Ministry of Finance
Department for Financial Policy

Fiscal Outlook

of the Czech Republic

November 2011

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Table of Contents

Introduction **1**

1 Economic Development and Fiscal Policy **2**

1.1 Macroeconomic Development 2

1.2 Fiscal Policy Objectives 3

2 Short-term Development of Public Finances **5**

2.1 Public Finances – GFS 2001 Methodology 5

2.2 Public Finances – ESA 95 Methodology 6

2.3 International Comparison 12

3 Medium-term Fiscal Outlook **14**

3.1 Medium-term Expenditure Framework and Deficit Trajectory 14

3.2 General Government Medium-term Outlook 16

3.3 Long-term Sustainability of Public Finance 22

4 Causes of the European Debt Crisis and its Consequences for Czech Public Finances **24**

4.1 History of Monetary Union 24

4.2 Financial, Economic and Debt Crisis 28

4.3 Effects of the Debt Crisis for Public Finances 32

5 Sources **38**

A Annex of Tables – GFS 2001 Methodology **41**

B Annex of Tables – ESA 95 Methodology **47**

C Lists of Thematic Chapters and Boxes of Previous Fiscal Outlooks of the CR **58**

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http://www.mfcr.cz/fiscaloutlook

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

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

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

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List of Tables

Table 1.1: Main Macroeconomic Indicators (2010–2014) ... 3
Table 1.2: Fiscal Policy Stance (2008–2014) ... 3
Table 1.3: Fiscal Consolidation Structure (2012–2014) ... 4
Table 2.1: General Government Revenue (2005–2011) ... 11
Table 2.2: General Government Expenditure (2005–2011) ... 11
Table 2.3: Balance of General Government and of Subsectors (2005–2011) ... 11
Table 2.4: Debt of General Government and of Subsectors (2005–2011) ... 11
Table 2.5: Stock-flow Adjustment (2005–2011) ... 12
Table 3.1: Actualised Medium-term Outlook of Public Budgets (Fiscal Targeting) ... 14
Table 3.2: Assessment of the Fulfilment of Expenditure Framework ... 16
Table 3.3: General Government Development (ESA 95) ... 16
Table 3.4: General Government Revenue (ESA 95) ... 18
Table 3.5: General Government Expenditure (ESA 95) ... 19
Table 3.6: Gross Consolidated Government Debt (ESA 95) ... 21
Table 3.7: Structural Balance of the General Government (ESA 95) ... 21
Table 3.8: Reduction Threshold and Assessment Base ... 23
Table 4.1: Simulation of Impacts of negative Scenarios (differences from the baseline Scenario) ... 34

Table A.1: Consolidated General Government – Revenue ... 41
Table A.2: Consolidated General Government – Revenue ... 42
Table A.3: Consolidated General Government – Expenditure ... 43
Table A.4: Consolidated General Government – Expenditure ... 43
Table A.5: Consolidated General Government – Balance ... 44
Table A.6: General Government Balance Structure ... 44
Table A.7: Fiscal Targeting Balance Structure ... 44
Table A.8: Consolidated General Government – Sources and Use ... 45
Table A.9: Consolidated General Government – Debt ... 46

Table B.1: General Government Revenue ... 47
Table B.2: General Government Tax Revenue and Social Contributions ... 48
Table B.3: General Government Tax Revenue and Social Contributions ... 49
Table B.4: Central Government Revenue ... 49
Table B.5: Local Government Revenue ... 50
Table B.6: Social Security Funds Revenue ... 50
Table B.7: General Government Expenditure ... 51
Table B.8: General Government Expenditure ... 52
Table B.9: Central Government Expenditure ... 52
Table B.10: Local Government Expenditure ... 53
Table B.11: Social Security Fund Expenditure ... 53
Table B.12: General Government Net Lending/Borrowing by Subsectors ... 54
Table B.13: General Government Debt by Subsectors and Instruments ... 54
Table B.14: General Government Debt by Subsectors and Instruments ... 55
Table B.15: General Government Balance and Debt of EU Countries ... 56
Table B.16: Transactions of General Government of EU Countries in 2011 ... 57

List of Charts

Graph 2.1: Public Budget Balance (2005–2012) 5
Graph 2.2: Personal Income Tax.... 9
Graph 2.3: Cash Social Benefits 9
Graph 2.4: Corporate Income tax.... 9
Graph 2.5: General Government Balance in Selected EU Countries (2008–2011) 13
Graph 2.6: General Government Debt in Selected EU Countries (2008–2011).... 13
Graph 3.1: Structure of Settlement of the State and Churches.... 20
Graph 4.1: Spreads against German Bonds 27
Graph 4.2: Oil and Wheat Prices.... 29
Graph 4.3: Decomposition of General Government Balance and Debt in the Selected EU Countries (1990–2011) 35
Graph 4.4: Contributions to the Real GDP Growth in the Selected EU Countries (1990–2011).... 37

List of Abbreviations

CNB .... Czech National Bank
CP.... Convergence Programme of the Czech Republic
c.p. .... current prices
CZK .... Czech crown 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
LFS.... Labour Force Survey
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 12 October 2011 release, fiscal data to the 26 October 2011 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

The outlook for the global economic situation has deteriorated severely since May 2011, when the previous Fiscal Outlook was published. The increasing severity of the debt crisis and its spread to other euro zone countries, combined with European politicians' inability to effectively resolve this situation, have led to growing worries about the ability of the problematic countries' governments to repay their debt and to anxiety on financial markets. The contagion is gradually spreading also to the banking sector in the euro zone. Activity on interbank markets is decreasing, and a number of banks have had their ratings downgraded due to their exposure to the sovereign bonds of problematic countries.

Anxiety on financial markets together with uncertain expectations – with consequent impact to the real economy – also have their fiscal implications. Worsened macroeconomic outlook, the need for consolidation, commitments to the European Union, and the intensive wariness of financial markets and rating agencies are reflected not only in the current sentiments in a number of advanced EU economies, but also in the spirit of this Fiscal Outlook.

As usual, the Fiscal Outlook is divided into four chapters. The first addresses macroeconomic development and fiscal policy objectives. The Czech Republic's economy currently performs with a negative output gap and its future development will be determined by possible escalation of the global economic situation, by the recovery steps in the area of public finances both planned and realised, as well as by the impacts of structural reforms.

The second chapter summarises the forecasted development of public finances in 2011, both in the cash as well as in the accrual methodology. To represent the situation comprehensively, the chapter concludes with an international comparison. In its revenue and expenditure parameters, that part of the chapter under the cash-flow methodology is based on both the approved budgets of the general government sector and on the state budget and state funds' budget proposal for 2012. The sub-chapter under the ESA 95 methodology is based on the October fiscal notification published by Czech Statistical Office in cooperation with the Czech Ministry of Finance and confirmed by Eurostat.

The medium-term fiscal outlook for general government (ESA 95 methodology) for 2012–2014 is discussed in the third chapter. In its resolution, as in the April update of the Convergence Programme of the Czech Republic discussed by the Parliament, the government approved the trajectory for the general government deficit as a proportion of GDP at 3.5% for 2012, 2.9% for 2013 and 1.9% for 2014. For this purpose, in addition to the newly determined medium-term expenditure framework for 2014, values for the medium-term expenditure framework for both 2012 and 2013 were tightened up.

Thus, the government is aware of its commitment not only to the Czech population, but also to the European Union, to consolidate public finances by credible and sustainable means by 2013 such that the deficit does not exceed 3% of GDP. While respecting the long-term sustainability of public finances, it plans to achieve overall balance in public finances by 2016.

The third chapter also describes in greater detail the individual discretionary measures through which the government plans to stabilise its public finances. It is evident from the consolidation mix that both the revenues and expenditures sides of the budget are emphasised.

The autumn Fiscal Outlook figures continue in the tradition of special thematic chapters. In this issue, we decided to devote a space to the topic of selected causes of the European debt crisis and its repercussions for public finances, with an emphasis on Czech public finances. The chapter begins with an economic-historical look at the origin of European monetary union, continues with the recent financial crisis and economic recession, and concludes with a brief look at the debt crisis. The economic impacts of the debt crisis on public finances are simulated in four scenarios. Although each simulated scenario differs from the base scenario to a relatively small degree, it can give the reader a perspective on more risky scenarios of future development.

As usual, the Fiscal Outlook includes an extensive statistical annex, which is also available in MS Excel format on the Ministry's website:
www.mfcr.cz/fiscaloutlook.

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

Following the recession that started at the end of 2008 and beginning of 2009, economic activity in the Czech Republic has been gradually raising up. Nevertheless, the level of seasonally-adjusted GDP is still below its historic peak from the third quarter of 2008. Moreover, the negative output gap, which according to current calculations reached ca –3.5% at the end of the recession (second quarter of 2009), has not yet been closed, thus indicating the lowest utilization of economic potential in the post-transformation period. The process of closing the output gap temporarily halted in the second quarter of 2011, when it widened by 0.2 p.p. to –1.4%.

Such development was caused by a relatively sharp slow down in real GDP growth, which was only 0.1% (by 2.2% year on year) in comparison to the first quarter, lagging behind the potential output growth. The economy should achieve slightly positive quarter-on-quarter growth in the third and fourth quarters. For 2011 as a whole, we anticipate GDP growth at 2.1%. In 2012, however, growth dynamics should slow down to 1.0%, while the forecast is possibly subject to further downward adjustments. Considering the development of the debt crisis in the euro zone, the possibility of second recession cannot be ruled out with absolute certainty.

Foreign trade should be the dominant factor in GDP growth for the current and the next year. A positive contribution to growth should be recorded in gross capital formation, while final consumption, on the other hand, should impede growth. A number of factors will act against growth in household consumption. In addition to the situation on the labour market, very slow rise in the wage bill (wages and salaries should even decrease in real terms in 2012), and an increase in the reduced VAT rate by 4 p.p. in 2012, we must also not forget consumers' anxiety regarding possible economic turbulences which could occur in connection with the debt crisis in the euro zone. We therefore expect household consumption to decrease by 0.6% in 2011 and by 0.5% in 2012.

Government consumption should reflect the approved consolidation strategy. Thus, we expect government institutions to behave thriftily regarding both employment and purchases of goods and services. Government consumption should decrease for 2011 in real terms by 1.2%, and for 2012 we expect a decrease in consumption spending by 0.5%.

Gross fixed capital formation could rise by 2.1% at the end of the year, and we expect it to grow by 1.4% in 2012. Infrastructure investments with contributions from EU funds should have a positive effect, while low interest rates should also have a certain impact. However, the development in the euro zone will probably have a negative effect on new investments due to economic entities' expectations.

Consumer prices should rise by 1.9% in 2011. The inflation rate should reach 3.2% in 2012 with anticipated significant contribution of 1.1 p.p. from the increase in the reduced VAT rate.

The situation on the labour market will probably reflect the slow economic growth and heightened uncertainty concerning the future development. Although employment (according to LFS) should increase by 0.4% this year, we expect it to shrink by 0.2% for 2012. The expected slowdown in GDP growth, decline in working-age population, and also partially decrease in the number of state administrative employees will have an influence on the development of employment in the next year. The unemployment rate, which should be favourably affected by legislative changes effective from January 2012, should be around 6.9% this year and the next year. We also anticipate gradual rise in the participation rate, especially due to an increase in the retirement age. The wage bill (in current prices) could grow by 2.3% in 2011 and by 2.7% in 2012. Apart from the slowdown in economic growth, austerity measures in the budget sphere will also continue to act against a more significant increase in wages and salaries.

The current account deficit as a proportion of GDP should remain sustainable.

Table 1.1: Main Macroeconomic Indicators (2010–2014)

		2010	2011	2012	2013	2014	2011	2012	2013	2014
		Actual	Forecast and outlook				May 2011 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	3775	3853	3959	4077	4267	3718	3904	4095	4335
	% growth, s.p.	2.7	2.1	1.0	2.0	3.3	1.9	2.3	3.3	4.0
Private consumption	*% growth, s.p.*	0.2	-0.6	-0.5	1.2	2.5	0.7	1.9	3.3	4.2
Government consumption	*% growth, s.p.*	-0.1	-1.2	-0.5	-0.2	0.8	-3.4	-2.5	-1.3	0.1
Gross fixed capital formation	*% growth, s.p.*	-3.1	2.1	1.4	2.8	3.2	0.7	3.2	5.6	7.2
Contr. of net exports to GDP growth	*p.p., s.p.*	1.0	1.7	1.0	0.8	1.2	1.8	1.1	0.6	0.2
GDP deflator	*% growth*	-1.7	0.0	1.7	0.9	1.3	-0.5	2.7	1.6	1.8
Inflation	*in %*	1.5	1.9	3.2	1.6	2.1	2.1	3.2	1.5	2.0
Employment (LFS)	*% growth*	-1.0	0.4	-0.2	0.1	0.5	0.2	0.5	0.6	0.7
Unemployment rate (LFS)	*average in %*	7.3	6.9	6.9	6.9	6.7	6.9	6.5	6.1	5.5
Wages and salaries	*% growth, c.p.*	1.2	2.3	2.7	2.9	4.7	2.1	4.4	4.9	5.9
Current account to GDP ratio	*in %*	-3.2	-3.1	-3.3	-3.8	-3.8	-4.0	-3.4	-3.6	-4.1
Assumptions:										
Exchange rate CZK/EUR		25.3	24.3	23.9	23.4	22.9	24.1	23.5	22.8	22.2
Long-term interest rates	*% p.a.*	3.7	4.1	4.3	3.8	4.1	4.1	4.3	4.3	4.3
Crude oil Brent	*USD/barrel*	79.7	110.6	106.8	110.5	115.0	95.0	95.5	96.8	93.3
GDP in Eurozone EA-12	*% growth, s.p.*	1.8	1.7	1.0	1.6	2.0	1.7	2.0	2.3	2.3

Note: The May Fiscal Outlook did not encompass national accounts revision. Therefore, absolute values of GDP cannot be directly compared.
Source: MF CR (2011b), MF CR (2011c).

1.2 Fiscal Policy Objectives

The fiscal consolidation targets which the government approved in April (Resolution No. 278/2011), and to which the Czech Republic is committed in the current year's update of the Convergence Programme (MF CR, 2011a), confirm the government deficit trajectory as proportion to GDP at values of 3.5% and 2.9%, for 2012 and 2013, respectively, and establish a new deficit target at 1.9% of GDP for 2014.

Although the macroeconomic outlook does not seem positive and it is subject to a number of negative risks, the government nevertheless intends to maintain its deficit objectives. This has also been indicated in the current proposal of the State Budget Act, which incorporates a proposal to tighten the amounts of the medium-term expenditure framework (see Chapter 3.1). The new framework already partially reflects the deteriorated macroeconomic outlook with lower fulfilment of tax revenues. The new fiscal forecast also takes into account the necessary discretionary measures in order to achieve the objectives.

Furthermore, future deficit objectives will be set such that the general government balance is fully balanced by no later than 2016.

The deficit trajectory and necessary fiscal effort are summarised in Table 1.2. It implies that the structural balance will need to be reduced by 0.7% of GDP on average this year and in subsequent years in order to reach the deficit objective in 2014. Fiscal targets for 2012 to 2014 should at the same time aim to achieve the medium-term objective, which has been set within the Stability and Growth Pact.

Table 1.2: Fiscal Policy Stance (2008–2014)
(in % of GDP, Change in structural balance in p.p.)

	2008	2009	2010	2011	2012	2013	2014
General government balance	**-2.2**	**-5.8**	**-4.8**	**-3.7**	**-3.2**	**-2.9**	**-1.9**
Cyclical component	1.1	-1.0	-0.5	-0.3	-0.5	-0.5	-0.3
One-off and other temporary measures	-0.1	0.3	0.0	-0.3	-0.3	0.0	0.0
Structural balance	-3.3	-5.2	-4.4	-3.1	-2.5	-2.4	-1.6
Change in structural balance	**-1.6**	**-1.9**	**0.8**	**1.2**	**0.6**	**0.1**	**0.7**

Source: CZSO (2011b). Forecast and calculations MF CR.

A medium-term budgetary objective is defined for all EU member states as the structural balance in relation to GDP, and a target not to exceed –1.0% of GDP was established for the Czech Republic. Based on the current set-up of the fiscal policy, the output gap estimate, and proposed continuation of the consolidation strategy beyond the scope of the Fiscal Outlook, the given medium-term objective will probably be achieved around 2016.

The government's consolidation strategy is based on the EU Council's recommendations (2009, 2011b) to decrease the general government deficit 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. Reforms on direct taxes and tax payments, and tertiary education, science, research and innovations financing reforms are also being prepared. It is necessary to simplify and to increase efficiency and transparency of public administration system, the labour market and social reforms. The reform efforts also include establishment of a Unified Revenue Collection Agency and a state treasury project aimed at generating cost savings for both the taxpayer and the public sector. More detailed information is available in the April Convergence Programme of the Czech Republic (MF CR, 2011a).

The structure of consolidation measures for 2012–2014 is presented in Table 1.3. The average annual impact of consolidation measures on the balance in the years of the outlook is estimated at just under CZK 44 billion. It is evident that measures on the revenues side will have great importance in 2012. In particular, the increase in the reduced VAT rate should serve as a source for covering transformation costs of the pension reform.

In addition to new revenue items, the structure of discretionary measures will be complemented in 2013 by a seemingly significant increase in social benefits. However, this consists largely in an autonomous increase in pensions corresponding to the valorisation formula as well as the expected effectiveness of the accident insurance act, which apart from having a positive revenue effect is also reflected on the expenditures side. The total impact from accident insurance, however, is positive (more detailed information in Chapter 1.1). Savings in the public sector, related primarily to the new public procurement act and economies of scale for administration of social items, will also begin to have a positive effect in 2013. The central administration of state liquidity, too, should have a favourable impact.

We expect a number of large reforms to kick in during 2014, including the Unified Revenue Collection Agency, and reform of direct taxes and tax payments. The total calibration of reform plans is set up so that the resulting impact on the balance is positive.

Table 1.3: Fiscal Consolidation Structure (2012–2014)

		2012	2013	2014
Total revenue measures	*bn CZK*	**30.7**	**45.8**	**48.3**
Direct taxes	*bn CZK*	-4.2	8.5	4.2
Indirect taxes	*bn CZK*	29.1	29.9	35.5
Other revenues	*bn CZK*	5.8	7.4	8.6
Total expenditure measures	*bn CZK*	**0.4**	**-2.7**	**-3.1**
Social benefits	*bn CZK*	3.9	10.6	11.1
Public sector reforms	*bn CZK*	-0.5	-9.5	-10.5
Other expenditures	*bn CZK*	-3.0	-3.8	-3.7
Total impact on balance	*bn CZK*	**30.3**	**48.5**	**51.4**
	% GDP	0.8	1.2	1.2

Source: MF CR.

2 Short-term Development of Public Finances

2.1 Public Finances – GFS 2001 Methodology

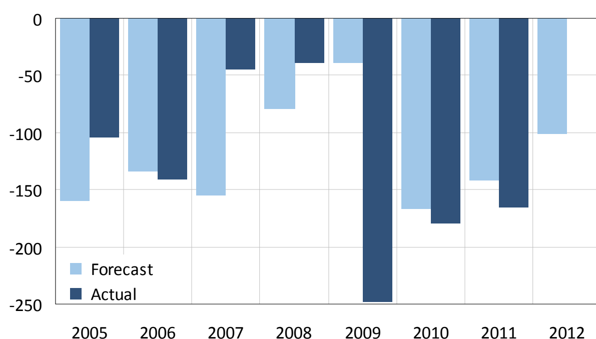
2.1.1 Public Budgets in 2011

The expected development of public budgets is influenced by the gradual recovery of economic growth as well as by the continuing process of fiscal consolidation. A year-on-year comparison shows a moderate recovery of revenues and a minimal rise in expenditures, which is reflected in a decrease of the budget balance by CZK 14.3 billion to CZK 165.2 billion (4.3% of GDP). The consolidation measures aimed at reducing expenditures (reduced wage bill in the state administration by 10%, wage bill of government officials, cancelled or limited the extent of certain social benefits, decreased current and investment expenditures in state administration) are positively reflected in the deficit. Still, the fact that the recovery of the Czech economy is modest has a reflection on the expected development of the public deficit and debt.

Graph 2.1 shows a comparison of the expected (budgeted) and actually achieved results in balances during 2005 to 2010, the budgeted and expected deficit for 2011, and a deficit from the budget proposal for 2012.

The revenues side will be reinforced thanks to the measures adopted in 2010. Revenues should increase by 2.5% year on year (CZK 35.4 billion), whereas expenditures will increase by only 1.3% (CZK 21.1 billion). Expected tax revenues (less insurance premiums) should grow by 4.7% year-on-year. Personal income tax collections will apparently develop the best (growth of 5.8%), while corporate income tax collections will evidently decrease by 2.2% compared to 2010. Concerning indirect taxes, excise taxes will record faster growth (an estimate of 6.9%) than VAT (4.2%).

Graph 2.1: Public Budget Balance (2005–2012)
(CZK bn)



Note: 2011 is based on an assumption in budgetary documentation for 2011 and the actual prediction of MF CR.
Source: MF CR.

On the expenditures side, interest payments (by 30.3%) and other capital expenditures (by 8.2%), including investment transfers to corporate and non-corporate entities (building savings and supplementary pension insurance contributions), will apparently increase the most year-on-year.

The state budget deficit is expected to decrease by CZK 20.9 billion compared to CZK 136.8 billion in 2010. We expect rather sharp year-on-year growth in revenues in the amount of CZK 34.2 billion, mainly due to social security contributions and partially due to the higher volume of resources drawn from European funds and indirect taxes. State budget expenditures will rise by just CZK 13.3 billion. Health insurance companies are expected to record a slight improvement in financial results (CZK 0.7 billion), while state funds will record a decrease of CZK 17.7 billion.

As compared to the original objectives of the state budget for 2011, we expect the balance of public budgets to be CZK 22.9 billion higher. Total revenues should be around CZK 63.0 billion lower, due especially to the adjustment of the accepted budgeted advances from European funds. Tax revenues should in principle be fulfilled (approximately CZK 3 billion less compared to the budget documentation), and expected social contributions will most likely develop according to the original presumptions. A decrease of expenditures by CZK 40.1 billion also can be expected. Interest expenditures – i.e., debt service costs – should be lower (decrease of CZK 15.2 billion). Current transfers, on the other hand, should be higher (by CZK 19.9 billion) compared to the original budget documentation. This is due in particular to subsidising the transfer system and distribution systems related to the government's efforts to limit the rise in electricity prices. Despite the rather positive development on the expenditures side of government budget, it is evident that there is still room for further restructuring and efficiency increases.

According to the current estimates, other public budget entities, with the exception of extra-budgetary funds (especially the State Fund for Transport Infrastructure and the State Agricultural Intervention Fund), will outperform the original presumptions – for example, public health insurance companies by CZK2.1 billion and municipal governments by CZK 8.4 billion.

A fall in the negative balance of public budget will slow down debt growth dynamics by 5.1 p.p. to 8.3%, and the expected volume of loans and state bonds should increase by CZK 119.0 billion to CZK 1,545.4 billion. Debt expressed as a proportion of GDP will increase by 2.3 p.p. to 40.1% in comparison to 2010. The weight of state debt in total public indebtedness will again increase slightly, reaching 93.2%. However, its year-on-year dynamics in comparison to 2010 will slow by 5.2 p.p. to 9.0%. Despite these positive development trends, public budget debt dynamics remain high.

2.1.2 Public Budgets in 2012

The main determining factor in drafting the budget for 2012 was continuation of the fiscal consolidation so that public budget will be balanced by 2016 the latest.

The public budget balance thus can be expected to decrease further by CZK 64.2 billion to CZK 101.0 billion (2.6% of GDP) year-on-year, representing an improvement of 1.7 p.p. expressed as a proportion of GDP. This development will be supported primarily by the state budget and transactions of the National Fund. This improvement must not be overestimated, however, as the National Fund expects higher revenues from the European Union than their transfer to the state budget. Operations of extra-budgetary funds (by CZK 4.4 billion) and public health insurance companies (by CZK 3.6 billion) should also improve, while the deficit of municipal governments will rise by CZK 2.2 billion to CZK 3.0 billion.

We expect revenues to grow by 6.5% (CZK 95.1 billion) year-on-year and expenditures by just 1.9% (CZK 30.9 billion). This should result in a significant decrease in the public budget deficit. On the revenues side, the increase in the reduced VAT rate from 10% to 14%, as well as the increase of excise tax on cigarettes, cigars and loose tobacco, will have a positive effect. Tax revenues (not including social security and public health insurance premiums) will increase by 4.2% (CZK 30.3 billion), while indirect taxes will record even faster year-on-year growth (by CZK 30.5 billion, i.e. 7.0%), and especially VAT collection which will grow by 10.4%, i.e. by CZK 28.5 billion.

Austerity measures were undertaken for the individual chapters on the expenditures side. These measures will result in a year-on-year decrease in the state budget deficit by CZK 30.4 billion to CZK 106.5 billion.

Growth dynamics for the public debt will slow to 7.3% in 2012, and the expected debt will grow by CZK 113.6 billion to CZK 1,659.0 billion. The debt expressed as a proportion of GDP will rise by 1.8 p.p. to 41.9% compared to 2011. The significance of the state debt in the aforementioned indebtedness will slightly increase, reaching 93.6%. Its year-on-year dynamics in comparison to 2011 will slow by 1.3 p.p. to 7.7%.

Almost no changes are anticipated in the proportions of the individual segments of public budget in the total indebtedness. After the state debt, municipal governments have the greatest weight in the total public debt. Their debt in 2012 as compared to the previous year will rise only slightly. The debt of extra-budgetary funds can be expected to be stable. The State Agricultural Intervention Fund and State Environmental Fund are showing the same levels of indebtedness as in 2011. Health insurance companies should report no debt in 2012.

Although more favourable figures are being reported for the development of public budget, it is necessary to continue in maintaining cautious fiscal policy and to pursue their consolidation.

2.2 Public Finances – ESA 95 Methodology

2.2.1 General Government Sector in 2010

In 2010, the general government deficit reached CZK 182.7 billion, which was 4.8% of GDP. This constitutes deterioration of almost CZK 10 billion compared to the preliminary data in the April Notification on Government Deficit and Debt.

This difference is caused both by new facts obtained when compiling the data, as they typically become significantly more precise between April and October, and by a change in the method of calculating certain items. As compared to April, a change was also made in the division of sectors, as a number of units were included into the sector and others were transferred outside the general government.[1]

The most significant change versus April occurred in sales, which were revised by almost CZK 13 billion (especially for local authorities). Income taxes, on the other hand, were revised upwards by CZK 5 billion (although this change also includes the impact of the methodology for including tax bonuses, which themselves amount to ca CZK 11 billion; see Box 1). After

[1] Recalculation is made according to the cost criterion. A test is conducted to determine whether an entity covers at least 50% of its costs through its sales.

including other less significant items, total revenues were around CZK 2.3 billion lower.

On the expenditure side, the reassessment of social contributions (also influenced by tax bonuses of CZK 11 billion) and capital transfers resulted in higher expenditures, while the revision of compensation for employees and government investments improved the balance. The total increase in expenditures in comparison to April figures is CZK 6.8 billion.

The development of the **revenue side in 2010** reflected the gradually improving state of the economy, as total revenues rose by 1.5% in comparison to 2009. Total tax revenues including social insurance, which is to say more than 90% of total revenues, increased by approximately 1.6%. A number of measures approved as part of the effort to stabilise fiscal development were reflected in the development of tax revenues.

Revenues from the value added tax grew by approximately 1.9% in comparison to 2009, which is a relatively moderate rise considering the increase in the base and reduced VAT rates by 1 p.p. The fiscal impact of the increase in rates was not significant because the growth in tax revenues ranged only slightly above the growth in its macroeconomic base (unitary elasticity of the tax is presumed).

Revenues from excise taxes increased by 0.9% and, as with VAT, only slightly exceeded the growth of the macroeconomic base. The increase of excise tax rates was reflected in revenues. As it is usual for this tax, however, the impact of the collection up to 2010 was significantly influenced by retailers' pre-stockpiling of the given commodities.

Although the personal income tax did not undergo significant legislative changes in 2010, revenues dropped by 0.6%. The decrease occurred even despite the positive impact of changes for contributions to social and health insurance, as the maximum assessment base shifted from 48 to 72 times the average wage. Because the tax rate is applied to the gross wage including contributions to social and health insurance paid by the employer when calculating the tax, this change has a positive influence on the development of tax revenues.

The corporate income tax is usually the most volatile over the cycle. In 2010, revenues from this tax dropped by 3.8% due to a 1 p.p. decrease in the tax rate as well as due to the ongoing recession, when many businesses applied their deductible losses into their assessment bases. Tax allowances approved for the corporate sector during the recession (especially the acceleration of depreciation) also have an impact. Most of these effects should, however, subside during 2011.

Social security contributions rose by 3.2%, thus achieving the best result among tax revenues items. The extension of the assessment base for high-income groups had significant influence. Another contributing factor is in the one-off counter-crisis measures adopted in 2009 (discount for low-income employees), which ceased to be valid in 2010.

Other taxes are not as significant in volume. The only significant change was the doubling of the property tax rate.

General government revenues recorded a decline of 5.0%. Capital and current transfers, on the other hand, grew by 5.0% and 20.1%, respectively, comprised mainly of resources from EU funds. The influx of funds from the EU thereby surpassed the already high level from 2009. The impact of this influx on the general government balance is usually neutral, as these funds are typically reflected on the expenditures side as well and the deficit is influenced only by the portion of domestic co-financing.

General government expenditure fell by 0.9% in 2010. This development is due to the package of cost-saving steps approved for 2010. At the same time, a number of counter-crisis measures that increased expenditures in 2009, and thereby also the base for year-on-year comparison, were cancelled that year.

General government consumption declined by 0.2%. This reflects the government's effort to implement an austere budget policy. The most significant savings were realised in expenditures on state administration operations, recording a 2.5% decrease in remuneration to employees. Intermediate consumption also showed negative development, falling by 1.5% due to sweeping savings in all chapters of the state budget. Health care costs (in-kind social benefits), on the other hand, recorded 1.5% growth.

The growth of expenditures in the social area slowed down significantly. Monetary social benefits increased by 2.3%, mainly due to the freezing of pensions for 2010 and cancellation of certain benefits accepted as part of counter-crisis measures in 2009.

Relatively favourable development also can be seen in interest expenditures, which grew less than expected despite relatively high debt dynamics. This is influenced by the drop in interest rates in all issued maturities on the government bonds yield curve, which reflects the positive evaluation of the consolidation strategy being implemented in the Czech Republic.

Subsidies also recorded a drop, while capital and current transfers slightly increased.

Government investments (gross fixed capital formation) decreased by a significant 14%. Considering the relatively high rate of investment subsidies on the

revenues side, this drop is mainly caused by a drop in government investments from domestic sources.

2.2.2 General Government Sector in 2011

The current estimate of the general government deficit for 2011 is CZK 142 billion, or 3.7% as a proportion of GDP. Compared to the estimate in the April Notification on Government Deficit and Debt (EC, 2011b), the estimate after taking into account new facts (accentuating the expenditures side) is approximately CZK 12 billion lower. Taking into account the influence of the GDP revision (CZSO, 2011c) upon the ratio indicator, the total improvement is 0.5% of GDP.

On the revenues side, we expect a slight improvement of CZK 2 billion in taxes (after adjusting for tax bonuses). More favourable development of CZK 5 billion is estimated for social security contributions.

On the expenditures side, we forecast a more positive development for interest payments (by CZK 10 billion) compared to April. This is due especially to re-evaluating the original assumptions for interest rates development. The previous conservative scenario was not confirmed in the end.

The revenue and expenditure sides are also influenced by revision of the investment subsidies estimate (sources from the EU). The revision of the government investments estimate, after adjusting for the deficit-neutral influence of the decrease in investment subsidies, is nearly CZK 9 billion in comparison with April. This change is caused both by the statistical revision of data for 2010, for which forecast base dropped, and by the change in presumptions as to the development of investments from national sources. As a result, the assumption on the development of government investments was corrected approximately to the previous year's level.

On the revenues side, the forecast of general government sales declined by some CZK 14 billion. This development was also caused by a considerable decrease in the previous year's base.

On the expenditure side, the estimate of monetary social transfers and social transfers in kind was slightly adjusted. This reflects the more pessimistic expectations concerning the amount of health insurance companies' costs for health care and the development of old-age pensions, which currently place greater demand on the state budget than previously expected due to considerable growth in the number of pensions paid this year. The total amount of in-kind and monetary transfers is therefore CZK 4 billion higher than in the previous estimate.

Compared to the previous year, we expect to see positive development on the revenues side of the general government balance, with revenues growing by 4.8% and taxes and social contributions by 5.6%.

The most significant growth is expected in the personal income tax, with an increase of 13.1% as compared to the previous year. Lingering counter-crisis measures for entrepreneurs (acceleration of depreciation) and the so-called inundation tax, which takes the form of a decrease in the taxpayer's credit by CZK 100 per month and is only valid in 2011, have a positive influence on tax revenue. Other provisions influencing the collection of this tax include cancellation of the tax exemption on interest from a building savings scheme and cancellation of the tax exemption on early-retirement contributions for public security personnel. The relatively low base of 2010, when a number of business entities applied losses from previous years, also contributes to the significant growth rate for personal income tax.

A relatively significant increase is expected for the value added tax revenues, of which growth should exceed 6%. Uncertainty about this tax remains considerable, and a question still to be answered is to what extent the increase in purchases of newly constructed buildings due to legislative amendments valid next year will have an effect here.

Excise taxes will apparently grow in comparison to the previous year by 7.3%. A legislative change in 2010, which in 2011 is no longer weakened by the pre-stockpiling factor and therefore fully impacts the collection of this tax, could have a certain influence on this growth. Taxes on products are also influenced by collections from solar energy production, which were newly introduced in 2011.

Growth of 4.4% is expected in the corporate income tax, thus representing a recovery after 3 years. The main reason is the phasing out of counter-crisis measures (especially accelerated depreciation) as well as "stagnation" of the tax rate, which after many years of decline stopped at 19%. The possibility for companies to apply a tax loss, which many reported during the recession, also plays a significant role.

Contributions to social security will probably rise at a rate of 2.6%, and, considering the absence of legislative changes versus last year, their growth will approximately correspond to the dynamics of their macroeconomic base.

A significant leap will be recorded for property taxes, which are CZK 4.5 billion higher than in previous years. The reason for this is the introduction of a gift tax on free-of-charge acquisition of greenhouse gas emission allowances.

Box 1: Selected Changes in the Methodology of General Government Statistics

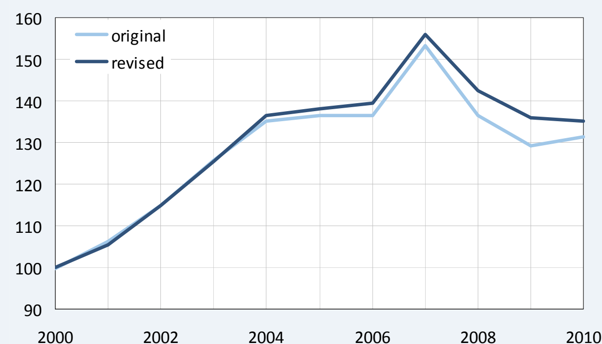
Several fundamental changes in methodology were introduced during 2011. These were first taken into account in the data published within the October Notification on Government Deficit and Debt (EC, 2011c). These methodological changes are seen in the revision of the system of national accounts, which affected all sectors of the economy (for more detailed information see CZSO, 2011c; or MF CR, 2011c), and in the changes in data compilation, which are presented in this box.

Though only influencing the total amount of revenues and expenditures (not the deficit), the first significant change is the **recording of tax bonuses**. In 2005, a child tax credit was introduced. If under certain circumstances this credit exceeds the tax obligation, it is provided to the taxpayer as a transfer (bonus). In the year this concept was introduced, the credit was set at CZK 6,000 per child per year. It is currently around CZK 11,604. Up to now, the bonus was deducted from the personal income tax collection and was therefore only reflected on the revenues side under so-called net taxes (taxes net of transfers). The new recording method consists in adding the amount of tax bonuses to both sides of the general government balance, i.e. both on the side of tax revenues and on the side of expenditures for social benefits. This results in a more specific record of the transaction, whereby no artificial decrease is generated on the revenues side. This approach gives a better overview of total benefits paid and of tax revenues. The total of this adjustment in 2011 was just under CZK 10 billion.

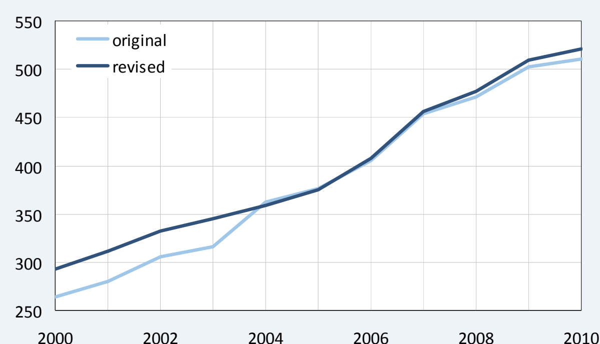
Another important change is the **approach to accruing of corporate and personal income taxes** (for individuals, this change only concerns self-employed persons). The basic approach of the ESA 95 methodology to transactions is accrual recording, which for these taxes consists in recording for the period when the taxed income was generated. In the case of corporate entities, revenue should result from the tax paid for the previous year. In practice, tax advances of the current year are adjusted for clearing due to tax settlement on the basis of tax returns submitted in the current year and the settlement from tax returns submitted from January to December of the following year is added.

This method, however, was not completely suitable in terms of the timely availability of the final dates, as the tax obligation of the previous year was not yet fully known at the time of the October Notification, and thus adjustments were necessary and the deficit through the end of the calendar year (or the beginning of the following one) changed. The new concept consists in shifting the relevant period for including tax returns by 4 months. This means that tax settlements based upon the tax returns submitted through August of the following year are significant for the collection of this tax in the year ended. All tax returns for the past year submitted after August of the following year constitute revenue for the year in which they are collected. In the case of the past year, therefore, the tax advances are adjusted for settlement from tax returns submitted through August of the previous year and the settlement from tax returns submitted through August of the following year are added. This adjustment can have an impact on the deficit in individual years but is fully compensated in the time series.

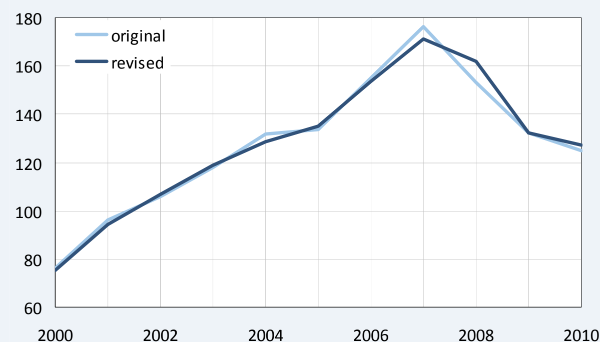
Graph 2.2: Personal Income Tax
(bn CZK)



Graph 2.3: Cash Social Benefits
(bn CZK)



Graph 2.4: Corporate Income tax
(bn CZK)



Source: CZSO (2011a). MF CR.

The last amendment that we address here is a **change in coverage of the general government**. According to the valid methodology, CZSO should regularly test entities for classification within the general government. Besides ownership, a key criterion is also the so-called 50% test, which determines whether a given unit is able to finance at least 50% of its expenditures from its sales. If so, it is placed outside the general government sector; otherwise it is considered part of the general government sector. In total, 7 entities were thus excluded from the central government subsector and a total of 314 organisations from the local government subsector. On the other hand, 11 semi-budgetary organisations were newly incorporated into central government and 183 entities into local government. This mainly concerns such entities as school canteens, cultural institutions, retirement homes, technical service providers, selected water and sewage companies, social services centres, zoos, elementary and high schools, kindergartens and nursery schools, and others. The approximate impact on the balance in 2010 resulting from the change in sector classification is estimated at CZK 3 billion.

Capital transfers are expected to increase by a moderate 3.9%. This amount, however, is fully reflected on the expenditures side in the form of government investments. Revenues from European funds thus have remained at a relatively high and stable level for three years running. On the revenues side, general government production has grown since 1 January 2011 due to the increase in toll rates.

We expect general government **expenditure** to rise by only 1.9% in 2011 and thus reinforce the government's consolidation efforts, which this year are focused mainly on the expenditure side. The adopted austerity measures will considerably affect expenditures on government final consumption, for which we forecast a decrease of 0.2%. The most significant decrease (by 2%) is expected in compensation for employees, and that is due to the 10% drop in the volume of funds for public sector wages. This again relates to a decline in salaries on the central level, and, as last year, local budgets are not expected to follow this cost-saving step. Salaries of government officials also decreased, while funds for salaries of teachers and physicians were increased.

Intermediate consumption will grow relatively moderately (by 1.2%), as it should reflect general cuts in the state budget, which will also lead to a decrease in non-mandatory expenditures. Slight growth (1.3%) is expected for in-kind social benefits.

According to current assumptions, other subsidies on production will increase by 9.4% compared to last year, as subsidies to operators of the electricity transmission and distribution systems will increase. Their objective is to eliminate the rise in energy prices caused by the guarantee of purchase prices from renewable sources and a marked increase in the number of photovoltaic power plants.

Current and capital transfers are expected to show stable development, with only a slight change in structure emphasising current transfers.

The expected increase in interest expenditures by nearly 7% reflects the change in debt corresponding to current estimates of the general government deficit for 2011. This is a very risky item in relation to current developments. The situation on financial markets can easily turn against the Czech Republic due to both psychological factors and possible deterioration of the real economy's development. The ensuing costs to finance government debt would inevitably rise (see Chapter 4).

Government investments will remain relatively stable in comparison to the previous year, as the current development does not present opportunities for greater investment activity compared to last year. Financing of projects for which money is drawn from European funds remains the top priority. If additional savings are needed, it can be expected that they will be directed at projects financed solely from national sources.

The current estimate, however, also bears risks. On the revenues side, the main concern is the underfulfilment of tax estimates (VAT and social security contributions). The most recent development of cash performance suggests a decrease in their collection, and a key question is how this will develop in the remaining part of the year.

Non-fulfilment of the estimate for government investments financed from EU sources may present another problem, and especially due to the influence of subsequent co-financing. For some projects, the payment of EU funds is currently on hold. Projects continue to be implemented, however, with financing from national sources. In case of favourable development, the requested amount will be paid in arrears with no influence on the deficit. If the payment is not made, then these expenditures will be reclassified as investments exclusively from national sources and will thus have a negative impact on balance.

Another significant risk is the possible adoption of a law by which the government will settle claims of property grievances vis-à-vis churches and religious institutions. The amount of money owed would be CZK 59 billion and would probably be entirely assigned to the deficit in the year in which the law is adopted (see Box 2 for more details on this topic).

2.2.3 General Government Debt

The general government debt in 2010 reached CZK 1,418 billion, which represents 37.6% of GDP. As in the previous year, debt grew less than did the deficit in absolute terms. The general government deficit is thus financed to a considerable degree from reserves accumulated in the previous years.

The debt is expected to be CZK 1,560 billion at the end of 2011, which is 40.5% (see

Table 2.4) expressed as a proportion of GDP. Thus the debt to GDP ratio will likely pass the "psychological threshold" of 40%. In an international comparison, however, the debt remains at a relatively low level and is still below the Maastricht convergence criterion for debt.

Table 2.1: General Government Revenue (2005–2011)
(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011
General government revenue	**39.8**	**39.6**	**40.3**	**38.9**	**39.1**	**39.3**	**40.4**
tax revenue	**19.9**	**19.4**	**19.8**	**18.6**	**18.4**	**18.2**	**19.3**
individual income tax	4.4	4.2	4.3	3.7	3.6	3.6	4.0
corporate income tax	4.3	4.6	4.7	4.2	3.5	3.4	3.4
value added tax	6.8	6.2	6.2	6.6	6.8	6.9	7.1
excise taxes	3.5	3.6	3.9	3.3	3.7	3.7	3.9
other taxes and contributions	0.8	0.8	0.8	0.8	0.7	0.8	0.9
social security contributions	**15.5**	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**	**15.4**
sales	**2.6**	**2.4**	**2.6**	**2.7**	**2.8**	**2.6**	**2.7**
other revenues	**1.8**	**2.1**	**2.1**	**2.1**	**3.0**	**3.2**	**3.0**

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

Table 2.2: General Government Expenditure (2005–2011)
(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011
General government expenditure	**43.0**	**42.0**	**41.0**	**41.1**	**44.9**	**44.1**	**44.0**
government consumption	21.4	20.7	19.8	19.7	21.7	21.4	20.9
social benefits other than social transfers in kind	12.0	12.2	12.5	12.4	13.6	13.8	13.9
gross fixed capital formation	4.3	4.5	4.2	4.6	5.1	4.4	4.3
other expenditure	5.3	4.6	4.6	4.4	4.5	4.5	5.0

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

Table 2.3: Balance of General Government and of Subsectors (2005–2011)
(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011
General government balance	**-3.2**	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**	**-3.7**
Central government balance	-3.2	-2.4	-1.5	-2.4	-5.0	-4.1	-3.3
Local government balance	0.0	-0.3	0.4	-0.1	-0.6	-0.5	-0.3
Social security funds balance	0.0	0.4	0.4	0.3	-0.3	-0.2	-0.1
Primary balance	**-2.2**	**-1.3**	**0.4**	**-1.2**	**-4.6**	**-3.4**	**-2.3**

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

Table 2.4: Debt of General Government and of Subsectors (2005–2011)
(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011
General government debt	**28.4**	**28.3**	**28.0**	**28.7**	**34.3**	**37.6**	**40.5**
Central government debt	26.1	25.9	25.6	26.4	31.7	35.1	38.0
Local government debt	2.5	2.6	2.4	2.4	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 (2011b). Year 2011 MF CR.

Table 2.5: Stock-flow Adjustment (2005–2011)
(Gross debt in % of GDP; all other items in p.p.)

	2005	2006	2007	2008	2009	2010	2011
Gross debt	**28.4**	**28.3**	**28.0**	**28.7**	**34.3**	**37.6**	**40.5**
Change in gross debt	-0.5	-0.1	-0.3	0.8	5.6	3.3	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	**-1.7**	**-2.0**	**-2.4**	**-1.3**	**0.7**	**-0.2**	**-0.8**
General government net lending(+)/borrowing(-)	**3.2**	**2.4**	**0.7**	**2.2**	**5.8**	**4.8**	**3.7**
Other factors	**-2.0**	**-0.5**	**1.3**	**-0.1**	**-1.0**	**-1.3**	**0.0**
Difference between cash and accrual	-0.6	0.5	0.0	-1.5	0.8	-0.4	0.2
Net accumulation of financial assets	-1.1	-0.8	1.4	1.3	-1.7	-0.7	-0.2
privatisation proceeds	3.4	0.0	0.3	0.6	0.1	0.0	0.0
Revaluation and other factors	-0.3	-0.2	-0.1	0.1	-0.1	-0.2	0.0

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

2.3 International Comparison

2.3.1 General Government Balance

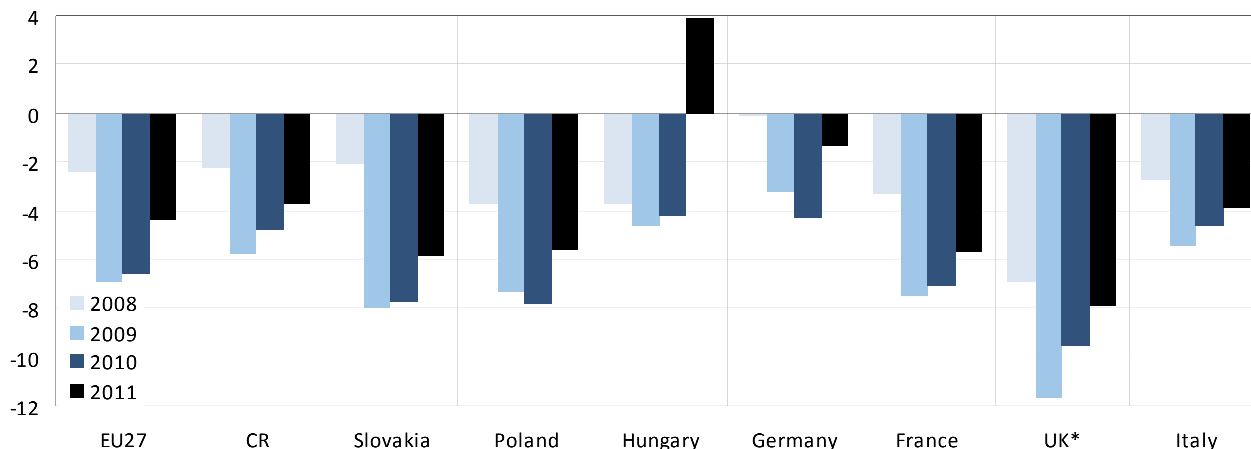
In 2010, the general government balance of the EU27 countries reached a very unfavourable value of −6.6% of GDP. Reflecting the gradual economic recovery, however, this was 0.3 p.p. better than in 2009. With its deficit at 4.8% of GDP, the Czech Republic finds itself better than the EU27 average.

Ireland recorded the poorest general government balance in 2010 with a record deficit of 31.3% of GDP (due to an improvement in the balance and GDP, there was a positive revision of 1.1 p.p. versus the spring notification) as a result of the state financial support to the local banking sector. The central government thereby included into its operations promissory notes totalling EUR 10.85 billion, the beneficiaries of which are financial institutions. Without this operation, Ireland's deficit would be around 11.5% of GDP. Greece (10.6%), Portugal (9.8%), the UK (9.6%) and Spain (9.3%) also had high deficits in relative terms. The only two countries to record a surplus in 2010, although minimal, were this year's "euro newbie" Estonia and once again Sweden (versus its deficit figure in spring). In total, 22 EU countries did not meet the deficit criterion of the Stability and Growth Pact which stipulates a maximum 3% of GDP.

Apart from three exceptions, all EU27 countries are expecting general government deficits in 2011. Joining the aforementioned Estonia and Sweden (again, recording only slight surpluses in relative terms) rather surprisingly is Hungary, with an expected record positive balance of 3.9% of GDP (due to an almost two-fold improvement in absolute terms and a slight decrease in GDP, an improvement of 1.9 p.p. was recorded versus the spring notification). The cause is not a radical change in Hungarian fiscal policy, but rather an adjustment in the balance for expenditures designated for pension reform totalling approximately HUF 2.2 trillion (over EUR 8.1 billion). Without this adjustment, Hungary would record a deficit of ca 4.0% of GDP. The highest deficits should once again be recorded in Ireland at 10.0% of GDP (this amount is no longer affected by government financial aid to banks, but in reality by the primary cash balance at the level of the state budget and state funds) and in the UK at 7.9% of GDP. Greece – which is still susceptible to the possibility of default, despite meetings at EU and euro zone summits aimed to prevent such situation – expects a deficit of 8.6% of GDP, representing an increase of 1.2 p.p. versus the spring notification.

Due to the persisting economic problems, 19 EU countries, including the Czech Republic, expect deficits exceeding 3% in 2011 (Table B.15 in the annex). Denmark and Cyprus are expected to record worse results for general government finances in relative terms as compared to 2010.

Graph 2.5: General Government Balance in Selected EU Countries (2008–2011)
(in % of GDP)



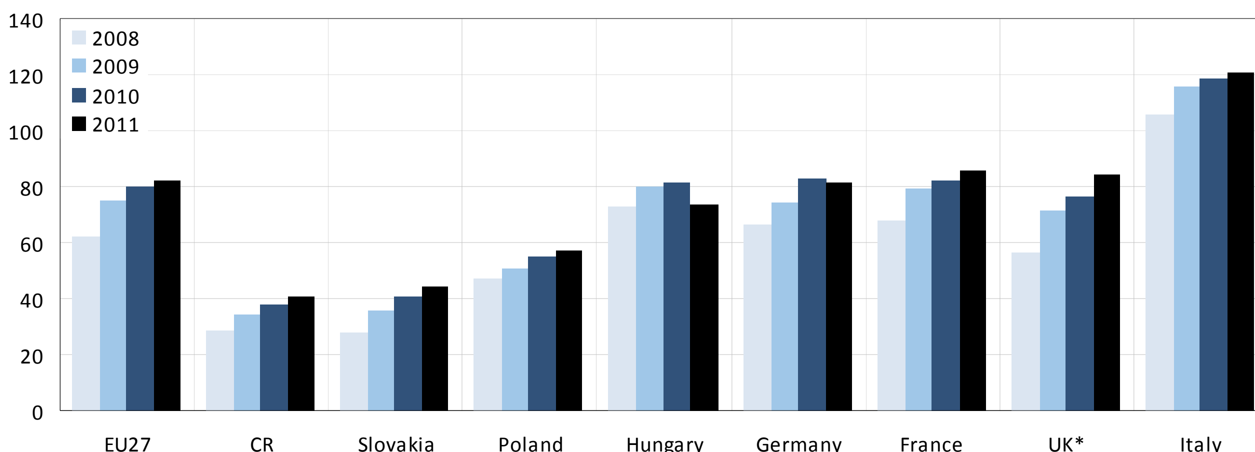
*Note: *) Fiscal year data (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2011), UK data for 2011 are based on its Notification.

2.3.2 General Government Debt

General government debt approximately reflects the development of budget deficits in the given countries over the long term. In the EU27 countries, it reached 80.2% of GDP in 2010, which is 5.5 p.p. more than in 2009.

The most indebted EU27 country is "problematic" Greece, which continues to quickly accumulate debt (144.9% of GDP in 2010 and 163.7% of GDP in 2011). Based on the results of the October EU and euro zone summit, it is anticipated that Greece will have half of its debt forgiven by private creditors. In comparison with Greece's spring notification, moreover, its debt increased in relative terms by 2.1 p.p. in 2010 and by 8.9 p.p. in 2011, due to the deterioration of both absolute variables. Other countries not able to cover their general government debts even with their entire annual GDP traditionally include Italy (118.4% of GDP in 2010 and 120.6% of GDP in 2011) and, as from 2011, Ireland and Portugal. Belgium is doing only slightly better, followed by the lead economies of the EU: Germany, France and the UK. The debt indicator is developing favourably in Sweden and especially in Estonia, where its relative amount is easily the lowest and the only one in single digits. The majority of EU countries more or less are recording a sharp relative worsening in their volumes of debt. During 2007–2011, this trend can be most markedly seen in Latvia and Ireland, and to a lesser extent in Luxembourg and Romania (see Table B.15 in the annex). In 2010 and 2011, the Maastricht debt criterion would not be satisfied by 14 out of the 27 EU countries, i.e. a slight majority.

Graph 2.6: General Government Debt in Selected EU Countries (2008–2011)
(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 (2011), UK data for 2011 are based on its Notification.

3 Medium-term Fiscal Outlook

The government's duty to present medium-term fiscal objectives and conform to the medium-term expenditure framework for the state budget and state funds based upon these objectives is an important systematic feature of the budget process in the Czech Republic. Adherence to this approach ensures that any revenues higher than expected will be used for more quickly reducing the deficit and that the budgets of the central government serve as a macro-economic stabilising instrument. Establishing obligatory expenditure limits within the medium-term framework contributes to maintaining fiscal discipline and limits the risk of procyclicality.

The Czech economy's not very dynamic recovery, less-than-optimistic future perspectives stemming from a crisis of trust and from uncertainties in the financial markets, the Czech Republic's commitment to consolidate public finances by credible and sustainable means so that in 2013 the general government deficit is under 3% of GDP, and to adjust the revenues and expenses over the medium term in a manner ensuring a structural deficit under 1% of GDP, and last but not least the pressure of the financial markets all shape the government's consolidation strategy. This strategy, using the aforementioned medium-term budget framework mechanism, endeavours to achieve deficits which will not surpass 3.5% of GDP in 2012, 2.9% of GDP in 2013 and 1.9% of GDP in 2014, with a prospect for balancing the budget in 2016.

3.1 Medium-term Expenditure Framework and Deficit Trajectory

The obligatory nature of the medium-term expenditure framework (hereinafter just the Framework) generally ensues from Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts, while the specific amounts of the Framework are established by resolutions of the Chamber of Deputies.

The current Framework for 2012 and 2013 was approved by the Chamber of Deputies in December 2010 (Resolution No. 235/2010), while in June 2011 the amounts of the Framework (Resolution No. 566/2011) were increased to CZK 1,154.2 billion for 2012 and CZK 1,176.8 billion for 2013 due to increase of funds to compensate for the rise in electricity prices in relation to the photovoltaic boom.

Without agreement of the Chamber of Deputies, an approved framework can only be adjusted by taxation-defined items, such as impacts of significant deviation in the development of consumer prices, changes in estimated outlays financed by funds from the EU and from financial mechanisms, impacts of changes in designations of taxes, and emergency situations.

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

			2010	2011	2012	2013	2014
Target for government sector (ESA 95)	*% of GDP*	1	**-4.8**	**-3.7**	**-3.2**	**-2.9**	**-1.9**
	bn CZK	2	-182.7	-142.4	-127.7	-116.9	-82.8
Difference between ESA 95 and Fiscal targeting methodology	*bn CZK*	3	**-31.9**	**9.1**	**-0.1**	**2.9**	**-5.6**
Target for public budgets (fiscal targeting)	*bn CZK*	4=1-3	**-150.8**	**-151.6**	**-127.6**	**-119.8**	**-77.2**
	% of GDP	5	-4.0	-3.9	-3.2	-2.9	-1.8
Public budgets other than state budget and state funds	*% of GDP*	6	**-0.2**	**-0.1**	**-0.4**	**-0.3**	**-0.1**
Target for state budget and state funds	*% of GDP*	7=5-6	**-3.8**	**-3.8**	**-2.8**	**-2.6**	**-1.7**
	bn CZK	8	-142.6	-147.7	-111.8	-107.6	-72.9
State budget	*bn CZK*	8a	-138.7	-132.9	-101.5	-106.5	-70.3
State funds	*bn CZK*	8b	-3.9	-14.9	-10.3	-1.1	-2.6
Revenue forecast of state budget and state funds	*bn CZK*	9	**1098.1**	**1158.9**	**1174.7**	**1018.7**	**1054.7**
State budget	*bn CZK*	9a	981.6	1052.0	1084.0	978.3	1014.5
State funds	*bn CZK*	9b	116.5	106.9	90.7	40.4	40.2
New expenditure framework	*bn CZK*	10=9-8	**1240.7**	**1306.6**	**1286.5**	**1126.3**	**1127.6**
State budget	*bn CZK*	10a	1120.3	1184.8	1185.5	1084.8	1084.8
State funds	*bn CZK*	10b	120.4	121.8	101.0	41.5	42.8

Note: Reduction in the levels of revenues and expenditures between 2012 and 2013 results from the fact that in the outlook of the state budget for 2013 and 2014 are not included expected revenues from EU funds and financial mechanisms and the expenditure financed thereby.
Source: MF CR.

Including these changes, or rather only the change due to the estimate of outlays financed by funds from the EU and financial mechanisms and the different presumption as to the consolidation amount, because other changes are not considered, would lead the updated amounts of the approved Framework to general government deficits at 3.6% of GDP in 2012 and 4.0% of GDP in 2013.

As the Framework for 2012 would therefore slightly surpass the fiscal target for the given year, the government is considering a more conservative scenario in the state budget act proposal for 2012 and in the state fund budget proposal, with the amount of the central government expenditures lower by CZK 10.7 billion. With the state of calculations upon which the medium-term budget outlook was composed, this would lead to a deficit of 3.5% of GDP. Nevertheless, the revision of GDP and its components, a new macroeconomic forecasts, and adjustments in the estimate of future developments for certain items lead us to believe that the general government deficit under the ESA 95 methodology could reach 3.2% of GDP in 2012. With the current uncertain development abroad, this creates a certain buffer for the 3.5% objective in case the pessimistic views become reality.

For 2013, the situation is different. The approved updated amount of the Framework would, according to the current forecasts, generate a general government deficit of 4.0% of GDP, which is 1.1 p.p. higher than the government's fiscal objective. Moreover, in 2013, the Czech Republic must, in accordance with the recommendations of the Council of the European Union, decrease the general government deficit to below 3% in order to fulfil the commitment ensuing from the Excessive Deficit Procedure of the Stability and Growth Pact. Therefore, the government has suggested such amounts for the central government framework being decreased by CZK 40.5 billion to ensure, under otherwise unchanged conditions, fulfilment of the Council's requirement and of the fiscal objective for 2013 at 2.9% of GDP. Achieving this ratio is also conditioned upon shifting the effectiveness of the acts on the Unified Revenue Collection Agency (and within it particularly the amendment of direct taxes and payments) and postponing those structural reforms that significantly eroding the revenues side of public budgets.

In April 2011 the government decided (Resolution No. 278/2011) that for 2014 it will target a general government balance at −1.9% of GDP. At the same time, the Czech Republic stated in the Convergence Programme (MF CR, 2011a) the goal to reach the medium-term objective established within the European fiscal rules in 2015 to 2016, which corresponds to the government's programme proclamation to balance the general government's overall budget in 2016.

The newly proposed amount of the central government expenditure Framework for 2014 takes these facts fully into account. The method for deriving the amounts of the expenditure Framework from the objective in the ESA 95 methodology for 2012–2014 is presented in Table 3.1.

The assumption as to the operation of public budgets outside the state budget and state funds is for slight improvement in the deficit from 0.4% of GDP to 0.1% of GDP during 2012–2014. Municipal governments' budgets should operate with a deficit of about 0.1% of GDP. Health insurance companies' operations should have a deficit at about 0.1% of GDP, that being, among other reasons, in connection with the rise in the reduced VAT rate and higher expenditures for medicaments. Last but not least, the planned use of privatisation sources (especially to pay for undertakings related to cleaning up old environmental damages) will apparently also deepen the deficit in the individual years.

The estimate of the difference between the deficit for fiscal targeting and the deficit according to the ESA 95 methodology is another factor influencing the planned government sector balance. For the following period, we forecast this difference to be in the average absolute amount of around 0.1% of GDP. This is primarily due to the differences between the cash and accrual principles of the individual methodologies and their differences in defining the public sector (see MF CR 2011d).

Table 3.2 presents a general overview of the approved, updated and newly established Framework, again demonstrating the increased tightening of the amounts in the budgetary Framework.

In Table 3.1 and Table 3.2 the amounts of the medium-term expenditure Framework as well as the amounts of revenues for 2013 and 2014 decline significantly. This sharp drop is caused, however, by calculation of the Framework wherein for years t+2 and t+3 neither funds from the EU nor financial mechanisms or their financing are included into revenues or expenditures.

Table 3.2: Assessment of the Fulfilment of Expenditure Framework
(bn CZK, fiscal targeting methodology)

		2012	2013	2014
Adjusted expenditure framework approved in 2011	1	**1297.2**	**1166.8**	**-**
New expenditure framework	2	**1286.5**	**1126.3**	**1127.6**
Tightening (-) / breach (+) of expenditure framework	3=2-1	-10.7	-40.5	-

Note: Reduction in the levels of revenues and expenditures between 2012 and 2013 results i.a. from the fact that in the outlook of the state budget for 2013 and 2014 are not included expected revenue from EU funds and financial mechanisms and the expenditure financed thereby.
Source: MF CR.

3.2 General Government Medium-term Outlook

Development overview of the entire general government sector's operations as well as for the individual subsectors from 2010 to 2014 is presented in Table 3.3. This shows that the highest government budget balances originate at the central level (state budget and state funds), the development of which therefore more or less determines the overall government balance. Table 3.3 also compares the dynamics of the total revenues and expenses. The higher rate of growth of the revenues, especially tax revenues, than expenditures, is determined on the one hand by reforms of direct and indirect taxes and on the other hand by reforms on the expenditure side, which moderate the growth of this side of the budget. The following subchapters analyse in detail the crucial factors of future changes.

Table 3.3: General Government Development (ESA 95)

		2010	2011	2012	2013	2014
General government balance	*% of GDP*	**-4.8**	**-3.7**	**-3.2**	**-2.9**	**-1.9**
Central government	*% of GDP*	-4.0	-3.3	-3.0	-2.7	-1.8
Local governments	*% of GDP*	-0.5	-0.3	-0.1	-0.1	0.0
Social security funds	*% of GDP*	-0.2	-0.1	-0.1	-0.1	-0.1
Total revenue	*% of GDP*	**39.3**	**40.4**	**40.5**	**40.7**	**40.0**
	growth in %	1.5	4.8	3.1	3.3	2.9
Total expenditure	*% of GDP*	**44.1**	**44.0**	**43.7**	**43.5**	**41.9**
	growth in %	-0.9	1.9	2.0	2.5	0.8

Source: CZSO (2011b). MF CR.

3.2.1 General Government Revenue

Despite the planned consolidation measures on the revenues side of the government sector, in contrast to the May issue of the Fiscal Outlook, we expect lower growth dynamics for total revenues during 2012–2014. This is due to a decrease in the estimates of the future relevant macroeconomic bases.

From a fiscal perspective, discretionary measures related to adjusting the value added tax rates are very significant. In 2012 the reduced rate will be increased by 4 p.p., which should result in increased revenues of CZK 27 billion. The funds thus obtained will be used for balancing the deficit on the pension account in relation to the expected drop in revenues from the pay-as-you-go pension system after introducing the capital pillar of the pension reform. The subsequent growth at the reduced rate in 2013 should be accompanied by a decrease of the basic rate and the unification of VAT rates at 17.5%. In 2013, as well as in 2014, we expect only limited growth in total collections. A positive fiscal effect should occur also due to decrease in the registration limit for VAT payers from CZK 1 million to CZK 750,000 from 2014. This should involve ca 5,800 individuals and 10,500 legal entities.

The growth in prices of goods and services classified under the reduced VAT rate will be partially compensated to families with children by an increase in the tax deduction per child. The loss to the public budgets will be ca CZK 4 billion.

The total nominal collection of the personal pension tax will have an unfavourable development. After a drop in 2012 and a limited growth in the next year, a substantial drop in collections is foreseen for 2014. The causes of this development can be sought not only in the weak growth of employment and wages (especially in the non-entrepreneur area), but especially in the new statutory measures on the parameters of this tax (a reform of direct taxes and payments in relation to reform of the single collection point). The change in the design of the tax assessment base, tax rate and amount of tax deduction for personal employment income tax will have a strongly negative impact on revenues to the government sector, signifi-

cantly reflecting into the budgets from 2014 (a drop in revenues of approximately CZK 25 billion). On the other hand, the change of tax rate on tax returns will have a positive fiscal impact, as well as the elimination of certain tax exemptions.

For the following years, we expect only very low rates of growth in autonomous revenues from corporate income tax. The total collection will then be positively influenced by the introduction of taxes on operators of lotteries and other gambling activities (ca CZK 7.2 billion from 2012). Other planned legislative changes are less significant from the fiscal point of view. For the period 2012–2014, it is necessary to assume a certain measure of risk in predicting total collections of corporate income tax. As shown by developments in 2009 and 2010, such a tax is very sensitive to the changing phases of the economic cycle, and possible deterioration in the economies of the EU countries and the US and a related drop in foreign demand could have a negative influence especially on the collection of this tax.

Revenues from social security insurance premiums should develop positively and show steadily increasing year-on-year growth (6.4% in 2014). This will result from the planned statutory changes that will have a positive fiscal impact. This should occur even despite the outlook for decreased revenues due to the presumed impact of the pension reform, i.e. by the option to reduce the insurance premium payment by 3 p.p. in order to contribute that to a pillar II pension fund (the so-called "opt-out"). From January 2012, the maximum assessment base for payments of social insurance contributions will return to 48 times the average wage. This measure will have the effect of reducing revenues by ca CZK 3 billion per year. Moreover, in relation to the amendment of direct taxes and payments, the ceiling for health insurance contributions from employers also will be decreased to 48 times from the beginning of 2014.

From 2014, certain employment benefits will be included into the base for calculating social and health insurance. This amendment will bring additional revenue of CZK 12.4 billion to the public budgets. For health insurance contributions there will also be a shift of part of the burden from the employer to the employee, with a presumed slightly positive fiscal effect. The introduction of an injury insurance premium newly paid by the employers from 2013 will also have a positive revenue effect. Its rate is proposed by the government to be 0.4% of the total wage (revenue of CZK 5.5 billion).

The group of property taxes, including gift tax, shows a drop of ca CZK 4.5 billion from 2013, as amendments taxing European emission permits acquired free of charge will expire. From that year, part of the permits will be sold at auction, which should generate higher revenue than did taxation. Nevertheless, this all depends on the koruna/euro exchange rate development and demand for permits.

As it is also true for property taxes, no new excise taxes are considered. However, the already approved increased excise tax rate from tobacco products will benefit public finance in the amount of ca CZK 2 billion in relation to harmonisation of these taxes across the entire EU.

We expect other revenues to be changed slightly, which reflects the practically constant influx of funds from the EU and government sector sales, for which only minimal nominal growth is predicted relative to the report in the spring issue of the Fiscal Outlook.

Table 3.4: General Government Revenue (ESA 95)

	2010	2011	2012	2013	2014
bn CZK					
Total revenue	**1485**	**1556**	**1604**	**1658**	**1706**
Tax revenue	**689**	**745**	**780**	**801**	**797**
Taxes on production and imports	423	452	489	498	513
Value added tax	259	275	309	317	336
Excise taxes	138	149	152	153	149
Current taxes on income, wealth, etc.	266	289	287	303	283
Personal income tax	135	153	148	152	133
Corporate income tax	127	133	135	147	147
Capital taxes	0	4	4	0	0
Social contributions	**578**	**593**	**608**	**631**	**672**
Property income	**31**	**29**	**25**	**28**	**32**
Other	**187**	**189**	**191**	**198**	**205**
growth in %					
Total revenue	**1.5**	**4.8**	**3.1**	**3.3**	**2.9**
Tax revenue	**0.3**	**8.2**	**4.7**	**2.6**	**-0.5**
Taxes on production and imports	1.9	6.9	8.2	1.9	3.2
Value added tax	1.9	6.1	12.5	2.6	6.0
Excise taxes	0.9	7.3	2.6	0.5	-2.4
Current taxes on income, wealth, etc.	-2.2	8.7	-0.6	5.4	-6.4
Personal income tax	-0.6	13.1	-3.2	2.8	-12.8
Corporate income tax	-3.8	4.4	2.0	8.3	0.1
Capital taxes	0.0	1750.1	0.3	-94.3	1.0
Social contributions	**3.2**	**2.6**	**2.6**	**3.8**	**6.4**
Property income	**-1.9**	**-7.0**	**-13.5**	**12.1**	**16.2**
Other	**1.7**	**0.9**	**1.2**	**3.4**	**3.8**
Tax burden *% of GDP*	**33.5**	**34.7**	**35.1**	**35.1**	**34.4**

Note: Compared to the national accounts data, the given tax quota includes both the share of VAT transferred towards EU as its own income and customs revenue collected by the Czech Customs Service.
Source: MF CR.

3.2.2 General Government Expenditure

The overall development of general government spending up to 2014 (Table 3.5) reflects in itself the government's continuing austerity policy and adherence to tighter expenditure limits.

Consolidation efforts on the expenditures side of the public budgets are also apparent for remuneration to employees, where only slight growth is expected and then a drop in 2014. In the following years, salaries will be increased only to teachers, physicians and state representatives (expenditures of CZK 5.8 billion in 2012). For other groups of government sector employees, a real drop will occur in total expenditures on salaries. There should occur in 2014 a year-on-year decrease in the volume of funds dedicated to compensation for employees due to the decrease of the insurance premium paid by the employer from 34.4% to 32.4%, reflecting the reforms related to the single collection point.

Regarding mandatory social expenditures, no legislative changes with significant fiscal impact are considered. With the raising of the reduced VAT rate from 2012, there will be higher expenditures for valorisation of pensions and monetary social benefits in 2013 and 2014 (due to the higher inflation rate we estimate an effect up to CZK 4 billion). Moreover, parametric changes in the pay-as-you-go pillar will have a slightly negative effect (ca CZK 0.5 billion) on pension insurance benefits (for details, see subchapter 3.3.1).

On the other hand, it should be regarded positively that increased efficiency in benefits payment administration will bring savings of approximately CZK 0.4 billion already since 2012. Other cost savings both on the side of public budgets and for the citizens will be seen from 2014 in relation to the project creating a single collection point.

In connection with certain amendments increasing revenues of the government sector (see above), some additional expenses will occur. This relates to the gradual unification of VAT rates, which will have an unfavourable effect on growth in government sector spending on goods and services in the range of CZK 3 billion in 2012, and 2.2 billion in 2013 and 2014.

Table 3.5: General Government Expenditure (ESA 95)

	2010	2011	2012	2013	2014
CZK bn					
Total expenditure	**1665**	**1697**	**1731**	**1774**	**1788**
Final consumption expenditure	**808**	**806**	**823**	**832**	**850**
Collective consumption	399	388	394	397	408
Individual consumption	409	418	428	435	443
Social benefits in kind	222	225	228	232	235
Transfers of individual non-market goods and services	187	193	200	203	207
Social transfers other than in kind	**521**	**535**	**555**	**578**	**598**
Interest	**51**	**55**	**57**	**60**	**64**
Subsidies	**71**	**78**	**80**	**80**	**80**
Gross fixed capital formation	**165**	**165**	**165**	**162**	**157**
Other	**49**	**58**	**51**	**62**	**40**
Compensation of employees	**286**	**280**	**283**	**291**	**289**
Total social transfers	**744**	**761**	**784**	**810**	**833**
growth in %					
Total expenditure	**-0.9**	**1.9**	**2.0**	**2.5**	**0.8**
Final consumption expenditure	**-0.2**	**-0.2**	**2.1**	**1.1**	**2.2**
Collective consumption	0.0	-2.7	1.6	0.6	2.7
Individual consumption	-0.4	2.2	2.5	1.5	1.7
Social benefits in kind	1.5	1.3	1.4	1.4	1.5
Transfers of individual non-market goods and services	-2.6	3.3	3.8	1.7	2.0
Social transfers other than in kind	**2.3**	**2.7**	**3.7**	**4.1**	**3.4**
Interest	**8.0**	**6.9**	**4.4**	**5.1**	**6.7**
Subsidies	**-4.5**	**9.4**	**2.0**	**0.0**	**0.0**
Gross fixed capital formation	**-14.2**	**0.1**	**0.2**	**-1.9**	**-3.2**
Other	**4.5**	**18.5**	**-12.1**	**21.4**	**-36.2**
Compensation of employees	**-2.5**	**-2.0**	**0.9**	**2.9**	**-0.7**
Total social transfers	**2.1**	**2.3**	**3.1**	**3.3**	**2.9**

Source: MF CR.

Expenditures will rise by just under CZK 5 billion in relation to the newly introduced injury insurance. These funds will be primarily dedicated to payment of insurance claims and also to cover administrative costs related to this new agenda. Nevertheless, the net budgetary benefit from introduction of the injury insurance should remain slightly positive.

During 2012–2014 we expect a slight decrease in gross fixed capital formation. While we expect investments co-financed from EU funds to be more or less steady at the 2011 level in accrual terms, the volume of other investments will apparently be dropping each year. This should be caused not only by the conclusion and optimisation of certain investment projects in relation to adopted austerity measures, but also by boosting the effectiveness of the public procurement system (expected savings of ca CZK 5–10 billion) and seeking alternative methods for their financing.

Despite increase year on year in the growth rates for interest costs until 2014, there was a decrease in the expected absolute amount of costs for debt service in comparison to the past forecasts. The costs for servicing the government debt should reach CZK 64 billion in 2014, which is CZK 5 billion less than presumed in the May issue of the Fiscal Outlook.

Concerning other measures, starting with 2012 the volume of funds earmarked for the state contribution to building savings will be significantly decreased. The savings should be as much as CZK 6 billion.

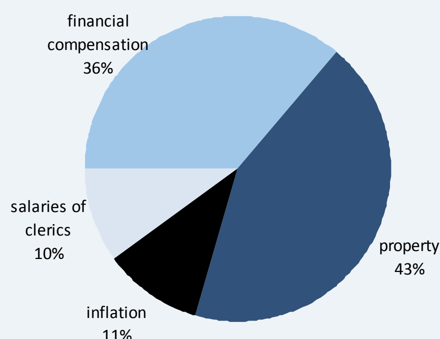
We perceive a significant risk to the fiscal prognosis for 2012 (as for 2011) in the timing to adopt the act on the state's property settlement with the churches (see Box 2). This one-time effect with no influence on the overall consolidation trajectory would mean a deepening of the deficit by CZK 59 billion.

Box 2: Settlement of the Property Relations of the State and the Churches

Property-related injustices after February 1948 against churches and religious societies (hereinafter just churches) are to be rectified under a newly prepared act which would free the churches of financial dependence and concurrently separate the churches from the state. The variant chosen by the consensus of the government and representatives of the churches plans for a **return of real estate in the value of CZK 75 billion and financial compensation of CZK 59 billion**.

The agreement on financial compensation presumes that funds will be returned over the course of 30 years, while the unpaid parts of the compensation should be indexed to the rise in consumer prices. In total, more than CZK 79 billion will be paid from the state budget. Moreover, over 17 years churches will be receiving a decreasing contribution for payments to clergy in the total amount of CZK 17 billion. The structure of the overall value of the settlement (CZK 169.6 billion, with a presumption of a stable 2% inflation rate) is presented in Graph 3.1.

Graph 3.1: Structure of Settlement of the State and Churches



Source: Explanatory Report to the draft of Act on property settlement with Churches and religious societies. MF CR Calculations.

The CZSO stated as follows in recording the impact of the settlement with churches under the ESA 95 accrual methodology: In relation to turning over real estate (buildings, other structures), the transaction has no effect on the government sector deficit, and there only will be a decrease representing a pertinent asset in the balance sheet. Nevertheless, in the case of presenting financial assets (such as ownership interests) their full amount is calculated into the deficit. Financial compensation in the amount of CZK 59 billion will be included into government sector expenses in the full amount (as a capital transfer) from the year when the Czech Republic commits to the given undertaking by adopting the law. This transaction will be reflected in the financial accounts as an increase of other liabilities (therefore not liabilities from loans taken or bonds issued) and will not represent an increase in the debt.

Indexing of the repayments and principal for inflation for the duration of the contractual relationship will be recorded as a revaluation, which in its final result has no effect on the government sector deficit. Moreover, the individual instalments are not considered as expenditures under the ESA 95 methodology, as the entire amount of the debt will already have been recognised in the first year. From the perspective of this transaction, the debt will not be affected at all. (Note: If the instalments were financed by a bonds issue, however, the state debt would always increase accordingly.)

3.2.3 General Government Debt

The sharp increase in the ratio of government debt to GDP, which occurred in 2009–2011 in connection with the drop in revenues due to the economic recession and the effect of stimulatory spending measures, should slow in the years of the outlook. The relative amount of debt should culminate in 2013 at 43.4% of GDP, and in 2014 we already expect a decrease in the general government debt relative to GDP thanks to the expected economic recovery and adoption of consolidation measures.

The current outlook anticipates no privatisation projects. Should these be carried out and the revenues from privatisation used for financing government spending, then a further slowing in the increase of the ratio of government debt to GDP would occur.

The difference between the operating balance (flow variable) and change in debt (stock variable) is expressed by factors acting on the debt level (so-called stock-flow adjustment). The reasons for the difference between the size of the accumulated balances and the real debt are differences in accounting concepts, exchange rate development, the items included and valuation (more details in e.g. MF CR, 2011d).

Table 3.6: Gross Consolidated Government Debt (ESA 95)

		2009	2010	2011	2012	2013	2014
General government	*CZK bn*	**1282**	**1418**	**1560**	**1670**	**1768**	**1832**
Central government	*CZK bn*	1187	1323	1466	1573	1674	1738
Local government	*CZK bn*	98	97	99	100	97	98
Social security funds	*CZK bn*	0	0	0	0	0	0
General government debt to GDP ratio	*% of GDP*	**34.3**	**37.6**	**40.5**	**42.2**	**43.4**	**42.9**
Contributions to change in debt							
Change in debt	*p.p.*	5.6	3.3	2.9	1.7	1.2	-0.4
Primary balance	*p.p.*	**4.6**	**3.5**	**2.3**	**1.8**	**1.4**	**0.4**
Interest	*p.p.*	**1.3**	**1.4**	**1.4**	**1.4**	**1.5**	**1.5**
Nominal GDP growth	*p.p.*	**0.8**	**-0.3**	**-0.8**	**-1.1**	**-1.2**	**-1.9**
Stock-flow adjustment	*p.p.*	**-1.1**	**-1.3**	**0.0**	**-0.5**	**-0.5**	**-0.4**
Difference between cash and accruals	*p.p.*	0.8	-0.4	0.2	-0.3	-0.2	-0.2
Net acquisition of financial assets	*p.p.*	-1.7	-0.7	-0.2	-0.2	-0.2	-0.2
Revaluation effects and other	*p.p.*	-0.1	-0.2	0.0	0.0	0.0	0.0

Source: MF CR.

3.2.4 Cyclical Development and Breakdown of the Balance

According to current estimates of potential product and the macroeconomic forecast (MF CR, 2011c), gradual recovery from the recession which hit the economy at the turn of 2008 and 2009 is threatened by apprehensions over impacts of the euro zone's debt crisis, the related problems of the banking sector, and the risk that these will spill over into the real economy. The negative output gap which opened in 2009 persists through the entire forecast.

The item one-off and other temporary measures in 2010–2012 reflects one-off revenues from sale of allocated emission units and the related one-off expenses, which, however, are shifted in time and in the short term therefore influence the deficit. Within the forecast horizon the balance follows the targeted consolidation trajectory.

Fiscal effort, defined as year-on-year change in the structural balance, should reach its highest value in 2011. Development at the end of the forecast time horizon suggests a certain slowing in the fiscal effort.

Fiscal objectives for 2012 to 2014 should at the same time aim to reach the medium-term budgetary objective determined for the Czech Republic within the EU's fiscal rules. This medium-term budgetary objective corresponds to a structural deficit in an amount not to exceed 1.0% of GDP, and the Czech Republic is obliged to reach it as soon as possible by credible and sustainable means. With the current fiscal policy set-up, the medium-term objective will not be achieved in the years of the outlook. We expect gradual decrease in the relative amount of the structural deficit from 4.4% of GDP in 2010 to 1.6% of GDP in 2014. In 2014, a considerable part of the structural deficit should be attributable to interest costs and we therefore estimate the structural balance to be near zero. In order to reach the medium-term objective in 2015 or 2016, consolidation will need to be continued.

Table 3.7: Structural Balance of the General Government (ESA 95)

		2010	2011	2012	2013	2014
Real GDP growth	*%*	2.7	2.1	1.0	2.0	3.3
Potential GDP growth	*%*	1.1	1.3	1.6	2.0	2.7
Output gap	*% PP*	-1.6	-0.9	-1.4	-1.4	-0.9
General government balance	*% of GDP*	**-4.8**	**-3.7**	**-3.2**	**-2.9**	**-1.9**
Cyclical budgetary component	*% of GDP*	-0.5	-0.3	-0.5	-0.5	-0.3
Cyclically adjusted balance	*% of GDP*	**-4.3**	**-3.4**	**-2.8**	**-2.4**	**-1.7**
One-off and other temporary measures	*% of GDP*	0.0	-0.3	-0.3	0.0	0.0
Structural balance	*% of GDP*	**-4.4**	**-3.1**	**-2.5**	**-2.4**	**-1.6**
Change in structural balance	*p.p.*	**0.8**	**1.2**	**0.6**	**0.1**	**0.7**
Interest	*% of GDP*	1.4	1.4	1.4	1.5	1.5
Structural primary balance	*% of GDP*	**-3.0**	**-1.7**	**-1.1**	**-0.9**	**-0.1**
Change in structural primary balance	*p.p.*	**0.9**	**1.3**	**0.6**	**0.2**	**0.8**

Source: MF CR.

3.3 Long-term Sustainability of Public Finance

3.3.1 Parametric Changes in the Pay-as-you-go System

With respect to the long-term development of public finances, a crucial change ensues from a judgement of the Constitutional Court from 16 April 2010 which revoked the reduction limits for calculating the assessment base for pensions. From 30 September 2011, the new amendment for calculating pensions became valid while other major changes responding to the Constitutional Court's ruling were attached to this amendment.

In May 2009, the Economic Policy Committee (EPC) and European Commission issued their Ageing Report (EC, 2009). The report is issued every 3 years and maps the impact of long-term macroeconomic and demographic development on public expenditures. Critical reviews of long-term pension projections are currently underway in the working group on ageing of the population. Although long-term projections for the Czech Republic were already presented, it is important to understand that these calculations are so far only preliminary and that their publication must be preceded by the EPC's approval. Upon approval, the results will be published in the spring 2012 Ageing Report. This is also the reason why the results cannot be published even here.

Apart from the macroeconomic and demographic presumptions, factors affecting new forecasts of course include the approved reform measures.

First we should mention the further increasing of the statutory retirement age. Despite original intentions to shift it to 63 years and then to 65 years of age (for women the age was to be differentiated according to the number of children raised), the retirement age will now vary according to dates of birth and the number of raised children will not be taken account for women. Unification of the retirement age should occur after 2040, while for those born in 1977 the retirement age will be exactly 67 years. For each consecutive year of birth, the retirement age will shift by 2 months (i.e. those born in 1978 will have a statutory retirement age of 67 years and 2 months, for 1979 the entitlement to a regular pension will begin at 67 years and 4 months of age, etc.).

Increasing statutory age of retirement also affects the conditions of permanent widows' and widowers' pensions, as well as early retirements. For both types of retirement, the limit will be rising.

Valorisation of pensions will be determined by a fixed rule, not by a minimal rule as until now. The formula for calculating valorisation remains the same, i.e. the index of consumer prices (inflation rate) plus one-third of the growth in real wages. However, a precise method for valorising the individual pension components is established, and the government has no room for increasing it artificially.

The influence of lower costs for disability pensions also is significantly reflected in the pension projections, as by increasing the number of types of disability pensions (from two – full and partial – to three groups) part of the formerly full pensions were transferred to the second level (with the rate of formerly partial pensions) and part of the formerly partial pensions were transferred into the first level (which has a rate of two-thirds of the formerly partial disability pensions).

The change in calculating pensions (in reaction to the decision of the Constitutional Court) essentially means a change in the "progressive taxation rate" of the pension assessment base (see Act No. 155/1995 Coll., §15.) This "taxation rate" is determined through the so-called reduction limits. Its development from the status abolished by the Constitutional Court to the final status in 2015 is presented in Table 3.8. The assessment base (determined by earnings of a given person when he or she was economically active) will be divided into parts according to the reduction limits. Only the first (lowest) part is considered in its full amount, and a reduced base (e.g. just 30%) enters into the formula for calculating the pension in the other parts. The new amendment decreases solidarity within the pension system. Apart from calculating 100% of the income for the lowest reduction interval, above this limit up to the amount of 400% of the average wage only 26% of the wage will now be taken into account. The assessment base exceeding 400% of the average wage will not be taken into account at all, as pension insurance is not even paid from this part of income.

Table 3.8: Reduction Threshold and Assessment Base

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

Note: 2011a means validity to 29.9.2011, 2011b means validity since 30.9.2011.
Source: Act No. 155/1995 Coll., On Pension Insurance.

3.3.2 Introducing the Second Pension Pillar

Pension system reform consists in planned incorporation of the second pillar of supplementary pension insurance. The government proposal introduces the second pillar with voluntary participation for persons younger than 35 years at the time of launching the reform.

Persons older than this will have half a year before the start of the reform to take a decision. It will not be possible to change the decision taken by each insured person. Financing of the second pillar will be provided by the transfer of funds for the participants from the first pillar in the amount of 3 p.p. from the total contribution rate of 28% (the employee contributes 6.5 p.p. and the employer 21.5 p.p.). Each insured person will have to add to this an additional 2 p.p. from his or her own funds. Apart from that, each person also will have a possibility to transfer an additional 1% from his or her assessment base for the insurance premium to the account of his or her parents receiving old age pensions. In the accumulation stage, funds will be managed by pension companies, which will be mandated to offer the clients four funds differing by risk: general, conservative, balanced and dynamic. The payment stage for the saved funds from the second pillar will be provided by the life insurance company selected by the insured person. It will be possible to draw the paid benefits either in the form of a lifetime annuity (optionally with an agreed payment of survivor pension 3 years after the participants' death) or of an annuity paid for 20 years (in case of the participant's earlier death the undrawn funds will be subject to inheritance). The occurrence of the second pillar will result in an immediate drop in revenues for the pay-as-you-go first pillar, compensated by lower outlays in future. The government plans to cover this temporary period using additional revenues from the unified VAT rate.

It is possible, however, that some parameters, such as entry conditions, will be subject to change.

4 Causes of the European Debt Crisis and its Consequences for Czech Public Finances

For this issue of the Fiscal Outlook we decided to focus our attention on the currently widely discussed topic of the causes and consequences of the European debt crisis. To begin the discussion, a brief history has been provided. The political-economic context of the period is followed by means of milestones in European monetary integration extending from adjusting exchange rates after dissolution of the Bretton-Woods system, through coordinating economic policies under the Maastricht Treaty, development of the Stability and Growth Pact and its revision in 2005, and up to the economic and financial crisis in the years 2008–2009 and its consequences. The last of these events has clearly highlighted the long-term structural imbalances among individual EU member states' economies, to which financial markets responded with heightened sensitivity as regards investing in debt instruments. This chapter thus reflects upon possible causes of the debt crisis as well as its consequences for future budgetary development in the Czech Republic stemming precisely from increased uncertainty and more intensive perception of and changing moods on financial markets.

4.1 History of Monetary Union

Following the end of the Bretton-Woods system, and several unsuccessful attempts to modify it (the so-called "snake in the tunnel") which would carry the world through the turbulent 1970s, the countries of the European Community (EC) decided to create their own monetary system. Then German Chancellor Helmut Schmidt and French President and later President of European Parliament Valéry G. d'Estaing took charge of the leading initiative. It was decided in 1978 to create the European Monetary System (EMS). That system was not to be tied either to gold or to the dollar, and all EC countries acceded to it upon its introduction in 1979.

The basic element of the EMS is the voluntary Exchange Rate Mechanism (ERM). With the exception of Sweden, all countries originally adopted the ERM. Following "Black Wednesday" (16 September 1992) – when the pound came under pressure from currency speculators, including George Soros – the United Kingdom exited the ERM and has never returned. Italy also left the ERM that same year, but re-joined in 1996. In 1999, countries in the ERM essentially terminated their membership by adopting a new common currency, the euro. One exception was Denmark, which remained in the ERM and retained its own national currency.

In essence, the ERM created a system of nearly fixed exchange rates that were originally established on a bilateral basis and thus created a square matrix. Each cell (outside the main diagonal) depicted a central parity of the given exchange rates against one another and with the ECU and with limits designating the band in which rates could fluctuate relative to one another. These fluctuation bands had a margin of ±2.25%, or in exceptional cases (the Italian lira) ±6% (Slaný *et al.*, 2003).

If a certain currency were to strengthen (weaken) to the allowed limit vis-à-vis another currency, this indicated that the given currency was too strong (weak) and the other currency was too weak (strong), whereby both countries became obliged mutually to resolve the given situation. At the same time it was not forbidden for central banks of other ERM countries to participate in resolving such situations. In the event that a country were to deplete its exchange reserves, the central bank of a country with a strong currency would have to provide a loan to the central bank of the country with the weak currency so that it could continue to buy up its currency. The European Monetary Cooperation Fund was established for such lending operations.

If despite all the cooperation of central banks it would still not be possible to "push back market forces" and it would thus be necessary to resort to changing the central parity, this action would need to be approved by all ERM members. In this case, each country would have to submit to the will of the consensus of all members in establishing its own currency's exchange rate, thereby effectively surrendering control of its exchange rate.

The last element of the EMS was creation of the European monetary unit (ECU). This element, however, was rather a matter of peripheral importance. The ECU did not function as a currency in the true sense of the word, but rather only as an accounting unit and reserve instrument for EC members. The value of the ECU – and therefore of the central parity of national currencies against the ECU – was determined according to weights established according to EC countries' economic output and their share in mutual international (within Europe) trade and which were revised every 5 years. The ECU was eventually replaced by the euro at parity.

A problem with the operation of the EMS became evident rather early on. Since each country continued to operate independently, even though exchange rates were practically fixed, in view of differing price levels, and therefore also different real exchange rate levels, countries with high inflation suffered a loss in their competitiveness. This led to constant revisions of the central parity and established conditions for speculative activity, and thus the monetary system was far from stable by its nature. Germany, in particular, capitalised in this respect on its low inflation, and other countries slowly began to look to it as an example for their own currency policies. The Deutsche Mark became the anchor, and other countries tried to align their own inflation rates with the German rate. Thus the other countries effectively placed their own monetary policies into the hands of the German central bank, resigning control.

The economic consequences of Germany's unification and Denmark's rejection of the Maastricht Treaty in 1992 sent an economic shock through financial markets and a wave of speculation. These began in the UK and Italy, both of which had withdrawn from the ERM, and made their way to a number of other countries. In order to maintain the ERM, the fluctuation band was widened to ±15% – a band so wide as to discredit the label "fixed rate" – nevertheless still in use for newly joining (mostly transitional) economies, although individual countries may tighten their fluctuation bands (Baldwin, Wyplosz, 2006).

4.1.1 Maastricht Treaty and Euro

The so-called Delores Report initiated preparations for the gradual creation of a true monetary union, with the crowning step to be the relinquishing of national currencies and adoption of a common currency – the euro. Specific conditions for a country's admittance into the monetary union (the euro zone) were established by the so-called Maastricht Treaty (1992). To be admitted, a country had to fulfil a total of five criteria[2] – three macroeconomic and two fiscal:

1) Inflation criterion: Annual inflation rate may not be more than 1.5 p.p. higher than the average of the three best performing member states.
2) Exchange rate criterion: Exchange rate may not deviate from the established fluctuation band (originally ±2.25% [exceptionally ±6%], then widened to ±15% as from August 1993).
3) Interest rate criterion: Average annual long-term interest rate may not be more than 2 p.p. higher than the rates in the three member states with the lowest inflation.
4) The ratio of government debt[3] to GDP must not exceed the critical level of 60% (or must be approaching this value at a satisfactory pace).
5) The ratio of the planned or actual government deficit to GDP must not exceed the critical level of 3% (or must be approaching this value at a satisfactory pace or exceed this value only exceptionally).

All of these criteria aimed at ensuring a certain level of stability in a given country. The criteria evaluate only nominal harmonisation, not actual harmonisation, such as synchronisation of economic cycles.

We continue to be puzzled by the determination of the fiscal criteria on debt and deficit. It has never properly been explained why the criteria of 60% of GDP for debt and 3% of GDP for government deficit were chosen as values that should denote fiscal sustainability. Presumably, the best explanation is that at the time the Maastricht Treaty was written, the average debt of EC countries was around 60% of GDP and assuming a growth rate of 5% for nominal GDP such value implies sustainability for a deficit level of 3% of GDP.[4] While it is quite possible that this could have been any other number when the Maastricht Treaty originated, today it is not so simple. The value of 60% of GDP for government debt has become a fixed reference that to a certain degree indicates how markets will react to the development of a given country's situation. It is possible, therefore, to pose the question, "To what extent was the future development of the euro zone, especially in light of the development in recent years, influenced by this setting?"

4.1.2 Stability and Growth Pact

After establishing the criteria entitling a country to adopt the euro, it was necessary to address another problem – namely, how to ensure stability of the euro zone when it would be influenced by individual countries' fiscal situations. By joining the monetary union, a country relinquishes its monetary policies but continues to control its own fiscal policy, which it may in principle use as deemed necessary. Due to possible risks of fiscal indiscipline, it was nevertheless necessary to adopt measures that would eliminate such risks. Excessive deficits and debts (particularly if recorded by large countries) could lead to disproportionate pressure on aggregate demand, shake the confidence of markets, and thereby raise the risk premium for all countries of the monetary union with all the impacts that entails. Germany took the initiative to

[2] For more detailed information on convergence criteria and the Czech Republic's fulfilment thereof, see Ministry of Finance, 2011s.

[3] Fiscal criteria can be regarded as alternatives, provided that nominal GDP is growing.

[4] Pasinetti (1998, 2000) was evidently one of the first to offer this explanation, which is generally accepted today.

eliminate these risks, and in June 1997 the European Council adopted the so-called Stability and Growth Pact (hereinafter the "Pact"). The Pact comprises of three parts: identifying an excessive deficit, a preventive arm, and a dissuasive arm.

Identifying an Excessive Deficit
An excessive deficit (see Resolution of the European Council) is identified according to the Maastricht criteria, i.e. an excessive deficit is a government deficit that exceeds the limit of 3% of GDP. Exceptions do exist, however, such as in the event that the deficit were to exceed this reference value due to a drop in GDP in a given year by at least 2% or if a country proves the exceptionality of its recession, in which case a GDP decline of 0.75–2.00% also would be accepted.

Preventive Arm
Member states must submit Stability Programmes or Convergence Programmes (EU Council Regulation No. 1466/1997). The former are submitted by euro zone member states, the latter by other member states. These are strategy documents describing the targets and economic policy measures for the next 3–5 years in the areas of macroeconomic, fiscal and structural policies. In these programmes, a country sets its medium-term budgetary goal, which in principle should ensure balanced public budget. The European Commission evaluates these programmes, and the EU Council formulates an opinion on them. If a country is at risk of not adhering to the set targets, the European Commission may recommend that the EU Council issue a warning and, if necessary, propose recommendations.

Corrective Arm
If a member state continues not to meet the targets and to have a government deficit exceeding 3% of GDP, the Commission may initiate a so-called excessive deficit procedure for the country (EU Council Regulation No. 1467/1997). An exception is made, however, if the deficit level is only slightly above the 3% of GDP threshold and if the deficit is exceptional and temporary. Sanctions for a given country differ according to whether or not the country is in the euro zone. The sanctions for euro zone member states are as follow:

- financial sanction of 0.2–0.5% of the country's GDP, depending on the seriousness of the breach;
- making a refundable deposit;
- publication of all data prior to issuing bonds;
- European Investment Bank may be compelled to adjust its lending policy for the given country.

For member states outside the euro zone, the final phase is different, as they are not subject to deep budgetary control. Sanctions "only" may take the form of a decision to suspend drawing of resources from the Cohesion Fund.

To successfully resolve the excessive deficit procedure, it is important to remove the excessive deficit by credible and sustainable means. One-off, non-systematic measures are not sufficient. Expected future development and fiscal strategy should also be evaluated.

4.1.3 Reform of the Pact

From the very beginning, the Stability and Growth Pact came under sharp criticism for its arbitrary and rigid requirements.[5] This criticism was aimed above all at the relatively fixed definition of an exceptional situation, the occurrence of which seemed improbable. Slow growth or stagnation can have the same effect on public budget, and yet the exception could not be applied in such cases. Also connected with this is criticism of the 3% of GDP limit, which could force some countries to act in a procyclical manner, despite disciplined conduct in good times. If a recession were to last a certain time and attempts to jump-start the economy were to fail, then the country would not qualify under the stated exception and thus could not use fiscal stimulus beyond a certain threshold. The country as a result would come under a vicious cycle.

From the beginning, another problem with the Pact was the uneven emphasis given to the two fiscal criteria. The debt criterion was always somehow played down, even though the main factor behind deficits was interest payments on debt (see Graph 4.3).

The final blow to the original Pact, however, was the stance of large countries such as France and Germany. Neither country met the Pact conditions in 2003, but through lobbying they forced a suspension of the excessive deficit procedure at a meeting of the Economic and Financial Affairs Council. Although the European Commission brought the Council before the Court of Justice of the European Union for breach of the Pact's conventions and the Court overturned the Council's decision, the Court of Justice does not have the authority to enjoin the Council in any way and thus no rectification was made. In that respect, the Pact is considerably toothless, as no mechanism exists for compelling the Council in any way (see Prušvic, 2008). The Pact thus has become much less binding than was originally intended, and it was therefore necessary to reform it.

[5] Its critics also include former President of the European Commission Romano Prodi, who stated in an interview for French newspaper *Le Monde*: "I know very well that the Stability Pact is stupid because all the decisions made under it are so rigid." (Haworth, Trefgarne 2002).

The reformed Pact became more flexible at the insistence of larger countries such as France and Germany. The ceilings of 3% and 60% were maintained, but the escape clauses were considerably broadened. Not only were they augmented for the situation of an extended period of slow growth, but the formulation that other relevant factors should be taken into account was also added (outlays on structural reforms, R&D expenditures, and the like). A longer period for eliminating an excessive deficit should be provided (from 1 to 2 years), and medium-term targets should be set individually for each member state. In place of a uniformly established medium-term target for ensuring practically balanced operations, a medium-term target now should stem from the level of indebtedness and the potential GDP growth forecast. A section on medium-term targets (EC, 2010) intended to ensure a certain level of "forward buying" for costs from ageing of the population (i.e. savings on a portion of future outlays) also was added in 2009.

4.1.4 Development of Fiscal Criteria after Adopting the Euro

Since introduction of the common currency, it has been clear to certain economies that without fiscal union the functioning of the euro zone would be problematic (see for example Feldstein, 2000). They warned that the monetary area, with Germany in the leading role (being the symbol of a strong currency and low inflation), would lead to a decrease in risk premiums on interest rates for less disciplined countries such as Italy and thereby undermine the pressure on such countries to resolve their public indebtedness.

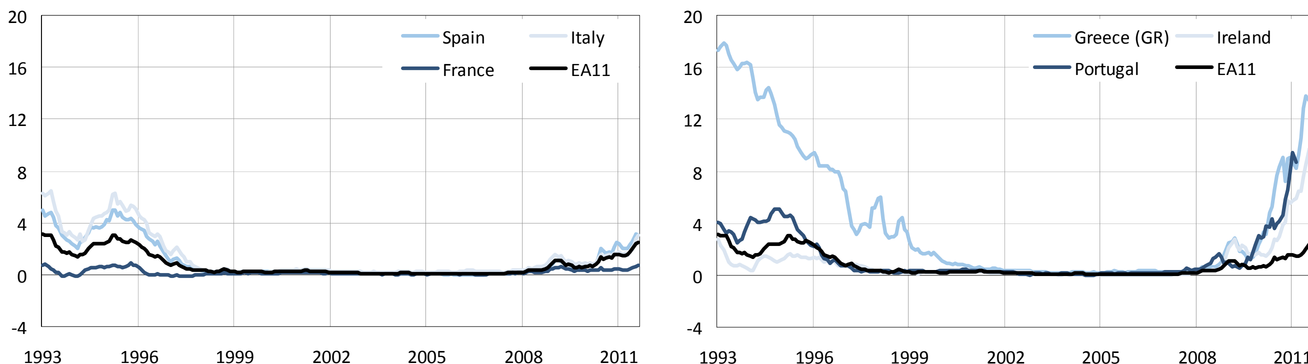
Interest rates indeed fell considerably (see Graph 4.1), and Germany's leading role in the euro zone (at least in terms of the perception of financial markets) proved to be entirely obvious. As it is evident, interest rates in euro zone countries dropped sharply after introducing the euro to the level of interest rates on German bonds. The EU attempted to address the absence of fiscal union with the Stability and Growth Pact, but without real, automatic and, in particular, enforceable sanctions its impact proved to be rather weak. It is interesting to note that no sanctions have ever been enforced for any country's breaching of the Pact.

The situation on financial markets also encouraged countries not to address their debt problems. Among other factors, long-term undervaluation of risk stimulated lending to such countries as Greece and Portugal (Lenz, 2011). Once it became evident on financial markets that this practice was not sustainable, negative pressures naturally bore down on high-risk euro zone countries as well. Bond yields for these countries skyrocketed (Graph 4.1) and it became clear that these countries would not be able to manage their situations without help.

To provide an idea of how government budget balances and debt developed after adoption of the euro, we will use data for countries that adopted the euro in 1999 (and 2000 in the case of Greece) and thus introduced the common currency in physical form as of 2002.

A positive trend in the development of debt as a proportion of GDP can be recorded for 7 countries: Austria, Belgium, Finland, Ireland, Italy, Netherlands and Spain. Italy managed to reduce its debt quota essentially by having a high level of debt, because in such situation relatively large deficits maintain the given proportion of debt to GDP (alternatively, the same matter can be described as the dissolving of debt in rising nominal GDP, because the higher deficit does not negatively affect debt as a proportion of GDP due either to the high level of debt as a proportion of GDP or to a high rate of nominal GDP growth).

Graph 4.1: Spreads against German Bonds
(in p. p.)



Note: Spreads are calculated as a difference in yields of 10Y government bonds of the specific country and yields of 10Y German government bonds. The EA11 average (EA12 without Germany) is weighted by nominal GDP values.
Source: ECB (2011). MF CR calculations.

On the other hand, Belgium, which also had a high level of debt-to-GDP, conducted itself with discipline relative to the Maastricht deficit criterion, as evidenced by the fact that its balances not once during the examined period fell below the reference limit of 3% of GDP. In the crisis, Ireland and Spain paid for the vulnerability of their banking sectors and the necessity to rescue their banks. No source of future problems with fiscal indiscipline could be found in the development prior to the crisis. Finland (like other Scandinavian countries) generated surpluses throughout the examined period (and was the only euro zone country to do so) despite the fact that the average GDP growth rate was not at its highest level at all. The Netherlands and Austria successfully reduced their debts, and their balances only once fell below the reference level of 3% of GDP – the Netherlands in 2003, Austria in 2004.

Luxembourg can be singled out as a country having a stable level of debt as a proportion of GDP during the examined period. Its debt fluctuated between 6.1% and 6.7% of GDP. This was the result not only of favourable GDP growth rates but also of fiscal discipline in general. For the entire period, only in 2004 did Luxembourg have a deficit, and that was 1.1% of GDP; in all other years it ran a balanced budget in the worst case.

Countries whose debt worsened as a proportion of GDP during the examined period (on a trend basis) can be divided into two groups. The first group includes the large countries of France and Germany, which began to reduce their levels of debt relative to GDP at the end of the examined period. The second group is comprised of Portugal and Greece. Both these countries systematically ran deficits throughout the period. Greece's deficits on average were approximately 2 p.p. worse than Portugal's. Greece, moreover, was aided by a GDP growth rate that on average was twice as high. We also must point out the different initial levels of the debt quota, which was much higher in Greece. It is thus no surprise that public budgets got completely out of control in Greece during the 2008–2009 crisis. It is worthy of note that due to the impact of lower interest rates after joining the euro zone a gradual drop in interest expenditures relative to GDP became evident in all countries. In other words, the introduction of the euro in and of itself can be regarded as positive for fiscal consolidation. In this situation, however, the countries (Portugal and Greece in particular) did not take advantage of this benefit to bring their primary balances under control. Instead, they rode a wave of optimism, as total deficits in these two countries further worsened their primary balances.

4.2 Financial, Economic and Debt Crisis

The financial crisis which gradually transformed into an economic crisis can be regarded as another radical change and test of solidarity for the countries of the Economic and Monetary Union as well as a test of economic harmonisation. The strong correction in prices for real estate in the USA, which in the preceding years had appeared to be a safe investment for a great portion of the general population, was the trigger for the outbreak of the financial crisis.[6] Thereafter, prices of asset-backed[7] securities fell sharply. Banks whose subsidiaries had issued these securities thus suffered considerable losses, and many found themselves on the verge of bankruptcy.[8] This in turn led to a crisis in liquidity for issuers of credit default swaps – in particular, the insurance company AIG, which subsequently came under government control. Of course, the financial crisis also affected mortgage providers, such as Fannie Mae and Freddie Mac which also were taken over by the government.

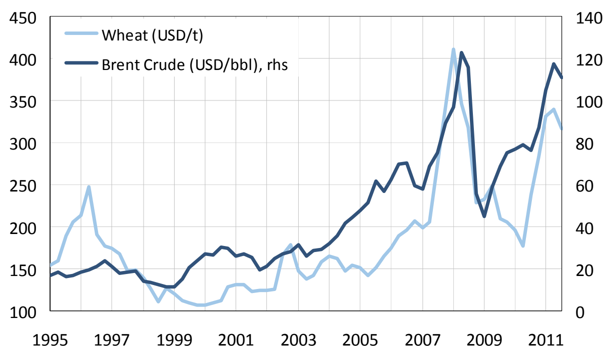
[6] We can include in particular among the factors contributing to the growth of the real estate bubble the long period of low interest rates by means of which the Fed responded to the recession following the bursting of the dot-com bubble and the shift of investments from technology companies precisely to the real estate market. The US Securities and Exchange Commission's policy of relaxing the rules for asset appraisals led investment banks as well as the government-sponsored enterprises Fannie Mae and Freddie Mac to provide more mortgage loans to higher-risk clients. Thus a great deal of speculation took place on the real estate market, and these practices contributed further to accelerating the growth in real estate prices. The tendency of the US population to prefer owning their own homes and strong support from the media, which often discovers a "favourable" investment only once the market in question is already at its peak, tend to be cited among the less rational causes. (For an overview of opinions from mainstream American economists, see Fed, 2010).

[7] Securitisation is the process whereby the provider of loans (mortgages and others) pools assets that in and of themselves are not fungible but nevertheless generate regular income into baskets with similar characteristics (maturity, estimated risk, etc.) and subsequently transfers the baskets for a fee to an issuer who issues securities backed by the baskets and which the issuer has had provided with a credit rating according to risk, payment priority, and yields and who then sells them on to investors (Jobst, 2008).

[8] Neither the American government nor the central bank contributed to stabilisation, providing financial aid in a non-transparent manner (whereas in the cases of the bankruptcy of Lehman Brothers and Bank of America's takeover of Merrill Lynch the government had allowed the market to decide, funds were provided to Bear Stearns – later taken over by JPMorgan Chase – and the banks Goldman Sachs, Morgan Stanley, Citigroup, Bank of America and CIT Group all received aid).

A side effect of the real estate market crash was the outflow of speculative capital. The spilling over of this capital into the commodity market caused a strong rise in oil prices in 2007 and the first half of 2008, reflected in rising prices of oil derivatives, including fuels, and subsequently in rising food prices.[9] The impending economic recession began to knock back commodity prices in the second half of 2008 (Graph 4.2).

Graph 4.2: Oil and Wheat Prices
(USD/t and USD/bbl)



Note: Spot prices.
Source: IMF (2011b).

In North America, the automotive companies General Motors, Chrysler and Ford became symbols of how the financial crisis spread into the real economy.

In Europe, the financial crisis took the most dramatic course in Iceland, where three of the most prominent banks (Glitnir, Landsbanki and Kaupthing Bank) collapsed and the government's Financial Supervisory Authority took over control. Government takeover also occurred for British bank Northern Rock, Denmark's Roskilde Bank, Ireland's Anglo Irish Bank and Spanish CajaSur. Belgian bank Dexia was taken over by the Benelux governments, while the Dutch government and bank BNP Paribas took control of the bank Fortis, also operating in the Benelux countries.

One of the results of the financial crisis, economic recession, and government measures in response to the given developments is the deepening of fiscal imbalances. Economic recession tends to be accompanied by a drop in government income, especially from direct taxes, and a rise in social expenditures. Moreover, many governments decided to adopt active measures aimed at mitigating the financial crisis's impacts, restoring economic growth, and supporting the labour market situation:

In October 2008, the USA ratified the *Emergency Economic Stabilization Act* (Public Law 110-343), the goal of which – by purchasing toxic financial assets – was to reduce uncertainty in the valuations of other assets and restore confidence in the financial markets. The original amount of funds proposed for this purpose was USD 700 billion. The deficit for the fiscal year 2009 was USD 1.9 trillion. The *American Recovery and Reinvestment Act* (Public Law 111-5), comprised primarily of tax incentives, support for public health, research and infrastructure, and benefits for the poor, was approved in 2009. The deficit for fiscal year 2010 was approximately USD 1.7 trillion.

In November 2008, the European Commission (2008) proposed a stimulus plan in the amount of EUR 200 billion to be financed from the budgets of member states, the EU and the EIB and combining various measures aimed at providing aid to households and industry, namely: the possibility to temporarily disregard the Pact's rules; support for the fight against climate change and for strategic investments in construction and the development of energy efficient technologies; reduction in the ECB interest rates; decrease in taxation of "green" technologies and ecological automobiles and the introduction of a car-scrapping scheme; temporary social measures – increase and extension of unemployment benefits and tax-free minimums, reduction of tax rates for low-income groups, reduction of social security contributions paid by employers, provision of preferential loans and guarantees to companies, and temporary reduction of VAT in order to promote consumption. A result of adopting the majority of these measures was the further deepening of fiscal imbalances.

4.2.1 EU's Reaction to fiscal Imbalances

The EU responded to the rise in budgetary imbalances by reforming the Stability and Growth Pact and by introducing the so-called European Semester. The aim of the European Semester (EP, 2011) is to ensure closer coordination of economic policies and continuing convergence of EU member states' economic output. Its benefits include harmonisation in evaluating budgetary policy, economic and fiscal policy (macroeconomic supervision), structural policies (Europe 2020) and systemic risks to financial stability. A fundamental change introduced by the European Semester concerning annual national budgetary processes is the submission of Convergence and Stability Programmes prior to commencing these processes so that a given member state may implement the Commission's recommendations in its national budgets.

[9] Rising food consumption in developing economies and growth in the share of biofuels in advanced economies tend to be included among other causes of rising food prices (see also Mitchell, 2008).

4.2.2 Post-recession Revision of the Stability and Growth Pact

Preventive arm

The method of calculating medium-term budgetary objectives was revised in the preventative arm of the Pact. Henceforth, this calculation will take into account a balance stabilising debt at 60% of GDP, costs from ageing of the population, and efforts aimed at reducing the debt ratio below the reference value. Adherence to the medium-term objectives should be incorporated into the national fiscal frameworks. Progress towards the medium-term objectives is evaluated according to the development of the structural balance of public budgets, including an analysis of expenditures net of discretionary revenue measures. The goal is to use unexpected revenues to reduce the deficit and debt while maintaining a stable spending trajectory over the course of the economic cycle. For this purpose, the Commission evaluates the trajectory of expenditures[10] against medium-term potential GDP growth on the basis of regularly updated forecasts and estimates taking into account its own projections. Growth in expenditures net of discretionary revenue measures with respect to potential GDP growth should show improvement in the public budget deficit by 0.5 p.p. of GDP per year. In case of unexpected circumstances beyond the affected member state's control or a serious economic slowdown in the euro zone or EU, temporary deviation from the trajectory for achieving the medium-term objectives may be permitted provided that medium-term fiscal sustainability will not be negatively affected.

Reforms to health care, the pension system and labour market may be made only on the basis of a reliable expectation that they will have positive long-term fiscal impacts. Serious deviations from fulfilment of medium-term objectives or from the path toward achieving the medium-term objectives occur if the structural balance does not improve during a given year or by an average of 0.25 p.p. per year over the course of 2 years and at the same time the growth rate for expenditures net of discretionary revenue measures exceeded the rate set for achieving the medium-term objectives by 0.5 p.p. of GDP or higher in 1 year or cumulatively in two consecutive years. These deviations should not be regarded as serious in the case of the unexpected circumstances or economic slowdown mentioned above.

[10] Interest, outlays for EU programmes fully covered by revenues from EU funds, expenditures fully covered by increasing revenues by operation of law, and discretionary changes in unemployment benefits should not be included among these expenditures.

Corrective Arm

The dissuasive arm of the Pact was revised such that states exceeding the debt criterion may be subject to excessive deficit procedure, even if the given country's deficit is less than the 3% deficit criterion. This would be enforced if steps leading towards rectification in the rate set previously were not taken.[11]

The decision on excessive deficit procedure will no longer be bound only to these criteria, but will also take into account other factors such as implicit obligations regarding private sector indebtedness and costs associated with ageing of the population.

4.2.3 Directive on national fiscal Frameworks

Part of the measures for stabilising public finances is the Council Directive (2011a) on Requirements for Budgetary Frameworks of the Member States. Its purpose is to unify the accounting systems in a given country and to link the annual budgetary process with medium-term objectives. The directive places greater emphasis on quality and periodicity of statistics provided for general government units, thereby attempting to establish credibility of the fiscal plan on a real macroeconomic basis. It then plans to compare the macroeconomic and fiscal forecasts with the predictions of the Commission and other independent institutions, as well as to regularly evaluate the forecasts *ex post* and to publish and correct possible discrepancies.

With the objective of more efficient fiscal policy, the member states should introduce high-quality numeric fiscal rules that ensure adherence to the deficit and debt criteria of the Pact and the medium-term budgetary objective. To counter budgetary irresponsibility, a provision is made for implementing the medium-term fiscal framework to enable the adoption of a fiscal plan for at least 3 years. Medium-term fiscal frameworks should contain procedures enabling the establishment of:

- complete and clear long-term budgetary targets in the form of government deficit and debt and other aggregate indicators, such as general government expenditures, which are in accordance with the aforementioned numeric fiscal rules;
- projections of all the main components of public sector revenues and expenditures for the budgetary year and beyond under the condition of an autonomous scenario.

Measures resulting from this directive should be adopted by the end of 2013.

[11] This rate is proposed as follows: at least 1/20 of the difference annually between the current debt level and the value of 60% for the last three years.

4.2.4 Debt Crisis

A debt crisis is one of the fundamental types of financial crises (a clear typology of financial crises can be found, for example, in Dvořák, 2004). Although it is manifested in the governments' inability to fulfil their commitments, we can also recognise a debt crisis in case a real default is prevented, for example, by an intervention of international institutions (e.g. IMF). Pescatori and Sy (2004), however, consider a debt crisis also to be a situation in which government bond yields on the secondary market, in comparison to the yields of the "benchmark" bond, cross a certain critical threshold. In the context of the current debt crisis in the euro zone, comparison to the yields of German bonds can be used (see Graph 4.1 above).

The current debt crisis in the euro zone, however, also potentially bears certain features of a banking crisis. This ensues both from banks' exposure to government bonds from problematic euro zone countries as well as from the fact that governments' own ability to address possible problems of the banking sector is restricted due to their fiscal positions.

Considering developments in the last two years, the series of revisions to data on the Greek government's deficit and debt during 2009 can be regarded as the figurative trigger of the current debt crisis in the euro zone. In combination with the subsequent uncertainty regarding the credibility of Greek statistical data, these led to a rating downgrade and to the first wave of rise in yields of Greek government bonds in late 2009.

The escalating problems of the Hellenic Republic culminated in April 2010 with an official request for financial aid from the bail-out mechanism, which was previously agreed upon by the members of the euro zone and the IMF. Originally, a provision of EUR 45 billion was anticipated. In May 2010, however, the total amount of the bail-out (assuming gradual drawing over the course of 3 years) was increased to EUR 110 billion.

The spread of the contagion from Greece to other PIIGS countries (Portugal, Italy, Ireland, Greece and Spain) was considerably accelerated by ratings downgrades for Portugal and Spain in late April 2010. Credit default swaps' spreads of government bonds quickly increased, spreads between the yields of 10Y state bonds of PIIGS countries and the yields of German bonds rose, stock indexes responded by slumping, and the euro weakened against the other major world currencies.

This rising tension on financial markets led to creation of a common bail-out mechanism by the euro zone and the IMF in May 2010. In addition to the promised participation of the IMF (up to EUR 250 billion), the most important part of the common bail-out mechanism was the European Financial Stability Facility (EFSF). The principle of EFSF operation was meant to be simple – it would be financed on capital markets and would then lend funds to countries requesting financial aid (provided pre-agreed conditions were met). Euro zone states would guarantee EFSF bonds up to the amount of EUR 440 billion. EFSF's total credit capacity was lower for a number of technical reasons, however. Moreover, EFSF was designed to be temporary (operation was planned through mid- 2013).

European representatives expected the common "protective wall" of the euro zone and IMF to stop the spread of the crisis into other PIIGS countries. These hopes proved to be false, however, as Ireland requested aid in November 2010 and Portugal in May 2011. In early July 2011, Italy and Spain (the 3rd and 4th largest economies of the euro zone) came into the spotlight of the financial markets, which resulted in their bond yields rising to the record levels. In the middle of this year, it became increasingly evident that the financial aid provided to Greece in May 2010 would be insufficient, as it had originally been expected that Greece would partially be able to finance itself on capital markets starting in 2012. In view of Greek government bond yield developments, however, a possibility of Greece's returning to the capital market next year does not seem realistic.

The latest attempt to resolve the debt crisis in the euro zone was undertaken by European representatives at the summit in Brussels at the end of October. The agreed measures, the details of which will be necessary to further specify, cover four areas overall (EU Council, 2011c):

1. Greek indebtedness should be trimmed to 120% of GDP by 2020. This will probably require erasing part of the Greek debt – the private sector should contribute 50% of the nominal value, while euro zone countries will also provide EUR 30 billion. Greece will be offered long-term financial aid of up to EUR 100 billion.
2. Leveraging should extend the capacity of the EFSF bail-out fund by up to EUR 1 billion. This capacity should be sufficient to prevent spread of the contagion to the banking sector and to other countries of the euro zone.
3. Banks' capital should also be strengthened, and their access to long-term financing should be facilitated.
4. Economic governance in the euro zone should be improved and economic and fiscal coordination should be reinforced.

We can generally observe from the present course of the debt crisis that a similar chain of events periodically repeats – a rapid escalation of tension on financial markets, political reaction and then temporary

relief followed by renewed growth in the anxiety on the financial markets. The situation is further complicated by the realisation of self-fulfilling expectations, especially in relation to the influence of ratings downgrades on government bond yields (and therefore also to the sustainability of public finances).

4.3 Effects of the Debt Crisis for Public Finances

When considering possible impacts of the current debt crisis of certain euro zone countries on the Czech Republic's public finances, one cannot avoid the problems posed by the impacts of fiscal consolidation on the economy and, with retrospective effect, on fiscal variables. These are communicating vessels that the forced separation of these would lead to distorting or neglecting certain influences. It is appropriate, therefore, to bear both in mind at all times.

The accelerated onset of fiscal consolidation, caused *de facto* by the pressure of financial markets and local conceptions of political representatives about a need for the quickest consolidation possible, is one of the typical marks of the last few years. Although a number of countries have recorded (or continue to do so) weak economic growth (see selected economies in Graph 4.4), consolidation measures were put into place with the aim to improve the balances of public budgets at least so that the Pact requirement concerning government deficits would be fulfilled as quickly as possible and, at the same time, steps down the path to reducing the debt quota commenced. Moreover, effort for rapid fiscal consolidation is formally emphasised by the newly approved EU Council Directive and revision of the Pact (see above).

As Kopits states (2011), given the current turbulent development and financial markets' more vigilant watch over the operations of individual governments, and accompanied by ratings downgrades, countries in fact have no other option than to undertake corrective steps in their public finances. To a certain degree, states' sovereignty is further diminished, which, moreover, is just as true today for the larger developed players as for the small economies.[12]

Although EU countries did not approach consolidation strategy homogeneously, as all of them could not or cannot use the same instruments to establish fiscal balances, a certain *modus operandi* can be observed. The European Commission document (EC, 2011d) summarising the strategies of member states outlined in Stability Programmes and Convergence Programmes states that the consolidation projects are primarily based on the spending side. An analysis indicates that a drop equal to 3.9% of GDP on average is planned in government institutions' expenditures, while the revenues side should be boosted only by 0.5% of GDP. Moreover, a positive correlation between the size of the deficit and the size of planned expenditure cuts can be observed.

From the perspective of permanent effects on fiscal balances, the literature (e.g.: Alesina, Perotti, 1995; Tsibouris *et al.*, 2006; Alesina, Ardagna, 2009) judges consolidations based on strict expenditures limitation to be the most successful. Based on empirical evidence, however, the IMF (2011a) adds that eventually only a little over 50% of the original intentions will be realised. It therefore recommends instead to plan for larger adjustments in expenditure cuts and to select revenue measures only conservatively, and, from a pro-growth perspective, it certainly does not recommend fiscal consolidations focused solely on increasing taxes.

Fiscal consolidations are typically accompanied by a slowdown in the economy's dynamics. Even here, apart from the economy's specific characteristics, the consolidation strategy mix matters because, as IMF states (2010), a structure relying more on expenditure measures usually has a lower contractionary character than does a revenue-oriented one, as central banks in this case often are more accommodative in their monetary policy (the primary effects, for example, from an increase of indirect taxes, are mostly an exception from the basic quantity observed by central banks). Moreover, consolidation in an environment where it also occurs in the neighbouring partner economies may further deepen the contraction (net exports will not change). Lower dynamics, or even an economic downturn, thus carry additional risks for future fiscal development.

The Czech Republic was one of the first countries in the EU (more detailed information in Ministry of Finance, 2011a) to adopt a consolidation strategy. Being aware of the importance of reforms on the expenditures side, it prepared reforms to key systems, such as pensions and social security, health care, social policies and labour market policies. The consolidation mix also includes a reform of direct taxes and tax payments and a simplification in administering social benefits and taxes.

It is necessary for fiscal consolidation to be credible and to have a strong political support, and that is not

[12] Downgrading of ratings for large developed economies commenced on 6 August 2011 by S&P regarding the USA. Subsequently, from 19 September 2011 to 18 October 2011, i.e. within one month, Italy and Spain were downgraded by each of the three most important rating agencies.

only due to the volatile sentiments on the financial market. The set-up of the fiscal framework plays a large role in this respect. Thus, the Ministry of Finance is currently implementing the Fiscal and Budgetary System Modernisation Project. Its main purpose is to strengthen the national fiscal framework so that it ensures healthy operation of the government sector that is sustainable in the long term while abiding by state-of-the-art approaches and the best expertise in any given area. A complementary objective is to reinforce international commitments resulting from membership in the EU, specifically from the revised Pact and EU Council Directive.

Another consequence of the debt crisis is that the financial market and rating agencies have begun to differentiate individual economies by their macroeconomic and fiscal fundamentals. This has brought higher debt service costs to a number of economies. Recent development has shown that realising the borrowing needs of the Czech state budget can be surprisingly positive even in the current tense situation and that in the Czech Republic by far not all channels have been depleted. The former is supported by the several most recent issues of state bonds at relatively advantageous average annual yields, and even more so than in larger economies with better ratings. Evidently, the August upgrade in the S&P rating (after changing its methodology, it began to give greater significance to a country's economic and political profile) also has had a hand in this. This, however, brings us back to credibility and the severity of consolidation – if it were not to be consistently fulfilled, the metaphorical tables can easily be turned. As regards other channels for financing the deficit, in October an issue of government savings bonds for households and non-profit institutions was positively tested in a pilot project of CZK 20.4 billion. This opens additional possibilities for realising the state's borrowing requirement.

Nevertheless, not even the best consolidation effort on the part of the government can ensure that the planned deficit trajectory will be fully achieved. A situation may occur whereby the small, export-oriented Czech economy is hit by potential negative economic development in the export partner countries, the situation on the financial markets more significantly contributes to increasing the cost of borrowing for the needs of Czech public budgets, or, last but not least, the planned consolidation measures press upon domestic demand more markedly than estimated. In order to evaluate these impacts, we conducted sensitivity analyses for the Czech government deficit and debt.

The results of the simulations are summarised in Table 4.1. We divided the postulation of the negative scenario's occurring in the EA12 into two sub-scenarios. First, we consider what would be the effect on the government balance and debt of 1 p.p. lower economic growth[13] in the EA12 versus the basic scenario (by basic scenario we mean the October Macroeconomic Forecast of the Ministry of Finance and the Fiscal Outlook based upon it) in 2012 alone. The scenario in question would be reflected in the Czech economy through exports, which are mostly directed to the euro zone countries. Lower foreign demand would lead to a decrease in net exports and worsening of the current account balance. This in turn would have a negative impact on the growth of Czech real GDP (slowdown by ca 0.6 p.p.). Thus, the government balance would be affected by a lower collection of taxes from both corporations and individuals. Higher government deficits would then be cumulatively reflected in the public debt.

We also extended the analysis to the possibility that in comparison to the basic scenario the growth in the EA12 would be 1 p.p. lower in all years of the outlook. The result of poorer economic dynamics would be reflected in the same channels as in the previous case, but the persistence of the shocks and longer shortage in revenue would result in an increase in the government deficit in all years of the outlook. Impact on the debt ratio would be approximately two times the impact of the scenario of the negative shock in the EA12 in 2012 only.

The third suggested scenario attempts to estimate whether 1 p.p. lower growth in household consumption in 2012 than presumed by the Macroeconomic Forecast would have a significant impact on key fiscal indicators. This simulation for 2012 was selected intentionally because, among other things, the increase in the reduced VAT rate will occur in that year. Such a decline in the household consumption rate would be directly reflected by a decrease in GDP growth. Lower domestic demand would then presumably lead to a decrease in wages, which would reduce marginal production costs as well as net inflation. Insufficient domestic demand would also decrease imports, thus resulting in a rise in net exports. As in the case of lower GDP growth in the EA12, the government balance would be affected by lower collection of taxes from both corporations and individuals and the larger government deficit (by approximately 0.25% of GDP in average in the years of the outlook) would again be accumulated into the debt.

The fourth scenario takes into account higher (again by 1 p.p.) interest rates for 10-year government bonds through the entire forecast horizon. Here, the impact appears most drastic, as this negative scenario would

[13] In case of more significant shocks, non-linear impacts must be considered.

mean, for example, an increase in debt service costs of CZK 17.5 billion in 2012 and almost CZK 20 billion to the end of 2014. In terms of the final result, this means an annual increase in the deficit by 0.5% of GDP and the debt quota would cumulatively increase by 1.4% of GDP in 2014.

Table 4.1: Simulation of Impacts of negative Scenarios (differences from the baseline Scenario)
(in p.p.)

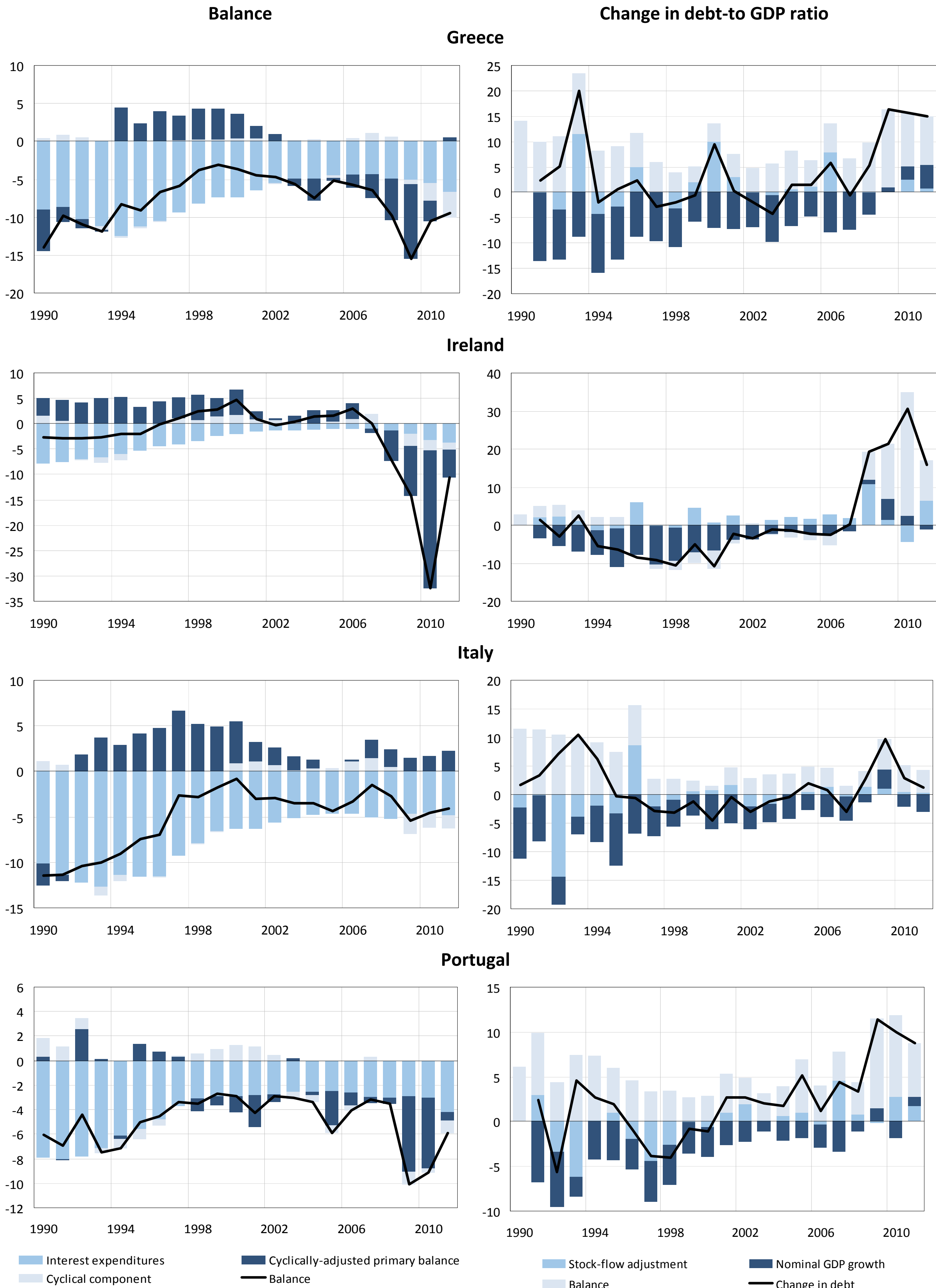
	2012	2013	2014
Scenario of 1 p.p. lower real GDP growth in EA12 in 2012			
deficit	-0.14	-0.11	-0.11
debt	0.14	0.25	0.37
Scenario of 1 p.p. lower real GDP growth in EA12 in 2012–2014			
deficit	-0.14	-0.25	-0.36
debt	0.14	0.40	0.77
Scenario of 1 p.p. lower real private consumption growth in 2012			
deficit	-0.24	-0.25	-0.26
debt	0.24	0.51	0.79
Scenario of 1 p.p. higher 10-year government bonds yield in 2012–2014			
deficit	-0.44	-0.47	-0.49
debt	0.44	0.90	1.35

Note: The baseline scenario is descrbed by the October Macroeconomic Forecast of the MF CR and the current Fiscal Outlook of the CR based on the Forecast.
Source: MF CR.

Although we simulate the consequences of the debt crisis for Czech public finance by scenarios with only relatively small deviation from the baseline scenario, the results should provide the reader with an insight of impacts on the public deficit and debt also for more pessimistic scenarios. However, we would like to point out that in the case of more significant shocks, it would be necessary to take into account the non-linear behaviour of the impacts.

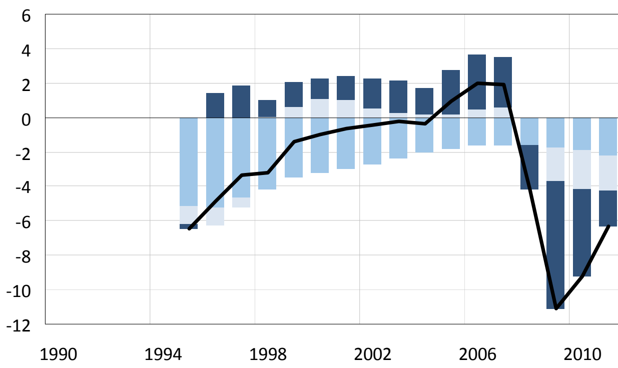
For the sake of the future development of the Czech public finances we hope that the negative shocks will remain in “paper scenarios” only.

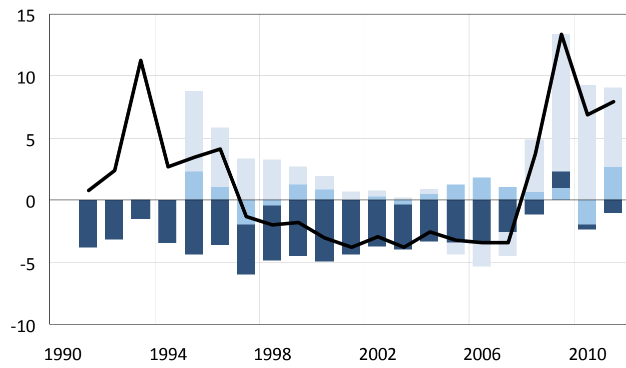
Graph 4.3: Decomposition of General Government Balance and Debt in the Selected EU Countries (1990–2011)
(in % of GDP, decomposition in p.p.)



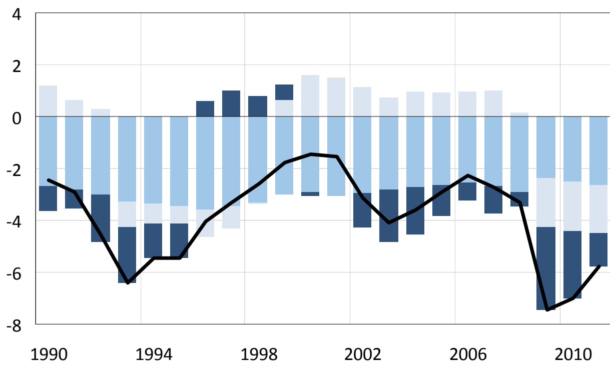
Balance | **Change in debt quota**

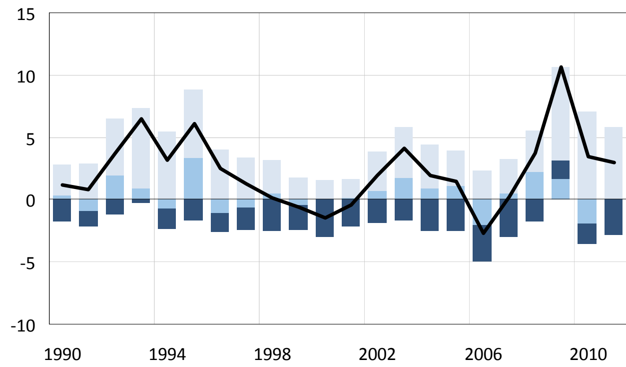
Spain



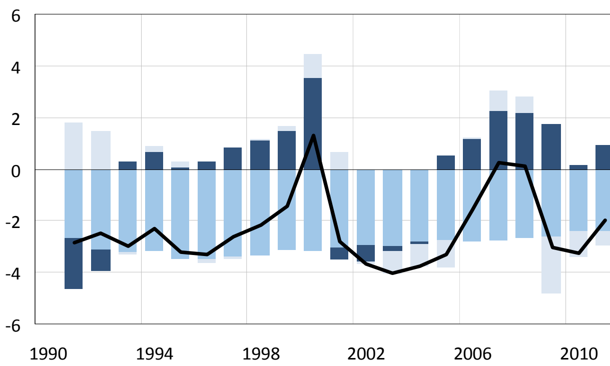


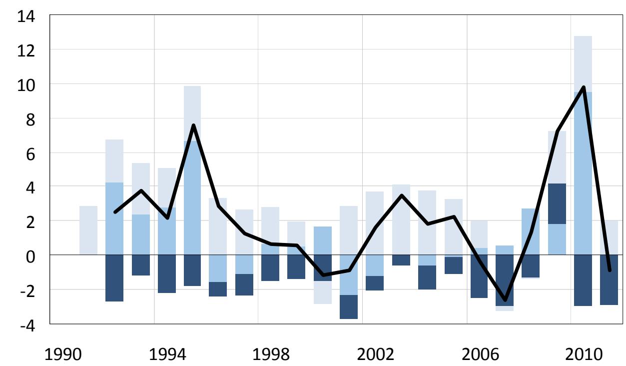
France





Germany





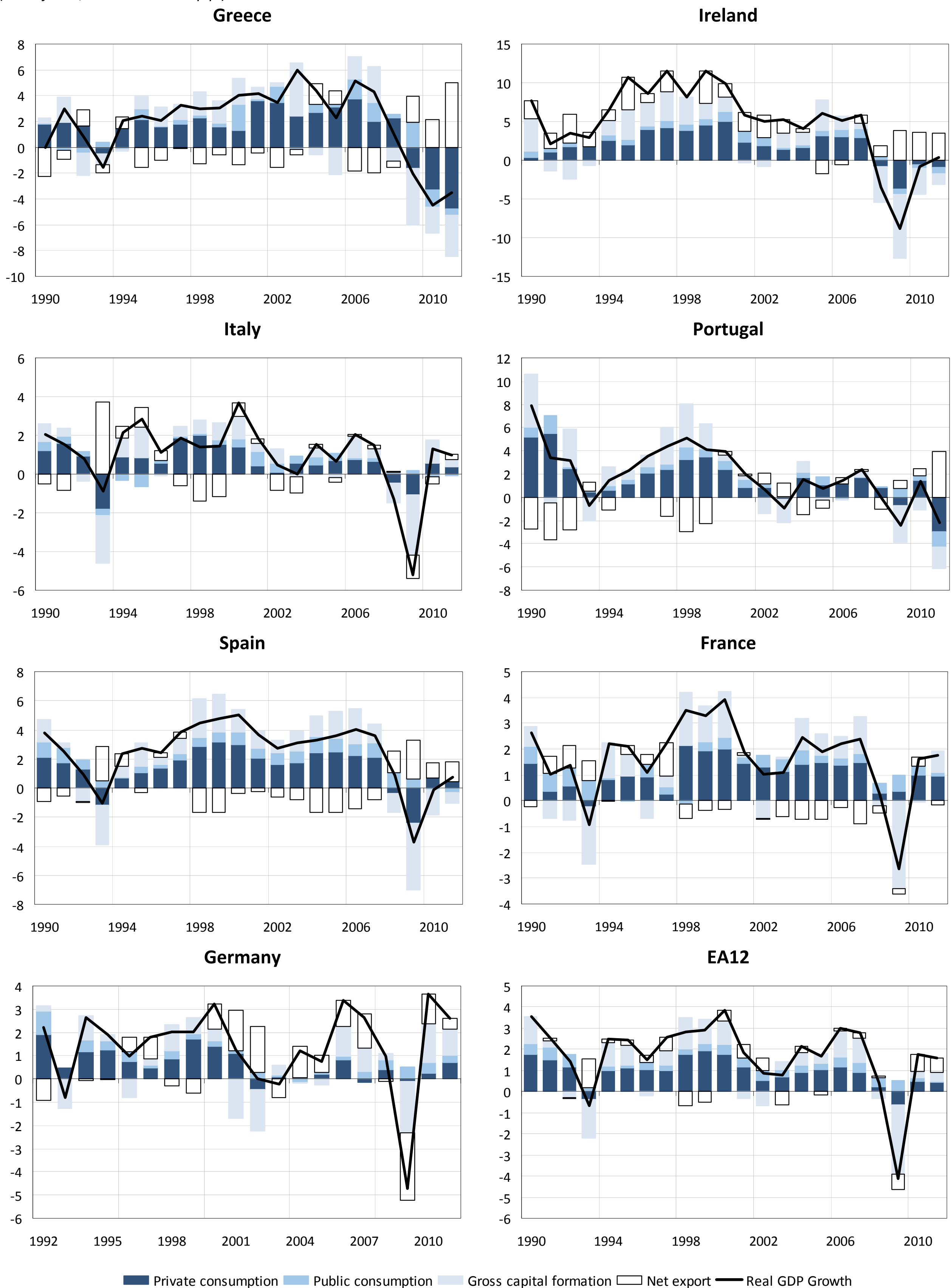
Interest expenditures
Cyclically-adjusted primary balance
Cyclical Component
Balance

Stock-flow adjustment
Nominal GDP growth
Balance
Change in debt

Note: Year 2011 is the EC Forecast.
Source: EC (2011a). MF CR calculations.

Graph 4.4: Contributions to the Real GDP Growth in the Selected EU Countries (1990–2011)

(in % of GDP, contributions in p.p.)



Note: Year 2011 is the EC Forecast.
Source: EC (2011a). MF CR calculations.

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

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

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

Source: MF CR.

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

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

Source: MF CR.

Table A.5: Consolidated General Government – Balance

(CZK bn, % of GDP)

	2005	2006	2007	2008	2009	2010
CZK bn						
Cash deficit/surplus	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**
Fiscal targeting cash deficit/surplus[1]	**-56**	**-101**	**-38**	**-37**	**-230**	**-151**
Deficit / surplus of operating balance[2]	-36	-57	31	40	-158	-94
Deficit / surplus of primary balance	-78	-107	-7	6	-198	-138
% of GDP						
Cash deficit/surplus	**-3.3**	**-4.2**	**-1.2**	**-1.0**	**-6.6**	**-4.8**
Fiscal targeting cash deficit/surplus[1]	**-1.8**	**-3.0**	**-1.1**	**-1.0**	**-6.1**	**-4.0**
Deficit / surplus of operating balance[2]	-1.2	-1.7	0.9	1.0	-4.2	-2.5
Deficit / surplus of primary balance	-2.5	-3.2	-0.2	0.1	-5.3	-3.6

Source: MF CR.

Table A.6: General Government Balance Structure

(CZK bn)

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

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

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
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash receipts from operating activities	**1 176**	**1 233**	**1 377**	**1 461**	**1 355**	**1 401**
Taxes	626	638	716	743	660	691
Social contributions	446	473	522	548	510	517
Grants	32	36	47	60	80	85
Other receipts	73	86	92	110	106	108
Cash payments for operating activities	**1 212**	**1 290**	**1 346**	**1 421**	**1 513**	**1 495**
Compensation of employees	121	128	136	141	147	146
Purchases of goods and services	114	126	125	133	148	142
Interest	25	34	37	45	50	42
Subsidies	235	254	266	273	302	300
Grants	24	24	27	29	30	31
Social benefits	503	544	588	618	664	671
Other payments	190	181	168	182	173	164
Net cash inflow from operating activities	**-36**	**-57**	**31**	**40**	**-158**	**-94**
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:						
Purchases of nonfinancial assets	**81**	**99**	**90**	**96**	**118**	**107**
Fixed assets	79	96	87	93	116	105
Strategic stocks	0	0	0	0	0	0
Valuables	0	0	0	0	0	0
Nonproduced assets	3	3	2	3	2	2
Sales of nonfinancial assets	**14**	**15**	**14**	**17**	**29**	**22**
Fixed assets	8	9	7	10	9	10
Strategic stocks	0	0	0	0	0	0
Valuables	0	0	0	0	0	0
Nonproduced assets	6	6	7	8	19	12
Net cash outflow: investments in nonfinancial assets	**67**	**84**	**76**	**79**	**90**	**86**
Cash surplus / deficit	**-104**	**-141**	**-44**	**-39**	**-248**	**-180**
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net acquisition of financial assets other than cash	**-100**	**-10**	**8**	**-26**	**75**	**-1**
Domestic	3	-9	7	-27	76	-1
Foreign	-102	-1	0	1	0	0
Monetary gold and SDRs	0	0	0	0	0	0
Net incurrence of liabilities	**102**	**117**	**95**	**86**	**186**	**172**
Domestic	35	80	66	55	122	69
Foreign	67	36	29	31	63	103
Net cash inflow from financing activities	**202**	**127**	**87**	**112**	**110**	**172**
Net change in the stock of cash	**98**	**-14**	**43**	**73**	**-137**	**-7**

Source: MF CR.

Table A.9: Consolidated General Government – Debt
(CZK bn, % of GDP)

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

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total revenue	**938**	**1003**	**1164**	**1185**	**1239**	**1328**	**1476**	**1499**	**1462**	**1485**
Current taxes on income,wealth, etc.	203	224	247	268	276	296	330	308	272	266
Social contributions [1)]	367	398	421	453	482	525	577	599	560	578
Taxes on production and imports [2)]	257	266	285	326	343	353	395	407	415	423
Capital taxes [3)]	1	1	1	1	1	1	0	0	0	0
Property income	26	29	23	22	21	25	27	30	31	31
Interest	15	21	16	13	12	12	15	11	9	8
Other property income	11	8	7	9	9	13	13	19	22	23
Sales [4)]	65	68	78	78	80	82	95	103	104	99
Other current transfersand subsidies	13	14	18	28	26	26	24	22	27	33
Investment grants	1	1	3	3	5	14	15	27	50	53
Other capital transfers	5	2	88	7	5	5	13	3	3	3
% growth										
Total revenue	**8.7**	**6.9**	**16.1**	**1.8**	**4.6**	**7.2**	**11.2**	**1.5**	**-2.4**	**1.5**
Current taxes on income,wealth, etc.	13.1	10.2	10.2	8.3	3.1	7.3	11.5	-6.9	-11.7	-2.2
Social contributions [1)]	7.2	8.5	5.9	7.4	6.5	8.8	9.9	3.9	-6.6	3.2
Taxes on production and imports [2)]	4.4	3.5	7.2	14.4	5.2	3.0	11.9	2.9	2.0	1.9
Capital taxes [3)]	17.0	8.9	15.6	-28.1	18.5	9.2	-42.4	-44.8	-8.2	0.0
Property income	45.2	9.6	-18.8	-6.2	-5.9	23.1	7.2	11.9	3.2	-1.9
Interest	4.7	35.6	-23.6	-19.4	-7.5	3.4	18.3	-24.5	-17.5	-13.8
Other property income	225.2	-27.6	-6.1	22.7	-3.6	50.2	-3.3	53.9	15.0	2.9
Sales [4)]	6.6	5.4	13.5	0.5	2.7	2.5	15.9	8.2	1.0	-5.0
Other current transfersand subsidies	7.8	7.6	27.7	53.2	-7.1	-2.7	-7.8	-8.2	25.9	20.8
Investment grants	654.2	71.8	201.5	10.1	62.8	187.1	1.0	86.1	84.7	5.0
Other capital transfers	86.2	-62.2	4160.8	-92.3	-21.8	2.3	147.0	-78.0	-3.0	5.7
% of GDP										
Total revenue	**38.3**	**39.1**	**43.3**	**40.4**	**39.8**	**39.6**	**40.3**	**38.9**	**39.1**	**39.3**
Current taxes on income,wealth, etc.	8.3	8.7	9.2	9.1	8.9	8.8	9.0	8.0	7.3	7.0
Social contributions [1)]	15.0	15.5	15.7	15.5	15.5	15.7	15.7	15.6	15.0	15.3
Taxes on production and imports [2)]	10.5	10.3	10.6	11.1	11.0	10.5	10.8	10.6	11.1	11.2
Capital taxes [3)]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	1.1	1.1	0.9	0.7	0.7	0.8	0.7	0.8	0.8	0.8
Interest	0.6	0.8	0.6	0.4	0.4	0.4	0.4	0.3	0.2	0.2
Other property income	0.4	0.3	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6
Sales [4)]	2.6	2.7	2.9	2.7	2.6	2.4	2.6	2.7	2.8	2.6
Other current transfersand subsidies	0.5	0.6	0.7	1.0	0.8	0.8	0.6	0.6	0.7	0.9
Investment grants	0.0	0.0	0.1	0.1	0.2	0.4	0.4	0.7	1.3	1.4
Other capital transfers	0.2	0.1	3.3	0.2	0.2	0.2	0.4	0.1	0.1	0.1

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

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

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

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

Source: CZSO (2011b).

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Taxes and social contributions	**828**	**889**	**954**	**1047**	**1102**	**1175**	**1303**	**1314**	**1246**	**1266**
Current taxes on income, wealth, etc.	**203**	**224**	**247**	**268**	**276**	**296**	**330**	**308**	**272**	**266**
individuals or households	105	115	125	136	138	139	156	143	136	135
corporations	94	107	119	129	135	154	171	162	132	127
Levy on lottery revenue	-	-	-	-	-	-	-	-	0	-
Other current taxes	4	2	3	2	3	3	3	3	3	3
Social security contributions	**367**	**398**	**421**	**453**	**482**	**525**	**577**	**599**	**560**	**578**
Actual social contributions	367	398	421	452	482	524	576	599	559	577
of employers	236	256	271	290	309	332	364	380	350	368
of employees	83	90	95	101	108	117	128	133	112	117
of self- and non-employed persons	48	52	56	61	65	75	85	86	97	93
Imputed social contributions	0	0	0	0	0	0	0	0	1	1
Taxes on production and imports	**257**	**266**	**285**	**326**	**343**	**353**	**395**	**407**	**415**	**423**
Taxes on products [1)]	244	253	271	313	330	340	381	392	401	406
VAT	149	155	164	202	211	209	227	255	254	259
Excises	77	80	88	99	111	121	143	126	137	138
Other taxes on products [2)]	18	18	20	11	9	10	12	12	9	9
Other taxes on production [3)]	13	13	13	13	13	13	14	14	14	16
Capital taxes	**1**	**1**	**1**	**1**	**1**	**1**	**0**	**0**	**0**	**0**
% growth										
Taxes and social contributions	**7.7**	**7.4**	**7.4**	**9.7**	**5.2**	**6.6**	**10.9**	**0.8**	**-5.1**	**1.6**
Current taxes on income, wealth, etc.	**13.1**	**10.2**	**10.2**	**8.3**	**3.1**	**7.3**	**11.5**	**-6.9**	**-11.7**	**-2.2**
individuals or households	6	9	9	9	1	1	12	-9	-5	-1
corporations	26	13	11	8	5	14	11	-5	-18	-4
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	-26.7	-31.9	12.1	-7.1	17.4	5.0	4.8	0.2	3.1	0.8
Social security contributions	**7.2**	**8.5**	**5.9**	**7.4**	**6.5**	**8.8**	**9.9**	**3.9**	**-6.6**	**3.2**
Actual social contributions	7.3	8.5	5.9	7.4	6.5	8.9	9.9	3.9	-6.7	3.3
of employers	7.4	8.4	5.8	7.0	6.5	7.7	9.4	4.5	-7.9	5.1
of employees	7.0	8.4	5.9	6.8	6.9	7.6	9.5	4.4	-15.8	4.2
of self- and non-employed persons	7.0	9.1	6.2	10.4	5.6	16.5	12.6	0.7	13.0	-4.1
Imputed social contributions	-42.1	2.4	17.5	36.6	-1.5	2.0	-26.2	-4.7	190.5	-27.5
Taxes on production and imports	**4.4**	**3.5**	**7.2**	**14.4**	**5.2**	**3.0**	**11.9**	**2.9**	**2.0**	**1.9**
Taxes on products [1)]	4.7	3.6	7.4	15.2	5.5	2.9	12.2	3.0	2.1	1.4
VAT	5.6	3.9	5.9	23.0	4.2	-0.8	8.6	12.3	-0.3	1.9
Excises	7.6	3.6	10.0	13.4	11.4	9.4	17.9	-11.5	8.8	0.9
Other taxes on products [2)]	-12.0	0.5	8.4	-41.6	-22.4	11.5	17.8	-0.5	-20.0	-3.8
Other taxes on production [3)]	-1.3	2.0	3.4	-1.7	-1.7	4.2	5.2	-1.1	1.4	15.3
Capital taxes	**17.0**	**8.9**	**15.6**	**-28.1**	**18.5**	**9.2**	**-42.4**	**-44.8**	**-8.2**	**0.0**

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 (2011b).

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

(in % of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes and social contributions	**33.8**	**34.6**	**35.5**	**35.7**	**35.4**	**35.0**	**35.6**	**34.1**	**33.3**	**33.5**
Current taxes on income, wealth, etc.	**8.3**	**8.7**	**9.2**	**9.1**	**8.9**	**8.8**	**9.0**	**8.0**	**7.3**	**7.0**
individuals or households	4.3	4.5	4.7	4.7	4.4	4.2	4.3	3.7	3.6	3.6
corporations	3.9	4.2	4.4	4.4	4.3	4.6	4.7	4.2	3.5	3.4
Levy on lottery revenue	-	-	-	-	-	-	-	-	0.0	-
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	**15.0**	**15.5**	**15.7**	**15.5**	**15.5**	**15.7**	**15.7**	**15.6**	**15.0**	**15.3**
Actual social contributions	15.0	15.5	15.7	15.4	15.5	15.6	15.7	15.6	14.9	15.3
of employers	9.6	10.0	10.1	9.9	9.9	9.9	9.9	9.9	9.4	9.7
of employees	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.1
of self- and non-employed persons	2.0	2.0	2.1	2.1	2.1	2.3	2.3	2.2	2.6	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	**10.5**	**10.3**	**10.6**	**11.1**	**11.0**	**10.5**	**10.8**	**10.6**	**11.1**	**11.2**
Taxes on products [1)]	10.0	9.8	10.1	10.7	10.6	10.1	10.4	10.2	10.7	10.8
VAT	6.1	6.0	6.1	6.9	6.8	6.2	6.2	6.6	6.8	6.9
Excises	3.1	3.1	3.3	3.4	3.5	3.6	3.9	3.3	3.7	3.7
Other taxes on products [2)]	0.7	0.7	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Other taxes on production [3)]	0.5	0.5	0.5	0.5	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**	**0.0**

Source: CZSO (2011b).

Table B.4: Central Government Revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total revenue	**676**	**702**	**835**	**830**	**845**	**900**	**1006**	**1013**	**970**	**989**
Current taxes on income, wealth, etc.	151	160	177	192	184	198	221	204	180	177
Social contributions	244	263	277	300	319	343	376	392	352	365
Taxes on production and imports	220	223	239	270	272	283	319	320	328	332
Capital taxes	1	1	1	1	1	1	0	0	0	0
Property income	22	22	17	14	14	18	19	22	24	24
Sales	23	24	28	28	29	30	38	40	38	41
Other revenue	15	10	97	25	27	28	32	35	48	50
% growth										
Total revenue	**11.3**	**3.9**	**19.0**	**-0.6**	**1.7**	**6.6**	**11.7**	**0.7**	**-4.2**	**2.0**
Current taxes on income, wealth, etc.	55.9	5.8	10.4	8.6	-4.2	7.7	11.9	-7.8	-11.8	-1.7
Social contributions	8.6	7.8	5.5	8.3	6.2	7.5	9.8	4.3	-10.4	3.7
Taxes on production and imports	-8.3	1.4	7.1	13.1	0.7	3.8	12.8	0.2	2.6	1.4
Capital taxes	17.0	8.9	15.0	-28.7	18.8	10.0	-42.6	-45.7	-10.4	0.9
Property income	65.0	-0.8	-23.3	-14.8	-1.2	30.6	5.9	10.8	9.8	0.8
Sales	12.3	4.3	15.5	-0.4	2.9	3.8	26.4	6.0	-4.8	7.2
Other revenue	34.2	-34.8	918.3	-73.8	4.3	7.2	10.9	10.3	38.3	4.1

Source: CZSO (2011b).

Table B.5: Local Government Revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total revenue	**236**	**269**	**328**	**348**	**352**	**376**	**410**	**416**	**431**	**430**
Current taxes on income, wealth, etc.	52	64	70	76	92	98	109	103	92	89
Social contributions	0	0	0	0	0	0	0	0	0	0
Taxes on production and imports	37	42	46	56	71	70	76	87	87	90
Capital taxes	-	-	0	0	0	0	0	0	0	0
Property income	4	7	6	7	6	7	7	7	7	6
Sales	41	44	50	50	51	52	57	63	66	58
Other revenue	103	111	157	160	132	148	160	155	179	186
% growth										
Total revenue	**9.7**	**13.7**	**22.3**	**6.1**	**1.2**	**6.7**	**9.0**	**1.5**	**3.6**	**-0.2**
Current taxes on income, wealth, etc.	-37.2	23.2	9.7	7.7	21.8	6.6	10.7	-5.0	-11.5	-3.0
Social contributions	90.5	-40.0	4.2	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6
Taxes on production and imports	520.0	16.3	7.3	21.7	27.3	-0.3	8.2	13.8	0.1	3.8
Capital taxes	-	-	-	80.0	0.0	-55.6	0.0	50.0	83.3	-18.2
Property income	-15.6	79.0	-3.1	17.4	-15.5	5.6	6.3	5.8	-10.8	-4.4
Sales	2.9	6.7	12.6	1.0	2.6	1.8	10.0	9.6	4.6	-12.1
Other revenue	24.9	8.4	40.5	1.9	-17.4	12.4	8.0	-3.1	15.6	3.9

Source: CZSO (2011b).

Table B.6: Social Security Funds Revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total revenue	**125**	**136**	**146**	**159**	**170**	**185**	**203**	**211**	**211**	**216**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	123	135	144	153	163	182	200	207	208	213
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	1	0	0	0	0	0	1	1	1	1
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	1	1	2	6	6	2	2	2	2	2
% growth										
Total revenue	**4.7**	**9.1**	**7.2**	**8.8**	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	4.5	9.9	6.7	5.9	7.1	11.4	10.0	3.2	0.4	2.6
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	35.5	-31.0	-32.7	-8.6	22.1	29.6	75.8	111.3	-23.9	-45.2
Sales	545.0	-65.4	-25.4	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7
Other revenue	-9.9	-37.0	132.0	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5

Source: CZSO (2011b).

Table B.7: General Government Expenditure

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total expenditure	**1075**	**1171**	**1344**	**1268**	**1340**	**1407**	**1503**	**1584**	**1680**	**1665**
Compensation of employees	173	192	214	222	238	252	269	280	293	286
Intermediate consumption	153	173	196	193	206	211	219	228	238	235
Social benefits other than in kind [1)]	311	333	345	359	375	408	456	477	509	521
Social benefits in kind	127	145	153	163	170	174	187	199	219	222
Property income	24	30	28	32	34	35	40	40	48	51
Interest	24	29	28	32	34	35	40	39	47	51
Other property income	0	0	0	0	0	0	0	0	0	0
Subsidies	64	56	67	57	53	60	61	62	75	71
Gross fixed capital formation	74	79	182	123	132	150	153	176	192	165
Capital transfers [2)]	135	138	124	86	152	119	79	104	90	91
Investment grants [3)]	29	38	37	37	36	38	37	36	34	33
Other capital transfers	107	100	88	50	116	81	42	68	56	59
Other expenditure	13	26	35	31	-20	-4	40	18	16	23
Final consumption expenditure	**498**	**557**	**610**	**630**	**667**	**694**	**726**	**759**	**810**	**808**
Collective consumption [4)]	243	276	310	302	336	349	363	380	399	399
Individual consumption	255	281	300	328	331	345	363	380	410	409
% growth										
Total expenditure	**13.7**	**8.9**	**14.8**	**-5.7**	**5.7**	**5.0**	**6.8**	**5.3**	**6.1**	**-0.9**
Compensation of employees	11.8	10.8	11.8	3.7	7.1	6.1	6.4	4.1	4.7	-2.5
Intermediate consumption	6.2	13.2	12.9	-1.4	6.5	2.9	3.4	4.2	4.6	-1.5
Social benefits other than in kind [1)]	6.3	6.8	3.8	4.1	4.5	8.7	11.8	4.5	6.8	2.3
Social benefits in kind	10.4	13.9	5.5	6.7	4.0	2.1	7.8	6.1	10.3	1.5
Property income	31.1	23.9	-4.5	12.3	7.7	3.8	12.8	-0.9	20.2	7.9
Interest	31.2	23.9	-4.5	12.3	7.7	3.7	12.8	-0.9	20.2	8.0
Other property income	-19.2	50.0	-25.4	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9
Subsidies	6.9	-13.1	19.7	-14.3	-7.4	13.4	1.0	2.4	20.0	-4.5
Gross fixed capital formation	-6.7	6.4	131.4	-32.2	7.4	13.6	1.6	15.2	8.9	-14.2
Capital transfers [2)]	129.5	1.7	-9.9	-30.3	76.0	-21.6	-34.2	32.8	-13.8	1.7
Investment grants [3)]	6.7	31.9	-3.0	1.1	-3.5	7.4	-3.4	-2.0	-5.7	-3.8
Other capital transfers	231.5	-6.3	-12.5	-43.4	135.1	-30.4	-48.7	63.7	-18.2	5.0
Final consumption expenditure	**8.3**	**11.9**	**9.5**	**3.3**	**5.9**	**4.0**	**4.6**	**4.6**	**6.6**	**-0.2**
Collective consumption [4)]	5.2	13.4	12.3	-2.3	11.2	3.9	3.8	4.7	5.1	0.0
Individual consumption	11.4	10.4	6.8	9.1	1.1	4.1	5.3	4.5	8.1	-0.4

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 (2011b), MF CR.

Table B.8: General Government Expenditure

(in % of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total expenditure	**43.9**	**45.6**	**50.0**	**43.3**	**43.0**	**42.0**	**41.0**	**41.1**	**44.9**	**44.1**
Compensation of employees	7.1	7.5	8.0	7.6	7.6	7.5	7.3	7.3	7.8	7.6
Intermediate consumption	6.3	6.8	7.3	6.6	6.6	6.3	6.0	5.9	6.4	6.2
Social benefits other than in kind	12.7	13.0	12.8	12.3	12.0	12.2	12.5	12.4	13.6	13.8
Social benefits in kind	5.2	5.7	5.7	5.6	5.5	5.2	5.1	5.2	5.9	5.9
Property income	1.0	1.2	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4
Interest	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.3	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	2.6	2.2	2.5	2.0	1.7	1.8	1.7	1.6	2.0	1.9
Gross fixed capital formation	3.0	3.1	6.8	4.2	4.3	4.5	4.2	4.6	5.1	4.4
Capital transfers	5.5	5.4	4.6	3.0	4.9	3.6	2.1	2.7	2.4	2.4
Investment grants	1.2	1.5	1.4	1.3	1.1	1.1	1.0	0.9	0.9	0.9
Other capital transfers	4.4	3.9	3.3	1.7	3.7	2.4	1.1	1.8	1.5	1.5
Other expenditure	0.5	1.0	1.3	1.1	-0.7	-0.1	1.1	0.5	0.4	0.6
Final consumption expenditure	**20.3**	**21.7**	**22.7**	**21.5**	**21.4**	**20.7**	**19.8**	**19.7**	**21.7**	**21.4**
Collective consumption	9.9	10.7	11.5	10.3	10.8	10.4	9.9	9.9	10.7	10.6
Individual consumption	10.4	11.0	11.2	11.2	10.6	10.3	9.9	9.9	11.0	10.8

Source: CZSO (2011b), MF CR.

Table B.9: Central Government Expenditure

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total expenditure	**799**	**853**	**997**	**907**	**944**	**982**	**1061**	**1103**	**1155**	**1141**
Compensation of employees	98	108	109	111	121	128	137	143	150	146
Intermediate consumption	75	87	97	94	104	101	107	108	113	111
Social benefits other than in kind	302	322	333	347	363	395	437	454	485	494
Social benefits in kind	3	6	5	4	3	3	2	2	3	4
Interest	22	28	26	29	32	33	37	36	45	50
Subsidies	48	38	38	31	24	29	30	30	37	28
Gross fixed capital formation	35	34	128	62	77	81	87	97	96	74
Capital transfers	131	130	118	88	148	117	74	102	93	92
Other expenditure	86	99	143	140	72	95	150	131	134	143
% growth										
Total expenditure	**16.8**	**6.7**	**16.9**	**-9.0**	**4.1**	**4.0**	**8.1**	**3.9**	**4.7**	**-1.1**
Compensation of employees	6.6	10.9	0.4	1.9	9.1	6.1	6.7	4.2	5.0	-2.3
Intermediate consumption	-0.8	16.4	11.9	-3.7	11.5	-3.2	6.4	0.6	4.4	-1.8
Social benefits other than in kind	6.6	6.6	3.4	4.2	4.5	8.7	10.6	3.9	6.8	1.9
Social benefits in kind	64.8	105.1	-20.2	-12.5	-22.8	-7.2	-23.9	-18.2	36.6	53.3
Interest	32.7	26.2	-6.0	11.1	11.1	3.4	12.4	-2.2	23.8	10.2
Subsidies	11.0	-21.1	-0.2	-17.5	-23.4	22.2	2.2	0.2	23.1	-24.7
Gross fixed capital formation	-6.2	-2.4	278.1	-51.5	24.0	4.9	7.8	10.9	-1.3	-22.2
Capital transfers	98.7	-1.1	-9.1	-25.4	67.8	-21.1	-36.7	38.1	-8.9	-1.4
Other expenditure	24.3	15.8	43.4	-1.7	-48.9	32.7	57.4	-12.4	2.3	6.5

Source: CZSO (2011b).

Table B.10: Local Government Expenditure

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total expenditure	**247**	**280**	**342**	**352**	**354**	**385**	**397**	**421**	**453**	**449**
Compensation of employees	73	81	103	109	114	121	129	133	139	135
Intermediate consumption	77	85	97	98	99	109	109	118	123	121
Social benefits other than in kind	9	10	12	12	12	13	20	23	24	27
Social benefits in kind	1	1	2	3	3	3	3	3	3	2
Interest	2	2	2	3	2	2	3	3	2	2
Subsidies	17	18	29	26	29	31	31	33	38	44
Gross fixed capital formation	39	44	53	60	54	69	65	79	95	89
Capital transfers	24	29	33	33	28	26	28	20	16	17
Other expenditure	6	10	11	10	11	11	10	10	12	12
% growth										
Total expenditure	**9.9**	**13.4**	**22.2**	**3.0**	**0.4**	**9.0**	**3.0**	**6.0**	**7.6**	**-0.8**
Compensation of employees	19.6	10.6	27.3	5.7	5.1	6.1	6.1	3.8	4.3	-2.7
Intermediate consumption	13.5	10.4	13.7	0.8	1.7	9.5	0.6	7.4	4.4	-1.5
Social benefits other than in kind	-3.4	13.4	15.6	0.6	3.8	7.3	47.7	17.4	6.8	11.6
Social benefits in kind	-38.9	15.6	69.9	4.5	2.4	8.9	19.0	-11.3	0.2	-16.4
Interest	14.7	-0.8	18.0	28.3	-26.5	8.2	15.8	17.7	-22.4	-32.2
Subsidies	-3.4	9.6	60.7	-10.2	11.6	6.3	-0.1	4.4	17.1	14.9
Gross fixed capital formation	-7.0	13.5	21.2	13.7	-9.8	26.6	-5.7	20.7	21.1	-6.1
Capital transfers	79.1	19.9	14.9	-1.0	-14.2	-5.8	5.0	-27.5	-21.2	6.1
Other expenditure	-47.7	78.5	8.9	-11.3	19.6	-7.0	-9.7	1.4	23.8	-2.9

Source: CZSO (2011b).

Table B.11: Social Security Fund Expenditure

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
Total expenditure	**128**	**143**	**151**	**162**	**170**	**173**	**187**	**201**	**222**	**224**
Compensation of employees	2	3	3	3	3	3	3	4	4	4
Intermediate consumption	1	1	2	2	2	2	2	2	3	3
Social benefits other than in kind	-	-	-	-	0	0	-	0	0	0
Social benefits in kind	123	137	146	156	164	168	181	194	213	216
Interest	0	0	0	0	0	0	0	0	0	0
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	1	1	1	1	0	0	1	1	1
Capital transfers	-	0	0	0	-	-	-	-	-	-
Other expenditure	0	0	0	0	0	0	0	0	0	0
% growth										
Total expenditure	**10.6**	**11.6**	**5.8**	**7.2**	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**
Compensation of employees	9.5	11.1	5.4	2.7	5.7	5.3	6.5	12.0	9.6	-0.2
Intermediate consumption	29.1	3.7	22.9	1.4	8.0	-13.3	10.5	22.2	26.1	10.3
Social benefits other than in kind	-	-	-	-	-	100.0	-	-	600.0	0.0
Social benefits in kind	10.4	11.6	6.0	7.4	4.8	2.2	8.3	6.8	10.2	1.1
Interest	-23.5	-53.8	-33.3	-25.0	-66.7	-200.0	-300.0	-50.0	0.0	0.0
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	-16.0	54.6	-30.5	11.1	19.1	-41.7	-0.4	64.4	48.4	-15.7
Capital transfers	-	-	-18.6	74.3	-	-	-	-	-	-
Other expenditure	232.1	-17.8	-70.6	-35.4	571.4	27.7	23.9	-15.5	7.7	14.8

Source: CZSO (2011b).

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
General government	**-137**	**-168**	**-180**	**-83**	**-101**	**-80**	**-27**	**-86**	**-219**	**-183**
Central government	-123	-150	-162	-77	-100	-82	-56	-91	-186	-154
Local governments	-11	-11	-14	-4	-1	-9	13	-5	-22	-19
Social security funds	-3	-6	-5	-3	0	12	16	10	-11	-9
% of GDP										
General government	**-5.6**	**-6.5**	**-6.7**	**-2.8**	**-3.2**	**-2.4**	**-0.7**	**-2.2**	**-5.8**	**-4.8**
Central government	-5.0	-5.8	-6.0	-2.6	-3.2	-2.4	-1.5	-2.4	-5.0	-4.1
Local governments	-0.4	-0.4	-0.5	-0.1	0.0	-0.3	0.4	-0.1	-0.6	-0.5
Social security funds	-0.1	-0.2	-0.2	-0.1	0.0	0.4	0.4	0.3	-0.3	-0.2

Source: CZSO (2011b).

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CZK bn										
General government debt	**585**	**695**	**768**	**848**	**885**	**948**	**1024**	**1105**	**1282**	**1418**
Currency and deposits	7	24	4	3	1	0	-	-	-	-
Securities other than shares	355	427	528	634	698	789	871	951	1109	1241
Loans	223	243	236	211	187	159	153	154	173	176
Central government debt	**553**	**653**	**719**	**783**	**813**	**867**	**939**	**1016**	**1187**	**1323**
Currency and deposits	7	24	4	3	1	0	-	-	-	-
Securities other than shares	348	415	517	612	675	766	848	929	1094	1227
Loans	198	213	197	169	137	101	91	87	93	96
Local government debt	**40**	**50**	**59**	**72**	**79**	**87**	**88**	**92**	**98**	**97**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	7	12	12	23	24	23	23	23	16	16
Loans	33	38	47	49	55	64	65	69	82	81
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	**44.8**	**18.8**	**10.6**	**10.4**	**4.4**	**7.1**	**8.0**	**7.9**	**16.1**	**10.6**
Currency and deposits	-	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-
Securities other than shares	28.7	20.5	23.6	19.9	10.2	12.9	10.5	9.2	16.6	12.0
Loans	73.8	9.0	-3.0	-10.5	-11.6	-14.5	-4.2	0.6	12.9	1.6
Central government debt	**46.8**	**18.1**	**10.0**	**8.9**	**3.8**	**6.6**	**8.3**	**8.2**	**16.8**	**11.5**
Currency and deposits	-	240.9	-83.8	-28.6	-78.3	-96.3	-	-	-	-
Securities other than shares	29.8	19.4	24.6	18.2	10.3	13.5	10.7	9.5	17.7	12.2
Loans	82.1	7.7	-7.5	-14.6	-18.5	-26.6	-10.0	-4.0	6.5	3.6
Local government debt	**12.6**	**23.4**	**18.1**	**22.1**	**9.8**	**9.5**	**2.1**	**3.9**	**6.9**	**-1.5**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-13.2	72.4	-3.4	90.7	5.8	-3.5	0.6	0.0	-30.4	-2.0
Loans	20.2	13.0	25.1	4.8	11.7	15.1	2.6	5.3	19.5	-1.3
Social security funds debt	**-34.5**	**-19.8**	**-19.8**	**-25.7**	**17.5**	**-30.5**	**-69.1**	**55.9**	**-58.7**	**-36.8**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-34.5	-19.8	-19.8	-25.7	17.5	-30.5	-69.1	55.9	-58.7	-36.8

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 (2011b).

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government debt	**23.9**	**27.1**	**28.6**	**28.9**	**28.4**	**28.3**	**28.0**	**28.7**	**34.3**	**37.6**
Currency and deposits	0.3	1.0	0.1	0.1	0.0	0.0	-	-	-	-
Securities other than shares	14.5	16.6	19.7	21.6	22.4	23.5	23.8	24.7	29.7	32.9
Loans	9.1	9.5	8.8	7.2	6.0	4.8	4.2	4.0	4.6	4.7
Central government debt	**22.6**	**25.4**	**26.7**	**26.7**	**26.1**	**25.9**	**25.6**	**26.4**	**31.7**	**35.1**
Currency and deposits	0.3	1.0	0.1	0.1	0.0	0.0	-	-	-	-
Securities other than shares	14.2	16.2	19.2	20.9	21.7	22.8	23.2	24.1	29.2	32.5
Loans	8.1	8.3	7.3	5.8	4.4	3.0	2.5	2.3	2.5	2.5
Local government debt	**1.7**	**1.9**	**2.2**	**2.5**	**2.5**	**2.6**	**2.4**	**2.4**	**2.6**	**2.6**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.3	0.5	0.4	0.8	0.8	0.7	0.6	0.6	0.4	0.4
Loans	1.4	1.5	1.8	1.7	1.8	1.9	1.8	1.8	2.2	2.1
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 (2011b).

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

(in % of GDP)

	Balance					Debt				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
EU27	-0.9	-2.4	-6.9	-6.6	-4.4	59.0	62.5	74.7	80.2	82.2
EA17 [1]	-0.7	-2.1	-6.4	-6.2	-4.0	66.3	70.1	79.8	85.4	87.6
Austria	-0.9	-0.9	-4.1	-4.4	-3.6	60.2	63.8	69.5	71.8	72.4
Belgium	-0.3	-1.3	-5.8	-4.1	-3.5	84.1	89.3	95.9	96.2	96.7
Bulgaria	1.2	1.7	-4.3	-3.1	-2.5	17.2	13.7	14.6	16.3	16.4
Cyprus	3.5	0.9	-6.1	-5.3	-6.5	58.8	48.9	58.5	61.5	64.5
Czech Republic	-0.7	-2.2	-5.8	-4.8	-3.7	27.9	28.7	34.4	37.6	40.5
Denmark	4.8	3.2	-2.7	-2.6	-3.7	27.5	34.5	41.8	43.7	43.6
Estonia	2.4	-2.9	-2.0	0.2	0.2	3.7	4.5	7.2	6.7	5.8
Finland	5.3	4.3	-2.5	-2.5	-1.1	35.2	33.9	43.3	48.3	48.7
France	-2.7	-3.3	-7.5	-7.1	-5.7	64.2	68.2	79.0	82.3	85.5
Germany	0.2	-0.1	-3.2	-4.3	-1.3	65.2	66.7	74.4	83.2	81.1
Greece	-6.5	-9.8	-15.8	-10.6	-8.6	107.4	113.0	129.3	144.9	163.7
Hungary	-5.1	-3.7	-4.6	-4.2	3.9	67.0	72.9	79.7	81.3	73.9
Ireland	0.1	-7.3	-14.2	-31.3	-10.0	24.9	44.3	65.2	94.9	109.9
Italy	-1.6	-2.7	-5.4	-4.6	-3.9	103.1	105.8	115.5	118.4	120.6
Latvia	-0.4	-4.2	-9.7	-8.3	-4.5	9.0	19.8	36.7	44.7	46.1
Lithuania	-1.0	-3.3	-9.5	-7.0	-5.3	16.8	15.5	29.4	38.0	37.6
Luxembourg	3.7	3.0	-0.9	-1.1	-0.6	6.7	13.7	14.8	19.1	18.2
Malta	-2.4	-4.6	-3.7	-3.6	-2.8	62.1	62.2	67.8	69.0	68.8
Netherlands	0.2	0.5	-5.6	-5.1	-4.2	45.3	58.5	60.8	62.9	64.7
Poland	-1.9	-3.7	-7.3	-7.8	-5.6	45.0	47.1	50.9	54.9	57.0
Portugal	-3.1	-3.6	-10.1	-9.8	-5.9	68.3	71.6	83.0	93.3	100.8
Romania	-2.9	-5.7	-9.0	-6.9	-4.7	12.8	13.4	23.6	31.0	33.3
Slovakia	-1.8	-2.1	-8.0	-7.7	-5.8	29.6	27.8	35.5	41.0	44.2
Slovenia	0.0	-1.9	-6.1	-5.8	-5.5	23.1	21.9	35.3	38.8	45.1
Spain	1.9	-4.5	-11.2	-9.3	-6.0	36.2	40.1	53.8	61.0	67.8
Sweden	3.6	2.2	-0.7	0.2	0.4	40.2	38.8	42.7	39.7	36.9
United Kingdom [2]	-2.7	-6.9	-11.6	-9.6	-7.9	43.5	56.5	71.2	76.7	84.1

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 (2011). United Kingdom data for 2011 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	44.1	50.6	11.1	17.0	22.2	2.7	2.7
EA [3]	44.6	50.9	10.8	17.6	21.9	2.5	2.8
Belgium	48.8	52.9	12.6	17.2	24.2	1.6	3.5
Bulgaria	34.9	38.1	9.3	12.6	16.2	4.8	0.6
Czech Republic	39.3	44.1	7.6	13.8	21.4	4.4	1.4
Denmark	55.7	58.5	19.2	17.0	29.4	2.2	1.9
Estonia	40.9	40.6	11.9	13.1	20.9	3.9	0.1
Finland	52.5	55.3	14.4	18.1	24.6	2.5	1.4
France	49.5	56.6	13.4	19.6	24.8	3.1	2.4
Ireland	35.5	66.8	11.8	15.9	18.8	3.8	3.1
Italy	45.8	50.3	11.1	19.2	21.1	2.1	4.4
Cyprus	41.0	46.4	15.9	14.3	20.1	3.8	2.3
Lithuania	33.8	40.9	11.1	13.0	20.5	4.6	1.8
Latvia	36.1	44.4	10.2	12.5	17.5	3.7	1.4
Luxembourg	41.4	42.5	8.0	15.4	16.6	4.1	0.4
Hungary	45.2	49.5	10.9	15.9	21.8	3.4	4.2
Malta	39.3	42.9	13.6	13.1	21.0	2.2	3.0
Germany	43.6	47.9	7.9	17.3	19.7	1.6	2.5
Netherlands	46.2	51.2	10.0	11.7	28.5	3.6	1.9
Poland	37.5	45.4	10.1	14.8	18.9	5.6	2.7
Portugal	41.6	51.3	12.2	17.0	21.4	3.6	3.0
Austria	48.1	52.5	9.7	19.7	19.3	1.0	2.6
Romania	34.0	40.9	9.8	13.2	16.6	5.8	1.6
Greece	39.5	50.2	12.1	20.8	18.2	2.8	5.8
Slovakia	32.3	40.0	7.7	14.1	19.3	2.6	1.3
Slovenia	44.3	50.1	12.7	17.3	20.8	4.3	1.6
Spain	36.3	45.6	11.9	15.3	21.1	3.8	1.9
Sweden	52.8	52.9	14.8	15.4	27.0	3.4	1.0
United Kingdom [4]	40.3	50.4	11.4	15.1	22.9	2.5	2.9

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 (2011).

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

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