Ministry of Finance
Department for Financial Policy

Fiscal Outlook

of the Czech Republic

November 2014

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ISSN 1804-7998

Issued 2× per year, free distribution

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

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The Fiscal Outlook of the CR is published by the Department for Financial Policies of the MF CR with a half-year periodicity (published generally at the end of May and November). It contains forecast of the current and next year (i.e. up to 2015) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2017). The Outlook is available on internet pages of MF CR at:

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

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

Fiscal.Outlook@mfcr.cz

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List of Abbreviations

c.p.	current prices
CEB	Czech Export Bank
CoD PCR	Chamber of Deputies of the Parliament of the Czech Republic
CNB	Czech National Bank
CR	Czech Republic
CZK	Czech koruna currency code
CZSO	Czech Statistical Office
EC	European Commission
EGAP	Export Guarantee and Insurance Corporation
EP	European Parliament
EPC/AWG	Economic Policy Committee/Working Group on Ageing Populations and Sustainability
ESA 1995	European System of National and Regional Accounts from year 1995
ESA 2010	European System of National and Regional Accounts from year 2010
ESCB	European System of Central Banks
EU, EU28	European Union (EU28 coverage)
EUR	euro currency code
EUROPOP2013	European Population Projections of 2013
GFCF	Gross Fixed Capital Formation
GFS 2001	Government Finance Statistics methodology from year 2001
GDP	gross domestic product
MF CR	Ministry of Finance of the Czech Republic
MTEF	Medium-Term Expenditure Framework
p.a.	*per annum* (per year)
pp	percentage point
SEK	Swedish krona currency code
s.p.	constant prices (volumes)
USD	US dollar currency code

Symbols Used in Tables

A dash (–) in place of number indicates that the phenomenon did not occur or is not possible for logical reasons. “Billion” means a thousand million.

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 7 October 2014 release, fiscal data to the 5 November 2014 release, government bond yields to the 12 November 2014 release and data for international comparison to the 23 October 2014 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 current issue of the Fiscal Outlook is falling within a relatively specific period characterised by several factors. The first one is the submitted Act on State Budget that is the first budget drawn up by the government coalition of CSSD, ANO 2011 and KDU-CSL that has been ruling since the end of January 2014. The budget reflects the programme priorities of the government and sets up budgetary and fiscal policy for the future years of its term of office. The second important factor is the change in the sphere of statistical indicators with the transition from the ESA 95 methodology to the ESA 2010 methodology as part of the standard of the European system of national and regional accounts. Apart from some changes in the structure of macroeconomic aggregates, this transition also brings a change in the level of individual quantities. For example, the gross domestic product for 2013 is approximately 5% higher compared to the previous methodology. With respect to the transition to the ESA 2010 methodical standard, the current data are not directly comparable with those in the previous issues of the Fiscal Outlook.

Another important event for the Czech public finances is the fact that on 20 June 2014 the Council of the EU decided to abrogate the excessive deficit procedure. The procedure that was initiated with the Czech Republic in December 2009 when the CR reached the general government deficit of 5.5% of GDP due to the global recession. Thanks to relatively great fiscal efforts (i.e. a change in the structural balance) in the average amount of 1.1% of GDP annually, the excessive deficit was removed until 2013, however at the expense of deeper negative output gap.

From the perspective of the macroeconomic development in the horizon of the following three years we expect that after two years of slight decreases the economy will reach real growth of 2.4% in 2014 and will basically maintain this dynamics for the remaining part of the forecast horizon. Consumption and investments should mainly participate in GDP growth, contribution of foreign trade should be non-zero as late as in 2016 and 2017. The currently still negative output gap could be closed under this scenario already in 2015 and for the remaining part of the forecast the economy could remain above its potential.

The submitted Fiscal Outlook is based on the Macroeconomic Forecast of October 2014 of the Ministry of Finance (MF CR, 2014b) and the draft state budget and state funds budgets for 2015, including the draft medium-term budgetary outlook until 2017. The budget documents reflect the programme of the coalition government of CSSD, ANO 2011 and KDU-CSL, in particular pro-growth orientation of the economic policy. Nevertheless, everything is subordinated to the target to keep the general government balance safely above the limit value of −3% of GDP. For 2015, we estimate the total balance to be −2.2% of GDP and this indicator should gradually be improving with economic recovery.

The current Fiscal Outlook traditionally includes a thematic chapter. This time, it covers update of long-term pension projections of the CR with respect to the fact that the Population Ageing Report for 2015 will be published next year for which these projections were primarily prepared. Thereby we continue in the subject from the Fiscal Outlook of October 2009 (MF CR, 2009) and the Information Study of the MoF 2/2012 (Marval J., Štork, Z. 2012) where we also covered the mentioned subject.

Traditionally, the Fiscal Outlook includes a large table appendix, freely downloadable in full numerical series at the website of the Ministry of Finance of the Czech Republic (www.mfcr.cz/FiskalniVyhled).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

According to the current data that are already based on the ESA 2010 national accounts standard and also reflect other methodical changes, real GDP increased by 0.3% QoQ in the second quarter of 2014. Compared to the first quarter of 2014, there was some slowdown in the growth, but this development was in line with expectations. Therefore, we still assume that gradual economic recovery will continue. Real GDP could increase by 2.4% YoY this year and maintain similar dynamics also in 2015–2017. In 2014 and 2015, growth should be driven exclusively by domestic demand which should remain the dominant factor of growth also in the years of the outlook when foreign trade balance should also contribute positively to GDP growth.

Household consumption growth could accelerate gradually from the expected 1.4% in 2014 up to 2% in 2016 and 2017. Growth of final consumption expenditure of households will be supported by an improvement of the labour market situation and moderate growth of the average real wage, which could fluctuate around 2% in the horizon of the forecast and the outlook.

Investment activity will be positively influenced by growth of gross operating surplus and gradual recovery of domestic demand. In 2014 and 2015, a better drawdown of the EU funds, in particular from the financial perspective 2007–2013, should also contribute positively. Investment in fixed capital could therefore increase by 4.5% in 2014 and by 4.9% in 2015. The lease of the JAS 39 Gripen aircrafts will also have a non-negligible impact on the fixed investment development in 2015. In the years of the outlook, growth of gross fixed capital formation could slightly exceed 3%.

We expect that the contribution of foreign trade balance to GDP growth will be approximately zero in 2014 and 2015. It will be caused not only by very slow growth of the economies of main trade partners, but also by an increase in imports given by relatively solid growth of domestic demand. Thanks to the expected improvement of terms of trade both in 2014 and 2015, however, the surplus of foreign trade with goods and services will increase at least in nominal terms. For the years of the outlook, we expect the contribution of net exports to GDP growth of 0.5 pp.

Despite the weakening of the Czech koruna due to the CNB's foreign exchange interventions, the year 2014 should be characterised by very low inflation. Unlike the previous years, administrative effects (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. The average inflation rate could thus reach only 0.5% this year.

Table 1.1: Main Macroeconomic Indicators (2013–2017)

		2013	2014	2015	2016	2017	2014	2015	2016	2017
		Actual	Current Forecast and Outlook				May 2014 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	**4086**	**4284**	**4467**	**4635**	**4810**	4023	4173	4303	4471
	% growth, s.p.	**-0.7**	**2.4**	**2.5**	**2.5**	**2.5**	1.7	2.0	2.1	2.5
Private consumption	*% growth, s.p.*	**0.4**	**1.4**	**1.7**	**1.9**	**1.9**	0.6	1.5	1.6	1.9
Government consumption	*% growth, s.p.*	**2.3**	**1.9**	**2.0**	**1.3**	**1.1**	0.8	0.7	1.2	1.2
Gross fixed capital formation	*% growth, s.p.*	**-4.4**	**4.5**	**4.9**	**3.3**	**3.2**	2.7	2.0	2.1	3.1
Contr. of net exports to GDP growth	*p.p., s.p.*	**0.0**	**-0.1**	**0.0**	**0.5**	**0.5**	0.5	0.6	0.6	0.6
GDP deflator	*% growth*	**1.7**	**2.4**	**1.8**	**1.2**	**1.3**	1.8	1.7	1.0	1.3
Inflation	*in %*	**1.4**	**0.5**	**1.5**	**1.9**	**2.0**	1.0	2.3	2.1	2.0
Employment	*% growth*	**1.0**	**0.4**	**0.3**	**0.2**	**0.2**	0.2	0.2	0.2	0.2
Unemployment rate	*average in %*	**7.0**	**6.3**	**6.1**	**5.9**	**5.7**	6.8	6.6	6.4	6.0
Wages and salaries	*% growth, c.p.*	**-0.4**	**2.9**	**3.9**	**4.1**	**4.1**	1.8	3.5	3.6	4.1
Current account to GDP ratio	*in %*	**-1.4**	**0.0**	**-0.3**	**-0.5**	**-0.8**	-0.4	-0.3	-0.5	-0.6
Assumptions:										
Exchange rate CZK/EUR		**26.0**	**27.5**	**27.5**	**27.4**	**26.9**	27.3	27.2	26.8	26.4
Long-term interest rates	*% p.a.*	**2.1**	**1.7**	**1.7**	**2.1**	**2.4**	2.4	2.6	2.8	3.0
Crude oil Brent	*USD/barrel*	**108.6**	**105.2**	**101.4**	**98.0**	**95.5**	104.8	100.5	96.5	95.0
GDP in Eurozone EA12	*% growth, s.p.*	**-0.4**	**0.8**	**1.2**	**1.8**	**2.1**	1.1	1.5	1.8	2.1

Note: Figures for employment and unemployment are based on Labour Force Survey. EA 12 refers to euro zone consisting of 12 original countries. Changes in national account aggregates are determined mostly by the change of methodology from ESA 95 to ESA 2010.
Source: MF CR (2014a, 2014b).

In 2015, growth of consumer prices should accelerate, but we expect the inflation will still be below the Czech National Bank's inflation target of 2%. In the years 2016 and 2017, the inflation rate should be close to the inflation target.

On the labour market, thanks to gradual growth of economic activity, the unemployment rate should be decreasing gradually in the whole horizon of the forecast and the outlook, while employment should grow slightly.

In 2014, the wage bill could increase by 2.9%; for 2015 we expect growth to accelerate to 3.9%. In addition to the expected gradual improvement of the private sector situation, the proposed growth of the wage bill in the state administration should have a favourable impact on the wage bill development. In the years of the outlook, the wage bill could grow at a similar rate as in 2015. In 2015–2017, the wage bill growth should approximately mirror nominal GDP dynamics.

We expect the current account of the balance of payments to be balanced this year. The surplus of the balance of goods and services should be growing in the following years, but the deepening of the deficit of the income balance should be even more significant. The current account will probably post a slight and gradually deepening deficit, the level of which will continue to be consistent with the external macroeconomic balance.

We regard risks to the forecast as balanced.

1.2 Fiscal Policy Objectives

Based on the EU Council decision of 20 June 2014 (the Council of the EU, 2014), the excessive deficit procedure, which was initiated in December 2009, due to exceeding the 3% reference limit for the general government sector deficit, was abrogated with the Czech Republic. A recommendation was given to the Czech Republic to remove the excessive deficit not later than at the end of 2013. During the aforementioned period, the general government deficit was decreased from 5.5% of GDP in 2009 to 1.3% of GDP in 2013.

However, successful consolidation of government finances has also brought with itself significant negative aspects in the form of a further drop in domestic economic activity in the period of the recession and a relatively deep negative output gap. An average annual decrease in the structural deficit by 1.1 pp in 2010–2013 was achieved both by a nominal decrease in government consumption expenditure and lower investment activity of the general government units and by a discretionary increase in (mainly indirect) taxes.

Based on the results of the October government deficit and debt notification (Eurostat, 2014b), the general government deficit should reach 1.5% of GDP in 2014. Even if it is only a slight deterioration compared to the result of 2013, a significant decrease in the cyclical component of the deficit due to the quickly closing output gap implies a year-on-year deterioration of the structural balance of 1.1 pp (see Table 1.2). These data thus confirm the change in the fiscal policy stance declared by the government and temporary suspension of the budgetary restriction in order to support the economic recovery, mainly by increasing the volume of expenditures in the pro-growth spheres.

For 2015, we expect culmination of the domestic economic growth support by fiscal policy instruments and the related higher general government deficit of 2.2% of GDP. In 2016 and 2017, we forecast deficits of 1.4% and 1.1% of GDP. We expect a decrease in deficits in these years both thanks to the improving macroeconomic situation and a positive contribution of the cyclical component of the balance, and thanks to the government's slightly positive fiscal effort.

Table 1.2: Fiscal Policy Stance (2011–2017)
(in % of GDP, change in structural balance in percentage points)

	2011	2012	2013	2014	2015	2016	2017
General government balance	**-2.9**	**-4.0**	**-1.3**	**-1.5**	**-2.2**	**-1.4**	**-1.1**
Cyclical component	-0.1	-0.6	-1.1	-0.5	-0.1	0.2	0.4
One-off and other temporary measures	-0.2	-2.0	-0.2	0.1	-0.3	-0.1	0.0
Structural balance	-2.6	-1.4	0.0	-1.1	-1.8	-1.6	-1.4
Change in structural balance	**1.3**	**1.1**	**1.4**	**-1.1**	**-0.7**	**0.2**	**0.1**
Cyclical component according to ESCB method	-0.1	-0.4	-0.5	-0.4	0.0	0.2	0.5
Structural balance according to ESCB method	-2.6	-1.6	-0.6	-1.2	-1.8	-1.5	-1.6
Change in structural balance according to ESCB method	**1.8**	**1.0**	**1.0**	**-0.6**	**-0.6**	**0.3**	**0.0**

Note: Cyclical component of the balance (and therefore of the structural balance) according to the European Commission is calculated directly from output gap, while the ESCB method uses the cyclical development of cyclically-dependent macroeconomic bases for revenues and expenditures (compensation of employees in the private sector, wages and salaries in the private sector, net operating surplus, consumption of households and unemployment).
Source: CZSO (2014a, 2014b). Forecast and calculations by MF CR.

One of the current government's main priorities in the sphere of fiscal policy is to increase the effectiveness of tax collection and fighting tax evasion. Therefore, the Ministry of Finance is preparing a set of measures that will reduce possibilities of tax evasion considerably and will thus contribute to increasing tax incomes while keeping the same tax burden. Additional revenues resulting from the implementation of these measures are not included in the current forecast; nevertheless, they represent considerable positive risk for the revenue side of the government budgets.

For the period of the outlook, we expect only partial parametrical changes in the tax sphere without any important fiscal impacts; the centre of the active government policy is mainly on the expenditure side of government finances. A detailed view of the forecast development of general government revenues and expenditures is provided in Chapter 3.

2 Short-term Development of General Government Sector Finances

2.1 General Government Sector Development in 2013 and 2014

2.1.1 General Government Sector in 2013

According to government deficit and debt notification (CZSO, 2014b), there was a general government deficit of 1.3% of GDP in 2013. Compared to 2012, the deficit decreased by 2.7 pp. However, the 2012 result is largely a consequence of two one-off accrual measures (financial compensation to churches and religious societies and corrections to reimbursement from EU funds) totalling approximately CZK 71 billion (1.8% of GDP), recorded in 2012 as capital transfer expenditure. Corrections to reimbursement from EU funds have also been recorded in subsequent years, but to a much smaller extent.

In comparison with the spring results of the general government deficit and debt notification (CZSO, 2014b), the estimate for reality has improved by nearly 0.2 pp. This result reflects the impact of the nominal decrease in the deficit level and the adjustment of the denominator in the form of the revision of the nominal GDP level due to the transition to the new ESA 2010 standard. For example, in 2013 the nominal GDP level increased by approximately 5.2%, thanks to which ceteris paribus all ratios decreased. The effects of the change in GDP level and the decrease in the deficit in 2013 have had approximately an identical impact on new estimate of nearly 0.1 pp each.

In comparison with 2012, general government revenues increased by 3.2%, in particular due to an increase in tax revenues. Revenues as a percentage of GDP increased by nearly 1 pp compared to 2012, reaching 40.7% of GDP. The share of revenues in GDP has been continuously increasing since 2009.

The highest increase could be seen in indirect taxes (4.9%), mainly due to an increase in both VAT rates by 1 pp. The total discretionary effect of this measure reached 0.4% of GDP. In comparison with 2012, VAT revenues increased by 6.2%. Excise taxes increased by 4.2% compared to 2012, in particular due to an increase in so-called ‘redirecting’, meaning that some transactions in the national economy carried out by another sector are redirected into the general government, because such flows attend to take on the character of general government revenues and expenditures. These mainly include payments for renewable energy sources and, to a smaller extent, also banking deposit insurance. For example, more than CZK 33 billion was added in excise tax revenues (and also in subsidies for products) on account of renewable sources, which is an increase of CZK 10 billion compared to 2012. If adjusted for this effect, excise taxes would otherwise have slightly decreased, primarily due to a decrease in revenues from the excise tax on mineral oils.

Direct taxes increased by 4.1%, in particular thanks to the higher growth of personal income tax revenues (4.5%), where personal income tax was largely influenced by discretionary measures totalling approximately 0.1% of GDP. These changes included, for example, the introduction of the second statutory rate of personal income tax, the restriction of flat expense deductions and the increase in the withholding tax with respect to tax havens. Corporate income tax revenues increased by 3.8% in 2013. Considering the relative lack of discretionary measures in 2013, such increase largely involved autonomous development.

Social security contributions increased by only 1.1%, where the positive impact of cancelling health insurance caps was compensated by increasing the limit of exemptions of employers’ payments for life insurance and additional pension insurance or supplementary pension savings.

Other sources of general government revenues are property income, including revenues from invested funds as well as dividends from companies owned or co-owned by the state. In 2013, property income increased (by 8.2%) by transferring CZK 5.4 billion from state enterprise Forests of the CR into general government revenues. There was also a methodical change made in recording revenue from dividends, whereby the whole amount is recorded on the revenue side, including withholding tax, and the respective tax expenditure is posted to expenditures.

Compared to 2012, general government sales increased only by 0.7%. Sales should be understood as general government production in which the general government is reimbursed, at least partially, for spent costs by consumers of goods or services or by persons paying on their behalf. A typical example is a time-dependent fee (i.e. a road toll) or electronic toll. Based on the ESA 2010 methodology, research and development capitalisation is now also recorded in sales.

The last substantial revenue of the general government comprises current and capital transfers, which have increased by 8.2%. More than two thirds of this revenue are made up of an accrual transfer that is recorded together with the creation of a receivable due from EU funds. These are funds spent in the given year on European projects (both current and capital) that will be refunded to the CR from EU funds in the following years.

General government expenditures decreased by 3.2% compared to 2012, a fall resulting from the aforementioned recording of extensive one-off measures in 2012. After adjustment for these effects, a slight increase of nearly 1% could be seen. The share of general government expenditures adjusted for one-off effects in GDP has been decreasing continually since 2009, reaching 42% of GDP in 2013.

The largest component of the expenditures is general government final consumption expenditure, which also has by its very definition a direct relation to GDP formation. In 2013, after three years of continual decrease, it increased by 2.4%, whereby the general government contributed positively to an increase in the nominal GDP consumption component. Government consumption was driven by an increase in intermediate consumption, i.e. in the purchases of goods and services, which had been in continuous decline during the previous three years. The increase could be seen both in the central government and local government. In second place, compensation of employees also contributed to an increase in final consumption (growth of 2.6%), again both in the local and central government. The final important component of government final consumption is social benefits in kind (expenditure of health insurance companies related to health care). These only increased by 0.5%, which was caused by the relatively restrictive Reimbursement Decree and moreover by a slight increase in payments for state insured persons.

Expenditure on property income decreased by more than 5% due to the low interest costs in relation to state debt management. Here the lower increase in debt was reflected positively, as was the favourable development of government bond yields (for details, see Chapter 2.2.3).

Government investment decreased by more than 9% in 2013. In light of the accrual subsidy development on the revenue side, we can presume a decrease in investment financed purely from national sources. A possible contributing factor is the relatively restrictive amendment to the Public Procurement Act of 2012, which was adopted in particular to restrict opportunities for corrupting practices. Investment fell both in the local and central government. Unlike the government's final consumption, in 2013 the general government's investment also contributed to GDP development negatively. Since 2009, its share in GDP has decreased cumulatively by nearly 2 pp.

Capital transfers from the general government to other units in the economy also contributed to the low dynamics of the expenditure side. Causes for the decrease, in addition to the two aforementioned one-off measures in 2012 (financial compensation to churches and the correction to the reimbursement from EU funds), also include the decrease in transfers from the State Environmental Fund in connection to the termination of the Green Savings Programme. Other expenditure transfers increased by approximately 7.9%, due to the transfer of payments for the already mentioned renewable energy sources, which is recorded in subsidies for products.

Box 1: Basic Changes in General Government Sector Statistics in relation with Transition to ESA 2010 Methodology

The new standard of the European System of National and Regional Accounts of 2010 (ESA 2010) has been binding upon the EU Member States since September 2014. This system is an internationally compatible framework for a systematic and detailed description of a total national economy, its components and relations with other economic entities. Compared to the previously valid ESA 95 methodology, ESA 2010 introduces a number of changes, some of which have an impact on the GDP calculation method. Generally, the principle of ownership changes is applied more consistently, the concept of assets is extended to include expenditure on research and development, military destructive technology, and more attention is also paid to recording global production. There are some changes in the classification of individual institutional sectors used previously. While the impact on GDP and the general government debt is quite important, this transition only affects the deficit to a limited extent.

Research and Development
In the ESA 95 methodology, expenditure on research and development (purchased and carried out at one's own expense by a non-market producer) were included in consumption costs (i.e. intermediate consumption, compensation of employees, depreciation). Now, purchased research and development has been transferred from the category of intermediate consumption to that of gross fixed capital formation. The total impact on the deficit is identical to the ESA 95 methodology (intermediate consumption decreases by the same amount by which gross capital formation increases); nevertheless, GDP will increase. The increase in capital stock will result in an increase in fixed capital consumption that is part of final consumption, thanks to which GDP will increase. Where research and development at one's own expense is concerned, it is capitalised into gross fixed capital formation. In this case, however, both intermediate consumption and wages and investment are affected. Correlatively with investment growth, production for own final use (so-called capitalisation) is added. An increase in investment is eliminated in the expenditure method for GDP calculation by production for one's own final use (for calculating government final consumption it is deducted from costs), the net impact on GDP will again be caused by an increase in the government's final consumption owing to an increase in depreciation.

Small Tools
This is a reassessment of the approach to small devices such as mobile phones, notebooks and tablets. The definition of small long-term assets was set out in the ESA 95 methodology with a lower limit of EUR 500 in 1995 prices. If the price of an item was below this limit, it was recorded in intermediate consumption; if it exceeded this limit, it was a capital expenditure. This limit is no longer set out in the ESA 2010 methodology, and all assets used in the production process that have a lifetime longer than 1 year fall under gross fixed capital formation. This change results in an increase in GDP. Under the conditions of the CR, this change has the biggest impact on GDP, while in the majority of other states the most important change is the capitalisation of research and development expenditure.

Military Technology Expenditure
This methodical reclassification has a greater impact in those countries with large armed forces. In the ESA 95 methodology, the acquisition of military technology and equipment was considered as gross fixed capital formation only if some equivalent existed for civil utilisation. It concerned, for example, airports, shipyards and hospitals. In contrast, under the ESA 2010 framework, the acquisition of military technology is also classified as gross fixed capital formation if it has no equivalent in civil use. In the new standard, military technology is defined as military weapon systems, which can include vehicles and other equipment (military aircraft, tanks, launch equipment), that are durable assets used for a period longer than one year. Equipment intended for one-time consumption (ammunition, rockets, etc.) is considered as military inventories. In ESA 2010, the acquisition of military technology has the same effects on GDP as the previous two methodical changes.

General Government Sector Classification
In the ESA 2010 methodology, the general government is conceived of as wider than previously. Whereas ESA 95 placed emphasis on the criterion of 50% (i.e. classification in terms of market or non-market character was tested based on the share of operating costs paid from public budgets), the ESA 2010 methodology on the other hand prefers more qualitative criteria. Now issues of independence and motivation are assessed first, and 50% criterion is only applied afterwards. According to this new concept, some other units will be included in the general government. For example, the classification of licenced bank entities has changed. As a result of this change, the Czech Export Bank has now been included in the general government. Another newly included institution is Pražská plynárenská Holding.

Other Changes
Swap adjustments will no longer be considered as a non-financial operation for the purposes of Excessive Deficit Procedure (EDP B.9). Interest from swap operations are recorded as financial operations without any impact on the general government deficit, which means the EDP B.9 indicator is no longer distinguished, the B.9 only remains as net lending/borrowing of the general government. Another change is the so-called redirecting. Some transactions can be redirected so that economic relations are clearly shown on which they are based. Redirecting (e.g. of revenues from renewable energy sources and contributions of financial institutions for deposit insurance) will influence the amount of tax revenues of the general government. Further, value added tax is no longer reported as reduced by payments into the EU budget but including it, however these payments are reported on the expenditure side as current expenditure transfer.

2.1.2 General Government Sector in 2014

In 2014, a general government deficit of 1.5% of GDP can be expected, i.e. a year-on-year deterioration of 0.2 pp. After adjustment for the cycle and one-off operations, there will be a deterioration of 1.1 pp.

For general government revenues, we are forecasting an increase of 2.5% in 2014. Revenues are largely driven by the accrual subsidy which is credited in the implementation of expenditures financed from the EU, by income taxes and social contributions.

For indirect taxes, a decrease of 0.7% can be expected. This is due in particular to the development of excise taxes, for which we expect tax collection to decrease by more than 8% compared to 2013. Stockpiling tobacco products has an impact here, tax collection for which was mainly received in the first months of 2014, although according to accrual methodology (see MF CR, 2013) these revenues relate to 2013. Another important effect is the decrease in the rate on payments from electricity generated by solar radiation. Moreover, from mid-2014, returns of excise tax on mineral oils for agricultural primary manufacturers (Act No. 201/2014) have been reintroduced. For value added tax, we expect an increase of 4%, in particular based on a very good result of cash performance for the first ten month of 2014.

For direct taxes, we currently expect an increase in revenues of 5.6%. Similarly to value added tax, these taxes also show very good results in cash performance. Personal income tax should increase by 5.3%, both due to an increase in the macroeconomic base (the wage bill) of nearly 3% and discretionary measures (in particular, the limitation of tax credits for children only to residents from the EU, Norway and Iceland). Corporate income tax should increase by 5.9%, although discretionary changes in 2014 are basically negligible for this tax. Social security contributions will probably increase by 3.8%, and thus they should overtake wage bill growth in the national economy by nearly 1 pp, which is caused i.a. by an increase in payments for state insured persons to the public health insurance system. These are recorded in this item and constitute income of the social security funds subsector.

In comparison with 2013, a decrease of 8% can be expected in property income, particularly due to lower expected dividends, also because of the transfer of profits from Forests of the CR, state enterprise, classified as general government revenue. We also expect a decrease in income interest caused by a decrease in general government deposits. The forecast includes revenue of CZK 8.5 billion from the sale of licences to mobile operators (recorded in national accounts as the sale of intangible non-produced assets).

A considerable increase in the forecast amount can be seen in income transfers from EU structural funds, mainly of capital transfers, where we expect growth of more than 22% (Table 2.1 and Table 3.4 – included in the item "Others"). Funds for pre-financing from the last programming period 2007–2013 not yet paid out can now only be drawn down in 2014 and 2015, causing both an increase in government investment and income transfers. However, the total impact on the deficit is of course merely at the level of Czech financing, which makes up only a fraction of the increase. Common income transfers are approximately at the level of 2013.

According to available data, the expenditure side of the general government will increase by 3.0%; with respect to the quicker growth of nominal GDP, general government expenditures as a percentage of GDP should decrease by 0.7 pp to 41.3% of GDP.

As in 2013, a positive contribution from government consumption expenditure to GDP growth can also be expected. For 2014, we expect growth in the general government's nominal consumption of 2.9%, which is driven by payments of health insurance companies. A 3.7% increase in social benefits in kind is expected. Here we can see the impact of an increase in payments for state insured persons, whereby we expect that from this increase health insurance companies will compensate medical facilities for the shortfall of income due to the abolishment of regulatory fees in health care. Furthermore, a change in the Reimbursement Decree is expected, thereby strengthening payments for inpatient care. An increase of 3% can be expected in compensation of employees, mainly taking into consideration the development in the first half of 2014. Salaries are influenced by the planned increase in the wage bill of 2% in central government; 2014 will also be subsequently affected by an increase in wages of 3.5% from November 2014. Across sector, the increase in wage costs is expected to be approximately balanced. A 1.6% increase in intermediate consumption will be considerably slower compared to 2013.

A relatively high growth rate (3.9%) is expected for financial social benefits, wherein two effects are reflected. The first is an increase in the payment for state insured persons in 2014, which, although increasing the item financial social benefits, is revenue of the general government or the system of health insurance companies. Only the subsequent increase in payments for health care has an impact on the deficit. The second effect is an increase in assistance in material need social benefits, in particular due to unfavourable economic development in the past. Under the still limited valorisation scheme, pension insurance benefits increased only very slightly, in particular due to low inflation.

As already mentioned above, we expect an increase of investment expenditure of nearly 5.4% in 2014. The reason is higher expected investments, mainly financed from the European sources. This should accelerate further in 2015. Most "European" expenditures of this year still relate to the programming period 2007–2013. The new programming period 2014–2020 is only gradually getting under way, but the volumes of money being taken up will be increasing in the future years.

The forecast risks, which relate to the results of the allocation draw-down for the programming period 2007–2013 and the economic development of the CR, can be assessed as more or less balanced.

Table 2.1: General Government Revenue (2008–2014)
(in % of GDP)

	2008	2009	2010	2011	2012	2013	2014
General government revenue	**38.1**	**38.1**	**38.6**	**39.6**	**39.8**	**40.7**	**39.8**
Tax revenue	**18.0**	**17.7**	**17.8**	**18.8**	**19.2**	**19.9**	**19.2**
Individual income tax	3.5	3.5	3.3	3.5	3.6	3.7	3.7
Corporate income tax	4.0	3.4	3.2	3.2	3.1	3.2	3.3
Value added tax	6.5	6.6	6.7	6.9	7.1	7.4	7.4
Excise taxes	3.2	3.6	3.7	4.2	4.3	4.5	3.9
Other taxes and contributions	0.8	0.7	0.8	0.9	1.1	1.0	1.0
Social security contributions	**14.9**	**14.3**	**14.6**	**14.7**	**14.8**	**14.8**	**14.7**
Sales	**3.0**	**3.1**	**3.0**	**3.1**	**3.2**	**3.2**	**3.0**
Other revenues	**2.2**	**3.0**	**3.2**	**3.0**	**2.6**	**2.8**	**2.9**

Source: CZSO (2014a, 2014b). Year 2014 MF CR.

Table 2.2: General Government Expenditure (2008–2014)
(in % of GDP)

	2008	2009	2010	2011	2012	2013	2014
General government expenditure	**40.2**	**43.6**	**43.0**	**42.5**	**43.8**	**42.0**	**41.3**
Government consumption	19.1	20.7	20.5	19.7	19.4	19.6	19.3
Social benefits other than social transfers in kind	11.8	13.0	13.1	13.1	13.2	13.3	13.2
Gross fixed capital formation	5.0	5.5	4.7	4.1	3.9	3.4	3.5
Other expenditures	4.3	4.4	4.7	5.5	7.4	5.6	5.4

Source: CZSO (2014a, 2014b).Year 2014 MF CR.

Table 2.3: Balance of General Government and of Subsectors (2008–2014)
(in % of GDP)

	2008	2009	2010	2011	2012	2013	2014
General government balance	**-2.1**	**-5.5**	**-4.4**	**-2.9**	**-4.0**	**-1.3**	**-1.5**
Central government balance	-2.2	-4.7	-3.8	-2.4	-3.8	-1.7	-1.8
Local government balance	-0.1	-0.6	-0.4	-0.2	0.0	0.3	0.3
Social security funds balance	0.2	-0.3	-0.2	-0.2	-0.2	0.0	0.0
Primary balance	**-1.1**	**-4.3**	**-3.1**	**-1.5**	**-2.5**	**0.0**	**-0.2**

Source: CZSO (2014a, 2014b). Year 2014 MF CR.

Box 2: Changes in General Government Sector Statistics in the System of National Accounts

Changes in Sectorisation

With effect since 1 January 2014, the general government sector was expanded to include the **Česká exportní banka, a.s.** (hereinafter referred to as ČEB), classification of which has shifted from the subsector "Public Other Monetary Financial Institutions" to the subsector "Central Government Institutions". ČEB has been recorded retrospectively in the government accounts since 2003. ČEB is a specialised banking entity established in March 1995 for state export support. Assistance in particular takes the form of supported financing, including loans for lower than market prices (export loans, for financing production for export, investment loans, for project financing, etc.) and financial services related to exports (bank guarantees, hedging operations, letters of credit or a payment and posting system, all within a system for equalizing interest differences). Products are provided under conditions usual on international markets for export credits supported by the state. These conditions form part of the so-called Consensus of the Organization for Economic Cooperation and Development, they are in compliance with EU law regarding state aid and the rules of the World Trade Organization, and must be met by ČEB. Its activity is governed by the general legal regulation on banks (Act No. 21/1992 Coll., on Banks, as subsequently amended) and the special regulation in Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Aid, as subsequently amended (hereinafter referred to in this box as the "Act"). The owner is the state, which exercises its shareholder rights at 80% directly through four ministries (Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and the Ministry of Agriculture), whose representatives also sit on the supervisory board, at the remaining 20% indirectly through the Export Guarantee and Insurance Corporation. Pursuant to Section 8 (1) b) of the Act, the state stands as guarantor for ČEB's payables and the state also pays for any accounting loss. The ČEB's transfer to the general government is accompanied by a dispute between an ECB regulation related to monetary and banking statistics and a Eurostat decision based on its interpretation of the relevant rules of the new ESA 2010 methodology. The following three options were considered by the Eurostat:

a) keeping it in the financial institutions sector,
b) dividing up ČEB's activities – the predominant activity, related to state aid for exports, would be included in the general government sector, while the remaining profit-making activity, corresponding to standard banking, would be kept in the financial institutions sector,
c) a complete transfer to the general government sector.

After a thorough analysis, Eurostat opted for the last alternative. ČEB is an entity managed by the state and functions based on a special legal regulation to fulfil the targets of government pro-export policies. Its participation in other legal entities, the division of profits and volume of activities are limited by law. Raising money on the capital markets and other corporate decisions are also subject to state approval. According to ESA 2010, ČEB bears the characteristics of a so-called captive financial institution (see the Regulation (EU) No. 549/2013 of the European Parliament and of the Council). Nevertheless, in many cases the activity of ČEB as a banking licence holder does have all the hallmarks of market behaviour. The amount of the general government balance and debt is influenced by classification. In individual years, ČEB contributes with its debt (mainly made up of issued bonds) approximately 2 pp to total general government debt. Considering the surplus finances, the general government deficit decreases by nearly CZK 2 billion each year (2011–2013).

The company **Pražská plynárenská Holding, a.s.** was transferred from the subsector of captive financial institutions to that of local governments. The change came into effect as of 1 July 2014. The reason for the change was an increase in the participation of the Capital City of Prague from 51% to 100%. In this case a government institution has full control of a holding company. This change will have an impact on the amounts of general government deficit and debt. It is expected that the transfer to the general government in 2014 will result in an increase of general government debt of approximately 0.1 pp. The debt amount consists of one long-term loan and several credit lines. Credit lines are usually concluded for a period of one year, and they are regularly renewed after this period elapses. These funds are intended to cover fluctuations in cash flows due to the seasonal character of gas sales. The general government balance will be influenced positively since the company shows a surplus.

Recording of the Lease of JAS 39 Gripen Supersonic Aircrafts

In October 2015, the contract on the **lease of JAS 39 Gripen Supersonic Aircrafts** will be extended. This contract is based on the original lease of 2005. It covers the lease of 14 aircrafts during 2016–2027, with an option until 2029. With effect from 1 October 2015, the contract length will be extended for 12 years, whereupon the CR may use the option and continue the contract for another two years. The lease will be paid to the Swedish party in 12 annual instalments (2016–2027) and the maturity date in individual years has been set for 31 March. The total price of the contract is SEK 5,374.8 million, while the annual payment is SEK 447.9 million.

In the **national methodology,** this lease is recorded as an operative lease, i.e. annual instalments are expenditure of individual years. The fact is taken into consideration that the squadron is operated as leased material and that the Swedish party also provides lease-related services such as maintenance and the operation of supersonic aircrafts, training and the provision of technical documentation, repairs and spare parts.

Military technology in the ESA 2010 methodology is considered as a fixed asset and expenditure on the acquisition of destructive military technology is newly classified as gross fixed capital formation (see Box 1). Unlike the national methodology, the ESA 2010 methodology classifies the lease of military technology, regardless of any other parameters of the contract, as financial leasing. In such case, recording is analogous to that in the financial acquisition of asset by means of loans, i.e. the recording of the acquisition of an asset is accompanied by the creation of imputed loans. However, it is necessary to distinguish the lease of asset and those services related to the lease. The discounted value of aircraft is recorded in the accounts with a one-off impact on the deficit in the year of acquisition, i.e. at the moment of delivery. In 2015, due to the lease of these aircrafts there will be a one-off increase in gross fixed capital formation of approximately 0.23% of GDP, which will thus influence the general government deficit amount in 2014. Individual instalments of principal are excluded from expenditure as financial operations in the following years. Nevertheless, the provision of the related services (training, maintenance and operation, etc.) remains annual expenditure, as well accrued interest costs. For the purposes of reporting in the ESA 2010 methodology, the application of the reference interest rate is assumed throughout the period for calculating interest costs in the amount corresponding to the interest rate from government bonds. The debt will also be influenced in the amount of the initial principal imputation and will decrease in the following years by virtue of this transaction as it will be repaid.

Table 2.4: Debt of General Government and of Subsectors (2008–2014)
(in % of GDP)

	2008	2009	2010	2011	2012	2013	2014
General government debt	**28.7**	**34.1**	**38.2**	**41.0**	**45.5**	**45.7**	**43.8**
Central government debt	26.5	31.7	35.7	38.5	42.9	43.1	41.1
Local government debt	2.3	2.5	2.5	2.5	2.7	2.8	2.8
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt-to-GDP ratio	**0.9**	**5.4**	**4.1**	**2.8**	**4.5**	**0.2**	**-2.0**
Primary general government balance	1.1	4.3	3.1	1.5	2.5	0.0	0.2
Interest expenditure	1.0	1.2	1.3	1.3	1.4	1.4	1.3
Nominal GDP growth	-1.3	0.7	-0.3	-0.7	-0.3	-0.4	-2.1
Other factors	0.0	-0.8	0.0	0.6	0.8	-0.6	-1.3

Source: CZSO (2014a, 2014b). Year 2014 MF CR and Eurostat (2014b).

2.2 International Comparison

Compared to the last Fiscal Outlook of the CR (MF CR, 2014a) of spring 2014, in addition to the usual statistical revisions as part of the national notifications of general government deficit and debt, there has been a change in the methodology from ESA 95 to ESA 2010, as well as changes in the values of macroeconomic quantities (see Box 1). In nominal terms, the basic fiscal indicators generally deteriorated (e.g. in the CR and Greece, although in some years, by contrast, there was a slight decrease in the deficit, the debt shrunk e.g. in Lithuania, Poland and Sweden); however, at the same time nominal GDP increased in the overwhelming majority of cases (one of the exceptions is e.g. Latvia, where GDP in 2010–2013 was revised slightly downwards and it has not changed in 2014). In relative terms, compared to the spring data there has been an improvement in government balance and a decrease in government debt, which was also the case in the CR. Conversely, for example, the Finnish, Hungarian and Swedish balances deteriorated in 2010–2013. Debt for the same period increased in Belgium and more markedly in Croatia and Austria.

2.2.1 General Government Balance

The general government deficit of EU countries, including the new EU member Croatia, reached 3.2% of GDP in 2013, if we take into account the fiscal year for the United Kingdom or the calendar year, as is done for other countries[1]. Compared to 2012, the deficit was 0.9 pp lower. The Czech Republic with its deficit of 1.3% of GDP was again below the EU average.

The worst development of the general government balance in 2013 was seen in Slovenia (−14.6% of GDP) and Greece (−12.2% of GDP). In both cases it must be pointed out that the deficit was deepened, as in Ireland in 2010, by a capital injection into the banks, without which it would have been around 4.5% of GDP in Slovenia and approximately 3.5% of GDP in Greece. Moreover, the Slovenian structural deficit reached only 1.8% of GDP, and in Greece even a structural surplus of 3.1% of GDP was recorded in 2013. Other high deficits in relative terms were achieved in Spain (6.8% of GDP), the United Kingdom (5.9% of GDP**Chyba! Záložka není definována.**), Ireland (5.7% of GDP) and Croatia (5.2% of GDP). The only countries that achieved a surplus in 2013 were Luxembourg (0.6% of GDP) and Germany 0.1% of GDP. Estonia, with its long-lasting fiscal discipline, achieved the lowest deficit, 0.5% of GDP. In these three countries, the development of social security funds[2] and – with the exception of Es-

[1] The United Kingdom of Great Britain and Northern Ireland provides data for both the financial year (from 1 April of the current year to 31 March of the following year) and the calendar year. Here precedence is given to data for the financial year, as it is relevant in this country for the excessive deficit procedure; moreover, calendar year data for the current year is not yet available. Data provided in this publication therefore differs from the data in the Eurostat database covering the calendar year. For example, in 2013 the deficit was 5.8% of GDP for the calendar year and it was 0.1 pp higher for the financial year. A similar situation is true for the debt-to-GDP ratio: in 2013 we provide the value of 87.8% of GDP for the financial year, whereas Eurostat gives a figure of 87.2% of GDP for the calendar year.

[2] This subsector is not reported in the United Kingdom and Malta, moreover according to the newly notified data also in Ireland. On the other hand, to complete the picture, the national government institutions subsector is reported in Germany, Austria, Belgium and Spain.

tonia – also the performance of local governments (subsector S.1313) are very favourable. In Hungary, it was definitively confirmed that the surplus in 2011 was the mere result of an extraordinary administrative adjustment of the balance in ESA 95 caused by expenditures on pension reform. In the new methodology, a deficit of 5.5% of GDP is already shown, which means that after adjustment the balance deteriorated by 9.8 pp. However, it does not alter the fact that Hungarian deficits in the following years have not been so high and even met the requirement of the Stability and Growth Pact for the maximal deficit of 3% of GDP. This criterion was met by eighteen EU countries in 2013 (see Table B.15 in the annex).

In 2014, except for Luxembourg and Germany, all EU countries expect a deficit performance of the general government, although deficits will not generally be as high as in previous years. The lowest deficit should again be achieved by Estonia (0.2% of GDP); in contrast, the highest deficit should be recorded in Croatia (5.8% of GDP), followed by Spain (5.5% of GDP) and also the United Kingdom (5.0% of GDP for the financial year), where according to the Autumn Forecast of the EC (2014a) the highest structural deficit out of all EU countries should be seen (also 5.0% of GDP) and – after Bulgaria – also the highest primary deficit (2.7% of GDP). In Poland, the same situation is taking place in 2014 as occurred in Hungary 3 years earlier (see above), and a surplus of 5.7% of GDP anticipated in the old methodology will be transformed into a deficit of 3.3% of GDP (according to the EC, the Polish structural deficit will reach 2.9% of GDP in 2014). An unusually low deficit of 0.9% of GDP is anticipated in Greece. This means that Greece, together with Latvia and the aforementioned Luxembourg, Germany and Estonia, would be one of the best performing EU member state in 2014. Despite the Autumn Forecast of the EC (2014a) being more pessimistic (it states that the Greek deficit should reach 1.6%), it nonetheless expects a structural balance surplus of 2% of GDP. According to the EC, other fiscal quantities in Greece should also develop positively. The primary balance is set to reach 2.7% of GDP, the cyclically adjusted balance 3.6% of GDP and the cyclically adjusted primary balance may even achieve 8.0% of GDP. Compared to 2013, a worse result for the general government in relative terms is anticipated in 13 EU countries, including the CR. Romania, Lithuania and Latvia have been very successful in the gradual reduction of their deficits; in the short run this also applies to Greece, but although questions remain concerning its future development, the EC has a very positive view. The requirement of the Stability and Growth Pact regarding the relative amount of the balance would not be satisfied by ten EU countries in 2014. Italy with a long-term positive primary balance will probably record a threshold value −3% of GDP (see Table B.15 in the annex).

2.2.2 General Government Debt

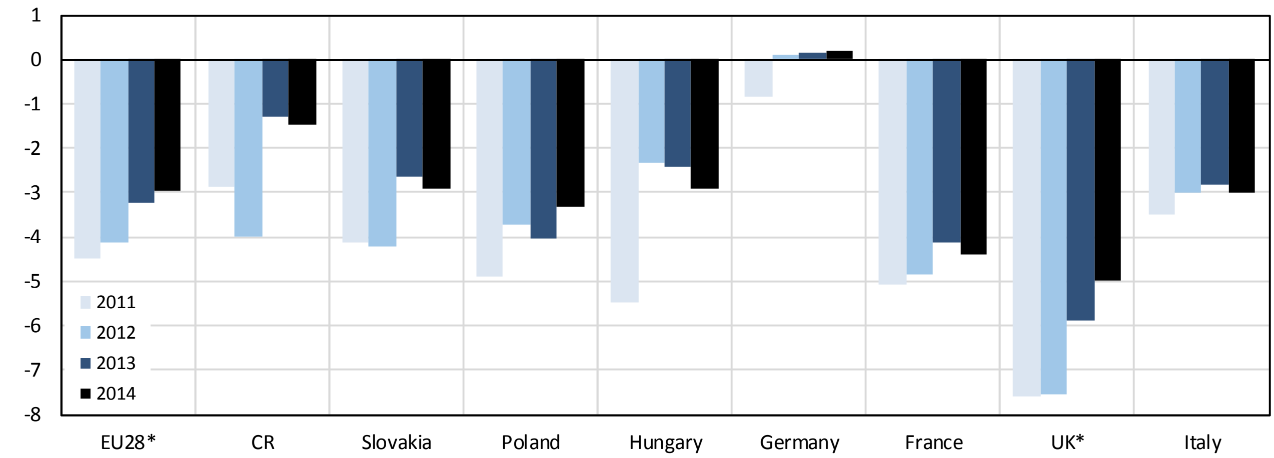
General government debt, expressed by a nominal value always at the end of the respective year, reflects approximately the long-term development of the deficits of the respective country. Across the EU, general government debt reached a consolidated value[3] of 85.4% of GDP in 2013, i.e. it was 1.9 pp higher than in 2012 (in the case of the financial year in the United Kingdom the non-consolidated amount is 87.0% of GDP).

Greece remains the most indebted country in the EU. In recent years, part of general government debt has been forgiven by private creditors; nevertheless, due to a considerable economic decline lasting for several years and as a result of one-off measures (recapitalisation of banks), in 2013 the relative general government debt further deepened to 174.9% of GDP. In 2014, according to the Autumn Notification a decrease of 0.6 pp[4] is expected; in contrast, the EC predicts growth of 0.6 pp. Other countries with debts exceeding 100% of GDP include Italy, Portugal, Ireland, Belgium and Cyprus. Spain will probably join them in the near future, while the general government debt of France is also very near to reaching 100% of GDP. In Cyprus and Slovenia, in particular due to the recent banking crisis, general government debt nearly doubled in 2010–2013. Whereas Cyprus is expecting its debt to fall in 2014, it will further deepen in Slovenia. The debt-to-GDP ratio is developing positively in Latvia, Germany and Hungary and, it might be argued, in Poland. This indicator is far the lowest in Estonia, where in 2013 it reached a two-digit value for the first time, 10.1% of GDP (in absolute terms, the debt nearly doubled in 2011–2013), while in 2014 a moderate decrease to 9.8% of GDP is expected. The majority of EU countries are recording a relative worsening in the amount of their debts. During 2010–2014, this trend can be seen most markedly in Bulgaria, Croatia, Ireland, Cyprus, Portugal, Slovenia and Spain (see Table B.15 in the annex). In 2013 and 2014, the debt limit of 60% of GDP would have been satisfied by 12 countries, with Finland probably leaving this group soon. Another state gradually approaching the reference limit is Slovakia; nevertheless, the EC sees its development a little bit more favourably than the country's own Autumn Notification (54.9% versus 54.1% of GDP in 2014).

[3] Consolidated values of the general government debt are naturally lower than non-consolidated values, which is caused by excluding inter-governmental loans and – in the case of the euro area – financial assistance under the European Financial Stability Facility. For example, in 2013 this concerned loans granted in particular to Ireland, Portugal and Greece.

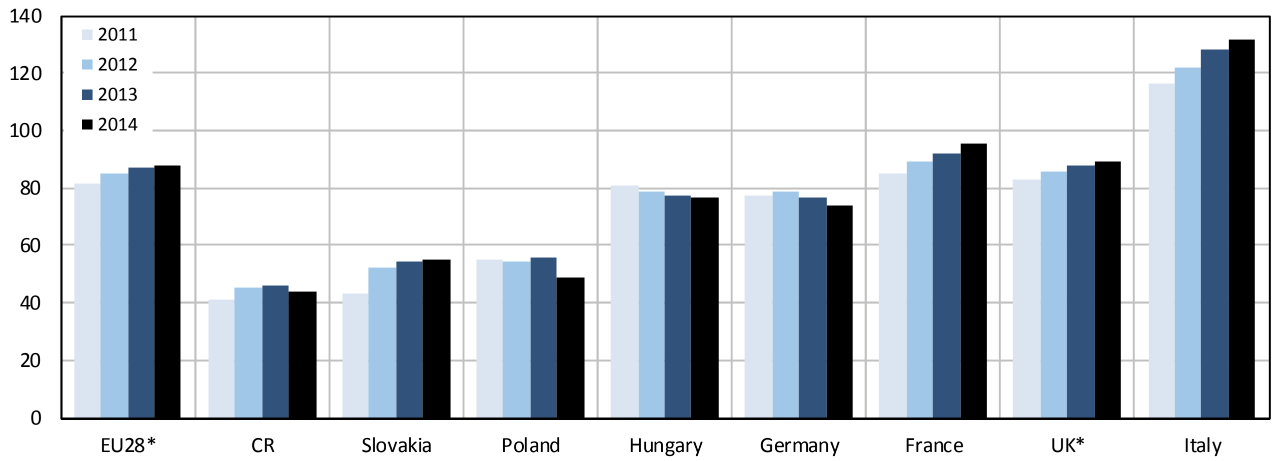
[4] Before rounding off values making up this difference to one decimal place, the value of the difference is 0.7 pp.

Graph 2.1: General Government Balance in Selected EU Countries (2011–2014)
(in % of GDP)



*Note: *) For UK, the data for fiscal year (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2014b). Nominal GDP of CR in 2014: MF CR.

Graph 2.2: General Government Debt in Selected EU Countries (2011–2014)
(in % of GDP)



*Note: *) The debt in EU28 is non-consolidated. For UK, the data for fiscal year (from April 1 year t to March 31 year t+1), which are relevant to EDP implementation.*
Source: Eurostat (2014b). Nominal GDP of CR in 2014 and debt in CR in 2014: MF CR.

2.2.3 State Debt Financing

Graph 2.3 shows the development of spreads (based on monthly averages), i.e. the differences in yields of ten-year state (or government, where relevant) bonds towards German bonds of the same kind, the so-called bunds, in the period from January 2008 to October 2014. Their development correlates to a certain extent with fiscal performance of general government and best characterises the confidence of financial markets in the given country. To achieve greater clarity, we have divided the selected EU countries into four groups.

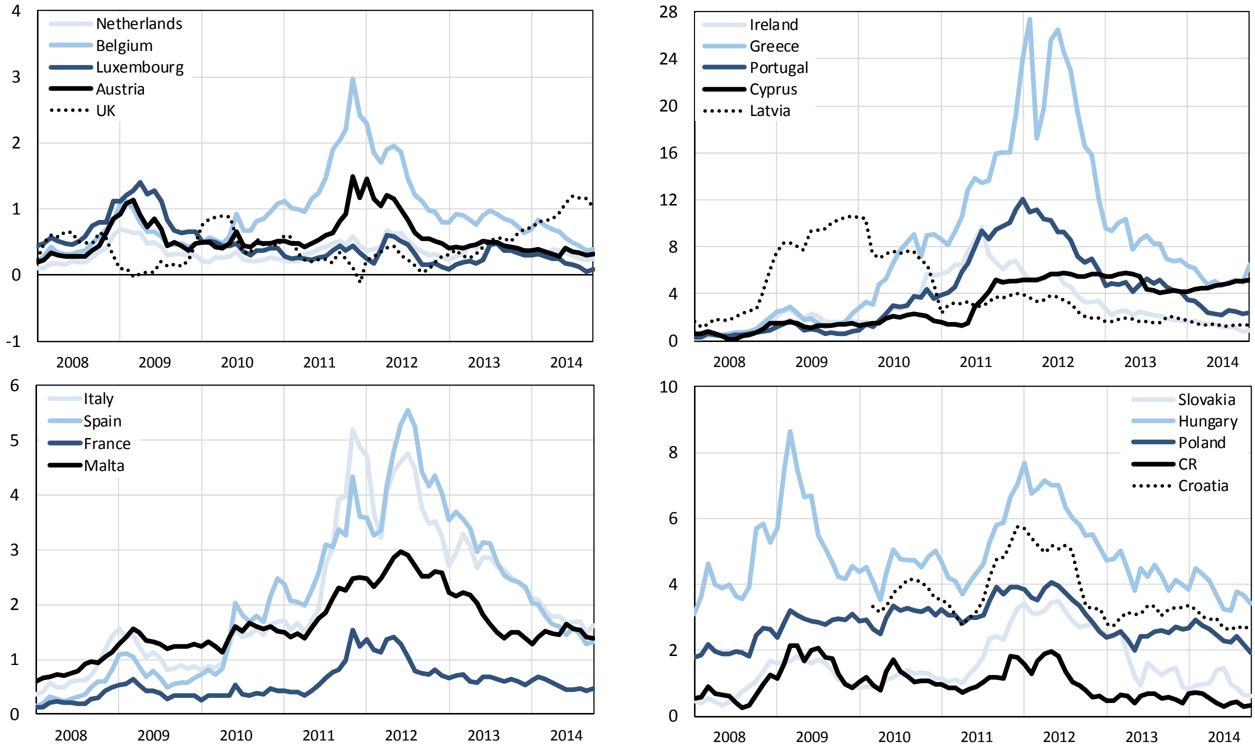
The upper graph on the left includes countries (except for the northern states) with a very low spread. In one period yields from British bonds were even lower than German ones (to complete the picture, in several cases the same applied to Danish and Swedish bonds). These states enjoy the highest confidence in the EU. The higher spreads of long-term highly indebted Belgium are also caused, in addition to the development in the euro area, by problems forming the government, which have lasted for more than 18 months, and also by a quite difficult situation in the banking sector; nevertheless, the situation has been slowly stabilizing since mid-2012.

The right upper and left lower graphs show the development in countries in the south of the euro area and Ireland, where economic turbulence following the outbreak of the American mortgage crisis shortly thereafter revealed internal problems and imbalances. France, whose rating has also been reduced several times recently, has joined this group. Latvia too has been added to the group as a new member of the euro area when, due to its high level of spread at the turn of 2009 and 2010, its amount peaked due to the impact of the deep economic recession. Since then, its generally downward course is very clear. The development in Greece has significantly improved in the last year or so and positively perceived steps taken by the Greek government have signalled renewed confidence of investors.

Finally, the last group in the lower graph on the right shows the development in those central European countries which have undergone large economic, political and social changes over the last 25 years. Thanks to the trajectory of fiscal consolidation, long since underway, the financial markets perceive the Czech Republic in this geographical region most favourably, followed by Slovakia. This is reflected in low risk premium for issued bonds and in lower debt-management costs. Data for Croatia as the newest EU member are available to the European Central Bank only from March 2010.

Graph 2.3: Spreads between National and German Bonds in EU Countries (January 2008 to October 2014)

(in percentage points)



Note: Spreads are calculated as the difference in yields of ten-year bonds of the specific country and those of Germany.
Source: ESCB (2014).MF CR calculations.

3 Medium-term Fiscal Outlook

The medium-term outlook for general government is predicated on the interaction between the government's fiscal strategy and the macroeconomic outlook. The binding medium-term expenditure framework for the state budget and state funds is a technical instrument used for budgetary planning and achieving the government's objectives.

The Cabinet of Prime Minister Bohuslav Sobotka set out as its target a sustainable pro-growth and a socially and environmentally responsible economic policy (Government, 2014). The target is to maintain the general government deficit as a percentage of GDP below 3%. The excessive deficit procedure was ended based on the result of general government balance in 2013 and the medium-term outlook of the EC of spring 2014. The originally estimated amount of the general government balance was −2.9% of GDP; however, the reality was much more favourable. Ultimately, 2013 ended with a balance of −1.3% of GDP. In 2014, we expect de facto a similar result of −1.5% of GDP. Among the highlighted priorities in the draft state budget and draft state funds budget for 2015 are investment in education, science, research and transport infrastructure. In the following years of the outlook, we initially expect a deterioration in the results of general government balance to −2.2% of GDP in 2015, followed by a gradual improvement mainly due to estimated economic growth. Improvements to general government finances other than those predicted will relate to the implementation of planned measures in fighting tax evasion.

3.1 Medium-term Expenditure Framework

The binding force of the medium-term expenditure framework (hereinafter referred to as the Framework) is generally derived from Act No. 218/2000 Coll., on Budgetary Rules, while the specific amounts of the Framework are defined by resolutions of the Chamber of Deputies. In 2012, an amendment to Act No. 218/2000 Coll. (Act No. 501/2012 Coll.) came into effect, regulating the contents of the expenditure framework amounts in accordance with the methodology for drawing up the state budget and state funds budget. Despite fiscal targeting methodology being thereby cancelled, this regulation does not impact the method for deriving the amounts of expenditure frameworks.

The current Framework for 2015 and 2016 was approved by the Chamber of Deputies on 19 December 2013 (Resolution No. 71/2013), and the amounts of the Framework are CZK 1,153.0 billion for 2015 and CZK 1,163.5 billion for 2016 (in consolidated terms) or CZK 1,167.5 billion for 2015 and CZK 1,177.7 billion for 2016 (in non-consolidated terms).

Without the consent of the Chamber of Deputies, an approved Framework can only be adjusted in relation to specifically enumerated items, such as significant divergence in consumer prices; changes to the estimate of expenditure co-financed by funds from the EU and from financial mechanisms; the impacts of changes in the budgetary designation of taxes on expenditures; and other exceptional circumstances. The Framework can also be increased by 1 thousandth of the total expenditures for the year of the draft state budget, and by 2 thousandths for the following year. For 2015, the Framework amount has been increased by CZK 88.7 billion due to expected expenditure co-financed from EU funds and from financial mechanisms, and by CZK 51.6 billion in 2015 and CZK 7.3 billion in 2016, which presumes different subsidy relations between the state budget and state funds (adjustments for consolidation only alter non-consolidated Frameworks, not consolidated ones). None of the other adjustments mentioned above are being considered during the period of the outlook.

The amounts of the approved Framework updated in this way would indicate an expenditure ceiling of CZK 1,241.7 billion for 2015 and CZK 1,163.5 billion for 2016 (in consolidated terms). Due to the government's efforts to implement its priorities according to the Policy Statement of the Government, the Frameworks were increased by the Resolution No. 409/2014 of 19 September 2014 by CZK 16 billion for 2015 and CZK 27.5 billion for 2016. After being updated by these modifications, the Frameworks reach values of CZK 1,257.7 billion for 2015 and CZK 1,191.0 billion for 2016 (in non-consolidated terms). These modifications are shown in Table 3.1.

With these modifications, the government has set new limits for expenditure as part of the state budget and state funds. Ultimately, these limits will not be utilised, as in 2015 and 2016 the newly approved frameworks have been decreased by CZK 8.7 billion and CZK 8.6 billion, respectively. A general overview of the approved, updated and newly defined Framework is presented in Table 3.2.

As is apparent from both tables, the amounts of the Framework for 2016 and 2017 are decreasing significantly. This drop, however, is due to a calculation of the Framework, where for the years t+2 and t+3, funds from the EU and from financial mechanisms and their financing are not included in either revenues or expenditures.

Table 3.1: Adjustments of the Original Medium-Term Expenditure Framework (MTEF)
(in CZK billion)

		2015	2016
Medium-term expenditure frameworks according to Act no. 71/2013	1	**1153.0**	**1163.5**
Medium-term expenditure frameworks according to Act no. 409/2014	2	1169.0	1191.0
Adjustments according to budgetary rules (Law no. 218/2000)	3	88.7	-
Medium-term expenditure frameworks adjusted according to budgetary rules	4=2+3	**1257.7**	**1191.0**

Source: MF CR.

Table 3.2: Differences between medium-term expenditure framework approved in 2013, adjusted in 2014 and newly proposed to 2017
(in CZK billion)

		2015	2016	2017
Medium-term expenditure frameworks according to Act no. 409/2014 and budgetary rules	1	**1257.7**	**1191.0**	**-**
Newly proposed medium-term expenditure frameworks	2	**1249.0**	**1182.4**	**1215.0**
Tightening (-) / breach (+) of medium-term expenditure frameworks	3=2-1	-8.7	-8.6	-

Note: The decrease in the level of expenditures between 2015 and 2016 is caused i.a. by the fact that the outlook for 2016 and 2017 does not contain expenditures financed by EU funds and financial mechanisms.
Source: MF CR.

3.2 General Government Medium-term Outlook

The development of the general government as well as of individual subsectors of general government in the CR in 2013–2017 is clearly presented in Table 3.3. It is evident from the Table that the government budget deficits occur at the central level (state budget and state funds), while the performance of the local governments shows a slight surplus. The social security funds should have balanced budgets throughout the monitored period. In the following text, the main trends and measures, which will formulate the development of general government revenues and expenditures in the following three years, are described.

3.2.1 General Government Revenue

In the outlook period, we expect a stable and relatively high increase in tax revenues (including social contributions) in the average annual amount of 3.4%. Compared to the May issue of the Fiscal Outlook (MF CR, 2014a), the expected growth rates of tax collection has been further increased slightly, thanks to an improvement of the GDP development estimate and an increase in the estimated size of the macroeconomic bases of individual taxes in the October Macroeconomic Forecast of the Ministry of Finance (see Chapter 1.1).

No significant tax discretion is planned for the outlook period, thus the year-on-year dynamics of total revenues for the general government is influenced mainly by a significant (temporary) increase in capital transfers from the EU in 2015, which are intended for co-financing investment projects in connection with the additional draw-down of available funds from the Programming Period 2007–2013.

Table 3.3: General Government Development
(in % of GDP, growth in %)

		2013	2014	2015	2016	2017
General government balance	*% of GDP*	**-1.3**	**-1.5**	**-2.2**	**-1.4**	**-1.1**
Central government	*% of GDP*	-1.7	-1.8	-2.2	-1.5	-1.1
Local governments	*% of GDP*	0.3	0.3	0.1	0.0	0.0
Social security funds	*% of GDP*	0.0	0.0	0.0	0.0	0.0
Total revenue	*% of GDP*	**40.7**	**39.8**	**40.0**	**38.9**	**38.8**
	growth in %	3.2	2.5	4.9	0.8	3.4
Total expenditure	*% of GDP*	**42.0**	**41.3**	**42.2**	**40.3**	**39.8**
	growth in %	-3.2	3.0	6.5	-0.9	2.5

Source: Year 2013 CZSO (2014a, 2014b). Forecast and calculations by MF CR.

The development of personal income tax collection will be dictated mainly by growth of the wage bill in the economy, which is expected to be 4% annually on average. From 2015, in order to support families with more children, tax credits for a second child will increase by CZK 2,400 annually and for a third and any additional child by CZK 3,600 annually, compared to the current situation. As a result of this measure, payments of personal income tax in 2015 will decrease by CZK 1.6 billion. The smooth increase of tax credits will also continue in the following years of the outlook. The year-on-year effect on personal income tax collection will be CZK 1 billion in 2016 and CZK 1.7 billion in 2017. The limitation on flat expense deductions for self-employed persons will also have a fiscal impact in 2015, when payers applying 60% and 80% lump-sums will be allowed to annually claim expenditures to the maximal amount of CZK 1.2 million or CZK 1.6 million, respectively. The applicable lump-sum will be limited to a maximum income of CZK 2 million. Additional revenue for general government resulting from the introduction of this measure should be approximately CZK 0.5 billion. We do not expect any other parametrical changes in personal income tax with an impact on government revenues in the years of the outlook.

For social security contributions, as the most important source of the general government revenues, we expect strong autonomous growth, similar to that for personal income tax. The average growth rate should be 4.2%, which represents a slight increase in the estimate in comparison with the May Fiscal Outlook (MF CR, 2014a).

In accordance with the medium-term outlook of the state budget, we predict a shift of revenues from accident insurance provided through the government sector for 2017. These incomes should reach CZK 5.8 billion in the first year of validity, and CZK 0.9 billion after adjustment for the planned expenditure on accident insurance benefits.

The expected economic growth will also reflect positively in corporate income tax collection, where we predict average growth of 3.5% annually. Except for two measures with a marginal fiscal effect (tax recognisable expenditure for establishing and operating employer kindergartens and a restriction on the opportunity to use the zero rate for investment fund taxation), no other legislative measures are planned that would have an impact on these tax revenues.

From the perspective of impacts on the revenue side of general government budgets, the most important measure is the introduction of the second reduced value added tax rate of 10% for pharmaceuticals, books and the irreplaceable child nutrition. We estimate the drop in collection resulting from its introduction of CZK 4.2 billion. However, this measure will also result in a decrease in the costs of government sector entities for pharmaceuticals (approximately 50% of pharmaceuticals are bought by the general government sector), thus the net impact on the deficit will roughly be half that amount. For 2015, we estimate a year-on-year growth of value added tax collection of 1.7%, and we expect growth rates to double in the following two years in accordance with the nominal consumption growth.

Table 3.4: General Government Revenue

	2013	2014	2015	2016	2017
bn CZK					
Total revenue	**1664**	**1705**	**1788**	**1803**	**1864**
Tax revenue	**812**	**824**	**848**	**874**	**898**
Taxes on production and imports	526	522	537	551	563
Value added tax	304	316	321	332	343
Excise taxes	183	168	178	181	182
Current taxes on income, wealth, etc.	286	302	312	323	335
Personal income tax	151	159	164	170	176
Corporate income tax	132	140	144	150	155
Capital taxes	0	0	0	0	0
Social contributions	**606**	**629**	**655**	**680**	**711**
Property income	**38**	**35**	**35**	**35**	**36**
Other	**207**	**217**	**250**	**214**	**220**
growth in %					
Total revenue	**3.2**	**2.5**	**4.9**	**0.8**	**3.4**
Tax revenue	**4.6**	**1.5**	**2.9**	**3.0**	**2.7**
Taxes on production and imports	4.9	-0.7	2.8	2.7	2.2
Value added tax	6.2	4.0	1.7	3.4	3.3
Excise taxes	4.2	-8.1	5.6	1.8	0.5
Current taxes on income, wealth, etc.	4.1	5.6	3.1	3.7	3.6
Personal income tax	4.5	5.3	3.4	3.6	3.5
Corporate income tax	3.8	5.9	2.8	3.8	3.8
Capital taxes	-16.5	-96.4	2.5	2.5	2.5
Social contributions	**1.1**	**3.8**	**4.1**	**3.7**	**4.6**
Property income	**8.2**	**-8.0**	**0.2**	**1.6**	**1.8**
Other	**3.4**	**4.6**	**15.2**	**-14.4**	**2.7**
Tax burden *% of GDP*	**34.8**	**34.1**	**33.8**	**33.6**	**33.6**

Source: Year 2013 CZSO (2014b). Forecast and calculations by MF CR.

Box 3: Planned Measures against Tax Evasion

One of the planned measures to be used to fight VAT evasion is the introduction of the so-called "electronic VAT reporting". This measure will come into effect as of 1 January 2016. The basic principle of this measure is to impose the obligation on suppliers and customers to deliver electronically the statement of recording duty to the Financial Administration of the CR, together with VAT returns, also when transactions occur between local payers, in which all received and provided transactions subject to VAT would be recorded. The electronic VAT reporting will enable more effective supervision and inspection, in particular in the payment of excessive deductions.

Another planned measure that will be targeted both at VAT and income tax frauds is the introduction of so-called electronic evidence of sales. The Croatian model has been adopted (i.e. on-line sending without any hardware or software certification), in particular for its simplicity, openness and effectiveness. The priority is the optimal and balanced functioning of the whole system while using currently available technological solutions, the minimisation of the administrative burden and total costs of obligated entities, and effective data use for the work of the Financial Administration of the CR. When launching electronic evidence of sales it will be necessary to prevent circumvention of the system, including increasing incentives for consumers to demand receipts from their traders or other entrepreneurs. The planned effective date of this measure is 1 January 2016 for services in accommodation and catering, 1 April 2016 in wholesale and retail and 1 July 2016 for the industries remaining.

In response to the increasing number of VAT frauds, an amendment to the Act on VAT was also proposed which extends the list of supplied goods to which the regime of the so-called reverse charge is applied. Now it will be possible to use reverse charge if the following goods are supplied: mobile phones, integrated circuit equipment, game consoles, tablets and laptops, cereals and technical plants, including oil seeds and sugar beet, and in the supply of raw or semi-processed metals, including precious metals. Another measure targeted at fraud in connection to value added tax that is also included in the amended Act on VAT is the introduction of the quick reaction mechanism. This mechanism allows the reverse charge regime to be used according to government decree for a maximum period of nine months. The proposed effective date of this measure is 1 January 2015.

Table 3.5: Estimate of Impacts of Planned Measures Countering the Tax Evasion
(in CZK billion)

	Electronic evidence of sales	Electronic VAT reporting
Value added tax	6	15
Personal income tax	5	-
Corporate income tax	2	-

Note: Impacts based on current proposals. In case of further parametric adjustments the impact would differ.
Source: MF CR.

For excise taxes we expect a considerable increase in collection in 2015 (of 5.6%) that will mainly be driven by higher incomes of excise tax on tobacco products. High growth can be explained by both the effect of the low base of 2014 (lower accrual revenues from excise tax on tobacco products due to significant stockpiling at the end of 2013) and another discretionary increase in the rate on cigarettes (an impact of approximately CZK 2.8 billion). The adopted amendment to the Act on Excise Taxes, restricting opportunities to stockpile, will also contribute to higher collection in 2015 and a more even distribution of tax revenues from the excise tax on tobacco products in the following years. This enactment stipulates that in the event of an increase in excise tax, traders will be allowed to sell cigarettes with old tax stamps only for a period of three months. In 2016 and 2017, during which no additional discretionary changes are expected, we estimate considerably lower increases in collection than in 2015.

In the item "Other Revenues" (Table 3.4), we expect a considerable increase in accrual investment subsidies in 2015 of CZK 28 billion, i.e. a 60% growth in comparison with 2014. This is the volume of EU funds intended for co-financing investment projects from structural funds and the Cohesion Fund implemented by domestic beneficiaries in 2015 (for more details – see subchapter 3.2.2). With respect to the fact that, after revenues of CZK 8.5 billion from the auction of frequency bands to mobile operators in 2014, we do not expect any other one-off revenues for the period of the outlook, the category "Other Revenues" will decrease in annual terms by this amount in 2015 (see Table 3.7).

3.2.2 General Government Expenditure

The current fiscal prediction expects an average year-on-year growth rate of total expenditures of 2.7% in 2015–2017. Both expenditure on government consumption and social transfers as well as government investments will participate in this growth. Due to a one-off increase in investment expenditure, growth of expenditure is expected to be concentrated for the most part in 2015 (6.5%) and followed by a decrease of approximately 1% in 2016. At the end of outlook horizon, we forecast year-on-year growth of total expenditures of the general government of 2.5%.

For 2015, we expect to maintain the considerable growth in the volume of employee compensation in the general government. The 3.5% increase in salaries in state administration will have a particular impact here (this measure has already come into force since November 2014 – see also subchapter 2.1.2). In the following two years of the outlook we expect, in accordance with the budget documentation, wage increases in state administration, always of 1%, and an average increase in the total aggregate of employee compensation of 1.7%. The impacts of increases in salaries on general government expenditures are quantified at approximately CZK 11 billion in 2015; however, the net impact on balance is considerably lower (approximately CZK 5.9 billion) due to the fact that a considerable part of such increase in the volume of employee compensation represents also an increase in general government revenues in the form of personal income tax and, above all, social contributions.

In 2014, there was a relatively sizeable increase in social benefits in kind (i.e. expenses of health insurance companies related to health care). For 2015, we expect further growth in the expenditures of the health care system through an increase in payments for state insured persons of CZK 1.8 billion. Another measure is an increase in doctors' salaries of 5% from January 2015 (an impact of approximately CZK 3 billion). The already mentioned decrease in the value added tax rate for medicines will mean savings for the system of approximately CZK 2 billion. On average, we expect the volume of social benefits in kind to grow annually by 2.2%.

There will be changes in mandatory social benefits. Starting from 2015, the restricted valorisation of pensions, introduced by the Prime Minister Necas' Cabinet as a consolidation measure, will be terminated. For 2015, higher valorisation (1.8%) has been approved in order to compensate the previous reduction, and from 2016 the valorisation scheme will return to its 2012 form. Growth of consumer prices and a third of the growth in real wages will be fully reflected in the total increase in paid pensions, without the government's having any possibility to increase these expenditures above the minimum statutory limit. The budgetary impact of this measure is calculated at CZK 5.4 billion. In the same year, the existence and subsistence minimum will also be increased, which will result in a slight increase (CZK 0.4 billion) in some social benefits the amount of which (or entitlement to their payment) are determined by the levels at which these minima are set. An increase in expenditures on social benefits (approximately CZK 4.9 billion) will bring with it the aforementioned introduction of accident insurance in 2017. The accident insurance system as a whole should show, however, a slight surplus from the perspective of the government sector balance (see subchapter 3.2.1).

For 2015, we expect expenditure on gross fixed capital formation to grow by 35% compared to 2014. The key factor is a sharp increase in the expected uptake from the EU funds from the Programming Period 2007–2013. The assumption of significant growth in the volumes of investment co-financed under the Economic and Social Cohesion Policy is based on knowledge of the amount from the allocation intended for CR but not yet utilised and the development in the volume of funds already covered by contracts on provision of subsidies between managing bodies and final beneficiaries.

In addition to growth in the volume of investments from the EU funds (and Czech financing of these projects), for 2015 we also expect an increase of approximately CZK 10 billion in investment financed purely from national sources.

The third factor behind the sharp increase in investment activity is the one-off imputation of the acquisition of JAS 39 Gripen aircrafts by financial leasing of CZK 10.5 billion, which is classified, according to the ESA 2010 statistical standard, as gross fixed capital formation.

The year 2015 should already be the third year in a row in which the nominal interest costs of general government debt will decrease. In the following two years of the outlook we expect only slight year-on-year growth, and we expect the share of interest costs in GDP to stabilise at 1.2%. Interest costs as a percentage of GDP will tend to stagnate throughout the predicted horizon of the Fiscal Outlook due to the low implicit interest rate, which reflects the positive perception of the Czech Republic on the financial markets.

Table 3.6: General Government Expenditure

	2013	2014	2015	2016	2017
CZK bn					
Total expenditure	**1717**	**1769**	**1885**	**1868**	**1915**
Final consumption expenditure	**802**	**825**	**850**	**867**	**884**
Collective consumption	386	396	415	426	437
Individual consumption	416	430	435	441	447
Social benefits in kind	234	243	250	255	260
Transfers of individual non-market goods and services	182	186	185	186	187
Social transfers other than in kind	**544**	**566**	**589**	**604**	**624**
Interest	**55**	**55**	**53**	**54**	**56**
Subsidies	**109**	**116**	**118**	**121**	**123**
Gross fixed capital formation	**141**	**149**	**201**	**150**	**156**
Other	**65**	**59**	**73**	**72**	**73**
Compensation of employees	**294**	**302**	**311**	**315**	**322**
Total social transfers	**779**	**809**	**839**	**859**	**884**
growth in %					
Total expenditure	**-3.2**	**3.0**	**6.5**	**-0.9**	**2.5**
Final consumption expenditure	**2.4**	**2.9**	**3.0**	**2.0**	**1.9**
Collective consumption	3.8	2.6	4.8	2.7	2.6
Individual consumption	1.1	3.2	1.3	1.4	1.3
Social benefits in kind	0.5	3.7	2.7	2.1	2.0
Transfers of individual non-market goods and services	1.8	2.6	-0.6	0.4	0.4
Social transfers other than in kind	**2.1**	**3.9**	**4.1**	**2.6**	**3.3**
Interest	**-5.5**	**-1.3**	**-2.2**	**2.2**	**3.0**
Subsidies	**9.7**	**6.2**	**2.0**	**2.0**	**2.0**
Gross fixed capital formation	**-9.8**	**5.4**	**35.4**	**-25.3**	**3.6**
Other	**-54.5**	**-9.5**	**24.3**	**-1.7**	**1.4**
Compensation of employees	**2.6**	**3.0**	**2.9**	**1.2**	**2.1**
Total social transfers	**1.6**	**3.9**	**3.7**	**2.4**	**2.9**

Source: Year 2013 CZSO (2014b). Forecast and calculations by MF CR.

Table 3.7: Structure of Discretionary Measures (2015–2017)

(in CZK billion)

	2015	2016	2017
Total revenue measures	**-5.6**	**0.6**	**5.5**
Direct taxes	**4.2**	**0.2**	**5.0**
Personal income tax	0.1	-0.8	-1.5
Corporate income tax	0.0	0.1	0.0
Social security contributions	4.1	0.9	6.5
Indirect taxes	**-1.2**	**0.4**	**0.5**
Value added tax	-3.6	0.4	0.5
Excises	2.4	0.0	0.0
Other revenues	**-8.5**	**0.0**	**0.0**
Total expenditure measures	**-28.3**	**8.0**	**2.9**
Social benefits	-5.8	-0.1	4.8
Compensation of employees	-11.2	-2.4	-1.9
Healthcare	0.2	0.0	0.0
Other expenditures	-11.5	10.5	0.0
Total impact on balance	**-33.9**	**8.6**	**8.4**
% GDP	-0.8	0.2	0.2

Note: Figures in the table represent year-on-year discretional changes that are stemming from all envisaged and approved measures on revenue and expenditure side of the general government budget.
Source: MF CR.

3.2.3 General Government Debt

The relative level of debt should decrease by 2.0 pp from 45.7% of GDP in 2013 to 43.8% of GDP in 2014. We expect it to decrease further to the value of 41.7% of GDP in 2017.

The main determinant for forecasting general government debt is the outlook of general government performance. The difference between a change in the debt and the amount of the general government balance is reflected by the so-called stock-flow adjustment. Divergent changes between the debt-to-GDP ratio and the deficit amount can be explained by nominal GDP development when, during stagnation of the debt amount and GDP growth, the debt-to-GDP ratio will decrease. It decreases due to an increase in nominal GDP that is determined by continuing economic recovery. A revision of the nominal level of gross domestic product in light of the implementation of the new ESA 2010 standard was also reflected by an increase in the nominal amount of GDP (for more details – see Box 1). The transfer of the Czech Export Bank into the general government (for more details – see Box 2) has had the opposite effect, increasing the nominal debt amount by approximately CZK 87 billion in 2013.

As far as other factors are concerned, the item Net Acquisition of Financial Assets will have a considerable impact on changes in debt during 2014 and 2015. It is planned in these years to gradually employ disposable State treasury liquidity into the financing of the state. The reason for a decrease in the reserve of funds as an instrument for managing State treasury liquidity and the involvement of other sources for financing the state budget balance during the calendar year is a reaction to the passing of amendment No. 501/2012, amending, in addition to other standards, No. 218/2000 Coll., on Budgetary Rules and Amendment to Some Related Acts, in effect from 1 January 2013. Before it came into effect, this was ensured from the reserve of funds created from issuing activities. The amendment has resulted in increasing the number of entities that have accounts subordinated to the State treasury, and thus the disposable liquidity in the system of aggregate accounts of the State treasury has increased. Its purpose is to contribute to saving interest costs related to servicing state debt and reducing the liquidity risks and refinancing risks of central government. As a result, we expect the nominal level of state debt for 2014 and 2015 to be fixed at the same level as at the end of 2013, i.e. at CZK 1,683 billion. A slight increase in the debt of the central government is at the expense of other units in this sector outside the state budget. The possibilities for using disposable State treasury liquidity in the following years of the outlook will depend on its further development and the involvement of additional funds of general government institutions in the central system of state refinancing.

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

The subsector of central government has the biggest share in the general government debt. In 2014, we expect its value to be CZK 1,762.5 billion, i.e. a 94% share of the total debt. Although the debt of the central government will grow in absolute terms, its share in total government debt will not practically change. Second place is occupied by the local governments with an expected value of CZK 117.9 billion in 2014, i.e. 6% a share of the total debt. The subsector of social security funds shows a negligible indebtedness in the long run.

Table 3.8: Gross Consolidated Government Debt

		2012	2013	2014	2015	2016	2017
General government	*CZK bn*	**1842**	**1869**	**1875**	**1887**	**1953**	**2004**
Central government	*CZK bn*	1735	1760	1762	1774	1842	1893
Local government	*CZK bn*	110	114	118	119	117	117
Social security funds	*CZK bn*	0	2	1	0	0	0
General government debt to GDP ratio	*% of GDP*	**45.5**	**45.7**	**43.8**	**42.3**	**42.1**	**41.7**
Contributions to change in debt-to-GDP ratio							
Change in debt	*p.p.*	4.5	0.2	-2.0	-1.5	-0.1	-0.5
Primary balance	*p.p.*	**2.5**	**0.0**	**0.2**	**1.0**	**0.2**	**-0.1**
Interest	*p.p.*	**1.4**	**1.4**	**1.3**	**1.2**	**1.2**	**1.2**
Nominal GDP growth	*p.p.*	**-0.3**	**-0.4**	**-2.1**	**-1.8**	**-1.5**	**-1.5**
Stock-flow adjustment	*p.p.*	**0.8**	**-0.6**	**-1.3**	**-1.9**	**0.0**	**0.0**
Difference between cash and accruals	*p.p.*	-2.6	-0.2	0.0	0.0	0.0	0.0
Net acquisition of financial assets	*p.p.*	3.6	-0.8	-1.3	-1.9	0.0	0.0
Revaluation effects and other	*p.p.*	-0.2	0.4	0.0	0.0	0.0	0.0

Source: Data on general government sector and subsectors debt up to 2013 CZSO (2014b). Forecast and calculations by MF CR.

3.2.4 Cyclical Development and Breakdown of the Balance

The recession in which the CR found itself from the second half of 2011 to mid-2013 resulted in a deepening of the negative output gap. The gap should close gradually over the course of 2014 and 2015 and for 2016 and 2017 we already expect a positive output gap and therefore the cyclical component of the general government balance should be positive in the same period by definition.

In the item One-Off and Other Temporary Measures in 2014 one-off revenue of CZK 8.5 billion from the auction sale of new frequency bands is taken into account. One-off expenditure is also increased for the same year by a flat-rate correction of EU funds intended for refunding by the EC of CZK 1.8 billion. Other temporary expenditure includes the transfer of capital for non-standard state guarantees (guarantees resulting from solving the crisis of the Investment and Post Bank in 2000) in the amount of CZK 2 billion. This annual expenditure transfer is assumed at the same volume until 2016 (2016 is the final year when it is possible to apply claims arising from the provided guarantee). For 2014, the total extent of one-off and temporary measures is estimated at 0.1% of GDP.

In the outlook horizon, we do not expect any one-off revenues. For 2015, the most important one-off expenditure will be the financial leasing of JAS 39 Gripen aircrafts of CZK 10.5 billion.

Fiscal effort, the positive values of which have recently meant an improvement in the structural balance, is presumed to be negative in 2014 and 2015. This development is caused mainly by a transition from a policy of fiscal consolidation to one stimulating the fragile economic growth. In 2016 and 2017, when economic recovery should already be sufficiently robust, we expect fiscal policy to be more restrictive again. After certain deterioration in 2014 and 2015, the total balance should therefore slightly improve to −1.1% of GDP at the end of the forecast horizon.

Table 3.9: Structural Balance of the General Government (EC Method)

		2013	2014	2015	2016	2017
Real GDP growth	%	-0.7	2.4	2.5	2.5	2.5
Potential GDP growth	%	0.7	0.6	1.4	1.8	2.0
Output gap	% PP	-3.0	-1.3	-0.2	0.6	1.0
General government balance	% of GDP	**-1.3**	**-1.5**	**-2.2**	**-1.4**	**-1.1**
Cyclical budgetary component	% of GDP	-1.1	-0.5	-0.1	0.2	0.4
Cyclically adjusted balance	% of GDP	**-0.2**	**-1.0**	**-2.1**	**-1.6**	**-1.4**
One-off and other temporary measures	% of GDP	-0.2	0.1	-0.3	-0.1	0.0
Structural balance	% of GDP	**0.0**	**-1.1**	**-1.8**	**-1.6**	**-1.4**
Change in structural balance	p.p.	**1.4**	**-1.1**	**-0.7**	**0.2**	**0.1**
Interest	% of GDP	1.4	1.3	1.2	1.2	1.2
Structural primary balance	% of GDP	**1.4**	**0.2**	**-0.6**	**-0.4**	**-0.3**
Change in structural primary balance	p.p.	**1.3**	**-1.2**	**-0.8**	**0.2**	**0.1**

Source: MF CR.

Box 4: Impact of New Estimates of Elasticities of Cyclically Sensitive Revenue and Expenditure on the Cyclical Component of Balance

In mid-2014, the European Commission (EC, 2014b) and the Organization for Economic Cooperation and Development completed preparation of new estimates regarding the elasticity of cyclically sensitive items of revenue and expenditures of the general government in relation to the output gap. After negotiating with Member States and making certain modifications, new elasticities were adopted at the beginning of September 2014. Cyclically sensitive revenue items are: value added tax, excise taxes, personal income tax, corporate income tax, social security contributions and import duty. Since 2004, the amount of the last item in the CR is, however, zero due to the CR having joined the EU. Unemployment benefits are considered to be the only cyclically sensitive item on the expenditure side. In respect of new elasticity estimates of the indirect taxes (value added tax and excise taxes), tests have not proved the statistical significance of these estimates, and therefore the assumption of unit elasticity of these items has been adopted with respect to the output gap for Member States (except for Italy, where the idiosyncratic behaviour of these items has prompted the EC to adopt elasticity towards the output gap at value of 1.10).

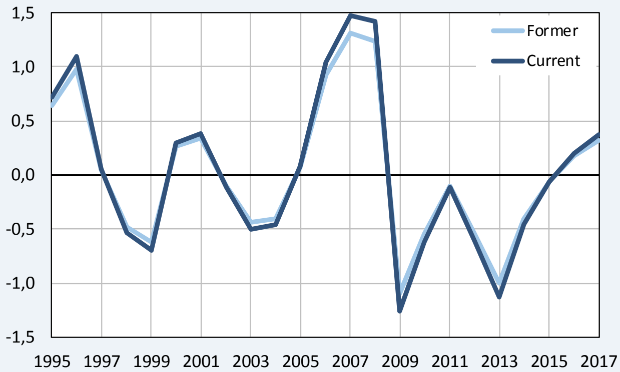
The elasticity values used now (since the October Macroeconomic Forecast of the CR, MF CR, 2014b) and previously are presented in Table 3.10. A comparison of the impacts of these values on cyclical development is provided in Graph 3.1, from which it is apparent that the generally higher current elasticity estimates amplify the effect of impacts of the economic cycle on the development of the general government balance. The most important differences between estimates of cyclical components can be seen at the time just before the economic crisis erupted, when in 2008 this difference amounted to CZK 7 billion.

Table 3.10: Former and Current Long-Time Estimates of Elasticities with Respect to the Output Gap
(elasticity to the output gap)

	until 2008	2008-2014	since 2014
Value added tax	1.00	1.00	1.00
Excises	1.00	1.00	1.00
Corporate income tax	1.39	1.39	1.78
Personal income tax	1.19	1.00	1.65
Social security contributions	0.80	0.80	0.86
Import duties	1.00	1.00	1.00
Unemployment benefits	-3.30	-3.30	-2.45

Note: Values in first two columns were used by the CR up to September 2014: values in the first column were applied on years 1995–2007, values in the second one were applied on years 2008–2014 (resp. in outlook to 2017). Values in the last column have been used by the CR since October 2014 and are applied on the whole time horizon since 1995 including the years of outlook.
Source: MF CR, EC (2014b).

Graph 3.1: Comparison of the Cyclical Balance Component according to Former and Current Elasticity Estimates
(in % of GDP)



Source: MF CR calculations.

3.3 Sensitivity Analysis

The sensitivity analysis is conducted by means of a dynamic stochastic general equilibrium model developed by the Ministry of Finance. The model enables us to analyse impacts of both macroeconomic and fiscal shocks on the economy. In the case of the small and decidedly open Czech economy, economic development is largely dependent on the development of the external sector, in particular within EU countries. Sensitivity analyses thus focus on this aspect and show the importance of the impacts of worse than expected growth dynamics in the EU on the domestic economy. Another alternative scenario simulates the impacts of an unexpected sharp increase in the currently low domestic interest rate on the Czech economy. All alternative scenarios are derived from the macroeconomic framework of this Fiscal Outlook.

3.3.1 Lower GDP Growth in the European Union in 2015

The first scenario is based on an assumption that GDP growth in the EU will be approximately 2 pp lower than in 2015 compared to the baseline scenario. This difference corresponds to the amount of standard deviation of growth for the period from 2000 to mid-2014.

Considering the close relationship between the Czech economy and the EU, this scenario would impact negatively on real growth in the CR primarily through exports, more than 80% of which are directed to EU countries. Lower foreign demand would lead to a decrease in export activity and a deterioration of the current account balance; however, this would be partially compensated by lower imports. A worse result for foreign trade would be negatively reflected in real GDP growth and in the development of unemployment. This effect would be most marked in 2015. The impacts on inflation mainly result from lower demand for domestic goods, both by domestic and foreign entities.

In the standard regime, the impacts of deterioration in the foreign trade balance would be mitigated, to a certain extent, by fluctuations in the CZK exchange rate. Our simulations however are predicated on the expectation, in accordance with the policy announced by the Czech National Bank, that the exchange rate will be maintained near the level of 27 CZK/EUR throughout 2015.

Investment activity of firms would also be affected negatively, the growth rate of which would slow by approximately 0.9 pp versus the baseline scenario. Household consumption would record a decrease in the growth rate of approximately 1.3 pp, in particular as a consequence of lower wage growth (and higher unemployment).

The general government balance would be affected by lower income tax collection from both individuals paying a portion from wages and companies paying from their profits, as well as by lower taxes on consumption. Together with an increase in spending due to a greater amount paid out in unemployment benefits, government deficits would deteriorate by 1.1 pp in the first year and by 0.3 pp and 0.1 pp, respectively, in the following years. Higher deficits would accumulate subsequently into higher debt, approximately by 1.8 pp in the last year of the monitored period. In contrast, debt accumulation would be slowed slightly by lower interest rates.

Alongside the gradual recovery of foreign demand during the course of 2016, the Czech economy should also recover gradually.

3.3.2 Permanently Lower GDP Growth in the European Union

The second scenario considers long-term unfavourable economic development in the EU, defined similarly as in the previous scenario. Thus there is 2 pp lower growth as determined by historical standard deviation in each year of the outlook (2015–2017).

Under this scenario, the Czech economy's negative response in each year of the presumed pessimistic development in the EU would be caused by the same mechanisms as in the previous scenario. The most significant differences versus the baseline scenario would occur in the first two years of the forecast. However, since the economy would gradually tend to adjust and begin to recover, the negative impacts of development abroad would be gradually mitigated in the following years (probably beyond the outlook horizon, however). Nevertheless, debt as a percentage of GDP should continue to grow more quickly in the general government versus the baseline scenario.

3.3.3 Rise in the Domestic Interest Rate

The last scenario considered is the assumed sudden growth in the short-term domestic interest rate of 1.5 pp in 2015. In this scenario, we also assume an unchanged CZK/EUR exchange rate.

A higher interest rate reduces domestic demand, in particular through investment (and to a smaller extent through consumption), which would be hampered by higher interest rates (increasing costs of investment due to higher rates on loans to companies). The growth rate of household consumption would also decrease, which would be exacerbated by the problems of companies through lower wage growth. In contrast, consumption would be influenced favourably by slightly lower domestic price levels. Impacts on foreign trade would be more or less neutralised by the central bank's monetary policy.

In total, the aforementioned effects would be reflected within the horizon by decreased GDP growth, approximately by 0.1–0.2 pp, and concomitant higher unemployment.

As in the case of lower GDP growth in the EU, but to a lesser extent, general government revenues would be affected by the lower collection of taxes both from businesses and individuals. With higher unemployment, government outlays would again rise. A negative balance would then be reflected in debt accumulation, on which higher interest rates would also have an impact.

Table 3.11: Model Scenarios of Macroeconomic Simulations

		2014	2015	2016	2017
Baseline Scenario					
Gross domestic product	*Y-o-Y in %*	**2.4**	**2.5**	**2.5**	**2.5**
Private consumption	*Y-o-Y in %*	1.4	1.7	1.9	1.9
Gross fixed capital formation	*Y-o-Y in %*	4.5	4.9	3.3	3.2
Exports	*Y-o-Y in %*	8.3	5.4	5.1	4.8
Imports	*Y-o-Y in %*	9.1	5.9	5.0	4.7
Inflation (CPI)	*Y-o-Y in %*	**0.5**	**1.5**	**1.9**	**2.0**
Unemployment rate	*in %*	**6.3**	**6.1**	**5.9**	**5.7**
General government balance	*% of GDP*	**-1.5**	**-2.2**	**-1.4**	**-1.1**
Gross government debt	*% of GDP*	**43.8**	**42.3**	**42.1**	**41.7**
Alternative Scenario I - Lower GDP Growth in EU in 2015					
Gross domestic product	*Y-o-Y in %*	**2.4**	**1.2**	**2.4**	**2.6**
Private consumption	*Y-o-Y in %*	1.4	0.4	1.4	1.8
Gross fixed capital formation	*Y-o-Y in %*	4.5	4.0	3.3	3.5
Exports	*Y-o-Y in %*	8.3	3.7	5.0	5.0
Imports	*Y-o-Y in %*	9.1	4.5	4.8	4.7
Inflation (CPI)	*Y-o-Y in %*	**0.5**	**1.2**	**1.5**	**1.7**
Unemployment rate	*in %*	**6.3**	**8.5**	**6.0**	**5.5**
General government balance	*% of GDP*	**-1.5**	**-3.3**	**-1.7**	**-1.1**
Gross government debt	*% of GDP*	**43.8**	**43.2**	**43.7**	**43.4**
Alternative Scenario II - Permanently Lower GDP Growth in EU					
Gross domestic product	*Y-o-Y in %*	**2.4**	**1.2**	**1.4**	**1.4**
Private consumption	*Y-o-Y in %*	1.4	0.4	0.3	0.2
Gross fixed capital formation	*Y-o-Y in %*	4.5	4.0	2.5	2.7
Exports	*Y-o-Y in %*	8.3	3.7	3.5	3.4
Imports	*Y-o-Y in %*	9.1	4.5	3.6	3.4
Inflation (CPI)	*Y-o-Y in %*	**0.5**	**1.1**	**1.5**	**1.5**
Unemployment rate	*in %*	**6.3**	**8.5**	**8.1**	**7.7**
General government balance	*% of GDP*	**-1.5**	**-3.3**	**-2.7**	**-2.3**
Gross government debt	*% of GDP*	**43.8**	**43.2**	**44.5**	**45.6**
Alternative Scenario III - Higher Interest Rate					
Gross domestic product	*Y-o-Y in %*	**2.4**	**2.4**	**2.3**	**2.3**
Private consumption	*Y-o-Y in %*	1.4	1.6	1.6	1.6
Gross fixed capital formation	*Y-o-Y in %*	4.5	4.7	2.9	2.9
Exports	*Y-o-Y in %*	8.3	5.4	5.1	4.8
Imports	*Y-o-Y in %*	9.1	5.9	5.0	4.7
Inflation (CPI)	*Y-o-Y in %*	**0.5**	**1.4**	**1.8**	**1.8**
Unemployment rate	*in %*	**6.3**	**6.3**	**6.3**	**6.1**
General government balance	*% of GDP*	**-1.5**	**-2.5**	**-1.9**	**-1.5**
Gross government debt	*% of GDP*	**43.8**	**42.5**	**42.9**	**43.1**

Source: Baseline scenario MF CR (2014b). MF CR calculations.

3.4 Long-term Sustainability of General Government Finance

Issues concerning the long-term sustainability of general government finance are discussed in this Fiscal Outlook in the thematic Chapter 5.

4 Public Finances – GFS 2001 Methodology

4.1 Public Budgets in 2014

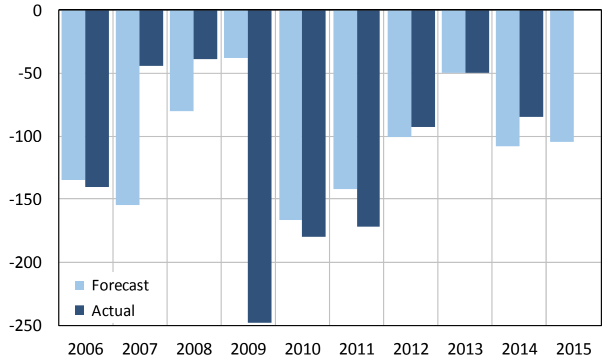
In 2014, the development of public budget finances will show a year-on-year deterioration (GFS 2001 Methodology). In comparison with the assumptions of the budget documentation (Act No. 475/2013 Coll.), however, better results can be expected. The updated estimate suggests that the total balance of public budgets should be better by CZK 22.7 billion, reaching CZK −84.9 billion (−2.0% of GDP). The state budget deficit, which will show an improvement of CZK 27.4 billion to CZK 85.6 billion, will participate strongly in this development (according to the budget documentation it was approved at the amount of CZK 113.1 billion). According to current estimates, other entities of public budgets (except for self-governing territorial units) will have worse economic results compared to the original assumptions – extra-budgetary funds by CZK 8.0 billion in total (of which the State Fund of Transport Infrastructure by CZK 3.3 billion and the State Agricultural Intervention Fund by even CZK 4.8 billion) and public health insurance by CZK 1.0 billion.

In comparison with the original assumptions, certain deviations exist on the revenue side of public budgets, in particular for the state budget. The total revenues of public budgets will develop positively; they should be CZK 35.0 billion higher. Subsidies that are capital in character from international organisations are developing markedly more favourably compared to the assumptions of the draft budget. In contrast, the situation concerning common subsidies is completely the opposite. Tax revenues and contributions for social security will be CZK 5.4 billion higher than budgeted. A higher expected collection for the state budget will be recorded for value added tax (by CZK 6.7 billion, for public budgets by CZK 9.2 billion in total) and for corporate income tax (by CZK 3.6 billion, for public budgets by CZK 5.5 billion in total). Conversely, lower collection is expected for personal income tax (by CZK 4.7 billion, for public budgets by CZK 7.2 billion in total) and for excise taxes (by CZK 5.0 billion, for public budgets by CZK 5.5 billion in total). In comparison with the budgeted amount, revenues from social security contributions are expected to be higher for public budgets by CZK 3.2 billion, for the state budget they will be identical to the budgeted amount.

Graph 4.1 shows a comparison of the expected (budgeted) results and those actually achieved in public budget balance during 2006 to 2014, as well as the budgeted deficit for 2015.

Graph 4.1: Public Budget Balance (2006–2015)

(in CZK billion)



Note: In 2014 the current forecast in place of actual data.

Source: MF CR.

Expenditures of public budgets can be expected to be CZK 12.3 billion higher than the original assumption. In annual terms, their amount has increased by CZK 65.4 billion, i.e. by 4.1% (compared to previous growth of 0.9%). Growth of expenditures can largely be attributed to efforts towards stimulating economic recovery and increasing investment activity.

There will be a certain improvement of interest expenditure related to public debt management. In comparison with 2013, interest expenditure will only increase by CZK 1.7 billion, and in comparison with the budget documentation it should be CZK 4.4 billion lower. These low dynamics are mainly attributable to stagnation of the state budget debt and to the fact that available liquidity of State treasury is involved in financing.

At the end of 2014, the debt amount is estimated at CZK 1,782 billion. In annual terms, a further decrease in growth dynamics from 1.1% to 0.2% can be expected, and at the same time the amount of loans and government bonds as a percentage of GDP should decrease by 1.9 pp to 41.6% of GDP. The application of the aforementioned refinancing mechanism of State treasury will play an important role here.

State debt still retains its highest share in the total debt structure; in 2014 it should be 93.3%. Consolidated state debt (consolidation of state debt represents debt reduced by issued state bonds purchased using the state financial assets) will increase by 0.2% year-on-year to CZK 1,667.8 billion. The state debt of the CR has been showing an upward trend now since 1996, and since that year, with the exception of 2001, 2003 and 2013, it has been increasing more quickly than the total public debt; in 2014 it is possible to expect that its growth will mirror that of the total debt of public budgets (the aforementioned 0.2%).

The debt of self-governing territorial units will basically remain at the level of 2013, and will be CZK 118.8 billion. No extra-budgetary fund should show any debt.

4.2 Public Budgets in 2015

The budget for 2015 (Parliamentary Press 331) has been drafted to respect the requirements of the Stability and Growth Pact, at the same time taking into consideration the necessity, as declared by the government, to provide pro-growth impulse to the Czech economy. According to the budget documentation, the state budget deficit has been approved in the amount of CZK 100 billion, while the total balance of public budgets is to be CZK −104.4 billion (−2.3% of GDP). Its year-on-year increase of CZK 19.5 billion is a result of a deterioration of state budget finances and the lower surplus of local governments. Health insurance companies should see a result CZK 0.3 billion worse than in 2014. For extra-budgetary funds, in contrast, we can expect a deficit improved by CZK 8.6 billion to CZK 2.4 billion.

In annual terms, revenues should increase by 5.0%, while expenditures will increase by 5.9%. In relative terms, revenues as a percentage of GDP will increase by 0.3 pp year-on-year to 37.3%, but the tax burden will decrease by 0.3 pp to 30.8%. A positive development is expected for tax revenues. They should increase by CZK 18.5 billion year-on-year, of which direct taxes by CZK 12.2 billion. The expected increase of social security contributions (of CZK 23.2 billion) takes into consideration positive expectations regarding labour market development in relation to lower unemployment and a growth in wages. A relatively large year-on-year increase (of CZK 48.5 billion) is expected for subsidies from the EU funds in 2015, of which more than 60% should be capital in character. These funds should strengthen investment activity and at the same time cause multiplication effects.

In 2015, public debt should only increase by 0.5%, i.e. by CZK 8.2 billion to CZK 1,790.2 billion (40.1% of GDP). The lower increase of debt is expected in particular due to the greater involvement of available liquidity of State treasury in financing the state budget deficit. In spite of the budgeted pro-growth expenditures, the government expects the debt to stabilise.

There will be no significant changes in the share of individual segments of public budgets in the total debt. After state debt, self-governing territorial units have the greatest weight in total public debt. Their debt in 2015 compared to 2014 will increase slightly. After debt repayment in 2014, a slight increase can be expected in 2015 for extra-budgetary funds, since the State Agricultural Intervention Fund expects to take out a short-term loan of approximately CZK 0.2 billion from the state budget. However, due to consolidation, the total debt will not increase by this operation.

5 Long-term Pension Projections

In autumn 2014, peer reviews of pension projections are underway as part of the Working Group on Ageing Populations and Sustainability (EPC/AWG).

These reviews shall provide input into the update of the Ageing Report, which should be issued in spring 2015. The Ageing Report is issued as a joint document of the European Commission and the Economic Policy Committee, in which the Ministry of Finance also participates. The projections are based on assumptions of the EC and Eurostat. Eurostat provides demographic projections (so-called EUROPOP) and the EC provides macroeconomic assumptions, including assumptions for the labour market. Updates are carried out regularly at three-year intervals. The Czech pension model and its current results were reviewed by the group on 25 September 2014. This chapter sets out the updated results of pension projections for the CR until 2060.

5.1 Introduction

Since the last round of projections in 2012 (or 2011 when peer reviews were held), very few changes have been made in the Czech pension system. Previous projections have already taken into consideration the so-called small reform of the pension system (parametrical changes to the pay-as-you go system), which in particular unified the retirement age and let it rise without limitation, depending on an individual's year of birth, as well as extended the minimum insurance period by which entitlement to old-age pension arises. To a certain extent, the 2010 reform of disability pensions was also considered, when two groups of disability pensions became three, and related changes to entitlement to benefit payments were made. Unfortunately, at the last round only one observation was available to us for the purposes of analysis. This meant that it was not possible to assess the impact of this reform sufficiently. The full, real effect of this reform has only become apparent in the present projections, where adjustment of the age-specific profiles for each type of disability pensions was also carried out. The only significant effect in terms of legislation on the current projections compared to the previous ones has been the change in pension valorisation, when for 2013 and 2014 the rule of one third growth of the consumer price index and one third of real wage growth was applied. For 2015, an extraordinary valorisation of 1.8% has been approved, and in the following years the valorisation scheme returns its previous form, i.e. the fixed rule of growth of the consumer price index and one third of real wage growth.

Introduction of the so-called second, savings pillar does not affect current projections. The number of persons who joined this system in 2013 was around 83,000, which caused an absolutely negligible shortfall of incomes from pension insurance of approximately 0.006% of GDP. The Working Group EPC/AWG has already agreed before now that this reform has a negligible impact on long-term sustainability, and can therefore be omitted as part of long-term projections for sustainability purposes. The current long-term projections are consistent with this decision, regardless the future of this pillar.

The same can be similarly argued with regard to the third pillar. Despite the fact that this pension scheme is used by a total of nearly 5 million citizens, it has scant impact on the long-term sustainability of the pension system as a whole. The average amount of contributions is not high (at the end of 2013 it was CZK 568/month or CZK 749/month in new participation funds) and as a rule this scheme works as an advantageous form of saving, with the possibility to withdraw as a lump-sum at a time specified in the contract. The newly introduced so-called pre-retirement scheme is where we can see a potential effect on the results of projections. This can start to play an important role in future in connection with gradual postponement of the statutory retirement age.

5.2 Pension Projection Results

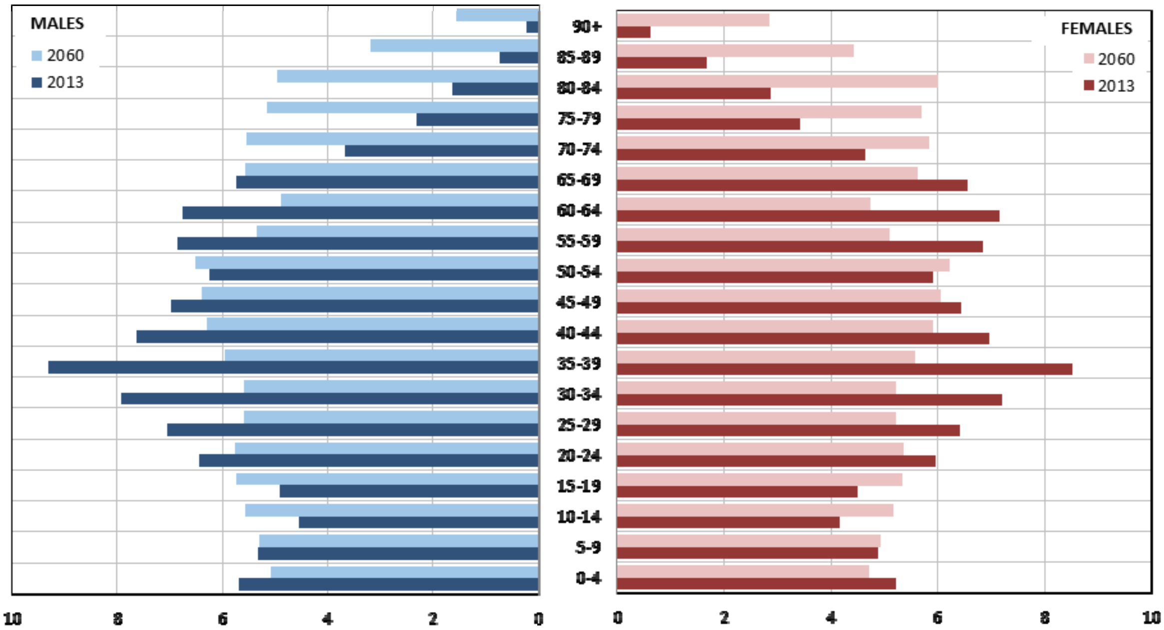
Based on the demographic and macroeconomic assumptions of the EC (2014c) shown in Table 5.1 and Graph 5.1, we expect expenditures on pensions in the CR to grow from 9.5% of GDP in 2013 to 10.2% of GDP in 2060. Graph 5.2 shows the course of these expenditure increases.

Table 5.1: Demographic and Macroeconomic Assumptions of Projections
(in % of GDP)

		2013	2020	2030	2040	2050	2060
Labour productivity growth	*per hour*	0.9	1.8	1.9	1.8	1.7	1.5
Real GDP growth	*%*	-0.9	1.6	1.9	1.6	1.5	1.7
Participation rate males	*%, aged 15–64*	80.6	81.7	79.8	79.4	80.6	80.6
Participation rates females	*%, aged 15–64*	65.1	67.3	66.5	66.3	68.6	69.0
Total participation rates	*%, aged 15–64*	72.9	74.6	73.3	73.0	74.7	74.9
Unemployment rate	*%, aged 15–64*	7.0	6.3	6.0	6.0	6.0	6.0
Population aged 65+ over population 15-64	*%*	25.1	31.7	35.3	40.8	48.4	50.1

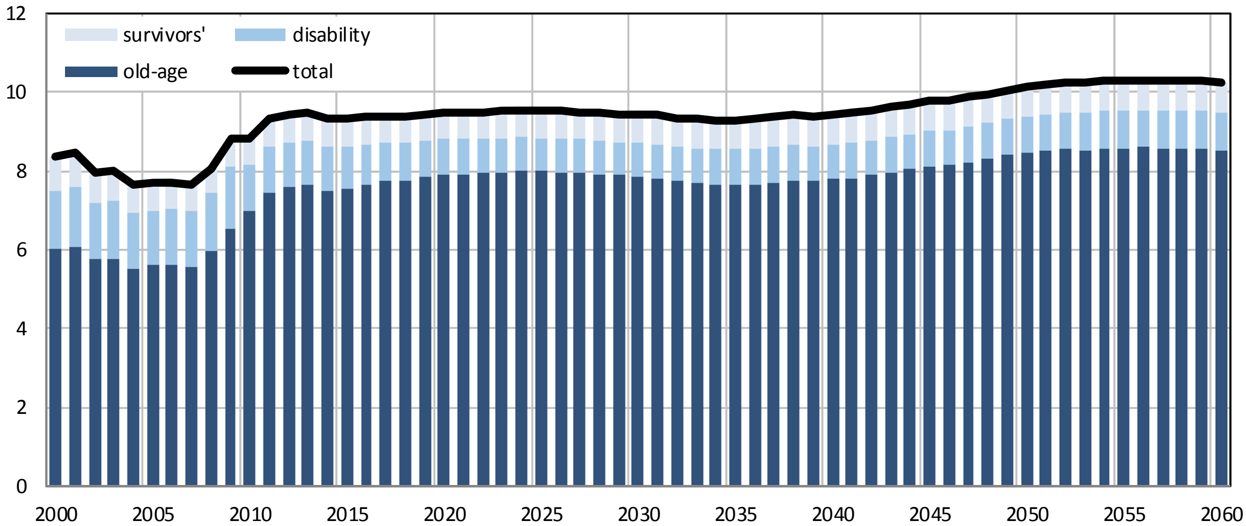
Source: EC (2014c).

Graph 5.1: Age Pyramid
(x axis: % of total population, y axis: the age interval)



Source: Eurostat (2014d).

Graph 5.2: Pension Expenditure
(in % of GDP)



Source: MF CR calculations.

The biggest part of total expenditures on pensions are, of course, expenditures on old-age pensions (including early pensions), the dynamics of which are mostly influenced by changes in population structure between today's date and the end of the projection horizon (Graph 5.1), although postponement of retirement age mitigates this effect significantly. The relatively less expensive disability and survivors pensions show a relatively stable development over time. Disability pensions fully reflect the effect of the 2010 reform, which considerably reduced expenditure pressures for disability pensions. On the other hand, of course the impact of postponing retirement age may well prove negative here, since it brings with it an autonomous increase in the probability of disability (i.e. a reduced capacity to work is more probable at the age of 67 years than at the age of 62 years, etc.)

We estimate the actual effect of demographic changes in society based on the assumptions of Eurostat (2014d) at 7.2% of GDP. This means that if all parameters of the pension system remained as they are today, pension expenditures in 2060 would increase to 16.7% of GDP. However, this development is restrained by pension reforms carried out in the past. By postponing the age limit and thanks to the resulting effects on the labour market, this increase is reduced by approximately 5.2% of GDP. Another impact slowing down the increase in pension expenditures is a decrease in the old-age pension replacement rate, which is mainly caused by the fact that the amount of pensions is lagging behind wages as a consequence of the valorisation scheme and the assumption of a constant share of work and capital in GDP.

In addition to the above-described so-called baseline scenario, pension projections include some sensitivity scenarios analysing the alternative development of certain demographic or macroeconomic variables. Their relative impacts are summarised in Table 5.2:

The scenario of **higher life expectancy** by two years involves, in comparison with the baseline scenario, a longer period for drawing pensions, but without any effect on GDP. Since the pension system has no parameter installed that would monitor the system's sustainability and compensate for this effect, pension expenditures will increase.

Higher labour productivity growth (by 0.25 pp) has a favourable effect on economic performance: wages grow more quickly, as does GDP. Although this scenario must mean higher pension entitlements for new pensioners in future, the actual effect will be reflected via valorisation across the whole package of already paid pensions only by one third. As far as effects are concerned, **lower labour productivity growth** (by 0.25 pp) has an analogous effect in the opposite direction.

Scenarios examining the **impacts of higher employment,** both a higher total employment rate (by 2 pp) and a higher employment rate of elderly employees (by 10 pp), mainly foresee a favourable effect on GDP growth. Impacts on the level of pension expenditures are rather marginal.

Expected **lower migration** in the form of a 20% lower migration balance means a lower influx of employees to the labour market, and thus lower employment with a consequent negative impact on GDP.

Neither do pension projections overlook the potentially long-term effects of the economic crisis that could mean a certain permanent loss of productivity. **The risk scenario** supposes the convergence of the long-term trend for total factor productivity to 0.8% instead of the 1% considered in the baseline scenario. Similarly as with the lower growth of labour productivity, this effect has a negative impact on the increase in GDP and wages. However, lower growth of wages is relayed, through the valorisation scheme, into lower growth of pensions only by one third. Therefore, the impact on GDP is predominantly negative and expenditures on pensions in relation to GDP increase.

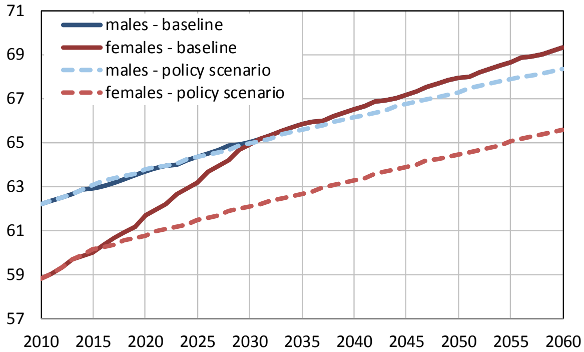
Table 5.2: Impact of Sensitivity Scenarios on Pension Expenditure
(in % of GDP, year)

	2013	2020	2030	2040	2050	2060	Peak year
Baseline	**9.5**	**9.5**	**9.4**	**9.4**	**10.1**	**10.2**	**2057**
Differences from baseline:							
Higher life expectancy (2 extra years)	0.0	0.0	0.1	0.3	0.4	0.6	**2060**
Higher labour productivity (+0.25 pp.)	0.0	0.0	-0.1	-0.2	-0.3	-0.3	**2013**
Lower labour productivity (-0.25 pp.)	0.0	0.0	0.1	0.2	0.3	0.3	**2060**
Higher employment rate (+2 pp.)	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	**2013**
Higher employment of older workers (+10 pp.)	0.0	-0.7	-0.8	-0.4	0.0	0.3	**2060**
Lower migration (-20%)	0.0	0.0	0.1	0.2	0.3	0.4	**2059**
Risk scenario	0.0	0.0	0.1	0.2	0.3	0.4	**2060**
Policy scen.:linking retirement age to life expectancy increase	0.0	-0.1	-0.1	0.4	0.7	1.2	**2060**

Source: MF CR calculations.

Finally, the so-called **reform scenario** illustrates possible long-term development in the event that an automatic link between retirement age and life expectancy is embodied in legislation. It follows from the last line of the aforementioned table that in this case a more dramatic increase in expenditures on the pension system would occur. This is brought about by the longer retirement age in this scenario for both genders, especially for women. A comparison of the age limits for old-age pensions is shown in Graph 5.3.

Graph 5.3: Retirement Age in Respective Scenarios
(in years)

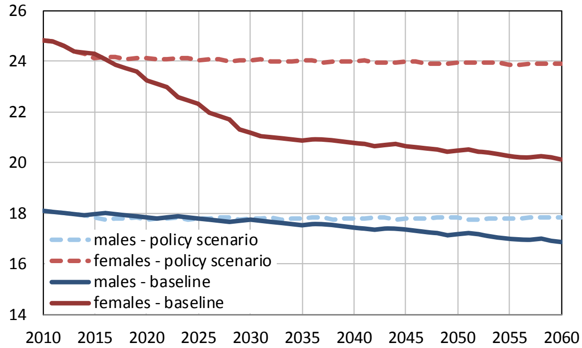


Source: Act 155/1995 Coll., EC.

The increasing age in the current system is reacting to a certain extent to gradual increasing life expectancy, despite the fact that the law does not define any exact link. Beyond this, there is temporarily a much greater increase for women due to unification of their age limit with men. In contrast, the reform scenario supposes that retirement age will develop completely in line with life expectancy.

It is possible to view this matter from the perspective of the period spent in retirement and how such period will develop (Graph 5.4). With the increase of the retirement age by two months per year, the Czech system is practically in accordance (or a little stricter) with the expected development of life expectancy, as is principally apparent from the moderate decrease in the period spent as a retiree for both genders. For women, it is possible to see this trend mainly after approximately 2030 when the retirement ages will be unified. The persistent difference in the periods for drawing pensions results purely from women's longer life expectancy. As to an increase in the retirement age, the reform scenario is more benevolent and keeps the period spent as a retiree consistent throughout the outlook period.

Graph 5.4: Period spent in Retirement in Respective Scenarios
(in years)



Source: MF CR calculations.

For this reason, in the reform scenario there is higher growth in the number of pensioners spending on average longer periods as retirees. It is obvious that if the age limit is reduced compared to the current situation, the pension system costs would increase and the long-term sustainability of public finances in the CR would deteriorate.

However, it is necessary to point out that the negative impacts of this scenario are still largely underestimated. The macroeconomic scenario developed by the EC in the case of the reform scenario supposes much more favourable conditions on the labour market than in the baseline scenario. While in the baseline scenario it is expected that persons will leave the labour market at an ever earlier age prior to the statutory retirement age (by a whole 4 years at the end of the horizon), the reform scenario maintains the current relationship between the time of leaving the labour market and the retirement age. It supposes people will also prolong their working activities beyond retirement age (by 1–2 years throughout the period). As a result, GDP is overestimated: here it is even higher than in the baseline scenario; real impacts would be felt much more starkly.

5.3 Additional Coverage of Inactive People in Projections

The process of creating assumptions for projections and then calculating such projections is burdened with a certain level of inconsistency. The cohort simulation model used by the EC for creating assumptions about the labour market (participation rates) works with variable of the so-called effective retirement age, which is basically the average age people leave the labour market. This age may differ from the statutory retirement age. Nevertheless, in every case when the statutory retirement age is extended, the effective retirement age is lower than the statutory age, and according to the assumption of the cohort simulation model the difference between these two ages is increasing in the baseline scenario over time.

In contrast, the pension model takes into account only the statutory retirement age, as it is the only age recognised by Czech pension legislation. By shifting the known probability profiles according to the rise in statutory age, a gap is created between assumptions about the number of non-active persons (the cohort simulation model) on one side and the number of pensioners on the basis of current data (the pension model) and assumptions about e.g. the increase in the probability of disability etc. on the other side. These non-active persons are not covered by the standard pension in the pension model, but due to the cohort simulation model they are assumed to have no income.

Thereby the question arises how to cover these persons additionally with some income from social benefits so that the assumptions of the cohort simulation model are met as fully as possible. However, at the same time, compliance must be ensured not only with the national legislation, but also with the principle of constant policies. This principle renders it impossible to additionally cover non-active persons with disability pensions, since such a solution would have to suppose implicitly (or even explicitly) changes in the conditions for awarding disability pensions or reversing the outcomes of the 2010 disability pension reform.

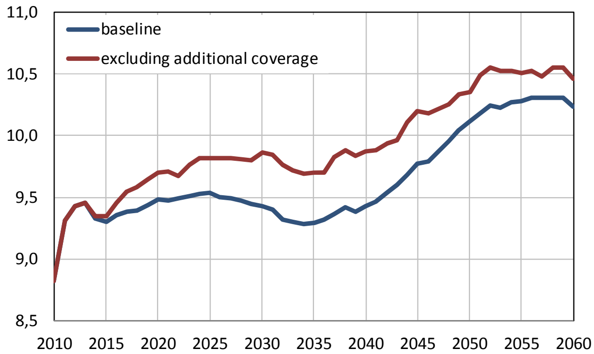
Another obstacle to additional coverage is the fact that the CR, unlike other EU countries, does not have in place the institute of a minimum guaranteed pension for persons not meeting the conditions for receiving regular pension. In the CR there is a minimum amount of pension as part of the regular pension, i.e. the minimum pension concerns exclusively the method for calculating benefits, and therefore only involves those persons meeting the conditions necessary for receiving pensions. The only alternative would be social benefits (benefits in case of material need, etc.) that a non-active person without entitlement to pension could receive. However, using such explanation for persons of retirement age (including age cohorts of early pensioners) as part of long-term projections would not be correct due to risk of underestimating results.

For these reasons, when additionally correcting the coverage of non-active persons, it was assumed that every person reaching the retirement age according to legislation will become entitled to the old-age pension. Persons who are non-active, but at an age up to five years below the statutory retirement age are to a partially larger extent covered by early pension or they can take the so-called pre-retirement benefit. At present, there is no widespread use of pre-retirement benefits, but it is possible to assume that with the statutory retirement age gradually rising and with a longer period during which it will be possible to save the required amount, this institute will be used more. At the same time, there is no breach of the principle of constant policies, as both early pensions and the so-called pre-retirement benefits are, on fulfilment of the prescribed conditions, a legal choice of every person. For early pensions, the condition is the age defined by law, which is met by the assumptions per se, while for so-called pre-retirement benefits it is necessary to accumulate the minimal defined funds, which is, however, at the discretion of every person. By contrast, e.g. in the case of disability pensions, this is not an individual choice, nor is meeting the conditions (except for extreme situations) in hands of a particular person, but it depends on assessment made by somebody else.

The impacts of additional coverage have slightly greater impact in the results of projections on the course of expenditure development than on the long-term horizon, as is apparent from the graph below (Graph 5.5). Over time, the following contradictory effects will compensate each other: i) higher volume of pensions paid out due to including more persons, in particular above the statutory retirement age in the baseline scenario, and ii) higher number of early pensions that are permanently reduced. In the long run, the second effect has an impact on expenditure reduction, since early pensioners are awarded with permanently lower benefits (the baseline scenario) than would be the case if they retired at the statutory retirement age (the scenario without any additional coverage).

Graph 5.5: Total Expenditures in Respective Scenarios

(in % of GDP)



Source: MF CR calculations.

5.4 Comparison with Ageing Report 2012 Pension Projections

As is clear from the Table 5.3, the difference between the current and the 2012 Ageing Report projections is approximately 1.6% of GDP in 2060. This considerable drop has several causes. The first and largest is the difference in the demographic and macroeconomic assumptions of the EC and Eurostat. At the end of the projection, this difference is approximately 1% of GDP. The second factor affecting lower expenditures is the method of additional coverage described above. In the last round, when the impacts of the disability pension reform were not known, it was possible to solve additional coverage to a certain extent just through an additional increase in probabilities of the third degree disability (the other two degrees would not have completely solved coverage of non-active persons). Today, when the impacts of the reform are fully evident and moreover relatively pronounced, this procedure cannot be repeated. The third difference compared to previous projections is the change itself in disability pensions, whereby the probability of "full" disability (third degree disability) has decreased considerably due to the reform, and moreover the total expenditures on disability pensions have decreased significantly due to creation of the first additional group, where pensions are lower than the original partial pensions.

Table 5.3: Decomposition of the Difference between 2012 Ageing Report and Recent Projections
(in pp of GDP)

	2013	2020	2030	2040	2050	2060
Ageing report 2012	**8.7**	**8.7**	**8.9**	**9.7**	**11.0**	**11.8**
Change in assumptions	0.7	1.2	1.4	0.6	-0.3	-1.0
Improvement in the coverage or in the modelling	0.0	-0.2	-0.4	-0.4	-0.2	-0.2
Change in the interpretation of constant policy	0.0	0.0	0.0	0.0	0.0	0.0
Policy related changes	0.0	-0.2	-0.4	-0.4	-0.4	-0.4
New projection	**9.5**	**9.5**	**9.4**	**9.4**	**10.1**	**10.2**

Source: MF CR calculations.

5.5 Conclusion

Generally, it is necessary to view long-term projections as showing trends of the future development under certain long-term assumptions. It is not possible therefore to take the mentioned values strictly as values that will be valid for the given years. As shown in Table 5.3, any change in assumptions constitutes a serious determinant, having a relatively substantial impact on results.

Nevertheless, regardless of differences in the levels of individual assumptions, it is possible to discern from the course of trends and their mutual links certain characteristics or features that repeat. Approximately until the mid-2030s, expenditures should develop rather favourably, whereupon will follow an increase in expenditures on pensions due to demography. Nevertheless, projected expenditures already reach maximum values just before the end of the projection period (in 2057), which suggests a reversal and subsequent decrease in expenditures beyond the horizon of the projections (after 2060). Therefore, it is possible to suppose that, given the current setting, the sustainability of the pension system in itself is not simply wishful thinking. On the other hand, it is necessary to point out that from the perspective of long-term sustainability it is not only pensions that are important, but also other systems, in particular health care.

Finally, there is one more aspect which is revealed in particular by assumptions of the labour market based on actual data, i.e. the participation rates in certain age cohorts. The Czech Republic occupies an above-average place among EU countries and Norway in terms of participation rates (active population) for persons between the 25th and 54th years of age. Nevertheless, the situation is much worse in some other cohorts. The greater involvement of young people in the labour market is certainly desirable, nevertheless, such involvement applies twice over for the age cohorts above 55 years. Potential reforms of the labour market that would increase participation rates for young and elder employees are crucial for the national economy and long-term sustainability of public finances.

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A Annex of Tables – GFS 2001 Methodology

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

Table A.1: General Government Revenue
(in CZK billion)

	2007	2008	2009	2010	2011	2012	2013
Total revenue	**1391**	**1478**	**1384**	**1423**	**1430**	**1498**	**1556**
Revenue from operating activities	1377	1461	1355	1401	1418	1486	1545
Taxes	**716**	**743**	**660**	**691**	**706**	**728**	**754**
Taxes on income, profits, and capital gains	318	331	255	261	257	271	271
Payable by individuals	151	143	128	131	134	137	142
Payable by corporations and other enterprises	166	188	127	130	123	134	129
Taxes on property	16	16	14	16	20	21	19
Taxes on goods and services	382	396	391	413	428	436	464
Value added tax[1]	230	249	248	264	269	273	302
Excises	139	133	131	138	147	147	143
Social contributions	**522**	**548**	**510**	**517**	**533**	**541**	**545**
Social security contributions	505	530	496	503	519	526	531
Employee contributions	123	130	114	117	120	122	124
Employer contributions	346	365	338	349	359	365	369
Self-employed or nonemployed contributions	33	33	39	35	37	37	36
Other social contributions	17	18	14	14	14	14	15
Grants	**47**	**60**	**80**	**85**	**74**	**112**	**125**
From international organizations	47	60	79	85	73	111	125
Current	23	27	33	36	40	41	61
Capital	24	34	46	48	33	70	64
Other revenue	**92**	**110**	**106**	**108**	**105**	**106**	**120**
Property income	**23**	**34**	**34**	**35**	**30**	**29**	**32**
Interest	7	10	7	7	3	4	2
Dividends	10	16	19	20	19	17	21
Sales of goods and services	**41**	**43**	**43**	**44**	**48**	**49**	**49**
Sales of market establishments	19	19	20	20	22	21	21
Administrative fees	21	24	23	24	25	27	28
Fines, penalties, and forfeits	**5**	**4**	**5**	**5**	**4**	**4**	**5**
Voluntary transfers other than grants	**13**	**12**	**15**	**16**	**13**	**13**	**14**
Miscellaneous and unidentified revenue	**9**	**17**	**9**	**8**	**11**	**11**	**20**
Sales of nonfinancial assets	**14**	**17**	**29**	**22**	**12**	**12**	**12**
Fixed assets	7	10	9	10	6	6	5
Nonproduced assets	7	8	19	12	6	6	7

Note: 1) Value added tax is reduced by the EU budget levies consistently with the GFS 2001 methodology.
Source: MF CR.

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

	2007	2008	2009	2010	2011	2012	2013
Total revenue	**36.3**	**36.8**	**35.3**	**36.0**	**35.5**	**37.0**	**38.1**
Revenue from operating activities	35.9	36.4	34.6	35.4	35.3	36.7	37.8
Taxes	**18.7**	**18.5**	**16.8**	**17.5**	**17.5**	**18.0**	**18.4**
Taxes on income, profits, and capital gains	8.3	8.2	6.5	6.6	6.4	6.7	6.6
Payable by individuals	4.0	3.6	3.3	3.3	3.3	3.4	3.5
Payable by corporations and other enterprises	4.3	4.7	3.2	3.3	3.1	3.3	3.2
Taxes on property	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Taxes on goods and services	10.0	9.9	10.0	10.5	10.6	10.8	11.3
Value added tax[1]	6.0	6.2	6.3	6.7	6.7	6.7	7.4
Excises	3.6	3.3	3.3	3.5	3.6	3.6	3.5
Social contributions	**13.6**	**13.7**	**13.0**	**13.1**	**13.3**	**13.4**	**13.3**
Social security contributions	13.2	13.2	12.6	12.7	12.9	13.0	13.0
Employee contributions	3.2	3.2	2.9	3.0	3.0	3.0	3.0
Employer contributions	9.0	9.1	8.6	8.8	8.9	9.0	9.0
Self-employed or nonemployed contributions	0.9	0.8	1.0	0.9	0.9	0.9	0.9
Other social contributions	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Grants	**1.2**	**1.5**	**2.0**	**2.1**	**1.8**	**2.8**	**3.1**
From international organizations	1.2	1.5	2.0	2.1	1.8	2.8	3.1
Current	0.6	0.7	0.8	0.9	1.0	1.0	1.5
Capital	0.6	0.8	1.2	1.2	0.8	1.7	1.6
Other revenue	**2.4**	**2.7**	**2.7**	**2.7**	**2.6**	**2.6**	**2.9**
Property income	**0.6**	**0.9**	**0.9**	**0.9**	**0.7**	**0.7**	**0.8**
Interest	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Dividends	0.3	0.4	0.5	0.5	0.5	0.4	0.5
Sales of goods and services	**1.1**	**1.1**	**1.1**	**1.1**	**1.2**	**1.2**	**1.2**
Sales of market establishments	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Administrative fees	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Fines, penalties, and forfeits	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Voluntary transfers other than grants	**0.3**	**0.3**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Miscellaneous and unidentified revenue	**0.2**	**0.4**	**0.2**	**0.2**	**0.3**	**0.3**	**0.5**
Sales of nonfinancial assets	**0.4**	**0.4**	**0.7**	**0.5**	**0.3**	**0.3**	**0.3**
Fixed assets	0.2	0.2	0.2	0.2	0.1	0.2	0.1
Nonproduced assets	0.2	0.2	0.5	0.3	0.2	0.2	0.2

Note: 1) Value added tax is reduced by the EU budget levies consistently with the GFS 2001 methodology.
Source: MF CR.

Table A.3: General Government Expenditure

(in CZK billion)

	2007	2008	2009	2010	2011	2012	2013
Total expense	**1 436**	**1 517**	**1 631**	**1 602**	**1 601**	**1 591**	**1 606**
Expense for operating activities	**1 346**	**1 421**	**1 513**	**1 495**	**1 508**	**1 506**	**1 525**
Compensation of employees	**136**	**141**	**147**	**146**	**136**	**136**	**139**
Wages and salaries	102	106	111	111	103	103	105
Social contributions	34	35	35	35	33	34	35
Actual social contributions	34	35	35	35	33	34	34
Use of goods and services	**125**	**133**	**148**	**142**	**129**	**122**	**124**
Interest	**37**	**45**	**50**	**42**	**48**	**45**	**54**
Subsidies	**266**	**273**	**302**	**300**	**308**	**314**	**319**
To public corporations	187	206	206	205	205	207	212
To private enterprises	79	66	96	95	103	107	107
Grants	**27**	**29**	**30**	**31**	**34**	**33**	**36**
To international organizations	27	29	30	31	34	33	36
Current	27	29	30	31	34	33	36
Social benefits	**588**	**618**	**664**	**671**	**687**	**704**	**713**
Social security benefits	588	618	664	671	687	704	713
Other expense	**168**	**182**	**173**	**164**	**166**	**152**	**141**
Miscellaneous other expense	168	182	173	164	166	152	141
Current	25	31	32	34	31	35	35
Capital	143	151	141	130	135	117	105
Purchases of nonfinancial assets	**90**	**96**	**118**	**107**	**93**	**85**	**80**
Fixed assets	87	93	116	105	92	83	79
Nonproduced assets	2	3	2	2	1	2	2

Note: Use of goods and services in GFS 2001 also contains investment expenditure on destructive military technology.
Source: MF CR.

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

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
Total expense	**37.5**	**37.8**	**41.6**	**40.5**	**39.8**	**39.3**	**39.3**
Expense for operating activities	**35.1**	**35.4**	**38.6**	**37.8**	**37.5**	**37.2**	**37.3**
Compensation of employees	**3.6**	**3.5**	**3.7**	**3.7**	**3.4**	**3.4**	**3.4**
Wages and salaries	2.7	2.7	2.8	2.8	2.6	2.5	2.6
Social contributions	0.9	0.9	0.9	0.9	0.8	0.8	0.9
Actual social contributions	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Use of goods and services	**3.3**	**3.3**	**3.8**	**3.6**	**3.2**	**3.0**	**3.0**
Interest	**1.0**	**1.1**	**1.3**	**1.1**	**1.2**	**1.1**	**1.3**
Subsidies	**6.9**	**6.8**	**7.7**	**7.6**	**7.6**	**7.8**	**7.8**
To public corporations	4.9	5.1	5.2	5.2	5.1	5.1	5.2
To private enterprises	2.1	1.6	2.5	2.4	2.6	2.6	2.6
Grants	**0.7**	**0.7**	**0.8**	**0.8**	**0.9**	**0.8**	**0.9**
To international organizations	0.7	0.7	0.8	0.8	0.9	0.8	0.9
Current	0.7	0.7	0.8	0.8	0.9	0.8	0.9
Social benefits	**15.3**	**15.4**	**16.9**	**17.0**	**17.1**	**17.4**	**17.4**
Social security benefits	15.3	15.4	16.9	17.0	17.1	17.4	17.4
Other expense	**4.4**	**4.5**	**4.4**	**4.1**	**4.1**	**3.8**	**3.4**
Miscellaneous other expense	4.4	4.5	4.4	4.1	4.1	3.8	3.4
Current	0.6	0.8	0.8	0.9	0.8	0.9	0.9
Capital	3.7	3.8	3.6	3.3	3.4	2.9	2.6
Purchases of nonfinancial assets	**2.3**	**2.4**	**3.0**	**2.7**	**2.3**	**2.1**	**2.0**
Fixed assets	2.3	2.3	3.0	2.7	2.3	2.1	1.9
Nonproduced assets	0.1	0.1	0.1	0.1	0.0	0.0	0.0

Note: Use of goods and services in GFS 2001 also contains investment expenditure on destructive military technology.
Source: MF CR.

Table A.5: General Government Balance

(in CZK billion, in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
CZK bn							
Cash deficit/surplus	**-44**	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**
Deficit / surplus of operating balance[2]	31	40	-158	-94	-90	-21	19
Deficit / surplus of primary balance	-7	6	-198	-137	-124	-48	4
% of GDP							
Cash deficit/surplus	**-1.2**	**-1.0**	**-6.3**	**-4.5**	**-4.3**	**-2.3**	**-1.2**
Deficit / surplus of operating balance[2]	0.8	1.0	-4.0	-2.4	-2.2	-0.5	0.5
Deficit / surplus of primary balance	-0.2	0.1	-5.0	-3.5	-3.1	-1.2	0.1

Source: MF CR.

Table A.6: Structure of General Government Balance

(in CZK billion)

	2007	2008	2009	2010	2011	2012	2013
State budget[1]	-63	-78	-221	-176	-157	-85	-69
Extrabudgetary funds total	-10	12	5	3	-8	-3	2
Social security funds	17	11	-6	-7	-5	-6	-1
Local governments	11	16	-25	0	-1	1	19
Cash deficit/surplus	**-44**	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**

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

Table A.7: Sources and Uses of General Government

(in CZK billion)

	2007	2008	2009	2010	2011	2012	2013
Cash flows from operating activities:							
Cash receipts from operating activities	**1 377**	**1 461**	**1 355**	**1 401**	**1 418**	**1 486**	**1 545**
Taxes	716	743	660	691	706	728	754
Social contributions	522	548	510	517	533	541	545
Grants	47	60	80	85	74	112	125
Other receipts	92	110	106	108	105	106	120
Cash payments for operating activities	**1 346**	**1 421**	**1 513**	**1 495**	**1 508**	**1 506**	**1 525**
Compensation of employees	136	141	147	146	136	136	139
Purchases of goods and services	125	133	148	142	129	122	124
Interest	37	45	50	42	48	45	54
Subsidies	266	273	302	300	308	314	319
Grants	27	29	30	31	34	33	36
Social benefits	588	618	664	671	687	704	713
Other payments	168	182	173	164	166	152	141
Net cash inflow from operating activities	**31**	**40**	**-158**	**-94**	**-90**	**-21**	**19**
Cash flows from investments in non-financial assets:							
Purchases of nonfinancial assets	**90**	**96**	**118**	**107**	**93**	**85**	**80**
Fixed assets	87	93	116	105	92	83	79
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	2	3	2	2	1	2	2
Sales of nonfinancial assets	**14**	**17**	**29**	**22**	**12**	**12**	**12**
Fixed assets	7	10	9	10	6	6	5
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	7	8	19	12	6	6	7
Net cash outflow: investments in nonfinancial assets	**76**	**79**	**90**	**86**	**82**	**72**	**69**
Cash surplus / deficit	**-44**	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**

Source: MF CR.

Table A.8: General Government Debt

(in CZK billion, in % of GDP)

	2007	2008	2009	2010	2011	2012	2013
CZK bn							
Consolidated general government debt	**973**	**1 071**	**1 258**	**1 426**	**1 565**	**1 761**	**1 779**
State debt consolidated	882	980	1 160	1 324	1 461	1 649	1 665
Extrabudgetary funds	4	1	1	3	2	1	0
Social security funds	0	0	0	0	0	0	2
Local governments	91	95	100	102	105	115	120
% of GDP							
Consolidated general government debt	**25.4**	**26.7**	**32.1**	**36.1**	**38.9**	**43.5**	**43.5**
Consolidated state debt	23.0	24.4	29.6	33.5	36.3	40.7	40.7
Extrabudgetary funds	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Social security funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	2.4	2.4	2.5	2.6	2.6	2.8	2.9

Source: MF CR.

B Annex of Tables – ESA 95 Methodology

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

Table B.1: General Government Revenue

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total revenue	**1206**	**1261**	**1352**	**1504**	**1528**	**1494**	**1524**	**1594**	**1612**	**1664**
Current taxes on income, wealth, etc.	268	275	295	330	306	271	262	275	275	286
Social contributions [1)]	453	482	525	577	599	560	578	592	600	606
Taxes on production and imports [2)]	333	351	361	404	416	424	441	480	501	526
Capital taxes [3)]	1	1	1	0	0	0	0	0	0	0
Property income	24	23	28	30	35	37	37	35	35	38
Interest	14	13	13	16	13	11	10	10	10	10
Other property income	10	10	15	14	22	26	26	25	25	28
Sales [4)]	89	93	96	111	119	122	117	126	128	129
Other current transfers and subsidies	28	26	26	23	22	27	33	32	33	38
Investment grants	3	5	14	15	27	50	53	50	35	36
Other capital transfers	7	5	5	13	3	3	4	3	4	4
% growth										
Total revenue	**2.2**	**4.6**	**7.2**	**11.3**	**1.6**	**-2.2**	**2.0**	**4.6**	**1.1**	**3.2**
Current taxes on income, wealth, etc.	8.3	2.8	7.4	11.9	-7.4	-11.4	-3.4	5.0	0.0	4.1
Social contributions [1)]	7.4	6.5	8.8	9.9	3.9	-6.6	3.2	2.5	1.3	1.1
Taxes on production and imports [2)]	16.1	5.4	2.9	12.0	3.0	1.9	3.9	9.0	4.3	4.9
Capital taxes [3)]	-28.1	18.5	9.2	-42.4	-44.8	-8.2	-3.4	0.9	0.9	-16.5
Property income	-5.2	-6.3	23.5	7.2	15.7	4.7	1.0	-5.9	0.6	8.2
Interest	-17.0	-6.9	1.7	19.1	-20.3	-14.0	-3.7	-8.5	7.4	-6.2
Other property income	17.9	-5.5	53.1	-3.5	55.7	15.4	2.9	-4.9	-2.0	14.3
Sales [4)]	1.1	4.1	3.5	15.1	7.8	2.0	-4.0	7.7	1.8	0.7
Other current transfers and subsidies	52.6	-7.5	-2.0	-8.4	-7.4	26.0	20.7	-1.7	2.5	15.5
Investment grants	10.1	62.8	187.1	1.0	86.1	84.7	4.9	-6.0	-29.0	1.5
Other capital transfers	-92.3	-21.8	2.3	147.1	-77.8	14.6	24.7	-21.0	14.5	8.4
% of GDP										
Total revenue	**39.4**	**38.7**	**38.5**	**39.3**	**38.1**	**38.1**	**38.6**	**39.6**	**39.8**	**40.7**
Current taxes on income, wealth, etc.	8.7	8.4	8.4	8.6	7.6	6.9	6.6	6.8	6.8	7.0
Social contributions [1)]	14.8	14.8	15.0	15.1	14.9	14.3	14.6	14.7	14.8	14.8
Taxes on production and imports [2)]	10.9	10.8	10.3	10.6	10.4	10.8	11.1	11.9	12.4	12.9
Capital taxes [3)]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.8	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Interest	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.3	0.2
Other property income	0.3	0.3	0.4	0.4	0.6	0.7	0.7	0.6	0.6	0.7
Sales [4)]	2.9	2.9	2.7	2.9	3.0	3.1	3.0	3.1	3.2	3.2
Other current transfers and subsidies	0.9	0.8	0.7	0.6	0.5	0.7	0.8	0.8	0.8	0.9
Investment grants	0.1	0.2	0.4	0.4	0.7	1.3	1.3	1.2	0.9	0.9
Other capital transfers	0.2	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1

Note: 1) Compulsory and voluntary payments of employers (on behalf of employees), employees, self-employed and self-payers to social security institutions and health insurance enterprises.
2) Compulsory payments, which are levied by general government, in respect of the production or import and/or usage of production factors (for example VAT, excises etc.).
3) Irregular taxes to the government on the values of the property, assets or net worth owned by institutional (e.g. inheritance tax, gift tax).
4) Consists of market output, output produced for own final use and payments for other non-market output.
Source: CZSO (2014b).

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Taxes and social contributions	**1054**	**1109**	**1182**	**1312**	**1322**	**1255**	**1281**	**1348**	**1376**	**1418**
Current taxes on income, wealth, etc.	**268**	**275**	**295**	**330**	**306**	**271**	**262**	**275**	**275**	**286**
individuals or households	136	137	138	156	141	136	131	143	144	151
corporations	129	135	154	171	162	132	127	129	127	132
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	2	3	3	3	3	3	3	3	3	3
Social security contributions	**453**	**482**	**525**	**577**	**599**	**560**	**578**	**592**	**600**	**606**
Actual contributions of employers	290	309	332	364	380	350	368	378	383	387
Imputed contributions of employers	0	0	0	0	0	1	1	1	1	1
Actual contributions of households	163	173	192	213	219	209	209	214	217	218
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**333**	**351**	**361**	**404**	**416**	**424**	**441**	**480**	**501**	**526**
Taxes on products [1)]	317	337	346	389	401	409	421	457	479	506
value added tax	205	215	214	232	260	259	263	277	286	304
Excises	101	113	123	145	128	140	148	171	176	183
Other taxes on products [2)]	12	9	10	12	12	10	10	10	17	19
Other taxes on production [3)]	16	14	15	16	16	15	19	23	22	20
Capital taxes	**1**	**1**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
% growth										
Taxes and social contributions	**10.2**	**5.2**	**6.6**	**11.0**	**0.8**	**-5.0**	**2.0**	**5.3**	**2.1**	**3.1**
Current taxes on income, wealth, etc.	**8.3**	**2.8**	**7.4**	**11.9**	**-7.4**	**-11.4**	**-3.4**	**5.0**	**0.0**	**4.1**
individuals or households	8.8	0.5	1.0	12.7	-9.7	-3.8	-3.1	8.7	1.0	4.5
corporations	8.2	4.9	13.9	11.4	-5.4	-18.3	-3.7	1.3	-1.2	3.8
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	-7.2	15.6	4.7	4.5	0.1	4.1	1.0	-3.6	7.0	-2.9
Social security contributions	**7.4**	**6.5**	**8.8**	**9.9**	**3.9**	**-6.6**	**3.2**	**2.5**	**1.3**	**1.1**
Actual contributions of employers	7.0	6.5	7.7	9.4	4.5	-7.9	5.1	2.7	1.4	1.3
Imputed contributions of employers	36.6	-1.5	2.0	-26.2	-4.7	190.5	-27.5	23.2	-14.5	3.5
Actual contributions of households	8.1	6.4	10.9	10.7	2.9	-4.6	0.3	2.2	1.2	0.7
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**16.1**	**5.4**	**2.9**	**12.0**	**3.0**	**1.9**	**3.9**	**9.0**	**4.3**	**4.9**
Taxes on products [1)]	16.5	6.1	2.9	12.2	3.1	2.0	3.0	8.5	4.8	5.6
value added tax	24.6	5.1	-0.6	8.7	12.1	-0.7	1.9	5.0	3.5	6.2
Excises	14.5	11.1	8.9	17.9	-11.1	9.1	5.6	15.4	2.9	4.2
Other taxes on products [2)]	-41.4	-20.6	11.7	17.7	-0.4	-14.6	-4.3	-1.3	75.9	10.5
Other taxes on production [3)]	7.8	-9.3	3.4	6.0	0.1	-2.5	26.8	21.0	-5.0	-10.2
Capital taxes	**-28.1**	**18.5**	**9.2**	**-42.4**	**-44.8**	**-8.2**	**-3.4**	**0.9**	**0.9**	**-16.5**

Note: 1) Taxes that are payable per unit of good or service produced or transacted.
2) This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.
3) All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).
Source: CZSO (2014b).

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

(in % of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Taxes and social contributions	**34.5**	**34.0**	**33.7**	**34.2**	**32.9**	**32.0**	**32.4**	**33.5**	**34.0**	**34.7**
Current taxes on income, wealth, etc.	**8.7**	**8.4**	**8.4**	**8.6**	**7.6**	**6.9**	**6.6**	**6.8**	**6.8**	**7.0**
individuals or households	4.5	4.2	3.9	4.1	3.5	3.5	3.3	3.5	3.6	3.7
corporations	4.2	4.1	4.4	4.5	4.0	3.4	3.2	3.2	3.1	3.2
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	**14.8**	**14.8**	**15.0**	**15.1**	**14.9**	**14.3**	**14.6**	**14.7**	**14.8**	**14.8**
Actual contributions of employers	9.5	9.5	9.5	9.5	9.5	8.9	9.3	9.4	9.5	9.5
Imputed contributions of employers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual contributions of households	5.3	5.3	5.5	5.5	5.4	5.3	5.3	5.3	5.4	5.3
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**10.9**	**10.8**	**10.3**	**10.6**	**10.4**	**10.8**	**11.1**	**11.9**	**12.4**	**12.9**
Taxes on products [1]	10.4	10.3	9.9	10.1	10.0	10.4	10.7	11.4	11.8	12.4
value added tax	6.7	6.6	6.1	6.1	6.5	6.6	6.7	6.9	7.1	7.4
excises	3.3	3.5	3.5	3.8	3.2	3.6	3.7	4.2	4.3	4.5
other taxes on products [2]	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.4	0.5
Other taxes on production [3]	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.5	0.5
Capital taxes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Note: 1) Taxes that are payable per unit of good or service produced or transacted.
2) This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.
3) All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).
Source: CZSO (2014b).

Table B.4: Central Government Revenue

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total revenue	**851**	**867**	**925**	**1033**	**1042**	**1001**	**1029**	**1088**	**1101**	**1128**
Current taxes on income, wealth, etc.	192	183	197	221	203	180	174	183	183	186
Social contributions	300	319	343	376	392	352	365	374	378	379
Taxes on production and imports	278	280	291	328	329	337	350	386	405	423
Capital taxes	1	1	1	0	0	0	0	0	0	0
Property income	17	16	21	22	26	29	30	28	27	30
Sales	39	41	44	53	56	56	59	66	69	68
Other revenue	25	26	28	31	35	49	51	51	39	42
% growth										
Total revenue	**0.1**	**1.8**	**6.7**	**11.7**	**0.9**	**-3.9**	**2.7**	**5.7**	**1.2**	**2.5**
Current taxes on income, wealth, etc.	8.6	-4.5	7.7	12.2	-8.2	-11.6	-3.0	5.0	0.0	1.4
Social contributions	8.3	6.2	7.5	9.8	4.3	-10.4	3.7	2.7	0.9	0.4
Taxes on production and imports	15.0	1.0	3.7	12.9	0.4	2.4	3.9	10.2	4.9	4.5
Capital taxes	-28.7	18.8	10.0	-42.6	-45.7	-10.4	-2.7	-2.3	3.8	-15.8
Property income	-12.0	-2.9	30.8	6.1	15.9	10.4	4.1	-6.9	-3.5	13.1
Sales	1.3	6.3	5.6	21.3	5.6	-0.8	5.5	12.3	5.1	-2.1
Other revenue	-73.9	3.9	8.0	10.4	11.1	39.2	5.0	-0.8	-22.4	7.4

Source: CZSO (2014b).

Table B.5: Local Government Revenue

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total revenue	**349**	**352**	**376**	**410**	**416**	**433**	**431**	**426**	**396**	**419**
Current taxes on income, wealth, etc.	76	92	98	109	103	91	87	92	92	101
Social contributions	0	0	0	0	0	0	0	0	0	0
Taxes on production and imports	56	71	71	77	87	87	90	94	96	102
Capital taxes	0	0	0	0	0	0	0	0	0	0
Property income	8	7	7	7	8	7	7	7	8	7
Sales	50	51	52	58	63	66	58	60	59	61
Other revenue	160	132	148	160	155	181	188	173	141	147
% growth										
Total revenue	**6.0**	**1.1**	**6.7**	**9.2**	**1.3**	**4.0**	**-0.5**	**-1.0**	**-7.1**	**5.7**
Current taxes on income, wealth, etc.	7.7	21.2	6.6	11.3	-5.8	-11.0	-4.2	4.9	0.0	9.5
Social contributions	20.0	21.7	61.6	-43.2	-79.1	2428.6	-20.6	36.7	2.3	-1.0
Taxes on production and imports	21.7	27.5	-0.2	8.3	13.8	0.0	3.7	4.4	1.9	6.5
Capital taxes	80.0	0.0	-55.6	0.0	50.0	83.3	-18.2	77.8	-37.5	-30.0
Property income	14.9	-14.4	4.7	6.1	6.4	-9.5	-4.5	-0.4	17.5	-4.3
Sales	0.9	2.4	1.8	10.0	9.8	4.4	-12.0	3.0	-1.8	4.1
Other revenue	1.9	-17.4	12.4	8.0	-3.1	16.5	3.8	-7.7	-18.5	3.9

Source: CZSO (2014b).

Table B.6: Social Security Funds Revenue

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total revenue	**159**	**170**	**185**	**203**	**211**	**211**	**216**	**221**	**225**	**230**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	153	163	182	200	207	208	213	218	222	227
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	0	0	0	1	1	1	1	0	1	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	6	6	2	2	2	2	2	3	2	2
% growth										
Total revenue	**8.8**	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**	**2.4**	**1.8**	**2.1**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	5.9	7.1	11.4	10.0	3.2	0.4	2.6	2.2	2.0	2.2
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	-8.6	22.1	30.0	75.3	111.3	-23.9	-46.2	-18.6	11.1	-47.3
Sales	40.0	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	20.2	-3.6	-9.8
Other revenue	258.1	-4.1	-59.8	3.2	3.5	-5.0	-14.5	29.2	-19.3	8.1

Source: CZSO (2014b).

Table B.7: General Government Expenditure

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total expenditure	**1289**	**1362**	**1431**	**1531**	**1613**	**1711**	**1699**	**1709**	**1773**	**1717**
Compensation of employees	222	238	253	269	280	293	286	280	286	294
Intermediate consumption	184	189	205	212	222	230	227	219	201	210
Social benefits other than in kind [1)]	359	374	407	456	475	509	517	527	533	544
Social benefits in kind	163	170	174	187	199	219	222	228	233	234
Property income	33	35	36	41	40	49	53	54	59	55
Interest	33	35	36	41	40	49	53	54	58	55
Other property income	0	0	0	0	0	0	0	0	0	0
Subsidies	59	55	61	62	64	76	79	99	100	109
Gross fixed capital formation	143	161	171	175	199	218	187	167	156	141
Capital transfers [2)]	83	89	68	70	60	56	56	53	123	41
Investment grants [3)]	37	36	38	37	36	34	33	37	35	22
Other capital transfers	46	53	30	33	24	22	23	16	89	19
Other expenditure	41	50	56	58	73	61	72	83	82	87
Final consumption expenditure	**634**	**665**	**700**	**732**	**766**	**812**	**810**	**792**	**783**	**802**
Collective consumption [4)]	308	335	357	370	388	404	402	383	372	386
Individual consumption	326	329	342	362	378	408	408	410	412	416
% growth										
Total expenditure	**-5.2**	**5.7**	**5.0**	**7.0**	**5.3**	**6.1**	**-0.7**	**0.6**	**3.8**	**-3.2**
Compensation of employees	3.7	7.1	6.1	6.4	4.1	4.7	-2.5	-2.1	2.3	2.6
Intermediate consumption	0.0	2.8	8.0	3.7	4.8	3.6	-1.5	-3.6	-8.1	4.6
Social benefits other than in kind [1)]	4.1	4.2	8.7	12.1	4.1	7.1	1.7	1.8	1.2	2.1
Social benefits in kind	6.7	4.0	2.1	7.8	6.1	10.3	1.5	2.3	2.4	0.5
Property income	12.1	7.4	3.4	13.0	-2.2	21.3	7.7	2.7	8.2	-5.4
Interest	12.1	7.4	3.4	13.0	-2.3	21.3	7.8	2.7	8.2	-5.5
Other property income	12.8	-3.8	41.2	9.7	26.6	11.0	-45.9	16.7	-47.1	178.4
Subsidies	-12.4	-7.3	11.6	1.6	2.8	18.9	3.7	25.6	0.4	9.7
Gross fixed capital formation	-29.7	12.5	6.1	2.4	13.9	9.2	-14.0	-11.0	-6.3	-9.8
Capital transfers [2)]	-36.8	6.8	-23.5	2.8	-14.2	-6.5	-0.7	-5.3	133.8	-66.6
Investment grants [3)]	1.1	-3.5	7.4	-3.4	-2.0	-5.7	-3.8	12.0	-5.4	-35.7
Other capital transfers	-51.3	14.9	-44.1	10.8	-27.9	-7.6	4.0	-30.2	454.7	-78.8
Final consumption expenditure	**3.7**	**4.8**	**5.3**	**4.6**	**4.6**	**6.0**	**-0.3**	**-2.2**	**-1.1**	**2.4**
Collective consumption [4)]	0.4	8.8	6.6	3.4	5.0	4.1	-0.5	-4.8	-2.8	3.8
Individual consumption	7.0	1.0	4.0	5.7	4.3	8.0	0.0	0.4	0.5	1.1

Note: 1) Social benefits, which should serve households to relieve their costs or losses stemming from existence or development of some risks or needs. Mainly benefits paid in case of old age, disability, sickness, motherhood, unemployment, work injury, work sickness, current social need etc.
2) Transactions of capital distribution, which have no influence either on beneficiary's ordinary income or these transaction's payer but on amount of their net property. Both in cash and in kind.
3) Capital transfers in cash or in kind made by governments to other institutional units to finance all or part of the costs of their gross fixed capital formation.
4) Value of all collective services provided to the whole society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development and economy.
Source: CZSO (2014b), MF CR.

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

(in % of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total expenditure	**42.1**	**41.8**	**40.8**	**40.0**	**40.2**	**43.6**	**43.0**	**42.5**	**43.8**	**42.0**
Compensation of employees	7.3	7.3	7.2	7.0	7.0	7.5	7.2	7.0	7.1	7.2
Intermediate consumption	6.0	5.8	5.8	5.5	5.5	5.9	5.7	5.4	5.0	5.1
Social benefits other than in kind	11.8	11.5	11.6	11.9	11.8	13.0	13.1	13.1	13.2	13.3
Social benefits in kind	5.3	5.2	4.9	4.9	4.9	5.6	5.6	5.7	5.8	5.7
Property income	1.1	1.1	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.4
Interest	1.1	1.1	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.4
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	1.9	1.7	1.8	1.6	1.6	1.9	2.0	2.5	2.5	2.7
Gross fixed capital formation	4.7	4.9	4.9	4.6	5.0	5.5	4.7	4.1	3.9	3.4
Capital transfers	2.7	2.7	1.9	1.8	1.5	1.4	1.4	1.3	3.0	1.0
Investment grants	1.2	1.1	1.1	1.0	0.9	0.9	0.8	0.9	0.9	0.5
Other capital transfers	1.5	1.6	0.9	0.9	0.6	0.6	0.6	0.4	2.2	0.5
Other expenditure	1.3	1.5	1.6	1.5	1.8	1.5	1.8	2.1	2.0	2.1
Final consumption expenditure	**20.7**	**20.4**	**20.0**	**19.1**	**19.1**	**20.7**	**20.5**	**19.7**	**19.4**	**19.6**
Collective consumption	10.1	10.3	10.2	9.6	9.7	10.3	10.2	9.5	9.2	9.4
Individual consumption	10.7	10.1	9.8	9.4	9.4	10.4	10.3	10.2	10.2	10.2

Source: CZSO (2014b), MF CR.

Table B.9: Central Government Expenditure

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total expenditure	**927**	**967**	**1006**	**1088**	**1132**	**1185**	**1179**	**1186**	**1255**	**1197**
Compensation of employees	111	121	128	137	143	150	147	139	144	148
Intermediate consumption	88	91	98	104	106	109	106	101	90	94
Social benefits other than in kind	347	363	394	437	453	485	491	501	530	540
Social benefits in kind	4	3	3	2	2	3	4	5	9	12
Interest	30	33	34	39	37	46	51	53	57	54
Subsidies	33	26	30	31	32	38	35	56	56	65
Gross fixed capital formation	79	103	98	106	116	117	98	81	81	70
Capital transfers	85	85	65	65	58	60	57	56	118	36
Other expenditure	150	142	155	167	186	178	191	195	172	178
% growth										
Total expenditure	**-8.3**	**4.2**	**4.1**	**8.2**	**4.0**	**4.7**	**-0.5**	**0.6**	**5.8**	**-4.7**
Compensation of employees	1.9	9.1	6.1	6.7	4.2	5.0	-2.3	-5.2	3.4	3.2
Intermediate consumption	0.0	3.7	7.3	6.7	1.5	2.6	-2.5	-4.7	-11.2	4.3
Social benefits other than in kind	4.2	4.4	8.7	10.8	3.7	7.0	1.4	2.0	5.6	2.0
Social benefits in kind	-12.5	-22.8	-7.2	-23.9	-18.2	36.6	53.3	20.0	83.4	37.2
Interest	10.9	10.7	3.0	12.7	-3.6	24.8	10.0	3.0	8.1	-4.9
Subsidies	-14.0	-22.2	17.5	3.4	1.1	20.7	-7.6	58.7	0.1	15.2
Gross fixed capital formation	-46.5	30.4	-4.9	8.3	9.8	1.2	-16.8	-17.1	-0.2	-13.7
Capital transfers	-32.5	-0.3	-22.8	-0.2	-11.6	3.8	-5.7	-0.7	110.9	-69.2
Other expenditure	9.0	-5.1	9.0	7.9	11.0	-4.3	7.3	2.1	-11.8	3.4

Source: CZSO (2014b).

Table B.10: Local Government Expenditure

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total expenditure	**353**	**354**	**385**	**397**	**421**	**454**	**446**	**436**	**397**	**404**
Compensation of employees	109	114	121	129	133	139	135	137	139	142
Intermediate consumption	95	96	105	106	114	119	118	115	109	115
Social benefits other than in kind	12	12	13	20	22	24	26	26	4	4
Social benefits in kind	3	3	3	3	3	3	2	3	0	-
Interest	3	2	2	3	3	2	2	2	2	1
Subsidies	26	29	31	31	33	38	44	43	44	45
Gross fixed capital formation	64	58	73	69	83	99	89	85	75	71
Capital transfers	33	28	26	28	20	16	17	12	14	12
Other expenditure	10	12	11	10	10	13	13	14	11	15
% growth										
Total expenditure	**2.9**	**0.3**	**9.0**	**3.2**	**5.9**	**8.0**	**-1.8**	**-2.3**	**-9.0**	**2.0**
Compensation of employees	5.7	5.1	6.1	6.1	3.8	4.3	-2.7	1.3	1.3	2.0
Intermediate consumption	0.0	1.9	9.1	0.7	7.6	4.1	-0.9	-2.1	-5.6	5.3
Social benefits other than in kind	0.6	0.0	7.5	53.6	13.2	9.4	7.5	-1.7	-85.9	18.7
Social benefits in kind	4.5	2.4	8.9	19.0	-11.3	0.2	-16.4	11.1	-99.0	-
Interest	28.3	-26.5	8.2	15.8	17.7	-21.8	-33.2	-5.8	14.7	-23.4
Subsidies	-10.2	11.6	6.3	-0.1	4.4	17.1	14.9	-1.1	0.9	2.7
Gross fixed capital formation	14.4	-9.6	26.5	-5.3	19.8	20.2	-10.6	-4.2	-11.8	-5.2
Capital transfers	-1.0	-14.2	-5.8	5.0	-27.5	-17.9	6.1	-31.6	16.9	-16.5
Other expenditure	-12.0	19.8	-7.2	-9.5	1.9	32.4	0.9	2.3	-19.2	37.8

Source: CZSO (2014b).

Table B.11: Social Security Fund Expenditure

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
Total expenditure	**162**	**170**	**173**	**187**	**201**	**222**	**224**	**228**	**232**	**229**
Compensation of employees	3	3	3	3	4	4	4	4	4	4
Intermediate consumption	2	2	2	2	2	3	3	3	3	2
Social benefits other than in kind	-	0	0	-	0	0	0	0	0	0
Social benefits in kind	156	164	168	181	194	213	216	220	224	222
Interest	0	0	-	0	0	0	-	0	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	1	0	0	1	1	1	1	1	0
Capital transfers	0	-	-	-	-	-	0	-	-	-
Other expenditure	0	0	0	0	0	0	0	1	1	1
% growth										
Total expenditure	**7.2**	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**	**1.5**	**1.7**	**-1.3**
Compensation of employees	2.7	5.7	5.3	6.5	12.0	9.6	-0.2	-2.3	-3.3	-0.3
Intermediate consumption	1.4	8.0	-13.3	10.5	22.2	26.1	10.0	-21.5	2.4	-16.7
Social benefits other than in kind	-	-	100.0	-	-	600.0	0.0	-28.6	-20.0	12.5
Social benefits in kind	7.4	4.8	2.2	8.3	6.8	10.2	1.1	1.9	1.8	-0.9
Interest	-25.0	-66.7	-	-	-50.0	0.0	-	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	11.1	19.1	-41.7	-0.4	64.4	48.4	-15.7	-14.1	-23.7	-59.6
Capital transfers	74.3	-	-	-	-	-	-	-	-	-
Other expenditure	-35.4	571.4	27.7	23.9	-15.5	7.7	14.0	26.1	12.3	-0.8

Source: CZSO (2014b).

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
General government	**-83**	**-101**	**-79**	**-27**	**-85**	**-216**	**-175**	**-115**	**-162**	**-53**
Central government	-76	-100	-81	-56	-90	-184	-150	-98	-154	-68
Local governments	-4	-1	-9	13	-5	-22	-16	-10	-1	14
Social security funds	-3	0	12	16	10	-11	-9	-7	-7	1
% of GDP										
General government	**-2.7**	**-3.1**	**-2.3**	**-0.7**	**-2.1**	**-5.5**	**-4.4**	**-2.9**	**-4.0**	**-1.3**
Central government	-2.5	-3.1	-2.3	-1.4	-2.2	-4.7	-3.8	-2.4	-3.8	-1.7
Local governments	-0.1	0.0	-0.3	0.3	-0.1	-0.6	-0.4	-0.2	0.0	0.3
Social security funds	-0.1	0.0	0.3	0.4	0.2	-0.3	-0.2	-0.2	-0.2	0.0

Source: CZSO (2014b).

Table B.13: General Government Debt by Instruments

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZK bn										
General government debt	**870**	**913**	**979**	**1066**	**1151**	**1336**	**1509**	**1648**	**1842**	**1869**
Currency and deposits	7	4	3	5	6	5	6	7	4	2
Securities other than shares	651	723	816	908	990	1155	1322	1457	1653	1681
Loans	212	186	160	152	155	176	181	184	186	186
Central government debt	**807**	**841**	**898**	**981**	**1063**	**1241**	**1413**	**1548**	**1735**	**1760**
Currency and deposits	7	4	3	5	6	5	6	7	4	2
Securities other than shares	628	698	791	883	966	1139	1307	1442	1640	1669
Loans	172	139	104	93	92	98	100	99	91	89
Local government debt	**71**	**78**	**86**	**88**	**91**	**97**	**98**	**101**	**110**	**114**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	24	26	25	26	26	17	17	15	15	16
Loans	47	53	61	62	65	80	81	86	95	98
Social security funds debt	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	0	0	0	2
% growth										
General government debt	**10.3**	**4.9**	**7.2**	**8.9**	**8.0**	**16.1**	**12.9**	**9.2**	**11.8**	**1.5**
Currency and deposits	23.9	-41.5	-18.9	59.6	7.8	-17.4	27.0	25.7	-53.1	-30.3
Securities other than shares	19.2	11.1	12.8	11.4	9.1	16.6	14.4	10.2	13.5	1.7
Loans	-10.3	-12.5	-13.8	-5.1	1.7	13.7	2.8	1.7	1.1	0.0
Central government debt	**8.9**	**4.3**	**6.8**	**9.3**	**8.3**	**16.8**	**13.8**	**9.6**	**12.1**	**1.4**
Currency and deposits	23.9	-41.5	-18.9	59.6	7.8	-17.4	27.0	25.7	-53.1	-30.3
Securities other than shares	17.3	11.2	13.3	11.7	9.4	18.0	14.7	10.4	13.7	1.7
Loans	-14.1	-19.3	-25.2	-10.5	-1.5	6.4	2.9	-1.9	-7.4	-2.5
Local government debt	**23.6**	**10.7**	**10.3**	**1.9**	**3.2**	**6.6**	**1.4**	**2.8**	**9.6**	**3.4**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	94.2	7.8	-1.1	1.8	-0.4	-33.3	-0.6	-11.5	2.4	5.0
Loans	4.4	12.2	15.9	1.9	4.8	22.3	1.9	5.8	10.8	3.1
Social security funds debt	**-25.7**	**17.5**	**-30.5**	**-69.1**	**62.7**	**-44.8**	**-26.4**	**415.4**	**-9.0**	**928.4**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-25.7	17.5	-30.5	-69.1	62.7	-44.8	-26.4	415.4	-9.0	928.4

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. The debt is expressed in the nominal value, which is considered equivalent to the face value. Government debt is consolidated, i.e. the debt in holding of other subjects of a subsector resp. the government sector is omitted.
Source: CZSO (2014b).

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

(in % of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government debt	**28.5**	**28.0**	**27.9**	**27.8**	**28.7**	**34.1**	**38.2**	**41.0**	**45.5**	**45.7**
Currency and deposits	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Securities other than shares	21.3	22.2	23.3	23.7	24.7	29.5	33.4	36.2	40.8	41.1
Loans	6.9	5.7	4.6	4.0	3.8	4.5	4.6	4.6	4.6	4.5
Central government debt	**26.4**	**25.8**	**25.6**	**25.6**	**26.5**	**31.7**	**35.7**	**38.5**	**42.9**	**43.1**
Currency and deposits	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Securities other than shares	20.5	21.4	22.5	23.0	24.1	29.0	33.0	35.9	40.5	40.8
Loans	5.6	4.3	3.0	2.4	2.3	2.5	2.5	2.4	2.3	2.2
Local government debt	**2.3**	**2.4**	**2.5**	**2.3**	**2.3**	**2.5**	**2.5**	**2.5**	**2.7**	**2.8**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.8	0.8	0.7	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Loans	1.5	1.6	1.7	1.6	1.6	2.0	2.1	2.1	2.3	2.4
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. The debt is expressed in the nominal value, which is considered equivalent to the face value. Government debt is consolidated, i.e. the debt in holding of other subjects of a subsector resp. the government sector is omitted.

Source: CZSO (2014b).

Table B.15: General Government Balance and Debt of EU Countries (2010–2014)
(in % of GDP)

	Balance					Debt				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
EU28 [1, 2]	-6.3	-4.5	-4.1	-3.2	-3.0	78.4	81.2	84.9	87.0	87.8
EA18 [3]	-6.1	-4.1	-3.6	-2.9	-2.6	83.9	86.5	91.0	93.3	94.2
Austria	-4.5	-2.6	-2.3	-1.5	-2.8	82.4	82.1	81.7	81.2	86.5
Belgium	-4.0	-3.9	-4.1	-2.9	-2.9	99.6	102.1	104.0	104.5	105.6
Bulgaria	-3.2	-2.0	-0.5	-1.2	-3.6	15.9	15.7	18.0	18.3	27.5
Croatia	-6.0	-7.7	-5.6	-5.2	-5.8	52.8	59.9	64.4	75.7	81.8
Cyprus	-4.8	-5.8	-5.8	-4.9	-3.6	56.5	66.0	79.5	102.2	103.2
Czech Republic	-4.4	-2.9	-4.0	-1.3	-1.5	38.2	41.0	45.5	45.7	43.8
Denmark	-2.7	-2.1	-3.9	-0.7	-1.2	42.9	46.4	45.6	45.0	44.6
Estonia	0.2	1.0	-0.3	-0.5	-0.2	6.5	6.0	9.7	10.1	9.8
Finland	-2.6	-1.0	-2.1	-2.4	-2.7	47.1	48.5	53.0	56.0	59.6
France	-6.8	-5.1	-4.9	-4.1	-4.4	81.5	85.0	89.2	92.2	95.3
Germany	-4.1	-0.9	0.1	0.1	0.2	80.3	77.6	79.0	76.9	73.8
Greece	-11.1	-10.1	-8.6	-12.2	-0.9	146.0	171.3	156.9	174.9	174.3
Hungary	-4.5	-5.5	-2.3	-2.4	-2.9	80.9	81.0	78.5	77.3	76.9
Ireland	-32.4	-12.6	-8.0	-5.7	-3.7	87.4	111.1	121.7	123.3	110.5
Italy	-4.2	-3.5	-3.0	-2.8	-3.0	115.3	116.4	122.2	127.9	131.6
Latvia	-8.2	-3.4	-0.8	-0.9	-0.9	46.8	42.7	40.9	38.2	38.8
Lithuania	-6.9	-9.0	-3.2	-2.6	-1.3	36.3	37.3	39.9	39.0	41.4
Luxembourg	-0.6	0.3	0.1	0.6	0.2	19.6	18.5	21.4	23.6	24.1
Malta	-3.3	-2.6	-3.7	-2.7	-2.1	67.6	69.8	67.9	69.8	70.1
Netherlands	-5.0	-4.3	-4.0	-2.3	-2.9	59.0	61.3	66.5	68.6	69.8
Poland	-7.6	-4.9	-3.7	-4.0	-3.3	53.6	54.8	54.4	55.7	48.7
Portugal	-11.2	-7.4	-5.5	-4.9	-4.8	96.2	111.1	124.8	128.0	127.8
Romania	-6.6	-5.5	-3.0	-2.2	-2.1	29.9	34.2	37.3	37.9	39.5
Slovakia	-7.5	-4.1	-4.2	-2.6	-2.9	41.1	43.5	52.1	54.6	54.9
Slovenia	-5.7	-6.2	-3.7	-14.6	-4.5	37.9	46.2	53.4	70.4	82.2
Spain	-9.4	-9.4	-10.3	-6.8	-5.5	60.1	69.2	84.4	92.1	97.6
Sweden	0.0	-0.1	-0.9	-1.3	-2.2	36.7	36.1	36.4	38.6	40.2
United Kingdom [2]	-9.1	-7.6	-7.6	-5.9	-5.0	76.9	82.7	85.4	87.8	89.1

Note: 1) Non-consolidated debt.
2) For UK the data stand for fiscal year (1 April of year t to 31 March of year t+1) relevant for implementation of the excessive deficit procedure.
3) 18 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Source: Eurostat (2014b).

Table B.16: Transactions of General Government of EU Countries in 2013
(in % of GDP)

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Collective consumption	Individual consumption	Investments[1]	Interest expenditure
EU28	45.3	48.5	10.4	16.5	7.9	13.1	2.9	2.7
EA18 [2]	46.5	49.4	10.4	17.3	8.0	13.1	2.8	2.8
Austria	49.5	50.9	10.6	19.2	7.5	12.3	2.9	2.6
Belgium	51.5	54.4	12.5	17.2	9.2	15.2	2.2	3.2
Bulgaria	37.1	38.3	9.6	12.1	8.4	8.1	4.1	0.8
Croatia	41.8	47.0	12.0	13.5	9.9	10.1	3.3	3.4
Cyprus	36.5	41.4	14.2	13.8	9.8	7.9	2.0	3.1
Czech Republic	40.7	42.0	7.2	13.3	9.4	10.2	3.4	1.4
Denmark	55.9	56.7	16.8	17.8	7.9	18.9	3.5	1.7
Estonia	38.4	38.9	10.7	10.7	8.8	10.3	5.5	0.1
Finland	55.4	57.8	14.5	19.1	8.2	16.7	4.2	1.3
France	53.0	57.1	12.9	19.9	8.6	15.5	4.0	2.3
Germany	44.5	44.3	7.7	15.7	6.9	12.4	2.2	2.0
Greece	47.0	59.2	11.9	18.5	10.4	9.5	2.7	4.0
Hungary	47.3	49.7	10.1	14.9	9.9	9.9	4.4	4.6
Ireland	34.8	40.5	10.7	13.7	5.5	12.0	1.7	4.4
Italy	47.7	50.5	10.2	19.7	8.1	11.3	2.4	4.8
Latvia	34.8	35.7	9.2	9.6	8.8	7.5	4.0	1.5
Lithuania	32.8	35.5	9.5	11.2	7.3	9.6	3.7	1.8
Luxembourg	44.5	43.8	8.4	16.0	6.3	10.9	3.5	0.4
Malta	39.8	42.5	13.0	12.3	9.2	10.6	2.8	2.9
Netherlands	44.5	46.8	9.2	11.9	8.7	17.6	3.6	1.5
Poland	38.2	42.2	10.3	14.3	7.9	10.2	4.1	2.5
Portugal	45.2	50.1	12.4	18.4	8.5	10.4	2.2	5.0
Romania	32.8	35.1	8.0	10.6	7.1	7.1	4.6	1.7
Slovakia	38.4	41.0	8.5	14.0	9.1	9.0	3.0	1.9
Slovenia	45.2	59.7	12.5	17.1	8.6	11.7	4.3	2.5
Spain	37.5	44.3	10.9	16.3	8.5	10.9	2.1	3.3
Sweden	51.9	53.2	12.6	14.3	7.4	18.8	4.5	0.8
United Kingdom	39.5	45.3	9.8	14.5	7.7	12.6	2.7	2.9

Note: 1) Gross fixed capital formation.
2) 18 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Source: Eurostat (2014a).

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

List of Thematic Chapters of Previous Fiscal Outlooks of the CR

Published	Topic
April 2007	Fiscal Rules
October 2007	Selected Aspects of the State Guarantees System in the Czech Republic from 1993 to 2006
May 2008	Flat Tax in Practice
October 2008	Fiscal Impacts of the EU Funds Inflows
May 2009	The Concept of Tax Accrual and the Methods for its Calculation in the Czech Republic
October 2009	Long-term Fiscal Projections
October 2010	Selected Principles of Public–Private Partnership and its Impacts on General Government Operations
November 2011	Causes of the European Debt Crisis and its Consequences for Czech Public Finances
November 2012	Pension Reform – Introducing an Opt-Out
November 2013	Excessive Deficit Procedure in EU Member States
November 2014	Long-term Pension Projections

List of Thematic Boxes of Previous Fiscal Outlooks of the CR

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

May 2013	Box 1: Satellite Account of Public Sector Box 2: The Seventh Enlargement of the European Union – Croatia
November 2013	Box 1: Government Sector Investment in 2009–2012 Box 2: EU Funds and their Uptake Box 3: Floods in 2013
May 2014	Box 1: Drawing of EU Structural Funds in the 2007–2013 Programming Period Box 2: Financial Resources from the 2014–2020 Programming Period
November 2014	Box 1: Basic Changes in General Government Sector Statistics in relation with Transition to ESA 2010 Methodology Box 2: Changes in General Government Sector Statistics in the System of National Accounts Box 3: Planned Measures against Tax Evasion Box 4: Impact of New Estimates of Elasticities of Cyclically Sensitive Revenue and Expenditure on the Cyclical Component of Balance

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ISSN 1804-7998