed at underpinning liquidity in the banking sector. These were further longer-term refinancing operations (LTROs) to provide the banking sector with liquidity on very favourable terms. These measures will help to keep risk premiums low, which may have a positive impact on demand for corporate and household borrowing. The terms of the third series of these operations (LTRO III) were adjusted, with the interest rate for these operations in the period from June 2020 to June 2022 set at 50 basis points below the average interest rate applied to the main refinancing operations. The decision was also taken to supplement the existing asset purchase programme with another EUR 120 billion and to continue making net purchases at the current monthly EUR 20 billion. On 18 March 2020, the European Central Bank approved the launch of the Pandemic Emergency Purchase Programme for the purchase of government and corporate bonds. This programme currently has a total allocation of EUR 1,850 billion (its original EUR 750 billion was upped by EUR 600 billion in June and another EUR 500 billion in December). It will remain in operation until at least the end of March 2022. Yields from maturing bonds will then continue to be reinvested until at least the end of 2023. Purchases under the programme also cover Greek government bonds, to which the European Central Bank had previously been highly averse. In December, it was decided to extend the series of non-targeted pandemic emergency longer-term refinancing operations for 2021 to include another four operations.

As exemplified by euro area government bond yield curves (see Graph 2.3.4, Panel A), the bond markets' immediate response to the measures taken, entailing an increase in assets, was not in line with expectations of instantly lower yields. Quite the opposite, as there was a parallel upward shift of the yield curve. One month after the announcement of this measure, the desired effect of a decline in the yields to maturity of government bonds had yet to materialise, and the yield curve was well above pre-crisis levels along its entire length. The Pandemic Emergency Programme caused the yield curve to "reverse" immediately. The yields of government bonds with maturities of two years and over went up, but then returned to their original level (they actually declined in the 15-year maturity segment at the very long end). This situation continued for more than a month after the notification of this measure.

Graph 2.3.4: Reaction of the Euro area Yield Curve of the Government Bonds on the ECB's measures

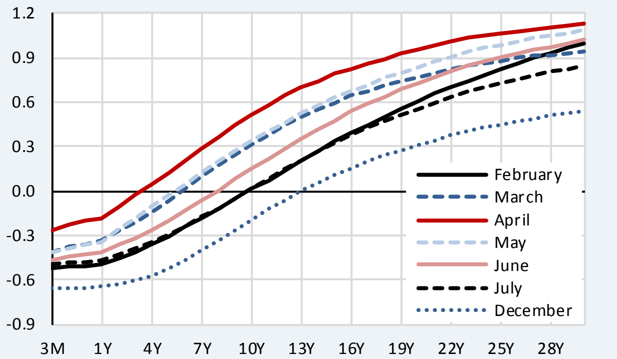
% p. a.



Note: "Par" yield curve of CZK-denominated fixed-rate government bonds is constructed on the basis the extended Nelson-Siegel model, called Svensson model. The development of the 25% and 75% quantile of the yield curve is calculated for the period from the announcement of the measure to 17th April 2020 (approx. 1 month after the announcement of the measure).
Source: ECB (2021). MF CR Calculations.

Graph 2.3.5: Development of the Euro area Yield Curve of the Government Bonds during COVID-19

% p. a.



Note: This is the 50% quantile of yields in individual maturities for the relevant month. For the clarity, the yield curves for the period from August to November are not included, as there were only small parallel shifts downwards.
Source: ECB (2021). MF CR Calculations.

Despite initial growth in the yields of government bonds in certain maturity segments in March and, especially, in April (when yields peaked), the yield curve returned to March levels as early as in May (with the exception of the yields of government bonds with 15 years or more to maturity). In June, the yield curve continued to head back towards pre-crisis levels. At the short end in particular, yields reached values close to pre-crisis levels. In July, the yield curve essentially copied the February yields for maturities of up to 15 years; over 15 years to maturity government bonds had yields even lower than before the outbreak of the pandemic. At present, the government bond yields are lower along the entire length of the yield curve than before the pandemic outbreak – at the short end by about 0.2 pp and at the long end by as much as approximately 0.4 pp.

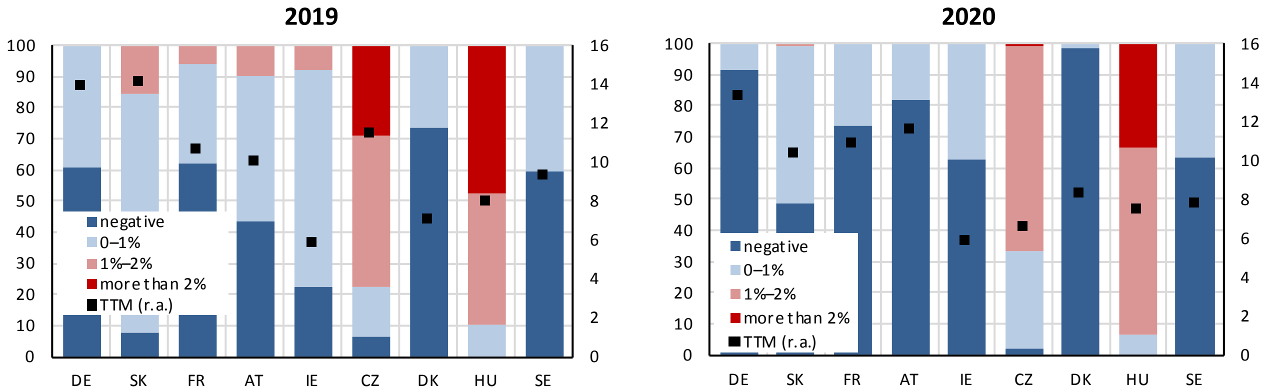
Among Central European countries, Slovakia has the lowest yield rates. It benefits the most from the euro area's loosened monetary policy when issuing bonds. It is also the only country in this group to achieve negative yields to maturity on ten-year government bonds. Yields on Czech government bonds have also been gradually declining over the last three years, with some fluctuations (especially in the fourth quarter of 2019). In the second and third quarters of 2020 it got down to its lowest levels since 2017. It is now rising again slightly. Compared to the euro area countries and the Nordic states, the decline in government bond yields in the Czech Republic is generally smaller, and yields are thus at a relatively higher level. The main reason for this is the Czech National Bank's "tighter" monetary policy.

Despite a temporary increase in government bond yields and the significantly increased government borrowing requirement in all EU countries, there was a parallel decline in the government bond yield curve in 2020 compared to 2019. This change in the time structure of interest rates allowed countries last year to issue fixed-rate government bonds on a larger scale, but at relatively lower yields, which dampened the growth of interest expense on general government debt service. Last year, a number of euro area countries (especially Germany, Slovakia, Ireland, and Austria) issued government bonds with a negative yield on a much larger scale than in 2019; large share of government bond issues carried a yield of no more than 1% pa. On the other hand, compared to 2019, government bonds were issued with a shorter average maturity (there was a sharp decline in the maturity of bonds issued, for example, in Slovakia). In countries outside the euro area, negative yields in government bond auctions were reported mainly by the Nordic countries. Denmark, for example, issued government bonds practically only for negative yields last year. In the Czech Republic, almost all auctions of fixed-rate medium- and long-term government bonds in 2020 were realized with a yield of up to 2% pa (in 2019, these accounted for approximately 71% of the total volume of such bonds sold). However, these bonds were issued with a much lower average maturity than in 2019.

Government bond issues are not the only way to cover general government debt. Some countries in the EU have a significant proportion of financing loans. The autumn notifications of general government deficit and debt show that, in 2019, loans accounted for a high share of general government debt in Estonia (87.8% of total debt), Greece (80.6%) and Cyprus (41.4%). In Estonia this share has remained steadfastly high because of long-term loans from the European Investment Bank and low government debt. In Greece and Cyprus, on the other hand, there has been a major hike in the weight of this way of financing (which back in 2011 stood at around 30%) on account of loans from the International Monetary Fund and EU rescue funds.

Graph 2.3.6: Yield Structure of the Government Bonds in Auctions in the Selected EU Countries

in % of the total amount of the fixed-rate medium and long-term government bonds sold in auctions; right axis: time to maturity in years

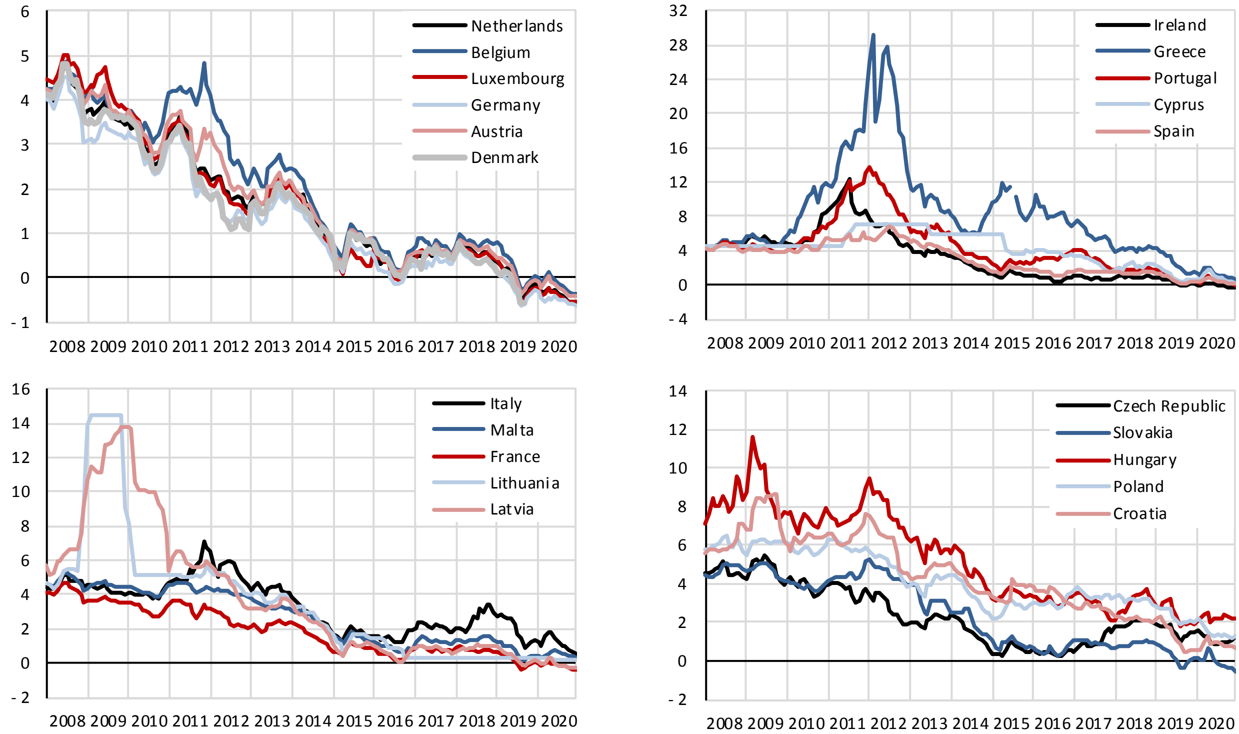


Note: These are the fixed-rate medium and long-term government bonds. Time to Maturity (TTM) is the weighted average of the residual time to maturity and the total nominal amount of the government bond sold in the auction.

Source: Deutsche Finanzagentur (2021), Ardal (2021), Agence France Trésor (2021), OeKB (2021), NTMA (2021), CNB (2021), Danmarks Nationalbank (2021), ÁKK Hungary (2021), Swedish National Debt Office (2021). MF CR Calculations.

Graph 2.3.7: Yields of Government Bonds of Selected EU Countries

% p. a., monthly average



Note: These are yields of ten-year bonds for convergence means of the specific country. The data for Luxembourg are comparable since May 2010, which is the start of Luxembourg government bonds emissions. Before that, private bond issuers were taken into account.
Source: ECB (2021).

3 Medium-term Fiscal Outlook

Several fundamental changes to the institutional anchoring of budgetary and fiscal policy came to pass in 2020. In particular, the need to set fiscal policy for the coming period necessitated two amendments to Act No. 23/2017 Coll., on Fiscal Responsibility Rules. First, fixed structural balance had to be set for the purposes of deriving the expenditure frameworks of the state budget and state funds in April. Later, a change was made that paved the way for the initial value of the consolidation trajectory to be determined. Considering how uncertain the times are, this approach seems to be the more judicious path to follow.

3.1 Fiscal Policy Objectives

The fiscal stance is currently in thrall almost exclusively to the need to suppress the new coronavirus epidemic and its repercussions. Fiscal expansion has been deployed in a bid to cushion the economic effects that anti-crisis measures are having on the private sector. The aims are to supplement the resources available to individuals, to support the sectors affected, and to maintain employment levels. The aggregate fiscal effort for 2020 and 2021 is just shy of five percentage points. The Act on Fiscal Responsibility Rules, in its current wording, provides for subsequent consolidation on a scale equal to at least 0.5 percentage points per year. Drawing on the current forecast, the structural balance should therefore gradually and steadily improve. Taking into account the actual forecast of −5.9% of GDP in 2021, the maximum value of structural deficit for 2022 is 5.4%. This shall be the progress until the medium-term budgetary objective for the Czech Republic is reached. However, the economic trends and debt levels, suggest that consolidation can be expected to proceed at an accelerated pace.

The structural deficit of central government (dominated by the state budget) should be softened by the surplus balances of local governments and health insurance companies. During the pandemic, both these components of public finances have received significant compensation at the expense of the state budget in order to shore up their sinking revenues. As the economy gradually recovers, their resources should be supplemented with revenues flowing from greater economic activity. This should further increase their surpluses. As both the local government subsector and social security funds rely on transfers for their results, subsequent consolidation will require discussion involving entities across the general government sector.

The approval of the tax package has provided an additional impetus to the economy of more than CZK 100 billion for 2021. Be that as it may, it again pointed out quite plainly the weak spots in the institutional configuration of the revenue side of public budgets. In the face of an economic recession, it is virtually impossible to pursue an expansionary fiscal policy on the revenue side without affecting the revenues of local governments. In a system where almost all tax revenues of macroeconomic significance are shared, it is not the central government that drives fiscal policy, but all 14 regions and 6,258 municipalities. This is impossible to coordinate effectively.

Table 3.1.1: Fiscal Policy Stance
in % of GDP, fiscal effort in percentage points

	2014	2015	2016	2017	2018	2019	2020 *Estimate*	2021 *Forecast*
General government balance	**-2.1**	**-0.6**	**0.7**	**1.5**	**0.9**	**0.3**	**-5.8**	**-6.6**
Cyclical component according to OECD method	-0.8	0.0	-0.1	0.8	1.2	1.4	-1.2	-0.5
One-off and other temporary measures	-0.5	-0.1	-0.1	0.0	-0.1	0.0	-2.6	-0.2
Structural balance according to OECD method	-0.7	-0.6	1.0	0.7	-0.2	-1.1	-2.0	-5.9
Fiscal effort according to OECD method	**-0.8**	**0.2**	**1.5**	**-0.3**	**-0.9**	**-0.9**	**-0.9**	**-3.9**
Cyclical component according to ECB method	-0.9	-0.2	0.0	0.6	1.0	1.2	-0.5	-0.4
Structural balance according to ECB method	-0.7	-0.3	0.8	0.9	0.0	-0.9	-2.7	-6.0
Fiscal effort according to ECB method	**-0.6**	**0.3**	**1.2**	**0.1**	**-0.9**	**-0.9**	**-1.8**	**-3.3**

Note: The method of Organisation of Economic Co-operation and Development calculates the cyclical component directly from output gap, whereas the European Central Bank models the cyclical development of specific macroeconomic bases (compensation of employees in the private sector, wages in the private sector, net operating surplus, consumption of households and unemployment). These bases have different cyclical behaviour than the GDP and its potential.
Source: CZSO (2021a, 2020b). Forecast and calculations by MF CR.

3.2 General Government Medium-term Outlook

The central plank of Czech public finances is the state budget. The overall expenditure framework of the state budget and state funds is determined by a fiscal rule derived from the statutory structural balance.

For 2021, the Czech government's Resolution No. 488 of 30 April 2020 on the Budgetary Strategy of the Public Institutions' Sector of the Czech Republic ("the Strategy") approved a cash-consolidated expenditure framework for the Czech state budget and state funds amounting to CZK 1,792 billion, rising to CZK 1,811 billion for 2022 and CZK 1,825 billion for 2023. In response to the new forecast of the revenues of the state budget and state funds that was drawn up in September 2020, the expenditure framework for 2021 had to be reduced by CZK 54.7 billion, and in the following years the frameworks were cut by about CZK 58 billion. The business cycle's impact on the change in revenues was estimated at CZK 0.5 billion for 2021, subsequently declining in further years of the outlook to reach a slightly negative level in 2023. However, the expenditure framework was affected by several further adjustments. New EU crisis management instruments (Next Generation EU) have already made their mark in the form of a revised EU revenue forecast. In addition, the concept of loss carryback was reflected in the expenditure frameworks as an escape clause as it is a measure accruing to the year 2020. As expenditure frameworks are derived from accrual methodology, it would not be appropriate for this measure to affect the expenditure framework in 2021. Consideration for the macroeconomic situation in 2020, within the meaning of Act No. 288/2020 Coll., is another factor. The different trajectory followed by wage bill affected both social (state budget income) and health insurance contributions (the income of health insurance companies). In the case of social security contributions, there is a direct impact on state budget revenues. As for health insurance, there is an indirect impact because of the higher payments made for state-insured persons. In the explanatory memorandum on Act No. 231/2020 Coll. amending Act No. 592/1992 Coll., on public health insurance contributions, as amended, the slump in health insurance contribution revenues due to the economic downturn is explicitly stated as one of the reasons for the increase in transfers from the state budget. Differences in the cash tax forecast only affect the frameworks in 2022 and 2023.

Act No. 218/2000 Coll., on budgetary rules, as amended, allows the expenditure framework to be increased by 0.3% of set expenditures by default. Applying the frameworks approved by the government in the Strategy, this equates to CZK 5.4 to 5.5 billion.

The updated consolidated expenditure framework of the state budget and state funds for 2021, rounded to billions of koruna, amounts to CZK 1,848 billion. The expenditure frameworks for 2022 and 2023 have been adjusted in a similar way to 2021. Consequently, the new frameworks stand at CZK 1,803 billion for 2022 and CZK 1,823 billion for 2023 (Table 3.2.1).

Naturally, the expenditure side of social security funds will reflect the pandemic situation. However, we assume that the main impact will be felt in the structure of payments and only secondarily in the amount itself. On the other hand, revenue will be strongly influenced by the hefty increase in payments for state-insured persons in 2020 and 2021. Although the medium-term outlook does not anticipate a further increase in this payment in the years ahead, resources will be replenished by public health insurance revenues as a result of the economic recovery and rising wage bill. This should keep the balance to modest surpluses across the horizon.

Local governments should continue to budget with a surplus throughout the outlook. These surpluses are unlikely to return to pre-crisis levels. The decline in revenues elicited by the government's discretionary measures was largely offset by the state budget. As with health insurance companies, the economic recovery and gradually increasing revenues from shared taxes should play a positive role here. Even so, we also expect certain rationalising adjustments to be made on the expenditure side (Table 3.2.2).

Table 3.2.1: Adjustments of the Original Medium-Term Expenditure Framework
in CZK bn.

		2021	2022	2023
Consolidated expenditure framework according to Government Resolution 488/2020	*CZK bn*	**1 792**	**1 811**	**1 825**
Adjustment in state budget and state funds cash revenues *	*CZK bn*	-54.7	-58.0	-58.7
Cyclical component in adjusted state budget and state funds revenues	*CZK bn*	0.5	0.2	-0.2
Effect of one-off measures	*CZK bn*	0.0	0.0	0.0
Change in EU and financial mechanisms revenues forecast	*CZK bn*	58.6	-	-
Escape clause - severe economic downturn	*CZK bn*	8.9	0.0	0.0
Escape clause - the state of emergency	*CZK bn*	0.0	0.0	0.0
Escape clause - natural disaster	*CZK bn*	0.0	0.0	0.0
Increase of expenditure ceiling by 0,3% (unexpected events)	*CZK bn*	5.4	5.4	5.5
The impact of macroeconomic situation (Act No. 288/2020 Coll.)				
Revision of tax forecast	*CZK bn*	0.0	4.7	8.5
Revision of social insurance forecast	*CZK bn*	25.5	27.3	29.4
Revision of health insurance forecast	*CZK bn*	11.8	12.7	13.6
Adjusted consolidated expenditure framework of state budget and state funds (rounded)	*CZK bn*	**1 848**	**1 803**	**1 823**

** EU and financial mechanisms revenues excluded.*
Source: MF CR.

Table 3.2.2: General Government Development

		2014	2015	2016	2017	2018	2019	2020	2021
								Estimate	*Forecast*
General government balance	*% of GDP*	**-2.1**	**-0.6**	**0.7**	**1.5**	**0.9**	**0.3**	**-5.8**	**-6.6**
Central government	*% of GDP*	-2.2	-1.2	-0.4	0.5	0.2	-0.6	-6.3	-7.1
Local governments	*% of GDP*	0.2	0.6	1.0	0.8	0.4	0.6	0.4	0.3
Social security funds	*% of GDP*	-0.1	0.0	0.1	0.2	0.3	0.2	0.1	0.2
Total revenue	*% of GDP*	**40.5**	**41.3**	**40.5**	**40.5**	**41.5**	**41.6**	**41.9**	**40.2**
	growth in %	2.8	8.4	1.6	6.6	8.6	6.4	-1.6	0.4
Total expenditure	*% of GDP*	**42.6**	**41.9**	**39.8**	**39.0**	**40.6**	**41.3**	**47.7**	**46.8**
	growth in %	4.8	4.7	-1.7	4.5	10.3	8.1	12.8	2.6

Source: CZSO (2021a, 2020b). Forecast and calculations by MF CR.

3.2.1 General Government Revenue

General government revenue is expected to increase by 0.4% in 2021. Nevertheless, tax revenue, including social security contributions, is forecast to decline by 0.6% year-on-year. Tax revenues alone will fall by 6.6%. This can mainly be attributed to the approved tax package.

We predict that personal income tax revenue will sink by 33.5% year-on-year. Act No. 609/2020 Coll., amending certain tax laws and certain other acts, introduced the most significant changes in personal taxation, from a budgetary perspective, with effect from 1 January 2021. The effective reduction in the tax rate is expected to have an impact on public finances tantamount to CZK 98.6 billion. This effect emanates from an adjustment to the tax base and rates (a transition to the gross wage as the tax base and the introduction of two rates, 15% and 23%), having an impact of around CZK 85 billion, and a CZK 3,000 increase in the tax credit for taxpayers, with an impact about CZK 13.5 billion. As of 1 January 2021, there has also come into effect the option of a flat-rate income tax regime for sole traders with incomes of up to CZK 1 million per year, the expansion of the tax incentive for employees' meals (the "flat-rate meal allowance"), and the abolition of the tax bonus ceiling. The overall impact of these measures is thought to be around CZK 1 billion.

Social security contributions, on the other hand, should increase by 7% year-on-year. Besides the predicted compensation of employees in the national economy, the pace of this growth will be driven by the gradual dismantling of anti-epidemic measures (the waiver of minimum advances for self-employed persons over the course of six months in 2020, and the Antivirus programme – Line C) and by increased payments for state-insured persons to the public health insurance system. This is projected to generate an additional almost CZK 28 billion for the healthcare sector. The effects of the flat-rate income tax scheme and the flat-rate meal allowance should more or less cancel each other out.

Corporate income tax revenue is expected to grow by 0.7% in 2021. The momentum of this tax relies primarily on the gross operating surplus, but will also be steered by the effects of several tax package measures. This tax will be negatively affected by the gradual phasing-in of the tax exemption for government bond yields (with an estimated impact of CZK 1.5 billion in 2021) and the introduction of the flat-rate meal allowance, which will have an impact of CZK 1.7 billion. Changes to depreciation (the introduction of temporary extraordinary depreciation) will erode tax revenue by CZK 4.5 billion. By contrast, the increase in the entry price limit for the depreciation of tangible assets will see its impact reduced to CZK 0.8 billion, which will have a positive year-on-year effect.

Value-added tax revenues are predicted to rise by almost 5%. Put simply, the autonomous development corresponds to growth in nominal household consumption, part of general government final consumption expenditure, and the general government gross fixed capital formation, where we predict growth of 5.6% in 2021. The reclassification of selected goods and services to the second reduced value-added tax rate in the first half of 2020 (Act No. 256/2019 Coll. – section 2.2) will cut revenue this year by just over CZK 1 billion. The reduction in the rate for accommodation services, cultural and sports events, and passenger transport by ski lifts as of 30 June 2020 (Act No. 299/2020 Coll.) will push down value-added tax revenue by CZK 2.2 billion year-on-year. Finally, tax exemptions applied to diagnostic medical devices for COVID-19 testing and to COVID-19 vaccines reduce the revenue by CZK 1.5 billion.

The revenue from excise duties (excluding renewable energy subsidies) is projected to increase by 6%. Changes in manufactured tobacco rates will generate an additional approximately CZK 5 billion (Act No. 609/2020 Coll.). Excise duties should also benefit from the introduction of the digital tax, projected to generate approximately CZK 1 billion in 2021. Mineral oil tax revenues are forecast to go up due to economic recovery, largely neutralising the 2020 slump. However, positive autonomous developments will be offset by a CZK 5.6 billion drop in tax revenue caused by the CZK 1 per litre cut in the tax rate on diesel. In the field of other taxes on production and imports, the introduction of a register of excluded individuals will reduce gambling tax revenue by more than CZK 1 billion.

In terms of other revenues, we project an increase in investment grants in line with the implementation of EU-funded projects stemming from the 2014–2020 programming period. In tandem with this, projects financed by Next Generation EU are also set for implementation. Conversely, there is expected to be a year-on-year decline in property income, as we forecast lower dividend payments.

Breaking down revenue into taxes on consumption (taxes on products, especially value-added tax and excise duties), labour (personal income tax and social security contributions) and profits (corporate income tax), this year the share of taxes generated by the labour production factor will fall and the share of the taxation of consumption will rise. The share of the taxation of profit is broadly stable. At the given rates and tax bases, the main determinant is how macroeconomic fundamentals will develop. This is particularly true of social security contributions, but also, to some extent, the taxation of consumption. Despite the changes made to value-added tax rates and the abolition of real estate acquisition tax, the discretionary changes to excise duties largely cancel each other out (higher revenue from manufactured tobacco and lower revenue from mineral oil tax). Another factor to consider is that the growth of the consumption tax base for 2021, relatively speaking, has a stronger footing. Conversely, there have been significant changes in effective rates for personal income tax. Taxes on the labour production factor will fall by almost 6% year-on-year in 2021 as a result of the discretionary measures applied to personal income tax. Growth in consumption tax revenue, almost 4.5%, is driven by macroeconomic fundamentals. These outweigh the effects of government measures, which, conversely, are slowing down the momentum of taxes on consumption.

The development of general government revenue in the years of the outlook is influenced by various measures of the tax package. With regard to personal income tax, the discount on taxpayers will be further increased in 2022, with a negative impact on tax revenue of more than CZK 12 billion. Another measure with an overlap to 2022 is the abolition of the ceiling for the tax bonus with an additional impact of CZK 0.5 billion. In the case of corporate income tax, the exemption of government bond yields' revenue from tax in the additional amount of around CZK 2 billion each year will be reflected in the whole outlook period. On the contrary, the revenue will be positively affected by the termination of the special depreciation scheme for tangible assets. Further increase in excise duty on tobacco products (CZK 2.5 billion each year) or digital tax (additional CZK 1.6 billion in 2022) shall have positive effect on general government sector revenues. The autonomous development of economic growth should also have a positive effect. Total revenues should grow by an average of 3.8%. The dynamics will be driven mainly by tax revenues. However, it will in fact depend on the policy of government arising from the October 2021 elections, including the possible implementation of a political proclamation on the temporary nature of effective personal income tax rates, as taken into account, for example, by the Consolidation Strategy of Public Finance of the CR of November 2020 (MF CR, 2020e).

Table 3.2.3: General Government Revenue

		2014	2015	2016	2017	2018	2019	2020 *Estimate*	2021 *Forecast*
Total revenue	*bn CZK*	**1 762**	**1 910**	**1 941**	**2 069**	**2 246**	**2 390**	**2 352**	**2 362**
	growth in %	2.8	8.4	1.6	6.6	8.6	6.4	-1.6	0.4
Tax revenue	*bn CZK*	**849**	**916**	**972**	**1 043**	**1 106**	**1 173**	**1 129**	**1 054**
	growth in %	1.7	8.0	6.1	7.2	6.1	6.1	-3.8	-6.6
Taxes on production and imports	*bn CZK*	513	562	587	626	647	689	666	690
	growth in %	-1.6	9.5	4.4	6.7	3.4	6.4	-3.2	3.5
Value added tax	*bn CZK*	319	333	354	388	409	435	430	451
	growth in %	5.2	4.3	6.2	9.5	5.4	6.6	-1.2	4.8
Excise taxes	*bn CZK*	125	154	158	164	165	168	164	174
	growth in %	-16.6	23.2	3.0	3.6	0.8	1.7	-2.6	6.0
Current taxes on income, wealth, etc.	*bn CZK*	335	354	385	416	458	485	462	364
	growth in %	7.1	5.6	8.8	8.0	10.1	5.7	-4.6	-21.2
Personal income tax	*bn CZK*	181	187	207	229	261	284	295	196
	growth in %	6.5	3.0	10.9	10.5	13.8	9.1	3.9	-33.5
Corporate income tax	*bn CZK*	144	157	167	176	187	190	156	157
	growth in %	8.5	8.8	6.8	5.2	6.3	1.4	-17.8	0.7
Capital taxes	*bn CZK*	0	0	0	0	0	0	0	0
	growth in %	-93.5	10.0	54.5	70.6	-24.1	-45.5	7.5	3.1
Social contributions	*bn CZK*	**629**	**663**	**703**	**760**	**834**	**895**	**899**	**961**
	growth in %	3.6	5.5	6.1	8.0	9.8	7.3	0.4	7.0
Property income	*bn CZK*	**37**	**37**	**37**	**31**	**35**	**32**	**37**	**33**
	growth in %	-2.3	-0.4	0.8	-17.9	14.3	-7.4	14.5	-11.6
Other	*bn CZK*	**248**	**294**	**228**	**236**	**271**	**289**	**288**	**314**
	growth in %	5.6	18.6	-22.3	3.4	14.9	6.6	-0.5	9.0
Tax burden	*% of GDP*	**34.0**	**34.1**	**34.9**	**35.3**	**35.9**	**36.0**	**36.1**	**34.3**

Note: Excise taxes are adjusted for subsidies on renewable energy resources.
Source: CZSO (2020b). Forecast and calculations by MF CR.

Table 3.2.4: Structure of Discretionary Measures (without Anti-crisis Measures)
in CZK bn.

	2020 *Estimate*	2021 *Forecast*
Total revenue measures	**15.8**	**-93.9**
Direct taxes	**10.5**	**-95.3**
Personal income tax	2.6	-98.1
Corporate income tax	1.2	-2.3
Social security contributions	6.7	5.1
Indirect taxes	**6.2**	**-0.5**
Value added tax	-4.5	-1.2
Excises	10.7	0.7
Other revenues	**-0.9**	**1.9**
Total expenditure measures	**-47.8**	**-12.7**
Social benefits	-22.9	-0.4
Compensation of employees*	-18.8	-11.5
Healthcare	-6.1	0.0
Other expenditures	0.0	-0.8
Total impact on balance	**-32.0**	**-106.7**
% GDP	-0.6	-1.8

Note: Figures in the table represent YoY discretional changes that are stemming from all envisaged and approved measures on revenue and expenditure side of the general government budget. Positive values mean YoY improvement of balance.
** Compensation of employees are updated not earlier than the final agreement in the state budget proposal for year t+1 is reached.*
Source: MF CR.

3.2.2 General Government Expenditure

By our estimates, general government expenditure will increase by 2.6% in 2021. Relative to GDP, it should be about 0.7 pp lower year-on-year and fall below 47.0% of GDP.

The almost 6% increase in cash social benefits reflects the statutory indexation of pension benefits, labour market developments, and an increase in transfers to public health insurance. With effect from 1 January 2021, Government Regulation No. 381/2020 Coll. increased the average old-age pension by CZK 839. As the share of unemployed persons culminates in the first quarter, spending on unemployment benefits and social welfare benefits will end up rising. Our forecast also includes the effect of advances on alimony (Act No. 588/2020 Coll.), which will have an impact of CZK 0.4 billion (effective from mid-2021). The pace of cash social benefits is also affected by the increase in payments for state-insured persons. In total, this should entail a rise by approximately CZK 28 billion year-on-year.

General government final consumption expenditure will essentially be driven, in equal measure, by the compensation of employees, social transfers in kind, and intermediate consumption. We estimate that final consumption will grow by just under 5%. The approved salary increase is broadly distributed between education-sector workers (9% for teachers, 4.3% for non-teachers), and healthcare and social services (10%). The earnings of the remainder of employees in the salary sphere were not raised. Consequently, the volume of salaries should increase by almost 5% overall.

We also estimate that social transfers in kind will also grow by 5%. This means that momentum will slow down after 2020. However, we predict that, in the first half of 2021, healthcare expenditure will still be in the sway of the epidemic situation and the circumstances surrounding the vaccination of the Czech population. We expect that reductions in support for spas as the epidemic situation fades will have a positive impact on the budget. Conversely, the renewed growth of fare discount payments will have a negative effect. The year-on-year growth will be underpinned by higher transfers from the state budget.

Intermediate consumption is projected to grow at a rate of almost 6% this year. To some extent, this is also based on the assumption that European funds under Next Generation EU will be distributed relatively evenly. The higher rate of intermediate consumption will make up for last year's decline following the closure of schools and other public institutions.

Fixed capital investments should accelerate to 12.3%. We expect the opportunities for involvement in new EU programmes and instruments to expand. On top of that, numerous 2020 programmes have yet to be completed and the funds available under them have been transferred to the claims of individual budgetary chapters so that investments can be financed in 2021. The economic recovery, accompanied by changes in tax assignment, could also stimulate greater local government investment.

In contrast, we expect subsidies to decline by 20.0% year-on-year. This mainly reflects the gradual dismantling of last year's anti-crisis measures. However, we forecast that the level will still be much higher than in 2019, as some of the measures will remain relevant in the first half of 2021.

Considering the general government performance predicted for 2020 and 2021 and the developments expected in monetary policy in the Czech Republic and the euro area, interest payments should increase by CZK 6–7 billion in absolute terms. The refinancing of past issues, some of which will continue to benefit from relatively low rates, is a positive factor. In relative terms, debt servicing costs are projected to remain at 0.8% of GDP this year. The following subsection deals with this issue in more detail.

The momentum of total expenditure in 2021 is also reduced significantly by capital transfers, with a year-on-year decrease of almost 40%. The reason for this is similar to the subsidy situation, as most anti-crisis measures are statistically classified as either subsidies or capital transfers. Even so, we expect anti-crisis measures to be only partially dismantled in the wake of developments at the beginning of 2021.

In the years covered by the outlook, we predict total general government expenditure to grow by an average of 1.7%. No discretionary measures that would affect expenditure are known at this point in time, except for the additional impact of advances on alimony in the first half of 2022 and, potentially, renewable energy subsidies. We assume that pension benefits will be indexed in accordance with statutory rules. In the field of investment, we anticipate that there will be attempts to make priority use of European funds as part of the consolidation effort. This would minimise the negative effects on the general government balance. In year-on-year terms, anti-crisis measures should have been removed entirely in 2022. An amendment to the Act on Subsidised Renewable Energy Sources (Chamber of Deputies Print No. 870) has the potential to save up to CZK 7 billion in spending on subsidies. We forecast that general government consumption will be below 4%. Compensation of employees should cover inflation at most, while purchases of goods and services are projected to stagnate in real terms. Under these assumptions, the outlook indicates fulfilment of the consolidation trajectory set by the Act No. 23/2017 Coll.

Table 3.2.5: General Government Expenditure

		2014	2015	2016	2017	2018	2019	2020 *Estimate*	2021 *Forecast*
Total expenditure	*CZK bn*	**1 852**	**1 940**	**1 907**	**1 992**	**2 196**	**2 375**	**2 679**	**2 749**
	growth in %	4.8	4.7	-1.7	4.5	10.3	8.1	12.8	2.6
Final consumption expenditure	*CZK bn*	**840**	**875**	**910**	**959**	**1 049**	**1 134**	**1 208**	**1 266**
	growth in %	2.8	4.1	4.0	5.4	9.4	8.1	6.6	4.8
Collective consumption	*CZK bn*	384	405	423	442	483	510	499	529
	growth in %	1.7	5.4	4.3	4.6	9.3	5.6	-2.2	5.9
Individual consumption	*CZK bn*	456	470	487	517	566	623	709	737
	growth in %	3.8	3.1	3.6	6.1	9.5	10.2	13.8	4.0
Social transfers in kind	*CZK bn*	140	142	148	152	160	177	190	200
	growth in %	4.8	1.4	4.3	3.1	4.7	10.9	7.6	5.0
Transfers of individual non-market goods and services	*CZK bn*	316	328	339	364	406	446	519	537
	growth in %	3.3	3.8	3.3	7.4	11.5	9.9	16.2	3.6
Social benefits other than in kind	*CZK bn*	**576**	**591**	**605**	**624**	**658**	**707**	**813**	**861**
	growth in %	2.0	2.6	2.5	3.1	5.5	7.5	15.0	5.9
Interest	*CZK bn*	**56**	**49**	**44**	**38**	**40**	**40**	**42**	**49**
	growth in %	2.0	-12.7	-10.6	-13.6	5.8	1.2	4.3	15.6
Subsidies	*CZK bn*	**99**	**105**	**108**	**110**	**119**	**129**	**188**	**150**
	growth in %	3.8	5.6	2.6	1.7	8.8	8.3	45.6	-20.0
Gross fixed capital formation	*CZK bn*	**178**	**236**	**155**	**171**	**224**	**252**	**267**	**300**
	growth in %	16.8	32.8	-34.3	10.2	31.3	12.5	5.7	12.3
Other	*CZK bn*	**103**	**84**	**85**	**91**	**106**	**112**	**160**	**124**
	growth in %	25.0	-18.4	1.3	7.1	16.1	5.7	43.3	-22.7
Compensation of employees	*CZK bn*	**380**	**398**	**419**	**462**	**521**	**576**	**623**	**653**
	growth in %	3.5	4.8	5.4	10.1	12.8	10.5	8.2	4.8
Total social transfers	*CZK bn*	**715**	**732**	**753**	**776**	**818**	**884**	**1 003**	**1 061**
	growth in %	2.6	2.3	2.9	3.1	5.3	8.1	13.5	5.7

Source: CZSO (2020b). Forecast and calculations by MF CR.

3.2.3 General Government Debt

We estimate the general government debt at the end of 2020 to stand at 38.3% of GDP. The 8.1 pp year-on-year increase in debt is the result of a rise in the state debt from 28.5% to 36.5% of GDP. This reflects the impact that the pandemic and economic crisis have had on public finances.

Prior to the crisis, there had been a steady six-year decline in the relative debt ratio. Between 2013 and 2019, government debt fell by 14.2 pp to 30.2% of GDP, ranking Czech public finances among the least indebted in the EU (see section 2.3.2 for more details). This means that the Czech Republic easily met the Maastricht debt criterion and the criterion under the Stability and Growth Pact (60% of GDP). The debt-to-GDP ratio also fully complies with the national rule established by the Act on Fiscal Responsibility Rules, which assesses the amount of general government debt adjusted for the reserve of cash created by financing the sovereign debt relative to a level equal to 55% of GDP. This created a fiscal cushion to soften major negative shocks.

Autonomous developments in the general government sector suggest a gradual economic recovery and a decline in public deficits. In addition, this sector's financial management will have to be handled in line with the consolidation trajectory established by amendments to the Act on Fiscal Responsibility Rules. Nevertheless, the debt-to-GDP ratio can be expected to continue growing over the outlook horizon. In 2021, we expect to see debt break through 40% of GDP and climb to 43.3% of GDP at the end of the year.

Factors contributing to the change in debt are dominated by the primary general government balance and interest payments. In relative terms, interest should rise to 0.8% of GDP in 2020 and 2021, and could reach 1% of GDP in subsequent years. The last time interest was at this level was in 2015. The forecast anticipates that government bond yields will rise. The long-term yield for convergence purposes should move from the current 1.1% to slightly above 2%. In 2020, the decline in GDP at current prices also had a negative effect on debt. Prior to last year, this has occurred only in 2009 of the whole time series available. From 2021 onwards, economic growth should start to slow down the increasing debt-to-GDP ratio again.

The current forecast does not envisage any significant privatisation revenues under Act No. 92/1991 Coll. on conditions for the transfer of state assets to other persons, as amended.

The largest share of general government debt is attributable to the central government subsector (Table 3.2.6). This debt is expected to be nearly CZK 2,200 billion in 2020, corresponding to approximately 96% of the overall (unconsolidated) general government debt. The remaining 4% or so is local government debt. We estimate that it came to CZK 87 billion in 2020 and will essentially stagnate in the coming years if the predicted surpluses materialise. The social security funds subsector has consistently reported a negligible debt ratio. We also forecast a consistent surplus among health insurance companies.

Table 3.2.6: Gross Consolidated Government Debt

		2014	2015	2016	2017	2018	2019	2020	2021
								Estimate	*Forecast*
General government	*CZK bn*	**1 819**	**1 836**	**1 755**	**1 750**	**1 735**	**1 738**	**2 149**	**2 543**
Central government	*CZK bn*	1 714	1 740	1 714	1 734	1 752	1 791	2 199	2 591
Local government	*CZK bn*	116	111	89	85	84	84	87	89
Social security funds	*CZK bn*	1	1	0	0	0	0	0	0
General government debt to GDP ratio	*% of GDP*	**41.9**	**39.7**	**36.6**	**34.2**	**32.1**	**30.2**	**38.3**	**43.3**
Contributions to change in debt-to-GDP ratio									
Change in debt	*p.p.*	-2.6	-2.2	-3.1	-2.3	-2.2	-1.8	8.1	5.0
Primary balance	*p.p.*	**0.8**	**-0.4**	**-1.6**	**-2.2**	**-1.7**	**-1.0**	**5.1**	**5.8**
Interest	*p.p.*	**1.3**	**1.1**	**0.9**	**0.7**	**0.7**	**0.7**	**0.8**	**0.8**
Nominal GDP growth	*p.p.*	**-2.1**	**-2.5**	**-1.4**	**-2.2**	**-1.9**	**-1.9**	**0.7**	**-1.7**
Stock-flow adjustment	*p.p.*	**-2.6**	**-0.3**	**-1.0**	**1.4**	**0.6**	**0.3**	**1.5**	**0.1**
Diff. between cash and accruals	*p.p.*	-0.1	-0.4	0.1	-0.5	0.2	0.0	0.0	0.0
Net acquisition of fin. assets	*p.p.*	-2.4	0.3	-1.2	2.2	0.3	0.4	1.5	0.1
Revaluation effects and other	*p.p.*	0.0	-0.1	0.1	-0.3	0.1	-0.1	-	-

Source: CZSO (2020b). Forecast and calculations by MF CR.

3.2.4 Cyclical Development and Fiscal Impulse

The COVID-19 pandemic’s economic impact saw the output gap plummet on average to −3.2% of potential output in 2020. However, as the economy recovers we expect this gap to narrow relatively quickly. As a result, the negative cyclical component of the general government balance should also decrease, i.e. cyclically-adjusted balance developments should converge with those of the headline general government balance.

In the calculation of the structural balance, one-off and other temporary measures – amounting to almost 3% of GDP in 2020 – are also taken into account. In the vast majority of cases, these were once again responses to the fallout from the COVID-19 pandemic. On the revenue side, the adoption of the tax package meant that extraordinary depreciation was introduced, impacting corporate income tax by CZK 11.1 billion, advances on social and health insurance contributions were waived (CZK 14.3 billion), and social insurance for certain employers was also waived directly (CZK 13.3 billion). The most significant expenditure measures included a compensatory bonus (capital transfer) for self-employed individuals, small private limited companies, and employees working on the basis of an “agreement on work activity” or an “agreement on the performance of work”, which amounted to CZK 28.7 billion, and job support schemes, requiring CZK 27.3 billion. Other expenditure measures were the purchase of protective equipment and medical supplies, the extension and adjustment of the care allowance, the release of funds to tenants, and schemes to support operators of accommodation facilities, food producers, and sports.

In 2021, one-off actions include the continuation of certain measures of 2020 (extraordinary depreciation, the compensatory bonus, and the job support scheme). However, the amounts channelled into them may be revised significantly over the course of the year. In the years ahead, we anticipate that the structural balance will develop in accordance with Act No. 609/2020 Coll., an amendment to the Act on Fiscal Responsibility Rules.

The impact of fiscal policy on economic development is most often judged by the change in the structural balance (fiscal effort). However, this concept interprets the real impact of fiscal policy in a simplified and incomplete manner. Therefore, the fiscal effort is adjusted.

We adjust it for relations between the Czech general government budgets and the EU budget, interest payments and certain other items (Table 3.2.8). The fiscal impulse thus calculated captures the primary effects of public finance settings on macroeconomic aggregates.

Extraordinary measures taken to support the economy (see section 5 for more details) are part of the fiscal impulse. The distinctly positive fiscal impulse in 2020 was driven by the expenditure side, in particular by the development of cash social benefits (pensions, the care allowance, and sickness benefits), investments, subsidies and capital transfers. We expect the fiscal impulse in 2021 to be positive as well, mainly courtesy of changes in personal income taxes.

Table 3.2.7: Structural Balance of the General Government (OECD Method)

		2014	2015	2016	2017	2018	2019	2020 *Estimate*	2021 *Forecast*
Real GDP growth	*%*	2.3	5.4	2.5	5.2	3.2	2.3	-6.1	3.1
Potential gross value added growth	*%*	1.6	2.5	2.7	2.5	2.3	1.6	0.9	1.3
Output gap	*% PP*	-2.4	0.0	-0.4	2.4	3.4	3.9	-3.2	-1.6
General government balance	*% of GDP*	**-2.1**	**-0.6**	**0.7**	**1.5**	**0.9**	**0.3**	**-5.8**	**-6.6**
Cyclical budgetary component	*% of GDP*	-0.8	0.0	-0.1	0.8	1.2	1.4	-1.2	-0.5
Cyclically adjusted balance	*% of GDP*	**-1.3**	**-0.6**	**0.8**	**0.7**	**-0.3**	**-1.1**	**-4.6**	**-6.1**
One-off and temporary measures	*% of GDP*	-0.5	-0.1	-0.1	0.0	-0.1	0.0	-2.6	-0.2
Structural balance	*% of GDP*	**-0.7**	**-0.6**	**1.0**	**0.7**	**-0.2**	**-1.1**	**-2.0**	**-5.9**
Change in structural balance (Fiscal effort)	*p.p.*	**-0.8**	**0.2**	**1.5**	**-0.3**	**-0.9**	**-0.9**	**-0.9**	**-3.9**
Interest	*% of GDP*	1.3	1.1	0.9	0.7	0.7	0.7	0.8	0.8
Structural primary balance	*% of GDP*	**0.6**	**0.5**	**1.9**	**1.4**	**0.5**	**-0.4**	**-1.3**	**-5.1**
Change in structural primary balance	*p.p.*	**-0.9**	**-0.1**	**1.4**	**-0.5**	**-0.9**	**-0.9**	**-0.9**	**-3.8**

Source: MF CR.

Table 3.2.8: Fiscal Effort and Fiscal Impulse

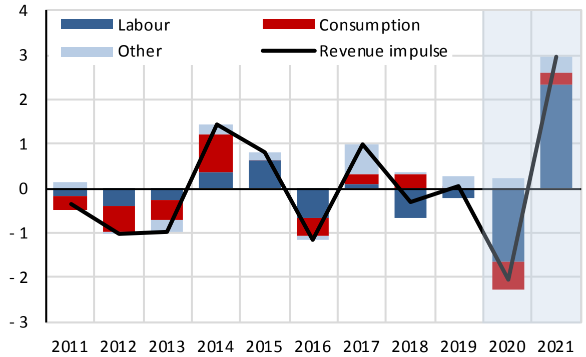
in percentage points

	2014	2015	2016	2017	2018	2019	2020 *Estimate*	2021 *Forecast*
Fiscal effort with opposite sign (exp. – rev.)	**0.8**	**-0.2**	**-1.5**	**0.3**	**0.9**	**0.9**	**0.9**	**3.9**
Difference of fiscal effort and fiscal impulse	**-0.3**	**-0.9**	**1.3**	**-0.3**	**-0.3**	**-0.1**	**-2.7**	**2.3**
Difference in revenue	**-0.2**	**-0.7**	**1.6**	**-0.1**	**-0.4**	**0.0**	**-0.9**	**0.3**
Revenue from EU funds	-0.2	-0.7	1.6	-0.1	-0.4	0.0	-0.2	-0.3
Impact of anti-crisis measures	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	0.6
Differnce in expenditure	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**0.1**	**-0.1**	**-1.7**	**1.9**
Adjusted interest expenditure	0.0	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.1
EU budget contributions	-0.1	0.0	-0.1	0.0	0.1	0.0	0.2	0.0
Impact of anti-crisis measures	0.0	0.0	0.0	0.0	0.0	0.0	-2.0	1.9
Fiscal impulse - input approach	**1.2**	**0.6**	**-2.8**	**0.6**	**1.1**	**1.0**	**3.6**	**1.6**

Note: The basis for calculation of the fiscal impulse is the YoY change in the structural balance with the opposite sign, adjusted for: interest payments, income from EU Funds and financial mechanisms and contributions to the EU budget. Further adjustment of the impulse for activating science and research, excise taxes and subsidies on renewable energy resources and payments for state-insured persons do not affect the balance; however, due to various multiplicators they may influence the output impulse calculation. See also MF CR (2015).
Source: MF CR.

Graph 3.2.1: Fiscal Impulse of Revenue

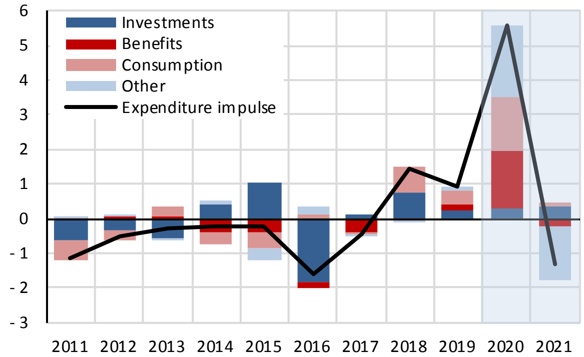
in pp



Source: MF CR.

Graph 3.2.2: Fiscal Impulse of Expenditure

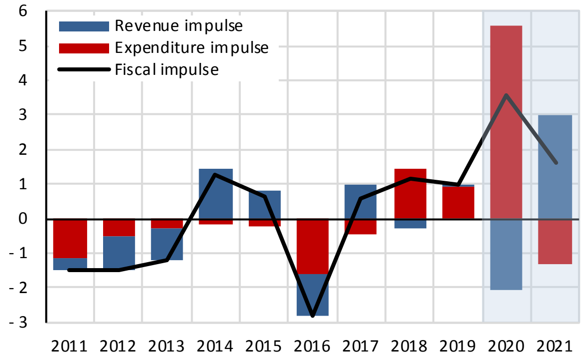
in pp



Source: MF CR.

Graph 3.2.3: Overall Fiscal Impulse

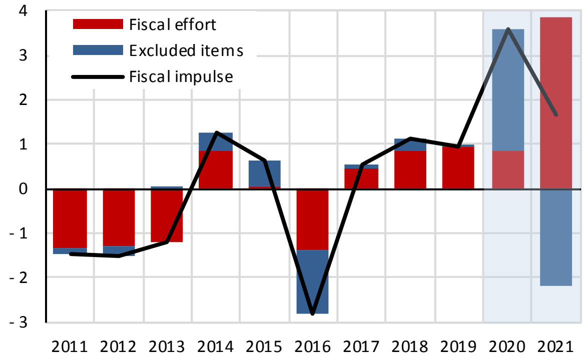
in pp



Source: MF CR.

Graph 3.2.4: Fiscal Effort and Fiscal Impulse

in pp



Note: Fiscal effort is with opposite sign. "Excluded items" out of the fiscal impulse definition are mentioned in the note under Table 3.2.8.
Source: MF CR.

3.3 Sensitivity Analysis

The sensitivity analysis is conducted using the finance ministry's dynamic general equilibrium model. The model enables us to analyse the impact of both macroeconomic and fiscal shocks on the economy. As the Czech economy is small and open, the economic situation is largely dependent on the external environment, especially EU countries. We therefore focus on this aspect and illustrate the importance of the impacts of worse-than-expected growth dynamics in the EU. Another alternative scenario simulates the impacts of an unexpected jump in the domestic interest rate. Both alternative scenarios are derived from the framework of this Fiscal Outlook.

3.3.1 Lower GDP Growth in the EU in 2021

The first scenario is based on the assumption that GDP growth in the EU will be 2 pp lower in 2021 than in the baseline scenario. This difference roughly corresponds to the standard deviation of growth for the period from 2002 to 2020.

Considering how closely linked the Czech economy is to the EU, this scenario would have a negative effect on real growth in the Czech Republic, primarily because of exports, more than four fifths of which are to EU countries. Lower external demand would decrease export activity and worsen the current account balance, though this would be offset to some degree by lower imports. A worse foreign trade result would be negatively reflected in the momentum of real GDP, which would grow 0.5 pp less in 2021. Unemployment would also be affected, especially in 2021, when the unemployment rate would rise to 3.7%. In this scenario, the effects on inflation would stem mainly from lower demand for domestic goods among both domestic and foreign entities.

The growth rate of household consumption would be 0.1 pp lower in the first year immediately after the shock, mainly on account of slower wage growth (combined with a higher unemployment rate).

The general government balance would reflect lower income tax revenue from individuals and businesses, along with lower taxes on consumption. With social benefits increasing the expenditure side, the general government balance would deteriorate by 0.1 pp in 2021. General government deterioration would hasten debt growth by 0.1% of GDP in 2021.

3.3.2 Rise in the Domestic Interest Rate

The last scenario considered is an assumed sudden increase in the short-term domestic interest rate by 1.2 pp in 2021, i.e. the standard deviation in its development from 2002 to 2020.

A higher interest rate would subdue domestic demand. This would be reflected in lower private fixed capital investments (more expensive business loans), along with a decline in current consumption and a rise in household savings. The slowing household consumption growth rate would be compounded by lower wage growth in response to higher business costs. On the other hand, slightly lower domestic price level would have the favourable effect of boosting real consumption somewhat.

This scenario would also have a negative impact on external trade because of the gradual modest appreciation of the koruna, triggering a decline in the volume of exports. A stronger koruna would fuel imports, though on the other hand these would be hampered by lower domestic demand for consumer goods and investment. On balance, these effects would brake GDP growth in the longer term by approximately 0.1–0.2 pp and result in higher unemployment compared to the baseline scenario.

Much like in the scenario of the lower GDP growth in the EU, the general government balance would suffer from lower tax revenues and higher unemployment benefits. The worse balance compared to the baseline scenario would then, again, be reflected in debt, while the yield curve would be pushed up by the interest rate hike itself.

Table 3.3.1: Model Scenarios of Macroeconomic Simulations

		2020 *Estimate*	2021 *Forecast/ Simulation*
Baseline Scenario			
Gross domestic product	*Y-o-Y in %*	**-6.1**	**3.1**
Private consumption	*Y-o-Y in %*	-5.1	3.3
Gross fixed capital formation	*Y-o-Y in %*	-8.2	3.8
Exports	*Y-o-Y in %*	-7.2	4.7
Imports	*Y-o-Y in %*	-6.9	5.3
Inflation (CPI)	*Y-o-Y in %*	**3.2**	**1.9**
Unemployment rate	*in %*	**2.6**	**3.3**
General government balance	*% of GDP*	**-5.8**	**-6.6**
Gross government debt	*% of GDP*	**38.3**	**43.3**
Alternative Scenario I - Lower GDP Growth in EU in 2021			
Gross domestic product	*Y-o-Y in %*	**-6.1**	**2.6**
Private consumption	*Y-o-Y in %*	-5.1	3.2
Gross fixed capital formation	*Y-o-Y in %*	-8.2	3.7
Exports	*Y-o-Y in %*	-7.2	3.2
Imports	*Y-o-Y in %*	-6.9	4.5
Inflation (CPI)	*Y-o-Y in %*	**3.2**	**1.8**
Unemployment rate	*in %*	**2.6**	**3.7**
General government balance	*% of GDP*	**-5.8**	**-6.8**
Gross government debt	*% of GDP*	**38.3**	**43.4**
Alternative Scenario II - Higher Interest Rate			
Gross domestic product	*Y-o-Y in %*	**-6.1**	**2.9**
Private consumption	*Y-o-Y in %*	-5.1	3.2
Gross fixed capital formation	*Y-o-Y in %*	-8.2	3.7
Exports	*Y-o-Y in %*	-7.2	4.3
Imports	*Y-o-Y in %*	-6.9	5.2
Inflation (CPI)	*Y-o-Y in %*	**3.2**	**1.8**
Unemployment rate	*in %*	**2.6**	**3.5**
General government balance	*% of GDP*	**-5.8**	**-6.7**
Gross government debt	*% of GDP*	**38.3**	**43.5**

Source: Baseline scenario MF CR (2021b). MF CR calculations.

4 Long-term Sustainability of Pension System

Long-term sustainability is among constantly discussed issues in the framework of Czech public finances. The greatest risk is posed by the projected demographics, as the number of people of retirement age relative to the working-age population looks set to increase significantly in the coming decades. In fact, population ageing is not a matter for the remote future, but is already happening. This puts pressure on the future expenditure of social systems and intensifies the need to reform them. In the past, numerous expert groups have been established in the Czech Republic and mandated with the reform of the pension system, but so far no broad political consensus has been found for any comprehensive reform.

4.1 Development of Parametric Changes in the Pension System

Besides common macroeconomic and demographic assumptions and projections (Table 4.1), long-term projections are also shaped by approved pension reform measures known at the time the forecasting is being prepared.

One of the pension system parameters meriting particular attention is the **statutory retirement age**. The most recent change was made in 2017 and took effect on 1 January 2018 (Act No. 203/2017 Coll.). Retirement ages are being increased until they converge at 65, which is planned for around 2030. The law envisages the periodic five-year reporting on the pension system to the government by the Ministry of Labour and Social Affairs. The aim of these reports is to assess the current retirement age and, if appropriate, to propose an adjustment to it so that, bearing in mind the trends in life expectancy, persons insured under the system can spend, on average, a quarter of their life in retirement. Changes to the retirement age should not apply to anyone over the age of 55 at the time of the review. The Ministry of Labour and Social Affairs drew up its initial report in the first half of 2019 (MLSA, 2019). The report laid bare the need for the retirement age to be adjusted at least for those currently in their forties or younger in order for the condition of spending a quarter of life in retirement to be met. However, the government has decided to keep the statutory retirement age at 65 for the time being.

The statutory retirement age also affects the conditions pertaining to permanent widow and widower pensions, as the age limit here is tied to old-age pensions. For **early retirement**, the threshold is gradually shifting from three to five years before the statutory retirement age. This maximum period of five years may, at the cost of significant penalties, be used by those whose statutory retirement age is (at least) 65 years.

The **indexation of pensions** is determined by the sum of the rise in the consumer price index, or the pensioner cost-of-living index (whichever is higher), and one half of real wage growth. This rule has applied since 1 January 2018, again as a result of the adoption of Act No. 203/2017 Coll. Beforehand, the indexation formula was the sum of the rise in the consumer price index and one third of real wage growth. In addition, a change in pension indexation was approved so that, with effect from 2017, the government has again wielded a limited amount of discretion (Act No. 212/2016 Coll.). In this respect, if the increase in the average pension according to the standard indexation formula is less than 2.7%, the government is entitled issue a regulation for the indexation of pensions up to this value. Otherwise, the procedure followed is strictly in keeping with the statutory indexation formula. However, further adjustments have been made: an additional CZK 1,000 for all pensioners over the age of 85 since 2019 (Act No. 191/2018 Coll.) and an ad hoc increase beyond the statutory indexation with a view to raising the average pension in 2020 by CZK 900 (Act No. 244/2019 Coll.). On 1 December 2020, Act No. 469/2020 Coll. entered into force, which served as the basis for an additional payment of CZK 5,000 payable to every pensioner at the end of 2020. While this was an extraordinary contribution, it will not affect long-term sustainability. Pensions for 2021 are indexed precisely in line with the indexation mechanism. The pensioner cost-of-living index, which exceeded the consumer price index by 0.5 percentage points, was used for the indexation for the first time.

4.2 Projections of the Pension System

The latest Eurostat population projection (2019) projects a decline in the population of the Czech Republic by almost 4.5% in the long term. The dependency ratio, measured as the ratio of people over 65 to people of working age (15–64), is set to almost double to around 54% by 2070. Naturally, this can be attributed not only to a decline in the number of working-age individuals, but also to an increase in average life expectancy. The share of persons aged at least 85 in the number of persons aged 65 and over is expected to more than double at the projection horizon. Both indicators are presented in Graph 4.1.

The participation rates for age cohorts over 54 years are projected to increase up to 2030 as the statutory retirement age goes up. However, they remain more or less constant after 2030, reflecting the institutional set-up of the pension system. As described above, the pension system includes a review mechanism to evaluate changes in life expectancy every five years and, where appropriate, adjust the retirement age. However, the review mechanism does not generally impose any obligation on the government. Instead, it only serves as a recommendation for the government to submit a proposal for a change in retirement age to parliament for approval. Consequently, the European Commission refused the proposal for this review mechanism to be applied in long-term projections. The projection therefore works with a retirement age that has a fixed ceiling of 65 years from 2030 onwards.

Pension spending in the pre-crisis years developed along relatively favourable lines, benefiting in particular from the macroeconomic situation. The base-year values of pension spending over time decreased, in relative terms, from 9% of GDP in 2013 to 8% of GDP in 2019. Conversely, higher increases in wage bill in the economy fuelled dynamic growth on the revenue side of the system. This had a positive effect on the system balance, which amounted to 0.3% of GDP in 2019 (MFCR, 2020d).

The trajectory of long-term pension projections is primarily determined by demographics and the statutory retirement age. It follows that pension spending should grow at a comparatively slower pace relative to GDP by 2030. The favourable impact of raising the retirement age is largely negated by the relatively slow GDP growth. After 2030, the rise in the retirement age comes to a halt, and those born in the demographic bulge in the 1970s will also gradually start retiring. This will quite dramatically increase expenditure to 11.9% of GDP just before 2060, followed by a decline to 10.9% of GDP at the end of the 2070 projection horizon. This decline in spending can be attributed to demographic factors, with those born in the demographic trough in the 1990s and later retiring and replacing those born during a demographic bulge. The differences compared to the European Commission (2018) are thus more pronounced in the first part of the horizon (up to 2050), but are then relatively small in the final two decades. The figures for 2070 are practically the same in both projections.

The system revenues are treated as constant relative to GDP throughout the projection horizon. This follows from the assumption that wages and salaries in the economy will develop in line with labour productivity. As a result, the fixed share of the "labour" production factor in GDP, from which a constant pension insurance rate of 28% of the gross wage or salary is derived, is maintained. The system's revenue thus stands at the level of the 2019 base year throughout the horizon and amounts to 8.5% of GDP.

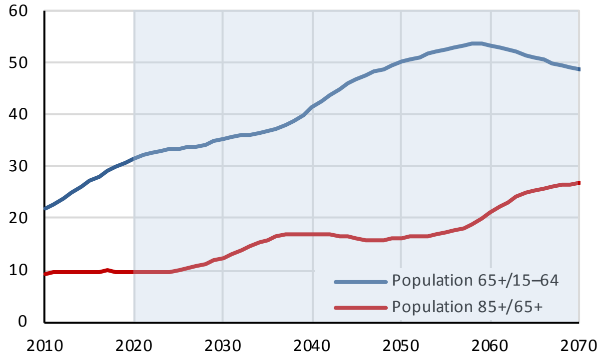
Due to the constant revenue, the resulting projection of the pension system balance (see Graph 4.2) mirrors the course of pension spending. The balance is expected to be negative over the entire projection horizon. Initially, the deficit will increase due to a macroeconomic situation contending with the pandemic crisis and unfavourable macroeconomic developments. By 2030, however, the deficit should have fallen to 0.3% of GDP for the same reason (i.e. the crisis will have subsided and the economic recovery will be in full swing). Further ahead, the balance will deteriorate and fall to almost −4% of GDP in around 2060. The deficit is expected to start declining in the final decade of the projection.

Table 4.1: Demographic and Macroeconomic Assumptions of Projections

		2019	2020 *Projection*	2030 *Projection*	2040 *Projection*	2050 *Projection*	2060 *Projection*	2070 *Projection*
Labour productivity growth	*per hour*	2.0	1.9	2.2	2.1	1.9	1.7	1.5
Real GDP growth	*%*	2.6	-6.2	1.9	1.3	1.3	1.7	1.5
Participation rate males (aged 20–64)	*%*	89.3	89.4	87.8	86.4	87.3	88.0	87.4
Participation rates females (aged 20–64)	*%*	74.5	74.6	75.3	73.7	74.3	75.6	74.9
Total participation rate (aged 20–64)	*%*	82.0	82.2	81.7	80.3	81.0	82.0	81.3
Unemployment rate (aged 20–64)	*%*	2.0	4.8	3.5	3.5	3.5	3.5	3.5
Population aged 65+	*% of total population*	19.8	20.1	22.1	25.0	28.3	29.6	27.9

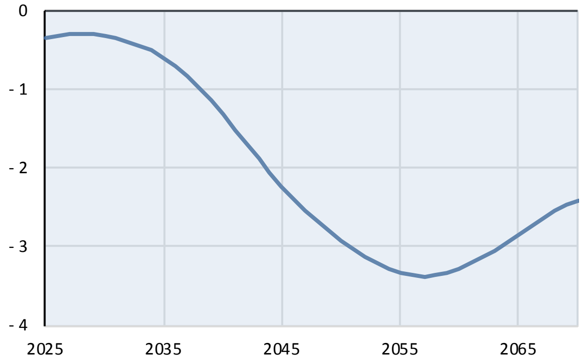
Source: EC (2020b), Eurostat (2019).

Graph 4.1: Dependency Ratio and 85+/65+ Ratio
in %



Source: Eurostat (2019). MF CR adjustment.

Graph 4.2: Projection of Pension Account Balance
in % of GDP



Source: MF CR calculations.

Table 4.2: Pension Expenditure Projections
in % of GDP

	2019	2020 Projection	2030 Projection	2040 Projection	2050 Projection	2060 Projection	2070 Projection
Total pensions	**8.0**	**9.5**	**8.8**	**9.8**	**11.4**	**11.8**	**10.9**
Old-age pensions	6.7	7.9	7.4	8.5	10.1	10.4	9.5
Disability pensions	0.8	0.9	0.8	0.7	0.7	0.7	0.7
Survivors' pensions	0.5	0.6	0.6	0.6	0.6	0.7	0.7

Note: The sum of values for each type of pension expenditure is not necessarily equal to the total expenditure due to rounding.
Source: MF CR calculations.

Compared to the European Commission's projection (2018), the long-term sustainability of the system has deteriorated. The effects of the deterioration in the balance of the pension system can generally be divided into two groups: assumptions (e.g. different demographics) and changes in the pension system (e.g. a different indexation formula and, in particular, the capping of the retirement age).

Unlike the situation in previous years, the deterioration in long-term sustainability can be attributed solely to the diverging assumptions. Changes to the system, such as the higher-than-statutory indexation in previous years, mainly affected the base-year values of projections. They were then carried over to the next period because higher initial expenditure was being indexed. No changes to the system that would help to reduce the long-term imbalance have been adopted.

Table 4.3 shows, in addition to the scenario in which the retirement age is tied to life expectancy, the effects of other alternative demographic assumptions (higher life expectancy, different migration, and a lower fertility rate), and macroeconomic developments (different aggregate productivity growth, different total employment, and higher employment among older workers).

Table 4.3: Pension Expenditure Projection under Different Scenarios
deviations in pp from the baseline in % of GDP

	2019	2020 Projection	2030 Projection	2040 Projection	2050 Projection	2060 Projection	2070 Projection
Baseline	**8.0**	**9.5**	**8.8**	**9.8**	**11.4**	**11.8**	**10.9**
Higher life expectancy at birth (+2y)	0.0	0.0	0.1	0.2	0.3	0.5	0.7
Higher migration (+33%)	0.0	0.0	-0.1	-0.2	-0.4	-0.4	-0.3
Lower migration (-33%)	0.0	0.0	0.1	0.2	0.4	0.5	0.3
Lower fertility (-20%)	0.0	0.0	0.0	0.0	0.4	0.9	1.5
Higher employment rate of older workers (+10 pps.)	0.0	0.0	-0.4	-0.8	-0.9	-0.3	0.2
Higher TFP growth (convergence to 1.2%)	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.3
TFP risk scenario (convergence to 0.8%)	0.0	0.0	0.0	0.1	0.2	0.3	0.3
Policy scenario: linking retirement age to change in life expectancy	0.0	0.0	0.0	-0.5	-0.9	-1.2	-1.4
Policy scenario: unchanged retirement age	0.0	0.0	0.8	1.4	1.6	1.8	2.2
Lagged recovery scenario	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Adverse structural scenario	0.0	0.3	0.3	0.4	0.6	0.7	0.7

Source: MF CR calculations.

Box 2: OECD Conclusions in the Review of the Pension System of the Czech Republic

On 1 December 2020, the Organisation for Economic Cooperation and Development (OECD) officially presented its Review of the Pension System of the Czech Republic (OECD, 2020). However, semi-final versions of this document had been circulating in confidence since last summer. An incomplete list of the main recommendations was presented to the members of the Commission for Fair Pensions at a meeting on 3 July 2020.

The Minister of Labour and Social Affairs and the chairwoman of the Commission for Fair Pensions unveiled their proposed pension reform at a press conference on 11 December 2020. The initial version of this proposal actually stretches back much further, having been submitted to the Government Coalition Council by the Minister of Labour and Social Affairs as early as January 2020. At the turn of the year, the articulated version of the proposed reform entered inter-ministerial comment procedure, where it remains. Therefore, this box does not assess the proposal itself, but focuses on certain aspects of the reform in the light of the OECD's key conclusions.

The OECD made a whole raft of recommendations, of which 5 were identified as key ones. Four relate to the pay-as-you-go pillar, and the other one concerns the supplementary pension savings system. It also proposed, for consideration, another nine recommendations for the PAYG system and five additional ones for the fund system. We will concentrate on the four key recommendations concerning the PAYG system (OECD, 2020, pp. 8–9):

1) **Simplification** – the calculation of the amount of the pension benefit should be based on a constant effective accrual rate across earnings levels (up to a set ceiling); the basic pension adjusted to achieve redistributive objectives.
2) **Eligibility** – drastically reduce the minimum number of years required to be eligible for both the basic pension and the earnings-related component at the statutory retirement age, and make the basic pension benefit proportional to the contribution period.
3) **Financial sustainability** – continue the increases in the retirement ages and their convergence between men and women, and link the unified retirement age to gains to gains in life expectancy; proceed similarly for early retirement.
4) **Financial structure** – consider financing some redistributive components of pensions with taxes to improve pension finances, boost pensions for people earning more than the average wage, lower contributions to pension insurance, or help finance funded pensions.

Simplicity

The OECD review addresses the proposals of the Commission for Fair Pensions in several places, and most notably analyses them in subsection 1.5. The OECD appreciates the move to a constant accrual rate and, in this spirit, the drive for greater transparency. On the other hand, it criticises the proposal for the fact that it introduces other elements of inequality into the system and complicates the system in other respects (OECD, 2020, p. 48):

"*In sum, the proposed pension reform greatly simplifies the system while maintaining its redistributive elements. It would significantly improve transparency and make the system more intuitive, since for each year the earned entitlements can be directly and quite easily calculated, by contrast with the current situation. The proposal allows to inform the insured every year about their pension entitlements. This would enable them to see the impact of their current situation on entitlements, and to better anticipate their future benefits.*

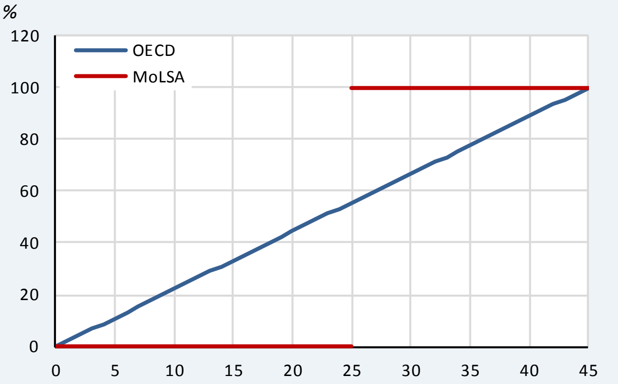
However, by trying to stick too closely to current outcomes and with the inclusion of additional bonuses for childcare and long careers, the pension proposal creates other complications and inequalities. The bonus for careers longer than 41 years makes the system both more complicated again with limited impact. There is no compelling reason why total accrual after 41 years should be higher than before 41 years. Moreover, the two options for non-employment credits (based on the average wage or on last earnings) also makes the system unnecessarily complicated. The same holds for adding more childcare-related bonuses on top of the already generous ones."

As such, the proposed pension reform does not offer simplification in the form of a single accrual rate. It is constant up to 41 years of insurance, but then changes for each additional year of insurance. Other aspects of "fairness" further complicate the system and inserts further differences in accrual rates depending on the number of children raised (up to a maximum of three). As a result, the proposal introduces dozens of possible accrual rates (four different ones given the time of the insurance, and then others according to the years of insurance).

Eligibility

The proposed pension reform suggests reducing the minimum compulsory insurance period from the current 35 years to 25 years. This is a response to the relatively long minimum period of compulsory insurance in order to be eligible for a pension. However, the pension reform proposal only makes a mechanical reduction, i.e. it shortens the minimum compulsory insurance period for entitlement to a "full" old-age pension.

Graph 4.3: Share of "full" basic old-age pension benefit entitled according to the length of insurance period



Source: MF CR.

The recommendation includes the important postscript that the basic pension should be calculated in proportion to the number of actual, or credited, years of insurance: "*Ideally, eligibility for the basic pension should be possible with only one year of contribution, with the benefit level being pro-rated according to the length of the contributed period.*" (OECD, 2020, p. 9). The reason for this is simple. The reduction in the minimum number of years of insurance is intended to provide future seniors with at least some income so that they do not find themselves completely without funds until they are entitled to a pension five years later than the statutory retirement age. The problem is not the absolute length of the insurance required, but the minimum length for entitlement to at least some pension benefit. As the OECD showed when presenting the Review, the Czech Republic is one of the countries with the highest minimum insurance period for an entitlement to "some" old-age pension and yet one of the countries with the lowest insurance period required for a "full" old-age pension. The difference between the OECD recommendation (with a hypothetical maximum of 45 years) and the proposal drawn up by the Ministry of Labour and Social Affairs is depicted in Graph 4.3.

The OECD recommendation is therefore the opposite of the ministry's proposal. The OECD proposes shortening the minimum compulsory insurance period with a proportionate reduction in the basic pension if there are a lower number of years of insurance. However, it does not prevent an increase in the number of years of insurance required for a "full" old-age pension. The ministry, on the other hand, is pushing for a reduction in the minimum number of years of insurance for a "full" old-age pension.

Financial sustainability

The OECD Review deals with the issue of financial sustainability relatively extensively and makes the following recommendations (OECD, 2020, p. 10): "*Increasing effective retirement ages is the key instrument to deal with the financial pressure for several reasons, even if additional measures might be needed to close the financing gap. First, the male statutory retirement age will remain significantly below the OECD average. It should thus be raised to 65 years in 2030, as planned, and then linked to life expectancy as is the case in six OECD countries. … Second, the Czech Republic is among the few OECD countries that still have gender-specific retirement ages. The planned convergence of retirement ages between men and women by 2037 is welcome. Third, almost one-third of people retire before the statutory retirement age in the Czech Republic. With the planned increase in retirement ages, early retirement will still be possible from age 60. The risk is that too many people might retire very early, generating potentially low pensions. The minimum age of early retirement should thus at least be increased in line with the statutory age, reaching at least 62 in 2030, and then be linked to life expectancy.*"

The proposed pension reform does not cover financial sustainability. This is addressed solely by requiring a higher transfer of tax revenues. Compared with the OECD recommendation, this proposal can be viewed on two planes. The first is the efficiency of the solution. The OECD compared several ways of reducing the financial imbalance. In terms of economic impact, raising taxes appears to be one of the worst ways to achieve this (OECD, 2020, p. 86, Table 2.6).

The second plane is a practical change to the current state of affairs. In the Czech Republic, the pension account is part of the state budget. This means, among other things, that any deficit in the pension account is automatically covered by taxes. Higher deficits equate only to larger tax transfers. Therefore, as the "reform" proposes dealing with deficit increases through higher taxes, this is not addressing financial sustainability at all. From the perspective of financial sustainability, the pension reform proposal completely ignores the key OECD recommendation.

Financial structure

The pay-as-you-go pension system is currently financed from pension insurance revenues and, if there is a deficit, from other state budget revenues, i.e. taxes. The OECD criticises this mechanism in several places (OECD, 2020, p. 10): "*Social security contributions amounted to almost 15% of GDP in 2018, out of a total of general government tax revenues of 35% of GDP, which is closely associated with the high labour tax wedge. Many countries finance part of pension spending through taxes.*" The OECD then suggests a list of objectives that could resolve tax transfers: reducing pension insurance contributions (OECD, 2020, p. 9), increasing the earnings-related part of the pension benefits of particularly high earners with currently low replacement rates, reinforcing fund systems, financing basic pensions or credits for non-employment periods (OECD, 2020, p. 10).

The proposal for the pension reform actually includes the introduction of two pillars, a "zero" one to provide a solidarity-based equal (or basic) pension and a "first" one that is to be more or less earnings-related. On the face of it, this recommendation appears to have been factored in. However, the architecture of the ministry's proposed pension system is completely different. According to those submitting it, in the initial years additional costs will come to CZK 2–10 billion before comprehensive tax reform is implemented (within the proposed five years). Yet this means that the division into two pillars should continue to be financed solely from pension insurance contributions in the first few years.

That is the exact opposite of the OECD's intention. The OECD does not consider the low replacement rate (i.e. the ratio of the average pension granted to the average pre-retirement wage) among the low earners to be a problem. Rather, it believes there is a problem in the low replacement rate for middle and, especially, high earners. As income increases, the resulting replacement rate decreases rapidly (OECD, 2020, p. 8): "*While various changes have taken place over the last twenty-five years, the architecture and principles in the design of the Czech pension system have been mainly unaltered since the 1995 Pension Insurance Act. The system works relatively well in ensuring net replacement rates close to the OECD average for average-wage workers. Moreover, there is a high level of redistribution within the pension system, at least within generations, leading to a very compressed benefit structure. Replacement rates are high for low earners while high earners receive very low internal returns on their contributions. For the latter, the boundary between contributions and taxes is blurred.*"

This illustrates the fact that all the targets which, according to the OECD, could be covered by tax revenues have one common denominator, namely an increase in the internal rate of return for high earners. They should either pay lower contributions considering the comparatively high level of harmonisation of pension benefits, and/or they should receive higher pensions for their higher contributions. In other words, the OECD recommends introducing a higher earnings-related factor into the Czech pension system. The proposed pension reform, however, goes in the diametrically opposite direction, as it proposes even greater degree of solidarity than there is in the system today, leaving the contributions set.

Conclusion
Of the four key OECD recommendations, the proposal is entirely inconsistent with at least two of them, and one is ignored completely. Only in relation to the first recommendation – simplification – does the primary intention go in the right direction. However, additional aspects mean that these efforts are effectively negated. The proposed system is only marginally, if at all, more predictable and simpler.

Naturally, no pension reform is required to follow OECD recommendations blindly. But in that case it should not refer to them.

5 Measures to support the Economy in Response to the COVID-19 Pandemic

At the end of 2019, a new type of coronavirus, SARS-CoV-2, was first identified (WHO, 2020). The city of Wuhan in the Chinese province of Hubei is considered to be the epicentre. From here, the disease, known as COVID-19, began to spread to other countries. In Europe, the disease first occurred in tourism-oriented countries (in the EU, the first case was officially recorded on 24 January 2020 in France, followed by Spain and Italy), from where it spread to other European states. At first, the disease appeared to be mild, with a low fatality rate, but it soon became apparent that COVID-19 was not only much more contagious, but also, in particular, far more risky for those over 60 years and people with other diseases than other types of coronavirus. This has serious consequences for healthcare systems, whose capacities may not be able to cope with the high influx of patients while maintaining the level of healthcare provided to patients with other diseases.

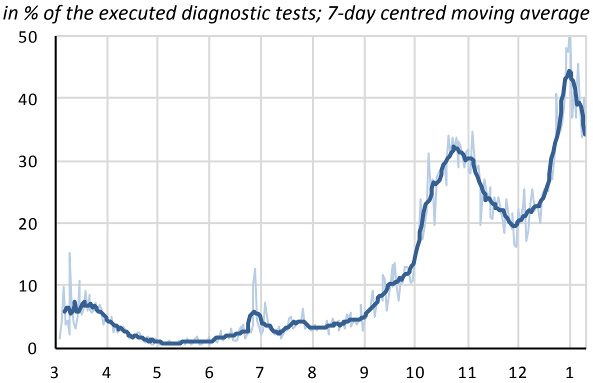
5.1 Introduction

The new type of coronavirus spread worldwide in a relatively short period of time, with countries' approaches to preventing its spread differing, at least in the first few months of 2020. Asian countries, such as China and South Korea, imposed strict restrictions on social contact and conducted high numbers of tests. Others cut off production and restricted shopping and travel. This resulted in a fairly fast decline in the numbers infected. By employing certain social distancing restrictions, these countries have continued to report comparatively low numbers of infections. Other countries selected a laxer approach (in particular the United Kingdom initially, also Sweden to some extent). Here, the aim was to get the spread of the disease under control mainly by mass testing with modern technologies to detect potentially infected persons. Because the restrictions were softer, they did not lead directly to a reduction in economic activity, but this was at the cost of higher numbers of deaths and, ultimately, a plunging economic downturn anyway.

COVID-19 began to spread in the Czech Republic in March 2020. On 12 March, the Czech government approved its first emergency measures to protect public health. Measures to help households and companies affected by the restrictions followed. The first wave of the COVID-19 epidemic in the Czech Republic was stabilised at the end of June. In September, the number of infected people started to rise again, incl. number of hospitalisations and number of persons in severe condition. The government responded by declaring another state of emergency and taking measures to mitigate the spread of the disease. Although there was not such a significant lockdown of the economy (e.g. industrial output) in the second wave of the pandemic, directly after deciding to restriction of the economic activity the government approved a range of measures to support households and companies. Compared to the first wave, support was targeted more at the hardest affected sectors of the economy.

Graph 5.1: Number of Infected Persons in the CR

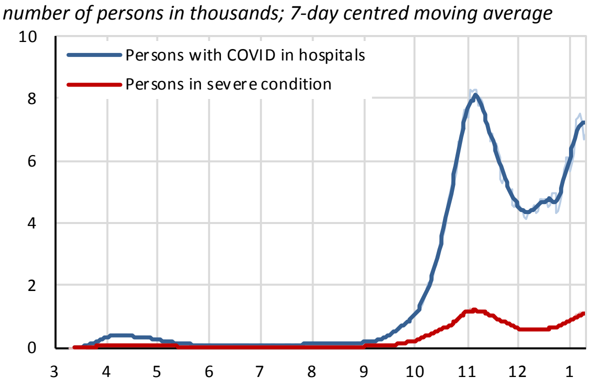
in % of the executed diagnostic tests; 7-day centred moving average



Note: Data as of 13th January 2021.
Source: MoH (2021). MF CR.

Graph 5.2: Hospitalisations with COVID-19 in the CR

number of persons in thousands; 7-day centred moving average



Note: Data as of 13th January 2021.
Source: MoH (2021). MF CR.

Box 3: Selected Studies to prevent the Spread of the Disease and mitigate the Economic Impact

The key parameter for the spread of the infection, the "reproduction number",[4] stood at around 2.6 at the beginning of the epidemic. Generally speaking, a reproduction number is greater than 1 means that the number of persons infected is exponentially rising. According to the epidemiological model, at this level the number of infected people would increase rapidly. In the absence of adequate social distancing measures, the rapid growth of patients would overload the healthcare system.

A number of studies have examined the possibilities of reducing the spread of SARS-CoV-2 coronavirus infection. For example, Atkeson (2020) showed in simulations at the beginning of the pandemic that, in order to significantly reduce the reproduction number and thus flatten the curve of the number of persons infected, mitigation of social distancing measures need to be introduced. They need to be kept in place for an extended period, otherwise the spread of the disease will only be delayed. Bryan (2020) explored the extent to which people mitigate their social contacts spontaneously and voluntarily, and when they must be forced to do so. Drawing on game theory, he concluded that government restrictions are appropriate when people do not sufficiently consider (or are not aware of) the negative externalities of their behaviour – social interactions. This is particularly true in a situation where the reproduction number is not very high and the personal cost of the disease is greater than the cost of social distancing, but not enough for people to maintain social distancing voluntarily. Society is thus forced to confront the dilemma of whether to introduce measures that will slow down the spread of the disease, but at the cost of significantly reducing social contact and deepening the economic impacts.

Alvarez et al. (2020) confirm that, in order to flatten the curve of the number of people requiring hospitalisation, it is best to introduce stricter quarantine at the beginning of the epidemic and then gradually ease it. Similarly, Eichenbaum et al. (2020) observe that, in a situation where the capacity of the healthcare system is limited and there is no vaccine, the optimal government policy is to reduce social contact, including economic activity because, even at the cost of a deep economic downturn, there will be a very significant reduction in deaths. In contrast, Piguillem and Shi (2020) believe that a high number of tests would distinguish asymptomatic infected individuals from those susceptible to infection (but not yet infected). Therefore, instead of blanket quarantining, they suggest that only those who are infected be restricted in their movements.

Dampening the effects of the anti-epidemic measures on the economy

The restrictive measures introduced in both the first and second waves of the pandemic have had significant repercussions for the economy. They have created a supply shock (decreasing output, increasing input prices, lower labour supply due to illness or quarantine, etc.) and a demand shock (lower incomes in response to lower output reduce household demand, limit imports from abroad, etc.). According to Guerrieri et al. (2020), the supply shock, which has an uneven impact on individual sectors, could lead to a greater reduction in demand than would result from the original reduction in labour supply. This is mainly due to the degree of complementarity between sectors of the economy and the lower marginal propensity to consume among workers in sectors that have not been affected directly by the restrictions. The study also points out that although fiscal policy is sometimes crucial for stimulating demand at other times, the conventional traditional may be less effective in this case. Indeed, fiscal stimulus can increase revenues only in unaffected sectors, not affected ones. At the same time, it is employees in the affected sectors who have the highest marginal propensity to consume. Gourinchas (2020) therefore recommends that fiscal policy be aimed at promoting employment, business and financial stability in order to mitigate the economic downturn. He also mentions the importance of the timing of the introduction of economic measures, because if they are implemented only after the end of the epidemic, mitigating the economic downturn will be much more costly. In parallel with measures against the spread of the disease, the government focused on the implementation of economic incentives to support households and businesses affected by anti-epidemic restrictions. As Gourinchas (2020) points out, an economic downturn would occur even if no government measures were put in place to prevent the spread of a pandemic. Indeed, households and businesses would adapt their behaviour on account of the uncertainty (and potentially also panic) surrounding a solution to the pandemic that has to take into account the insufficient response of the healthcare system.

It is clear that fiscal stimulus will come with an increased borrowing needs of public finances. Blanchard (2020) distinguishes the risks arising from the increase in public debt according to the maturity of economies, the level of their public debt, and the level of government bond yields before the crisis. In advanced economies with low debt levels, government bond yields are likely to remain low. In advanced economies with a high level of indebtedness, the risk premium may increase. Emerging market and developing economies tended to have a problem with high indebtedness even before this crisis. As a result, they rely on the assistance of the advanced economies and international institutions. Benmelech (2020) points out that the most important factors for the level of fiscal stimulus are the maturity of the economy and its rating before the crisis.

The role of monetary policy

In parallel with the government fiscal policy, measures are also being taken by central banks to mitigate the economic impact. Eichenbaum et al. (2020) recommend that monetary policy consist of keeping interest rates low and ensuring financial stability so that the pandemic crisis does not spill over into a financial crisis. Naturally, the key interest rate is the decisive factor in the use of these conventional monetary policy instruments. Countries with low levels of primary rates before the crisis had little space for further reductions, so central banks adopted unconventional monetary policy instruments, such as asset purchases, the easing of macro-prudential rules, calling on banks to refrain from making dividend payouts, etc. For more details on the role of central banks' monetary policy during the pandemic, see the Ministry of Finance (2020b).

[4] The reproduction number indicates the number of people who, on average, become infected by one infected person during the course of the disease. It is estimated from the epidemiological model S(E)IR ("Susceptible – Exposed – Infectious – Recovered"). The model is based on a combination of short-term and long-term models. Short-term predictions play the role of "early change detectors", and can thus indicate changes that will alter long-term predictions. An SIR-based model is used for short-term predictions. For long-term variant predictions, an SEIR-based model is used.

Blanchard (2020) puts forward comprehensive recommendations for appropriate government responses at both levels of the pandemic (i.e. the health perspective and subsequent economic support), believing that government policy plays the key role in combating the disease and in providing immediate support to households and companies. First of all, according to him, the government should focus on containing the spread of the disease. This is crucial not only for the healthcare system, but also for further economic development. Likewise, support to households and companies should be implemented in two phases. Where the demand side of the economy is supported, however, he concludes that there is a risk of the lower efficiency of fiscal expansion. This is because of the possibility that the disease will return, accompanied by other restrictive measures associated with the creation of savings by consumers and low investment by companies. This would only temporarily increase demand, before declining again.

Of the individual steps taken by the Czech government to fight the pandemic, it can be concluded that the nature of the measures is largely in line with the recommendations of Blanchard (2020). However, the aspect getting the timing right is also important when approving them. For a number of support schemes, there was a significant delay between the announcement of restrictions on businesses' economic activity and the launch of the respective support. This was felt particularly keenly in the first wave of the pandemic.

Table 5.1: Role of Government during the COVID-19 Pandemic

	Optimal Government Reaction (Blanchard, 2020)	Reaction of the Czech Government
Phase 1	**Combat COVID-19**	Declaration of the state of emergency
	- restrictions on the movement of persons	Prohibition of entry into the CR, travel to high-risk countries and free movement of persons
	- medical suplies purchasing, testing	Prohibition of retail sales and services
	- firms support on technological solution combating COVID-19, vaccine development	Purchase of protective equipment and medical supplies, increasing capacity of the hospitals, purchase of vaccine and vaccination of the population, Smart Quarantine, Czech Rise Up and Technology COVID programmes
Phase 2	**Households support**	Extension length and increase in the care allowance
	- securing household income	One-off lump sum to pensioners
		Moratorium on bank loans
		Abolition of the Real Property Transfer Tax
	Companies support	“Antivirus” programme
	- liquidity support	Remission of the June personal and corporate income tax advance
	- deferral of the taxes and social and health insurance	Loss carryback
		Remission of the social and health insurance advances for self-employed persons up to the minimum assesment base
		Compensatory bonus
		State guarantees programmes (COVID II, III, Prague, Plus)
		“Antivirus C” programme
		Liberation packages (indiv. adjustment of tax advances, deferral of taxes, etc.)
Phase 3	**Selective support companies in the affected sectors**	“COVID-accommodation” programme
		“COVID-spas” programme
		“COVID-tourism support” programme
		“COVID-bus” programme
		“COVID-gastronomy-closed business” programme
		“COVID-rent” programme
		“COVID-sport II” programme
		“COVID-culture II” programme
		Agriculture support (“Agricovid” programme, support through Support and Guarantee Agricultural and Forestry Fund, etc.)
		Decrease in the road tax for the vehicles above 3.5t
		Decrease in the VAT rates for selected services

Note: The Czech Government measures list only the most important ones.
Source: Blanchard (2020), MF CR.

Table 5.2: Structure of the Anti-Crisis Measures in 2020

allocation as of 18th January 2021, realization as of 31st December 2020, cash methodology

		Allocation	Realization
Anti-Crisis Measures in total	*CZK bn*	**1 189.9**	**283.4**
	% of GDP	**21.2**	**5.0**
Strengthening the public healthcare system and social services	*CZK bn*	66.4	58.8
Direct measures financed by revenue	*CZK bn*	126.5	85.8
Direct measures financed by expenditure	*CZK bn*	104.2	63.1
Liquidity support	*CZK bn*	24.1	12.5
Guarantee and insurance schemes	*CZK bn*	868.7	63.3

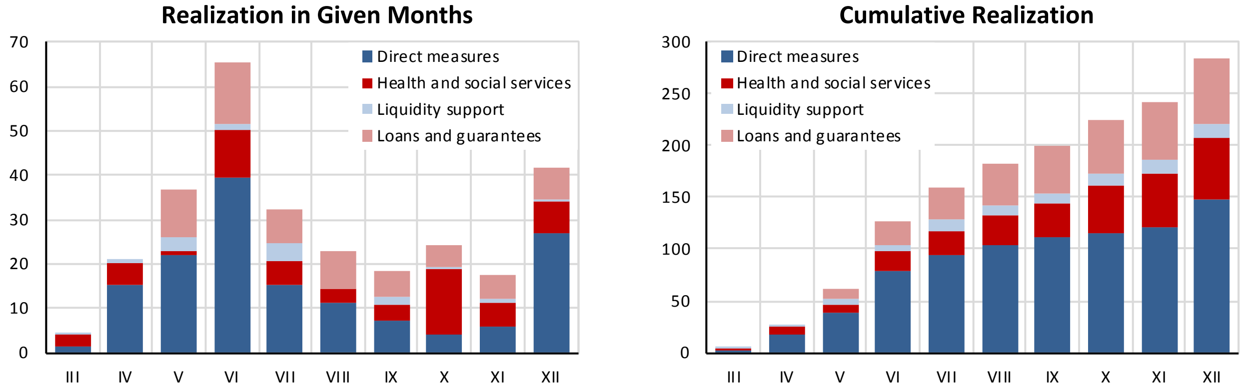
Note: The measures are recorded in the cash methodology, which takes into account the aspect of the financing item. On the contrary, the accrual methodology of ESA 2010 captures the real nature of the measure (however, the full data in ESA 2010 have not yet known). This causes some discrepancies in the reporting, especially for the compensatory bonus and the loss carryback. In the cash methodology, these measures have an impact on personal and corporate income tax, but in the ESA 2010 methodology they are reported as an expenditure capital transfer.

Source: Explanatory memoranda of the relevant acts. MF CR (2021a). MF CR Calculations.

At the end of December 2020, support amounting to CZK 283.4 billion was provided from public budgets (CZK 216.5 billion from the state budget). Of this, CZK 148.8 billion was spent on direct support for households and companies, while CZK 58.8 billion was focused on the higher expenditure in healthcare and social services. By liquidity support of the companies, public budget revenues were reduced by CZK 12.5 billion. In cooperation with the Czech-Moravian Guarantee and Development Bank, the Export Guarantee and Insurance Corporation and commercial banks, guaranteed credits totalling CZK 63.3 billion were granted.

Graph 5.3: Realization of the Measures to Protect Health and Support Households and Companies

CZK bn.



Source: MF CR (2021a). MF CR.

5.2 Measures in the Healthcare Sector and Social Services

The fight to contain the spread of the disease is inevitably linked to an increase in healthcare expenditure. From the point of view of public budgets, in ESA2010 methodology these additional expenditures have an impact primarily on intermediate consumption and the compensation of employees. The effects on the revenue side of public budgets in the form of value added tax relief are negligible.

Under the Liberation Packages, in the period from 12 March to 31 December 2020 VAT payers were **exempted from VAT** for the gratuitous supply of goods related to COVID-19 (e.g. protective equipment) and for the gratuitous supply of goods to VAT payers authorised to produce specified goods (e.g. disinfectants, etc.). In the same period, value added tax was also waived on selected goods and services supplied free of charge to healthcare service providers, emergency services in the integrated rescue system, the Army of the Czech Republic and social service facilities. In connection with the roll-out of vaccination against COVID-19, the government approved (under Government Resolution No. 1326) the waiver of value added tax up to the end of 2022 for the supply of approved vaccine and diagnostic medical devices for mass testing. Further to an amendment to the Income Tax Act (Act No. 609/2020 Coll.), it was possible for self-employed persons and companies to reduce the income tax base by expenses incurred on gratuitous non-monetary supplies intended to combat COVID-19 in the period from 1 March to 31 May 2020. These measures do not have a major impact on tax revenues.

The increase in the compensation of employees has been influenced by the government's decision to increase funds for the **payment of extraordinary**

remuneration of CZK 40,000 per month to emergency medical staff (Government Resolution No. 518) in the period from 1 March to 31 May (with an impact of CZK 1.1 billion), as well as extraordinary remuneration to employees of all inpatient care providers (Government Resolution No. 809) in the same period, amounting to CZK 25,000 per month for healthcare professionals and CZK 10,000 for other employees (with a total impact of CZK 11.8 billion). Government measures related to the more difficult functioning of social services (especially under Government Resolution No. 239) and the associated higher expenditure on protective equipment resulted in an increase in funding both to finance operating expenditures (with an impact of CZK 1 billion) and to pay bonuses to employees of social services (Government Resolution Nos. 519 and 661) amounting to CZK 40,000 per month if they were at a facility with COVID-19, otherwise CZK 10,000 per month (with an impact of CZK 2 billion). Funds for the salaries of employees of regional hygiene stations (Government Resolution Nos. 268, 406 and 944) were also increased by approximately CZK 0.2 billion.

The growth of intermediate consumption has been influenced by the **purchase of protective equipment and other medical supplies**. As early as 12 March, the Ministry of Industry and Trade was mandated with the central purchase of disinfectants (Government Resolution No. 196), while the purchase of medical supplies and protective equipment was mainly arranged by the Ministry of Health and the Ministry of the Interior. In total, approximately CZK 14 billion was approved for these purchases. This amount also includes an increase in state material reserves with the relevant medical supplies (Government Resolution Nos. 549, 808 and 1083) and purchases of vaccines.

Last year and this year expenditure was also affected by an increase in the **assessment base for payments for state-insured persons** as of June 2020 to CZK 11,607 (Act No. 231/2020 Coll.). This was on top of the increase already made in January 2020. For 2021, the assessment base was further increased to CZK 13,088. On balance, this measure increases the resources of the public health insurance system by more than CZK 50 billion compared to the baseline.

The growth of capital transfers was affected by the government's decision (Government Resolution No. 480) to provide a one-off contribution to selected hospitals to settle overdue liabilities or liabilities still unpaid over 60 days from the date of taxable supply, as well as refinanced liabilities (from short-term to long-term), which totalled 6.6 CZK billion. The **debt relief of hospitals** has improved their financial situation, enabling them to respond in a timely and effective manner to increased operating and personnel costs while ensuring that they also have space for further development.

Funds were approved from the state budget in the form of subsidies for the implementation of three programmes aimed at financing the projects of companies that are developing technological solutions to combat COVID-19. The first is the COVID Technology Programme (with a total allocation of CZK 0.6 billion), which can be used to finance 35% (at medium-sized enterprises) and up to 45% (at small enterprises) of eligible expenditure on the production of medical devices. This is complemented by the Czech Rise Up Programme (with a total allocation of CZK 0.2 billion), which makes it is possible to provide support of up to CZK 5 million to finance the costs necessary for the rapid implementation of new solutions against infection. The follow-up Czech Rise Up 2.0 programme (with a total allocation of CZK 0.3 billion) provides funding covering 75% of eligible expenditure for the completion of the research and development of new products to combat COVID-19, as well as for healthcare and education projects focused on the use of existing technologies to develop medical and non-medical solutions in response to the consequences of the crisis, the preparations for the second wave of the pandemic, and the support of strategic technologies.

Table 5.3: Measures in the Healthcare Sector and Social Services in 2020
allocation as of 18th January 2021, realization as of 31st December 2020

		Allocation	Realization
Total	*CZK bn*	**66.4**	**58.8**
Increase in wages of workers in the healthcare system	*CZK bn*	12.9	13.1
Increase in wages and operating costs in social services	*CZK bn*	5.2	3.8
Purchase of protective equipment, vaccine, tests and other supplies	*CZK bn*	19.7	14.2
Increasing in payments for state-insured persons	*CZK bn*	20.9	20.9
Programmes on the technological results combating COVID-19	*CZK bn*	1.0	0.1
Debt relief of hospitals	*CZK bn*	6.6	6.6
"Smart Quarantine" programme and other expenditure	*CZK bn*	0.1	0.1

Note: In most cases, these are measures within the general government sector that do not have an impact on its balance.
Source: Explanatory memoranda of the relevant acts. MF CR (2021a). MF CR Calculations.

5.3 Measures to Support Households

Government measures to direct support households are aimed in particular at the possibility of deferring credit repayments, at transfers in the form of an adjusted sickness insurance benefit, and at one-off cash benefits. The total allocation of measures approved for direct household support amounts to CZK 40.5 billion.

In order to resolve the situation arising from a loss of income or temporary inability to repay certain types of credits, several **legal amendments were approved to deal with repayments**. This resulted in the "loan moratorium" (Act No. 177/2020 Coll.), which is discussed in more detail in the next part of this section. This Act is supplemented by an amendment to the Consumer Credit Act (Act No. 186/2020 Coll.), under which, if there is a delay in the repayment of a consumer loan for longer than 90 days, the creditor is entitled only to interest at the repo rate plus 8 percentage points. In the period from 12 March to 31 July, Act No. 209/2020 Coll. allowed housing tenants to defer the payment of rent without the penalty of eviction by the landlord, with the rent due then having to be paid by the end of the year. Households finding their income severely curtailed as a result of emergency government measures are entitled, under a special scheme, to apply for an **immediate emergency benefit** in order to cover basic living needs and housing-related costs. The benefit granted may be up to fifteen times the amount of the individual's subsistence minimum (i.e. up to CZK 57,900). Lower amounts may also be granted.[5] Between March 12 and the end of October, the number of approved applications came to more than 18,000 with payments totalling approximately CZK 60.2 million (i.e. the average amount of the benefit for this period is CZK 3,305).

Major immediate savings in household spending on the acquisition of real estate (4% of the acquisition price) were made possible by the **abolition of the real estate acquisition tax** (Act No. 386/2020 Coll.). The abolition of this tax applies retroactively to entries permitted for registration by the property register from 1 December 2019. Any tax paid during this period can be refunded as a tax overpayment, subject to an application. At the same time, the maximum deduction of interest on a mortgage loan from the tax base has been reduced from CZK 300,000 to CZK 150,000 for mortgages taken out as of 1 January 2021.

Cash social benefits have been affected by **revised parameters for the payment of care allowance for employees** (Act No. 133/2020 Coll.) in the first wave of the pandemic. This was a response to the closure of all school facilities (with the exception of nursery schools). During this support period (from 12 March to 30 June 2020), employees who were unable to work because they had to care for a child under the age of 13, as well as people who, due to the closure of social services facilities (day care centres etc.) had to care for a handicapped person (with at least degree 1 dependence) with whom they shared a household, were entitled to the care allowance.[6] The amount of the carer's allowance per calendar day was 60% of the daily assessment base up to the end of March; for the period from 1 April to 30 June it was temporarily increased to 80% of the daily assessment base (Act No. 230/2020 Coll.). In connection with the onset of the second wave of the pandemic and the re-closure of all school facilities (Government Resolution No. 1022), the "crisis care allowance" was approved (Act No. 438/2020 Coll.). On this basis, over the time that crisis and emergency measures are announced that ban children under the age of 10 from school facilities, or when a child is ordered to quarantine, a care allowance of 70% of the daily assessment basis is paid for the period from 14 October 2020 to 30 June 2021. Up to mid-January 2021, almost 420,000 applications for the care allowance had been submitted due to the closure of schools. Approximately 75% of care allowance applications are from the first wave of the pandemic. Furthermore, the dynamics of cash social benefits have also been influenced by the government-approved **one-off lump sum of CZK 5,000 to all pensioners** (Act No. 469/2020 Coll.) in response to pensioners' increase in costs and uncertainty about future economic and social developments in relation to COVID-19. In addition, a number of **job support schemes** have been implemented (particularly the Antivirus Programme, which is discussed in the next part of this section). Employees who are at risk of being made redundant or who have been served notice (and are also registered with the Labour Office) may draw on the Outplacement Programme, which has been allocated approximately CZK 0.5 billion, in the period from 1 June 2020 to 30 June 2022. Under this scheme, they have the opportunity to take retraining courses, receive training in the field of labour law and financial literacy, etc. The scheme also focuses on new potential employers, who may be granted wage contributions if they create new jobs.

[5] In the context of COVID-19, this benefit is set as the sum of the subsistence minimums of the persons jointly assessed, plus the sum of other necessary expenses and the total cost of housing for the current calendar month. From this amount, deductible income paid out in the current calendar month and funds in cash exceeding twice the subsistence minimum of the applicant and the jointly assessed persons and twice their costs of housing are deducted.

[6] The conditions for drawing on the care allowance were set out in Act No. 255/2020 Coll., which defines three reasons – medical reasons, capacity reasons (e.g. not all children can be accepted) and operational reasons (e.g. the harmonisation of a parent's working hours and the operating hours of the facility).

Table 5.4: Measures to the Direct Support Households in 2020
allocation as of 18th January 2021, realization as of 31st December 2020

		Allocation	Realization
Total	*CZK bn*	**40.5**	**37.2**
Abolition of the Real Property Acquisition Tax	*CZK bn*	13.8	11.1
Care Allowance for employees	*CZK bn*	10.2	9.7
Adjustment of conditions for the Extraordinary immediate assistance realization	*CZK bn*	0.1	0.1
One-off lump sum to pensioners	*CZK bn*	15.0	15.0
Other	*CZK bn*	1.5	1.4

Source: Explanatory memoranda of the relevant acts. MF CR (2021a). MF CR Calculations.

5.4 Measures to Support Companies and Self-Employed Persons

The goal of the government measures to support companies is to maintain employment and provide cash flow to companies in order to reduce their liquidity risk. In the first wave of the pandemic, the government initially carried out support that was non-selective and encompassed all sectors of the economy. Targeted support schemes were subsequently adopted for the hardest affected sectors (tourism, culture, and sports). In the second wave, the government approved only selective support schemes for the sectors affected by government interventions. In addition to direct support, the government approved extensive guarantee schemes providing state guarantees to companies primarily for operational financing. This was later extended to investment credits.

Measures to ensure the cash flow of companies and self-employed persons were implemented mainly in the form of tax remissions (especially for personal and corporate income tax, value added tax and road tax) and adjustments to social security and health insurance contributions.

The approval of Liberation Package I (Government Resolution No. 225) remitted the late filing of tax returns or from interest on late payments, deferral taxes may be requested on a case-by-case basis. Taxpayers also have the opportunity to individually request an adjustment to (the reduction of) their advance payments on income tax. Liberation Package II (Government Resolution No. 295) **remitted the June advance on personal and corporate income tax**. The remission of this advance does not remit the tax itself but the tax will be fully paid according to the tax return filed in 2021. However, if natural person or corporate body report a loss for 2020, it is likely that this advance will be absorbed by that loss and they will not have to pay it in the end.[7] In connection with the response to restrictive measures in the second wave of the pandemic, the government approved (Government Resolution Nos. 1099 and 1369) the remission of advance payments on personal income tax payable from 15 October to 15 December 2020, advances on road tax due on 15 April, 15 July, 15 October, 15 December 2020 and 15 April 2021, and delay interest on value added tax due between October 2020 and March 2021, provided that the tax is paid by 16 August 2021. The introduction of electronic registration of sales for entities under phases 3 and 4 (e.g. lawyers, accountants, the liberal professions, transport and agriculture) was also suspended. Subsequently, the obligation of electronic registration of sales for all entities was suspended until the end of 2022 (Act No. 449/2020 Coll.). This means that obligation to record sales will reapply to all entities from 1 January 2023, regardless of which phase of the scheme they fall under. In support for the investment activity of companies, the temporary **introduction of the extraordinary accelerated depreciation** (Act No. 609/2020 Coll.) of tangible assets classified under the first and second depreciation classes and acquired in 2020 and 2021 was approved. Assets included in the first depreciation class can be depreciated by the taxpayer without interruption over 12 months (instead of the original 3 years), while assets under the second depreciation class can depreciated without interruption over 24 months (instead of the original 5 years). For the first 12 months, the taxpayer will be able to claim depreciation of up to 60% of the acquisition value. This Act includes a permanent increase in the limit on tangible assets for the purposes of the Income Tax Act from CZK 40,000 to CZK 80,000, also encompassing technical enhancements of tangible assets acquired as of 1 January 2020. All assets up to this amount will therefore be claimed by a non-accounting company in their tax expenditure while accounting taxpayers will follow accounting rules for these assets.

The **waiver of advance payments on social security contributions** significantly improved the cash flow of self-employed persons. This waiver applies to **all self-employed persons** automatically, with no need for them to submit individual applications, for the calendar months of March to August 2020 (Act No. 136/2020 Coll.). In these months, it is irrelevant what advance payments on social insurance were prescribed. If, despite this waiver, self-employed persons still pay an advance for these months, it is used to settlement any other obligations and then as an advance on social insurance for September to December 2020. Social security contributions determined for 2020 from the

[7] The finance ministry's estimate is non-payment of personal income tax of CZK 2 billion and corporate income tax of CZK 20 billion.

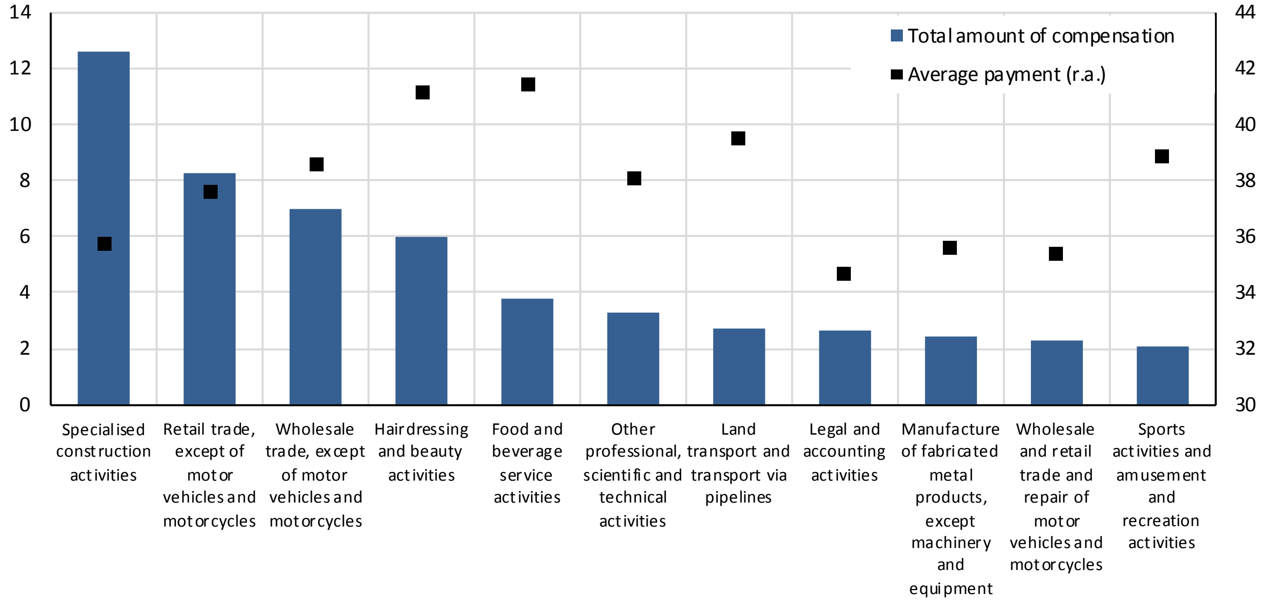
assessment base on the basis of the submitted Statement of Income and Expenditure, are reduced by CZK 2,544 for the self-employed for each of these calendar months in which there has been no obligation to pay advances where this concerns their main self-employed activity, and by CZK 1,018 if this is secondary self-employed activity. For the same period, self-employed persons were also granted a **waiver of advance payment on public health insurance** up to the amount of the contribution calculated from one twelfth of the minimum assessment base (Act No. 134/2020 Coll.). Those self-employed persons who pay monthly advances on health insurance contributions that are higher than the minimum were granted a waiver of advances derived from the minimum assessment base in these months, but will have to pay the difference between the amount of the calculated advance on their contributions and the minimum contribution. They can pay this amount only after submitting the Statement of Income and Expenditure for 2020. This must be submitted by self-employed persons no later than one month from the date on which they are meant to file the tax return, or by 8 April 2021 if they are not required to file a return. The average monthly number of self-employed persons who did not pay advances on public health insurance reached approximately 520,000. Cash-flow support for employers as payers of contributions who, on the last day of the month, do not have more than 50 employees participating in sick insurance included the **waiver of the payment of social security contributions** (the Antivirus Programme – Line C) paid by the employer for June to August (Act No. 300/2020 Coll.). In each of these months, employers had to satisfied the conditions, i.e. in particular they had to maintain employment at a level equal to at least 90% of the pre-pandemic level (the number of employees employed at the end of each of these three months, compared to the number of employees at the end of March, was not allowed to have decreased by more than 10%) and keep wage levels to at least 90% of the March value (i.e. the total of the assessment bases of employees employed in any individual month must not have decreased by more than 10% compared to the total of the assessment bases of employees in March 2020). Under this scheme, almost 110,000 companies and more than 790,000 employees received support in each of these months.

As a result of the closure of all schools except nursery schools during the first wave of the pandemic, the government decided on the temporary possibility (from 12 March to 30 June) for self-employed persons to request a **care allowance** under the same conditions as employees (Government Resolution No. 311). In March, a cash benefit of CZK 424 per day could be paid to self-employed persons. From April, the daily amount of the cash benefit was increased to CZK 500 (Government Resolution No. 514). With the onset of the second wave of the pandemic and the subsequent re-closure of school facilities, the programme for drawing on the care allowance by self-employed persons (Government Resolution No. 1053) was restored at CZK 400 per day under the same conditions as the care allowance for employees. At the end of December, approximately 206,000 applications for the care allowance had been approved in the support period.

The "**compensatory bonus**" (Act No. 159/2020 Coll. and Act No. 461/2020 Coll.) played an important role in both waves of the pandemic in decreasing in income among self-employed persons whose activities were completely or partially inhibited by government resolutions. Under this scheme, a payment of CZK 500 per day was paid to self-employed persons on the basis of their individual requests in the bonus period. It took the form of a refund of personal income tax from dependent activity, subject to compliance with legal conditions. In the first wave of the pandemic, self-employed persons were entitled to two consecutive bonus periods (from 12 March to 30 April and from 1 May to 8 June), i.e. the maximum payment was CZK 44,500. Most requests (more than 70,000) for a compensatory bonus were submitted by self-employed persons in the sector of specialised construction activities (more than CZK 2.5 billion was paid to this sector). The average amount per request across all sectors was CZK 37,046, and the highest average amount of payment per request (CZK 42,918) was in the sector of tour operators and travel agencies.

Graph 5.4: Sectoral Structure of the Claimants for the "Spring" Compensatory Bonus for Self-employed Persons

according to CZ-NACE ;left axis: in % of total compensation; right axis: in thousands of CZK



Note: This is a list of the most important industries according to the particular paid amount of the compensatory bonus.
Source: Financial Administration. MF CR Calculations.

Table 5.5: Spring and Autumn Compensatory Bonus

realization as of 18th January 2021

		"Spring" compensatory bonus		"Autumn" compensatory bonus					Total
		Period 1	Period 2	Period 1	Period 2	Period 3	Period 4	Period 5	
Compensatory bonus in total	*CZK bn*	**14.2**	**7.9**	**1.2**	**1.0**	**0.7**	**0.1**	**0.1**	**25.3**
Self-employed persons	*CZK bn*	13.1	7.1	1.2	1.0	0.7	0.1	0.1	23.4
	approved requests	537 260	384 555	119 555	117 291	93 794	29 536	11 417	
Small Ltd.	*CZK bn*	1.0	0.8						1.7
	approved requests	39 524	41 511						
Contractors	*CZK bn*	0.1	0.1						0.1
	approved requests	5 445	4 726						

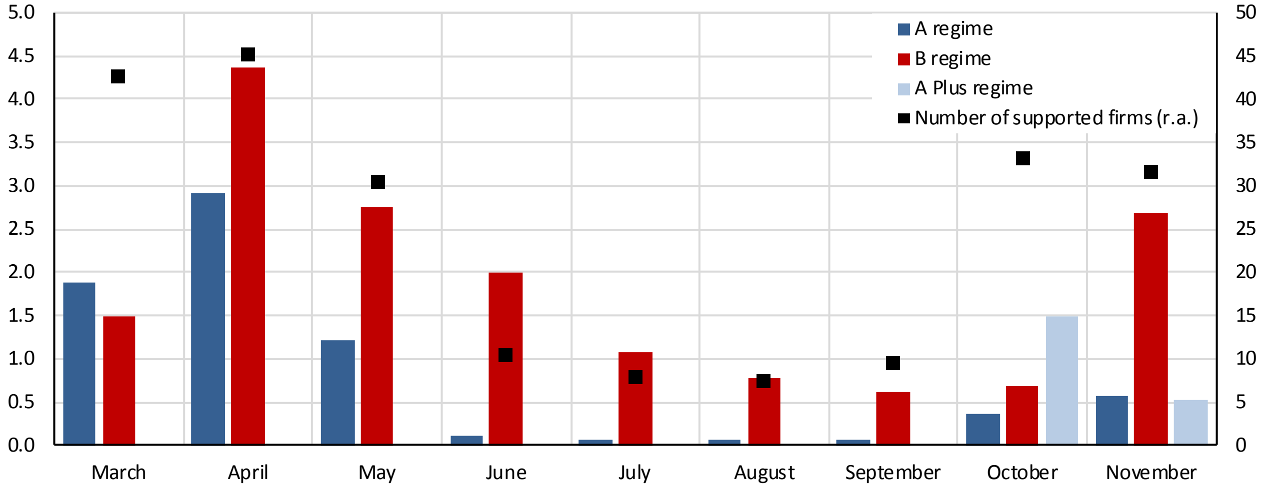
Note: In the case of the autumn compensatory bonus, summary data for the self-employed persons as the most numerous group of claimants are given in a simplified manner, as no more detailed structure of the number of claimants and payments between individual eligible entities is available.
Source: Financial Administration. MF CR.

Act No. 262/2020 Coll. extended the group of beneficiaries having the opportunity to apply for a compensatory bonus (in the same amount and for the same bonus periods as self-employed persons) to private limited companies with up to two partners, and to family companies. Act No. 331/2020 Coll. extended the entities eligible for the compensatory bonus even further to include contractors. The payment of CZK 350 per day was paid to these entities in both bonus periods.

The compensatory bonus was reintroduced with the onset of the second wave of the pandemic and the subsequent declaration of a state of emergency and restrictive resolutions reducing economic activity. The autumn compensatory bonus was selectively focused. Self-employed persons, private limited companies with a maximum of two members, and contractors whose predominant activity is in directly restricted economic sectors are entitled to CZK 500 per day during the state of emergency. At the same time, this activity must be the dominant source of the claimant's livelihood during the relevant period (1 June to 30 September 2020). In addition to directly affected businesses, the compensatory bonus is also available to enterprises that are at least 80% connected to directly closed sectors, either by a long-term supplier-customer relationship or because their activities are closely linked to a closed establishment. Under Act No. 584/2020 Coll., it is possible to combine the payment of the autumn compensatory bonus with explicitly specified other types of support (support under COVID-Rent, care allowance for the self-employed, and the state contribution under the Antivirus Programme).

Graph 5.5: State Contributions Paid to Employers under the "Antivirus" Programme

in CZK bn, right axis: number of supported firms in thousands



Note: Realization as of 18th January 2021, data for December are not yet available.
Source: MoLSA (2021).

Tradesmen and legal entities also have the opportunity to improve their financial situation thanks to the introduction of an automatic built-in stabiliser in the form of an expansion of the **loss carryback** concept (Act No. 299/2020 Coll.). Taxpayers can now claim a tax loss as an item deductible from the tax base retrospectively in the two tax periods preceding the period for which the loss was determined, up to a maximum of CZK 30 million. For the first time a tax loss can be claimed retrospectively for the tax period corresponding to the financial year from 1 July 2019 to 30 June 2020, based on an estimate of the amount of that loss. According to ESA2010 methodology, the compensatory bonus and loss carryback will have an impact on public budgets by increasing expenditure capital transfers by almost CZK 48 billion in this year.

The COVID-Rent programme was approved by the government to alleviate problems stemming from the lower liquidity of companies (whether natural persons or corporate bodies), associated, among other things, with the need to pay fixed costs despite the reduced or closure of their business (retail and service). The first call under this programme (Government Resolution No. 550) was conceived in such a way that if the landlord provides at least a 30% discount on the decisive[8] rent for the period April to June and the business (with business in a non-government building [9]) pays at least 50% of the decisive rent, this programme enables the business to receive support from the state budget amounting to 50% of the decisive rent. When restrictions were reintroduced on retail sales, services and other sectors, the government approved the continuation of this programme for the period from July to September (Government Resolution No. 1037), with the proviso that a discount on the decisive rent by the landlord was no longer necessary. Under the third call of this programme (Government Resolution No. 1329), covering the period from October to December, in addition to closed businesses, retail businesses defined by Government Resolution No. 1376 may also apply for a grant if their sales have decreased by at least 66%. In the second and third calls, the state again paid 50% of the decisive rent.

The **Targeted Programme for Employment Support (the "Antivirus" programme)**, approved by the Government on 31 March 2020 (Government Resolution No. 353 and subsequent resolutions regulating parameters or extending the validity), played a key role in supporting employment. Under the Antivirus Programme, total employers' wage costs for employees participating in sickness insurance are partially compensated for the period March 2020 to February 2021, provided that the employer has actually paid wage compensation to employees and duly paid compulsory premiums on health insurance and social security contributions and the contribution to the state employment policy, both for employees and employers. The Antivirus Programme has three lines (regimes) – A, A Plus and B – which differ from each other mainly as regards the reason for the "obstacles to work" and the related amount of the compensation provided. Lines A and A Plus cover obstacles to work in the form of closures or restricted operations due to crisis measures or emergency government measures, or because quarantine has been ordered for employees. Line A is used if quarantine is ordered, in which case employees are entitled to wage compensation equal to 60% of their average reduced earnings. Under line A, employers receive a contribution from the state amounting to 80% of the compensatory wage (including health insurance and social security contributions) paid by the

[8] The "decisive rent" is the original amount of rent before the discount provided by the landlord.

[9] If an establishment is in a state building, a discount on the rent cannot be granted. Instead, the business is required to pay rent at 80%. The amount of support is then 80% of the decisive rent.

employer to the employee for the duration of the obstacles to work, up to a maximum of CZK 39,000 per employee. In the period from March to the end of September, this line was also applied to closures or reduced operations caused by crisis measures or emergency government measures, with employees being entitled to compensation of wages amounting to 100% of their average pay. Since October, the new A Plus line (Government Resolution No. 1039) has been in operation in these circumstances. Employees are entitled to wage compensation again amounting to 100% of their average pay and the employer receives a state contribution of 100% of the compensatory wage (including health insurance and social security contributions), up to a maximum of CZK 50,000 per employee. Line B covers obstacles to work on the part of the employer arising from economic difficulties caused by COVID-19 (e.g. because of reduced demand for the goods they produce, a lack of incoming supplies, or a large number of quarantined employees). Depending on the nature of the obstacle to work, employers pay employees 60–100% of their average pay and subsequently receive a contribution amounting to 60% of the compensatory wage (including health insurance and social security contributions), up to a maximum of CZK 29,000. Considering how the disease was developing, line A was of the greatest importance in the period from March to May (for these months, about 84% of the total amount under this line was paid). As infections declined and restrictions were eased, line B became more important (mostly in April, when approximately CZK 4.4 billion was paid out). With the onset of the second wave of the pandemic and the subsequent closure or reduction of operations, the importance of all lines is rising again. Under this programme, almost 67,000 companies received support (mostly companies with a small number of employees, especially private limited companies).

In the first wave of the pandemic, selective support for the most affected sectors (especially the tourism, culture, transport and sports sectors) focused on reducing tax rates and introducing specific subsidy programmes. During the second wave of the disease, in many cases the period of support under subsidy schemes introduced in the spring was extended. New schemes were also deployed for certain sectors. Many government schemes for the selective support of sectors are governed by the terms of the "Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak" (see Box 4).

The adoption of Act No. 299/2020 Coll. **reduced the rate of value added tax** from 15% to 10% for the provision of accommodation services, authorisation to enter sports and cultural events, the use of sports facilities, and passenger transport by ski lifts. The support for carriers also included a decrease in the road tax rate by 25% for freight vehicles over 3.5 tonnes (Act No. 299/2020 Coll.). The **COVID-Bus** scheme (Government Resolution No. 1035) was introduced to support companies providing non-scheduled bus transport services and carriers providing chartered coach transport for tour operators and travel agencies for tourism purposes. It provided compensation for the decrease in sales in the period from 12 March to 30 June 2020 if, in the second quarter of 2020, companies' sales decreased by at least 50% year-on-year. The subsidy is a fixed amount per seat and depends on the coach's emission class (ranging from CZK 15 for Euro II up to CZK 135 for Euro VI).

Box 4: Temporary Framework for State Aid Measures to support Economy Affected by COVID-19

On 19 March 2020, the European Commission issued a special piece of legislation, the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak. In it, the Commission acknowledges that the current situation in the EU Member States constitutes a serious disturbance in the economy of Member States within the meaning of Article 107(3)(b) of Treaty on the Functioning of the EU. This Commission legislation regulates the conditions under which, in accordance with the meaning of Article 107(3)(a) of the Treaty on the Functioning of the EU, the Commission will assess aid granted to address the effects of the coronavirus disease on the economy. The Temporary Framework allows for the following types of support measures for businesses finding themselves with a sudden lack of liquidity:

- direct grants, selective tax benefits and advances – limited to EUR 800,000 per undertaking;
- guarantees on loans – the guarantee must not be for more than six years;
- subsidised interest rates for loans – the reduced interest rate must be at least at the level of the 1-year PRIBOR rate or the base rate published by the European Commission.

Other forms of aid under the Temporary Framework include:

- subsidisation of the staff wage bill;
- deferral of taxes and social security contributions;
- support for research, development and investment in the manufacture of products aimed at combating COVID-19.

Aid granted under the Temporary Framework requires notification to the European Commission, which will take a decision on the matter. Aid granted under the Temporary Framework may be implemented by 30 June 2021 for undertakings that were not in difficulty as at 31 December 2019 (with the exception of aid for short-term export credit insurance, the deferral of taxes and contributions, and wage bill subsidisation).

Table 5.6: Programmes to support Companies and Self-employed Persons in the Temporary Framework

Support defined in the Temporary Framework	Government programmes realized in the CR (with the notification)
Limited amounts of aid (grants, etc.) up to EUR 800 000 per undertaking	"COVID-rent I, II" programmes "COVID-culture I, II" programmes "COVID-accommodation" programme "COVID-spas" programme "COVID-sport II" programme "Agricovid" programme Programe through Support & Guarantee Agricultural & Forestry Fund: loan assistance
Guarantees on loans	"COVID III" programme "COVID Plus" programme
Investment aid for the production of COVID-19 relevant products	"Technology COVID" programme "Czech Rise Up" programme
Deferrals of tax and of social security contributions	Deferring the monthly pre-payments of social sec. contribution of self-employed Deferring the monthly pre-payments of health insurance of self-employed persons
Wage subsidies for employees	"Antivirus" programme

Note: The COVID-Gastronomy-Closed Business, COVID-sport III Ski Resorts and COVID-Rent III programmes are part of the support defined in the Temporary Framework, but have not yet been notified to the EC as of the date of this publication.
Source: OPC (2021). MF CR.

In the first wave, measures to tackle the spread of the disease included a crisis measure prohibiting the entry of foreigners into the Czech Republic (Government Resolution No. 203). The sale of accommodation services (Government Resolution No. 214) was also prohibited. These measures were lifted briefly, but with the onset of the second wave of the pandemic, the sale of accommodation services for recreational purposes was again banned (Government Resolution No. 1079). The tourism sector was affected very hard for virtually the entire year. In response, the government gradually approved several schemes aimed at supporting this sector. To compensate for the losses incurred by operators of collective accommodation establishments, the **COVID-Accommodation** scheme was approved (Government Resolution No. 766). Under this programme, it was possible to obtain a subsidy amounting to a fixed sum per room for the period from 14 March to 24 May 2020, covering any period when the accommodation facility (establishment) was closed due to crisis measures adopted by the government. The amount varied from CZK 100 to CZK 330, depending on the category of the mass accommodation facility. This scheme was immediately followed up by **COVID-Accommodation II** (Government Resolution Nos. 1331 and 50/2021), under which it was possible to apply for a subsidy for the period from 22 October 2020 to 21 January 2021 at the same amount as in the first call of the scheme for the mass accommodation facilities and at the amount of CZK 200 per day and room for individual accommodation facility, provided that the accommodation facility was in operation in the months from October to January 2019 and had registered guests staying during this period. To support accommodation facilities specialising in the organisation of school camps, **COVID-School Camps** (Government Resolution No. 1184) was approved. Under this scheme, these business entities could claim a subsidy of 27% of the amount of school camps (up to a maximum of CZK 400 per participant per day) that, though contracted, could not be held in the period from 25 May to 29 June 2020. Another scheme, **COVID-Tourism Support** (Government Resolution No. 1070) was approved to support tour operators, travel agencies and tourism guides. Tour operators can claim support of up to 2.5% of the planned revenues from the sale of tours in 2020. The subsidy is used to settle operating costs or customer claims for cancelled tours from 20 February to 10 October 2020. For the same period, tour operators may claim a subsidy of either CZK 500 per cancelled tour or a lump-sum payment (of CZK 50,000, CZK 100,000, CZK 250,000 or CZK 500,000) depending on their income in 2019, if their revenues decreased by more than 50% year-on-year and they are an agency whose main activity is inbound tourism. Tourism guides can claim a one-off payment of CZK 50,000 if they provide an educational service to a school facility or complete a retraining course. In other cases, the payment is reduced to CZK 40,000. To support companies in tourism, the government also approved the **COVID-Travel Agency II** programme (Government Resolution No. 49/2021), through which travel agencies can claim a subsidy to settle operating costs incurred in the period from 11 October 2020 to 4 January 2021 or to reimburse customers' claims from travel contracts with a start date from 20 February 2020 to 31 December 2020, which were cancelled due to pandemic. For small and medium-sized travel agencies, the government also approved (Government Resolution No. 51/2021) the **COVID Guarantee TA** programme with a guarantee capacity of CZK 0.3 billion, through which guarantees will be provided by the Czech-Moravian Guarantee and Development Bank to travel agencies arranging bankruptcy protection pursuant to Section 6 of Act No.

159/1999 Coll., with the beginning of the agreed insurance period occurring in the period from 1 October 2020 and 31 December 2021. It will be possible to use the bank guarantee as part of the insolvency guarantee insurance. The guarantee will amount to 75% of the required co-participation of the travel agency up to 30% of the insurance indemnity limit, but a maximum of CZK 4 million. As the government's decision also limited the activities of spa facilities, it approved the **COVID-Spa** compensation scheme (Government Resolution Nos. 703 and 48/2021). Under this scheme, spa facility operators could, under certain conditions, receive a subsidy to settle payment of a discount voucher of CZK 4,000 for a stay at the spa facility[10] in the period from 1 July to 30 June 2021.

Government measures banning the presence of customers in businesses and limiting the operations of these facilities for a large part of the year have had a highly negative impact on the liquidity of companies, not only in directly affected sectors but also in supply chains. In response, the government approved **COVID-Gastro-Closed Businesses** (Government Resolution Nos. 1328 and 10/2021). Under this scheme, operators of hospitality activities and selected retail stores and services may claim support of CZK 400 per employee per day for the period from 9 October 2020 to 10 January 2021, with the exception of days when the businesses have not been directly restricted by government measures. Support under this scheme can be combined with other compensatory aid.

Another sector that has been severely affected is sport. The **COVID-Sport** programme (Government Resolution No. 590 and other resolutions regulating the overall allocation) supported non-profit sports organisations whose operations have been restricted by government measures. Under this scheme, it was possible to claim a subsidy to compensate for costs in precisely defined areas of support (the settlement of 50% of the fixed costs associated with the operation of sports facilities for the period from March to May, the settlement of 50% of the costs associated with the cancellation or postponement of sports events, and 50% settlement of the rent a sports facility, provided that the landlord granted at least a 30% discount). To support sports businesses, **COVID-Sport II** was approved (Government Resolution No. 1038). Under this scheme, support was provided to business entities participating in professional championship sports competitions (the amount of the subsidy ranged from CZK 750,000 to CZK 12.5 million) in order to settle costs associated with participating in sports competitions in the period from 12 March to 31 December 2020), as well as to business entities organising sports events that had been cancelled due to the Czech government's measures to combat COVID-19 (the maximum amount of the subsidy was CZK 10 million and was intended to cover a maximum of 50% of eligible costs). The government also approved two areas of longer-term support for sport. **Sports Organisation Support – Sport Restart** (Government Resolution No. 1181), with an allocation of CZK 0.8 billion, is intended to help the resumption of sports activities limited by the measures taken, especially club activities, sports events, sports for all ages and sports for the disabled. **Sports Infrastructure Support – Sport Restart** (Government Resolution No. 1246), with an approved allocation of CZK 2.3 billion, will be used for investments in sports infrastructure. In response to its ban on the operation of ski resorts, the government approved **COVID-Sport III Ski Resorts** (Government Resolution No. 32/2021), with an allocation of CZK 0.1 billion for 2020. Under this scheme, owners or operators of ski resorts can claim a subsidy to settle operating costs for the period from 27 December 2020 to 22 January 2021. The amount of the subsidy ranges from CZK 210 to CZK 530 per day, depending on the type of transport equipment. The maximum daily support is 50% of the current average daily cost of running the centre for the past three seasons. For small and medium-sized companies and the self-employed persons who work in the sport sector (e.g. sports clubs, fitness centres, ski resorts, etc.), the government (Government Resolution No. 46/2021) approved the **COVID Sport Guarantee** programme based on the principle portfolio guarantees in the amount of 25%, which, with an allocation of CZK 1 billion, will make it possible to guarantee credits of up to CZK 4 billion. Through this guarantee scheme, the Czech-Moravian Guarantee and Development Bank will provide guarantees in the amount of up to 80% of the nominal amount of operating credit (up to CZK 15 million) from commercial banks. Companies will also have the opportunity to claim a contribution to pay interest on these credits in the amount of 15% of the credit amount, up to a maximum of CZK 1 million.

Restrictive measures to reduce the number of people at mass events and to close cultural facilities have also affected the cultural sector hard. Act No. 129/2020 Coll. increased funding by CZK 0.3 billion (followed by a gradual increase by another CZK 0.3 billion under Government Resolution No. 408) to settle losses resulting from the sales lost by organisations partly funded by the state. Independent, live and performative art was also supported with an allocation of CZK 0.8 billion (Government Resolution Nos. 408 and 1071). In addition, the government approved **COVID-Culture I** (Government Resolution No. 769). Under this scheme, businesses, individual artists and other entities from the cultural and creative industry could claim a subsidy to compensate for 50% of the expenditure incurred by cancelled cultural events, up to a maximum of CZK 5 million. The continuation of this scheme was subsequently approved with the deployment of **COVID-Culture II** (Government Resolution No. 1036). Under that scheme, businesses whose main activity is the

[10] The length of stay must be at least six consecutive nights and at least five treatments must be provided.

organisation or provision of music, musicals, dance, or theatre programmes could claim a subsidy in order to provide cultural public services in the field of performing arts. One-off support of CZK 60,000 was also available to the self-employed (artistic and technical professions in the arts) under this scheme. When restrictive measures in the arts were extended, the government approved the continuation of this scheme with **COVID-Culture III** (Government Resolution No. 1340). This scheme will also cover audiovisual entities.

Government **support for agricultural sector** is provided in the form of a CZK 1 billion increase in the funds of the Support and Guarantee Fund for Agriculture and Forestry (Government Resolution No. 302). This will give companies assistance in repaying interest on credits from commercial banks or enable them to defer repayments. In addition, **Agricovid-Food Industry** (Government Resolution Nos. 1052 and 1138) was approved to support companies operating in the field of food production and supplying food to catering service operators whose y-o-y income had decreased by more than 25%. Up to CZK 200,000 is available in support per undertaking, plus up to CZK 20,000 for each cooperating person or employee. The amount of the subsidy must not exceed 75% of the actually proven decrease in income from sales of food. Further support in agriculture is aimed at ensuring food self-sufficiency and combating bark beetles. This aid totals CZK 4.5 billion (Government Resolution No. 330 and Act No. 323/2020 Coll.).

Table 5.7: Measures to Support Companies and Self-employed Persons in 2020

allocation as of 18th January 2021, realization as of 31st December 2020

		Allocation	Realization
Support companies and self-employed persons, incl. unclassified measures	*CZK bn*	**190.2**	**111.7**
Measures to ensure cash-flow of companies, the self-employed and to support employment	*CZK bn*	**148.6**	**105.8**
Remission of June and Q4 income tax advance and road tax advance	*CZK bn*	22.5	22.5
Remission of minimum social insurance advances for self-employed persons (March-August)	*CZK bn*	7.4	7.4
Remission of minimum health insurance advances for self-employed persons (March-August)	*CZK bn*	6.9	6.9
Remission of social security contribution payments paid by certain employers	*CZK bn*	13.3	13.3
Compensatory bonus	*CZK bn*	28.7	24.4
Loss carryback	*CZK bn*	19.0	0.1
Care Allowance for self-employed persons	*CZK bn*	2.6	2.3
"COVID-rent" programme	*CZK bn*	8.8	4.1
"Credit COVID" programme	*CZK bn*	1.0	0.9
Introduction of extraordinary accelerated depreciation on assets	*CZK bn*	11.1	0.0
"Antivirus" programme	*CZK bn*	27.3	23.7
Selective support to sectors	*CZK bn*	**32.4**	**5.7**
Decrease in VAT rate for culture and sport services	*CZK bn*	1.3	0.0
Decrease in the road tax for the vehicles above 3.5t	*CZK bn*	1.0	0.0
Programmes to support sport, ski resorts	*CZK bn*	3.8	0.1
Programmes to support culture	*CZK bn*	3.5	0.9
"COVID-accommodation I, II" programme	*CZK bn*	8.0	2.3
"COVID-tourism support" programme	*CZK bn*	0.6	0.1
"COVID-spas" programme	*CZK bn*	1.0	0.1
"COVID-gastronomy-closed business" programme	*CZK bn*	2.5	0.0
"COVID-bus" programme	*CZK bn*	1.0	0.9
Support companies in agriculture	*CZK bn*	8.5	1.2
Programmes to support companies (Country for the Future, Trend, etc.)	*CZK bn*	1.3	0.1
Other measures unclassified	*CZK bn*	**9.2**	**0.2**

Note: The amount of realization on "other measures unclassified" is very small, although there was an increase in funds from the state budget (e.g. an increase in funds to the State Fund for Transport Infrastructure in the amount of CZK 6.5 bn), it was implemented between subsectors and within the subsector general government sector, which does not affect the general government balance.

Source: Explanatory memoranda of the relevant acts. MF CR (2021a). MF CR Calculations.

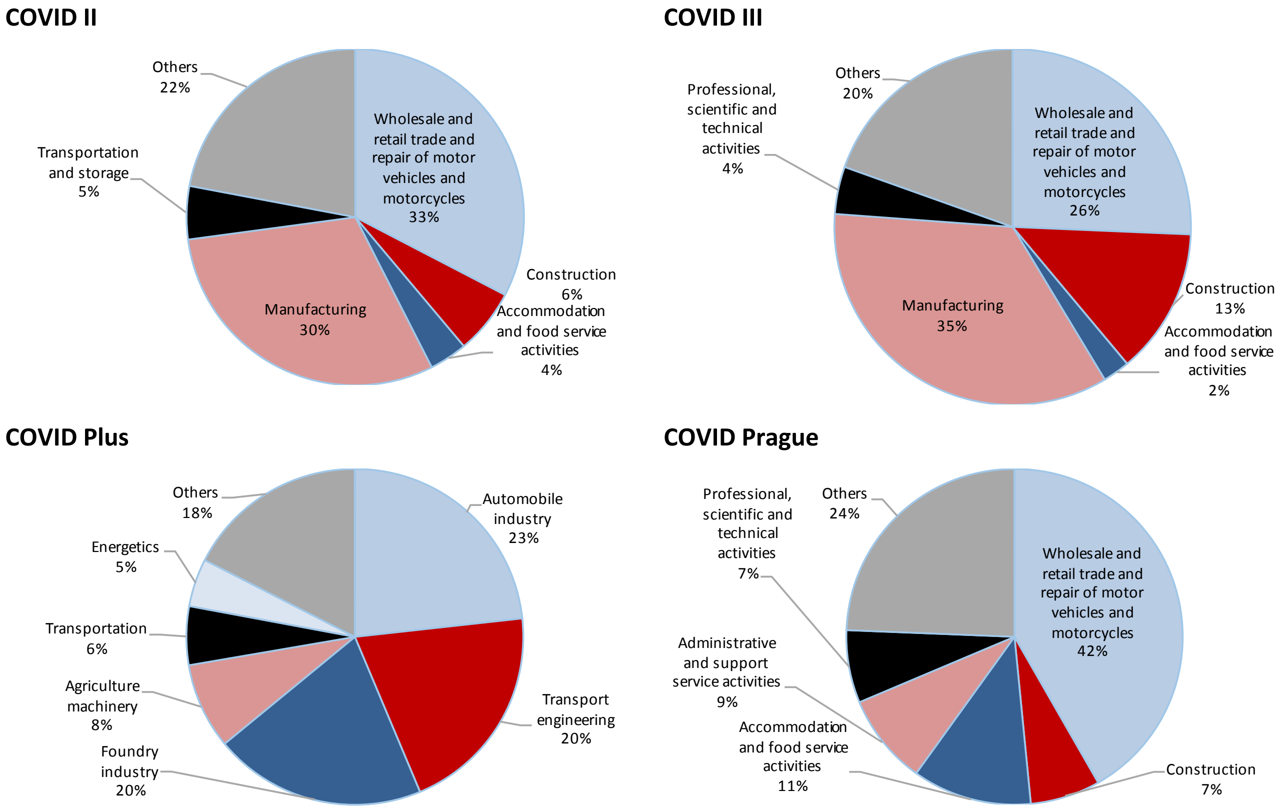
Credits from the state and, above all, **state guarantees for credits provided by commercial banks** account for the largest proportion of companies support. In March, the government approved **COVID Credit programme** (Government Resolution No. 189), with an allocation of CZK 1 billion. Under that scheme, SMEs could claim an interest-free credit of up to CZK 15 million through the Czech-Moravian Guarantee and Development Bank, repayable in two years, to cover up to 90% of eligible costs associated, for example, with the acquisition of low-value tangible or intangible assets or the acquisition and financing of inventories. This scheme was immediately followed by a scheme of state guarantees for operating credits granted to SMEs operating outside of Prague (COVID II, with a guarantee capacity of CZK 20 billion). Under this scheme, these companies could claim a guarantee through the Czech-Moravian Guarantee and Development Bank, with a guarantee period of up to three years, covering up to 80% of the credit nominal amount from a commercial bank (up to a maximum of CZK 15 million). At the same time, support of up to CZK 1 million was provided to cover interest on these credits. COVID Prague, with a guarantee capacity of CZK 1.5 billion, was implemented under the same conditions for SMEs operating in Prague. In addition, Act No. 228/2020 Coll. was approved, under which the Czech-Moravian Guarantee and Development Bank can provide state guarantees of up to CZK 150 billion (COVID III). This scheme is based on a "portfolio guarantee" of 30% (i.e. the performance of the guarantee is limited to 30% of the credit nominal amounts provided by one of the participating commercial banks). Multiplication can then be used to provide state guarantees of up to CZK 500 billion of operating and investment credits negotiated by the end of June 2021.[11] Under this scheme, the Czech-Moravian Guarantee and Development Bank provides a guarantee of 90% of the credit nominal amount (up to a maximum of CZK 45 million) for a credit agreed for the operational financing or investments of a company with up to 250 employees, and a guarantee of 80% of the credit nominal amount (up to a maximum of CZK 40 million) for companies with 250 to 500 employees. The Export Guarantee and Insurance Corporation participates in the provision of state guarantees for the repayment of credits for the operating and investment activities of exporters, manufacturers and commercial businesses (having more than 250 employees) (Act No. 214/2020 Coll.). Government Regulation No. 308/2020 enables large enterprises in the field of transport and tourism to claim state guarantees. Guarantees could be provided, subject to certain conditions, at 80% or 70% of the credit nominal amount for credits up to CZK 2 billion. Government Regulation No. 579/2020 increased the state guarantee to 90% or 80% of the credit nominal amount, with guarantees for operating and investment credits provided for up to six years. For 2020 and 2021, the total volume used for the provision of guarantees is CZK 142 billion.[12] The total insurance capacity of the Export Guarantee and Insurance Corporation, limiting the extent of insurable risks, was increased from CZK 188 billion to CZK 330 billion by Act No. 129/2020 Coll.

[11] The possibility of providing state guarantees for business investment credits is covered by Act No. 451/2020 Coll., which also stipulated that state guarantees for credits may be provided up to the end of 2021, unless the European Commission communication on state aid to support the economy in response to the COVID-19 pandemic specified a shorter time.

[12] As CZK 4 billion was transferred from the state budget to the fund to cover liabilities deriving from guarantees provided by the Export Guarantee and Insurance Corporation (Government Resolution No. 460), guarantees of up to CZK 50 billion can currently be realised. This is so that the amount of this fund does not fall below 8% of total liabilities deriving from the guarantees made (Government Regulation No. 215/2020).

Graph 5.6: Sectoral Structure of the State-guaranteed Credit Claimants (COVID Programmes)

in % of the total amount of provided loans in the specific programme



Note: Data as of 15th December 2020.
Source: CNB (2020). EGAP (2020). MF CR.

5.5 Monetary and Credit Policy Measures

Monetary policy measures were implemented by the Czech National Bank through a combination of monetary policy and macro-prudential instruments aimed at maintaining price and financial stability. Benmelech (2020) proposes the use of both standard monetary policy instruments in the form of interest rate cuts, but also unconventional instruments, such as the purchase of assets or debt monetisation.[13] In response to the COVID-19 pandemic, Act No. 192/2020 Coll. was adopted to give the Czech National Bank more scope for trading on financial markets up to the end of 2021. If necessary to ensure financial or price stability, it can now trade in a wider range of securities, including those with longer maturities, and with more institutions (apart from banks and savings and credit unions, it can now trade, for example, with insurance companies and with pension and investment companies). The Czech National Bank continues to ban the purchase of government bonds on the primary market.

The primary tool wielded by the Czech National Bank to mitigate the economic effects of the coronavirus pandemic a reduction in the basic two-week repo rate. On 17 March, it was cut by 50 basis points to 1.75% p.a. This was followed by two further reductions to 0.25% p.a. At the same time, the discount and lombard interest rates were reduced to 0.05% p.a. and 1.00% p.a., respectively. This cut in the key interest rate was subsequently reflected in a decline in market interest rates on the financial market and, with some delay, in client interest rates on credits and deposits.

As part of measures to support the liquidity of the banking sector, the weekly number of supply repo operations with a maturity of two weeks was increased, while banks' orders are satisfied in full at the 2W repo rate. From 18 May 2020 to the end of 2021, the maturity of these operations is extended to three months and the range of assets received has been extended to include mortgage bonds, which, together with government securities, can be pledged by credit institutions in exchange for the provision of liquidity. The adoption of Act No. 192/2020 Coll. also allows the CNB to provide short-term two-week credits to insurance companies, pension companies and investment companies. These credits are secured by Czech government bonds or Czech National Bank bills.

In macro-prudential policy, the countercyclical capital buffer rate was reduced to 1% as of 1 April 2020 and to

[13] In the Czech Republic, monetary financing is prohibited by Section 34a of Act No. 6/1993 Coll. on the Czech National Bank, as amended.

0.5% as of 1 July 2020. Czech national bank called on banks, insurance companies and pension companies to refrain from paying dividends or from taking other steps that could jeopardise the resilience of the individual institutions until both the acute and longer-term consequences of the pandemic have subsided. This combination of measures has thus expanded the scope of banks to lend to non-financial corporations and households.

The adoption of Act No. 177/2020 Coll. (introducing the "loan moratorium") has played an important role in credit policy. Under this Act, households, the self-employed persons and companies could defer repayments of consumer (including mortgage) or business loans that were agreed and drawn before 26 March 2020, either until 31 July or 31 October 2020. Lenders were entitled to charge interest to consumers to whom they had made loans at the repo rate plus eight percentage points during this period. The interest chargeable to company was at the amount negotiated. The total volume of loans deferred under the loan moratorium was CZK 306.1 billion at the end of October. Of this, CZK 142.5 billion comprised credits to non-financial corporations and CZK 163.6 billion loans to households (with mortgages accounting for CZK 118.2 billion and consumer loans CZK 38.4 billion). In mortgage lending, there was also a change in three of the mortgage lending ratios used to assess applications for new mortgage credits. As of 1 April 2020, the limit for the loan-to-value ratio was increased to 90%. The other two mortgage assessment limits were cancelled, one as of 1 April, the other from 8 July.

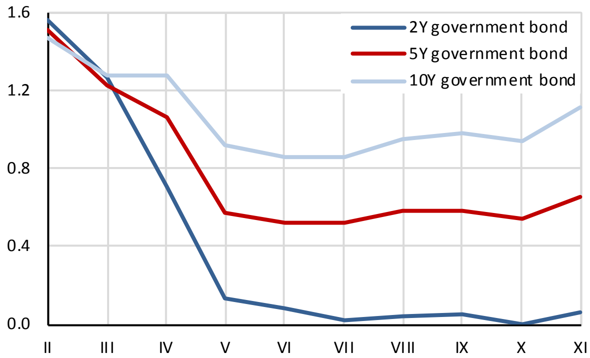
Table 5.8: Monetary and Credit Policy Measures

Measures in the monetary policy (Benmelech, 2020)	Monetary and credit policy in the CR
Lowering of the interest rates	Lowering repo 2W rate by 2pp to 0.25%
Asset purchase	Extending of range of the counterparties and instruments in financial market
Relax of the macroprudential rules	Relax of recommendations for new mortgages officiating (higher LTV ratio, DSTI and DTI were cancelled) Lowering of the countercyclical capital buffer rate for bank's credits
Refrain from making dividend payouts	Calling on banks to refrain from making dividend payouts
Liquidity support	Liquidity-providing repo operations have been announced three times a week Short-term credit from the CNB can obtain more institutions (Act No. 192/2020 Coll.)
Debt monetisation	×

Source: Benmelech (2020). CNB. MF CR.

Graph 5.7: Czech Government Bond Yields

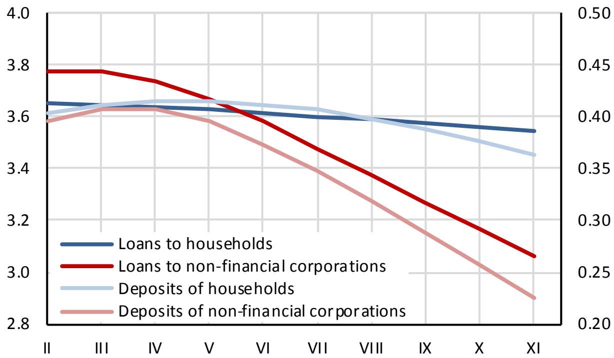
% p. a.; government bond yields on secondary market



Source: CNB (2020). MF CR.

Graph 5.8: Clients Interest Rates

% p. a.; right axis: clients deposit interest rates



Source: CNB (2020). MF CR.

5.6 Conclusion

The COVID-19 pandemic has major repercussions for public healthcare systems, as well as implications for social life. In healthcare, health insurance companies' policy of creating reserves in times of economic growth, ready for use in the event of a decrease in revenue from health insurance contributions and increased expenditure to handle an epidemic, proved to be judicious. The year 2020 also underscored the need to continue digitalising healthcare and, by extension, all of public administration and education, and to build quality information systems and data facilities so that appropriate measures can then be adopted and implemented.

The various crisis measures were aimed at slowing the spread of the disease, but at the cost of a major hit to economic development. In its efforts to mitigate the effects of this crisis, the government responded with three amendments to the state budget for 2020, increasing the deficit to CZK 500 billion. This created fiscal leeway for rapid expansion in the form of discretionary revenue and expenditure measures to support households and companies.

At the end of December 2020, 5% of GDP had been drawn from public budgets, although the total allocation was 21.2% of GDP. Guarantee and insurance schemes comprise the greatest share of the allocation, 15.5% of GDP. The government has passed acts to create a framework of state guarantees for credits. However, the approval and provision of such credits remains fully the responsibility of commercial banks. Whether or not they are used depends on the depth of the problem in individual sectors of the economy, the size of the liquidity gap, and other financing options. In addition, under a number of schemes (e.g. Antivirus, the compensatory bonus, etc.) the payment of support has continued in 2021, though they may be more targeted and require the fulfilment of certain conditions by the claimant. Last but not least, part of the allocation has involved a transfer within the central government sector, especially from the state budget.

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A Annex of Tables – ESA 2010 Methodology

The data on general government sector aggregates are consolidated at the relevant levels.

Table A.1: General Government Revenue

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total revenue	*CZK bn*	**1 576**	**1 645**	**1 667**	**1 714**	**1 762**	**1 910**	**1 941**	**2 069**	**2 246**	**2 390**
	% growth	2.4	4.3	1.4	2.8	2.8	8.4	1.6	6.6	8.6	6.4
Current taxes on inc., wealth, etc.	*CZK bn*	287	301	303	313	335	354	385	416	458	485
	% growth	-2.8	4.7	0.9	3.3	7.1	5.6	8.8	8.0	10.1	5.7
Social contributions [1)]	*CZK bn*	578	593	600	607	629	663	703	760	834	895
	% growth	3.3	2.5	1.3	1.1	3.6	5.5	6.1	8.0	9.8	7.3
Taxes on production and imports [2)]	*CZK bn*	441	481	502	521	513	562	587	626	647	689
	% growth	3.9	9.0	4.3	3.9	-1.6	9.5	4.4	6.7	3.4	6.4
Capital taxes [3)]	*CZK bn*	0	0	0	0	0	0	0	0	0	0
	% growth	-3.4	0.9	0.9	-33.3	-93.5	10.0	54.5	70.6	-24.1	-45.5
Property income	*CZK bn*	38	35	35	38	37	37	37	31	35	32
	% growth	-0.5	-6.9	0.8	6.9	-2.3	-0.4	0.8	-17.9	14.3	-7.4
Interest	*CZK bn*	11	10	10	10	8	7	6	5	8	12
	% growth	-4.2	-12.7	6.8	-6.1	-13.4	-21.2	-7.8	-19.7	66.0	40.2
Other property income	*CZK bn*	27	25	25	28	29	30	31	26	27	21
	% growth	1.1	-4.5	-1.5	12.3	1.6	5.8	2.8	-17.6	4.3	-22.1
Sales [4)]	*CZK bn*	138	146	148	150	152	155	158	163	175	187
	% growth	-0.7	5.7	1.1	1.1	1.8	2.0	1.7	3.4	7.0	7.1
Other current transfers and subs.	*CZK bn*	36	35	39	44	42	49	40	40	51	53
	% growth	21.3	-0.7	10.5	13.5	-4.5	15.1	-18.5	1.5	26.0	5.1
Investment grants	*CZK bn*	53	50	35	36	49	81	23	26	42	44
	% growth	4.9	-6.0	-29.0	1.5	36.3	66.6	-72.1	15.4	60.4	5.2
Other capital transfers	*CZK bn*	5	4	4	5	5	9	8	6	4	5
	% growth	88.2	-25.8	9.3	18.6	-10.6	92.3	-6.1	-21.3	-40.9	20.7
	% of GDP										
Total revenue		**39.5**	**40.5**	**40.8**	**41.4**	**40.5**	**41.3**	**40.5**	**40.5**	**41.5**	**41.6**
Current taxes on income, wealth, etc.		7.2	7.4	7.4	7.6	7.7	7.7	8.0	8.1	8.5	8.4
Social contributions [1)]		14.5	14.6	14.7	14.6	14.5	14.3	14.7	14.9	15.4	15.6
Taxes on production and imports [2)]		11.1	11.8	12.3	12.6	11.8	12.1	12.2	12.3	12.0	12.0
Capital taxes [3)]		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income		0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.6	0.6	0.6
Interest		0.3	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.2	0.2
Other property income		0.7	0.6	0.6	0.7	0.7	0.7	0.6	0.5	0.5	0.4
Sales [4)]		3.5	3.6	3.6	3.6	3.5	3.4	3.3	3.2	3.2	3.3
Other current transfers and subsidies		0.9	0.9	1.0	1.1	1.0	1.1	0.8	0.8	0.9	0.9
Investment grants		1.3	1.2	0.9	0.9	1.1	1.8	0.5	0.5	0.8	0.8
Other capital transfers		0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1

Note: [1)] Compulsory and voluntary payments of employers (on behalf of employees), employees, self-employed and self-payers to social security institutions and health insurance enterprises.
[2)] Compulsory payments, which are levied by general government, in respect of the production or import and/or usage of production factors (for example VAT, excises etc.).
[3)] Irregular taxes to the government on the values of the property, assets or net worth owned by institutional.
[4)] Consists of market output, output produced for own final use and payments for other non-market output.
Source: CZSO (2020b).

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

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Taxes and social contributions	*CZK bn*	**1 307**	**1 374**	**1 405**	**1 441**	**1 477**	**1 579**	**1 675**	**1 802**	**1 940**	**2 068**
	% growth	2.0	5.2	2.3	2.5	2.5	6.9	6.1	7.6	7.6	6.6
Current taxes on income, wealth, etc.	*CZK bn*	**287**	**301**	**303**	**313**	**335**	**354**	**385**	**416**	**458**	**485**
	% growth	-2.8	4.7	0.9	3.3	7.1	5.6	8.8	8.0	10.1	5.7
Individuals or households	*CZK bn*	149	161	165	170	181	187	207	229	261	284
	% growth	-2.3	8.0	2.4	3.1	6.5	3.0	10.9	10.5	13.8	9.1
Corporations	*CZK bn*	127	129	127	133	144	157	167	176	187	190
	% growth	-3.7	1.3	-1.2	4.0	8.5	8.8	6.8	5.2	6.3	1.4
Levy on lottery revenue	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Other current taxes	*CZK bn*	10	10	10	10	10	11	11	12	11	11
	% growth	0.0	-1.6	1.8	-1.4	0.0	5.4	2.2	4.4	-5.8	-0.6
Social security contributions	*CZK bn*	**578**	**593**	**600**	**607**	**629**	**663**	**703**	**760**	**834**	**895**
	% growth	3.3	2.5	1.3	1.1	3.6	5.5	6.1	8.0	9.8	7.3
Actual contributions of employers	*CZK bn*	368	378	383	387	401	423	450	488	538	577
	% growth	5.1	2.7	1.4	1.3	3.4	5.5	6.4	8.6	10.2	7.1
Imputed contributions of employers	*CZK bn*	1	1	1	1	1	1	1	1	1	2
	% growth	-17.3	31.8	-5.1	4.6	-21.5	40.1	-1.9	16.1	21.9	30.9
Actual contributions of households	*CZK bn*	209	214	217	218	227	239	252	270	294	317
	% growth	0.3	2.2	1.2	0.7	4.1	5.4	5.4	6.9	9.0	7.6
Additional contrib. of households	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	*CZK bn*	**441**	**481**	**502**	**521**	**513**	**562**	**587**	**626**	**647**	**689**
	% growth	3.9	9.0	4.3	3.9	-1.6	9.5	4.4	6.7	3.4	6.4
Taxes on products [1)]	*CZK bn*	421	457	479	501	489	538	562	601	619	650
	% growth	3.0	8.5	4.8	4.7	-2.3	10.0	4.4	6.9	3.1	5.0
Value added tax	*CZK bn*	263	277	286	304	319	333	354	388	409	435
	% growth	1.9	5.0	3.5	6.2	5.2	4.3	6.2	9.5	5.4	6.6
Excises	*CZK bn*	148	171	176	179	151	183	181	186	186	188
	% growth	5.6	15.4	2.9	1.6	-15.4	21.0	-0.8	2.3	0.0	1.3
Other taxes on products [2)]	*CZK bn*	10	10	17	19	19	22	27	28	25	27
	% growth	-4.3	-1.3	75.9	10.5	-0.2	17.7	20.4	3.9	-8.6	6.0
Other taxes on production [3)]	*CZK bn*	20	24	23	20	24	24	25	25	28	38
	% growth	25.6	20.1	-4.9	-13.1	18.4	-0.3	5.3	2.4	9.9	37.2
Capital taxes	*CZK bn*	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	% growth	-3.4	0.9	0.9	-33.3	-93.5	10.0	54.5	70.6	-24.1	-45.5

Note: [1)] Taxes that are payable per unit of good or service produced or transacted.
[2)] This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.
[3)] All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).
Source: CZSO (2020b).

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Taxes and social contributions	**32.7**	**33.8**	**34.4**	**34.8**	**34.0**	**34.1**	**34.9**	**35.3**	**35.9**	**36.0**
Current taxes on income, wealth, etc.	**7.2**	**7.4**	**7.4**	**7.6**	**7.7**	**7.7**	**8.0**	**8.1**	**8.5**	**8.4**
Individuals or households	3.7	4.0	4.0	4.1	4.2	4.0	4.3	4.5	4.8	4.9
Corporations	3.2	3.2	3.1	3.2	3.3	3.4	3.5	3.4	3.5	3.3
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social security contributions	**14.5**	**14.6**	**14.7**	**14.6**	**14.5**	**14.3**	**14.7**	**14.9**	**15.4**	**15.6**
Actual contributions of employers	9.2	9.3	9.4	9.4	9.2	9.1	9.4	9.6	9.9	10.0
Imputed contributions of employers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual contributions of households	5.2	5.3	5.3	5.3	5.2	5.2	5.3	5.3	5.4	5.5
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**11.1**	**11.8**	**12.3**	**12.6**	**11.8**	**12.1**	**12.2**	**12.3**	**12.0**	**12.0**
Taxes on products [1]	10.5	11.2	11.7	12.1	11.3	11.6	11.7	11.8	11.4	11.3
Value added tax	6.6	6.8	7.0	7.3	7.4	7.2	7.4	7.6	7.6	7.6
Excises	3.7	4.2	4.3	4.3	3.5	4.0	3.8	3.6	3.4	3.3
Other taxes on products [2]	0.2	0.2	0.4	0.5	0.4	0.5	0.6	0.5	0.5	0.5
Other taxes on production [3]	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.7
Capital taxes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Note: [1] Taxes that are payable per unit of good or service produced or transacted.
[2] This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.
[3] All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).
Source: CZSO (2020b).

Table A.4: Central Government Revenue

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total revenue	*CZK bn*	**1 120**	**1 180**	**1 194**	**1 214**	**1 238**	**1 353**	**1 387**	**1 476**	**1 583**	**1 684**
	% growth	2.7	5.4	1.2	1.7	1.9	9.3	2.5	6.4	7.3	6.3
Current taxes on income, wealth, etc.	*CZK bn*	194	203	204	206	221	233	252	276	303	321
	% growth	-2.4	4.6	0.8	0.7	7.2	5.6	8.0	9.7	10.0	5.7
Social contributions	*CZK bn*	365	374	378	379	391	413	439	478	525	565
	% growth	3.7	2.7	0.9	0.4	3.2	5.6	6.2	9.0	9.8	7.5
Taxes on production and imports	*CZK bn*	351	387	406	419	406	450	464	491	499	530
	% growth	3.9	10.2	4.9	3.2	-3.0	10.8	3.0	5.9	1.7	6.2
Capital taxes	*CZK bn*	0	0	0	0	-	-	-	-	-	-
	% growth	-2.7	-2.3	3.8	-33.5	-	-	-	-	-	-
Property income	*CZK bn*	31	28	27	30	29	30	30	24	27	24
	% growth	2.4	-8.2	-3.1	11.2	-3.0	2.8	-0.1	-20.2	12.5	-12.1
Sales	*CZK bn*	68	75	76	75	78	81	81	85	93	101
	% growth	1.9	10.0	0.7	-1.1	4.3	3.1	1.1	4.0	9.9	8.1
Other revenue	*CZK bn*	111	112	103	105	112	145	121	123	136	144
	% growth	5.6	0.9	-8.0	1.8	6.4	30.1	-16.7	1.2	10.6	6.1

Source: CZSO (2020b).

Table A.5: Local Government Revenue

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total revenue	*CZK bn*	**493**	**489**	**462**	**484**	**512**	**552**	**544**	**590**	**659**	**717**
	% growth	1.1	-0.8	-5.5	4.8	5.8	7.7	-1.4	8.5	11.7	8.8
Current taxes on income, wealth, etc.	*CZK bn*	93	98	99	107	115	121	134	141	155	164
	% growth	-3.8	4.8	0.9	8.8	7.0	5.6	10.3	5.0	10.4	5.9
Social contributions	*CZK bn*	0	0	1	1	0	1	1	1	1	1
	% growth	-10.9	43.8	17.7	-0.3	-19.9	50.4	1.9	10.9	21.5	25.8
Taxes on production and imports	*CZK bn*	90	94	96	102	107	112	123	135	148	158
	% growth	3.7	4.4	1.9	6.5	4.2	4.7	10.3	9.9	9.5	6.9
Capital taxes	*CZK bn*	0	0	0	0	0	0	0	0	0	0
	% growth	-18.2	77.8	-37.5	-30.0	42.9	10.0	54.5	70.6	-24.1	-45.5
Property income	*CZK bn*	7	7	8	8	8	7	7	6	8	9
	% growth	-5.7	0.0	16.5	-4.2	0.5	-12.9	5.0	-6.3	20.6	8.8
Sales	*CZK bn*	70	71	72	75	74	75	76	79	82	86
	% growth	-3.1	1.5	1.6	3.4	-0.6	0.8	2.3	2.8	4.0	5.9
Other revenue	*CZK bn*	233	219	187	192	209	237	203	228	265	298
	% growth	3.9	-5.9	-14.6	2.8	8.7	13.4	-14.3	12.5	16.3	12.3

Source: CZSO (2020b).

Table A.6: Social Security Funds Revenue

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total revenue	*CZK bn*	**216**	**221**	**225**	**230**	**239**	**252**	**267**	**284**	**312**	**333**
	% growth	2.1	2.4	1.8	2.2	4.3	5.2	5.9	6.5	9.7	7.0
Current taxes on income, wealth, etc.	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Social contributions	*CZK bn*	213	218	222	227	237	249	264	281	308	329
	% growth	2.6	2.2	2.0	2.2	4.3	5.2	5.8	6.5	9.7	6.9
Taxes on production and imports	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Capital taxes	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Property income	*CZK bn*	1	0	1	0	0	0	0	0	0	0
	% growth	-46.3	-18.7	9.7	-47.2	-5.2	-28.1	-21.7	-95.1	57.1	-18.2
Sales	*CZK bn*	0	0	0	0	0	0	0	0	0	0
	% growth	-1.7	20.2	-16.1	3.5	-5.9	-1.8	0.0	-6.4	3.9	37.4
Other revenue	*CZK bn*	2	3	2	2	3	3	3	3	4	4
	% growth	-14.5	29.2	-19.3	8.1	11.2	10.1	9.3	12.2	9.9	9.9

Source: CZSO (2020b).

Table A.7: General Government Expenditure

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenditure	*CZK bn*	**1 742**	**1 754**	**1 827**	**1 767**	**1 852**	**1 940**	**1 907**	**1 992**	**2 196**	**2 375**
	% growth	-0.7	0.7	4.1	-3.3	4.8	4.7	-1.7	4.5	10.3	8.1
Compensation of employees	*CZK bn*	354	350	359	367	380	398	419	462	521	576
	% growth	0.4	-1.0	2.7	2.0	3.5	4.8	5.4	10.1	12.8	10.5
Intermediate consumption	*CZK bn*	290	281	259	270	274	284	291	296	326	339
	% growth	-0.8	-3.0	-7.8	4.1	1.5	3.5	2.8	1.6	10.0	4.1
Social benefits other than in kind [1)]	*CZK bn*	535	546	554	564	576	591	605	624	658	707
	% growth	1.8	1.9	1.6	1.8	2.0	2.6	2.5	3.1	5.5	7.5
Social transfers in kind	*CZK bn*	121	124	130	133	140	142	148	152	160	177
	% growth	0.3	2.6	4.7	2.6	4.8	1.4	4.3	3.1	4.7	10.9
Property income	*CZK bn*	52	53	59	55	57	49	44	38	40	41
	% growth	7.4	2.1	9.9	-5.8	2.6	-13.0	-10.6	-14.2	6.7	1.5
Interest	*CZK bn*	52	53	58	55	56	49	44	38	40	40
	% growth	7.7	1.9	9.1	-4.9	2.0	-12.7	-10.6	-13.6	5.8	1.2
Other property income	*CZK bn*	0	0	1	0	1	0	0	0	0	0
	% growth	-30.1	40.6	117.2	-69.4	119.1	-44.4	-1.8	-91.2	1246.4	29.7
Subsidies	*CZK bn*	71	91	91	96	99	105	108	110	119	129
	% growth	2.3	29.2	0.0	5.1	3.8	5.6	2.6	1.7	8.8	8.3
Gross fixed capital formation	*CZK bn*	202	181	169	152	178	236	155	171	224	252
	% growth	-14.6	-10.5	-6.5	-10.0	16.8	32.8	-34.3	10.2	31.3	12.5
Capital transfers [2)]	*CZK bn*	46	45	121	39	60	41	36	30	35	33
	% growth	-1.8	-2.6	169.8	-67.5	53.4	-32.3	-12.8	-14.9	16.2	-5.5
Investment grants [3)]	*CZK bn*	25	32	31	21	18	15	13	15	23	17
	% growth	-5.8	28.6	-1.8	-32.2	-14.5	-19.1	-12.8	14.4	57.6	-25.2
Other capital transfers	*CZK bn*	21	13	89	18	42	26	23	16	12	16
	% growth	3.3	-39.4	598.0	-79.8	133.5	-37.9	-12.8	-31.4	-22.6	32.1
Other expenditure	*CZK bn*	71	83	84	90	89	95	100	109	113	120
	% growth	15.4	17.3	0.7	7.3	-1.2	6.6	5.6	9.1	3.6	6.0
Final consumption expenditure	*CZK bn*	**820**	**804**	**795**	**817**	**840**	**875**	**910**	**959**	**1 049**	**1 134**
	% growth	0.3	-1.9	-1.1	2.7	2.8	4.1	4.0	5.4	9.4	8.1
Collective consumption [4)]	*CZK bn*	400	377	365	378	384	405	423	442	483	510
	% growth	-1.0	-5.7	-3.1	3.5	1.7	5.4	4.3	4.6	9.3	5.6
Individual consumption	*CZK bn*	420	428	430	439	456	470	487	517	566	623
	% growth	1.6	1.7	0.6	2.1	3.8	3.1	3.6	6.1	9.5	10.2

Note: [1)] Social benefits, which should serve households to relieve their costs or losses stemming from existence or development of some risks or needs. Mainly benefits paid in case of old age, disability, sickness, motherhood, unemployment, work injury, work sickness, current social need etc.
[2)] Transactions of capital distribution, which have no influence either on beneficiary's ordinary income or these transaction's payer but on amount of their net property. Both in cash and in kind.
[3)] Capital transfers in cash or in kind made by governments to other institutional units to finance all or part of the costs of their gross fixed capital formation.
[4)] Value of all collective services provided to the whole society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development and economy.
Source: CZSO (2020b), MF CR.

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

in % of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenditure	**43.6**	**43.2**	**44.7**	**42.7**	**42.6**	**41.9**	**39.8**	**39.0**	**40.6**	**41.3**
Compensation of employees	8.9	8.6	8.8	8.9	8.7	8.6	8.7	9.0	9.6	10.0
Intermediate consumption	7.3	6.9	6.3	6.5	6.3	6.1	6.1	5.8	6.0	5.9
Social benefits other than in kind	13.4	13.4	13.6	13.6	13.2	12.8	12.6	12.2	12.2	12.3
Social transfers in kind	3.0	3.1	3.2	3.2	3.2	3.1	3.1	3.0	2.9	3.1
Property income	1.3	1.3	1.4	1.3	1.3	1.1	0.9	0.7	0.7	0.7
Interest	1.3	1.3	1.4	1.3	1.3	1.1	0.9	0.7	0.7	0.7
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	1.8	2.2	2.2	2.3	2.3	2.3	2.2	2.1	2.2	2.2
Gross fixed capital formation	5.1	4.5	4.1	3.7	4.1	5.1	3.2	3.3	4.1	4.4
Capital transfers	1.2	1.1	3.0	0.9	1.4	0.9	0.7	0.6	0.7	0.6
Investment grants	0.6	0.8	0.8	0.5	0.4	0.3	0.3	0.3	0.4	0.3
Other capital transfers	0.5	0.3	2.2	0.4	1.0	0.6	0.5	0.3	0.2	0.3
Other expenditure	1.8	2.0	2.1	2.2	2.0	2.0	2.1	2.1	2.1	2.1
Final consumption expenditure	**20.5**	**19.8**	**19.5**	**19.7**	**19.3**	**18.9**	**19.0**	**18.8**	**19.4**	**19.7**
Collective consumption	10.0	9.3	8.9	9.1	8.8	8.8	8.8	8.7	8.9	8.9
Individual consumption	10.5	10.5	10.5	10.6	10.5	10.2	10.2	10.1	10.5	10.8

Source: CZSO (2020b), MF CR.

Table A.9: Central Government Expenditure

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenditure	*CZK bn*	**1 262**	**1 271**	**1 345**	**1 280**	**1 333**	**1 410**	**1 407**	**1 450**	**1 574**	**1 717**
	% growth	-0.6	0.8	5.8	-4.8	4.1	5.8	-0.2	3.0	8.6	9.1
Compensation of employees	*CZK bn*	179	172	179	183	190	200	210	231	258	280
	% growth	-1.3	-3.4	3.7	2.4	3.7	5.1	5.3	9.9	11.6	8.5
Intermediate consumption	*CZK bn*	144	139	123	128	131	141	143	140	159	167
	% growth	-2.5	-3.8	-11.3	4.3	2.4	7.3	1.7	-2.3	13.5	5.0
Social benefits other than in kind	*CZK bn*	504	514	544	553	565	579	593	612	645	694
	% growth	1.5	2.1	5.8	1.8	2.1	2.4	2.4	3.3	5.3	7.6
Social transfers in kind	*CZK bn*	4	5	9	12	14	15	14	13	14	17
	% growth	53.3	20.0	83.4	37.2	15.4	1.8	-1.1	-8.7	4.5	24.7
Interest	*CZK bn*	50	52	56	54	55	48	43	37	39	39
	% growth	9.9	2.2	8.9	-4.2	1.9	-12.9	-10.4	-13.6	5.4	0.5
Subsidies	*CZK bn*	33	54	53	57	59	63	65	65	71	78
	% growth	-5.1	64.4	-0.5	6.9	2.7	7.0	3.4	-0.3	10.6	9.1
Gross fixed capital formation	*CZK bn*	107	88	88	76	80	122	92	89	108	128
	% growth	-17.0	-17.4	0.1	-14.2	6.0	52.0	-24.8	-2.7	20.7	19.2
Capital transfers	*CZK bn*	52	53	119	36	56	48	42	34	36	41
	% growth	-5.0	2.4	123.5	-69.3	55.1	-15.1	-13.0	-18.1	5.1	14.5
Other expenditure	*CZK bn*	190	195	174	181	182	196	206	228	244	273
	% growth	6.4	2.8	-10.9	3.9	1.1	7.5	4.8	10.9	7.1	11.5

Source: CZSO (2020b).

Table A.10: Local Government Expenditure

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenditure	*CZK bn*	**509**	**500**	**464**	**472**	**505**	**526**	**494**	**548**	**636**	**680**
	% growth	-0.8	-1.6	-7.2	1.7	6.9	4.2	-6.0	10.9	16.0	6.9
Compensation of employees	*CZK bn*	171	174	177	180	186	194	205	226	258	291
	% growth	2.4	1.5	1.9	1.7	3.3	4.5	5.6	10.4	14.0	12.6
Intermediate consumption	*CZK bn*	143	140	134	140	141	141	146	154	165	170
	% growth	0.6	-1.9	-4.4	4.3	0.7	0.0	4.0	5.5	6.8	3.4
Social benefits other than in kind	*CZK bn*	32	32	11	11	11	12	13	12	13	13
	% growth	6.6	-0.7	-66.3	3.7	-2.9	9.6	7.7	-8.0	11.7	1.9
Social transfers in kind	*CZK bn*	2	3	0	-	-	-	-	-	-	-
	% growth	-16.4	11.1	-99.0	-	-	-	-	-	-	-
Interest	*CZK bn*	2	2	2	1	1	1	1	1	1	1
	% growth	-32.3	-7.5	16.6	-23.3	4.0	-9.2	-19.9	-13.2	19.8	26.4
Subsidies	*CZK bn*	38	38	38	39	41	42	43	45	48	51
	% growth	9.6	-1.0	0.6	2.6	5.3	3.6	1.5	4.8	6.3	7.1
Gross fixed capital formation	*CZK bn*	95	92	81	77	97	114	63	82	116	123
	% growth	-11.7	-2.8	-12.7	-5.1	27.2	17.3	-44.6	28.8	42.8	6.0
Capital transfers	*CZK bn*	12	7	11	10	12	5	5	6	11	5
	% growth	-1.3	-42.1	55.8	-11.2	25.8	-63.4	6.3	23.2	82.0	-54.5
Other expenditure	*CZK bn*	13	14	12	15	15	17	18	22	23	25
	% growth	-1.0	2.2	-15.4	31.5	1.2	9.1	7.8	22.4	5.4	4.6

Source: CZSO (2020b).

Table A.11: Social Security Fund Expenditure

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenditure	*CZK bn*	**224**	**228**	**232**	**229**	**242**	**250**	**262**	**276**	**295**	**322**
	% growth	1.2	1.5	1.7	-1.3	5.9	3.3	4.7	5.3	6.9	9.2
Compensation of employees	*CZK bn*	4	4	4	4	4	4	4	4	5	5
	% growth	-0.2	-2.3	-3.0	-0.6	2.5	4.9	2.6	5.3	8.4	13.3
Intermediate consumption	*CZK bn*	3	3	3	2	2	2	2	2	2	2
	% growth	9.9	-21.5	1.3	-15.8	-0.9	-6.4	-3.5	-7.4	6.4	-2.3
Social benefits other than in kind	*CZK bn*	0	0	0	0	0	0	0	0	0	0
	% growth	0.0	-28.6	-20.0	12.5	-22.2	28.6	11.1	-20.0	50.0	41.7
Social transfers in kind	*CZK bn*	114	116	121	121	125	127	133	139	146	160
	% growth	-0.5	1.8	3.8	0.0	3.7	1.4	5.0	4.4	4.7	9.6
Interest	*CZK bn*	-	0	-	-	-	-	-	0	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Subsidies	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	*CZK bn*	1	1	1	0	1	0	0	0	0	1
	% growth	-15.7	-14.1	-23.7	-59.6	119.0	-22.6	-18.7	-6.3	24.9	86.7
Capital transfers	*CZK bn*	0	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Other expenditure	*CZK bn*	102	104	104	102	110	117	122	130	142	154
	% growth	3.1	2.1	-0.3	-2.1	8.5	5.7	4.7	6.6	9.1	8.5

Source: CZSO (2020b).

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CZK bn										
General government	**-166**	**-110**	**-159**	**-53**	**-90**	**-30**	**34**	**77**	**49**	**15**
Central government	-142	-92	-150	-66	-95	-58	-20	27	9	-33
Local governments	-15	-11	-2	12	8	26	50	42	24	37
Social security funds	-9	-7	-7	1	-3	2	5	8	17	11
% of GDP										
General government	**-4.2**	**-2.7**	**-3.9**	**-1.3**	**-2.1**	**-0.6**	**0.7**	**1.5**	**0.9**	**0.3**
Central government	-3.6	-2.3	-3.7	-1.6	-2.2	-1.2	-0.4	0.5	0.2	-0.6
Local governments	-0.4	-0.3	-0.1	0.3	0.2	0.6	1.0	0.8	0.4	0.6
Social security funds	-0.2	-0.2	-0.2	0.0	-0.1	0.0	0.1	0.2	0.3	0.2

Source: CZSO (2020b).

Table A.13: General Government Debt by Instruments

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General government debt	*CZK bn*	**1 480**	**1 614**	**1 805**	**1 840**	**1 819**	**1 836**	**1 755**	**1 750**	**1 735**	**1 738**
	% growth	12.2	9.0	11.9	1.9	-1.2	0.9	-4.4	-0.3	-0.9	0.2
Currency and deposits	*CZK bn*	11	14	9	9	14	7	9	6	9	5
	% growth	4.3	25.3	-36.1	-5.2	56.2	-48.8	31.1	-35.6	47.0	-40.8
Securities other than shares	*CZK bn*	1 280	1 408	1 603	1 639	1 623	1 648	1 593	1 602	1 554	1 596
	% growth	13.8	10.0	13.9	2.2	-1.0	1.6	-3.4	0.6	-3.0	2.7
Loans	*CZK bn*	188	191	193	192	182	181	153	141	172	138
	% growth	3.0	1.5	0.8	-0.1	-5.3	-0.9	-15.5	-7.4	21.8	-20.0
Central government debt	*CZK bn*	**1 383**	**1 513**	**1 698**	**1 734**	**1 714**	**1 740**	**1 714**	**1 734**	**1 752**	**1 791**
	% growth	13.1	9.4	12.2	2.1	-1.2	1.6	-1.5	1.2	1.0	2.2
Currency and deposits	*CZK bn*	12	14	9	12	19	17	55	74	109	140
	% growth	4.4	25.2	-35.9	31.8	55.3	-11.1	226.6	34.0	47.5	28.6
Securities other than shares	*CZK bn*	1 265	1 394	1 592	1 627	1 613	1 638	1 581	1 591	1 542	1 584
	% growth	14.1	10.2	14.2	2.2	-0.9	1.6	-3.5	0.6	-3.0	2.7
Loans	*CZK bn*	107	105	97	94	82	85	78	70	101	67
	% growth	3.1	-1.9	-7.3	-2.6	-13.6	4.1	-8.5	-9.8	44.3	-33.7
Local government debt	*CZK bn*	**101**	**103**	**113**	**116**	**116**	**111**	**89**	**85**	**84**	**84**
	% growth	1.5	2.6	9.2	3.2	-0.1	-4.8	-19.3	-4.9	-1.1	0.5
Currency and deposits	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Securities other than shares	*CZK bn*	17	15	15	16	13	13	13	13	12	12
	% growth	-0.6	-11.5	2.4	5.0	-17.1	-2.9	-0.4	-0.9	-3.7	-1.2
Loans	*CZK bn*	84	88	97	100	103	98	76	72	72	72
	% growth	1.9	5.4	10.4	3.0	2.6	-5.0	-21.9	-5.6	-0.6	0.8
Social security funds debt	*CZK bn*	**0**	**0**	**0**	**2**	**1**	**1**	**0**	**0**	**0**	**0**
	% growth	-26.4	415.4	-9.0	928.4	-43.1	-41.1	-85.1	213.8	-14.6	-54.8
Currency and deposits	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Securities other than shares	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Loans	*CZK bn*	0	0	0	2	1	1	0	0	0	0
	% growth	-26.4	415.4	-9.0	928.4	-43.1	-41.1	-85.1	213.8	-14.6	-54.8

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. It is expressed in the nominal value, which is considered equivalent to the face value. It is consolidated, i.e. the debt in holding of other subjects of the government sector is omitted.
Source: CZSO (2020b).

Table A.14: General Government Debt by Instruments (in % of GDP)

in % of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General government debt	**37.1**	**39.7**	**44.2**	**44.4**	**41.9**	**39.7**	**36.6**	**34.2**	**32.1**	**30.2**
Currency and deposits	0.3	0.4	0.2	0.2	0.3	0.2	0.2	0.1	0.2	0.1
Securities other than shares	32.1	34.7	39.2	39.6	37.3	35.6	33.2	31.4	28.7	27.8
Loans	4.7	4.7	4.7	4.6	4.2	3.9	3.2	2.8	3.2	2.4
Central government debt	**34.6**	**37.3**	**41.5**	**41.9**	**39.4**	**37.6**	**35.7**	**33.9**	**32.4**	**31.2**
Currency and deposits	0.3	0.4	0.2	0.3	0.4	0.4	1.1	1.4	2.0	2.4
Securities other than shares	31.7	34.3	38.9	39.3	37.1	35.4	33.0	31.1	28.5	27.6
Loans	2.7	2.6	2.4	2.3	1.9	1.8	1.6	1.4	1.9	1.2
Local government debt	**2.5**	**2.5**	**2.8**	**2.8**	**2.7**	**2.4**	**1.9**	**1.7**	**1.6**	**1.5**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Loans	2.1	2.2	2.4	2.4	2.4	2.1	1.6	1.4	1.3	1.3
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. It is expressed in the nominal value, which is considered equivalent to the face value. It is consolidated, i.e. the debt in holding of other subjects of the government sector is omitted.

Source: CZSO (2020b).

Table A.15: General Government Balance and Debt of EU Countries

in % of GDP

	Balance					Debt				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
EU27 [1,3]	-1.4	-0.8	-0.4	-0.5	-8.4	85.8	83.2	81.2	79.2	93.9
EA19 [2,3]	-1.5	-0.9	-0.5	-0.6	-8.8	92.2	89.7	87.7	85.9	101.7
Austria	-1.5	-0.8	0.2	0.7	-9.5	82.8	78.5	74.0	70.5	84.0
Belgium [3]	-2.4	-0.7	-0.8	-1.9	-11.2	105.0	102.0	99.8	98.1	117.7
Bulgaria	0.1	1.1	2.0	1.9	-5.2	29.3	25.3	22.3	20.2	25.4
Croatia	-0.9	0.8	0.2	0.4	-6.6	80.8	77.5	74.3	72.8	86.0
Cyprus	0.3	1.9	-3.5	1.5	-4.5	103.1	93.5	99.2	94.0	113.1
Czech Republic [4]	0.7	1.5	0.9	0.3	-5.8	36.6	34.2	32.1	30.2	38.3
Denmark	0.1	1.8	0.7	3.8	-3.9	37.2	35.9	34.0	33.3	46.3
Estonia	-0.4	-0.7	-0.5	0.1	-6.6	9.9	9.1	8.2	8.4	18.2
Finland	-1.7	-0.7	-0.9	-1.0	-7.7	63.2	61.3	59.6	59.3	70.2
France	-3.6	-3.0	-2.3	-3.0	-10.2	98.0	98.3	98.1	98.1	117.5
Germany	1.2	1.4	1.8	1.5	-6.1	69.3	65.1	61.8	59.6	71.1
Greece	0.5	0.7	1.0	1.5	-8.8	180.8	179.2	186.2	180.5	201.4
Hungary	-1.8	-2.4	-2.1	-2.1	-8.0	74.9	72.2	69.1	65.4	78.4
Ireland	-0.7	-0.3	0.1	0.5	-6.8	74.1	67.0	63.0	57.4	62.4
Italy	-2.4	-2.4	-2.2	-1.6	-10.8	134.8	134.1	134.4	134.7	158.0
Latvia	0.2	-0.8	-0.8	-0.6	-9.4	40.4	39.0	37.1	36.9	51.7
Lithuania	0.2	0.5	0.6	0.3	-8.8	39.7	39.1	33.7	35.9	48.3
Luxembourg	1.9	1.3	3.1	2.4	-7.4	20.1	22.3	21.0	22.0	27.3
Malta	0.9	3.2	2.0	0.5	-9.4	54.5	48.8	45.2	42.6	55.0
Netherlands	0.0	1.3	1.4	1.7	-7.2	61.9	56.9	52.4	48.7	59.1
Poland	-2.4	-1.5	-0.2	-0.7	-11.8	54.2	50.6	48.8	45.7	61.9
Portugal	-1.9	-3.0	-0.3	0.1	-7.0	131.5	126.1	121.5	117.2	133.8
Romania	-2.6	-2.6	-2.9	-4.4	-8.6	37.4	35.1	34.7	35.3	43.6
Slovakia	-2.6	-0.9	-1.0	-1.4	-11.6	52.4	51.7	49.9	48.5	63.0
Slovenia	-1.9	-0.1	0.7	0.5	-8.6	78.5	74.1	70.3	65.6	82.4
Spain	-4.3	-3.0	-2.5	-2.9	-11.2	99.2	98.6	97.4	95.5	117.2
Sweden	1.0	1.4	0.8	0.5	-5.5	42.3	40.7	38.9	35.1	42.6

Note: [1] Without the UK, which has left the EU.

[2] 19 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.

[3] Balance and debt for 2020 according to EC data.

[4] Data for 2020 are based on the current estimate of MF CR.

Source: Eurostat (2020b), EC (2020a).

Table A.16: Transactions of General Government of EU Countries in 2019

in % of GDP

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Collective consumption	Individual consumption	Investments[1]	Interest expenditure
EU27 [2)]	46.1	46.7	10.1	16.2	7.7	12.9	3.0	1.5
EA19 [3)]	46.4	47.1	9.9	16.7	7.6	12.9	2.8	1.6
Austria	49.1	48.4	10.5	17.9	7.1	12.4	3.0	1.4
Belgium	50.1	52.1	12.3	16.9	8.0	15.0	2.6	2.0
Bulgaria	38.2	36.3	10.3	10.6	8.5	8.3	3.4	0.6
Croatia	47.4	47.0	11.8	13.2	9.9	9.8	4.3	2.2
Cyprus	41.5	40.1	12.3	12.7	8.2	8.4	2.4	2.3
Czech Republic	41.6	41.3	10.0	12.3	8.9	10.8	4.4	0.7
Denmark	53.0	49.2	14.9	15.6	7.0	16.8	3.2	0.7
Estonia	39.0	38.9	11.5	11.5	8.5	11.4	5.0	0.0
Finland	52.3	53.3	12.3	18.2	7.7	15.3	4.3	0.8
France	52.6	55.6	12.3	19.5	8.0	15.0	3.7	1.5
Germany	46.7	45.2	7.9	15.8	7.3	13.1	2.5	0.8
Greece	49.0	47.5	11.9	18.9	10.8	8.9	2.5	3.0
Hungary	43.5	45.6	10.1	10.8	10.0	9.7	6.1	2.2
Ireland	25.0	24.5	6.5	6.8	3.8	8.1	2.3	1.3
Italy	47.0	48.6	9.7	20.2	7.9	10.8	2.3	3.4
Latvia	37.8	38.4	10.9	10.7	10.2	8.9	5.0	0.7
Lithuania	34.9	34.6	10.2	12.1	6.9	9.9	3.1	0.9
Luxembourg	44.6	42.2	10.0	15.0	6.5	10.4	4.0	0.3
Malta	37.7	37.2	11.0	8.4	6.2	11.4	3.9	1.4
Netherlands	43.7	42.0	8.2	10.2	7.9	16.6	3.4	0.8
Poland	41.1	41.8	10.3	15.4	8.2	9.8	4.3	1.4
Portugal	42.7	42.7	10.7	16.3	7.4	9.5	1.9	3.0
Romania	31.8	36.1	11.2	11.0	9.7	7.9	3.5	1.2
Slovakia	41.4	42.7	10.2	13.4	10.4	9.2	3.6	1.2
Slovenia	43.8	43.3	11.3	15.2	7.3	11.1	3.8	1.7
Spain	39.2	42.1	10.8	15.8	7.8	11.1	2.1	2.3
Sweden	49.9	49.4	12.6	12.3	7.1	18.7	4.9	0.4

Note: [1)] Gross fixed capital formation.
[2)] Without the UK, which has left the EU.
[3)] 19 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Source: Eurostat (2021a).

B Glossary

Accrual methodology means that economic transactions are recorded at the time an economic value is created, transformed or cancelled or when amounts due or claims increase or decrease, regardless of when the transaction will be paid (unlike the cash principle employed in the budgeting process of the state budget).

Capital transfers include acquisition or loss of an asset without equivalent consideration. They may be made in cash or in kind.

Cash social benefits are social security benefits (e.g. pensions, social welfare benefits) paid out from the government to households.

Compensation of employees is composed of wages and salaries incl. accessories, i. e. contributions paid by employers (social security contributions or other contributions such as the Cultural and Social Needs Fund). This is a component of the final consumption of the general government.

Cyclically adjusted balance of the general government sector is used to identify the fiscal policy stance because it does not include impact of those parts of revenues and expenditures which are generated by the position of the economy in the business cycle.

Discretionary measures are direct interventions of the government in the structure of general government revenue and expenditure.

Government **final consumption expenditure** includes government payments which are subsequently used for consumption of individuals in the household sector (mainly reimbursement of healthcare by health insurance companies for services provided by medical facilities) or they are consumed by the entire society (such as expenditure on army, police, judiciary, state administration, etc.).

Fiscal effort is an annual change in the structural balance indicating expansive of restrictive fiscal policy in a given year.

Fiscal impulse is used to assess the impact of the government's fiscal policy on economic growth. It is usually expressed in annual terms, where a decrease in certain government revenues or an increase in certain government expenditures represents a positive impulse, and an increase in certain revenues or a decrease in certain expenditures represents a negative impulse.

The **general government sector** is defined by internationally harmonized rules at the EU level. In the CR, the general government sector includes, in the ESA 2010 methodology, three main subsectors: central government, local government and social security funds.

Government Deficit and Debt Notification is quantification of fiscal indicators submitted by each EU Member State twice a year to the European Commission, according to the Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, as amended. It is compiled for the general government sector using the accrual methodology. The Czech Statistical Office processes data for the past four years *t−4* to *t−1*; MF CR supplies prediction for the current year *t*. Notification includes a basic set of notification tables, which include mainly key indicators such as balance and debt, including explanations of the link to balance in the national methodology as well as a number of additional questionnaires such as a table of state guarantees, etc.

Gross fixed capital formation expresses net acquisition of fixed capital, i.e. its acquisitions less disposals, achieved by production activities of production and institutional units. It represents investment activities of units.

Intermediate Consumption is a component of the final consumption of the general government and contains the general government purchase of goods and services, which are consumed in the given time period.

Medium-Term Objective (MTO) is expressed in the structural balance and implies long-term sustainability of public finance of the country. For the CR it currently corresponds to the level of structural balance of −0.75% of GDP.

One-off and other temporary operations are measures on the expenditure or revenue side which only have a temporary impact on general government balance, and they often stem from events outside the direct control of the government (e.g. expenditures on removing the consequences of floods).

Output gap is the difference between real and potential product (often expressed as a ratio to potential product). It determines the position of the economy in the business cycle.

Social transfers in kind reflect the value of goods and services provided particularly in the form of health and social care, education, housing. They are mostly in-kind benefits related to the health insurance (amounts for medical devices, medical or dental treatment, surgery, etc.), funded by health insurance companies to those, who provide these goods and services. They are a component of the final consumption of the general government.

Structural balance is the difference between cyclically adjusted balance, and one-off and temporary operations (for both components see above).

C Lists of Thematic Chapters and Boxes of Previous Fiscal Outlooks of the Czech Republic

List of Thematic Chapters of Previous Fiscal Outlooks of the Czech Republic

Published	Topic
November 2013	Excessive Deficit Procedure in EU Member States
November 2014	Long-term Pension Projections
November 2015	Fiscal Impulse Fiscal Framework Reform in the Czech Republic
November 2016	Long-term Projections of Public Expenditure on Health Care
November 2017	Fiscal Councils
November 2019	Proposal for the New EU Fiscal Rule
January 2021	Measures to support the Economy in Response to the COVID-19 Pandemic

List of Thematic Boxes of Previous Fiscal Outlooks of the Czech Republic

Published	Box Topic
May 2013	Box 1: Satellite Account of Public Sector Box 2: The Seventh Enlargement of the European Union – Croatia
November 2013	Box 1: Government Sector Investment in 2009–2012 Box 2: EU Funds and their Uptake Box 3: Floods in 2013
May 2014	Box 1: Drawing of EU Structural Funds in the 2007–2013 Programming Period Box 2: Financial Resources from the 2014–2020 Programming Period
November 2014	Box 1: Basic Changes in General Government Sector Statistics in relation with Transition to ESA 2010 Box 2: Changes in General Government Sector Statistics in the System of National Accounts Box 3: Planned Measures against Tax Evasion Box 4: Impact of New Estimates of Elasticities of Cyclically Sensitive Revenue and Expenditure on the Cyclical Component of Balance
May 2015	Box 1: Expansion of the General Government Sector
November 2015	Box 1: Expansion of the General Government Sector Box 2: Czech Economy Growth and the Tax Revenue Development in 2015 Box 3: Expenditure Rule Technique
November 2016	Box 1: Effect of Supply Factors on Health-Care Expenditure
November 2017	Box 1: Requirements of Directive 2011/85/EU and Regulation No 473/2013 on establishment of national fiscal councils Box 2: Selected recommendations of the European Fiscal Board for the implementation of fiscal policy and public budgeting in the euro-area countries for 2018
November 2018	Box 1: Changes in the Methodical Classification of Certain Revenue and Expenditure of General Government Sector Box2: National Methodology for the Classification of One-off and Other Temporary Measures
November 2019	Box 1: Healthy Ageing Box 2: Pension Expenditure in the CR and EU Member States Box 3: Excluding Specific Items from Expenditure Rules
January 2021	Box 1: Reaction of the Euro area Yield Curve of the Government Bonds on the ECB's measures Box 2 OECD Conclusions in the Review of the Pension System of the Czech Republic Box 3: Selected Studies to prevent the Spread of the Disease and mitigate the Economic Impact Box 4: Temporary Framework for State Aid Measures to support Economy Affected by COVID-19

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