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Fiscal Outlook

of the Czech Republic

May 2012

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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. The Manual can be downloaded at:

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

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

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List of Abbreviations

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

Symbols Used in Tables

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

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 23 March 2012 release, fiscal data to the 11 April 2012 release and data for international comparison to the 23 April 2012 release, respectively.

Note

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

Introduction

There is no doubt that developed economies need to consolidate their public finances. The extent of consolidation, however, along with its speed and timing, is subject to debate and disagreements at the academic level as well as among policy-makers.

The pace of deficit reduction should be determined not only by the size of the imbalance in public finances, but also by current and expected economic output in relation to its potential as well as by the state of other economic imbalances. At the same time, such characteristics as an economy's size, degree of openness, and importance on international financial markets also should be taken into account. The mix of monetary and fiscal policy is no less important. After all, an environment without effective monetary policy cannot sufficiently accommodate fiscal shocks. The external environment, its economic performance, as well as macroeconomic and financial problems also play important roles. Sentiment on financial markets is another specific aspect. The external environment subsequently affects international institutions and such supranational organisations as the European Union. Its members, moreover, are bound by the Stability and Growth Pact, which penalises excessive deficits and debts as well as deviations from the path toward the medium-term budgetary objective. Last but not least, the anticipated extent of borrowing needs and the domestic market's capacity to absorb bond issues are also crucial.

Regardless of the aforementioned, it applies that each consolidation strategy should be executed in a transparent and credible manner while using non-distorting instruments with a lower multiplier effect. For current and especially future economic growth, a strategy would ideally be conducted in such way that would contribute to resolving the structural inadequacies in the given economy.

Finding an optimal economic–political mixture, even while applying it in real time, is *de facto* impossible. Therefore, every government, according to its best conviction, chooses such measures as minimise the negative trade-off between economic growth in the short term and the effects of fiscal consolidation.

On 25 April 2012, the Czech government approved the update of the Convergence Programme of the Czech Republic for 2012–2015 wherein it presented the fiscal policy intentions, realised and planned steps for recovery in the area of public finances, and impacts of structural reforms. It is evident from the consolidation mix that emphasis is given to both sides of the budget. The aim of those measures is a clear, credible strategy for completing the excessive deficit procedure in 2013, achieving the medium-term structural deficit target of 1% of gross domestic product in 2015, and fully balancing the overall general government balance in 2016.

This Fiscal Outlook of the Czech Republic for May is conceived as a supplement to the Convergence Programme. The first chapter outlines the expected macroeconomic development and fiscal consolidation trajectory along with a summary of measures that should ensure it. The data and information in this section are based on the aforementioned Convergence Programme and the Macroeconomic Forecast of the Ministry of Finance of the Czech Republic from April 2012. The two following chapters expand upon the Convergence Programme with a review of the budgetary outcome based on cash-flow methodology, a more detailed analysis of general government finances in the accrual methodology for the previous and current year, and an international comparison. As usual, the Fiscal Outlook also includes an extensive annex of tables, which is also available to readers in MS Excel format on the website of the Ministry of Finance (www.mfcr.cz/FiscalOutlook).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

According to current data, Czech economic output increased in 2011 by 1.7%. On the other hand, year-on-year growth gradually slowed over the course of the year. Moreover, GDP decreased by 0.1% quarter on quarter in Q3 and Q4, and the Czech economy thus found itself in a technical recession. Such small quarter-on-quarter changes in GDP are, however, within the limits of statistical error, and later corrections of quarterly national accounts tend towards higher growth. This phase of the economic cycle can therefore be classified as stagnation. We expect slight GDP growth of 0.2% for 2012, i.e. an effective continuation of stagnation. In 2013, economic output should grow by 1.3% and gradually accelerate to 2.8% in 2015.

Economic expansion should be driven especially by foreign trade through 2013. Meanwhile, household consumption – important from the tax viewpoint – should remain more or less flat. From 2014 onwards, we expect gradual recovery in domestic demand.

We look for consumer prices to grow by some 3.3% for 2012, and the average inflation rate should reach 2.3% in 2013. The development of consumer prices in these years will be significantly affected by VAT changes. In 2014 and 2015, the inflation rate should range closely around the Czech National Bank's inflation target.

The situation on the labour market should reflect the slow economic growth and heightened uncertainty. Employment should decline by 0.5% this year, while for 2013 we expect it to remain at the same level or to rise by a slight 0.1%. Growth in employment should not exceed 0.4% in the later years of the outlook.

The unemployment rate (according to the Labour Force Survey) should climb to 7.0% this year from last year's 6.7%. Unemployment should also rise slightly in 2013. During 2014 and 2015, the unemployment rate should diminish only very slightly.

The wage bill could rise by 1.5% this year and by a further 2.6% in 2013. In the following years, its growth rate should range around the nominal GDP dynamics.

The current account deficit as a proportion of GDP should remain at a low and sustainable level.

Due to the high uncertainty concerning future development in the euro zone, there are significant downside risks for the macroeconomic forecast.

Table 1.1: Main Macroeconomic Indicators (2011–2015)

		2011	2012	2013	2014	2015	2011	2012	2013	2014
		Actual	Forecast and Outlook				November 2011 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	3809	3891	3996	4143	4325	3853	3959	4077	4267
	% growth, s.p.	1.7	0.2	1.3	2.2	2.8	2.1	1.0	2.0	3.3
Private consumption	*% growth, s.p.*	-0.5	-0.4	0.2	2.0	2.8	-0.6	-0.5	1.2	2.5
Government consumption	*% growth, s.p.*	-1.4	-3.7	-0.5	-1.8	-0.2	-1.2	-0.5	-0.2	0.8
Gross fixed capital formation	*% growth, s.p.*	-1.2	-0.5	2.1	2.8	3.2	2.1	1.4	2.8	3.2
Contr. of net exports to GDP growth	*p.p., s.p.*	2.6	2.6	2.6	2.6	2.6	1.7	1.0	0.8	1.2
GDP deflator	*% growth*	-0.7	2.0	1.4	1.4	1.5	0.0	1.7	0.9	1.3
Inflation	*in %*	1.9	3.3	2.3	1.8	2.0	1.9	3.2	1.6	2.1
Employment	*% growth*	0.4	-0.4	0.0	0.2	0.4	0.4	-0.2	0.1	0.5
Unemployment rate	*average in %*	6.7	7.0	7.2	7.1	6.9	6.9	6.9	6.9	6.7
Wages and salaries	*% growth, c.p.*	1.1	1.5	2.6	4.7	4.4	2.3	2.7	2.9	4.7
Current account to GDP ratio	*in %*	-2.9	-2.4	-2.3	-2.2	-2.5	-3.1	-3.3	-3.8	-3.8
Assumptions:										
Exchange rate CZK/EUR		24.6	25.0	24.9	24.7	24.6	24.3	23.9	23.4	22.9
Long-term interest rates	*% p.a.*	3.7	3.4	3.5	3.8	4.0	4.1	4.3	3.8	4.1
Crude oil Brent	*USD/barrel*	111.0	115.4	113.0	115.0	115.3	110.6	106.8	110.5	115.0
GDP in Eurozone EA-12	*% growth, s.p.*	1.4	-0.3	0.7	1.4	1.8	1.7	1.0	1.6	2.0

Note: Figures for employment and unemployment rate are based on Labour Force Survey.
Source: MF CR (2011a), MF CR (2012b).

1.2 Fiscal Policy Objectives

Fiscal consolidation and improvement in the structural parameters of public finances remain fiscal policy priorities for the outlook period. In 2011, due to the severity of consolidation measures and responsible budgetary practices of a number of general government units, the deficit achieved was lower than expected. While the fiscal strategy to date has taken into account a deficit at 4.2% of GDP (Ministry of Finance, 2011a), according to the April fiscal notification the general government deficit was 1.1 p.p. lower. Given this development, the deficit target for 2012 was reduced from 3.5% of GDP to 3.0% of GDP. This year's update of the Convergence Programme (MF CR, 2012a) confirmed the deficit targets of 2.9% of GDP for 2013 and 1.9% of GDP for 2014. A balance target of −0.9% of GDP was established for 2015, while in the following year general government finances should be balanced under the current plan.

If the planned consolidation course is maintained, the excessive deficit procedure should be completed no later than in 2013. At the current estimate for gradually closing the production gap, the approved fiscal trajectory implies that in 2015 the Czech Republic should achieve its medium-term objective (MTO), which is defined as having a structural balance in relation to GDP in the amount of −1.0% of GDP. The deficit trajectory and necessary fiscal effort are presented in Table 1.2. It is clear that the structural balance will need to be reduced by 0.5 p.p. on average this year and in subsequent years in order to reach the defined objective in 2015.

The government's consolidation strategy is based on the EU Council's recommendations (2009, 2011) to decrease the general government deficit to below 3% of GDP by credible and sustainable means before 2013 and to undertake essential reforms in diversifying financing for retirement pensions and health care. Additional long-term financing reforms of tertiary education, science, research and innovation are also being prepared within the outlook horizon. The public administration system is being adjusted to make it more simple, efficient and transparent. Fundamental changes in the area of direct taxes and contributions will occur as from 2014 in connection with creating a Unified Revenue Collection Agency.

Table 1.2: Fiscal Policy Stance (2009–2015)
(in % of GDP, change in structural balance in p.p.)

	2009	2010	2011	2012	2013	2014	2015
General government balance	**-5.8**	**-4.8**	**-3.1**	**-3.0**	**-2.9**	**-1.9**	**-0.9**
Cyclical component	-1.1	-0.6	-0.3	-0.6	-0.7	-0.4	-0.1
One-off and other temporary measures	0.3	0.0	-0.1	-0.3	-0.1	0.0	0.0
Structural balance	-5.1	-4.3	-2.6	-2.1	-2.2	-1.4	-0.8
Change in structural balance	**-1.9**	**0.8**	**1.6**	**0.5**	**-0.1**	**0.8**	**0.6**

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

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

	2013	2014	2015
Total revenue measures	**18.9**	**31.4**	**1.7**
Direct taxes	-11.3	15.9	-0.2
Personal income tax	6.9	8.5	-3.1
Corporate income tax	0.0	-1.5	-5.5
Social security contributions	-18.2	8.9	8.4
Indirect taxes	25.4	16.7	1.9
Value added tax	21.1	6.9	0.9
Excises	4.3	9.8	1.0
Other revenues	4.8	-1.2	0.0
Total expenditure measures	**1.0**	**17.3**	**20.8**
Social benefits	7.8	5.0	8.5
Compensation of employees in government sector	-2.2	-2.0	-2.0
Public sector reforms	5.1	12.9	12.9
Other expenditures	-9.7	1.4	1.4
Total impact on balance	**19.9**	**48.7**	**22.5**
% GDP	0.5	1.2	0.5

Note: Figures in the table represent year-on-year discretional changes that are stemming from all envisaged and approved measures. For further details on discretional measures see MF CR (2012a).
Source: MF CR

In view of the decreased estimate of future economic growth, the aforementioned long-term reforms have been supplemented by a number of features which should prevent the impending increase in public finance deficits and ensure adherence to the deficit trajectory to which the Government committed itself in the Convergence Programme. A number of stabilisation measures affecting both the revenue and expenditure side of general government will thus come into effect especially as from 2013 and 2014. Some measures will be adopted only temporarily, with validity up to 2015 (for more details see MF CR, 2012a).

The fiscal impact of consolidation measures planned for the outlook period should increase from nearly CZK 20 billion in 2013 to over CZK 90 billion in 2015 (always in comparison with 2012). A more detailed structure of discretionary measures is presented in Table 1.3, which indicates that further consolidation of general government budgets will be provided primarily by growth in revenue items. Nevertheless, the proportion of expenditure-side measures in the total consolidating effort will rise during 2013–2015. The most significant measure on the revenue side is the hike in VAT rates. Following the increase in the reduced rate in 2012 to 14%, both rates will be further raised by 1 p.p. to 15% and 21%, respectively, for the period 2013–2015.

On the revenues side, collections of social insurance from persons deciding partially to opt out of the pay-as-you-go system of pensions insurance will decrease starting from 2013. The technical assumption resulting from introducing the private saving pillar of the pension system anticipates a CZK 20 billion loss of revenues. Additional changes in social and medical insurance payments, albeit with considerably lower budgetary impact, will be created by a reform of direct taxes and contributions in connection with introducing the Unified Revenue Collection Agency. In contrast, another change in this area – the introduction of accident insurance – will be systematically modified (see Box 1).

On the spending side, a temporary change in the valorisation formula for pensions for 2013–2015 will have a positive fiscal impact. With increasing intensity over the course of the outlook, savings generated by simplifying agendas, optimising state administration operations, and improving efficiency of the health care and public procurement systems should especially impact on the expenditures side of public budgets. In 2015, these changes should account for total savings of ca CZK 30 billion in comparison to the present state.

Table 1.4: General Government Revenue (ESA 95)

	2011	2012	2013	2014	2015
bn CZK					
Total revenue	**1534**	**1565**	**1605**	**1672**	**1740**
Tax revenue	**727**	**760**	**806**	**841**	**874**
Taxes on production and imports	439	471	497	514	537
Value added tax	263	292	317	329	349
Excise taxes	150	150	154	158	160
Current taxes on income, wealth, etc.	284	287	309	327	337
Personal income tax	149	146	158	167	175
Corporate income tax	132	135	148	152	153
Capital taxes	4	2	0	0	0
Social contributions	**592**	**598**	**593**	**629**	**665**
Property income	**28**	**25**	**21**	**19**	**19**
Other	**187**	**182**	**184**	**184**	**182**
growth in %					
Total revenue	**3.4**	**2.0**	**2.5**	**4.2**	**4.0**
Tax revenue	**5.6**	**4.6**	**6.0**	**4.4**	**3.8**
Taxes on production and imports	3.8	7.4	5.6	3.4	4.4
Value added tax	1.8	11.0	8.3	4.0	5.8
Excise taxes	8.2	0.0	2.8	2.5	1.2
Current taxes on income, wealth, etc.	6.8	1.2	7.5	5.9	3.0
Personal income tax	10.2	-2.1	8.5	5.7	4.8
Corporate income tax	3.4	2.5	9.3	2.8	0.5
Capital taxes	1826.9	-46.4	-89.6	1.0	1.0
Social contributions	**2.5**	**0.9**	**-0.8**	**6.0**	**5.7**
Property income	**-8.2**	**-11.7**	**-13.7**	**-13.3**	**2.7**
Other	**-0.1**	**-2.7**	**1.1**	**-0.3**	**-0.9**
Tax burden *% of GDP*	**34.6**	**34.9**	**35.0**	**35.5**	**35.6**

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

Box 1: Accident Insurance – Current State of Affairs

The Employee Accident Insurance Act No. 266/2006 Coll. was approved already in 2006, but has not yet come into effect. Due to organisational, technical, personnel and financial reasons, effectiveness of the Accident Insurance Act was postponed by two years to 1 January 2010. A further postponement to 1 January 2013 was implemented by an amendment to the Act in 2009. The purpose of postponement was to resolve the stated problems and to define the area to enable the Ministry of Finance in cooperation with the Ministry of Labour and Social Affairs to create a new system of social accident insurance without burdening the state budget.

Compensation for occupational illnesses and injuries is currently regulated by Act No. 262/2006 Coll., the Labour Code, as subsequently amended, in transitional provisions. The reason for this is that the Accident Insurance Act which should replace that legislation was being prepared at the same time as was the new Labour Code replacing the original Labour Code with effect as from 1 January 2007.

Due to the date of the Accident Insurance Act's effectiveness being gradually pushed back to 1 January 2013, based on the Government Legislative Work Plan for 2011 (Resolution No. 69) the Ministry of Labour and Social Affairs acceded to an amendment of the Accident Insurance Act with the intention to respond to legal developments and to remove errors in the Act. The proposed extensive amendment of the Act within the amendment procedure elicited a negative reaction from social partners as well as a number of experts, and thus it was decided not to adopt the Act in the presented form. The Government Legislative Council, Council for Economic and Social Agreement and Conference of Economic Ministers expressed similar views.

Considering the statement of the Government Legislative Council and conclusions of the Conference of Economic Ministers and the Council for Economic and Social Agreement, on 21 March 2012 the government rejected the proposed amendment to the Employee Accident Insurance Act and delegated the Minister of Labour and Social Affairs, in cooperation with the Minister of Finance, to prepare and present to the government before 21 May 2012 a proposal for an act abolishing the act in question and, in consequence, amending related regulations. The government concurrently tasked the Minister of Finance and Minister of Labour and Social Affairs with presenting an analysis of the issue within six months, along with a proposal of a new practical solution.

Table 1.5: General Government Expenditure (ESA 95)

	2011	2012	2013	2014	2015
CZK bn					
Total expenditure	**1652**	**1681**	**1721**	**1749**	**1778**
Final consumption expenditure	**793**	**779**	**785**	**783**	**794**
Collective consumption	387	364	365	357	361
Individual consumption	406	415	420	426	433
Social benefits in kind	228	225	229	233	237
Transfers of individual non-market goods and services	178	190	191	194	196
Social transfers other than in kind	**531**	**553**	**565**	**578**	**593**
Interest	**53**	**59**	**63**	**71**	**75**
Subsidies	**77**	**74**	**75**	**76**	**76**
Gross fixed capital formation	**139**	**141**	**145**	**151**	**159**
Other	**59**	**76**	**88**	**90**	**81**
Compensation of employees	**278**	**281**	**283**	**280**	**282**
Total social transfers	**759**	**778**	**793**	**811**	**830**
growth in %					
Total expenditure	**-0.8**	**1.8**	**2.4**	**1.6**	**1.7**
Final consumption expenditure	**-1.8**	**-1.8**	**0.8**	**-0.2**	**1.4**
Collective consumption	-2.9	-5.9	0.2	-2.1	1.1
Individual consumption	-0.8	2.2	1.3	1.5	1.6
Social benefits in kind	2.3	-1.1	1.6	1.8	2.0
Transfers of individual non-market goods and services	-4.5	6.5	0.8	1.2	1.2
Social transfers other than in kind	**2.0**	**4.0**	**2.2**	**2.3**	**2.6**
Interest	**3.0**	**11.6**	**7.5**	**11.9**	**6.3**
Subsidies	**7.8**	**-3.6**	**1.0**	**1.0**	**1.0**
Gross fixed capital formation	**-15.3**	**1.3**	**3.2**	**4.1**	**5.3**
Other	**19.7**	**28.3**	**16.2**	**1.8**	**-10.2**
Compensation of employees	**-2.7**	**1.1**	**0.7**	**-1.0**	**0.5**
Total social transfers	**2.1**	**2.5**	**2.0**	**2.2**	**2.4**

Source: MF CR.

2 Public Finances – ESA 95 Methodology

2.1 General Government Sector in 2011

In 2011, the general government balance reached CZK –117.9 billion, representing –3.1% of GDP. General government finances therefore improved by a significant 1.7 p.p. in comparison with 2010. After adjusting for cyclicality and one-off operations, fiscal effort in 2011 reached 1.6 p.p.

The **development of the revenues side in 2011** reflected the improved state of the economy and positive impacts of a number of discretionary measures, as total revenues rose by 3.4% compared to 2010. Total tax revenues including social insurance, which is to say more than 90% of overall revenues, increased by approximately 4.2%.

Revenues from the value added tax grew by approximately 1.8% in comparison to 2010, and the resulting development thus generally corresponds to the development of the macroeconomic base of this tax. No major legislation was approved in 2011, as only minor amendments with no significant fiscal impacts (domestic reverse-charge, etc.) were adopted.

Revenues from excise taxes increased by over 8% versus 2010, and their dynamics notably exceeded the growth in real consumption, which should correlate significantly with excise taxes. One reason for this is the increase in the tax on tobacco products in 2012, which led to stockpiling, and the second significant reason is the taxation of photovoltaic power station operators, which was first collected in 2011.

The personal income tax underwent a number of legislative changes in 2011, and as a result total revenues increased by over 10%. The most significant impact on collections came from decrease in a taxpayer credit by CZK 100 per month (relating to past flood-damage measures). Other measures (such as cancellation of the tax exemption on early retirement contributions for members of the armed forces and public security personnel, cancellation of the tax exemption on interest from deposits in a building savings scheme, cancellation of the exemption on reimbursements of expenses by state authority representatives) had a significantly lower fiscal impact.

The collection of corporate income tax rose by 3.4% compared to 2010. This tax did not undergo any significant legislative change besides the exemption on licencing fees and cancellation of the 50% tax discount for companies employing people with disabilities, with a total negative impact on the revenues side of approximately CZK 2.6 billion. The temporary introduction of accelerated depreciation from 2009 continued to have a positive effect on collections. It is expected that 2012 will be the last year when the lingering of this measure will have a positive effect. The corporate income tax's macroeconomic base – the gross operating surplus – grew by 0.5% in 2011.

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

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

General government revenues recorded growth of 3.5%, reflecting the 25% growth in motorway toll rates. Other current and capital transfers remained approximately at the 2010 level, comprised mainly of EU funds used to finance various projects on the spending side. Investment grants are used primarily to finance gross fixed capital formation. The impact of EU funds on the general government balance, however, is determined only by the amount of domestic co-financing.

General government expenditure dropped by 0.8% in 2011, representing similar dynamics as in 2010. This development is due to a number of austerity measures on the expenditures side.

General government consumption declined by 1.8%. This reflects efforts to implement an austere budget policy, especially in the area of payment policy and intermediate consumption (mainly purchases of goods and services). Government consumption is an important part of the consumption perspective on GDP, and therefore this undoubtedly is a negative impulse for the economy.

The most significant savings are apparent in intermediate consumption, which decreased by 4.9% year on year. This is the result of overall savings across the sector, especially in the form of current non-mandatory expenditures.

Salary expenditures were down 2.7% year on year due especially to reducing the wage bill in the regulated sector (except for constitutional officials and educators) by 10% and decreasing salaries of constitutional officials by 9%. The increased wages of educators and physicians, on the other hand, had a negative impact. The latter, however, does not have a direct effect on compensations to general government employees, as most hospitals are not in the general government sector. Despite the 10% cut in the wage bill, the total decline in compensations to employees was significantly lower, as the decrease in wages only concerned the central government (i.e. the subsector upon which the government has a direct influence in most cases). Local budgets did not participate much in austerity measures, and wage expenditures in this area remained approximately at the 2010 level.

In the social area, social benefits and pensions increased by 2%. Two opposing effects were at work here. On the one hand, social security benefits grew by a relatively significant 4% due to a marked rise in the number of pensioners. On the other hand, cash social assistance benefits declined by 4% due primarily to legislative changes in the social system. Such changes included, for example, a measure to reduce the childbirth allowance, adjustment of parental benefits, cancellation of the social allowance, reduction of the contribution for care in social services, and extension of the employer's payment of sick pay, with a total impact of nearly CZK 13 billion.

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

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

2.2 General Government Sector in 2012

The current estimate of the general government deficit for 2012 is CZK 117 billion, or 3.0% of GDP. Compared to the latest estimate from the January Macroeconomic Forecast, the resulting deficit improved by 0.8 p.p. The most important change is inclusion of the government-approved expenditure freeze amounting to nearly CZK 24 billion to the notified estimate.

Against 2011, the resulting deficit should only improve by 0.1 p.p. Due to the higher negative output gap expected in 2012, however, fiscal effort should reach 0.5 p.p.

On the revenues side (Table 2.1), we expect growth to slow to 2% in 2012, while tax revenues will probably rise by 3%.

Among tax revenues, the most significant gain is expected in VAT, for which we expect 11% higher income than in the preceding year. The main reason for this is the rise in the reduced VAT rate from 10% to 14%. Greater VAT income in relation to the higher excise tax on tobacco also has a certain, albeit lower, impact (VAT is paid from the price including excise tax).

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

	2006	2007	2008	2009	2010	2011	2012
General government revenue	**39.6**	**40.3**	**38.9**	**39.1**	**39.3**	**40.3**	**40.2**
tax revenue	**19.4**	**19.8**	**18.6**	**18.4**	**18.2**	**19.1**	**19.5**
individual income tax	4.2	4.3	3.7	3.6	3.6	3.9	3.7
corporate income tax	4.6	4.7	4.2	3.5	3.4	3.5	3.5
value added tax	6.2	6.2	6.6	6.8	6.9	6.9	7.5
excise taxes	3.6	3.9	3.3	3.7	3.7	3.9	3.9
other taxes and contributions	0.8	0.8	0.8	0.7	0.8	0.9	1.0
social security contributions	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**	**15.5**	**15.4**
sales	**2.4**	**2.6**	**2.7**	**2.8**	**2.6**	**2.7**	**2.6**
other revenues	**2.1**	**2.1**	**2.1**	**3.0**	**3.2**	**3.0**	**2.8**

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

Practically no change is expected for excise taxes this year. Although rates have increased, a drop in real household and government consumption is also forecast for 2012, and this year's collection will also very probably be affected by last year's stockpiling.

A 2.1% decrease is expected for personal income tax collections. This is due primarily to raising the child credit by CZK 1,800 annually to compensate for increasing the reduced VAT rate.

Corporate income tax collections should grow by 2.5%, as any legislative changes in this area were purely marginal. The lingering anti-crisis measures from 2009 in the form of accelerated depreciation will have a positive impact on collection for the last time. The gross operating surplus is expected to grow by 1.4%.

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

Social security contributions will rise by 0.9%, which is very close to the growth of wages and salaries in the overall economy. Two legislative changes approximately identical in amounts and largely offsetting one another are relevant in this area. The first is the amendment of the Health Insurance Act, extending the range of persons insured in this system to include statutory bodies of companies. The second is reduction of the ceiling for social insurance from 72 back to 48 times the average wage.

A slight decrease by 4.2% is expected for investment grants (EU funds) after a relatively long period of continuous growth. Unlike last year, this decrease is also reflected on the expenditures side in government investments. A relatively moderate decrease is expected in other revenue items (especially sales and other current transfers).

Following a two-year decline in general government outlays, a 1.8% rise is expected this year. We expect a decrease of 1.8% in expenditures on government final consumption once again this year (see Table 2.2). This represents yet another negative impulse for the economy, although the effect should not be at all dramatic given the openness of the economy.

Intermediate consumption (i.e. especially operating expenditures for the operation of the state apparatus excluding wages) will contribute most to the decrease in final consumption. It is expected to drop by 4.6%. The main reason is the government-approved expenditure freeze of CZK 23.6 billion. Significant budget savings in operating expenses have thus been ongoing for three years, and can be expected to continue also in the coming years. However, the increase of the reduced VAT rate has the opposite effect on government intermediate consumption, where government purchases of taxed goods and services will lead to a rise in intermediate consumption. Nevertheless, this will not have an effect on the general government balance.

In contrast to 2011, this year we expect a slight rise in wage expenditures in the government sector of about 1.1%. This will be influenced especially by an increase in the salaries of judges and state prosecutors and the announced boost in wages of educators. Due to significant consolidation efforts, it remains a question whether the assumption for growth in payments to educators will turn out to be justified for 2012.

Social benefits in kind (especially health insurance companies' costs for health care), as one of the components of government final consumption, will decrease by 1.1%. This will be influenced by the rise in physicians' wages (most physicians are not in the government sector, and the increase in their wages is thus reflected in general government expenditures via higher spending on health care) and by such austerity measures in the health care system as changes in categorisation for levels of hospital care, increase in the fee for staying in hospital, and changes in co-payments for medication. The total impact represents savings of CZK 3.1 billion.

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

	2006	2007	2008	2009	2010	2011	2012
General government expenditure	**42.0**	**41.0**	**41.1**	**44.9**	**44.1**	**43.4**	**43.2**
government consumption	20.7	19.8	19.7	21.6	21.4	20.8	20.0
social benefits other than social transfers in kind	12.2	12.5	12.4	13.6	13.8	14.0	14.2
gross fixed capital formation	4.5	4.2	4.6	5.1	4.3	3.6	3.6
other expenditure	4.6	4.6	4.4	4.5	4.6	5.0	5.4

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

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

An increase of 4.0% is expected for social benefits, owing to a rise in monetary social security benefits. In this area, we anticipate further growth in the number of pensioners, and moreover the number of pensioners from the second half of last year will be fully reflected in the entire period.

Growth is also expected for monetary social assistance benefits. In the social area, only slight adjustments were approved this year, with a total negative impact of approximately CZK 3 billion on the government sector. In particular, these adjustments concern an increase of the subsistence minimum, amendment of the Social Services Act, and amendment of the Act on State Social Support.

For government investments, we anticipate a slight increase by approximately 1.3% after two consecutive significant drops. It can be expected that due to the better-than-expected general government finances government units will cease maintaining reserves for priority financing of European funds and likewise that a considerable portion of previously postponed investment activities will need to be carried out sooner or later. Due to a slight decrease in investment grants on the revenues side, investment growth is expected to stem from national sources, which in the following years should also replace to a certain extent the gradually decreasing funds received from the EU.

The largest deficit will of course occur in the central government subsector, and in particular due to the state budget, which should end with a deficit of CZK 106.6 billion, representing 2.7% of GDP. This is an expected improvement versus 2011 on the order of approximately CZK 6 billion, which represents 0.1 p.p.

The local government balance should reach CZK −6.6 billion, which is −0.2% of GDP and an improvement of CZK 3.1 billion in comparison with last year. Similarly, the social security funds balance should improve by CZK 2.8 billion, and thus will probably reach CZK −3.8 billion this year.

The main risks to the estimate for 2012 consist especially in the inclusion of the property settlement vis-à-vis churches. If the relevant act were approved this year, CZK 59 billion would have to be included into the deficit all at once. The church settlement, however, involves only the methodological recording of financial settlement under the ESA 95 system, which in no way relates to a cash flow. A second significant risk is presented by current problems in financing selected European projects. A rather considerable risk in this case is that some funds already invested will not be paid back to the Czech Republic. Based on the ESA 95 methodology, an accrual grant has already been ascribed to such realised expenditures for the year in which the given expenditure occurred. In case of non-reimbursement, it will be necessary to cancel this revenue grant and worsen the general government deficit by the given amount. Other risks for the 2012 estimate appear to be balanced.

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

	2006	2007	2008	2009	2010	2011	2012
General government balance	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**	**-3.1**	**-3.0**
Central government balance	-2.4	-1.5	-2.4	-5.0	-4.1	-2.6	-2.7
Local government balance	-0.3	0.4	-0.1	-0.6	-0.5	-0.3	-0.2
Social security funds balance	0.4	0.4	0.3	-0.3	-0.2	-0.2	-0.1
Primary balance	**-1.3**	**0.4**	**-1.2**	**-4.5**	**-3.4**	**-1.7**	**-1.5**

Source: CZSO (2011b). Year 2011 MF CR.

Box 2: Stability and Growth Pact versus the Treaty on Stability Coordination and Governance in the EMU

At the turn of 2011 and 2012, the budgetary monitoring and coordination of fiscal policies of EU member countries was significantly strengthened. First, in December, the set of six regulations, the so-called “six-pack”, became effective, thereby reinforcing and extending the preventive and corrective component of the Stability and Growth Pact. This set of regulations also defines new possibilities for sanctions which, in combination with their more automatic imposition, should ensure a higher level of fiscal discipline across EU states. In early March of this year, the representatives of all EU member states (with the exception of the Czech Republic and United Kingdom) ratified the Treaty on Stability Coordination and Governance in the Economic and Monetary Union. These two important legal measures have practically similar objectives: to make government sector finances sustainable over the long term by ensuring the general government deficit is maintained within the maximum 3% of GDP, even in case of usual cyclical fluctuation. However, the mechanisms ensuing from the two legal measures and which should ensure the reaching of these targets are different.

The "six-pack"

Not only does the "six-pack" reinforce fiscal supervision by the EU, it also establishes supervision over possible macroeconomic imbalances in the individual member states. As part of the EU's secondary legislation, these regulations concern all its members, with the exception of the sanctions for budgetary misbehaviour and sanctions attached to the compulsory measures forcing the remedy of excessive macroeconomic imbalances, which relate only to euro zone countries.

Even upon applying the "six-pack" of measures into the rules of the Stability and Growth Pact, the basic instrument for ensuring fiscal discipline remains the duty of each member state to define the Medium-Term Objective (MTO) and move towards it. MTO is defined as structural balance, albeit in a cyclically adjusted manner without one-off and temporary measures. While MTOs are specific for the individual states, each country needs to provide itself sufficient leeway beneath the 3% deficit limit in relation to GDP. MTOs ensure the sustainability of public finances or swift progression towards sustainability. The newly accepted regulations should especially provide for better enforceability towards maintaining the MTO, as it has been more clearly defined when there occurs "serious divergence" from the MTO and/or from the path to its gradual achievement. Among the euro zone countries, a serious divergence by such country newly represents a trigger for the European Commission to initiate a sanction procedure.

The obligation to uphold the MTO was accompanied for all countries by a requirement for cautious growth in government sector spending, which should generally be lower than the growth rate of potential product (i.e. the expenditure rule) and for member states for which the government sector deficit exceeds the reference rate of 60% of GDP a duty to decrease over-limit debt by 1/20 per year now applies (the debt rule). For more details, see for example MF CR (2012c).

Sanctions ensuing from failure to observe the rules of the revised Stability and Growth Pact will now be applicable to euro zone countries already when they diverge from the MTO in the form of an obligation to make an interest-bearing deposit immediately when the excessive deficit correction procedure is initiated (upon exceeding 3% of GDP). In the most extreme phase of the excessive deficit procedure, a one-off fine may reach the amount of 0.5% of the given state's GDP. When voting on most sanctions, the "six-pack" introduces the rule of inverse majority, which means the sanction proposed by the Commission will be accepted unless at least a qualified majority of the member states votes against the proposal. This automation of the entire sanction process should further boost the probability of imposing sanctions on fiscally undisciplined states of the euro zone, which has not been occurring previously.

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Treaty)

In contrast to the "six-pack", this treaty (for the full wording see Council of the EU, 2012) is part of the EU legal framework, but it is an international treaty joined by 25 EU states to date. Moreover, the obligations arising under the treaty are binding for all members of the euro zone. Other signatory countries will be bound by the treaty only when they adopt the common currency, or when they themselves voluntarily accede to selected provisions of the treaty.

The Fiscal Treaty is founded on the requirement that the contracting parties incorporate into their internal bodies of law rules which already have been largely embodied in EU legislation for a number of years. These are especially the aforementioned principles of the Stability and Growth Pact, including the measures adopted within the "six-pack". Therefore, the contracting parties' bodies of law should reflect two crucial rules (preferably on the level of constitutional provisions):

- A duty to achieve balanced or surplus budgets. Compliance with this rule will be regarded as having a structural balance conforming to that defined by the MTO and simultaneously having a structural deficit that does not exceed 0.5% of GDP. If a state achieves a general government debt significantly lower than 60% and risks to the long-term sustainability of its public finance are low, then the structural deficit may be higher but still may not exceed 1% of GDP.
- An automatic corrective mechanism which activates in case a contracting party diverges from the MTO or from the path to its gradual attainment. The mechanism is based upon implementing pre-defined corrective measures. The aim is that initiation of these corrective measures should not be dependent upon politicians' ad hoc decisions, but, rather that, if possible, they would have an automated and binding character, thus creating a distinct pressure when the budgets are compiled.

Although the obligation to decrease the over-limit debt by 1/20 per year (i.e. to conform to the debt rule under the Stability and Growth Pact) is also part of the treaty, it does not define the duty to implement this rule into the internal body of law. The balanced budget rule, however, should fully substitute for the absence of a debt brake.

The internal bodies of law must specify concrete methods which will be applied in case of departure from the binding objectives. The fiscal treaty thus partially shifts responsibility to the individual member states for the monitoring of fiscal policy and upholding the common limits, whereas to date that has been only at the EU level. For this purpose we also presume that independent institutions will arise in the member states which will monitor compliance with the budgetary rules, further increasing the transparency and enforceability of the entire process.

The fiscal treaty will come into effect on 1 January 2013 should it be ratified by at least 12 countries of the euro zone. From the time of the treaty's coming into effect, the states will have a period of one year to incorporate the required rules into national legislation. Fulfilment of the obligation to reflect the measures in the internal binding regulation is, based on the petition of any contracting party, to be examined by the European Court of Justice, which may in case of ongoing non-conformity impose a fine of up to 0.1% of GDP against the offending country.

In the area of fiscal monitoring, the Treaty does not *de facto* bring stricter rules for fiscal policies of the individual member countries of the EU and the euro zone. Incorporating the existing (since 1997) rule for maintaining a balanced budget into national bodies of law of the contracting states should, nevertheless, ensure its acceptance by European countries and ensure their observance, insofar as if the governments and parliaments do not respect it, they would be in violation of their own (constitutional) laws.

Besides fiscal rules, the treaty likewise makes stricter and automates the budget supervision procedure. During an excessive deficit procedure, a state would present a budgetary and economic programme containing a detailed description of structural reforms for sustainable remedy of the excessive deficits. The treaty also contains provisions according to which the countries of the euro zone will support the proposals and recommendations of the Commission to escalate the corrective process for a country that has exceeded the criterion of the permitted deficit, unless a qualified majority of the states is against this.

For the sake of completeness, we must add that, apart from fiscal questions, the Treaty also endeavours to extend coordination of economic policies within the EU. This should be supported by the discussion of all crucial national reform measures at the level of EU bodies. Moreover, plans for issuance of bonds should be coordinated. Crucial questions of economic policy will be discussed at least twice per year at informal meetings by representatives of the contracting parties that have ratified the Treaty.

Table Box 2: Comparison of the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance in the EMU

	Stability and Growth Pact	**Fiscal Treaty**
Type of legal norm	Secondary EU legislation	International treaty
Participating states	All EU member states	Signatory states
Binding force	All EU member states	Countries of the euro zone and other countries signing voluntarily
Main importance	Increasing pressure to achieve healthy public finances (MTO), increasing supervision over debt development, broadening and automating of sanctions	Transfer of EU's fiscal rules into the internal bodies of law of euro zone countries
Fiscal rule:		
short-term deficit	Deficit must not exceed 3% of GDP	-
short-term expenditure	Year-on-year growth of expenditures must not surpass growth in the economy's potential	-
medium-term	Medium-term budgetary objective, structural balance not to exceed –1% of GDP* Obligation to endeavour gradually to achieve the medium-term budgetary objective, with a minimal pace of progress equal to 0.5 p.p. of GDP per year*	Medium-term budgetary objective, structural balance not to exceed –0.5% of GDP (or –1% of GDP for countries with debt significantly less than 60% of GDP) Obligation to endeavour gradually to achieve the objective. In case of serious divergence from the objective or the path to it, the obligation to automatically implement corrective measures
debt	For states whose debts exceed the 60% of GDP reference value, the obligation to decrease the over-limit debt by an average rate of 1/20 per year (always calculated for the last 3 years)	For states whose debts exceed the 60% of GDP reference value, the obligation to decrease the over-limit debt by an average rate of 1/20 per year (always calculated for the last 3 years)
Reason for initiating a sanction procedure	Failure to abide by fiscal rules	Insufficiently incorporating fiscal rules into the internal body of law
Body deciding on compliance with rules and potentially imposing sanction	European Commission, European Council	European Commission, signatory states, European Court of Justice
Type of sanction	Interest-bearing deposit/non-interest-bearing deposit/fine (euro zone countries) Suspension of payments from the Cohesion Fund (EU cohesion states)	Fine
Amount of sanction	Deposits and fines of up to 0.5% of GDP, Suspension of payments without limits	Up to 0.1% of GDP
Validity	From 13 December 2011	From 1 January 2013 if ratified by at least 12 states of the euro zone

*Note.: *) only for euro zone countries and the ERM II exchange rate mechanism.*
Source: MF CR.

General government debt rose by 9.1% to CZK 1,567.8 billion, representing 41.2% of GDP, and thus exceeded the "psychological threshold" of 40%. At the end of 2012, the general government debt is expected to reach CZK 1,713.7 billion, representing 44% of GDP. The growth will be similar to that in 2011.

With its debt of CZK 1,614.6 billion expected at the end of the year, the central government subsector accounts for the greatest proportion of the general government debt. The local government subsector is second, with a debt surpassing the level of CZK 100 billion by CZK 1 billion. The social security funds subsector shows zero to negligible indebtedness. The majority of its obligations stems only from business relationships and thus does not affect the debt.

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

	2006	2007	2008	2009	2010	2011	2012
General government debt	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**	**44.0**
Central government debt	25.9	25.6	26.4	31.8	35.6	38.6	41.5
Local government debt	2.6	2.4	2.4	2.6	2.6	2.6	2.6
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

	2006	2007	2008	2009	2010	2011	2012
Gross debt	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**	**44.0**
Change in gross debt	-0.1	-0.3	0.8	5.7	3.7	3.1	2.9
Decomposition of change in gross debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP growth	**-2.0**	**-2.4**	**-1.3**	**0.8**	**-0.3**	**-0.3**	**-0.9**
General government net lending(+)/borrowing(-)	**2.4**	**0.7**	**2.2**	**5.8**	**4.8**	**3.1**	**3.0**
Other factors	**-0.5**	**1.3**	**-0.1**	**-1.0**	**-0.8**	**0.4**	**0.7**
Difference between cash and accrual	0.5	0.0	-1.5	0.8	-0.4	1.1	1.1
Net accumulation of financial assets	-0.8	1.4	1.3	-1.7	-0.3	-0.9	-0.4
privatisation proceeds	0.0	0.3	0.6	0.1	0.0	0.0	0.0
Revaluation and other factors	-0.2	-0.1	0.1	-0.1	-0.2	0.1	0.0

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

2.3 International Comparison

2.3.1 General Government Balance

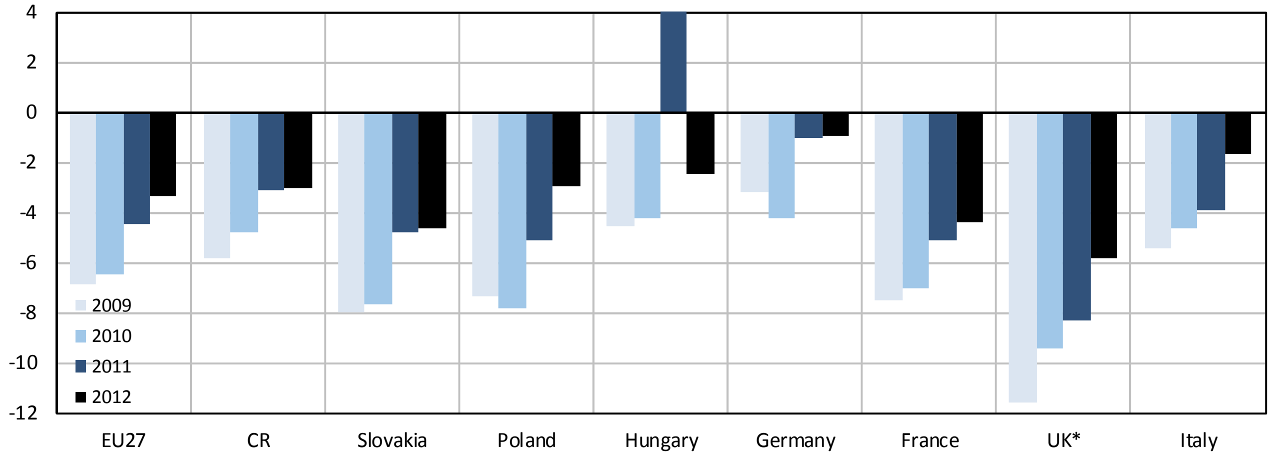
In 2011, the general government balance of the EU27 countries reached an unfavourable value of –4.5% of GDP. Reflecting the gradual economic recovery, however, this was 2.0 p.p. better than in 2010. With its deficit at 3.1% of GDP, the Czech Republic finds itself better than the EU27 average.

Ireland recorded the poorest general government balance in 2011 with a double-digit deficit of 13.1% of GDP (due to worsening in the balance by over a quarter in absolute terms, there was a negative revision of 3.1 p.p. versus the previous notification). This amount is no longer influenced by the state's financial injection into the banking sector but by the central government's primary working balance (in essence cash balance at the level of the state budget and state funds). Greece (9.1%), Spain (8.5%), the UK (8.3%), Slovenia (6.4%) and Cyprus (6.3%) also had high deficits in relative terms. Estonia and Sweden both recorded surpluses in 2011, although minimal ones. Moreover, Hungary achieved a rather unexpected result with a record-breaking positive balance of 4.3% of GDP (the surplus improved by 0.4 p.p. versus the previous notification). This is the result not of strictly conservative Hungarian fiscal policy, but rather of an adjustment in the balance for expenditures designated for pension reform totalling approximately HUF 2.3 trillion (over EUR 7.5 billion). Without this adjustment, Hungary would have recorded a deficit of ca 3.8% of GDP, i.e. around the same level as Belgium and Italy. In 2011, 17 EU countries, including the Czech Republic, did not meet the deficit criterion of the Stability and Growth Pact which stipulates a maximum 3% of GDP.

All EU27 countries are expecting general government deficits in 2012. The highest deficits should once again be in Ireland (8.2% of GDP), in now also politically unstable Greece (6.7% of GDP), and followed by the UK (5.9% of GDP), Spain (5.3% of GDP) and previously disciplined Denmark. Denmark's perhaps surprising expected deficit of 5.4% of GDP is caused by its deteriorated primary working balance, which is further deepened by ca 0.7 p.p. due to higher tax refunds.

Due to the persisting economic problems, 10 EU countries expect deficits exceeding 3% in 2012 (see Table B.15 in the annex). According to current expectations, the Czech Republic along with Austria and Lithuania are at the very border of the limit. As compared to 2011, 8 countries are expected to record worse results for general government finances in relative terms – Denmark, Sweden, Finland, Estonia, Luxembourg, Austria, Hungary and Poland. It is interesting to note that with the exception of two of these countries all are essentially fiscally disciplined.

Graph 2.1: General Government Balance in Selected EU Countries (2009–2012)
(in % of GDP)



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

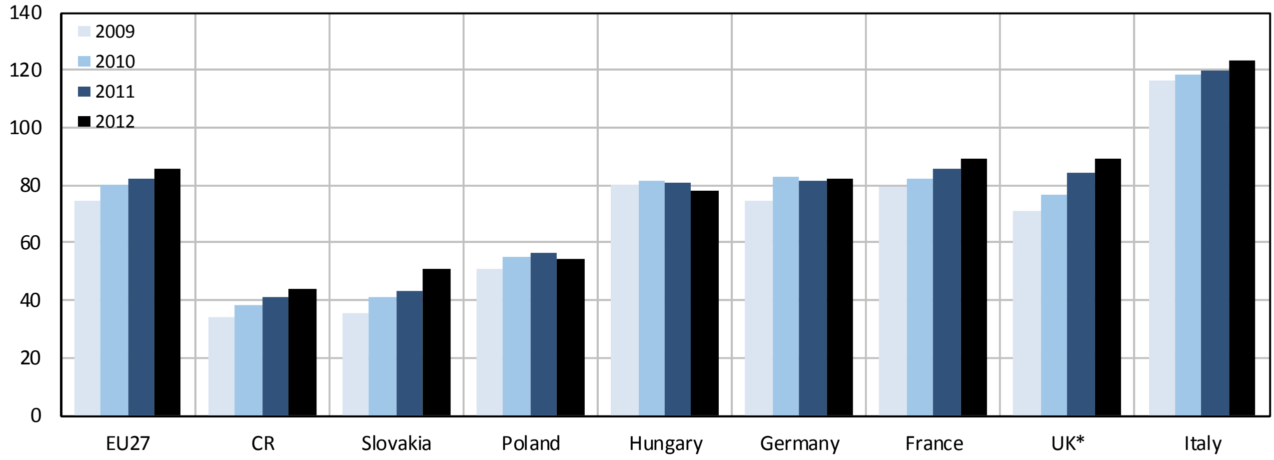
2.3.2 General Government Debt

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

Based on the government debt indicator, the Czech Republic is still relatively well off, but the acceleration in its growth dynamics in the last two years is alarming.

The most indebted EU27 country is Greece (165.3% of GDP in 2011 and 155.3% of GDP in 2012). Although the debt is expected to be reduced in absolute terms by over 11% in 2012, this reduction is greatly influenced by private creditors' forgiving a substantial portion of the total government debt. On the other hand, there is of course the unfavourable GDP development which prevents any chance for improvement. Its direction going forward probably will be determined by results of the next election (17 June 2012) and the resulting coalition potential. Other countries not able to cover their general government debts even with the entirety of their annual GDP traditionally include Italy and, relatively recently, also Ireland and Portugal. Belgium was just below this level in 2011 and 2012. The "leading" EU countries, i.e. Germany, France and the UK, are doing only slightly better. The debt indicator is developing favourably in Sweden and Estonia, while in the latter its total amount in relation to GDP is easily the lowest and is the only one in single digits. The majority of EU countries are recording a sharp relative worsening in their volumes of debt. During 2008–2012, this trend can be most markedly seen in the Baltic countries Lithuania and Latvia, as well as in Ireland, Romania and Slovenia (see Table B.15 in the annex). In 2011 and 2012, the Maastricht debt criterion would not be satisfied by 14 countries, i.e. a slight majority of EU countries.

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



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

3 Public Finances – GFS 2001 Methodology

This chapter presents data on public budgets under the Government Finance Statistics 2001 standard (hereinafter "GFS 2001").

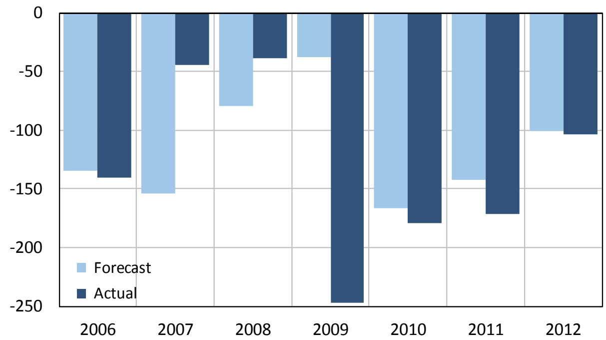
3.1 Public Budgets in 2011

Based on the updated data, **the public budgets balance** (the equivalent of the previously stated balance without net loans under GFS 1986 methodology) reached CZK −171.4 billion in 2011, or −4.5% of GDP. In comparison with the budget documentation for the Czech Republic's State Budget Act for 2011, the deficit was CZK 29.1 billion higher. This result in public budget balances was the third worst in the history of the Czech Republic, after 2009 and 2010.

Graph 3.1 shows a comparison of the expected and actually achieved results in public budget balances during 2006 to 2011 and the currently expected deficit for 2012.

Graph 3.1: Public Budget Balance (2006–2012)

(CZK bn)



Source: MF CR.

The public budget deficit slightly decreased year on year (by CZK 8.1 billion). Those consolidation measures implemented had a positive impact especially on the expenditures side, while the revenues side was also partially strengthened by measures adopted in 2010. The wage bill in the state administration was reduced, certain social benefits were cancelled and limited in extent, and general cuts were also made in the state budget among non-mandatory expenditures. Year-to-year improvement is especially evident in the state budget (by CZK 13.3 billion), while health insurance companies also recorded a slight improvement (by CZK 1.7 billion). In contrast, local budgets worsened year on year, as their financial results shifted from a slight surplus to deficit. Extra-budgetary funds recorded similar development, albeit with even greater deterioration.

The development of revenues continued on a slightly rising trajectory, but a significant slowdown was recorded. While in 2010 the total revenues volume increased by 2.8%, in 2011 it rose by only 0.5%. Revenues as a proportion of GDP dropped by 0.2 p.p. year on year in 2011. Expenditures remained essentially level year on year (a decrease of 0.1%) and fell by 0.4 p.p. as a proportion of GDP. Compared to the assumptions in the budget documentation, revenues were CZK 91.4 billion lower. Approximately three-quarters of this stems from non-fulfilment of expected revenues from the EU, while other revenues were lower especially due to the persisting unfavourable economic situation.

In comparison with the budget approved for 2011, total tax revenues of public budgets showed worse development. Including the social security contributions, they were CZK 23.0 billion under budget, but increased by 2.5% year on year. Revenues from personal and corporate income taxes and, to a lesser extent, those from VAT did not achieve the expected amounts. The collection of contributions to social security also remained unfulfilled, though only minimally. Although their volume rose slightly year on year, as in the case of taxes it did not reach the pre-crisis level from 2008. One of the causes of non-fulfilment for these revenues is the decrease in macroeconomic bases. The current economic situation and the recession of past years have evidently resulted in lower collection of personal income tax. For the value added tax, the expectation of a higher collection due to the assumed increase in completed constructions was not realised. Collections of excise taxes and property taxes were higher in comparison to the budgetary documentation. Within the structure of tax revenues, the share of indirect taxes is maintaining a growth trend.

Total public budget expenditures also were not fulfilled in comparison with the approved budget. These were CZK 62.3 billion lower and their volume decreased by CZK 1.3 billion year on year, i.e. by 0.1% (versus last year's decrease of 1.8%). Expenditures for operating activities were CZK 38.1 billion lower as compared to the budget documentation. The remaining savings were generated by purchasing fewer fixed assets. Significant savings were recorded in costs related to repaying the public budget debt. Although interest payments increased by CZK 5.7 billion in comparison to 2010 (corresponding to a year-on-year increase by 13.5%), in comparison with the budget documentation they were CZK 22.0 billion lower. This decrease is influenced especially by the Czech Republic's improved credibility, resulting in a lower risk premium. Government consumption decreased in 2011: compensation of employees by 6.8% (by CZK 9.9 billion) and use of goods and services by 9.1% (by CZK 13.0 billion). The main portion of expenditures (over 60%) is still realised by current transfers and social benefits.

According to the budget documentation for 2011, the **state budget deficit** was expected to reach CZK 136.6 billion. The actual result was CZK 7.9 billion worse (i.e. CZK 144.5 billion). State budget revenues were CZK 35.7 billion lower than budgeted, while expenditures also failed to reach the budgeted amount by CZK 27.8 billion. The State Agricultural Intervention Fund recorded worse results in comparison with the budget documentation (a deficit of CZK 1.2 billion instead of a balanced budget), while the State Housing Support Fund showed a negligible deepening of its deficit. Extra-budgetary funds as a whole performed better than originally expected, as did municipal governments and health insurance companies.

The slight decrease in the public budget deficit also caused a slowdown in year-on-year growth dynamics of debt. The volume of **loans and state bonds** was CZK 1,565.1 billion, i.e. 41.1% of GDP. Indebtedness increased by CZK 138.7 billion year on year, representing a 3.3 p.p. increase relative to GDP. Although the year-on-year growth dynamics of the public debt slowed by 3.7 p.p. to 9.7%, this does not change the fact that this indicator has remained markedly high for several years. The negative development of this indicator is influenced especially by expenditure trends established in previous years as well as by the results of the past crisis. As in previous years, the year-on-year growth in state debt remained slightly higher than the total growth in public debt, reaching 10.4%. This slightly increased the weight of state debt in total public indebtedness, which reached 93.2%. Debt service costs constitute a continuing burden on the expenditures side of public budgets, totalling CZK 47.8 billion in 2011.

3.2 Public Budgets in 2012

Further consolidation effort is anticipated also in 2012, with a focus on both the revenues and expenditures sides of public budgets. An updated outlook of their finances is included in the government-approved earmarking of expenditures amounting to CZK 23.6 billion. The consolidation effort should result in a considerable year-on-year decrease especially in the state budget deficit.

In a year-on-year comparison, we may expect the public budget balance to decrease by CZK 67.4 billion to CZK 104.0 billion (2.7% of GDP). This can be regarded as a significantly positive signal. The decline in the deficit results from the expected considerable year-on-year increase in revenues and only slight growth in expenditures. The expected development of the deficit and public budget debt continues to reflect the fact that the Czech economy will likely stagnate in 2012 in comparison to the previous year. Due to the year-on-year improvement in most public budget entities' finances, more positive development trends should be recorded in the total result for public finances.

Revenues will increase by 8.0% year on year (CZK 114.7 billion) and expenditures only by 3.0% (CZK 47.3 billion). Revenues from EU funds and tax revenues should also show positive development. The latter should grow by 4.8% year on year, i.e. by CZK 33.8 billion (including social security contributions by 3.5%, i.e. by CZK 43.9 billion). VAT collection should register the greatest increase due to the rise in the reduced VAT rate by 4 p.p. Its year-on-year growth should reach CZK 23.0 billion, i.e. 8.5%. Excise tax revenues will grow only slightly (1.1%, i.e. CZK 1.6 billion). Overall, indirect taxes should develop considerably better than direct taxes, with expected growth of 7.5%. Income from the personal income tax should increase by 1.3% and that from the corporate income tax by 2.4%. Total direct tax collections will grow by 1.1% year on year.

On the expenditures side, other current expenditures are expected to record the highest year-on-year increase (by 18.8%). These include, for example, transfers to non-profit institutions serving households, funds for repairing the impacts of natural disasters, as well as interest on debt (which should increase by 20.7% year on year).

The **state budget deficit** should decrease by CZK 65.0 billion to CZK 79.5 billion in comparison with 2011. A relatively significant year-on-year increase in revenues is expected (by CZK 98.9 billion), especially due to improved collection of tax revenues and growth in the volume of resources drawn from European funds. State budget expenditures should increase by CZK 34.0 billion year on year. The state budget deficit should be CZK 26.9 billion lower as compared to the budget documentation. Health insurance companies are expected to reduce their deficits by CZK 1.3 billion year on year to CZK 3.8 billion, while municipal governments should also do so by CZK 0.9 billion to CZK 0.5 billion. The financial results of state funds, on the other hand, should markedly worsen by a total of CZK 7.3 billion to CZK 15.5 billion.

As compared to the original objectives of the budget documentation for the 2012 state budget proposal, we expect the public budget balance to be higher by CZK 3.0 billion. Total public budget revenues should decrease by CZK 8.8 billion, while expenditures should decrease by CZK 5.8 billion. According to current estimates, the largest positive deviation on the revenues side should be recorded in grants from international organisations (resources from EU funds) in the form of an increase by CZK 16.9 billion. Tax revenues, on the other hand, will be CZK 13.9 billion lower (by CZK 24.1 billion including the social security premium) according to the new estimate. The main cause will be the lower-than-expected collection of indirect taxes (by CZK 11.3 billion for VAT and by CZK 1.7 billion for excise taxes). Direct taxes also will show a slight deviation, while the collection of taxes on special services (in the Czech Republic, these are levies on proceeds from the operation of lotteries and gambling machines) is expected to improve by CZK 4.6 billion. Among expenditures, considerably positive development is expected for interest (by CZK 17.9 billion) as well as for transfers to financial institutions, while capital expenditures should increase considerably (by CZK 20.5 billion).

The expected volume of loans and government bonds will increase by CZK 142.5 billion year on year to CZK 1,707.6 billion. Debt should increase by 9.1% in comparison to 2011, representing slightly lower growth than in the previous year. Debt expressed as a proportion of GDP will increase by 2.8 p.p. to 43.9% in comparison to 2011. The weight of state budget in total public indebtedness will again increase slightly, reaching 93.8%. However, its year-on-year dynamics in comparison to 2011 will slow by 0.6 p.p. to 9.7%.

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

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A Annex of Tables – GFS 2001 Methodology

Table A.1: Consolidated General Government – Revenue

(CZK bn)

	2005	2006	2007	2008	2009	2010	2011
Total revenue	**1190**	**1248**	**1391**	**1478**	**1384**	**1423**	**1430**
Revenue from operating activities	1176	1233	1377	1461	1355	1401	1418
Taxes	**626**	**638**	**716**	**743**	**660**	**691**	**706**
Taxes on income, profits, and capital gains	287	279	318	331	255	261	257
Payable by individuals	142	137	151	143	128	131	134
Payable by corporations and other enterprises	145	142	166	188	127	130	123
Taxes on property	13	13	16	16	14	16	20
Taxes on goods and services	325	346	382	396	391	413	425
Value added tax[1]	202	213	230	249	248	264	269
Excises	111	120	139	133	131	138	147
Social contributions	**446**	**473**	**522**	**548**	**510**	**517**	**533**
Social security contributions	431	457	505	530	496	503	519
Employee contributions	147	113	123	130	114	117	120
Employer contributions	255	316	346	365	338	349	359
Self-employed or nonemployed contributions	27	27	33	33	39	35	37
Other social contributions	15	16	17	18	14	14	14
Grants	**32**	**36**	**47**	**60**	**80**	**85**	**74**
From international organizations	32	36	47	60	79	85	73
Current	24	20	23	27	33	36	40
Capital	7	16	24	34	46	48	33
Other revenue	**73**	**86**	**92**	**110**	**106**	**108**	**105**
Property income	**18**	**22**	**23**	**34**	**34**	**35**	**30**
Interest	5	6	7	10	7	7	3
Dividends	7	10	10	16	19	20	19
Sales of goods and services	**32**	**37**	**41**	**43**	**43**	**44**	**48**
Sales of market establishments	17	20	19	19	20	20	22
Administrative fees	15	16	21	24	23	24	25
Fines, penalties, and forfeits	**4**	**5**	**5**	**4**	**5**	**5**	**4**
Voluntary transfers other than grants	**13**	**12**	**13**	**12**	**15**	**16**	**13**
Miscellaneous and unidentified revenue	**6**	**10**	**9**	**17**	**9**	**8**	**11**
Sales of nonfinancial assets	**14**	**15**	**14**	**17**	**29**	**22**	**12**
Fixed assets	8	9	7	10	9	10	6
Nonproduced assets	6	6	7	8	19	12	6

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

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

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

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

Table A.3: Consolidated General Government – Expenditure

(CZK bn)

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

Source: MF CR.

Table A.4: Consolidated General Government – Expenditure

(in % of GDP)

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

Source: *MF CR.*

Table A.5: Consolidated General Government – Balance

(CZK bn, % of GDP)

	2005	2006	2007	2008	2009	2010	2011
CZK bn							
Cash deficit/surplus	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**	**-171**
Fiscal targeting cash deficit/surplus[1]	**-56**	**-101**	**-38**	**-37**	**-230**	**-151**	**-131**
Deficit / surplus of operating balance[2]	-36	-57	31	40	-158	-94	-90
Deficit / surplus of primary balance	-78	-107	-7	6	-198	-137	-124
% of GDP							
Cash deficit/surplus	**-3.3**	**-4.2**	**-1.2**	**-1.0**	**-6.6**	**-4.8**	**-4.5**
Fiscal targeting cash deficit/surplus[1]	**-1.8**	**-3.0**	**-1.1**	**-1.0**	**-6.1**	**-4.0**	**-3.4**
Deficit / surplus of operating balance[2]	-1.2	-1.7	0.9	1.0	-4.2	-2.5	-2.4
Deficit / surplus of primary balance	-2.5	-3.2	-0.2	0.1	-5.3	-3.6	-3.2

Source: *MF CR.*

Table A.6: General Government Balance Structure

(CZK bn)

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

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

Table A.7: Fiscal Targeting Balance Structure

(CZK bn)

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

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

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

(CZK bn)

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

Source: MF CR.

Table A.9: Consolidated General Government – Debt

(CZK bn, % of GDP)

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

Source: MF CR.

B Annex of Tables – ESA 95 Methodology

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

Table B.1: General Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**1003**	**1164**	**1185**	**1239**	**1328**	**1476**	**1499**	**1462**	**1484**	**1534**
Current taxes on income, wealth, etc.	224	247	268	276	296	330	308	272	266	284
Social contributions 1)	398	421	453	482	525	577	599	560	578	592
Taxes on production and imports 2)	266	285	326	343	353	395	407	415	423	439
Capital taxes 3)	1	1	1	1	1	0	0	0	0	4
Property income	29	23	22	21	25	27	30	31	31	28
Interest	21	16	13	12	12	15	11	9	8	6
Other property income	8	7	9	9	13	13	19	22	23	22
Sales 4)	68	78	78	80	82	95	103	104	99	102
Other current transfers and subsidies	14	18	28	26	26	24	22	27	33	33
Investment grants	1	3	3	5	14	15	27	50	53	51
Other capital transfers	2	88	7	5	5	13	3	3	3	1
% growth										
Total revenue	**6.9**	**16.1**	**1.8**	**4.6**	**7.2**	**11.2**	**1.5**	**-2.4**	**1.5**	**3.4**
Current taxes on income, wealth, etc.	10.2	10.2	8.3	3.1	7.3	11.5	-6.9	-11.7	-2.2	6.8
Social contributions 1)	8.5	5.9	7.4	6.5	8.8	9.9	3.9	-6.6	3.2	2.5
Taxes on production and imports 2)	3.5	7.2	14.4	5.2	3.0	11.9	2.9	2.0	1.9	3.8
Capital taxes 3)	8.9	15.6	-28.1	18.5	9.2	-42.4	-44.8	-8.2	-3.4	1826.9
Property income	9.6	-18.8	-6.2	-5.9	23.1	7.2	11.9	3.2	-2.2	-8.2
Interest	35.6	-23.6	-19.4	-7.5	3.4	18.3	-24.5	-17.5	-14.7	-18.4
Other property income	-27.6	-6.1	22.7	-3.6	50.2	-3.3	53.9	15.0	2.9	-4.8
Sales 4)	5.4	13.5	0.5	2.7	2.5	15.9	8.2	1.2	-5.2	3.5
Other current transfers and subsidies	7.6	27.7	53.2	-7.1	-2.7	-7.8	-8.2	26.0	20.7	0.1
Investment grants	71.8	201.5	10.1	62.8	187.1	1.0	86.1	84.7	5.0	-3.9
Other capital transfers	-62.2	4160.8	-92.3	-21.8	2.3	147.0	-78.0	-3.0	5.7	-52.5
% of GDP										
Total revenue	**39.1**	**43.3**	**40.4**	**39.8**	**39.6**	**40.3**	**38.9**	**39.1**	**39.3**	**40.3**
Current taxes on income, wealth, etc.	8.7	9.2	9.1	8.9	8.8	9.0	8.0	7.3	7.0	7.5
Social contributions 1)	15.5	15.7	15.5	15.5	15.7	15.7	15.6	15.0	15.3	15.5
Taxes on production and imports 2)	10.3	10.6	11.1	11.0	10.5	10.8	10.6	11.1	11.2	11.5
Capital taxes 3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Property income	1.1	0.9	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.7
Interest	0.8	0.6	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2
Other property income	0.3	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.6
Sales 4)	2.7	2.9	2.7	2.6	2.4	2.6	2.7	2.8	2.6	2.7
Other current transfers and subsidies	0.6	0.7	1.0	0.8	0.8	0.6	0.6	0.7	0.9	0.9
Investment grants	0.0	0.1	0.1	0.2	0.4	0.4	0.7	1.3	1.4	1.3
Other capital transfers	0.1	3.3	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.0

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

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

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

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

Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Taxes and social contributions	**889**	**954**	**1047**	**1102**	**1175**	**1303**	**1314**	**1246**	**1266**	**1319**
Current taxes on income, wealth, etc.	**224**	**247**	**268**	**276**	**296**	**330**	**308**	**272**	**266**	**284**
individuals or households	115	125	136	138	139	156	143	136	135	149
corporations	107	119	129	135	154	171	162	132	127	132
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	2	3	2	3	3	3	3	3	3	3
Social security contributions	**398**	**421**	**453**	**482**	**525**	**577**	**599**	**560**	**578**	**592**
Actual social contributions	398	421	452	482	524	576	599	559	577	592
of employers	256	271	290	309	332	364	380	350	368	378
of employees	90	95	101	108	117	128	133	112	117	120
of self- and non-employed persons	52	56	61	65	75	85	86	97	93	94
Imputed social contributions	0	0	0	0	0	0	0	1	1	1
Taxes on production and imports	**266**	**285**	**326**	**343**	**353**	**395**	**407**	**415**	**423**	**439**
Taxes on products [1)]	253	271	313	330	340	381	392	401	406	422
VAT	155	164	202	211	209	227	255	254	259	263
Excises	80	88	99	111	121	143	126	137	138	150
Other taxes on products [2)]	18	20	11	9	10	12	12	9	9	9
Other taxes on production [3)]	13	13	13	13	13	14	14	14	16	16
Capital taxes	**1**	**1**	**1**	**1**	**1**	**0**	**0**	**0**	**0**	**4**
% growth										
Taxes and social contributions	**7.4**	**7.4**	**9.7**	**5.2**	**6.6**	**10.9**	**0.8**	**-5.1**	**1.6**	**4.2**
Current taxes on income, wealth, etc.	**10.2**	**10.2**	**8.3**	**3.1**	**7.3**	**11.5**	**-6.9**	**-11.7**	**-2.2**	**6.8**
individuals or households	9	9	9	1	1	12	-9	-5	-1	10
corporations	13	11	8	5	14	11	-5	-18	-4	3
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	-31.9	12.1	-7.1	17.4	5.0	4.8	0.2	3.1	0.8	-3.5
Social security contributions	**8.5**	**5.9**	**7.4**	**6.5**	**8.8**	**9.9**	**3.9**	**-6.6**	**3.2**	**2.5**
Actual social contributions	8.5	5.9	7.4	6.5	8.9	9.9	3.9	-6.7	3.3	2.5
of employers	8.4	5.8	7.0	6.5	7.7	9.4	4.5	-7.9	5.1	2.7
of employees	8.4	5.9	6.8	6.9	7.6	9.5	4.4	-15.8	4.2	2.8
of self- and non-employed persons	9.1	6.2	10.4	5.6	16.5	12.6	0.7	13.0	-4.1	1.4
Imputed social contributions	2.4	17.5	36.6	-1.5	2.0	-26.2	-4.7	190.5	-27.5	1.5
Taxes on production and imports	**3.5**	**7.2**	**14.4**	**5.2**	**3.0**	**11.9**	**2.9**	**2.0**	**1.9**	**3.8**
Taxes on products [1)]	3.6	7.4	15.2	5.5	2.9	12.2	3.0	2.1	1.4	3.9
VAT	3.9	5.9	23.0	4.2	-0.8	8.6	12.3	-0.3	1.9	1.8
Excises	3.6	10.0	13.4	11.4	9.4	17.9	-11.5	8.8	0.9	8.2
Other taxes on products [2)]	0.5	8.4	-41.6	-22.4	11.5	17.8	-0.5	-20.0	-3.8	-0.6
Other taxes on production [3)]	2.0	3.4	-1.7	-1.7	4.2	5.2	-1.1	1.3	14.7	0.7
Capital taxes	**8.9**	**15.6**	**-28.1**	**18.5**	**9.2**	**-42.4**	**-44.8**	**-8.2**	**-3.4**	**1826.9**

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

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

(in % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Taxes and social contributions	**34.6**	**35.5**	**35.7**	**35.4**	**35.0**	**35.6**	**34.1**	**33.3**	**33.5**	**34.6**
Current taxes on income, wealth, etc.	**8.7**	**9.2**	**9.1**	**8.9**	**8.8**	**9.0**	**8.0**	**7.3**	**7.0**	**7.5**
individuals or households	4.5	4.7	4.7	4.4	4.2	4.3	3.7	3.6	3.6	3.9
corporations	4.2	4.4	4.4	4.3	4.6	4.7	4.2	3.5	3.4	3.5
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	**15.5**	**15.7**	**15.5**	**15.5**	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**	**15.5**
Actual social contributions	15.5	15.7	15.4	15.5	15.6	15.7	15.6	14.9	15.3	15.5
of employers	10.0	10.1	9.9	9.9	9.9	9.9	9.9	9.4	9.7	9.9
of employees	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.1	3.2
of self- and non-employed persons	2.0	2.1	2.1	2.1	2.3	2.3	2.2	2.6	2.5	2.5
Imputed social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	**10.3**	**10.6**	**11.1**	**11.0**	**10.5**	**10.8**	**10.6**	**11.1**	**11.2**	**11.5**
Taxes on products [1)]	9.8	10.1	10.7	10.6	10.1	10.4	10.2	10.7	10.8	11.1
VAT	6.0	6.1	6.9	6.8	6.2	6.2	6.6	6.8	6.9	6.9
Excises	3.1	3.3	3.4	3.5	3.6	3.9	3.3	3.7	3.7	3.9
Other taxes on products [2)]	0.7	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Other taxes on production [3)]	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Capital taxes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**

Source: CZSO (2012b).

Table B.4: Central Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**702**	**835**	**830**	**845**	**900**	**1006**	**1013**	**970**	**989**	**1031**
Current taxes on income, wealth, etc.	160	177	192	184	198	221	204	180	177	189
Social contributions	263	277	300	319	343	376	392	352	365	374
Taxes on production and imports	223	239	270	272	283	319	320	328	332	347
Capital taxes	1	1	1	1	1	0	0	0	0	4
Property income	22	17	14	14	18	19	22	24	24	21
Sales	24	28	28	29	30	38	40	38	41	43
Other revenue	10	97	25	27	28	32	35	48	50	52
% growth										
Total revenue	**3.9**	**19.0**	**-0.6**	**1.7**	**6.6**	**11.7**	**0.7**	**-4.2**	**2.0**	**4.3**
Current taxes on income, wealth, etc.	5.8	10.4	8.6	-4.2	7.7	11.9	-7.8	-11.8	-1.7	6.6
Social contributions	7.8	5.5	8.3	6.2	7.5	9.8	4.3	-10.4	3.7	2.7
Taxes on production and imports	1.4	7.1	13.1	0.7	3.8	12.8	0.2	2.6	1.4	4.4
Capital taxes	8.9	15.0	-28.7	18.8	10.0	-42.6	-45.7	-10.4	-2.7	1899.1
Property income	-0.8	-23.3	-14.8	-1.2	30.6	5.9	10.8	9.8	0.6	-9.9
Sales	4.3	15.5	-0.4	2.9	3.8	26.4	6.0	-4.4	6.8	6.4
Other revenue	-34.8	918.3	-73.8	4.3	7.2	10.9	10.3	38.3	4.1	3.4

Source: CZSO (2012b).

Table B.5: Local Government Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**269**	**328**	**348**	**352**	**376**	**410**	**416**	**431**	**430**	**421**
Current taxes on income, wealth, etc.	64	70	76	92	98	109	103	92	89	95
Social contributions	0	0	0	0	0	0	0	0	0	0
Taxes on production and imports	42	46	56	71	70	76	87	87	90	92
Capital taxes	-	0	0	0	0	0	0	0	0	0
Property income	7	6	7	6	7	7	7	7	6	6
Sales	44	50	50	51	52	57	63	66	58	59
Other revenue	111	157	160	132	148	160	155	179	186	169
% growth										
Total revenue	**13.7**	**22.3**	**6.1**	**1.2**	**6.7**	**9.0**	**1.5**	**3.6**	**-0.2**	**-2.0**
Current taxes on income, wealth, etc.	23.2	9.7	7.7	21.8	6.6	10.7	-5.0	-11.4	-3.0	7.1
Social contributions	-40.0	4.2	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6	4.3
Taxes on production and imports	16.3	7.3	21.7	27.3	-0.3	8.2	13.8	0.1	3.7	1.7
Capital taxes	-	-	80.0	0.0	-55.6	0.0	50.0	83.3	-18.2	77.8
Property income	79.0	-3.1	17.4	-15.5	5.6	6.3	5.8	-10.8	-4.7	-1.1
Sales	6.7	12.6	1.0	2.6	1.8	10.0	9.6	4.7	-12.1	1.5
Other revenue	8.4	40.5	1.9	-17.4	12.4	8.0	-3.1	15.6	3.9	-9.3

Source: CZSO (2012b).

Table B.6: Social Security Funds Revenue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total revenue	**136**	**146**	**159**	**170**	**185**	**203**	**211**	**211**	**216**	**220**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	135	144	153	163	182	200	207	208	213	218
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	0	0	0	0	0	1	1	1	1	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	1	2	6	6	2	2	2	2	2	2
% growth										
Total revenue	**9.1**	**7.2**	**8.8**	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**	**2.1**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	9.9	6.7	5.9	7.1	11.4	10.0	3.2	0.4	2.6	2.2
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	-31.0	-32.7	-8.6	22.1	30.0	75.3	111.3	-23.9	-46.2	-20.3
Sales	-65.4	-25.4	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	0.9
Other revenue	-37.0	132.0	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5	5.1

Source: CZSO (2012b).

Table B.7: General Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**1171**	**1344**	**1268**	**1340**	**1407**	**1503**	**1584**	**1680**	**1665**	**1652**
Compensation of employees	192	214	222	238	252	269	280	293	286	278
Intermediate consumption	173	196	193	206	211	219	228	238	235	223
Social benefits other than in kind [1)]	333	345	359	375	408	456	477	509	521	531
Social benefits in kind	145	153	163	170	174	187	199	219	222	228
Property income	30	28	32	34	35	40	40	48	51	53
Interest	29	28	32	34	35	40	39	47	51	53
Other property income	0	0	0	0	0	0	0	0	0	0
Subsidies	56	67	57	53	60	61	62	75	71	77
Gross fixed capital formation	79	182	123	132	150	153	176	192	164	139
Capital transfers [2)]	138	124	86	152	119	79	104	90	91	90
Investment grants [3)]	38	37	37	36	38	37	36	34	33	37
Other capital transfers	100	88	50	116	81	42	68	56	58	53
Other expenditure	26	35	31	-20	-4	40	18	16	23	33
Final consumption expenditure	**557**	**610**	**630**	**667**	**694**	**726**	**759**	**809**	**807**	**793**
Collective consumption [4)]	276	310	302	336	349	363	380	399	399	387
Individual consumption	281	300	328	331	345	363	380	410	409	406
% growth										
Total expenditure	**8.9**	**14.8**	**-5.7**	**5.7**	**5.0**	**6.8**	**5.3**	**6.1**	**-0.9**	**-0.8**
Compensation of employees	10.8	11.8	3.7	7.1	6.1	6.4	4.1	4.7	-2.5	-2.7
Intermediate consumption	13.2	12.9	-1.4	6.5	2.9	3.4	4.2	4.6	-1.4	-4.9
Social benefits other than in kind [1)]	6.8	3.8	4.1	4.5	8.7	11.8	4.5	6.8	2.3	2.0
Social benefits in kind	13.9	5.5	6.7	4.0	2.1	7.8	6.1	10.3	1.5	2.3
Property income	23.9	-4.5	12.3	7.7	3.8	12.8	-0.9	20.2	7.6	3.0
Interest	23.9	-4.5	12.3	7.7	3.7	12.8	-0.9	20.2	7.7	3.0
Other property income	50.0	-25.4	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9	-10.0
Subsidies	-13.1	19.7	-14.3	-7.4	13.4	1.0	2.4	20.0	-4.5	7.8
Gross fixed capital formation	6.4	131.4	-32.2	7.4	13.6	1.6	15.2	8.9	-14.5	-15.3
Capital transfers [2)]	1.7	-9.9	-30.3	76.0	-21.6	-34.2	32.8	-13.8	1.7	-1.3
Investment grants [3)]	31.9	-3.0	1.1	-3.5	7.4	-3.4	-2.0	-5.7	-3.8	12.0
Other capital transfers	-6.3	-12.5	-43.4	135.1	-30.4	-48.7	63.7	-18.2	5.0	-8.7
Final consumption expenditure	**11.9**	**9.5**	**3.3**	**5.9**	**4.0**	**4.6**	**4.6**	**6.6**	**-0.2**	**-1.8**
Collective consumption [4)]	13.4	12.3	-2.3	11.2	3.9	3.8	4.7	5.0	-0.1	-2.9
Individual consumption	10.4	6.8	9.1	1.1	4.1	5.3	4.5	8.1	-0.4	-0.8

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

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

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

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

Source: CZSO (2012b), MF CR.

Table B.8: General Government Expenditure

(in % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total expenditure	**45.6**	**50.0**	**43.3**	**43.0**	**42.0**	**41.0**	**41.1**	**44.9**	**44.1**	**43.4**
Compensation of employees	7.5	8.0	7.6	7.6	7.5	7.3	7.3	7.8	7.6	7.3
Intermediate consumption	6.8	7.3	6.6	6.6	6.3	6.0	5.9	6.4	6.2	5.9
Social benefits other than in kind	13.0	12.8	12.3	12.0	12.2	12.5	12.4	13.6	13.8	14.0
Social benefits in kind	5.7	5.7	5.6	5.5	5.2	5.1	5.2	5.9	5.9	6.0
Property income	1.2	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4
Interest	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	2.2	2.5	2.0	1.7	1.8	1.7	1.6	2.0	1.9	2.0
Gross fixed capital formation	3.1	6.8	4.2	4.3	4.5	4.2	4.6	5.1	4.3	3.6
Capital transfers	5.4	4.6	3.0	4.9	3.6	2.1	2.7	2.4	2.4	2.4
Investment grants	1.5	1.4	1.3	1.1	1.1	1.0	0.9	0.9	0.9	1.0
Other capital transfers	3.9	3.3	1.7	3.7	2.4	1.1	1.8	1.5	1.5	1.4
Other expenditure	1.0	1.3	1.1	-0.7	-0.1	1.1	0.5	0.4	0.6	0.9
Final consumption expenditure	**21.7**	**22.7**	**21.5**	**21.4**	**20.7**	**19.8**	**19.7**	**21.6**	**21.4**	**20.8**
Collective consumption	10.7	11.5	10.3	10.8	10.4	9.9	9.9	10.7	10.6	10.2
Individual consumption	11.0	11.2	11.2	10.6	10.3	9.9	9.9	11.0	10.8	10.7

Source: CZSO (2012b), MF CR.

Table B.9: Central Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**853**	**997**	**907**	**944**	**982**	**1061**	**1103**	**1155**	**1141**	**1131**
Compensation of employees	108	109	111	121	128	137	143	150	146	138
Intermediate consumption	87	97	94	104	101	107	108	113	111	104
Social benefits other than in kind	322	333	347	363	395	437	454	485	494	504
Social benefits in kind	6	5	4	3	3	2	2	3	4	5
Interest	28	26	29	32	33	37	36	45	50	51
Subsidies	38	38	31	24	29	30	30	37	28	34
Gross fixed capital formation	34	128	62	77	81	87	97	96	74	61
Capital transfers	130	118	88	148	117	74	102	93	92	87
Other expenditure	99	143	140	72	95	150	131	134	143	146
% growth										
Total expenditure	**6.7**	**16.9**	**-9.0**	**4.1**	**4.0**	**8.1**	**3.9**	**4.7**	**-1.1**	**-0.9**
Compensation of employees	10.9	0.4	1.9	9.1	6.1	6.7	4.2	5.0	-2.3	-5.5
Intermediate consumption	16.4	11.9	-3.7	11.5	-3.2	6.4	0.6	4.4	-1.7	-6.4
Social benefits other than in kind	6.6	3.4	4.2	4.5	8.7	10.6	3.9	6.8	1.9	2.1
Social benefits in kind	105.1	-20.2	-12.5	-22.8	-7.2	-23.9	-18.2	36.6	53.3	20.0
Interest	26.2	-6.0	11.1	11.1	3.4	12.4	-2.2	23.8	9.9	3.3
Subsidies	-21.1	-0.2	-17.5	-23.4	22.2	2.2	0.2	23.1	-24.7	21.8
Gross fixed capital formation	-2.4	278.1	-51.5	24.0	4.9	7.8	10.9	-1.3	-22.2	-17.7
Capital transfers	-1.1	-9.1	-25.4	67.8	-21.1	-36.7	38.1	-8.9	-1.4	-4.9
Other expenditure	15.8	43.4	-1.7	-48.9	32.7	57.4	-12.4	2.3	6.6	2.4

Source: CZSO (2012b).

Table B.10: Local Government Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**280**	**342**	**352**	**354**	**385**	**397**	**421**	**453**	**449**	**431**
Compensation of employees	81	103	109	114	121	129	133	139	135	136
Intermediate consumption	85	97	98	99	109	109	118	123	121	117
Social benefits other than in kind	10	12	12	12	13	20	23	24	27	27
Social benefits in kind	1	2	3	3	3	3	3	3	2	3
Interest	2	2	3	2	2	3	3	2	2	1
Subsidies	18	29	26	29	31	31	33	38	44	43
Gross fixed capital formation	44	53	60	54	69	65	79	95	89	77
Capital transfers	29	33	33	28	26	28	20	16	17	15
Other expenditure	10	11	10	11	11	10	10	12	12	11
% growth										
Total expenditure	**13.4**	**22.2**	**3.0**	**0.4**	**9.0**	**3.0**	**6.0**	**7.5**	**-0.9**	**-4.0**
Compensation of employees	10.6	27.3	5.7	5.1	6.1	6.1	3.8	4.3	-2.7	0.2
Intermediate consumption	10.4	13.7	0.8	1.7	9.5	0.6	7.4	4.3	-1.4	-2.8
Social benefits other than in kind	13.4	15.6	0.6	3.8	7.3	47.7	17.4	6.8	11.6	-0.8
Social benefits in kind	15.6	69.9	4.5	2.4	8.9	19.0	-11.3	0.2	-16.4	11.1
Interest	-0.8	18.0	28.3	-26.5	8.2	15.8	17.7	-21.8	-33.2	-8.5
Subsidies	9.6	60.7	-10.2	11.6	6.3	-0.1	4.4	17.1	14.9	-1.1
Gross fixed capital formation	13.5	21.2	13.7	-9.8	26.6	-5.7	20.7	21.1	-6.7	-13.7
Capital transfers	19.9	14.9	-1.0	-14.2	-5.8	5.0	-27.5	-21.2	6.1	-10.4
Other expenditure	78.5	8.9	-11.3	19.6	-7.0	-9.7	1.4	23.8	-2.8	-3.5

Source: CZSO (2012b).

Table B.11: Social Security Fund Expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
Total expenditure	**143**	**151**	**162**	**170**	**173**	**187**	**201**	**222**	**224**	**228**
Compensation of employees	3	3	3	3	3	3	4	4	4	4
Intermediate consumption	1	2	2	2	2	2	2	3	3	2
Social benefits other than in kind	-	-	-	0	0	-	0	0	0	0
Social benefits in kind	137	146	156	164	168	181	194	213	216	220
Interest	0	0	0	0	-	0	0	0	-	0
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	1	1	1	0	0	1	1	1	1
Capital transfers	0	0	0	-	-	-	-	-	-	-
Other expenditure	0	0	0	0	0	0	0	0	0	1
% growth										
Total expenditure	**11.6**	**5.8**	**7.2**	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**	**1.6**
Compensation of employees	11.1	5.4	2.7	5.7	5.3	6.5	12.0	9.6	-0.2	-1.8
Intermediate consumption	3.7	22.9	1.4	8.0	-13.3	10.5	22.2	26.1	10.0	-29.9
Social benefits other than in kind	-	-	-	-	100.0	-	-	600.0	0.0	28.6
Social benefits in kind	11.6	6.0	7.4	4.8	2.2	8.3	6.8	10.2	1.1	1.9
Interest	-53.8	-33.3	-25.0	-66.7	-	-	-50.0	0.0	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	54.6	-30.5	11.1	19.1	-41.7	-0.4	64.4	48.4	-15.7	17.2
Capital transfers	-	-18.6	74.3	-	-	-	-	-	-	-
Other expenditure	-17.8	-70.6	-35.4	571.4	27.7	23.9	-15.5	7.7	14.8	51.9

Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
General government	**-168**	**-180**	**-83**	**-101**	**-80**	**-27**	**-86**	**-218**	**-182**	**-118**
Central government	-150	-162	-77	-100	-82	-56	-91	-186	-155	-101
Local governments	-11	-14	-4	-1	-9	13	-5	-22	-19	-10
Social security funds	-6	-5	-3	0	12	16	10	-11	-9	-8
% of GDP										
General government	**-6.5**	**-6.7**	**-2.8**	**-3.2**	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**	**-3.1**
Central government	-5.8	-6.0	-2.6	-3.2	-2.4	-1.5	-2.4	-5.0	-4.1	-2.6
Local governments	-0.4	-0.5	-0.1	0.0	-0.3	0.4	-0.1	-0.6	-0.5	-0.3
Social security funds	-0.2	-0.2	-0.1	0.0	0.4	0.4	0.3	-0.3	-0.2	-0.2

Source: CZSO (2012b).

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CZK bn										
General government debt	**695**	**768**	**848**	**885**	**948**	**1023**	**1104**	**1286**	**1437**	**1568**
Currency and deposits	24	4	3	1	0	-	-	-	-	-
Securities other than shares	427	528	634	698	789	871	951	1111	1260	1388
Loans	243	236	211	187	159	152	153	175	176	180
Central government debt	**653**	**719**	**783**	**813**	**867**	**939**	**1016**	**1189**	**1342**	**1470**
Currency and deposits	24	4	3	1	0	-	-	-	-	-
Securities other than shares	415	517	612	675	766	848	929	1096	1246	1375
Loans	213	197	169	137	101	90	87	94	96	95
Local government debt	**50**	**59**	**72**	**79**	**87**	**88**	**92**	**99**	**97**	**99**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	12	12	23	24	23	23	23	16	16	14
Loans	38	47	49	55	64	65	69	82	81	85
Social security funds debt	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	0	0	0	0
% growth										
General government debt	**18.8**	**10.6**	**10.4**	**4.4**	**7.1**	**7.9**	**7.9**	**16.4**	**11.7**	**9.1**
Currency and deposits	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-
Securities other than shares	20.5	23.6	19.9	10.2	12.9	10.5	9.2	16.8	13.4	10.2
Loans	9.0	-3.0	-10.5	-11.6	-14.5	-4.4	0.4	14.1	1.0	1.8
Central government debt	**18.1**	**10.0**	**8.9**	**3.8**	**6.6**	**8.3**	**8.2**	**17.1**	**12.9**	**9.5**
Currency and deposits	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-	-
Securities other than shares	19.4	24.6	18.2	10.3	13.5	10.7	9.5	18.0	13.7	10.4
Loans	7.7	-7.5	-14.6	-18.5	-26.6	-10.4	-4.2	7.9	3.1	-1.0
Local government debt	**23.4**	**18.1**	**22.1**	**9.8**	**9.5**	**2.1**	**3.9**	**7.4**	**-2.1**	**2.3**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	72.4	-3.4	90.7	5.8	-3.5	0.6	0.0	-30.4	-2.1	-11.4
Loans	13.0	25.1	4.8	11.7	15.1	2.6	5.3	20.2	-2.1	5.0
Social security funds debt	**-19.8**	**-19.8**	**-25.7**	**17.5**	**-30.5**	**-69.1**	**62.7**	**-56.3**	**-42.9**	**216.7**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-19.8	-19.8	-25.7	17.5	-30.5	-69.1	62.7	-56.3	-42.9	216.7

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

Source: CZSO (2012b).

Table B.14: General Government Debt by Subsectors and Instruments

(in % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government debt	**27.1**	**28.6**	**28.9**	**28.4**	**28.3**	**27.9**	**28.7**	**34.4**	**38.1**	**41.2**
Currency and deposits	1.0	0.1	0.1	0.0	0.0	-	-	-	-	-
Securities other than shares	16.6	19.7	21.6	22.4	23.5	23.8	24.7	29.7	33.4	36.4
Loans	9.5	8.8	7.2	6.0	4.8	4.2	4.0	4.7	4.7	4.7
Central government debt	**25.4**	**26.7**	**26.7**	**26.1**	**25.9**	**25.6**	**26.4**	**31.8**	**35.6**	**38.6**
Currency and deposits	1.0	0.1	0.1	0.0	0.0	-	-	-	-	-
Securities other than shares	16.2	19.2	20.9	21.7	22.8	23.2	24.1	29.3	33.0	36.1
Loans	8.3	7.3	5.8	4.4	3.0	2.5	2.3	2.5	2.6	2.5
Local government debt	**1.9**	**2.2**	**2.5**	**2.5**	**2.6**	**2.4**	**2.4**	**2.6**	**2.6**	**2.6**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.5	0.4	0.8	0.8	0.7	0.6	0.6	0.4	0.4	0.4
Loans	1.5	1.8	1.7	1.8	1.9	1.8	1.8	2.2	2.1	2.2
Social security funds debt	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Source: CZSO (2012b).

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

	Balance					Debt				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
EU27	-2.4	-6.9	-6.5	-4.5	-3.4	62.5	74.8	80.0	82.5	85.4
EA17 [1]	-2.1	-6.4	-6.2	-4.1	-3.0	70.1	79.9	85.3	87.2	91.1
Austria	-0.9	-4.1	-4.5	-2.6	-3.0	63.8	69.5	71.9	72.2	74.7
Belgium	-1.0	-5.6	-3.8	-3.7	-2.8	89.3	95.8	96.0	98.0	99.4
Bulgaria	1.7	-4.3	-3.1	-2.1	-1.6	13.7	14.6	16.3	16.3	19.8
Cyprus	0.9	-6.1	-5.3	-6.3	-2.6	48.9	58.5	61.5	71.6	75.0
Czech Republic	-2.2	-5.8	-4.8	-3.1	-3.0	28.7	34.4	38.1	41.2	44.0
Denmark	3.2	-2.7	-2.5	-1.8	-5.4	33.4	40.6	42.9	46.5	42.4
Estonia	-2.9	-2.0	0.2	1.0	-2.2	4.5	7.2	6.7	6.0	6.1
Finland	4.3	-2.5	-2.5	-0.5	-1.2	33.9	43.5	48.4	48.6	50.7
France	-3.3	-7.5	-7.1	-5.2	-4.4	68.2	79.2	82.3	85.8	89.0
Germany	-0.1	-3.2	-4.3	-1.0	-0.9	66.7	74.4	83.0	81.2	82.0
Greece	-9.8	-15.6	-10.3	-9.1	-6.7	113.0	129.4	145.0	165.3	155.3
Hungary	-3.7	-4.6	-4.2	4.3	-2.5	73.0	79.8	81.4	80.6	78.0
Ireland	-7.3	-14.0	-31.2	-13.1	-8.2	44.2	65.1	92.5	108.2	117.1
Italy	-2.7	-5.4	-4.6	-3.9	-1.7	105.7	116.0	118.6	120.1	123.4
Latvia	-4.2	-9.8	-8.2	-3.5	-1.8	19.8	36.7	44.7	42.6	44.5
Lithuania	-3.3	-9.4	-7.2	-5.5	-3.0	15.5	29.4	38.0	38.5	40.3
Luxembourg	3.0	-0.8	-0.9	-0.6	-1.8	13.7	14.8	19.1	18.2	20.9
Malta	-4.6	-3.8	-3.7	-2.7	-2.2	62.3	68.1	69.4	72.0	70.3
Netherlands	0.5	-5.6	-5.1	-4.7	-4.6	58.5	60.8	62.9	65.2	70.2
Poland	-3.7	-7.4	-7.8	-5.1	-2.9	47.1	50.9	54.8	56.3	54.2
Portugal	-3.6	-10.1	-9.8	-4.2	-4.5	71.6	83.1	93.3	107.8	112.5
Romania	-5.7	-9.0	-6.8	-5.2	-2.3	13.4	23.6	30.5	33.3	33.2
Slovakia	-2.1	-8.0	-7.7	-4.8	-4.6	27.9	35.6	41.1	43.3	50.9
Slovenia	-1.9	-6.1	-6.0	-6.4	-3.5	21.9	35.3	38.8	47.6	51.9
Spain	-4.5	-11.2	-9.3	-8.5	-5.3	40.2	53.9	61.2	68.5	79.7
Sweden	2.2	-0.7	0.3	0.3	-0.1	38.8	42.6	39.4	38.4	37.7
United Kingdom [2]	-6.9	-11.6	-9.5	-8.3	-5.9	56.5	71.1	76.5	84.0	89.0

Note: 1) 17 current member states – Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Germany, Netherlands, Portugal, Austria, Greece, Slovakia, Slovenia and Spain.
2) Data for fiscal year (1 April 2010 to 31 March 2011) relevant for implementation of the excessive deficit procedure.
Source: Eurostat (2012a, 2012b). United Kingdom data for 2012 are based on its Notification.

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

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Consumption [1]	Investments [2]	Interest expenditure
EU27	44.6	49.1	10.8	16.7	21.7	2.5	2.9
EA [3]	45.3	49.4	10.6	17.4	21.5	2.3	3.0
Belgium	49.4	53.3	12.6	17.2	24.1	1.7	3.5
Bulgaria	33.1	35.2	8.9	11.9	15.6	3.2	0.6
Czech Republic	40.3	43.4	7.3	14.0	20.8	3.6	1.4
Denmark	56.0	57.9	18.5	17.1	28.6	2.1	1.9
Estonia	39.2	38.2	11.1	11.7	19.5	4.2	0.1
Finland	53.2	54.0	13.9	17.6	23.9	2.5	1.4
France	50.7	55.9	13.2	19.5	24.4	3.1	2.6
Ireland	35.7	48.7	11.4	15.8	17.8	3.3	3.4
Italy	46.1	49.9	10.8	19.3	20.5	2.0	4.8
Cyprus	41.0	47.3	15.8	15.3	19.5	3.4	2.5
Lithuania	32.0	37.5	10.1	11.2	18.9	4.2	1.8
Latvia	35.6	39.1	9.6	10.8	16.2	4.2	1.5
Luxembourg	41.4	42.0	7.9	15.0	16.5	4.0	0.5
Hungary	52.9	48.7	10.1	15.3	20.7	2.9	4.2
Malta	40.2	43.0	13.6	13.1	21.2	2.5	3.1
Germany	44.7	45.6	7.8	16.5	19.6	1.6	2.6
Netherlands	45.5	50.1	9.8	11.8	28.1	3.5	2.0
Poland	38.5	43.6	9.8	14.1	18.1	5.8	2.8
Portugal	44.7	48.9	11.3	17.4	20.1	2.6	3.9
Austria	47.9	50.5	9.3	18.9	18.8	1.0	2.6
Romania	32.5	37.7	7.5	11.5	14.5	5.2	1.6
Greece	40.9	50.1	12.1	21.9	16.9	1.6	7.0
Slovakia	32.6	37.4	7.1	13.6	17.8	2.3	1.6
Slovenia	44.5	50.9	12.7	17.9	20.6	3.6	2.0
Spain	35.1	43.6	11.5	15.2	20.3	2.8	2.4
Sweden	51.4	51.3	14.0	14.1	26.5	3.4	1.2
United Kingdom [4]	40.8	49.0	11.2	15.2	22.3	2.2	3.2

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

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

List of Thematic Chapters of Previous Fiscal Outlooks of the CR

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

List of Thematic Boxes of Previous Fiscal Outlooks of the CR

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

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