Ministry of Finance
Department for Financial Policy

Fiscal Outlook

of the Czech Republic

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The Fiscal Outlook of the Czech Republic 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 2016) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2018). The Outlook is available on internet pages of MF CR at:

http://www.mfcr.cz/FiscalOutlook

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

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

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List of Abbreviations

bn ..... billion
c.p. ..... current prices
CNB ..... Czech National Bank
CR ..... Czech Republic
CZK ..... Czech koruna currency code
CZSO ..... Czech Statistical Office
EC ..... European Commission
ECB ..... European Central Bank
ESA 2010 ..... European System of National and Regional Accounts from year 2010
EU, EU28 ..... European Union (EU28 coverage)
EUR ..... euro currency code
GDP ..... gross domestic product
GFS 2001 ..... Government Finance Statistics methodology from year 2001
GOS ..... gross operating surplus
MF CR ..... Ministry of Finance of the Czech Republic
QoQ ..... quarter-on-quarter
p.a. ..... *per annum* (per year)
pp ..... percentage point
s.p. ..... constant prices (volumes)
YoY ..... year-on-year

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 12 October 2015 release, fiscal data to the 13 November 2015 release, government bond yields to the 11 November 2015 release and data for international comparison to the 21 October 2015 and 5 November 2015 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 year 2015 brought several exceptional events in the sphere of fiscal policy, in particular in the sphere of investment activity and government bond yields. The amount of investment in the general government sector has been the highest at least since 1995. In addition, even when taking the leasing of the JAS-39 Gripen aircrafts into account, the investment value exceeds the highest pre-crisis level by more than CZK 10 billion. It has been considerably supported by the quicker utilisation of European funds.

The second phenomenon is the record-breaking low government bond yields. On 28 August 2015, medium-term bonds with negative yields (−0.001%) in the value of nearly CZK 4.2 billion were sold on the primary market for the first time in the history of the CR. Due to this success, other bonds were issued, this time with a maturity period in 2017 and with zero coupon. In their sale on 11 September 2015, a yield of −0.212% with a volume of CZK 16.6 billion was achieved, and also in the following tranche on 14 October 2015 bonds with a yield of −0.323% in the volume of CZK 9.2 billion were issued. Last but not least, in the auction on 11 November 2015 medium- and long-term government bonds were placed in the total nominal value of CZK 11.0 billion with an average yield of –0.332% p.a. Treasury bills have been traded continually with negative interest rate on the primary market since September 2015. On the secondary market, the average monthly rates of medium-term bonds with a maturity of 2 years became negative figures in April 2015, and since August 2015 they have been maintained as negative (in October 2015, it was −0.28%). In October 2015, a negative average monthly rate was also recorded on the secondary market for bonds with a residual maturity of 5 years (−0.05%).

From the perspective of the future development of fiscal policy, the topic being currently discussed is the amount of the state budget deficit in 2016. Already during its discussions on the Convergence Programme, the coalition agreed upon the deficit of CZK 70 billion (the Government Resolution No. 319/2015) which has been maintained. When taking account of the economic growth in 2015, the amount of the state budget deficit proposed in 2015 is considered to be less ambitious. This objection is not quite justifiable. From the perspective of the macroeconomic development, the year 2015 surprised considerably (we expect real economic growth of 4.5%), nevertheless it is necessary to understand it as exceptional due to several key factors. It mainly includes a fiscal impulse driven by massive investments co-financed from the programming period 2007–2013, and further low price of crude oil. In the years to come, we expect the GDP growth to slow gradually to 2.7% and 2.4%. The directly proportional impact of real GDP growth on the growth of tax revenues is relevant only in the event of zero price growth, an unchanging income structure and GDP utilisation structure, not to mention the stability of tax rates or legislative bases for tax payment. Therefore, real GDP growth is only a rather indicative indicator for an increase in tax revenues. Instead of that, the nominal development of macroeconomic bases of individual taxes is more appropriate, in particular household consumption and wage bill development. In the course of 2015, the estimates of these quantities were changing much less in the MF CR forecasts for 2015 and 2016 than GDP real growth. Rising estimates of real growth in 2015 are at the expense of strong investment activity, which is not, however, primarily tax effective.

For the whole general government sector, the CR received a recommendation from the EU to ensure fiscal effort (i.e. a change in the structural balance) of 0.5% of GDP in 2016. According to current calculations, the consolidation in this amount would require additional savings of approx. CZK 10 billion, which is not achievable due to current problems (in particular risks coming from the external environment, including the migration crisis). On the other hand, the government is trying in its strategy, in particular due to measures aimed at better tax collection, to pursue an anti-cyclical fiscal policy, and from 2016 structural balance should decrease in each year of the outlook.

The submitted Fiscal Outlook is based on the Macroeconomic Forecast of October 2015 of the Ministry of Finance (MF CR, 2015c) and the draft state budget and state funds budgets for 2016, including the draft medium-term outlook until 2018. The budgetary documents reflect the coalition cabinet programme, 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 2016, we estimate the total balance of the general government sector to be −1.2% of GDP and this indicator should gradually be improving with economic growth and decreasing structural balance.

The current Fiscal Outlook traditionally includes a thematic chapter. This edition includes two thematic chapters. The first of them deals with the MF CR approach to the calculation of the impact of fiscal policy on real economy, the so-called fiscal impulse. The calculation of fiscal impulse as the MF CR original approach is focused on using the so-called input approach, the issues of multipliers and quantified impact on the GDP itself are addressed using studies calculating the size of fiscal policy multipliers for the CR. The second thematic group describes the current version of government bills on budgetary responsibility. Thereby we are mainly accommodating the demand of the professional public often requiring this information. However, it is necessary to emphasise that its current form can be, of course, changed after it is discussed in Parliament. The Fiscal Outlook traditionally, includes a large table appendix, freely downloadable in the full numerical series on the website of the MF CR (www.mfcr.cz/FiscalOutlook).

1 Economic Development and Fiscal Policy

1.1 Macroeconomic Development

After extraordinarily strong growth in the first quarter of 2015 which was, however, partly due to one-off factors, QoQ growth of real GDP in the second quarter of 2015 slowed to 1.1%. Real gross value added, which unlike GPD does not include the balance of taxes and subsidies for products, increased by 0.9% compared to the first quarter of 2015. Dynamic growth of the Czech economy continued.

We expect real GDP to increase by 4.5% for the whole of 2015.[1] However, many of the causes of the robust growth of the Czech economy can be identified as one-off factors, the effect of which is limited only to this year. It mainly concerns the co-financing of projects from EU funds from the programming period 2007–2013, fiscal stimulation (partially related to the EU funds), positive supply shock in the form of a YoY decline in CZK crude oil prices and, last but not least, also the statistic effect of extraordinarily strong growth in the first quarter of 2015. After these factors disappear, economic growth could slow to 2.7% in 2016, and we expect GDP to grow by 2.4% in 2017 and 2018.

In the horizon of the forecast, the principal driver of growth should be domestic demand, both consumption and investment. We expect that the foreign trade balance in constant prices will slightly mitigate GDP growth in 2015, while its contribution should be slightly positive in the following years. The growth of the economies of the main trading partners is compensated by increased imports given by the growth of domestic demand and the high import demands of Czech exports.

The growth of real household consumption by 2.9% in 2015 will be supported by very low inflation, in the following years household consumption growth could slow to 2.5% in 2016 and 2.3% in 2017–2018. In the whole horizon of the forecast and the outlook, the improvement in the labour market situation and growth of the wage bill will favourably affect an increase in the final household consumption expenditure.

Investment activity will be positively influenced by the growth of gross operating surplus and domestic demand dynamics. In 2015, efforts towards the maximal utilisation of funds from the last financial perspective should also contribute to investment growth, and the one-off effect of the lease of the JAS-39 Gripen aircraft will also manifest itself (however, it will not impact GDP as this transaction will also increase imports). Gross fixed capital formation could increase by 8.2% in 2015 and its growth is expected to slow to 2.9% in 2016, partially due to the probably gradual introduction of new projects from EU funds under the financial perspective 2014–2020. In the years of the outlook, the growth of gross fixed capital formation could slightly exceed 3%.

As in 2014, the average inflation rate should reach only 0.4%. The main anti-inflationary factor is a positive supply shock in the form of a considerable YoY decrease in the crude oil price. However, decreasing prices of producers in the euro zone and the reduction in labour unit costs also have an anti-inflationary effect. In the opposite direction, demand pressures are starting to manifest themselves due to dynamic GDP growth and the probably already closed output gap. The CZK/USD exchange rate also has a pro-inflationary effect. After the aforementioned positive supply shock disappears, inflation should accelerate in 2016. The main factors influencing inflation should have either a neutral (exchange rate) or a pro-inflationary (growing demand in connection with an increasing positive output gap, growth of crude oil prices and labour unit costs) effect. The average inflation rate should reach 1.1%. In the years of the outlook, the inflation rate should already range close to the CNB's inflation target.

In connection with expected economic growth, the labour market situation should also improve. This year, the average unemployment rate could decrease from 6.1% in 2014 to 5.2% in 2015. In the following years its decrease should be gradual as it will collide with structural restrictions – with the decreasing unemployment rate we can expect increasing frictions in the form of a discrepancy between labour supply and demand, and the unemployment rate could be 4.7% in 2018. The employment could increase by 1.3% in 2015, but it should grow at a considerably slower pace in 2016–2018. The growth of the wage bill should slightly exceed 4% in the whole horizon of the forecast and the outlook, not only thanks to the expected improvement in the private sector situation, but also due to the growth of salaries in the general government sector.

[1] According to CZSO estimate from 27 November the real GDP increased in the third quarter 2015 by 4.5% on YoY basis and by 0.5% on QoQ basis. Keeping the forecast of QoQ GDP growth by 0.6% for the fourth quarter, the GDP growth for the whole of 2015 remains 4.5% as published in October Macroeconomic Forecast of MF CR.

The current account balance could show a slight surplus in 2015 and 2016. In addition to the expected improvement in the performance of the economies of our main trade partners, the high surplus of the balance of goods and services will be supported by low crude oil prices. However, the continuing deepening of the deficit of the primary income balance will have the opposite impact on the current account balance. This factor is also behind the expected transition of the current account balance into a slight deficit (0.2–0.3% of GDP) in the years of the outlook.

We consider the forecast risks to be tilted to the downside, especially due to risks in the external environment of the Czech economy. This mainly concerns uncertainties related to the slowing of the Chinese economy, the timing of the increase in monetary policy rates in the USA and the further development in the case regarding manipulations with measuring emissions in diesel engines in the cars of the Volkswagen concern. However, for the time being, we do not consider the macroeconomic impact of the last factor to be too significant. The instability and escalation of conflicts in the Middle East and Northern Africa caused a deep migration crisis, the economic impact of which, however, cannot be estimated yet. However, with regard to the low number of applicants for asylum in the CR, the direct impacts on the Czech economy should be negligible.

Table 1.1: Main Macroeconomic Indicators (2014–2018)

		2014	2015	2016	2017	2018	2015	2016	2017	2018
		Actual	Current Forecast and Outlook				May 2015 Fiscal Outlook			
Gross domestic product	*bn CZK, c.p.*	**4261**	**4482**	**4642**	**4820**	**5014**	4467	4644	4816	5002
	% growth, s.p.	**2.0**	**4.5**	**2.7**	**2.4**	**2.4**	2.7	2.5	2.3	2.3
Private consumption	*% growth, s.p.*	**1.5**	**2.9**	**2.5**	**2.3**	**2.3**	2.8	2.3	2.2	2.1
Government consumption	*% growth, s.p.*	**1.8**	**2.2**	**2.0**	**1.5**	**1.3**	1.7	1.6	1.5	1.3
Gross fixed capital formation	*% growth, s.p.*	**2.0**	**8.2**	**2.9**	**3.4**	**3.2**	5.3	4.2	3.2	3.2
Contr. of net exports to GDP growth	*p.p., s.p.*	**-0.2**	**-0.2**	**0.3**	**0.2**	**0.2**	-0.3	0.0	0.1	0.1
GDP deflator	*% growth*	**2.5**	**0.7**	**0.9**	**1.4**	**1.6**	1.9	1.4	1.4	1.5
Inflation	*in %*	**0.4**	**0.4**	**1.1**	**1.9**	**1.9**	0.3	1.5	1.8	1.9
Employment	*% growth*	**0.8**	**1.3**	**0.3**	**0.1**	**0.1**	0.7	0.2	0.1	0.1
Unemployment rate	*average in %*	**6.1**	**5.2**	**4.9**	**4.8**	**4.7**	5.7	5.5	5.4	5.3
Wages and salaries	*% growth, c.p.*	**1.9**	**4.2**	**4.3**	**4.3**	**4.3**	4.0	4.1	4.1	4.1
Current account balance	*in % of GDP*	**0.6**	**0.7**	**0.2**	**-0.2**	**-0.3**	1.3	0.9	0.4	0.0
Assumptions:										
Exchange rate CZK/EUR		**27.5**	**27.3**	**27.1**	**26.8**	**26.2**	27.5	27.5	27.2	26.8
Long-term interest rates	*% p.a.*	**1.6**	**0.7**	**1.2**	**1.5**	**1.8**	0.6	0.8	1.2	1.8
Crude oil Brent	*USD/barrel*	**99.0**	**54.3**	**58.8**	**67.5**	**72.3**	60.2	68.3	73.5	77.3
GDP in Eurozone EA12	*% growth, s.p.*	**0.8**	**1.4**	**1.6**	**2.0**	**2.1**	1.4	1.8	1.9	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.
Source: MF CR (2015a, 2015c).

1.2 Fiscal Policy Objectives

Based on the results of the October Government Deficit and Debt Notification (Eurostat, 2015b), the general government deficit should reach 1.9% of GDP in 2015. Even if it is the same result as in 2014, we estimate that due to the changing cyclical component the structural balance will deteriorate from −1.1% of GDP in 2014 to −1.9% of GDP in 2015. In the following years, especially measures in fighting tax evasion should take effect and should gradually ensure a return basically to the medium-term budgetary objective, in the CR corresponding to the structural balance of −1% of GDP. This confirms the change in the fiscal policy stance declared by the government and the temporary interruption of fiscal restriction in the interest of economic recovery support. Fiscal effort should be positive from 2016 and its cumulative amount should reach 0.8 pp until 2018 (see Table 1.2).

In the following years of 2016 to 2018, we forecast deficits of 1.2% of GDP in 2016, 0.8% of GDP in 2017 and 0.5% of GDP in 2018. We expect decreases in deficits in these years both due to the improving macroeconomic situation and a positive contribution of the cyclical component of the balance as well as thanks to positive fiscal effort.

Table 1.2: Fiscal Policy Stance (2012–2018)

(in % of GDP, change in structural balance in percentage points)

	2012	2013	2014	2015	2016	2017	2018
General government balance	**-4.0**	**-1.3**	**-1.9**	**-1.9**	**-1.2**	**-0.8**	**-0.5**
Cyclical component	-0.8	-1.3	-0.6	0.3	0.5	0.5	0.6
One-off and other temporary measures	-2.0	0.0	-0.3	-0.3	-0.1	0.0	0.0
Structural balance	-1.2	0.0	-1.1	-1.9	-1.6	-1.3	-1.1
Fiscal effort (Change in structural balance)	**1.2**	**1.2**	**-1.1**	**-0.8**	**0.3**	**0.3**	**0.2**
Cyclical component according to ECB method	-0.5	-0.9	-0.6	0.0	0.2	0.4	0.5
Structural balance according to ECB method	-1.4	-0.4	-1.1	-1.6	-1.4	-1.1	-1.0
Fiscal effort according to ECB method	**1.1**	**1.0**	**-0.7**	**-0.5**	**0.2**	**0.2**	**0.1**

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 ECB method uses the cyclical development of cyclically-dependent macroeconomic bases for revenues and expenditures (compensation of employees in the private sector, salary and remuneration for work in the private sector, net operating surplus, consumption of households and unemployment).

Source: CZSO (2015a, 2015b). 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 MF CR has prepared a set of measures that will reduce possibilities of fiscal evasion considerably and will thus contribute to increasing tax revenues while keeping the same (statutory) tax burden. The electronic VAT reporting is going to come into force from January 2016 and the fiscalisation of cash payments in the second half of 2016. Moreover, the specialised unit Kobra is successful in combating tax evasion. The focus of the active policy of the government is on the revenue side of government finances. A more detailed view of the forecast development of general government revenues and expenditure is provided in Chapter 3.

2 Short-term Development of General Government Sector Finances

2.1 General Government Sector Development in 2014

According to the current data from the CZSO, the general government deficit was 1.9% of GDP in 2014, in comparison with 2013 the deficit was higher by 0.7 pp. The resulting balance was strongly influenced by the balances of financial institutions within the general government sector (e.g. in 2014 the Deposit Insurance Fund disbursed CZK 14.7 billion in compensation to the clients of bankrupt cooperative savings banks), by a one-off accrual drop in excise duties and due to the kick-starting investment activity. In comparison with MF CR (2015a), the result of the general government balance is 0.1 pp better in 2014.

The total growth of revenues was 2.6% in 2014, thus reaching 40.6% of GDP. Tax revenues and social security contributions increased by 2.3%. The total tax burden decreased by 0.7 pp YoY to 34.1% of GDP in 2014, when a significant drop in taxes on tobacco products contributed to the decrease most.

Indirect tax revenue decreased by 2.1% in 2014, mainly due to revenue from excise duties on tobacco products. In the course of 2014, the measure was approved introducing the limitation on the sale of tobacco stamps with the immediately preceding rate, and due to that the motive of stockpiling has been reduced considerably. As excise duties on tobacco products are due approx. 2 months from ordering the tobacco stamps, there is a shift back by these 2 months when revenue from this tax are being accrued. Therefore, for example, the very favourable months of January and February 2014, when considerable stockpiling was apparent in collection, were shifted to the revenue of 2013. Conversely, the first two months of 2015, which were considerably worse in annual terms (by nearly CZK 17 billion) were included in 2014. Taxes on tobacco products declined to nearly a half of their long-term revenue.

Other measures influencing the development of excise duties by approx. 0.1% of GDP were the reduction of the payment from energy produced from solar radiation (a lower rate), the YoY reduction in the return of excise duties from mineral oils on agricultural primary producers and the increase in rates of duties on tobacco products. Excise duties in the ESA 2010 methodology also include redirecting payments for renewable sources of approx. CZK 26 billion, which are not directly going through the general government sector (or they are selected by an entity outside the general government sector and also paid to entities outside the general government sector), but they are redirected through the general government sector based on the ESA 2010 methodology in terms of accounting. The impact on the balance is zero, as the item has its reflection in subsidies on the expenditure side.

In contrast, there was a very favourable development of value added tax revenue. Its YoY increase exceeded 5%, thus reflecting the newly begun trend of higher tax collection due to the gradual introduction of measures against tax evasion.

The economic growth was favourably reflected in direct tax collection which increased by 7.6%, mainly due to the favourable development of corporate income tax (an increase of 8.5%). Personal income tax revenue increased by nearly 7%. The balance in 2014 was considerably encumbered by the refunds of basic personal tax credits for working pensioners based on a ruling of the Constitutional Court (Resolution No. 162/2014) with the impact of approx. 0.2% of GDP. In the ESA 2010 methodology, this return did not influence the tax amount, but was recorded as a capital transfer paid by the general government sector.

An increase in social security contributions of 3.6% was largely influenced by an increase in the payment for state insured persons of an amount exceeding CZK 6 billion. This is an expenditure of the state budget and at the same time revenue of the subsector of social security funds (health insurance companies). Only payments of health insurance companies to health facilities for care which are paid outside the general government sector have an impact on the balance as such.

In annual terms, revenue capital transfers saw the greatest relative increase. These rose by 30% due to a considerable increase in investment from European sources (in absolute terms, however, they are a smaller item than tax revenues). The total balance is influenced only by Czech financing. This is accrual revenue, reflecting the volume of invested European resources in the given year.

The revenues of 2014 were positively influenced by yield from the sale of licences for frequency bands to mobile operators of CZK 8.5 billion. In the revenue structure (as well as expenditure), there were considerable changes due to the inclusion of all allowance organisations and public hospitals in the general government sector. On the revenue side, they

mainly include sales due to the inclusion of public hospital production that was recorded in the non-financial enterprises sector (see Box 1).

Total expenditure increased by 4.4%, thus reaching 42.6% of GDP. In comparison with the reality of 2013, this is stagnation of a percentage of GDP.

Nominal final consumption expenditure of the general government sector increased by 2.9%. The growth was driven by the development of social transfers in kind (particularly the payments of health insurance companies for health care), which increased by nearly 5% compared to 2013. Furthermore, the compensation of employees increased by 3.5% due to an increase in the salaries of state administration and health care (an impact of approx. 0.1% of GDP). Intermediate consumption (the general government sector's purchases of goods and services) developed moderately compared to 2013, its growth reached only 1.7%. Due to the inclusion of public hospitals in the general government sector, social transfers in kind are only a part of the provided care, another part of the care is included in items of compensation of employees and intermediate consumption. In 2014, health insurance companies used funds increased by payments for state-insured persons and compensated medical facilities for a drop in revenues in connection with the cancellation of some regulatory fees in health care. Expenditure on payment for hospital care was also increased.

Expenditure on cash social benefits increased slightly (by approx. 2%) also with the aforementioned increase in the payment for state insured persons in the public health insurance system. If we put aside an increase in payments for state insured persons and the growth of tax allowances per child, then cash social benefits increased only by 0.8%. A considerable limitation of pension indexation mainly had an impact here.

Government investment increased by nearly 17%. The rise occurred both in local government sector and in central government financed from both European and national sources. For the first time since 2009, the growth of investment has started again.

Expenditure subsidies (mainly capital transfers and subsidies for production) also increased considerably. In the case of subsidies for production, this involved an increase in subsidies for renewable sources of 0.1% of GDP and, as far as capital transfers are concerned, the already mentioned expenditure of the Deposit Insurance Fund to clients of bankrupt cooperative savings banks, with a total effect amounting to approx. 0.3% of GDP and the return of basic tax credits to working pensioners played the crucial role.

The general government debt reached 42.7% of GDP in 2014, decreasing in relative terms by 2.4 pp compared to 2013. The decrease was also seen in absolute terms (a decrease of approx. CZK 20 billion). The main reason for a decrease in the absolute amount of debt was the state budget reduction due to the involvement of available liquidity of the State treasury.

Table 2.1: General Government Revenue (2009–2015)
(in % of GDP)

	2009	2010	2011	2012	2013	2014	2015
General government revenue	**38.1**	**38.6**	**40.2**	**40.5**	**41.3**	**40.6**	**40.9**
Tax revenue	**17.7**	**17.8**	**18.8**	**19.2**	**19.8**	**19.2**	**19.2**
Individual income tax	3.5	3.3	3.5	3.6	3.7	3.8	3.7
Corporate income tax	3.4	3.2	3.2	3.2	3.3	3.4	3.4
Value added tax	6.6	6.7	6.9	7.1	7.5	7.5	7.3
Excise taxes	3.6	3.7	4.2	4.3	4.4	3.5	3.9
Other taxes and contributions	0.7	0.8	0.9	1.1	1.0	1.0	0.9
Social security contributions	**14.3**	**14.6**	**14.7**	**14.9**	**14.9**	**14.8**	**14.6**
Sales	**3.1**	**3.0**	**3.6**	**3.6**	**3.6**	**3.5**	**3.4**
Other revenues	**3.0**	**3.2**	**3.1**	**2.8**	**3.0**	**3.1**	**3.8**

Source: CZSO (2015a, 2015b). Year 2015 MF CR.

Table 2.2: General Government Expenditure (2009–2015)
(in % of GDP)

	2009	2010	2011	2012	2013	2014	2015
General government expenditure	**43.6**	**43.0**	**42.9**	**44.5**	**42.6**	**42.6**	**42.8**
Government consumption	20.7	20.5	20.0	19.7	20.1	19.8	19.5
Social benefits other than social transfers in kind	13.0	13.1	13.1	13.2	13.4	13.0	12.8
Gross fixed capital formation	5.5	4.7	4.5	4.2	3.7	4.2	5.4
Other expenditures	4.4	4.7	5.3	7.4	5.5	5.6	5.2

Source: CZSO (2015a, 2015b).Year 2015 MF CR.

Table 2.3: Balance of General Government and of Subsectors (2009–2015)
(in % of GDP)

	2009	2010	2011	2012	2013	2014	2015
General government balance	**-5.5**	**-4.4**	**-2.7**	**-4.0**	**-1.3**	**-1.9**	**-1.9**
Central government balance	-4.7	-3.8	-2.3	-3.7	-1.6	-2.1	-2.1
Local government balance	-0.6	-0.4	-0.3	-0.1	0.3	0.2	0.2
Social security funds balance	-0.3	-0.2	-0.2	-0.2	0.0	-0.1	0.0
Primary balance	**-4.3**	**-3.1**	**-1.4**	**-2.5**	**0.1**	**-0.6**	**-0.7**

Source: CZSO (2015a, 2015b). Year 2015 MF CR.

Table 2.4: Debt of General Government and of Subsectors (2009–2015)
(in % of GDP)

	2009	2010	2011	2012	2013	2014	2015
General government debt	**34.1**	**38.2**	**39.9**	**44.7**	**45.2**	**42.7**	**40.9**
Central government debt	31.7	35.7	37.4	42.0	42.6	40.3	38.5
Local government debt	2.5	2.5	2.6	2.8	2.9	2.7	2.6
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt-to-GDP ratio	**5.4**	**4.1**	**1.8**	**4.7**	**0.5**	**-2.4**	**-1.9**
Primary general government balance	4.3	3.1	1.4	2.5	-0.1	0.6	0.7
Interest expenditure	1.2	1.3	1.3	1.4	1.3	1.3	1.2
Nominal GDP growth	0.7	-0.3	-0.7	-0.2	-0.4	-1.9	-2.1
Other factors	-0.8	0.0	-0.3	1.0	-0.4	-2.4	-1.6

Source: CZSO (2015a, 2015b). Year 2015 MF CR and Eurostat (2015b).

2.2 General Government Sector Development in 2015

In 2015, we expect the general government deficit to be maintained at 1.9% of GDP.

In 2015, revenues should accelerate their dynamics and increase by 6.1% compared to 2014 to 40.9% of GDP, which is a 0.3 pp higher in relative terms than in 2014. Revenues from taxes and social security contributions should also grow more quickly than in 2014, by 4.6%. Revenues will be largely influenced by an increase in accrual subsidies from the EU.

The collection of indirect taxes should grow by 5.7%, mainly due to the sharp increase in excise duties on tobacco products. After the 2014 slump, these duties should return to the value of their long-term trend, which mirrors the relatively stable consumption of tobacco products and changes in tax rates. Value added tax revenue should increase more moderately. In 2015, this was dampened by the introduction of the second reduced rate of 10% for medicines, books and irreplaceable child nutrition.

The collection of direct taxes should increase by 4.0% compared to 2014, and, as it was in 2014, it should be driven primarily by the revenue of corporate income taxes, with an expected growth of around 5%. Personal income tax will increase only slightly (by 2.9%), the main reason being the already mentioned refunds of basic personal tax credits to working pensioners for 2013 and 2014 through capital transfer in 2014. If tax revenues were adjusted for this effect, they would approximately mirror, like social security contributions do, the development of the wage bill in the economy.

We again expect the sharpest jump in revenue transfer items, which mirror a more than 76% increase in capital transfers from the EU due to European investment co-financed from the financial perspective 2007–2013.

According to the forecast, general government expenditure will increase by 5.9% compared to 2014,

reaching 42.8% of GDP. As a percentage of GDP, it will increase slightly (by 0.2 pp), mainly due to considerable investment activity expected in 2015.

Final consumption expenditure should accelerate its growth to 3.6%, while the 4.2% increase in the general government sector wage bill should contribute most to its dynamics (the total effect of the increase in wages should be nearly 0.2% of GDP in 2015). Social transfers in kind will probably slow their dynamics slightly to 4.2% YoY. In 2015, health care expenditure is again strengthened by the compensation of revenues to health facilities in connection with the abolition of regulatory fees in health care; on the other hand, their increase should be slowed by the reduced rate of VAT for medicines. In addition to social transfers in kind, these effects are also reflected in the development of intermediate consumption and wages when intermediate consumption should increase by 2.4% YoY, which is a relatively moderate rate with the aforementioned increase in health care expenditure.

Compared to 2014, social transfers should grow more quickly (3.2%). The reason is higher pension indexation supported by the payment of the state budget for state insured persons.

Interest expenditure of the general government sector should decrease significantly, thanks in part to the stabilisation of general government debt and partly to a reduction in Czech government bond yields, reflecting, among other causes, the positive perception of the CR on the financial markets, currency conditions and the Czech crown temporarily depreciated artificially. Mature bonds are gradually being replaced by bonds with lower interest rates.

A decrease should also occur in subsidy and transfer expenditure items. This is mainly due to capital transfers, which had a high comparative base in 2014 due to one-off expenditure (see 2.1) The unauthorised collected gift tax for emission allowances, which must be returned by the state budget based on a decision of the Supreme Administrative Court (decision of the Supreme Administrative Court on 9 July 2015, 1 Afs 6/2013 – 184) to corporations (the highest percentage is the return of the company ČEZ, a. s. in the amount of CZK 3.8 billion) is also included in capital transfers in 2015.

As in 2014, the high dynamics of government investment is also expected in 2015, in particular from European sources. Gross fixed capital formation should increase by approx. 35% and will reflect efforts to use as much money as possible from the programming period 2007–2013, which must be done in connection with the rule N+2 by the end of 2015. Investment expenditure in 2015 also includes a one-off imputation of approx. CZK 10 billion due to the leasing of the JAS-39 Gripen aircraft, both the deficit and debt are increased by this amount.

General government debt should reach 40.9% of GDP in 2015 and, as in 2014, it should decrease in annual terms, this time by 1.9 pp. In absolute terms, the debt amount will increase slightly, mainly as a result of the aforementioned imputation of the financial leasing of the JAS-39 Gripen aircraft. The state debt should again remain at a stable level due to the involvement of available liquidity from the State treasury system.

Box 1: Expansion of the General Government Sector

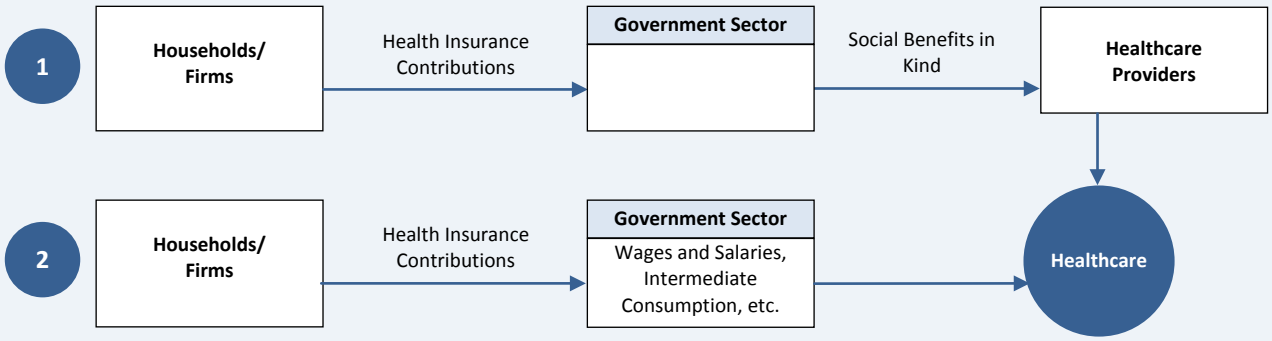
Starting from the October Notification 2015, some other entities have been included in the general government sector (for the time being, converted retrospectively until 2011 only). It concerned all allowance organisations, some of them are medical service providers. In addition to public health facilities having the form of allowance organisations, public health facilities were also included with the legal form of a limited liability company or joint-stock company and are owned by an entity in the general government sector (mainly municipalities and regions). The impact on the general government balance and debt is relatively limited in a volume lower than 0.1% of GDP. However, a considerable change occurred due to the inclusion of public health facilities for transactions of general government revenues and expenditures, mainly those included in the final consumption of the government.

Originally, the financing of public health care was recorded by means of the item social transfers in kind, which represents payments of health insurance companies to health facilities for provided health care (Graph 2.5, Option 1). For the included public health facilities in the general government sector, social transfers in kind are not recorded any more to the recipient of treatment, as this sector is the provider of health care itself. It means that health care expenditure is not included in the item social transfers in kind, but it is distributed over items as intermediate consumption (purchases of medical materials), compensation of employees, and others (see Graph 2.5, Option 2). In the sector, financing is ensured by current transfers from health insurance companies to a given hospital which is, however, consolidated (e.g. in 2014 this transfer to facilities in the sector was approx. CZK 110 billion).

The general government sector does not purchase health care for households only from public health facilities, but also from private health facilities which continue to remain in the non-financial enterprises sector of the national economy. The payment to these entities is based on the same principle as it was in the past – through social transfers in kind to households). It is possible to say simply that, compared to the previous condition, social transfers in kind decreased just by the amount of subsidy by which health facilities in the sector are financed. There was also an increase on the side of sources for the production of the general government sector as originally purchased services of health facilities for households (expenditure of health insurance

companies in the form of social transfers in kind) from the non-financial enterprises sector became directly the production of the general government sector through the reclassification of public hospitals from non-financial enterprises into the general government sector.

Graph 2.1: Provision of Healthcare by Hospital out of the General Government Sector (1) and in the General Government Sector (2)

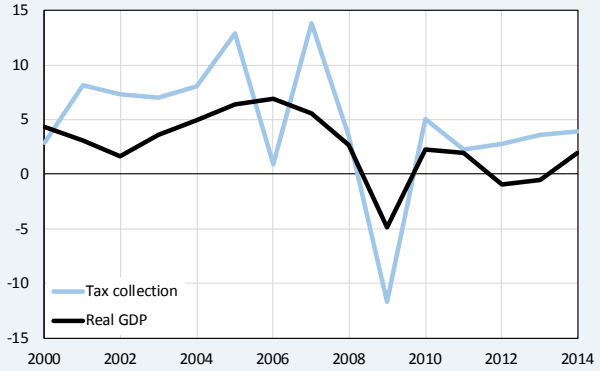


Box 2: Czech Economy Growth and the Tax Revenue Development in 2015

In the first half of 2015, the Czech economy recorded extraordinarily dynamic growth, 4.4% of GDP in annual terms. However, cash collection of taxes decreased in the period from January to June by 0.9% YoY or, if we also take into account social security contributions, it increased by 1.2%. From the perspective of the general public, the economic growth is also automatically connected with adequate growth of tax collection. This box clarifies that such a conclusion is in fact too simplifying.

Graph 2.2: Real GDP and Tax Revenue Collection Development

(in %)



Source: GDP Data: CZSO (2015a), cash tax collection: MF CR.

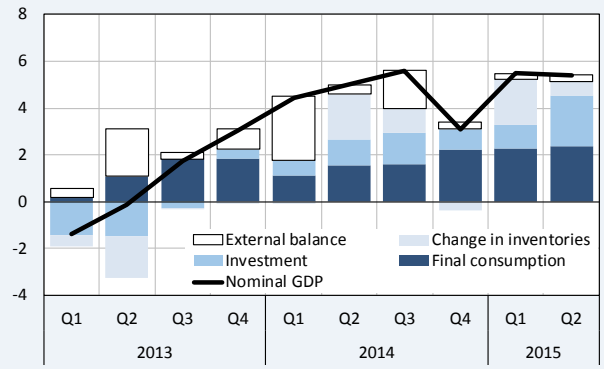
The relation of real GDP growth and the cash collection of taxes for the last 15 years is documented in Graph 2.2. It is apparent from it that the relation of both quantities is strong (the correlation coefficient for the displayed period reaches 0.72), but not close.

Firstly, the predominantly nominal development is determining for tax revenues, not only real development. For example, public budgets collect higher revenue for value added tax not only with an increase in the consumed quantity, but also if its price increases.

Secondly, it is important in which components of uses or incomes of GDP growth was seen (Graph 2.3 and Graph 2.4). Taking account of the fact that in the CR in terms of the tax mix, nominal consumption and nominal wage bill belong to tax of the most important macroeconomic aggregates, tax less effective components played an important role from the perspective of GDP growth in the first half of 2015.

Graph 2.3: Nominal GDP Growth by Expenditure

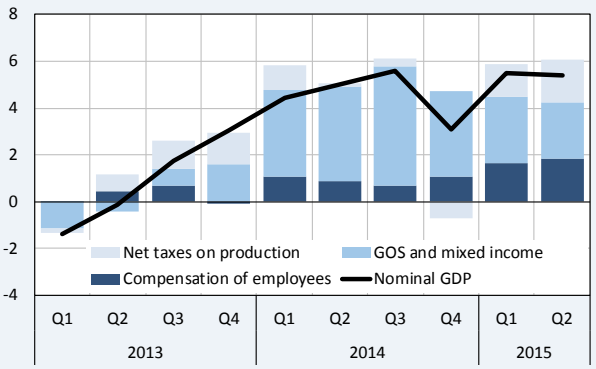
(Y-o-Y GDP growth in %, contributions in pp)



Source: CZSO (2015a).

Graph 2.4: Nominal GDP Growth by Income

(Y-o-Y GDP growth in %, contributions in pp)



Source: CZSO (2015a).

In addition to the macroeconomic growth, a number of other factors also have an immediate impact on tax revenue collection. Probably the most apparent group includes changes in tax codes (in 2015, the second reduced VAT rate for selected groups of products, basic personal tax credits refund to working pensioners, an increase in tax allowances for the second, third and any additional child, a tax refund to compensate costs in placing children in kindergartens) and other legislative measures influencing tax collection effectiveness (in 2015, the payment of withheld excessive VAT returns from the previous years, an extension of the mechanism of transferring tax duty and, in the event of excises, the restriction of stockpiling tobacco products after an increase in the tax rate). The structure of individual macro-aggregates also has its impact here, for example fuel price and consumption in connection with a decrease in global crude oil prices. In addition, some empirical studies, such as Sancak *et al.* (2010), point out a different tax collection and tax morale in different phases of the economic cycle.

The analysis of the impact of a GDP change on tax revenues is made difficult due to the fact that different taxes have different maturity dates. Changes in tax bases will manifest themselves in the cash concept (tax collection) in different time horizons. In contrast, macroeconomic aggregates are calculated on the accrual principle (the principle similar to business accounting when accounting transactions are assigned to the periods they factually relate to). Therefore, it is also necessary to assign tax revenues to the development of macroeconomic quantities on the accrual principle. In the opposite case, the economic activity in one period would be matched with taxes from activities related to a completely different period. In the practice of the CR, time shifts of cash payments are used for adjustments of cash tax collections to accrual tax revenues. Collection is shifted over time usually by the number of months that the tax maturity period is (see MF CR, 2013b for more details). For example, a tax on wages of employees for work performed in December is paid at the beginning of January of the following year. Therefore, tax collection is carried out in January of the following year, but tax revenue relates to wages for December. Therefore, monthly shifts of tax collection by one month are used in this case.

Only when all of these aspects are known, it is possible to perform the evaluation of the tax revenue development in the first half of 2015. Therefore, if we express the main tax titles in accrual terms and adjust them further for discretionary and other factors it is possible to state that tax revenue growth is even higher than it would be possible to conclude according to the development of macroeconomic bases (Table 2.5).

Table 2.5: Accrual Tax Revenue and Relevant Macroeconomic Bases Development in the 1st half of 2015

	Accrual tax in year		Discretionary changes	Year-on-Year growth of		
	2014	2015		taxes	taxes after changes	macroeconomic bases*
	CZK bn	*CZK bn*	*CZK bn*	*in %*	*in %*	*in %*
	1	2	3	4=2/1	5=(2-3)/1	6
Value added tax	151.2	156.8	-0.6	3.7	4.1	3.2
Personal income tax (of employees)	62.9	63.2	-2.6	0.6	4.7	3.7
Corporate income tax	78.0	84.2	0.1	7.8	7.8	5.1
Social security contributions	313.3	329.4	1.2	5.1	4.8	3.7
Excises **	54.1	74.1	18.0	37.1	3.7	3.5

*Note: *) The macroeconomic bases of partial tax titles include: in the case of value added tax mainly nominal household consumption and a portion of nominal consumption of the general government sector, in the case of personal income tax of employees the nominal wage bill, in the case of corporate income tax the nominal gross operating surplus of non-financial corporations and financial institutions, in the case of social security contributions the nominal wage bill and in the case of excise taxes especially the real household consumption.*
***) The size of discretionary measures in the case of excises is determined by the drop in the accrual tobacco product tax in 2014 because of legal limitation of stockpiling. Taking into account the relatively constant YoY real consumption of tobacco products, the drop in the tax income is caused by the aforementioned limitation.*
Source: MF CR.

2.3 International Comparison

2.3.1 General Government Balance

The general government deficit of EU countries reached 2.9% of GDP in 2014, wherein we do not take into account the calendar year for the United Kingdom as for the other countries, but the financial year[2]. Compared to the year 2013, the deficit was 0.4 pp lower. The CR, with its deficit of 1.9% of GDP, was again below the EU average.

The worst development in the general government balance in 2014 was seen in Cyprus (a deficit of 8.9% of GDP), but it must be pointed out that this was largely due to a one-off capital injection into a banking

[2] 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. We prefer here to use data for the financial year, since they are relevant for the excessive deficit procedure. Moreover, calendar year data for the current year, i.e. now 2015, are not available yet. Therefore, data provided in this publication differ from data in the Eurostat database covering the calendar year only. For example, for 2014 the deficit is 5.7% of GDP for the calendar year, for the financial year it is 0.6 pp lower. A similar situation applies to the debt indicator – for 2014 we provide a value of 87.3% of GDP for the financial year, while Eurostat provides the value of 88.2% of GDP for the calendar year.

entity[3]. According to the EC, the Cypriot structural balance reached the positive value of 2.0% of GDP. A deficit higher than 5% of GDP was also seen in Portugal (7.2% of GDP compared to the spring estimate of 4.5% of GDP due to transferring a capital injection into *Novo Banco* from financial to non-financial transactions), Spain (5.9% of GDP), Bulgaria (5.8% of GDP compared to the spring estimate of 2.8% of GDP due to the inclusion of payments of insured deposits of the Corporation Commercial Bank), Croatia and the United Kingdom. In Greece, the deficit reached 3.6% of GDP in 2014. Nevertheless, other balances were already positive (according to the EC, the primary balance was 0.4% of GDP, the structural balance was 0.6% of GDP and the cyclically-adjusted primary balance was even 4.7% of GDP). In 2014, surpluses were seen in Denmark, Luxembourg, Estonia and Germany. All subsectors contributed to the surplus in Denmark, as well as the central government subsector in Estonia and Germany (in Luxembourg as the only deficit subsector) and the social security funds subsector[4]. The subsector of social security funds also saw a favourable performance in other EU countries, we can mention, for example, Italy, Hungary, Portugal, Romania or Greece. Since Eurostat abandoned, based on the change in its methodology, former adjustments of the balance for one-off operations of the type of pension funds transformation, the same situation that had occurred back in 2011 in Hungary, occurred in Poland in 2014. Therefore, the originally expected Polish surplus of 5.7% of GDP became a deficit of 3.3% of GDP (according to the EC, the Polish structural deficit reached 2.6% of GDP in 2014 and the primary deficit 1.4% of GDP). The criterion of the Stability and Growth Pact for a maximum deficit of 3% of GDP was met by fourteen EU countries in 2014, Italy, which has had a positive primary balance for a long time, is at the limit value.

In 2015, except for Germany and Luxembourg, all EU countries expect a deficit performance of the general government sector, although lower deficits than in previous years are generally expected. As in the Spring Government Deficit and Debt Notification, the lowest deficit should be reached in Greece (0.3% of GDP, nevertheless, the EC predicts a deficit of 4.6% of GDP, of which the structural deficit of 1.1% of GDP) and also Estonia (0.4% of GDP, according to the EC a surplus of 0.2% of GDP). In contrast, the highest deficits should be seen in Croatia, Spain and the United Kingdom, reaching (together with Ireland) the highest structural deficits of all EU countries. In 2015, a positive primary balance is expected in 13 countries, e.g. in Cyprus (2.1% of GDP) or in Portugal (2.0% of GDP), and it should be balanced in Slovenia. Conversely, the highest primary deficits should be in Finland and the United Kingdom (both 2.0% of GDP), followed by Bulgaria, Denmark and France (identically 1.8% of GDP). Compared to 2014, a worse result of the general government sector performance is expected in relative terms in six EU countries, the same in the CR and Latvia. The requirement of the Stability and Growth Pact regarding a relative amount of the balance would not be met by six EU countries in 2015 according to the Autumn Government Deficit and Debt Notification, according to the EC forecasts also Greece (see above). According to the EC, Portugal is at the limit value.

2.3.2 General Government Debt

General government debt, expressed in nominal values always at the end of the particular year, roughly mirrors the long-term development of the deficit of the respective country. Across the EU, the general government debt reached a consolidated value[5] of 86.8% of GDP in 2014, i.e. 1.3 pp more than in 2013. The non-consolidated amount as the total sum of debt of all Member States is simultaneously, if the financial year is used for the United Kingdom, at a level of 88.0% of GDP.

The CR has succeeded in reducing its debt in recent years due to the drawdown of debt reserve and the involvement of available liquidity from the State treasury. On the other hand, it is necessary to take into account all the possible risks over time resulting from extraordinary events. It is possible to remind about the example of Ireland, Latvia and Cyprus.

Greece remains the most indebted country in the EU. In recent years, part of the general government debt has been remitted by private creditors; nevertheless, due to the marked economic decline lasting several years, the relative indicator of general government debt further deepened to 178.6% of GDP in 2014. In 2015, according to Eurostat, in contrast to the YoY decrease of 5.6 pp according to the spring estimate, an increase of 3.8 pp is expected; exclusively due to the GDP forecast deterioration of more than 6%. The EC predicts the Greek general government debt to be 194.8% of GDP. Other EU countries with general government debt exceeding 100% of GDP include

[3] CCB (Central Cooperative Bank) is a universal commercial bank with the legal form of a joint-stock company the main subject of enterprise is retail banking.

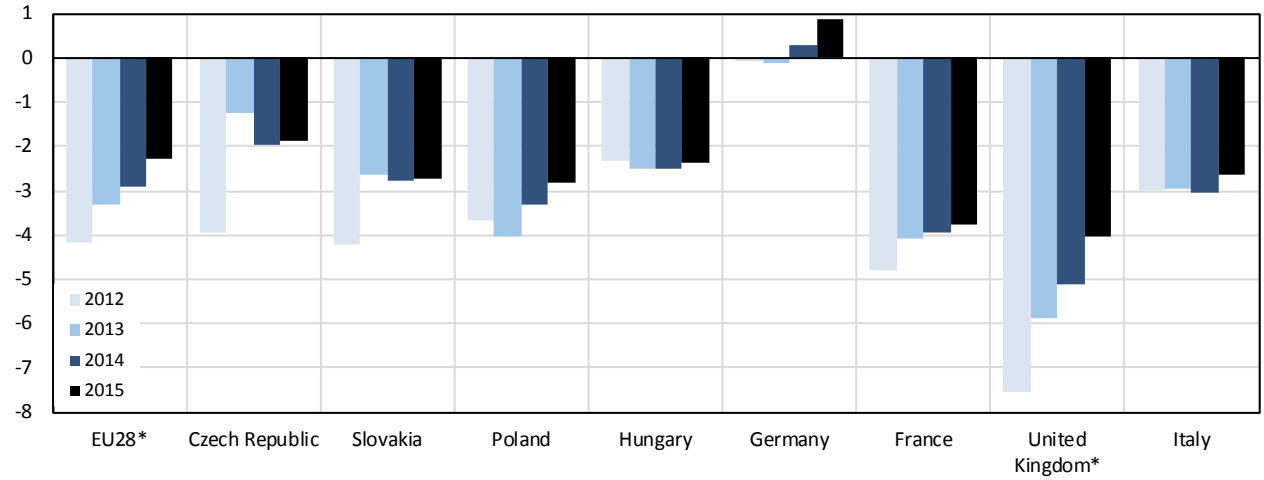
[4] This subsector does not exist in the United Kingdom, Ireland and Malta. The other subsector of state institutions S.1312 on the other hand exists in the federal countries of Germany and Austria and in the federative constitutional monarchies Belgium and Spain.

[5] Consolidated values of general government debt are naturally smaller than non-consolidated values, which is caused by excluding intergovernmental loans and, in the case of the euro area, financial assistance as part of the European Financial Stability Facility. This has been the case, for example, with the granting of loans to Ireland, Portugal and Greece in recent years.

Italy, Portugal, Belgium, Cyprus and in 2014 also Ireland, probably leaving this group in 2015. According to the EC forecast for 2015, Spain is also included in this group. In Cyprus and Slovenia, due to the recent banking crisis, general government debt increased by more than 50% in the period 2010–2014. Whereas Cyprus is expecting its absolute debt to fall slightly in 2015, it will further increase in Slovenia by another more than 7%. In recent years, the debt has also been growing in absolute terms relatively quickly in Romania and Lithuania. The relative debt indicator is developing positively in Denmark, Latvia, Hungary, Germany, Poland and now also in Ireland. This indicator is by far the lowest in Estonia, although in absolute terms the debt more than doubled in 2011–2014, thus paradoxically showing the highest relative growth in the period mentioned. In 2014, it reached a two-figure value for the first time, but it should also decrease in absolute terms in 2015. In most EU countries, there is a relative deterioration of the debt volume; for the period 2010–2014 this trend can be seen most markedly in the case of Bulgaria, the aforementioned Estonia, and further Finland, Croatia, Cyprus, Portugal, Slovenia and Spain. In 2015, a change in the negative trend is expected in Ireland, Cyprus, Portugal and Sweden. The fiscal debt criterion of 60% of GDP in 2014 was not satisfied by 16 EU countries, with Finland to be added to this group in 2015.

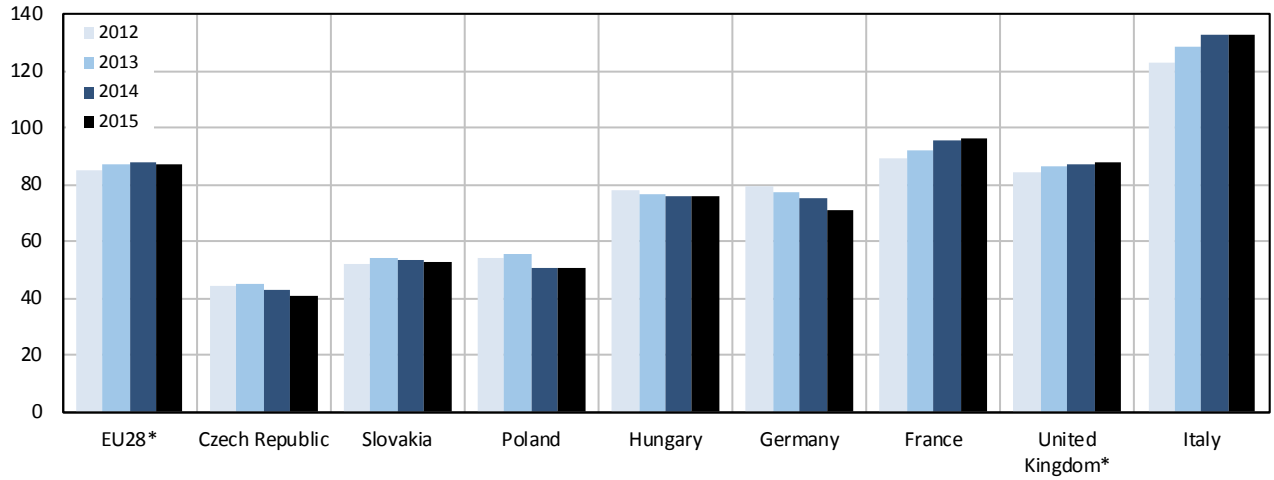
Note: In connection with the Autumn Government Deficit and Debt Notification according to Article 15 Section 1 of the Regulation of the Council EC No. 479/2009, as subsequently amended, Eurostat has expressed a reservation to Austria, by which it has signalled its doubts regarding the quality of the reported data, due to an alleged failure to comply with the rules of data accrualization according to the ESA 2010 methodology at the level of central government institutions. In contrast, reservations expressed in Spring 2015 to Bulgaria and Portugal were withdrawn by Eurostat, as both countries made required adjustments for 2014, whereby the deficit deteriorated in both cases considerably, as mentioned at the beginning of the subchapter.

Graph 2.5: General Government Balance in Selected EU Countries (2012–2015)
(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. These data are also part of the EU28 aggregate.*
Source: Eurostat (2015b). Nominal GDP of the Czech Republic in 2015: MF CR.

Graph 2.6: General Government Debt in Selected EU Countries (2012–2015)
(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. These data are also part of the EU28 aggregate.*
Source: Eurostat (2015b). Nominal GDP of the Czech Republic in 2015 and debt in the Czech Republic in 2015: MF CR.

2.3.3 State Debt Financing

Graph 2.7 shows the development of spreads (based on monthly averages) expressed as the differences in yields of ten-year state (government) bonds against German bonds of the same kind in the period from January 2008 to October 2015. Their development correlates to a certain extent with the fiscal indicators of the general government deficit and debt and characterises the confidence of the 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 Nordic ones) with a very low spread. Yields of British bonds in two periods were lower than German ones. The same has applied to Luxembourg bonds in several recent months. To complete the picture, in several cases the same also applied to Danish and Swedish bonds in the past. These states enjoy the highest confidence in the EU. The higher spreads of Belgium are caused by the high indebtedness of the general government sector (see the previous Subchapter 2.3.2), although the situation has been stabilising slowly since mid-2012.

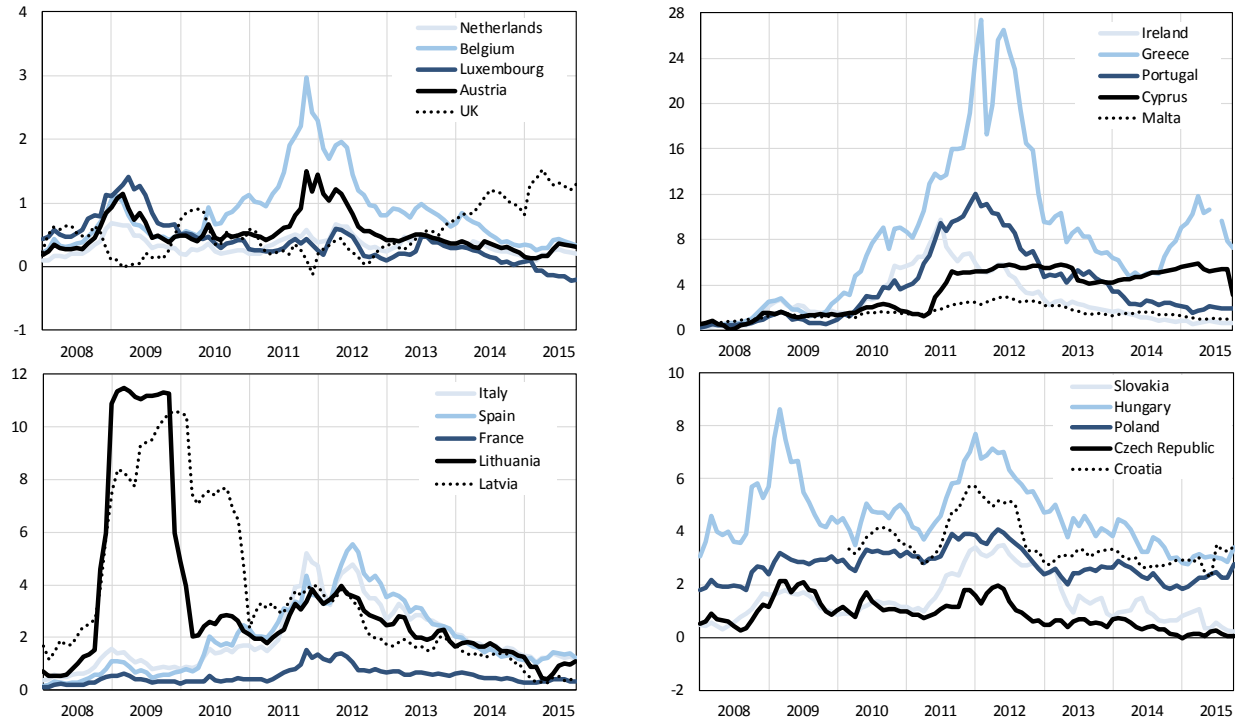
The right upper and left lower graphs show the development in countries in the south of the euro area and Ireland, where economic turbulence following the outbreak of the world financial crisis shortly thereafter revealed internal problems and imbalances. France, whose rating has also been reduced several times recently, has joined this group, as well as Latvia and Lithuania as the newest members of the euro area. There was a high level of spread in both Baltic republics in 2009 and 2010, when it culminated due to the impact of deep economic recession. Since then, its generally downward course has been very clear, with a few exceptions. The development in Greece significantly improved in 2013 and 2014 when positively perceived steps taken by the Greek government signalled the renewed confidence of investors. Nevertheless, in connection with the results of the early election in January 2015 and the originally unsuccessful negotiations of the Greek government regarding repayment of the debt, confidence was again seriously dented and then, in the period around the next early election in September 2015, increased a little bit due to the agreement between the Troika and the same-new Greek Prime Minister regarding the implementation of specific steps aimed at the possible rescue of the country.

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 its trajectory of fiscal consolidation the financial markets perceive the CR in this geographical region most favourably. Bonds issued by the CR in January 2015 even recorded a lower risk premium than the German bonds.

Issues of government bonds are not the only means of covering state (government) debt, and there are countries in the EU with another important source, i.e. loans. It follows from the National Autumn Government Deficit and Debt Notifications that in 2014 loans made up more than a third of total funds for covering the total gross government consolidated debt in eight EU Member States, in three of them it made up even more than half, so they were more important than state bonds. These states include Estonia (86.9% of total debt), Greece (77.3%) and Cyprus (64.5%). While this share has been more or less constant in Estonia, it has recently shot up in Greece and Cyprus. In 2011, this share was 29% in Greece and 31.1% in Cyprus. The remaining five countries include Bulgaria, Croatia, Latvia, Luxembourg and Portugal. In the CR, this share was 10.3%.

Graph 2.7: Spreads between German and EU Countries Bonds (January 2008 to October 2015)

(in percentage points)



Note: Spreads are calculated as the difference in yields of ten-year bonds for convergence means of the specific country and those of Germany. For the newest EU member Croatia, the ECB has available data since March 2010, i.e. preceding 2 years 2 months are missing. The Greek July 2015 data is not available because of the closure of the bond market. The data for Luxembourg are comparable since May 2010, which is the start of Luxembourg government bonds emissions. Before that, private bond issuers were taken into account.

Source: ECB (2015). MF CR calculations.

3 Medium-term Fiscal Outlook

The medium-term outlook for the general government sector is based 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 target of the current government is to maintain the general government deficit as a percentage of GDP below 3%. The general government sector deficit for 2014 was notified in spring 2015 at 2.0% of GDP, and there was its slight improvement in the Autumn Notification, with its balance ending at −1.9% of GDP. In 2015, we also expect a balance of −1.9% of GDP. Among the highlighted priorities in the draft state budget and draft state funds budget for 2016 are investment in education, science, research and transport infrastructure, nevertheless the state budget deficit is proposed at CZK 70 billion, which is CZK 30 billion less than the approved deficit for 2015. The improvement is due to both economic growth and improved tax collection, including the implementation of measures in fighting tax evasion which should also gradually improve general government sector finances in the following years of the outlook. From January 2016, VAT reporting is going to come into force. This will comprise a list of taxable transactions including the supplier and purchaser. The Financial Administration will be matching these reports, thus ensuring better control over the eligibility of excessive returns and the tax liability itself. In the second half of 2016, the fiscalisation of cash payments should come into force, which will first cover the sectors of the catering industry and accommodation with subsequent extension to other sectors of the national economy. Financial and customs administrations are also being made more effective continuously. At the end of the forecast horizon we expect that the deficit of the general government sector should be close to 0.5% of GDP.

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., and 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 force, regulating the contents of the expenditure framework amounts in accordance with the methodology for drawing up the state budget and state funds budget. Despite the fiscal targeting methodology being thereby cancelled, this regulation does not impact the method for deriving the amounts of expenditure frameworks.

The current Framework for 2016 and 2017 was approved by the Chamber of Deputies on 10 December 2014 (Resolution No. 556/2014). The amounts of the Framework are CZK 1,182.4 billion for 2016 and CZK 1,215.5 billion for 2017 (in 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 a significant divergence in consumer prices, changes to the estimate of expenditure co-financed from the EU funds and from financial mechanisms, the impacts of changes in the budgetary designation of taxes on expenditure, and other exceptional circumstances. The Framework can also be increased by 1 thousandth of the total expenditure for the year of the draft state budget, and by 2 thousandths for the following year. For 2016, the Framework amount has been increased by CZK 94.5 billion due to expected expenditure co-financed from the EU funds and from financial mechanisms. No other adjustments mentioned above are considered during the period of the outlook. These modifications are shown in Table 3.1.

By updating the approved Framework according to adjustments permitted by law, we get an expenditure ceiling of CZK 1,276.9 billion for 2016 and the amount of CZK 1,215.5 billion remains for 2017. Due to the government's efforts to implement its priorities according to the Policy Statement of the Government and reactions to the European migration crisis, the Framework for 2016 has been gradually increased. After being updated by these modifications, the Frameworks reach values of CZK 1,281.6 billion for 2016 and CZK 1,211.7 billion for 2017.

With these modifications, the government has set new limits for its expenditure as part of the state budget and state funds. The new Frameworks approved by the government on 23 September 2015 (the Government Resolution No. 748/2015), at present being discussed by the Chamber of Deputies (the Parliamentary Press No. 618), exceed the originally approved limit by CZK 4.7 billion in 2016, while the Framework is reduced by CZK 3.8 billion in 2017. For 2018, the government approved the expenditure limit of CZK 1,245.7 billion.

The total overview of the approved, updated and newly set Framework is presented in Table 3.2. As it is apparent from the tables, the Framework amounts for 2017 and 2018 are significantly lower. This significant decrease, however, is due to a calculation of the

Framework, where for the years t+2 and t+3, funds from the EU and from financial mechanisms and their financing are included in neither revenues nor expenditure.

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

		2016	2017
Medium-term expenditure frameworks according to Act no. 556/2014	1	1182.4	1215.5
Adjustments according to budgetary rules (Law no. 218/2000)	2	94.5	-
Medium-term expenditure frameworks adjusted according to budgetary rules	3=1+2	**1276.9**	**1215.5**

Source: MF CR.

Table 3.2: Differences between medium-term expenditure framework approved in 2014, adjusted in 2015 and newly proposed to 2018
(in CZK bn.)

		2016	2017	2018
Medium-term expenditure frameworks according to Act no. 556/2014 and budgetary rules	1	**1276.9**	**1215.5**	**-**
Newly proposed medium-term expenditure frameworks	2	**1281.6**	**1211.7**	**1245.7**
Tightening (-) / breach (+) of medium-term expenditure frameworks	3=2-1	4.7	-3.8	-

Note: The decrease in the level of expenditures between 2016 and 2017 is caused i.a. by the fact that the outlook for 2017 and 2018 does not contain expenditures financed by EU funds and financial mechanisms.
Source: MF CR.

3.2 General Government Medium-term Outlook

A slightly more optimistic outlook for macroeconomic tax bases in comparison with MF CR (2015a) and better tax collection in the current year have resulted in a marginal revision of forecast revenues of the general government sector upwards. The development of the general government sector as well as individual subsectors of the general government in the CR in 2014–2018 is clearly presented in Table 3.3. It is evident from this Table that the general government balance is at the expense of the central government subsector or more precisely the state budget and state funds, the development of which largely determines the total balance of the general government sector. Table 3.3 also compares total revenues and expenditure dynamics. It is apparent that the growth rate of revenues and expenditure should be approximately equal in the years of the outlook. The local government sector has been showing surpluses for several years, and even an increase in investment activity in 2015, according to the Autumn Notification will not result in any change. Therefore, in the whole outlook we expect slight surpluses as investment in the following years will be rather lower than in 2015, while for revenues we can expect an increase due to both the macroeconomic development and measures for better tax collection. Social security funds maintain their finances more or less around balanced budgets. The main tendencies and measures formulating the development of general government revenues and expenditure in the following three years are described in the text below.

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 rate of 4.3%. The increase is due to both the macroeconomic development and increased effectiveness of tax collection and the more effective prevention of tax evasion. In the outlook period, we do not expect any increase in tax burden through the growth of statutory tax rates. Exceptions include only increased taxation of tobacco products as well as a planned increase in gambling taxation.

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

		2014	2015	2016	2017	2018
General government balance	*% of GDP*	**-1.9**	**-1.9**	**-1.2**	**-0.8**	**-0.5**
Central government	*% of GDP*	-2.1	-2.1	-1.3	-0.8	-0.6
Local governments	*% of GDP*	0.2	0.2	0.1	0.1	0.1
Social security funds	*% of GDP*	-0.1	0.0	0.0	0.0	0.0
Total revenue	*% of GDP*	**40.6**	**40.9**	**40.0**	**40.4**	**40.4**
	growth in %	2.6	6.1	1.1	4.9	4.1
Total expenditure	*% of GDP*	**42.6**	**42.8**	**41.2**	**41.1**	**40.9**
	growth in %	4.4	5.9	-0.4	3.7	3.4

Source: Year 2014 CZSO (2015a, 2015b). Forecast and calculations by MF CR.

The development of personal income tax will be mainly determined by growth of the wage bill in the economy which is expected in the average rate of 4.3% per year. Tax allowances for the second and any additional child will have the opposite effect. From 2016, as part of the support of families with more children, tax allowances will be increased for the second child by CZK 100 per month and for the third and any additional child by CZK 300 per month, compared to the present situation. As a result of this measure, payments for personal income tax will be decreased in 2016 by CZK 1.0 billion.

With the introduction of the fiscalisation of cash payments, we expect an increase in the volume of confessed revenues for entities doing business in the sectors concerned. Compared to MF CR (2015a), the forecast of the size of the related discretionary measures was adjusted due to later implementation of this measure. We expect an increase in collection of personal income tax by approx. CZK 0.3 billion in 2016 and by another CZK 4.7 billion in 2017 in accordance with the gradual introduction of the obligation to record sales on-line in the individual sectors. Compensation for the initial costs for tax entities with a one-off tax credit (an impact of approx. CZK 1 billion in 2016) is already included in this discretion.

For social security contributions (social security and health insurance) as the most important item in terms of the budget for the general government sector, we expect the development in accordance with the growth of the wage bill in the economy the pace of which will be increased slightly by an increased payment for state insured persons. The average growth should be above 4%. A slight increase in revenues (of CZK 1.0 billion in 2016 and further CZK 0.5 billion from 2017) is expected due to an increase in the tax base for persons doing business after the introduction of the fiscalisation of cash payments. From 2016, the pension savings pillar will be cancelled which will increase revenues from pension contributions by approx. CZK 0.9 billion.

The expected economic growth will also be reflected positively in revenues of corporate income tax where we forecast the average increase of 3.6% per year. Revenues from this tax should also be increased slightly in connection with the introduction of the fiscalisation of cash payments (approx. by CZK 0.5 billion in 2016 and further CZK 1.5 billion from 2017). From 2016, revenues of corporate tax will be slightly burdened by the establishment of the national resolution fund (the Parliamentary Press No. 536) to which all banks will be obliged to transfer financial contributions according to how risky their portfolios are. As a result of this measure, the tax base of banks will decrease and their payments in relation to corporate income tax will fall by approx. CZK 0.4 billion. Except for tax recognisable expenditure for the establishment and operation of employer kindergartens with a marginal fiscal effect, we do not expect any other legislative measures with an impact on this tax revenue.

In 2016, we expect an increase in VAT collection of CZK 10.0 billion due to the introduction of the obligation of VAT reporting and of CZK 1.6 billion due to the fiscalisation of cash payments. From 1 January 2016, all VAT payers will have an obligation to provide the Financial Administration with not only their tax declaration but also other information – the so-called electronic VAT report. This will comprise a list of taxable transactions including the supplier and purchaser. The Financial Administration will be matching these reports, thus ensuring better control over the eligibility of excessive returns and the tax liability itself. More computerisation of the tax document circulation reduces administration costs of tax administration and at the same time accelerates the ability of the tax administrator to react to current threats in the form of tax evasion.

The basic premise of the fiscalisation of cash payments is the instantaneous reporting of cash sales to the Financial Administration in electronic form. Emphasis will be placed on limiting the additional administrative burden for the liable entities, and on the need to report only minimum information required for a proper control of tax liabilities. Each payment transaction made will be marked with a unique identifier which will also be shown in the payment

document issued to the purchaser. Based on this document, it will be possible to verify any time whether the given transaction was reported to the Financial Administration.

Upon the introduction of VAT reporting, we expect an impact on VAT revenues only. In contrast, the impact of the fiscalisation of cash payments will also be reflected in both personal and corporate income taxes and in social security contributions. We also expect the effect resulting from these measures for the general government sector to begin manifesting itself in the following years of the outlook. For 2017, we forecast a YoY discretionary increase in revenues of CZK 2.0 CZK for VAT reporting and CZK 4.4 billion for the fiscalisation of cash payments. The introduction of VAT reporting will also have further discretionary impact in 2018 in the amount of CZK 3.0 billion. The transfer of catering services from the standard VAT rate to the 15% reduced VAT rate will have the opposite effect, the objective of which is to compensate possible pressure on price increases which were evaluated as a risky factor in this segment. We forecast the drop of revenues resulting from the transfer of CZK 0.2 billion for 2016 and additional CZK 0.3 billion for 2017. In the discretionary measures, presented in Table 3.5, VAT collection is decreased by this amount.

In the years of the outlook, we expect excise duties revenues to grow by 1.4% per year on average. Collection growth is influenced by active measures for tobacco product taxation. The amendment to the Act on Excise Duties sets the trajectory of increased tax burden of tobacco products (in compliance with the European legislation) until 2018. The effects on the YoY increase in excise duties revenues should be approx. CZK 3.3 billion for 2016 and CZK 1–1.5 billion in each of the other two years of the outlook.

In the item other incomes (Table 3.4), we expect a decrease in investment subsidies in 2016 approximately by a half due to the end of utilisation of the EU funds from the programming period 2007–2013 in 2015 used for the co-financing of investment projects from the structural funds and the Cohesion Fund and the drawdown of the funds from the programming period 2014–2020. In the following years of the outlook, we already forecast an increase in subsidies of approx. 18% on average in 2017–2018. If approved, the government bill on gambling tax (the Parliamentary Press No. 579) will have another impact on the revenue side which increases the current rate and extends the group of taxable items. Its expected positive impact in 2016 is quantified at CZK 2.0 billion and another CZK 0.2 billion from 2017. In 2016, we take into account one-off revenues of CZK 1.3 billion from the auction of frequency bands to mobile operators (see Table 3.5).

Table 3.4: General Government Revenue

	2014	2015	2016	2017	2018
bn CZK					
Total revenue	**1730**	**1835**	**1855**	**1946**	**2025**
Tax revenue	**818**	**860**	**902**	**944**	**979**
Taxes on production and imports	510	539	568	590	610
Value added tax	319	326	350	369	386
Excise taxes	151	175	178	180	182
Current taxes on income, wealth, etc.	308	321	334	353	368
Personal income tax	161	166	175	188	196
Corporate income tax	144	151	155	162	168
Capital taxes	0	0	0	0	0
Social contributions	**629**	**653**	**683**	**710**	**738**
Property income	**37**	**36**	**35**	**41**	**47**
Other	**247**	**287**	**235**	**251**	**262**
growth in %					
Total revenue	**2.6**	**6.1**	**1.1**	**4.9**	**4.1**
Tax revenue	**1.3**	**5.0**	**5.0**	**4.6**	**3.7**
Taxes on production and imports	-2.1	5.7	5.5	3.9	3.4
Value added tax	5.2	1.9	7.4	5.5	4.6
Excise taxes	-15.4	15.7	1.7	1.0	1.5
Current taxes on income, wealth, etc.	7.6	4.0	4.1	5.9	4.2
Personal income tax	6.9	2.9	5.6	7.3	4.5
Corporate income tax	8.5	5.3	2.6	4.3	3.9
Capital taxes	-93.5	-10.0	1.0	2.0	1.0
Social contributions	**3.6**	**4.0**	**4.5**	**4.0**	**3.9**
Property income	**-2.5**	**-3.1**	**-1.5**	**15.9**	**14.5**
Other	**5.6**	**16.3**	**-18.1**	**7.0**	**4.1**
Tax burden *% of GDP*	**34.1**	**33.9**	**34.3**	**34.4**	**34.4**

Source: Year 2014 CZSO (2015a). Forecast and calculations by MF CR.

Table 3.5: Structure of Discretionary Measures (2016–2018)

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

	2016	2017	2018
Total revenue measures	**25.7**	**13.1**	**4.5**
Direct taxes	**8.5**	**7.1**	**0.1**
Personal income tax	0.7	4.8	0.0
Corporate income tax	0.0	1.4	0.0
Social security contributions	7.7	0.9	0.0
Indirect taxes	**14.7**	**7.2**	**4.4**
Value added tax	11.4	6.1	3.0
Excises	3.3	1.1	1.4
Other revenues	**2.5**	**-1.2**	**0.0**
Total expenditure measures	**-12.7**	**2.3**	**-0.1**
Social benefits	-3.6	3.4	0.0
Compensation of employees	-14.3	-1.1	-0.1
Healthcare	-9.3	0.0	0.0
Other expenditures	14.5	0.0	0.0
Total impact on balance	**13.0**	**15.4**	**4.3**
% GDP	0.3	0.3	0.1

Source: MF CR.

3.2.2 General Government Expenditure

The current fiscal prediction expects an average YoY growth rate of total expenditure of 2.2% in 2016–2018. In the percentage of GDP, there will be a decrease in general government expenditure to 41.2% of GDP in 2016. We also forecast a slight decrease in the relative percentage in the following two years of the outlook.

For 2016, we expect to maintain the considerable growth in the volume of employee compensation in the general government sector. The 3% increase in salaries in state administration will have a particular impact here from 1 November 2015 and the increase of CZK 0.4 billion in salaries of civil servants from 1 January 2016 to cover impacts of the Civil Service Act. The impacts of increases in salaries on general government expenditure and the related higher social security contributions paid by the general government sector are quantified at approximately CZK 13.0 billion in 2016. However, the net impact on balance is markedly lower (approximately CZK 7.5 billion) due to the fact that a considerable part of such an increase in the volume of employee compensation also represents an increase in general government revenues in the form of personal income tax and social security contributions. This amount also includes an increase in functional jobs in the general government sector, mainly in the ministries of education, defence and interior. An increase in contributions to the Cultural and Social Needs Fund from the current 1% of the wage bill to 1.5% in 2016 and to 2.0% in 2017 with an impact of CZK 0.7 billion in 2016 and another CZK 0.7 billion from 2017.

In 2016, we expect an average YoY increase in health care expenditure[6] of approximately 3.8%. An increase in expenditure caused by changes in the Reimbursement Decree contributes to this growth with an impact of approximately CZK 9.3 billion. The increase in expenditure is mainly caused by an increase in expenditure of inpatient care of approximately CZK 5 billion covering, among others, a 5% increase in tariff salaries in this health care segment (an impact of approx. CZK 3.1 billion). Further, expenditure of outpatient care increase (an impact of approx. CZK 1.4 billion) which is influenced by the abolishment of regulatory fees for clinical examination, and expenditure of medicine on prescription rose as well (an impact of approx. CZK 2.1 billion). The balance of the public health insurance system is planned as roughly balanced for 2016, as correspondingly with an increase in expenditure an adequate increase in revenues is expected which is influenced by a higher collection of health insurance contributions and an increased monthly payment from the state budget for state insured persons by CZK 25 to CZK 870 from 1 January 2016 with an impact of CZK 1.8 billion.

There will be changes in mandatory social benefits. In 2015, the government has decided the pension indexation to be higher in order to compensate the previous reduction, and from 2016 the indexation 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. Due to a low average increase in pensions given by this indexation scheme (of CZK 40 per month), a lump-sum extraordinary contribution of CZK 1,200 will be paid to pensioners in 2016, the impact of which is quantified at CZK 3.5 billion.

In 2016, we expect a considerable decrease in the expenditure of gross fixed capital formation (of approx. 24.8% YoY), which is caused by both the one-off inclusion of the leasing of the JAS-39 Gripen aircraft in the general government sector investment in 2015 (according to the ESA 2010 methodology) and a sharp decrease in investment co-financed from the EU funds in the new programming period 2014–2020. This development is natural, either due to a generally lower allocation in the new period or due to the considerable acceleration of drawdown from the programming period 2007–2013, especially in 2015. In the following years of the outlook, we expect a gradual increase in the drawdown of EU funds (and of the Czech financing of these projects), and therefore also an increase in gross fixed capital formation of 9.4% on average.

The year 2016 should already be the second year in a row when nominal interest cost of debt servicing will decrease, falling in relative terms to 1.1% of GDP which should remain stable for the whole period of the outlook. The Subchapter 3.2.3. deals with these issues in detail.

[6] To make it more clearly arranged, we provide health care expenditure separately, in accordance with its former definition as natural social benefits. Since the Autumn Notification 2015, hospitals have been mostly included in the general government sector, whereby health care expenditure is part of other items, such as employee compensation, intermediate consumption, etc. For more detailed information see Box 1.

Table 3.6: General Government Expenditure

	2014	2015	2016	2017	2018
CZK bn					
Total expenditure	**1813**	**1920**	**1912**	**1983**	**2050**
Final consumption expenditure	**842**	**872**	**901**	**925**	**948**
Collective consumption	388	401	370	362	377
Individual consumption	454	470	530	563	571
Social benefits in kind	140	146	153	160	169
Transfers of individual non-market goods and services	314	325	378	402	402
Social transfers other than in kind	**556**	**573**	**585**	**602**	**621**
Interest	**56**	**54**	**52**	**53**	**55**
Subsidies	**99**	**103**	**105**	**108**	**111**
Gross fixed capital formation	**177**	**240**	**180**	**201**	**216**
Other	**83**	**78**	**88**	**94**	**100**
Compensation of employees	**376**	**392**	**408**	**418**	**426**
Total social transfers	**695**	**719**	**738**	**762**	**789**
growth in %					
Total expenditure	**4.4**	**5.9**	**-0.4**	**3.7**	**3.4**
Final consumption expenditure	**2.9**	**3.6**	**3.3**	**2.7**	**2.4**
Collective consumption	2.0	3.6	-7.8	-2.1	4.0
Individual consumption	3.8	3.6	12.8	6.1	1.4
Social benefits in kind	4.8	4.2	4.9	5.1	5.1
Transfers of individual non-market goods and services	3.3	3.3	16.4	6.5	0.0
Social transfers other than in kind	**2.0**	**3.2**	**2.1**	**2.8**	**3.2**
Interest	**2.0**	**-4.4**	**-2.2**	**1.7**	**2.2**
Subsidies	**3.9**	**3.3**	**2.0**	**3.0**	**3.0**
Gross fixed capital formation	**16.8**	**35.3**	**-24.8**	**11.7**	**7.2**
Other	**16.2**	**-5.6**	**12.9**	**6.1**	**6.6**
Compensation of employees	**3.5**	**4.2**	**3.9**	**2.5**	**2.0**
Total social transfers	**2.5**	**3.4**	**2.6**	**3.3**	**3.6**

Source: Year 2014 CZSO (2015a). Forecast and calculations by MF CR.

3.2.3 General Government Debt

In 2015, we expect the nominal value of general government debt to be CZK 1,831.8 billion (i.e. 40.9% of GDP). Its growth from CZK 1,821.3 billion at the end of 2014 will primarily be given by the inclusion of the principal in connection with the lease of JAS-39 Gripen aircrafts of approx. CZK 10 billion. The CR is still one of the relatively least indebted countries in the EU (see Subchapter 2.3.2). The debt-to-GDP ratio level is relatively safely far from both the debt criterion of the Stability and Growth Pact and below the limit of the draft national debt rule (see Subchapter 6.2). We also expect a gradual decrease in debt-to-GDP ratio in the years 2016–2018, in total by approx. 0.8 pp down to 40.1%. The YoY decrease is shown in Table 3.7.

In comparison with MF CR (2015a) public hospitals and all allowance organisations have been included in the general government sector (Box 1). The impact of this change on debt is nearly negligible and is quantified at less than 0.1% of GDP in 2015.

The main factor for the forecast of the general government debt is the outlook of this sector's finances. The difference between the change in debt and the amount of the general government balance is reflected by the so-called stock-flow adjustment. It includes, for example, interest, net acquisition of assets, revaluation etc., and for the debt in relative terms, of course, also the contribution of the change in GDP growth in current prices. This impact is shown in Table 3.7.

Different changes in debt-to-GDP ratio and the deficit amount can be explained by the nominal GDP development when there is a decrease in debt-to-GDP ratio with stagnation of the debt amount and GDP growth. This will decrease due to an increase in nominal GDP that is determined by the dynamic growth of the Czech economy. A specific impact on debt in relative terms is calculated in Table 3.7.

Contributions of interest expenditure for a change in the ratio should stabilise, after the decrease in 2015 to 1.2% of GDP (a YoY decrease of 0.1 pp), at 1.1% of GDP in 2016–2018. Strong GDP growth and free liquidity surplus on the interbank markets as well as the positive perception of the CR on the financial markets are reflected in their decrease. It also manifested itself in issuing medium- and long-term state bonds on the primary market in the second half of 2015 with yields which reached a negative figure.

As far as other factors are concerned, the item Net Acquisition of Financial Assets will have a considerable impact on the change in debt in 2015. The year 2015 is another year in a row when the available liquidity on the State treasury accounts is used in order to finance the state budget deficit. In recent years, it has been gradually increased by extending entities falling in the State treasury system pursuant to the Act No. 218/2000 Coll. This operation supports savings of interest expenditure for the state debt management and a decrease in liquidity and refinancing risk of central government institutions. Its impact contributed to a 1.7% of GDP decrease in the relative general government debt in 2015.

The current outlook does not consider any revenues from privatisation transactions. In the event that such are realised and the revenues from privatisation are used for financing general government expenditure, the debt quota would fall further.

The highest share in the general government debt is held by the subsector of central government institutions. In 2015, its value is expected to be CZK 1,725.6 billion, i.e. 94% share in the total debt. Most debt of the subsector of central government institutions is state debt the amount of which has been decreasing since 2014 due to a better utilisation of liquidity of the State treasury for financing the state budget deficit, as mentioned above. The debt of the subsector of local government institutions represents approx. 6% share in the total debt. In 2015, we predict its amount at CZK 116.9 billion. Its value should gradually decrease to CZK 109.5 billion in 2016–2018. The reason for the prediction of the debt reduction is the expected surplus finances of this subsector. The subsector of social security funds has shown negligible debts for a long period of time.

Table 3.7: Gross Consolidated Government Debt

		2013	2014	2015	2016	2017	2018
General government	*CZK bn*	**1842**	**1821**	**1832**	**1900**	**1961**	**2011**
Central government	*CZK bn*	1736	1715	1726	1797	1860	1913
Local government	*CZK bn*	116	117	117	115	112	110
Social security funds	*CZK bn*	2	1	1	0	0	0
General government debt to GDP ratio	*% of GDP*	**45.2**	**42.7**	**40.9**	**40.9**	**40.7**	**40.1**
Contributions to change in debt-to-GDP ratio							
Change in debt	*p.p.*	0.5	-2.4	-1.9	0.1	-0.3	-0.6
Primary balance	*p.p.*	**-0.1**	**0.6**	**0.7**	**0.1**	**-0.3**	**-0.6**
Interest	*p.p.*	**1.3**	**1.3**	**1.2**	**1.1**	**1.1**	**1.1**
Nominal GDP growth	*p.p.*	**-0.4**	**-1.9**	**-2.1**	**-1.4**	**-1.5**	**-1.6**
Stock-flow adjustment	*p.p.*	**-0.4**	**-2.4**	**-1.6**	**0.2**	**0.5**	**0.5**
Difference between cash and accruals	*p.p.*	-0.2	0.0	0.1	0.0	0.0	0.0
Net acquisition of financial assets	*p.p.*	-0.4	-2.4	-1.7	0.2	0.5	0.5
Revaluation effects and other	*p.p.*	0.3	0.0	-0.1	0.0	0.0	0.0

Source: Data on general government sector and subsectors debt up to 2014 CZSO (2015a). Forecast and calculations by MF CR.

3.2.4 Cyclical Development and Breakdown of the Balance

In 2015, the negative output gap is closed in which the CR has found itself since 2009. For the years 2016–2018, we expect a slight increase in the positive output gap, and due to this we forecast both the positive and cyclical components of the general government balance.

In the item One-Off and Temporary Measures in 2014 one-off revenue of CZK 8.5 billion from the auction sale of new frequency bands was taken into account. One-off expenditure was mainly increased for the same year by the disbursement of compensation to the clients of bankrupt cooperative savings banks by the Deposit Insurance Fund in the amount of CZK 14.7 billion. For 2014, the total extent of one-off and temporary measures was −0.3% of GDP. The most important one-off expenditure in 2015 is the financial leasing of JAS-39 Gripen aircrafts of approximately CZK 10 billion. In 2015, there is also a one-off expenditure due to returns of gift tax collected in an unauthorised manner from emission allowances in the expected amount of CZK 4.6 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). For 2015 and 2016, this expenditure transfer is assumed in the volume of CZK 1 billion (2016 is the final year when it is possible to apply claims arising from the provided guarantee in terms of the Investment and Post Bank case). In 2016, the one-off revenue from the auction sale of frequency bands should reach CZK 1.3 billion, in expenditure we take into account the one-off payment to pensioners in the total costs of CZK 3.5 billion. We expect the total impact of one-off and temporary measures in 2017–2018 to be negligible.

Table 3.8: Structural Balance of the General Government (OECD Method)

		2014	2015	2016	2017	2018
Real GDP growth	%	2.0	4.5	2.7	2.4	2.4
Potential GDP growth	%	0.9	1.9	2.2	2.3	2.1
Output gap	% PP	-1.5	0.9	1.4	1.5	1.8
General government balance	% of GDP	**-1.9**	**-1.9**	**-1.2**	**-0.8**	**-0.5**
Cyclical budgetary component	% of GDP	-0.6	0.3	0.5	0.5	0.6
Cyclically adjusted balance	% of GDP	**-1.4**	**-2.2**	**-1.7**	**-1.3**	**-1.1**
One-off and other temporary measures	% of GDP	-0.3	-0.3	-0.1	0.0	0.0
Structural balance	% of GDP	**-1.1**	**-1.9**	**-1.6**	**-1.3**	**-1.1**
Change in structural balance (fiscal effort)	p.p.	**-1.1**	**-0.8**	**0.3**	**0.3**	**0.2**
Interest	% of GDP	1.3	1.2	1.1	1.1	1.1
Structural primary balance	% of GDP	**0.2**	**-0.8**	**-0.5**	**-0.2**	**0.0**
Change in structural primary balance	p.p.	**-1.2**	**-0.9**	**0.2**	**0.3**	**0.2**

Source: MF CR.

3.3 Sensitivity Analysis

The sensitivity analysis is conducted by means of a dynamic general equilibrium model developed by the MF CR (Aliyev, Bobková, Štork, 2013). The model enables us to analyse the impact 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 2016

The first scenario is based on an assumption that GDP growth in the EU will be approximately 2 pp lower in 2016 compared to the baseline scenario. This difference corresponds to the amount of standard deviation of growth for the period from 2000 to mid-2015.

Considering the close relationship between the Czech economy with the EU, this scenario would impact negatively on real growth in the Czech Republic 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 2016.

In the standard regime, the impacts of deterioration on the foreign trade balance would be mitigated, to a certain extent, by fluctuations in the CZK exchange rate. Our simulations, however, are predicted on the expectations, 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 2016.

The investment activity of firms would also be affected negatively, the growth rate of which would be 2% versus the baseline scenario expecting growth of 2.9%. Household consumption would record a decrease in the growth rate of approximately 1.4%, 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 and companies, as well as by lower taxes on consumption. Together with an increase in spending due to a greater amount paid out in unemployment benefits, general government deficits would deteriorate by 0.4 pp in the first year and by 0.2 pp and 0.1 pp, respectively, in the following years. Higher deficits would accumulate subsequently into higher debt, at 40.9% of GDP in the last year of the monitored period (versus 40.1% considered in the baseline scenario).

Alongside the subsequent recovery of foreign demand in 2017, the Czech economy would accelerate its growth.

3.3.2 Permanently Lower GDP Growth in the European Union

The second scenario analyses long-term unfavourable economic development in the EU, defined similarly as in the previous scenario. Thus, there is 2 pp lower growth again but now, however, in each year of the outlook (2016–2018).

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). In spite of that, debt as a percentage of GDP should continue to grow more quickly in the general government sector versus the baseline scenario, by up to 2 pp in the last year of the outlook.

Table 3.9: Model Scenarios of Macroeconomic Simulations

		2015	2016	2017	2018
Baseline Scenario					
Gross domestic product	*Y-o-Y in %*	**4.5**	**2.7**	**2.4**	**2.4**
Private consumption	*Y-o-Y in %*	2.9	2.5	2.3	2.3
Gross fixed capital formation	*Y-o-Y in %*	8.2	2.9	3.4	3.2
Exports	*Y-o-Y in %*	7.2	6.4	6.4	6.3
Imports	*Y-o-Y in %*	8.0	6.4	6.6	6.5
Inflation (CPI)	*Y-o-Y in %*	**0.4**	**1.1**	**1.9**	**1.9**
Unemployment rate	*in %*	**5.2**	**4.9**	**4.8**	**4.7**
General government balance	*% of GDP*	**-1.9**	**-1.2**	**-0.8**	**-0.5**
Gross government debt	*% of GDP*	**40.9**	**40.9**	**40.7**	**40.1**
Alternative Scenario I - Lower GDP Growth in EU in 2016					
Gross domestic product	*Y-o-Y in %*	**4.5**	**1.4**	**2.3**	**2.5**
Private consumption	*Y-o-Y in %*	2.9	1.1	1.8	2.2
Gross fixed capital formation	*Y-o-Y in %*	8.2	2.0	3.4	3.5
Exports	*Y-o-Y in %*	7.2	4.6	6.3	6.4
Imports	*Y-o-Y in %*	8.0	5.0	6.4	6.6
Inflation (CPI)	*Y-o-Y in %*	**0.4**	**0.8**	**1.5**	**1.7**
Unemployment rate	*in %*	**5.2**	**7.3**	**4.9**	**4.5**
General government balance	*% of GDP*	**-1.9**	**-1.6**	**-1.0**	**-0.6**
Gross government debt	*% of GDP*	**40.9**	**41.5**	**41.5**	**41.0**
Alternative Scenario II - Permanently Lower GDP Growth in EU					
Gross domestic product	*Y-o-Y in %*	**4.5**	**1.4**	**1.2**	**1.4**
Private consumption	*Y-o-Y in %*	2.9	1.1	0.7	0.6
Gross fixed capital formation	*Y-o-Y in %*	8.2	2.0	2.6	2.7
Exports	*Y-o-Y in %*	7.2	4.6	4.8	4.9
Imports	*Y-o-Y in %*	8.0	5.0	5.2	5.3
Inflation (CPI)	*Y-o-Y in %*	**0.4**	**0.7**	**1.5**	**1.5**
Unemployment rate	*in %*	**5.2**	**7.3**	**7.0**	**6.7**
General government balance	*% of GDP*	**-1.9**	**-1.6**	**-1.4**	**-1.2**
Gross government debt	*% of GDP*	**40.9**	**41.4**	**41.9**	**42.1**
Alternative Scenario III - Higher Interest Rate					
Gross domestic product	*Y-o-Y in %*	**4.5**	**2.6**	**2.2**	**2.2**
Private consumption	*Y-o-Y in %*	2.9	2.4	2.0	2.0
Gross fixed capital formation	*Y-o-Y in %*	8.2	2.7	3.0	2.9
Exports	*Y-o-Y in %*	7.2	6.4	6.4	6.3
Imports	*Y-o-Y in %*	8.0	6.4	6.6	6.5
Inflation (CPI)	*Y-o-Y in %*	**0.4**	**1.0**	**1.8**	**1.8**
Unemployment rate	*in %*	**5.2**	**5.1**	**5.2**	**5.1**
General government balance	*% of GDP*	**-1.9**	**-1.3**	**-0.8**	**-0.6**
Gross government debt	*% of GDP*	**40.9**	**41.0**	**40.9**	**40.4**

Source: Baseline scenario MF CR (2015c). MF CR calculations.

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 2016. In this scenario, we also assume an unchanged CZK/EUR exchange rate.

A higher interest rate reduces domestic supply, 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 of the outlook by the 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 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.

3.4 Long-term Sustainability of General Government Finance

In May 2015, the Ageing Report update (EC, 2015a) was issued, as it is every three years jointly published by the European Commission and the Economic Policy Committee within the Ageing Working Group. The Report contains projections of expenditure until 2060 traditionally in five areas – pensions, health-care, long-term care, education and unemployment benefits. MF CR actively participates in preparing this Report and processes forecasts of pension expenditures. The projections of other expenditures are calculated on the basis of a model developed by the EC and verified by the Member States.

In addition to macroeconomic and demographic assumptions and projections (see Table 3.10), approved reform measures are also factors influencing new projections.

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

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

Since 2011, indexation of pensions has been determined according to a fixed rule, not, as heretofore, by a minimal rule. The intention was to remove space for the government for discretion when determining the amount of pension indexation, in particular to avoid ad hoc increases in connection with the political cycle.

Pension projections also markedly reflect the influence of lower costs for disability pensions. In extending the number of disability pension types (from two – full and partial – to three groups), some previously full pensions were shifted to the second level (with the previous partial pension rate) and some of the previously partial disability pensions were shifted to the first level (which has a rate at two-thirds of the formerly partial disability pensions). In addition, this effect could be taken into account in the current projections to a larger extent than in the previous projections (EC, 2012).

In the sphere of early pensions, the penalty for early old-age retirement has been increased since 2010, thus reducing the attractiveness of retiring before reaching the statutory retirement age. Specifically, the penalty rate was increased from 0.9% to 1.2% for the period from the 361st day to the 720th day before reaching the statutory retirement age. The percentage assessment of old-age pension subsequently decreases by this percentage for every already commenced 90 days.

In addition, a so-called pre-retirement scheme has been established which enables those subscribing to a supplementary pension scheme (the 3rd pillar) to already draw funds up to 5 years before reaching the statutory retirement age without imposing any sanctions. However, pre-retirement is conditional upon having a minimum amount of accumulated funds in the private 3rd pillar so as to provide a monthly pension amounting to at least 30% of the average

wage. The old-age pension will not be subsequently reduced for the years when the pre-retirement benefits are drawn. The possibility to draw pre-retirement benefits was only used by 928 persons as at 30 June 2015, taking benefits of the average amount of CZK 9,459. For the time being, it is not possible to speak about any important impact on the long-term sustainability.

The current calculation method of pensions has been valid since 2011 when the reduction thresholds began to gradually change (in reaction to a ruling of the Constitutional Court published under No. 135/2010 Coll.). Their development from the form cancelled by the Constitutional Court to the final form valid from 2015 onwards can be found in Marval, Štork (2012). Basically, this change represented an adjustment in the "progressive taxation rate" of the assessment base for pension (see Section 15 of Act No. 155/1995 Coll., as subsequently amended). The assessment base (determined by earnings of the given person at the time when he or she was economically active) is divided into parts according to the reduction thresholds. Only the first (lowest) part is considered in its full amount. In the other parts, a reduced base for those parts is entered into the formula for calculating pensions. This regulation practically decreases the solidarity within the pension system. Except for the full inclusion of earnings in the lowest reduction interval, only 26% have been considered since 2015 above this limit up to 400% of the average wage. An assessment base exceeding 400% of the average wage will not be taken into account at all, as pension contributions are not paid from this part of income either.

In addition to the aforementioned parametric setting of the 1st pillar, it is necessary to remind the other two groups of measures in the pension system which have appeared from the 2012 projections.

The first of them is a temporary change in indexation from the total sum of consumer price index growth and one third of real wage growth into the total sum of one third of the consumer price index growth and one third of real wage growth for the period 2013–2015. This was followed by a change in the opposite direction, i.e. the extraordinary indexation of 1.8% in 2015 as compensation for the previous cuts in indexation. Understandably, the projection does not include the currently discussed one-off payment to pensioners (the measure proposed after the publication of the Ageing Report and does not influence the trend of future expenditure).

The second change is the pension reform effective since 1 January 2013, from when the pension savings pillar came to force.

The assumption of releasing two upper deciles (i.e. persons for whom releasing would be advantageous purely on the basis of financial calculation), which is approximately one million participants, would not cause any considerable reduction of expenditure. As was mentioned in MF CR (2013a), the difference would be around 0.1% of GDP. With respect to the fact that the figures on the current numbers of participants of the pension savings pillar are roughly at the level of one tenth, so the effect on expenditures is practically negligible in the long run.

In addition, the current Cabinet of Prime Minister Bohuslav Sobotka decided, in accordance with its Policy Statement, to cancel the pension savings pillar with effect from 1 January 2016, while the whole process should last until the end of 2016 (Act 163/2015). Until 31 March 2016, pension funds will inform the participants of the pension savings termination. Funds accumulated in this system will be returned to participants either by transferring to their accounts in the supplementary pension savings system (the 3rd pillar) or they will be paid to them to their bank accounts or in cash. Pension funds will make the payments to participants according to the selected method in the period from 15 October 2016 to 31 December 2016. According to the MF CR's estimate, the costs of cancelling the pension savings pillar can rise up to CZK 1 billion and will be reimbursed from the state budget.

The last update of long-term projections was carried out in autumn 2014 in connection with the planned publication of the 2015 Ageing Report. The results of projections were reviewed on 25 September 2014 in the Ageing Working Group, see Marval, Štork (2015).

Table 3.10: Demographic and Macroeconomic Assumptions of Projections

		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 20–64*	86.1	87.6	86.8	86.1	87.8	88.7
Participation rates females	*%, aged 20–64*	69.5	72.2	72.4	71.9	74.8	76.0
Total participation rate	*%, aged 20–64*	77.9	80.0	79.7	79.2	81.4	82.5
Unemployment rate	*%, aged 20–64*	7.0	6.3	6.0	6.0	6.0	6.0
Population aged 65+ over total population	*%*	17.1	20.2	22.3	24.7	27.5	28.2

Source: EC (2015a).

Table 3.11: Long-term Expenditure Projections 2010–2060

	2013	2020	2030	2040	2050	2060
Pension expenditure	9.0	9.0	9.0	9.0	9.6	9.7
Health care	5.7	5.9	6.2	6.5	6.6	6.7
Long-term care	0.7	0.9	1.0	1.2	1.2	1.4
Education expenditure	3.4	3.6	3.9	3.7	4.0	4.1

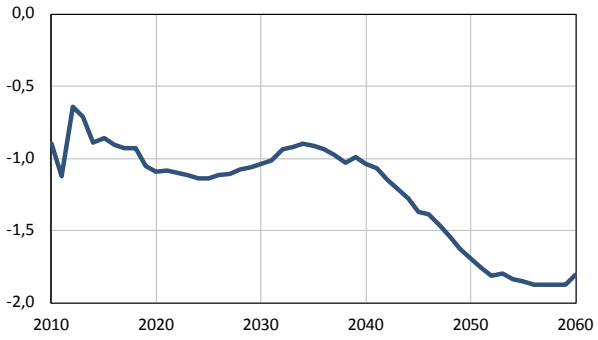
Note: Results are calculated for the ESA 2010 methodology. The new methodology affected only the level, not the dynamics of macroeconomic assumptions of the projections, which in the EC (2014) have been in the ESA 95 methodology.
Source: EC (2015a).

From the current perspective, the sphere of health-care expenditure from the public health insurance system seems to be the most problematic (see Table 3.11). They will increase from the initial level of 5.7% of GDP in 2013 to 6.7% of GDP in 2060. The quickest increase can be seen in expenditure of long-term care the volume of which will probably double. In volume terms, however, this constitutes a very small expenditure item.

As far as pensions are concerned, which have been the most important item so far in terms of an increase in expenditure, they should increase from 9.0% of GDP in 2013 to 9.7% of GDP in 2060. The negative factor still remains the demographic development, nevertheless, the current demographic projection (EC, 2014) is more favourable for the CR than the projection in the last rounds.

In addition to the aforementioned expenditure of pensions, the resulting projection of the pension system balance (see Graph 3.1), also considers revenues of the pension system, which are at the constant level of 7.9% of GDP in all years of the projection. We expect that until the 2040s this balance will be relatively stable at the level around −1% of GDP. In the following period, the unfavourable demographic development will take effect and the balance will fall nearly to −2% of GDP before the end of the projection horizon. It will reach its minimum in 2057, while the deficit will start decreasing in the last years. The reason is both the demographic development and the pension system reforms performed, in particular shifting of the statutory retirement age. The similar development is apparent practically in all projected components of pension expenditure. They always reach their maximum values just before the end of the monitored period (in 2057), which suggests a turnabout and subsequent decrease in expenditure beyond the horizon of the projections (after 2060).

Graph 3.1: Projection of Pension Account Balance
(in % of GDP)



Source: MF CR (2015b).

In contrast, the course of other projected expenditure components dependant on the age structure (health care, long-term care, education) shows a permanent increase in the whole horizon of the projection.

The sustainability analysis, based on long-term projections, identifies the extent of fiscal consolidation necessary to ensure the stability of public finances. So-called sustainability indicators are calculated, showing the scope of measures required for decreasing expenditure or increasing revenues as a percentage of GDP in order that they correspond to the required levels. According to the EC (2015c), currently, the S1 indicator, which expresses the percentage of GDP by which it is necessary to permanently improve the primary balance of the government sector so that state debt amounts to 60% of GDP in 2030, has reached 0.0% of GDP. The S2 indicator, which specifies the amount of fiscal effort necessary for fulfilling the intertemporal budget constraint on an infinite horizon, stands at 3.5% of GDP. The S0 indicator, which specifies possible risks (fiscal or financial) over a short period of time, is at the level of 0.09 for the CR for 2014, a figure significantly below the critical limit of 0.43.

4 Public Finances – GFS 2001 Methodology

4.1 Public Budgets in 2015

In 2015, a slight YoY deterioration of the general budget balance (GFS 2001 Methodology) by CZK 8.5 billion is expected, thus the deficit will reach CZK 83.5 billion, i.e. 1.9% of GDP. The YoY increase in the public budget deficit also occurs in spite of the economic recovery, particularly due to higher support for the local economy and a strengthening of fixed assets purchases (investments).

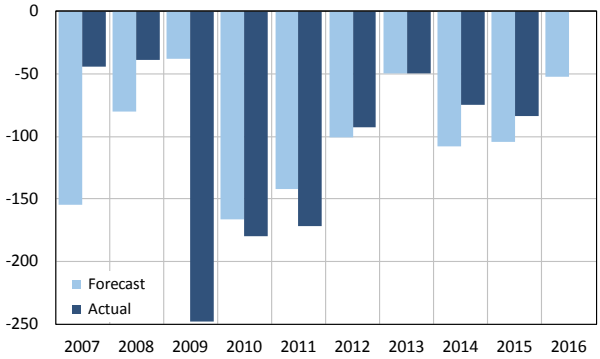
In comparison with the approved budget documentation (Act No. 345/2014 Coll.) for 2015, it can be expected that the public budget deficit should be lower by CZK 20.9 billion. Better economic results should be seen in the state budget (by CZK 19.9 billion) and self-governing territorial units (by CZK 4.5 billion). The state budget deficit should be CZK 84.0 billion (CZK 104.0 billion budgeted). Self-governing territorial units should show a surplus of CZK 10.7 billion (CZK 6.2 billion budgeted). Other entities of public budgets should achieve, in contrast to the original assumptions, a worse result of their finances – extra-budgetary funds in total by CZK 8.0 billion to a deficit of CZK 10.4 billion (of which the State Fund of Transport Infrastructure by CZK 6.7 billion from the balanced budget) and public health insurance should get from the original surplus of CZK 0.2 billion to a deficit of CZK 0.9 billion.

In comparison with the budget documentation, we expect revenues to be by CZK 47.5 billion higher. Revenues from the EU of the current and capital character, corporate income tax, excises and social security contributions will participate in this situation most. It is also possible to expect higher other revenues that are difficult to predict due to a large number of heterogeneous items. In comparison with the assumptions in the draft state budget for 2015, total tax revenues, including social security contributions will be CZK 18.0 billion higher; in annual terms, they will rise by 3.4%. Mainly due to nominal GDP growth, we expect the YoY reduction of tax burden of 0.4 pp to 31.2% of GDP, which represents a slight reduction of the average tax burden. Compared to the budgeted amount, within individual items there will be a decrease of collection of personal income tax only (by CZK 3.2 billion), mainly due to the renewal of the basic rate for working pensioners. In comparison with the budget documentation, other fiscally important taxes will see higher collection, for corporate income tax even by CZK 10.3 billion. VAT revenues should increase, in comparison with the budget documentation, by CZK 1.2 billion, i.e. by CZK 0.7 billion YoY. Graph 4.1 shows the comparison of expected (budgeted) and the actually achieved results of public budget finances from 2007 to 2016.

In 2015, public budget expenditure will probably be by CZK 26.6 billion higher than the original assumption. Their volume will increase by CZK 130.3 billion YoY, i.e. by 7.8%. Expenditure growth is largely related to increased investment activity.

Graph 4.1: Public Budget Balance (2007–2016)

(in CZK billion)



Note: In 2015 the current forecast in place of actual data.
Source: MF CR.

In comparison with the original budget, expenditure will be lower by CZK 8.2 billion in other expenditure, purchases of goods and services by CZK 4.9 billion, current subsidies to international organisations by CZK 5.3 billion and expenditures on social benefits by CZK 4.7 billion. On the other hand, in comparison with the budget documentation, current transfers to public and private non-financial companies will increase (in total by CZK 18.2 billion), compensation of employees by CZK 7.7 billion and particularly purchases of fixed assets by CZK 25.1 billion. Through acquisition of fixed assets, investment activity should strengthen, while the overwhelming part of this expenditure will be implemented by state budget and self-governing territorial units.

On YoY basis, public budget expenditure should grow mainly in terms of other capital expenditure by CZK 61.8 billion and also expenditure on social benefits (by CZK 20.6 billion).

At the end of 2015, debt should reach CZK 1,776.0 billion, i.e. 39.7% of GDP, whereby it would be by CZK 14.2 billion lower compared to the budgeted amount. Using the available liquidity of the State treasury played an important role here.

State debt continues to keep its dominant share in the structure of total public budget debt; it should make up 93.4% in 2015.

4.2 Public Budgets in 2016

In annual terms, the total public budget balance should increase considerably (by CZK 31.1 billion) and will be CZK −52.3 billion, i.e. −1.1% of GDP. The decrease of the public finances deficit is a result of the YoY improvement of finances of all their components, i.e. state budget (by CZK 12.3 billion), self-governing territorial units (by CZK 2.1 billion), health insurance companies (by CZK 1.5 billion) and extra-budgetary funds (by CZK 9.0 billion).

Compared to 2015, revenues should decrease by 0.7%, while expenditures are to decrease even more, by 2.4%. In relative terms, as a percentage of GDP, revenues should decrease by 1.7 pp YoY to 36.6%, in particular due to lower capital transfers from the EU. From the fiscal perspective, the expected development of tax burden can be evaluated positively, which is to increase by 0.5 pp to 31.7%. This will mainly be due to the introduction of more effective process instruments for tax collection. Tax revenues (without social security contributions) should increase by CZK 53.5 billion YoY. Indirect taxes (growth of CZK 34.7 billion) should participate in that particularly; direct or income taxes should be increased by CZK 18.9 billion. The estimated growth of social security contributions by CZK 25.3 billion reflects the positive expectation regarding the labour market development related to lower unemployment and the wage bill growth.

Expenditure should decrease by CZK 43.2 billion YoY which will be due to lower capital expenditure (by CZK 90.4 billion). In contrast, current expenditure will increase by CZK 47.2 billion. Compared to 2015, the percentage of total expenditure in GDP should decrease by 2.5 pp to 37.7%.

In 2016, the public budget debt should increase by 3.9%, i.e. by CZK 68.6 billion to CZK 1,844.6 billion (39.7% of GDP). Compared to 2014 and 2015, higher expected debt growth should occur mainly due to the state budget and state funds deficit.

After state budget, self-governing territorial units participate most in the public budget debt. Their debt level should decrease negligibly in 2016 compared to 2015. As in 2015, debt can also be expected in 2016 in extra-budgetary funds, because the State Agricultural Intervention Fund again assumes acceptance of a short-term loan of CZK 0.2 billion from the state budget. However, due to consolidation, the total debt of public budgets will not be increased by this operation. Similarly, debt is also consolidated for health insurance companies; nevertheless, these should not show any debt towards the state budget in 2016 either.

5 Fiscal Impulse

The economic recession and financial crisis at the end of the last decade and only gradual recovery from their consequences increased the interest of public and political officials in public finances. In addition to their medium-term development and long-term sustainability, discussed in the thematic chapters of previous Fiscal Outlooks, the question is becoming more and more important whether and how active fiscal policy influences the economic development measured by GDP growth. The term fiscal impulse came into use for this impact of fiscal policy on the economy. Its characteristics and various methods of estimation are covered in this chapter.

5.1 Definition

An ideal expression of fiscal impulse so that its calculation is burdened with the smallest possible uncertainties and at the same time it provides the most accurate picture of the fiscal policy influence does not exist. The methods of defining fiscal impulse can basically be divided into two main groups.

The first group of methods for fiscal impulse estimation includes approaches based on the direct examination of fiscal policy effect over time, i.e. on the development of revenue and expenditure of the general government sector. In literature sources (de Castro *et al.*, 2010), these methods are termed the input approach and currently are also primarily used by the MF CR. The main advantages of this approach mainly include a relatively simple method of fiscal impulse estimation and good comparability among various countries. The limitation of fiscal impulse defined as the development of the general government balance mainly does not consider the impact of items without any effect on the balance, including especially some loans and government guarantees, unless they are realised.

The second group includes methods based on understanding fiscal impulse as economic results, i.e. impacts of government policies on the economic growth measured most often by means of the GDP development. These methods are termed the output approach. The main advantage of the output approach is capturing impacts of fiscal policy, including the so-called induced effects (second-round effects) calculating the indirect stimulating influence of the government, e.g. through the acceleration of private investment, improved qualifications of the labour force or increasing the quality of the legal and investment environment. The biggest disadvantages of the output approach mainly include higher uncertainty of estimates and high demands for the data quality and the length of the time series used in estimating the output impulse by means of the economic modelling methods. The impulse values obtained by using the output approach are, if specific national models are used, also more difficult to compare between various countries. Finding the unified methodology for more countries is associated with the aforementioned data problems.

5.2 Input Approach

This subchapter deals with the approach based on examination of the input side of fiscal impulse (the input approach), i.e. the development of revenue and expenditure of the general government sector.

If we take into consideration that the reduction of government (tax) revenue as well as an increase in government expenditure (either investment or social expenditure, supporting private consumption) is a positive impulse, the simplest definition of fiscal impulse would be a mere YoY change in the general government balance with an opposite sign (i.e. expenditure growth and reduction of revenue represent a positive impulse). However, this definition is inconvenient in many aspects. Its most important disadvantage is the fact that it does not consider the economic cycle impact. A decline in government revenue that would occur due to the economic recession could be misinterpreted as the positive fiscal impulse.

We can overcome this disadvantage by using the structural balance of the general government sector, i.e. the balance adjusted for the economic cycle and one-off and temporary measures[7], specifically its YoY changes[8] with an opposite sign. Some uncertainty related to the estimate of potential product and cyclical adjustment of the balance[9] is acceptable with respect to the fact that we will manage to capture more accurately the amount of revenue and expenditure that are under the government's control

[7] In terms of fiscal impulse, one-offs are necessary to assess one by one.

[8] The YoY change in the structural balance of the general government sector is called fiscal effort. So if we define fiscal impulse only on the basis of the structural balance, there would be a difference compared to fiscal effort only in the sign.

[9] Advantages and restrictions of various methods for estimating potential product and cyclical adjustment of the balance is described, for example, in Lang, Mareš (2015).

and are not dependent on the economic cycle. The structural balance can be further adjusted for interest expenditure the development of which is not basically fiscal impulse. Thereby we would define fiscal impulse as a YoY change in the primary structural balance with an opposite sign. The overview of the development of the general government balance and its components is provided in Table 3.8. The definition of the fiscal impulse by means of the cyclically adjusted or structural balance is quite widespread in both the academic sphere and economic practice, the institutions using it include, for example, the EC (Turrini, 2008) and the IMF for a long time (Heller *et al.*, 1986). ECB (2010) uses the term "fiscal stance" for the development of a cyclically adjusted balance that is a part of a wider impulse describing the development of the whole general government balance.

For the Czech economy, it is appropriate to refine this method of estimating fiscal impulse further. The most important step is the adjustment for flows between the CR and abroad (especially the EU). On the revenue side, we can adjust impulse for the items D.74 (r) – Current international cooperation, and D.92 (r) – Investment grants that are not revenue from Czech taxes, thus not decreasing impulse. Understandably, government expenditure financed from these funds, however, is a part of fiscal impulse. On the expenditure side, we make adjustment for item D.76 – Value added tax and Gross national income-based EU own resources being the payment to the EU, does not flow into the Czech economy, thus not increasing impulse.

Furthermore, in our approach the so-called redirecting (transactions redirected through the general government sector i.e. subsidies for renewable energy sources) does not enter into fiscal impulse. These are certain amounts in revenue item D.214 (r) – Taxes on products except VAT and import taxes (i.e. excise taxes) and the related expenditure item D.319 (p) – Other subsidies on products. Another modification is adjusting fiscal impulse for science and research capitalisation – the revenue item P.12 – Output for own final use and the corresponding part of the expenditure item P.5g – gross capital formation. We also adjust fiscal impulse on both sides for payments of health insurance for state insured persons – it is a part of revenue item D.6132 (Households' actual non-pension contributions) and the related expenditure D.623 (Social assistance benefits in cash). In addition to their unsuitability for fiscal impulse quantification, it is necessary to add another viewpoint regarding these items. Although these items are neutral in terms of the balance, they would not be neutral any more with respect to different impacts on the economy from the revenue or expenditure side.

Through these adjustments we have obtained the fiscal impulse as a change in the primary structural balance adjusted for EU flows, redirecting of renewable energy sources, science and research capitalisation and health insurance for state insured persons. Fiscal impulse defined in this way can already provide a relatively meaningful picture of the effect of government revenue and expenditure. A calculation of these adjustments is provided in Table 5.1. It is apparent from the table that differences caused by this adjustment can be relatively considerable in certain years. In 2015, the highest impact on this difference should have a YoY increase in funds from current international cooperation and investment grants of CZK 38.0 billion. The data in the table also confirm that, after the restrictive fiscal policy which was characteristic for the CR until 2013, the current government has pursued a fiscal policy over the last two years which should support economic growth. It also results from the table that the expenditure (mainly investment) increase contributes to stimulation, while on the revenue side the government strives to increase revenue so that the development of the general government balance is not threatened with an increase in expenditure. Fiscal impulse in the years of the outlook should be rather restrictive, and thus should assist the levelling of the economic cycle. The seemingly relatively strong restriction of 2016 is caused mainly by the end of the extraordinary fiscal expansion of 2015 related to investment co-financed from funds of the programming period 2007–2013, and therefore returning to a certain equilibrium.

Table 5.1: Fiscal Impulse (Input Approach)

(Fiscal impulse as change of the primary structural balance of GDP in pp of GDP, other in % of GDP of year t)

	2012	2013	2014	2015	2016	2017	2018
Fiscal impulse as a y-o-y change of the primary structural balance (+expenditure/-revenue)	**-1.3**	**-1.1**	**1.2**	**0.9**	**-0.2**	**-0.3**	**-0.2**
Impact of adjustment of the impulse for EU flows, green transfers, science&research and the state-insured	**0.2**	**0.0**	**-0.3**	**-0.9**	**1.3**	**-0.2**	**-0.1**
Impact of revenue adjustment	0.2	-0.1	-0.3	-0.8	1.2	-0.3	-0.1
of which: EU flows	0.3	0.0	-0.3	-0.8	1.2	-0.3	-0.1
of which: green energy tranfers	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Impact of expenditure adjustment	0.0	0.2	-0.1	0.0	0.1	0.0	0.0
of which: EU flows	0.0	0.1	0.0	0.0	0.1	0.0	0.0
of which: green energy tranfers	0.1	0.1	-0.1	0.0	0.0	0.0	0.0
Impact of adjustment of the impulse for EU flows, green transfers, science&research and the state-insured	**-1.5**	**-1.2**	**1.7**	**1.7**	**-1.4**	**-0.1**	**0.0**
Revenue component of the adj. fiscal impulse	**-1.3**	**-1.5**	**0.2**	**-0.8**	**-1.3**	**-1.5**	**-1.3**
Expenditure component of the adj. fiscal impulse	**-0.2**	**0.3**	**1.5**	**2.6**	**-0.1**	**1.4**	**1.3**

Source: MF CR calculations.

5.3 Output Approach

After the appropriate definition of fiscal impulse for the input approach, it is also necessary to look at the problem from the perspective of output approach, i.e. try to answer the question in what manner the fiscal policy stance is reflected in the economic growth measured by the GDP performance.

In comparison with the input approach, the expression of the impact of the general government revenue and expenditure on GDP by means of the so-called fiscal multipliers is a more complicated method, which, however, perhaps describes the economic reality better. These multipliers describe the impact of the development of components of government revenue and expenditure on the GDP components over time. They are usually estimated by the vector autoregression method or by means of the general equilibrium models. It is necessary to point out that, unlike capturing fiscal impulse by the input approach, fiscal multipliers and the methods of their estimation are still a relatively controversial topic among economists. The results of fiscal multiplier estimates differ largely among studies, even for a single country. Different results of estimates are caused, in addition to various estimation methods, mainly by differing categorisations of relevant expenditure and revenue for multipliers as well as by the sensitivity of multipliers to the position of the economy in the economic cycle. An overview of multiplier estimates for the CR, taken from the paper by Ambriško *et al.* (2012), is provided in Table 5.2.

Differing composition of multipliers across different papers is evident from the table. While the first three papers aimed at the overall fiscal multiplier of the general government sector, in Prušvic (2010) we can find a division to the government revenue multiplier and government expenditure multiplier; Klyuev, Snudden (2011) contains division of partial revenue and expenditure items. We provide the signs of multipliers in order to the positive input impulse, i.e. the decrease in the government revenue and the increase in the government expenditure.

The insufficient length of the relevant data series remains a problem for many countries. For the countries in the post-transformation period, including the CR, it is difficult to capture structural changes correctly. In the event of insufficient data, fiscal multipliers are usually estimated expertly by using qualitative characteristics.

Table 5.2: Estimates of Government Revenue and Expenditure Multipliers

Barrel et al. (2004)	0.4
Král et al. (2005)	0.6
Ambriško et al. (2011)	0.3–0.6
Prušvic (2010)	
government revenue	0.25
government expenditure	0.47
Klyuev, Snudden (2011)	
personal income tax	0.13–0.2
social contributions	0.13–0.3
VAT and excises	0.13
capital taxes	0.03–0.06
government consumption	0.35–0.41
government investment	0.41–0.7
tranfers in general	0.08
tranfers to liquidity-constrained households	0.23

Source: Ambriško et al. (2012), papers in the table.

Table 5.3: Factors Determining the Size of the Fiscal Multiplier

Factors	Higher multiplier	Lower multiplier
Openness of the economy	ratio of imports to domestic demand < 30%	ratio of imports to domestic demand >= 30%
Rigidity of the labour market	strong unions or highly regulated labour market	weak unions and lowly regulated labour market
Size of automatic stabilisers	government expenditure to the GDP < 40%	government expenditure to the GDP >= 40%
Exchange rate regime	fixed rate, currency board, small crawling peg	free floating exchange rate
Government debt development	sustainable development and level of debt	unsustainable development or level of debt
Effectivity of the administration	effective public exp., succesful tax collection	ineffective public exp., limited tax collection

Source: Batini et al. (2014).

Table 5.4: GDP Development and the Fiscal Impulse

		2012	2013	2014	2015	2016	2017	2018
Fiscal impulse (adjusted input approach)	*% of GDP (t)*	**-1,5**	**-1,2**	**1,7**	**1,7**	**-1,4**	**-0,1**	**0,0**
Output impulse based on the expert estimate of the mulitplier	*% of GDP (t)*	**-0,7**	**-0,8**	**-0,6**	**0,9**	**0,9**	**-0,7**	**-0,1**
Expert estimate of the multiplier		0,5	0,5	0,5	0,5	0,5	0,5	0,5
Output impulse based on mulitpliers according to:								
Barrel et al. (2004)	*% of GDP (t)*	**-0,6**	**-0,6**	**-0,5**	**0,7**	**0,7**	**-0,5**	**0,0**
Král et al. (2005)	*% of GDP (t)*	**-0,9**	**-0,9**	**-0,7**	**1,0**	**1,0**	**-0,8**	**-0,1**
Ambriško et al. (2011)	*% of GDP (t)*	**-0,6**	**-0,7**	**-0,5**	**0,7**	**0,8**	**-0,6**	**-0,1**
Pružvic (2010)	*% of GDP (t)*	**-0,2**	**-0,5**	**-0,4**	**-0,2**	**0,7**	**0,9**	**-0,4**
Klyuev, Snudden (2011)	*% of GDP (t)*	**-0,1**	**-0,3**	**-0,2**	**0,7**	**0,9**	**-0,5**	**0,3**
Revenue component of the output impulse	*% of GDP (t)*	-0,1	-0,2	-0,2	0,0	-0,1	-0,2	-0,2
Expenditure component of the output impulse	*% of GDP (t)*	0,1	-0,2	0,0	0,7	1,0	-0,3	0,5
Gross domestic product, s. p.	*% growth*	**-0,9**	**-0,5**	**2,0**	**4,5**	**2,7**	**2,4**	**2,4**
Output gap	*% PP*	**-2,2**	**-3,3**	**-1,5**	**0,9**	**1,4**	**1,5**	**1,8**

Source: MF CR calculations.

The overview of factors influencing the size of an expertly estimated fiscal multiplier is provided in Table 5.3. The subsequent estimate of a multiplier is relatively simple. One point is added for each characteristic met by a given state for a higher multiplier. The states with a total sum of 0–3 points are identified as countries with low multipliers, the states with a total sum of 3–4 points have average multipliers and the states with a total sum of 4–6 points have high multipliers. If expressed in numbers, a low multiplier is within the range of 0.1–0.3; an average multiplier within the range of 0.4–0.6; and a high multiplier within the range of 0.7–1.0. For the CR, we could arrive at the number of 3–4 points – the economy is open, the labour market rigidity is a relatively subjective indicator, the amount of government expenditure is (slightly) higher than 40% of GDP, the exchange rate cannot be currently claimed to be completely free floating due to the CNB's commitment, the development of government debt is sustainable and public administration is functioning relatively effectively. According to this method, the CR should be one of the states with a multiplier value within the range of 0.4–0.6. The result of output impulse calculation based on the assumption of an expertly estimated multiplier of the value of 0.5 and the size of the fiscal impulse obtained through the input approach (i.e. YoY changes in the primary structural balance adjusted for EU flows and other items), considering the time lag of one year of GDP after the input impulse, is provided in Table 5.4.

If we proceed from the values of multipliers according to studies listed in Table 5.2, we can also calculate, while using input impulse as a change in the adjusted primary structural balance, the size of the output fiscal impulse. For the calculation, we have assumed the one-year lag of the GDP development after the input impulse, with an exception of multipliers according to Pružvic (2010), where a two-year lag is used. The calculation results are also provided in Table 5.4.

It is apparent from the table that the output impulse obtained by the expert estimate of the multiplier and based on the studies not distinguishing the size of the multiplier for specific revenue and expenditure items mirrors the input impulse development with a one-year lag. Output impulse according to Pružvic (2010) has a two-year lag behind the input impulse and the results suggest a possible pro-cyclical fiscal policy, where the current fiscal expansion is reflected into the expected GDP growth and contributes to the widening of the positive output gap in the years of the outlook. We can also notice that the output impulse according to the multipliers of Klyuev, Snudden (2011) suggests a positive contribution of fiscal policy to GDP growth in 2018. It is mainly caused by a higher estimate of the government investment multiplier compared to other items of the general government revenue and expenditure.

5.4 Conclusion

There are several concepts how to measure fiscal impulse under the so-called input approach, with the structural balance concept being used most often. In its approach, MF CR adjusts the development of the general government balance not only for cyclical and one-off impacts, but also for other items out of which the EU funds are the most important. In the past years, there was a pro-cyclical restrictive fiscal policy that helped consolidate public finances, but at the expense of the prolongation of the economic recession. The current setting of fiscal strategy seems rather counter-cyclical. After the positive fiscal impulse of 2014 and 2015 that should contribute to the strengthening of the economic recovery, fiscal policy shall be slightly restrictive and protect the economy from overheating in the years of the outlook when we already expect sufficiently robust economic growth and a markedly positive output gap.

The size of fiscal multiplier estimates for the CR quite differs in literature sources. Their size ranges from approx. 0.1 to 0.7 (however, mostly around 0.5). Estimates of multiplier sizes will be the subject of a further examination at the MF CR.

However, it is important for the interpretation of the fiscal policy stance that the selection between the total multiplier and partial multipliers for specific items of the general government revenue and expenditure also has an impact on the fiscal impulse development. While calculations of the output impulse with the total multipliers mirror, with a time lag, the results of input approach and suggest in 2017 and 2018 a negative impact of fiscal policy on the GDP development, calculations based on the use of partial multipliers do not confirm this picture. As documented in Table 5.4, fiscal restriction due to negative impulse would occur only once in 2017, according to the Klyuev, Snudden (2011) method. For 2018, this method already assumes a positive fiscal impulse, and therefore an expansive fiscal policy stance. Estimates of the output impulse according to Prušvic (2010) also suggest possible pro-cyclical effects of current fiscal policy, while a longer lag of the development of GDP after the input impulse contributes mainly to this procyclicality. Results of output impulse estimates according to these methods suggest that it is not necessary to fear in the horizon of the outlook, with respect to stability of the expected economic growth and an increasing positive output gap, that the current fiscal policy stance would be too restrictive. We can expect that under these conditions there is space for a certain tightening of fiscal policy that would further strengthen the condition of Czech public finance and also contribute to the long-term sustainability.

6 Fiscal Framework Reform in the Czech Republic

The Government of the CR prepared and approved on 23 February 2015 (Resolution No. 114) a package of three legal regulations aimed at implementing Council Directive No. 2011/85/EU of 8 November 2011 on requirements for the budgetary frameworks of the Member States, thus strengthening the Czech fiscal framework considerably. The regulations, now in the second reading in the Chamber of Deputies of the Parliament of the CR, include elements leading to an increasing of public finance transparency, the establishment of a new institution for monitoring public finances and compliance with fiscal rules, the numerical rule for the whole general government sector in the form of the general government debt limit and partial fiscal rules for the state budget and state funds, as well as for local government budgets.

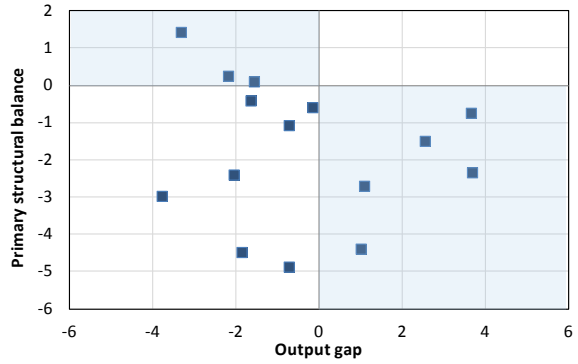
Although the draft reform of the fiscal framework was included in the Convergence Programme of 2014 (MF CR, 2014) and the wording approved by the government was included in the Convergence Programme of 2015 (MF CR, 2015b), the narrowed space of the format of these publications did not make it possible to present the intentions of acts in more detail. The objective of this thematic chapter, taking information predominantly from preambles to legal regulations, is therefore to inform of the content of the current wording.

The main purpose of the whole legal regulation is to ensure sound and long-term sustainable public finances that are to support adequately at the same time "…economic and social development, employment and intergeneration cohesion" (Art. 1 of the draft Constitutional Act). The support of the economy and employment is primarily a matter of the expenditure rule for the state budget and state funds, the parameters of which are derived, among others, from the structural balance that is independent of cyclical fluctuations of the economy. The intergeneration cohesion is ensured by the rule for the maximal debt amount of the whole general government sector. Together with the debt rule for municipalities and requirements of the balanced economy for a number of other units of the general government sector, these rules ensure sound and long-term sustainable public finances in the CR. The draft is based on the good practice of a number of developed economies, international recommendations and, understandably, the requirements of Council Directive No 2011/85/EU. It introduces elements limiting information asymmetry, supporting the credibility, flexibility and transparency of general government sector finances.

6.1 State Budget and State Fund Expenditure Rule

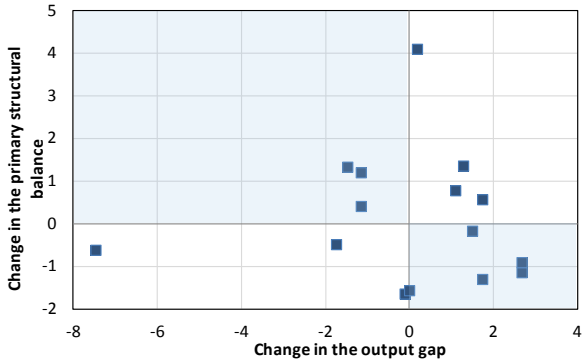
The main idea of the numeric fiscal rule for the state budget and state funds is to minimise impacts of cyclical fluctuations on the expenditure side of budgets by means of elimination of structural deficits above the framework of the medium-term budgetary objective and strengthening medium-term budgeting dimension. The current budget and fiscal framework suffers from several basic shortcomings. The public finance reform of 2003 formally introduced a relatively modern method of rolling the state budget and state fund expenditure as well as the medium-term orientation of budgets, nevertheless the framework can be easily modified in practice in all directions, which leads to a tendency toward the pro-cyclical fiscal policy (Graph 6.1 and Graph 6.2) and a permanent structural deficit exceeding the medium-term budgetary objective (Graph 6.3).

Graph 6.1: Static Outlook of the Fiscal Policy



Note: Highlighted quadrants in the graph show pro-cyclical fiscal policy.
Source: MF CR.

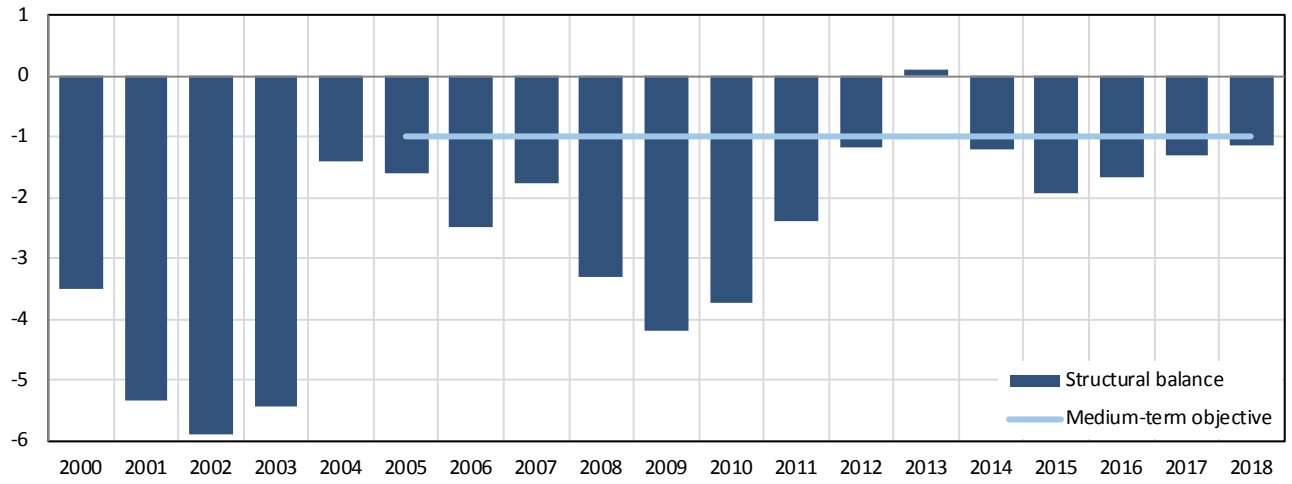
Graph 6.2: Dynamic Outlook of the Fiscal Policy



Note: Highlighted quadrants in the graph show pro-cyclical fiscal policy.
Source: MF CR.

Graph 6.3: Structural Balance and the Medium-term Objective in the Czech Republic

(in % of GDP)



Note: The Medium-term Objective has been implemented by the Stability and Growth Pact reform of 2005 (see Council Regulation (EC) No 1055/2005).
Source: MF CR.

The state budget and state fund expenditure will be primarily derived from the structural deficit of the general government sector in the amount of 1% of GDP. This amount corresponds to the medium-term budgetary objective for the CR and guarantees that during usual fluctuations the total general government deficit of 3% of GDP will not be exceeded (for determining values of structural deficits for individual countries – see EC, 2013), which is the limit value according to the Stability and Growth Pact. The starting point for the determination of the expenditure volume of the state budget and state funds is the prediction of the total revenues of the general government sector, the calculation technique is described in detail in Box 3. Their amount, as the estimated basic macroeconomic indicators, will be verified by a panel of independent prognostic experts in the so-called Committee for Fiscal Forecasts. The impartiality of the MF CR's forecasts will thereby be supported and their transparency will be strengthened. Total revenues of the general government sector will be then adjusted for the economic cycle effect and one-off or other short-term temporary operations, while the related methodology will be developed by the MF CR in cooperation with the National Budgetary Council supervising its fulfilment. The general government expenditure will then be determined as the total sum of the general government structural revenues and one percentage point of the forecast nominal GDP.

In order to ensure the fiscal rule flexibility, it is allowed that the total expenditure can be increased by escape clauses. However, these are exactly defined and made up of three groups of extraordinary expenditure under the following circumstances:

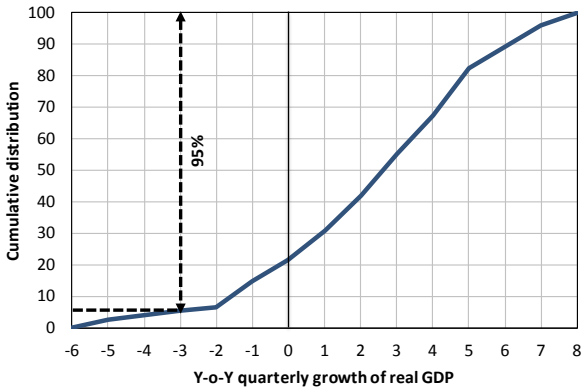
- state of emergency or war; and measures to increase the defence of the state,
- remediation of the consequences of natural disasters; expenditure related to the international contracts performance and other international obligations of the state,
- deep recession during which automatic stabilisers are not sufficient; deep recession is defined as quarterly YoY decrease in real GDP at least by 3%. Graph 6.4 shows the distribution of quarterly YoY real GDP growth according to which approx. 95% of growth values were greater than −3% since 1997 in the CR. Graph 6.5 shows that escape clauses would be taken into account throughout the year 2009 during the recession years of 2008 and 2009.

From the total expenditure of the general government sector determined in this way, after taking account of other general government sector finances and making methodological modifications between the ESA 2010 methodology and the national budgeting methodology, the expenditure framework of the state budget and state funds is derived.

With respect to the fact that the forecasting of the structural balance as well as of other macroeconomic and revenue items of the general government budget is burdened with a considerable degree of uncertainty, the automatic correction mechanism is introduced by minimising the occurrence of systematic errors in expenditure forecasts. When the accumulation of errors of all the previous forecast expenditure compared to real expenditure exceeds 2% of GDP, this mechanism initiates the corrective procedure linearly decreasing in the following 3 years the total expenditure just by this excess, always by one third.

Graph 6.4: Distribution of the Real GDP Growth in the Czech Republic

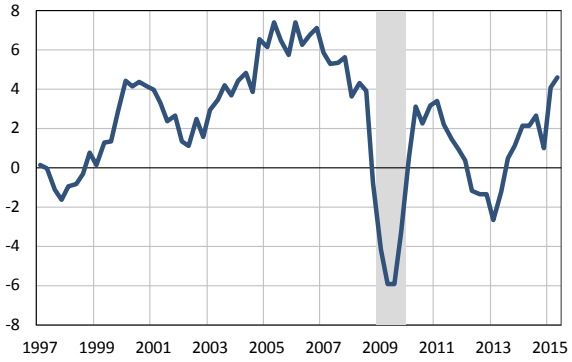
(in %)



Note: The cumulative distribution of the quarterly y-o-y growth of real GDP calculation is based on actual values of real GDP development in the period of 1Q 1997 to 2Q 2015.
Source: CZSO (2015a). MF CR calculations.

Graph 6.5: Y-o-Y Real GDP Growth in the Czech Republic

(in %)



Note: The grey area in the graph marks the period of y-o-y decrease of quarterly real GDP by more than 3%.
Source: CZSO (2015a). MF CR calculations.

Box 3: Expenditure Rule Technique

The total planned (budgeted) expenditure for the year t+1 are determined maximally as $\overline{G}_{t+1}$:

$$\overline{G}_{t+1} \le \sum_i E_t\left(R_{i,t+1}\right)\cdot E_t\left(\frac{Y^*_{t+1}}{Y_{t+1}}\right)^{\varepsilon_i} + E_t\left(OR_{t+1}\right) - k_{t+1} - E_t\left(M_{t+1}\right) + E_t\left(U_{t+1}\right) + 0.01\cdot E_t\left(Y^N_{t+1}\right),$$

where:

ε_i is sensitivity of i-th category of tax revenues to the output gap,

$E_t\left(R_{i,t+1}\right)$ are the expected (forecast) i-th revenues in the year t for the year t+1 sensitive to the output gap (as sensitive we consider only value added tax, excise taxes, corporate income tax, personal income tax and social contributions),

$E_t\left(\frac{Y^*_{t+1}}{Y_{t+1}}\right)$ is the expected share of the level of potential product (Y^*) in the year t and real GDP (Y) for the year t+1,

$E_t\left(OR_{t+1}\right)$ is the expected other (non-sensitive to the cycle) general government revenues in the year t for the year t+1,

$E_t\left(M_{t+1}\right)$ is the expected amount of one-off and temporary measures in the year t for the year t+1,

$E_t\left(U_{t+1}\right)$ is the expected amount of items specified by escape clauses in the year t for the year t+1,

$0.01\cdot E_t\left(Y^N_{t+1}\right)$ identifies 1% of the expected nominal GDP in the year t so that the planned structural balance for the year t+1 is a deficit in the amount of 1% of GDP,

k_{t+1} is the level of dissolving the corrective account which is calculated in the year t for the year t+1 on the basis of the reality known from the previous year (the corrective account is dissolved in expenditure in the year t+1 gradually always when its amount exceeds in the year t 2% of GDP of the year t−1, with one third of the difference between the real amount of the corrective account and 2% of nominal GDP), i.e.:

$$k_{t+1} = \max\left[\left(A_t - 0.02\cdot Y^N_{t-1}\right)/3;0\right]$$

The corrective component is defined as: $A_t = A_{t-1} + \left(G_{t-1} - \hat{G}_{t-1}\right) - k_t$,

where A_t identifies the amount of the correction component in the year t that is calculated as the amount of the correction component from the previous year (A_{t-1})and the difference between the really achieved expenditure in the year t−1 (G_{t-1})and the amount of expenditure to which the rule was applied ex post from knowledge of the real values of the year t−1 ($\hat{G}_{t-1}$):

$$\hat{G}_{t-1} = \sum_i R_{i,t-1}\cdot\left(\frac{Y^*_{t-1}}{Y_{t-1}}\right)^{\varepsilon_i} + OR_{t-1} - k_{t-1} - M_{t-1} + U_{t-1} + 0.01\cdot Y^N_{t-1} + C_{t-1}$$

where C_{t-1} are additional expenditure measures arising without direct impact of the government and are not defined by other escape clauses (e.g. rulings of the Constitutional Court).

6.2 General Government Debt Rule

All units of the general government sector are obliged to take care of such development of the whole sector, "… which does not violate long-term sustainable condition of public finances" (Art. 3 of the Constitutional Act). In the event that even in spite of applying the other rules and measures the general government debt would increase considerably, the procedures of the debt burden rules shall apply.

The rule itself for the amount of the general government debt has *de facto* 2 limits. One is purely the national limit and applies to the general government debt amount of 55% of GDP adjusted for the reserve of funds originated by financing the state debt. In this case, the government must submit to the Chamber of Deputy such drafts of the state budget, budgets of state funds and medium-term outlook leading to long-term sustainable public finances. The duty to submit drafts of balanced budgets of health insurance companies is also defined. With this level of the general government debt, local governments are bound to approve only balanced or surplus budgets, the exception is the possibility to cover the deficit using funds accumulated from the previous years or a loan from another government institution. Last but not least, all other institutions of the general government sector must not receive any long-term debt obligations in this period (the exceptions are the obligations for projects co-financed from the EU or obligations necessary for fulfilment of decisions of a court or state authority).

The exactly defined escape clauses also apply to the debt fiscal rule, similar to those for the rule of state budget and state fund expenditure. The limiting measures required above shall not apply:

- for 24 months when Czech Statistical Office announces QoQ decrease in the seasonally adjusted real GDP at least by 2% or YoY decrease in quarterly real GDP at least by 3%,
- in case of state of emergency, state of war or during the emergency measures announced to increase the defensive capacity of the state,
- for 24 months from the quantification of the amount exceeding 3% of GDP regarding expenditure necessary to remedy of the consequences of natural disasters and expenditure related to the international contracts performance or other international obligations of the CR.

The second limit of the debt rule is the common limit for all EU countries resulting from effective European standards. With the level of the gross debt of the general government sector above 60% of GDP, the government shall propose measures for decreasing the debt guaranteeing the average annual decrease in the debt of 5% of excess above 60% of GDP (see the EU Council Regulation No. 1467/1997).

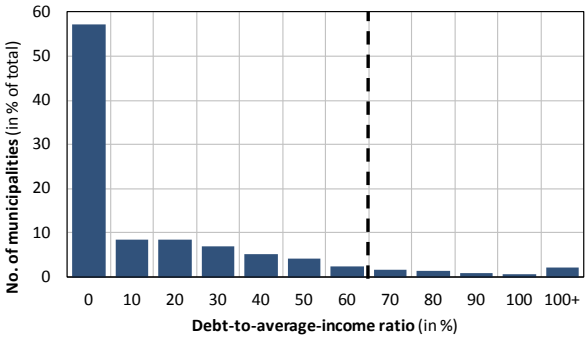
6.3 Local Government Debt Rule

Although the local government debt currently makes up only 6.4% of the total general government debt, the curtailing the potential high increase in indebtedness (e.g. at the turn of the millennium, the debt was increasing by two-digit rates and it has grown by 66% for the last 10 years) is crucial. Irresponsible finances of local governments can result in insolvency and, as a result of that, the governing of its territory or the right of its citizens to autonomous local government guaranteed by the Constitution can be threatened.

For these reasons, the set of Acts on budgetary responsibility includes the rule of the so-called prudent debt level of the local governments. The rule lays down that the local government debt must not exceed 60% of the average of its total revenues for the last 4 years. The application of average revenues for the last 4 years mitigates cyclical or other fluctuations in local government finances. The limit of 60% was determined on the basis of an empirical analysis. Graph 6.6 and Graph 6.7 show the distribution of debts in all municipalities and regions in the CR for 2014. In total, 3,577 (57.3%) of towns and municipalities had no debts in 2014 and only 445 towns and municipalities (7.1% of the total number) had debts higher than 60% of the average total revenues. The average indebtedness (the non-weighted average) reached 15.8% and, after excluding towns and municipalities with no debt, 37%. The situation in regions is slightly different. No region exceeds the level of 60%, but none of them was without debt in 2014, while the average indebtedness was nearly 20%.

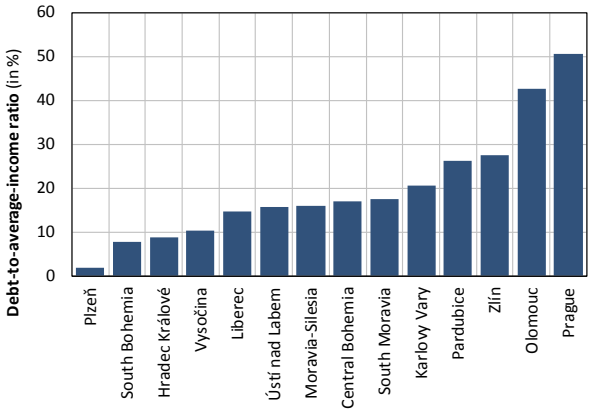
If any local government exceeds the debt level of 60%, it should start decreasing it at least by 5% of such exceeding per year. If it does not decrease its debt level in this way, a part of revenues of shared taxes is held falling short of the amount required by law. The funds frozen can only be used for debt repayment. This mechanism will automatically ensure that local governments are not penalised by fines or other sanctions when they exceed the debt level limit, but savings are automatically created for them, which are used for decreasing the relative debt level.

Graph 6.6: Evaluation of the Rule for Municipalities for 2014



Note: The value at the y-axis shows the number of municipalities up to the specified ratio of debt to average income. E.g. the first column shows the number of municipalities with no debt, the second column with the debt ratio of 0 to 10% of average income.
Source: MF CR.

Graph 6.7: Evaluation of the Rule for Regions for 2014



Source: MF CR.

6.4 Independent Fiscal Institution

On the level of a constitutional act, it is proposed to establish an independent fiscal institution – the National Budgetary Council (hereinafter referred to as the Council). The institution will be responsible for monitoring the development of general government sector finances, monitoring and evaluation of compliance with fiscal rules. The proposal of the Council was selected so that it corresponds to international good practice. The following text presents the definition of the Council in nine OECD principles for independent fiscal institutions (OECD, 2014).

Principle No. 1: Consensus across the political spectrum

With regard to the embodiment of the Council and its main mission at the level of the constitutional act assuming the consent of at least 3/5 majority of all Members of Parliament and 3/5 majority of present Senators, the prerequisite for its establishment is achieving a wide political consensus, mandate stability and a clear role in relation to the executive and legislative bodies.

Principle No. 2: Independence and non-partisanship

The number of the Council members is determined at the level of the constitutional act. The Council members are elected by the Chamber of Deputies, its chairman at the proposal of the government, the other members at the proposal of the Senate and the Czech National Bank. Its functional independence is given by law. The membership in the Council is not compatible with any function in a political party or political movement, with the membership in managing, supervisory and control bodies of a legal entity doing business, with the function of Member of Parliament, Senator, the government member, judge, public prosecutor, the member of the European Parliament, the member of the European Commission, the member of the Board of the CNB, etc.

The requirement for the professional qualification of the candidate for the Council member is also explicitly specified in law. The Council member may only be a person with a completed university degree in the master study programme and is a recognised and experienced person in the sphere of finances or macroeconomics with practical experience in the given field of at least ten years.

The term of office of the Council member is defined by law for six years. Thus, the length of term of office exceeds the regular election cycle. Each person may be a Council member for a maximum of two terms of office. The law also specifies clear conditions under which the function of the Council member expires. In any other cases, the Council member may not be removed. The Council members perform their function as a full-time job and their remuneration is directly determined by law. The Council has its own apparatus at disposal which it manages itself, including the formation/termination of employment relationships. Any external influences connected with its activity are limited by law.

Principle No. 3: Clear and firm mandate

The stability of defining the Council's scope of authority is ensured by its embodiment at the level of the constitutional act to the extent permitted by the constitutional legal standard. Types of reports and other outputs of the Council are defined by law, including the group of persons for whom they are drawn up or to whom they are submitted. Primarily, however, the Council draws up and submits two reports to the Chamber of Deputies, one on compliance with numerical fiscal rules and the other on the long-term sustainability of public finances. The part of the second aforementioned report is the evaluation of impacts of government policies on the long-term sustainability of public finances. Within its mandate, the Council is also independent, as regards

another type of reports or analyses. It informs about the plan of its activities on its website annually.

With its position, the Council is involved in the budgetary process as a guarantor of following the agreed methodologies and procedures. The Council also provides its standpoint on the value of the correction component of the expenditure rule for the state budget and state funds, on the impact of one-off and temporary operations on general government revenue and expenditure as well as on additional expenditure related to the expected deep economic decline (activation of the escape clause for the expenditure rule). The Council is also charged with announcing the amount of the general government debt according to the ESA 2010 methodology and adjusting it for the reserve liquidity of the MF CR obtained by issuing state bonds. The Council is also expected to be involved in the methodology of cyclical adjustment of the general government balance.

Principle No. 4: Credible and sufficient resources for the mandate performance

The Council, including its approx. ten-member supportive apparatus of experts, will be financed independently from a separate chapter of the state budget. The draft of its budget and medium-term outlook is submitted by the Council to the MF CR and the Budget Committee of the Chamber of Deputy that also supervises other independent chapters of the state budget.

The control of the Council finances is to be ensured both by the annual report and the report on budget fulfilment submitted by the Council to the MF CR and the Budget Committee of the Chamber of Deputy within three months from the end of the calendar year. The annual report of the Council will be available to the public.

Principle No. 5: Relationship with the legislative power

As already mentioned in Principle No. 3, the Council publishes and presents to the Chamber of Deputies minimally two types of analytical reports. The participation of the chairman or another member of the Council is assumed in meetings of the Chamber of Deputies or in the Senate where standpoints of the Council are discussed.

Principle No. 6: Access to information

The Council has power defined by law to require relevant information and cooperation of competent public institutions in performance of its mandate. The law also orders units concerned to provide the Council with information and cooperation.

Principle No. 7: Transparency

The Council publishes all its recommendations, standpoints, reports, both of an analytical character and those concerning its finances, on its website (see also Principle No. 3 and Principle No. 4). It thereby ensures that all key decisions, standpoints and the picture of its management are transparent and freely accessible to any user.

Principle No. 8: Effective communication

One of the main reasons for establishing the Council is also strengthening communication and the informing of electors. The Council should contribute to providing non-distorted information or notifications and mitigate the asymmetric access to information. The result should be, among other things, to further increase the transparency of public finances and using money from tax payers as well as strengthening responsibility for individual decisions.

Principle No. 9: External evaluation of own activity

The final accounts of the Council will be annually verified by an independent auditor. For the external evaluation of the Council's activity resulting from its mandate, not only discussions in the Chamber of Deputies when the Council's reports are debated will be used, but also, to a certain extent, competitive of academic or other scientific and research environments orienting the sphere of its interest on public finances. Last but not least, it is expected that the Council will join the network of European independent fiscal institutions whereby it will also be able to transfer a part of know-how to the local environment.

6.5 Transparency

The strengthening of the public finance transparency completes the whole picture of the fiscal framework reform. Fiscal data on particular subsectors of general government sector, data on contingent liabilities (government guarantees, non-performing loans and liabilities stemming from the operations of public corporations), data on tax allowances, shares held by general government sector in private and public corporations and data on liabilities stemming from public private partnership are published on MF CR website. Published data set in release calendar are complete with methodological description.

Medium-term budgeting dimension is strengthened by publicly available budget draft and medium-term outlook of each general government sector unit. The draft of Act on Fiscal Responsibility also includes annually updated "Budgetary Strategy of Public Sector Units" for the following 3 years. This strategy is based on the Convergence Programme of the CR and completes it with other aspects like financial

relationships between state budget and budgets of local government sector and health insurance companies or derivation of expenditure of state budget and state funds according to the expenditure rule.

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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)

	2008	2009	2010	2011	2012	2013	2014
Total revenue	**1478**	**1384**	**1423**	**1430**	**1498**	**1556**	**1591**
Revenue from operating activities	1461	1355	1401	1418	1486	1545	1572
Taxes	**743**	**660**	**691**	**706**	**728**	**754**	**785**
Taxes on income, profits, and capital gains	331	255	261	257	271	271	289
Payable by individuals	143	128	131	134	137	142	148
Payable by corporations and other enterprises	188	127	130	123	134	129	141
Taxes on property	16	14	16	20	21	19	19
Taxes on goods and services	396	391	413	428	436	464	476
Value added tax[1]	249	248	264	269	273	302	317
Excises	133	131	138	147	147	143	141
Social contributions	**548**	**510**	**517**	**533**	**541**	**545**	**563**
Social security contributions	530	496	503	519	526	531	548
Employee contributions	130	114	117	120	122	124	127
Employer contributions	365	338	349	359	365	369	381
Self-employed or nonemployed contributions	33	39	35	37	37	36	39
Other social contributions	18	14	14	14	14	15	15
Grants	**60**	**80**	**85**	**74**	**112**	**125**	**117**
From international organizations	60	79	85	73	111	125	116
Current	27	33	36	40	41	61	57
Capital	34	46	48	33	70	64	59
Other revenue	**110**	**106**	**108**	**105**	**106**	**120**	**108**
Property income	**34**	**34**	**35**	**30**	**29**	**32**	**30**
Interest	10	7	7	3	4	2	2
Dividends	16	19	20	19	17	21	20
Sales of goods and services	**43**	**43**	**44**	**48**	**49**	**49**	**49**
Sales of market establishments	19	20	20	22	21	21	21
Administrative fees	24	23	24	25	27	28	27
Fines, penalties, and forfeits	**4**	**5**	**5**	**4**	**4**	**5**	**5**
Voluntary transfers other than grants	**12**	**15**	**16**	**13**	**13**	**14**	**14**
Miscellaneous and unidentified revenue	**17**	**9**	**8**	**11**	**11**	**20**	**9**
Sales of nonfinancial assets	**17**	**29**	**22**	**12**	**12**	**12**	**18**
Fixed assets	10	9	10	6	6	5	4
Nonproduced assets	8	19	12	6	6	7	15

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)

	2008	2009	2010	2011	2012	2013	2014
Total revenue	**36.8**	**35.3**	**36.0**	**35.5**	**37.1**	**38.2**	**37.3**
Revenue from operating activities	36.4	34.6	35.4	35.3	36.8	37.9	36.9
Taxes	**18.5**	**16.8**	**17.5**	**17.5**	**18.0**	**18.5**	**18.4**
Taxes on income, profits, and capital gains	8.2	6.5	6.6	6.4	6.7	6.7	6.8
Payable by individuals	3.6	3.3	3.3	3.3	3.4	3.5	3.5
Payable by corporations and other enterprises	4.7	3.2	3.3	3.1	3.3	3.2	3.3
Taxes on property	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Taxes on goods and services	9.9	10.0	10.5	10.6	10.8	11.4	11.2
Value added tax[1]	6.2	6.3	6.7	6.7	6.8	7.4	7.4
Excises	3.3	3.3	3.5	3.6	3.6	3.5	3.3
Social contributions	**13.7**	**13.0**	**13.1**	**13.3**	**13.4**	**13.4**	**13.2**
Social security contributions	13.2	12.6	12.7	12.9	13.0	13.0	12.9
Employee contributions	3.2	2.9	3.0	3.0	3.0	3.0	3.0
Employer contributions	9.1	8.6	8.8	8.9	9.0	9.0	8.9
Self-employed or nonemployed contributions	0.8	1.0	0.9	0.9	0.9	0.9	0.9
Other social contributions	0.5	0.4	0.4	0.4	0.4	0.4	0.3
Grants	**1.5**	**2.0**	**2.1**	**1.8**	**2.8**	**3.1**	**2.7**
From international organizations	1.5	2.0	2.1	1.8	2.8	3.1	2.7
Current	0.7	0.8	0.9	1.0	1.0	1.5	1.3
Capital	0.8	1.2	1.2	0.8	1.7	1.6	1.4
Other revenue	**2.7**	**2.7**	**2.7**	**2.6**	**2.6**	**3.0**	**2.5**
Property income	**0.9**	**0.9**	**0.9**	**0.7**	**0.7**	**0.8**	**0.7**
Interest	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Dividends	0.4	0.5	0.5	0.5	0.4	0.5	0.5
Sales of goods and services	**1.1**	**1.1**	**1.1**	**1.2**	**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	0.7	0.7	0.6
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**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Miscellaneous and unidentified revenue	**0.4**	**0.2**	**0.2**	**0.3**	**0.3**	**0.5**	**0.2**
Sales of nonfinancial assets	**0.4**	**0.7**	**0.5**	**0.3**	**0.3**	**0.3**	**0.4**
Fixed assets	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Nonproduced assets	0.2	0.5	0.3	0.2	0.2	0.2	0.3

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)

	2008	2009	2010	2011	2012	2013	2014
Total expense	**1 517**	**1 631**	**1 602**	**1 601**	**1 591**	**1 606**	**1 666**
Expense for operating activities	**1 421**	**1 513**	**1 495**	**1 508**	**1 506**	**1 525**	**1 565**
Compensation of employees	**141**	**147**	**146**	**136**	**136**	**139**	**146**
Wages and salaries	106	111	111	103	103	105	110
Social contributions	35	35	35	33	34	35	36
Actual social contributions	35	35	35	33	34	34	36
Use of goods and services	**133**	**148**	**142**	**129**	**122**	**124**	**122**
Interest	**45**	**50**	**42**	**48**	**45**	**54**	**50**
Subsidies	**273**	**302**	**300**	**308**	**314**	**319**	**341**
To public corporations	206	206	205	205	207	212	219
To private enterprises	66	96	95	103	107	107	122
Grants	**29**	**30**	**31**	**34**	**33**	**36**	**37**
To international organizations	29	30	31	34	33	36	37
Current	29	30	31	34	33	36	37
Social benefits	**618**	**664**	**671**	**687**	**704**	**713**	**728**
Social security benefits	618	664	671	687	704	713	728
Other expense	**182**	**173**	**164**	**166**	**152**	**141**	**141**
Miscellaneous other expense	182	173	164	166	152	141	141
Current	31	32	34	31	35	35	37
Capital	151	141	130	135	117	105	104
Purchases of nonfinancial assets	**96**	**118**	**107**	**93**	**85**	**80**	**101**
Fixed assets	93	116	105	92	83	79	99
Nonproduced assets	3	2	2	1	2	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)

	2008	2009	2010	2011	2012	2013	2014
Total expense	**37.8**	**41.6**	**40.5**	**39.8**	**39.4**	**39.4**	**39.1**
Expense for operating activities	**35.4**	**38.6**	**37.8**	**37.5**	**37.3**	**37.4**	**36.7**
Compensation of employees	**3.5**	**3.7**	**3.7**	**3.4**	**3.4**	**3.4**	**3.4**
Wages and salaries	2.7	2.8	2.8	2.6	2.5	2.6	2.6
Social contributions	0.9	0.9	0.9	0.8	0.8	0.9	0.9
Actual social contributions	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Use of goods and services	**3.3**	**3.8**	**3.6**	**3.2**	**3.0**	**3.0**	**2.9**
Interest	**1.1**	**1.3**	**1.1**	**1.2**	**1.1**	**1.3**	**1.2**
Subsidies	**6.8**	**7.7**	**7.6**	**7.6**	**7.8**	**7.8**	**8.0**
To public corporations	5.1	5.2	5.2	5.1	5.1	5.2	5.1
To private enterprises	1.6	2.5	2.4	2.6	2.7	2.6	2.9
Grants	**0.7**	**0.8**	**0.8**	**0.9**	**0.8**	**0.9**	**0.9**
To international organizations	0.7	0.8	0.8	0.9	0.8	0.9	0.9
Current	0.7	0.8	0.8	0.9	0.8	0.9	0.9
Social benefits	**15.4**	**16.9**	**17.0**	**17.1**	**17.4**	**17.5**	**17.1**
Social security benefits	15.4	16.9	17.0	17.1	17.4	17.5	17.1
Other expense	**4.5**	**4.4**	**4.1**	**4.1**	**3.8**	**3.5**	**3.3**
Miscellaneous other expense	4.5	4.4	4.1	4.1	3.8	3.5	3.3
Current	0.8	0.8	0.9	0.8	0.9	0.9	0.9
Capital	3.8	3.6	3.3	3.4	2.9	2.6	2.4
Purchases of nonfinancial assets	**2.4**	**3.0**	**2.7**	**2.3**	**2.1**	**2.0**	**2.4**
Fixed assets	2.3	3.0	2.7	2.3	2.1	1.9	2.3
Nonproduced assets	0.1	0.1	0.1	0.0	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)

	2008	2009	2010	2011	2012	2013	2014
CZK bn							
Cash deficit/surplus	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**	**-75**
Deficit / surplus of operating balance	40	-158	-94	-90	-21	19	7
Deficit / surplus of primary balance	6	-198	-137	-124	-48	4	-25
% of GDP							
Cash deficit/surplus	**-1.0**	**-6.3**	**-4.5**	**-4.3**	**-2.3**	**-1.2**	**-1.8**
Deficit / surplus of operating balance	1.0	-4.0	-2.4	-2.2	-0.5	0.5	0.2
Deficit / surplus of primary balance	0.1	-5.0	-3.5	-3.1	-1.2	0.1	-0.6

Source: MF CR.

Table A.6: Structure of General Government Balance

(in CZK billion)

	2008	2009	2010	2011	2012	2013	2014
State budget[1]	-78	-221	-176	-157	-85	-69	-92
Extrabudgetary funds total	12	5	3	-8	-3	2	2
Social security funds	11	-6	-7	-5	-6	-1	2
Local governments	16	-25	0	-1	1	19	12
Cash deficit/surplus	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**	**-75**

Note: 1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds.
Source: MF CR.

Table A.7: Sources and Uses of General Government

(in CZK billion)

	2008	2009	2010	2011	2012	2013	2014
Cash flows from operating activities:							
Cash receipts from operating activities	**1 461**	**1 355**	**1 401**	**1 418**	**1 486**	**1 545**	**1 572**
Taxes	743	660	691	706	728	754	785
Social contributions	548	510	517	533	541	545	563
Grants	60	80	85	74	112	125	117
Other receipts	110	106	108	105	106	120	108
Cash payments for operating activities	**1 421**	**1 513**	**1 495**	**1 508**	**1 506**	**1 525**	**1 565**
Compensation of employees	141	147	146	136	136	139	146
Purchases of goods and services	133	148	142	129	122	124	122
Interest	45	50	42	48	45	54	50
Subsidies	273	302	300	308	314	319	341
Grants	29	30	31	34	33	36	37
Social benefits	618	664	671	687	704	713	728
Other payments	182	173	164	166	152	141	141
Net cash inflow from operating activities	**40**	**-158**	**-94**	**-90**	**-21**	**19**	**7**
Cash flows from investments in non-financial assets:							
Purchases of nonfinancial assets	**96**	**118**	**107**	**93**	**85**	**80**	**101**
Fixed assets	93	116	105	92	83	79	99
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	3	2	2	1	2	2	2
Sales of nonfinancial assets	**17**	**29**	**22**	**12**	**12**	**12**	**18**
Fixed assets	10	9	10	6	6	5	4
Strategic stocks	0	0	0	0	0	0	0
Valuables	0	0	0	0	0	0	0
Nonproduced assets	8	19	12	6	6	7	15
Net cash outflow: investments in nonfinancial assets	**79**	**90**	**86**	**82**	**72**	**69**	**82**
Cash surplus / deficit	**-39**	**-248**	**-180**	**-171**	**-93**	**-50**	**-75**

Source: MF CR.

Table A.8: General Government Debt

(in CZK billion, in % of GDP)

	2008	2009	2010	2011	2012	2013	2014
CZK bn							
Consolidated general government debt	**1 071**	**1 258**	**1 426**	**1 565**	**1 761**	**1 779**	**1 761**
State debt consolidated	980	1 160	1 324	1 461	1 649	1 665	1 648
Extrabudgetary funds	1	1	3	2	1	0	0
Social security funds	0	0	0	0	0	2	1
Local governments	95	100	102	105	115	120	117
% of GDP							
Consolidated general government debt	**26.7**	**32.1**	**36.1**	**38.9**	**43.6**	**43.6**	**41.3**
Consolidated state debt	24.4	29.6	33.5	36.3	40.8	40.8	38.7
Extrabudgetary funds	0.0	0.0	0.1	0.0	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	2.5	2.6	2.6	2.8	2.9	2.7

Source: MF CR.

B Annex of Tables – ESA 2010 Methodology

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

Table B.1: General Government Revenue

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total revenue	**1261**	**1352**	**1504**	**1528**	**1494**	**1524**	**1616**	**1637**	**1686**	**1730**
Current taxes on income, wealth, etc.	275	295	330	306	271	262	275	275	286	308
Social contributions [1)]	482	525	577	599	560	578	593	600	607	629
Taxes on production and imports [2)]	351	361	404	416	424	441	480	501	521	510
Capital taxes [3)]	1	1	0	0	0	0	0	0	0	0
Property income	23	28	30	35	37	37	35	35	38	37
Interest	13	13	16	13	11	10	10	11	10	9
Other property income	10	15	14	22	26	26	25	25	28	28
Sales [4)]	93	96	111	119	122	117	145	147	148	151
Other current transfers and subsidies	26	26	23	22	27	33	35	39	44	42
Investment grants	5	14	15	27	50	53	50	35	36	49
Other capital transfers	5	5	13	3	3	4	4	4	5	4
% growth										
Total revenue	**4.6**	**7.2**	**11.3**	**1.6**	**-2.2**	**2.0**	**6.0**	**1.3**	**3.0**	**2.6**
Current taxes on income, wealth, etc.	2.8	7.4	11.9	-7.4	-11.4	-3.4	5.0	0.0	4.2	7.6
Social contributions [1)]	6.5	8.8	9.9	3.9	-6.6	3.2	2.5	1.3	1.1	3.6
Taxes on production and imports [2)]	5.4	2.9	12.0	3.0	1.9	3.9	9.1	4.3	4.0	-2.1
Capital taxes [3)]	18.5	9.2	-42.4	-44.8	-8.2	-3.4	0.9	0.9	-33.3	-93.5
Property income	-6.3	23.5	7.2	15.7	4.7	1.0	-5.3	0.7	7.0	-2.5
Interest	-6.9	1.7	19.1	-20.3	-14.0	-3.7	-4.6	6.4	-5.7	-8.7
Other property income	-5.5	53.1	-3.5	55.7	15.4	2.9	-5.6	-1.5	12.5	-0.2
Sales [4)]	4.1	3.5	15.1	7.8	2.0	-4.0	23.7	1.5	1.0	1.8
Other current transfers and subsidies	-7.5	-2.0	-8.4	-7.4	26.0	20.7	7.2	10.6	13.5	-4.5
Investment grants	62.8	187.1	1.0	86.1	84.7	4.9	-6.0	-29.0	1.5	36.3
Other capital transfers	-21.8	2.3	147.1	-77.8	14.6	24.7	-8.6	8.9	18.6	-10.5
% of GDP										
Total revenue	**38.7**	**38.5**	**39.3**	**38.1**	**38.1**	**38.6**	**40.2**	**40.5**	**41.3**	**40.6**
Current taxes on income, wealth, etc.	8.4	8.4	8.6	7.6	6.9	6.6	6.8	6.8	7.0	7.2
Social contributions [1)]	14.8	15.0	15.1	14.9	14.3	14.6	14.7	14.9	14.9	14.8
Taxes on production and imports [2)]	10.8	10.3	10.6	10.4	10.8	11.1	11.9	12.4	12.8	12.0
Capital taxes [3)]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.3	0.2	0.2
Other property income	0.3	0.4	0.4	0.6	0.7	0.7	0.6	0.6	0.7	0.6
Sales [4)]	2.9	2.7	2.9	3.0	3.1	3.0	3.6	3.6	3.6	3.5
Other current transfers and subsidies	0.8	0.7	0.6	0.5	0.7	0.8	0.9	1.0	1.1	1.0
Investment grants	0.2	0.4	0.4	0.7	1.3	1.3	1.2	0.9	0.9	1.1
Other capital transfers	0.2	0.2	0.3	0.1	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 (2015b).

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Taxes and social contributions	**1109**	**1182**	**1312**	**1322**	**1255**	**1281**	**1348**	**1377**	**1414**	**1447**
Current taxes on income, wealth, etc.	**275**	**295**	**330**	**306**	**271**	**262**	**275**	**275**	**286**	**308**
individuals or households	137	138	156	141	136	131	143	144	151	161
corporations	135	154	171	162	132	127	129	127	133	144
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	3	3	3	3	3	3	3	3	3	3
Social security contributions	**482**	**525**	**577**	**599**	**560**	**578**	**593**	**600**	**607**	**629**
Actual contributions of employers	309	332	364	380	350	368	378	383	387	401
Imputed contributions of employers	0	0	0	0	1	1	1	1	1	1
Actual contributions of households	173	192	213	219	209	209	214	217	218	227
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**351**	**361**	**404**	**416**	**424**	**441**	**480**	**501**	**521**	**510**
Taxes on products [1)]	337	346	389	401	409	421	457	479	501	489
value added tax	215	214	232	260	259	263	277	286	304	319
Excises	113	123	145	128	140	148	171	176	179	151
Other taxes on products [2)]	9	10	12	12	10	10	10	17	19	19
Other taxes on production [3)]	14	15	16	16	15	19	24	22	20	21
Capital taxes	**1**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
% growth										
Taxes and social contributions	**5.2**	**6.6**	**11.0**	**0.8**	**-5.0**	**2.0**	**5.3**	**2.1**	**2.7**	**2.3**
Current taxes on income, wealth, etc.	**2.8**	**7.4**	**11.9**	**-7.4**	**-11.4**	**-3.4**	**5.0**	**0.0**	**4.2**	**7.6**
individuals or households	0.5	1.0	12.7	-9.7	-3.8	-3.1	8.7	1.0	4.5	6.9
corporations	4.9	13.9	11.4	-5.4	-18.3	-3.7	1.3	-1.2	4.0	8.5
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	15.6	4.7	4.5	0.1	4.1	1.0	-3.6	7.0	-2.9	0.7
Social security contributions	**6.5**	**8.8**	**9.9**	**3.9**	**-6.6**	**3.2**	**2.5**	**1.3**	**1.1**	**3.6**
Actual contributions of employers	6.5	7.7	9.4	4.5	-7.9	5.1	2.7	1.4	1.3	3.4
Imputed contributions of employers	-1.5	2.0	-26.2	-4.7	190.5	-27.5	56.2	-5.3	4.4	-21.3
Actual contributions of households	6.4	10.9	10.7	2.9	-4.6	0.3	2.2	1.2	0.7	4.1
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**5.4**	**2.9**	**12.0**	**3.0**	**1.9**	**3.9**	**9.1**	**4.3**	**4.0**	**-2.1**
Taxes on products [1)]	6.1	2.9	12.2	3.1	2.0	3.0	8.5	4.8	4.7	-2.3
value added tax	5.1	-0.6	8.7	12.1	-0.7	1.9	5.0	3.5	6.2	5.2
Excises	11.1	8.9	17.9	-11.1	9.1	5.6	15.4	2.9	1.6	-15.4
Other taxes on products [2)]	-20.6	11.7	17.7	-0.4	-14.6	-4.3	-1.3	75.9	10.5	-0.2
Other taxes on production [3)]	-9.3	3.4	6.0	0.1	-2.5	26.8	21.5	-5.0	-10.2	2.8
Capital taxes	**18.5**	**9.2**	**-42.4**	**-44.8**	**-8.2**	**-3.4**	**0.9**	**0.9**	**-33.3**	**-93.5**

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 (2015b).

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

(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Taxes and social contributions	**34.0**	**33.7**	**34.2**	**32.9**	**32.0**	**32.4**	**33.5**	**34.1**	**34.7**	**34.0**
Current taxes on income, wealth, etc.	**8.4**	**8.4**	**8.6**	**7.6**	**6.9**	**6.6**	**6.8**	**6.8**	**7.0**	**7.2**
individuals or households	4.2	3.9	4.1	3.5	3.5	3.3	3.5	3.6	3.7	3.8
corporations	4.1	4.4	4.5	4.0	3.4	3.2	3.2	3.2	3.3	3.4
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
other current taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	**14.8**	**15.0**	**15.1**	**14.9**	**14.3**	**14.6**	**14.7**	**14.9**	**14.9**	**14.8**
Actual contributions of employers	9.5	9.5	9.5	9.5	8.9	9.3	9.4	9.5	9.5	9.4
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	5.5	5.5	5.4	5.3	5.3	5.3	5.4	5.4	5.3
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**10.8**	**10.3**	**10.6**	**10.4**	**10.8**	**11.1**	**11.9**	**12.4**	**12.8**	**12.0**
Taxes on products [1)]	10.3	9.9	10.1	10.0	10.4	10.7	11.4	11.8	12.3	11.5
value added tax	6.6	6.1	6.1	6.5	6.6	6.7	6.9	7.1	7.5	7.5
excises	3.5	3.5	3.8	3.2	3.6	3.7	4.2	4.3	4.4	3.5
other taxes on products [2)]	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.4	0.5	0.4
Other taxes on production [3)]	0.4	0.4	0.4	0.4	0.4	0.5	0.6	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 (2015b).

Table B.4: Central Government Revenue

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total revenue	**867**	**925**	**1033**	**1042**	**1001**	**1029**	**1158**	**1171**	**1193**	**1213**
Current taxes on income, wealth, etc.	183	197	221	203	180	174	183	183	186	200
Social contributions	319	343	376	392	352	365	374	378	379	391
Taxes on production and imports	280	291	328	329	337	350	386	405	419	403
Capital taxes	1	1	0	0	0	0	0	0	0	-
Property income	16	21	22	26	29	30	28	27	30	29
Sales	41	44	53	56	56	59	74	75	74	77
Other revenue	26	28	31	35	49	51	112	103	105	112
% growth										
Total revenue	**1.8**	**6.7**	**11.7**	**0.9**	**-3.9**	**2.7**	**12.5**	**1.2**	**1.9**	**1.7**
Current taxes on income, wealth, etc.	-4.5	7.7	12.2	-8.2	-11.6	-3.0	5.0	0.0	1.4	7.8
Social contributions	6.2	7.5	9.8	4.3	-10.4	3.7	2.7	0.9	0.4	3.2
Taxes on production and imports	1.0	3.7	12.9	0.4	2.4	3.9	10.3	4.9	3.4	-3.7
Capital taxes	18.8	10.0	-42.6	-45.7	-10.4	-2.7	-2.3	3.8	-33.5	-
Property income	-2.9	30.8	6.1	15.9	10.4	4.1	-6.4	-3.2	11.5	-3.3
Sales	6.3	5.6	21.3	5.6	-0.8	5.5	25.7	1.4	-1.1	4.4
Other revenue	3.9	8.0	10.4	11.1	39.2	5.0	119.9	-8.0	1.8	6.4

Source: CZSO (2015b).

Table B.5: Local Government Revenue

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total revenue	**352**	**376**	**410**	**416**	**433**	**431**	**483**	**455**	**478**	**505**
Current taxes on income, wealth, etc.	92	98	109	103	91	87	92	92	101	108
Social contributions	0	0	0	0	0	0	0	1	1	0
Taxes on production and imports	71	71	77	87	87	90	94	96	102	107
Capital taxes	0	0	0	0	0	0	0	0	0	0
Property income	7	7	7	8	7	7	7	8	8	8
Sales	51	52	58	63	66	58	71	72	74	74
Other revenue	132	148	160	155	181	188	219	187	192	209
% growth										
Total revenue	**1.1**	**6.7**	**9.2**	**1.3**	**4.0**	**-0.5**	**12.2**	**-5.8**	**4.9**	**5.8**
Current taxes on income, wealth, etc.	21.2	6.6	11.3	-5.8	-11.0	-4.2	4.9	0.0	9.8	7.2
Social contributions	21.7	61.6	-43.2	-79.1	2428.6	-20.6	76.5	17.5	-0.3	-20.0
Taxes on production and imports	27.5	-0.2	8.3	13.8	0.0	3.7	4.4	1.9	6.5	4.2
Capital taxes	0.0	-55.6	0.0	50.0	83.3	-18.2	77.8	-37.5	-30.0	42.9
Property income	-14.4	4.7	6.1	6.4	-9.5	-4.5	1.0	16.5	-4.5	0.8
Sales	2.4	1.8	10.0	9.8	4.4	-12.0	21.7	1.7	3.2	-0.7
Other revenue	-17.4	12.4	8.0	-3.1	16.5	3.8	16.6	-14.6	2.8	8.7

Source: CZSO (2015b).

Table B.6: Social Security Funds Revenue

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total revenue	**170**	**185**	**203**	**211**	**211**	**216**	**221**	**225**	**230**	**239**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	163	182	200	207	208	213	218	222	227	237
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	0	0	1	1	1	1	0	1	0	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	6	2	2	2	2	2	3	2	2	3
% growth										
Total revenue	**6.7**	**9.0**	**10.1**	**3.6**	**0.2**	**2.1**	**2.4**	**1.8**	**2.2**	**4.3**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	7.1	11.4	10.0	3.2	0.4	2.6	2.2	2.0	2.2	4.3
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	22.1	30.0	75.3	111.3	-23.9	-46.2	-17.7	9.7	-47.2	-9.3
Sales	6.4	-2.7	-4.1	-14.4	-2.5	-1.7	20.2	-16.1	3.5	-5.9
Other revenue	-4.1	-59.8	3.2	3.5	-5.0	-14.5	29.2	-19.3	8.1	11.2

Source: CZSO (2015b).

Table B.7: General Government Expenditure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total expenditure	**1362**	**1431**	**1531**	**1613**	**1711**	**1699**	**1727**	**1797**	**1737**	**1813**
Compensation of employees	238	253	269	280	293	286	347	357	364	376
Intermediate consumption	189	205	212	222	230	227	276	254	265	269
Social benefits other than in kind [1)]	374	407	456	475	509	517	527	533	545	556
Social benefits in kind	170	174	187	199	219	222	124	130	133	140
Property income	35	36	41	40	49	53	53	59	55	57
Interest	35	36	41	40	49	53	53	58	55	56
Other property income	0	0	0	0	0	0	0	1	0	1
Subsidies	55	61	62	64	76	79	91	91	96	99
Gross fixed capital formation	161	171	175	199	218	187	180	169	152	177
Capital transfers [2)]	89	68	70	60	56	56	45	121	39	60
Investment grants [3)]	36	38	37	36	34	33	32	31	21	18
Other capital transfers	53	30	33	24	22	23	13	89	18	42
Other expenditure	50	56	58	73	61	72	83	84	88	79
Final consumption expenditure	**665**	**700**	**732**	**766**	**812**	**810**	**805**	**796**	**818**	**842**
Collective consumption [4)]	335	357	370	388	404	402	379	367	380	388
Individual consumption	329	342	362	378	408	408	426	429	438	454
% growth										
Total expenditure	**5.7**	**5.0**	**7.0**	**5.3**	**6.1**	**-0.7**	**1.6**	**4.1**	**-3.4**	**4.4**
Compensation of employees	7.1	6.1	6.4	4.1	4.7	-2.5	21.5	2.7	2.0	3.5
Intermediate consumption	2.8	8.0	3.7	4.8	3.6	-1.5	21.6	-7.8	4.1	1.7
Social benefits other than in kind [1)]	4.2	8.7	12.1	4.1	7.1	1.7	1.9	1.2	2.1	2.0
Social benefits in kind	4.0	2.1	7.8	6.1	10.3	1.5	-44.2	4.7	2.6	4.8
Property income	7.4	3.4	13.0	-2.2	21.3	7.7	1.5	9.9	-5.8	2.5
Interest	7.4	3.4	13.0	-2.3	21.3	7.8	0.8	9.1	-4.9	2.0
Other property income	-3.8	41.2	9.7	26.6	11.0	-45.9	570.0	117.2	-69.4	119.1
Subsidies	-7.3	11.6	1.6	2.8	18.9	3.7	15.3	0.0	5.1	3.9
Gross fixed capital formation	12.5	6.1	2.4	13.9	9.2	-14.0	-3.7	-6.4	-10.1	16.8
Capital transfers [2)]	6.8	-23.5	2.8	-14.2	-6.5	-0.7	-19.6	169.9	-67.5	53.2
Investment grants [3)]	-3.5	7.4	-3.4	-2.0	-5.7	-3.8	-2.7	-1.8	-32.2	-15.0
Other capital transfers	14.9	-44.1	10.8	-27.9	-7.6	4.0	-44.0	598.3	-79.8	133.6
Final consumption expenditure	**4.8**	**5.3**	**4.6**	**4.6**	**6.0**	**-0.3**	**-0.5**	**-1.1**	**2.7**	**2.9**
Collective consumption [4)]	8.8	6.6	3.4	5.0	4.1	-0.5	-5.7	-3.1	3.5	2.0
Individual consumption	1.0	4.0	5.7	4.3	8.0	0.0	4.5	0.6	2.0	3.8

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 (2015b), MF CR.

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

(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total expenditure	**41.8**	**40.8**	**40.0**	**40.2**	**43.6**	**43.0**	**42.9**	**44.5**	**42.6**	**42.6**
Compensation of employees	7.3	7.2	7.0	7.0	7.5	7.2	8.6	8.8	8.9	8.8
Intermediate consumption	5.8	5.8	5.5	5.5	5.9	5.7	6.9	6.3	6.5	6.3
Social benefits other than in kind	11.5	11.6	11.9	11.8	13.0	13.1	13.1	13.2	13.4	13.0
Social benefits in kind	5.2	4.9	4.9	4.9	5.6	5.6	3.1	3.2	3.3	3.3
Property income	1.1	1.0	1.1	1.0	1.2	1.3	1.3	1.5	1.4	1.3
Interest	1.1	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	1.7	1.8	1.6	1.6	1.9	2.0	2.3	2.3	2.3	2.3
Gross fixed capital formation	4.9	4.9	4.6	5.0	5.5	4.7	4.5	4.2	3.7	4.2
Capital transfers	2.7	1.9	1.8	1.5	1.4	1.4	1.1	3.0	1.0	1.4
Investment grants	1.1	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.5	0.4
Other capital transfers	1.6	0.9	0.9	0.6	0.6	0.6	0.3	2.2	0.4	1.0
Other expenditure	1.5	1.6	1.5	1.8	1.5	1.8	2.1	2.1	2.2	1.8
Final consumption expenditure	**20.4**	**20.0**	**19.1**	**19.1**	**20.7**	**20.5**	**20.0**	**19.7**	**20.1**	**19.8**
Collective consumption	10.3	10.2	9.6	9.7	10.3	10.2	9.4	9.1	9.3	9.1
Individual consumption	10.1	9.8	9.4	9.4	10.4	10.3	10.6	10.6	10.7	10.7

Source: CZSO (2015b), MF CR.

Table B.9: Central Government Expenditure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total expenditure	**967**	**1006**	**1088**	**1132**	**1185**	**1179**	**1250**	**1322**	**1257**	**1301**
Compensation of employees	121	128	137	143	150	147	170	176	180	187
Intermediate consumption	91	98	104	106	109	106	134	118	123	127
Social benefits other than in kind	363	394	437	453	485	491	501	530	540	552
Social benefits in kind	3	3	2	2	3	4	5	9	12	14
Interest	33	34	39	37	46	51	52	56	54	55
Subsidies	26	30	31	32	38	35	54	53	57	59
Gross fixed capital formation	103	98	106	116	117	98	87	88	75	80
Capital transfers	85	65	65	58	60	57	53	119	36	56
Other expenditure	142	155	167	186	178	191	194	174	179	172
% growth										
Total expenditure	**4.2**	**4.1**	**8.2**	**4.0**	**4.7**	**-0.5**	**6.0**	**5.8**	**-4.9**	**3.5**
Compensation of employees	9.1	6.1	6.7	4.2	5.0	-2.3	15.9	3.7	2.4	3.7
Intermediate consumption	3.7	7.3	6.7	1.5	2.6	-2.5	26.2	-11.7	4.4	2.8
Social benefits other than in kind	4.4	8.7	10.8	3.7	7.0	1.4	2.0	5.6	2.0	2.1
Social benefits in kind	-22.8	-7.2	-23.9	-18.2	36.6	53.3	20.0	83.4	37.2	15.4
Interest	10.7	3.0	12.7	-3.6	24.8	10.0	1.0	8.9	-4.2	1.9
Subsidies	-22.2	17.5	3.4	1.1	20.7	-7.6	51.9	-0.5	6.9	2.8
Gross fixed capital formation	30.4	-4.9	8.3	9.8	1.2	-16.8	-10.6	0.4	-14.3	6.0
Capital transfers	-0.3	-22.8	-0.2	-11.6	3.8	-5.7	-6.0	123.5	-69.4	55.0
Other expenditure	-5.1	9.0	7.9	11.0	-4.3	7.3	1.9	-10.6	2.9	-3.7

Source: CZSO (2015b).

Table B.10: Local Government Expenditure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total expenditure	**354**	**385**	**397**	**421**	**454**	**446**	**494**	**457**	**465**	**498**
Compensation of employees	114	121	129	133	139	135	173	177	180	186
Intermediate consumption	96	105	106	114	119	118	140	134	139	140
Social benefits other than in kind	12	13	20	22	24	26	26	4	4	4
Social benefits in kind	3	3	3	3	3	2	3	0	-	-
Interest	2	2	3	3	2	2	2	2	1	1
Subsidies	29	31	31	33	38	44	38	38	39	41
Gross fixed capital formation	58	73	69	83	99	89	92	81	77	97
Capital transfers	28	26	28	20	16	17	7	11	10	12
Other expenditure	12	11	10	10	13	13	14	12	15	16
% growth										
Total expenditure	**0.3**	**9.0**	**3.2**	**5.9**	**8.0**	**-1.8**	**10.7**	**-7.5**	**1.8**	**6.9**
Compensation of employees	5.1	6.1	6.1	3.8	4.3	-2.7	28.2	1.9	1.7	3.4
Intermediate consumption	1.9	9.1	0.7	7.6	4.1	-0.9	18.7	-4.3	4.3	0.7
Social benefits other than in kind	0.0	7.5	53.6	13.2	9.4	7.5	-1.3	-85.2	17.8	-11.1
Social benefits in kind	2.4	8.9	19.0	-11.3	0.2	-16.4	11.1	-99.0	-	-
Interest	-26.5	8.2	15.8	17.7	-21.8	-33.2	-3.3	16.6	-23.3	2.3
Subsidies	11.6	6.3	-0.1	4.4	17.1	14.9	-14.2	0.6	2.6	5.4
Gross fixed capital formation	-9.6	26.5	-5.3	19.8	20.2	-10.6	4.1	-12.7	-5.1	27.0
Capital transfers	-14.2	-5.8	5.0	-27.5	-17.9	6.1	-59.2	55.8	-11.2	25.1
Other expenditure	19.8	-7.2	-9.5	1.9	32.4	0.9	5.6	-16.5	31.3	1.3

Source: CZSO (2015b).

Table B.11: Social Security Fund Expenditure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
Total expenditure	**170**	**173**	**187**	**201**	**222**	**224**	**228**	**232**	**229**	**242**
Compensation of employees	3	3	3	4	4	4	4	4	4	4
Intermediate consumption	2	2	2	2	3	3	3	3	2	2
Social benefits other than in kind	0	0	-	0	0	0	0	0	0	0
Social benefits in kind	164	168	181	194	213	216	116	121	121	125
Interest	0	-	0	0	0	-	0	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	1	0	0	1	1	1	1	1	0	1
Capital transfers	-	-	-	-	-	0	-	-	-	-
Other expenditure	0	0	0	0	0	0	104	104	102	110
% growth										
Total expenditure	**5.0**	**1.9**	**8.3**	**7.1**	**10.5**	**1.2**	**1.5**	**1.7**	**-1.3**	**5.9**
Compensation of employees	5.7	5.3	6.5	12.0	9.6	-0.2	-2.3	-3.0	-0.6	2.5
Intermediate consumption	8.0	-13.3	10.5	22.2	26.1	10.0	-21.5	1.3	-15.8	-1.5
Social benefits other than in kind	-	100.0	-	-	600.0	0.0	-28.6	-20.0	12.5	-22.2
Social benefits in kind	4.8	2.2	8.3	6.8	10.2	1.1	-46.1	3.8	0.0	3.7
Interest	-66.7	-	-	-50.0	0.0	-	-	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	19.1	-41.7	-0.4	64.4	48.4	-15.7	-14.1	-23.7	-59.6	119.0
Capital transfers	-	-	-	-	-	-	-	-	-	-
Other expenditure	571.4	27.7	23.9	-15.5	7.7	14.0	22402.2	-0.3	-2.1	8.5

Source: CZSO (2015b).

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
General government	**-101**	**-79**	**-27**	**-85**	**-216**	**-175**	**-110**	**-160**	**-51**	**-83**
Central government	-100	-81	-56	-90	-184	-150	-92	-151	-64	-88
Local governments	-1	-9	13	-5	-22	-16	-11	-2	12	8
Social security funds	0	12	16	10	-11	-9	-7	-7	1	-3
% of GDP										
General government	**-3.1**	**-2.3**	**-0.7**	**-2.1**	**-5.5**	**-4.4**	**-2.7**	**-4.0**	**-1.3**	**-1.9**
Central government	-3.1	-2.3	-1.4	-2.2	-4.7	-3.8	-2.3	-3.7	-1.6	-2.1
Local governments	0.0	-0.3	0.3	-0.1	-0.6	-0.4	-0.3	-0.1	0.3	0.2
Social security funds	0.0	0.3	0.4	0.2	-0.3	-0.2	-0.2	-0.2	0.0	-0.1

Source: CZSO (2015b).

Table B.13: General Government Debt by Instruments

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CZK bn										
General government debt	**913**	**979**	**1066**	**1151**	**1336**	**1509**	**1606**	**1806**	**1842**	**1821**
Currency and deposits	4	3	5	6	5	6	3	8	7	10
Securities other than shares	723	816	908	990	1155	1322	1408	1604	1641	1624
Loans	186	160	152	155	176	181	195	194	194	187
Central government debt	**841**	**898**	**981**	**1063**	**1241**	**1413**	**1506**	**1698**	**1736**	**1715**
Currency and deposits	4	3	5	6	5	6	3	8	7	10
Securities other than shares	698	791	883	966	1139	1307	1394	1592	1629	1614
Loans	139	104	93	92	98	100	109	98	100	91
Local government debt	**78**	**86**	**88**	**91**	**97**	**98**	**103**	**113**	**116**	**117**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	26	25	26	26	17	17	15	15	16	13
Loans	53	61	62	65	80	81	88	97	100	103
Social security funds debt	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2**	**1**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	0	0	2	1
% growth										
General government debt	**4.9**	**7.2**	**8.9**	**8.0**	**16.1**	**12.9**	**6.5**	**12.4**	**2.0**	**-1.1**
Currency and deposits	-41.5	-18.9	59.6	7.8	-17.4	27.0	-44.3	153.8	-18.7	45.7
Securities other than shares	11.1	12.8	11.4	9.1	16.6	14.4	6.5	13.9	2.3	-1.0
Loans	-12.5	-13.8	-5.1	1.7	13.7	2.8	7.9	-0.7	0.5	-3.9
Central government debt	**4.3**	**6.8**	**9.3**	**8.3**	**16.8**	**13.8**	**6.6**	**12.8**	**2.2**	**-1.2**
Currency and deposits	-41.5	-18.9	59.6	7.8	-17.4	27.0	-43.6	151.8	-18.4	45.3
Securities other than shares	11.2	13.3	11.7	9.4	18.0	14.7	6.7	14.2	2.3	-0.9
Loans	-19.3	-25.2	-10.5	-1.5	6.4	2.9	8.1	-9.8	2.0	-9.2
Local government debt	**10.7**	**10.3**	**1.9**	**3.2**	**6.6**	**1.4**	**5.3**	**9.2**	**3.2**	**0.4**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	7.8	-1.1	1.8	-0.4	-33.3	-0.6	-11.5	2.4	5.0	-17.1
Loans	12.2	15.9	1.9	4.8	22.3	1.9	8.8	10.4	2.9	3.2
Social security funds debt	**17.5**	**-30.5**	**-69.1**	**62.7**	**-44.8**	**-26.4**	**415.4**	**-9.0**	**928.4**	**-37.2**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	17.5	-30.5	-69.1	62.7	-44.8	-26.4	415.4	-9.0	928.4	-37.2

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 (2015b).

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

(in % of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government debt	**28.0**	**27.9**	**27.8**	**28.7**	**34.1**	**38.2**	**39.9**	**44.7**	**45.2**	**42.7**
Currency and deposits	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Securities other than shares	22.2	23.3	23.7	24.7	29.5	33.4	35.0	39.7	40.2	38.1
Loans	5.7	4.6	4.0	3.8	4.5	4.6	4.8	4.8	4.8	4.4
Central government debt	**25.8**	**25.6**	**25.6**	**26.5**	**31.7**	**35.7**	**37.4**	**42.0**	**42.6**	**40.3**
Currency and deposits	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Securities other than shares	21.4	22.5	23.0	24.1	29.0	33.0	34.7	39.4	39.9	37.9
Loans	4.3	3.0	2.4	2.3	2.5	2.5	2.7	2.4	2.5	2.1
Local government debt	**2.4**	**2.5**	**2.3**	**2.3**	**2.5**	**2.5**	**2.6**	**2.8**	**2.9**	**2.7**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.8	0.7	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.3
Loans	1.6	1.7	1.6	1.6	2.0	2.1	2.2	2.4	2.5	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 (2015b).

Table B.15: General Government Balance and Debt of EU Countries (2011–2015)

(in % of GDP)

	Balance					Debt				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
EU28 [1, 2]	-4.5	-4.2	-3.3	-2.9	-2.3	81.4	85.2	87.1	88.0	87.1
EA19 [3]	-4.2	-3.7	-3.0	-2.6	-1.9	86.7	91.3	93.4	94.5	93.4
Austria	-2.6	-2.2	-1.3	-2.7	-1.9	82.2	81.6	80.8	84.2	86.5
Belgium	-4.1	-4.1	-2.9	-3.1	-2.7	102.2	104.1	105.1	106.7	107.2
Bulgaria	-2.0	-0.6	-0.8	-5.8	-2.8	15.3	17.6	18.0	27.0	27.6
Croatia	-7.8	-5.3	-5.4	-5.6	-4.8	63.7	69.2	80.8	85.1	89.2
Cyprus	-5.7	-5.8	-4.9	-8.9	-1.3	65.8	79.3	102.5	108.2	106.3
Czech Republic	-2.7	-4.0	-1.3	-1.9	-1.9	39.9	44.7	45.2	42.7	40.9
Denmark	-2.1	-3.6	-1.3	1.5	-3.3	46.4	45.6	45.0	45.1	39.8
Estonia	1.2	-0.3	-0.1	0.7	-0.4	5.9	9.5	9.9	10.4	10.0
Finland	-1.0	-2.1	-2.5	-3.3	-3.4	48.5	52.9	55.6	59.3	62.6
France	-5.1	-4.8	-4.1	-3.9	-3.8	85.2	89.6	92.3	95.6	96.3
Germany	-1.0	-0.1	-0.1	0.3	0.9	78.4	79.7	77.4	74.9	71.4
Greece	-10.2	-8.8	-12.4	-3.6	-0.3	172.0	159.4	177.0	178.6	182.4
Hungary	-5.5	-2.3	-2.5	-2.5	-2.4	80.8	78.3	76.8	76.2	76.1
Ireland	-12.5	-8.0	-5.7	-3.9	-2.1	109.3	120.2	120.0	107.5	96.7
Italy	-3.5	-3.0	-2.9	-3.0	-2.6	116.4	123.2	128.8	132.3	132.8
Latvia	-3.4	-0.8	-0.9	-1.5	-1.5	42.8	41.4	39.1	40.6	37.5
Lithuania	-8.9	-3.1	-2.6	-0.7	-1.1	37.2	39.8	38.8	40.7	45.3
Luxembourg	0.5	0.2	0.7	1.4	0.1	19.2	22.1	23.4	23.0	22.3
Malta	-2.6	-3.6	-2.6	-2.1	-1.6	69.8	67.6	69.6	68.3	66.6
Netherlands	-4.3	-3.9	-2.4	-2.4	-2.2	61.7	66.4	67.9	68.2	67.2
Poland	-4.9	-3.7	-4.0	-3.3	-2.8	54.4	54.0	55.9	50.4	51.0
Portugal	-7.4	-5.7	-4.8	-7.2	-2.7	111.4	126.2	129.0	130.2	125.2
Romania	-5.4	-3.2	-2.2	-1.4	-1.5	34.2	37.4	38.0	39.9	40.3
Slovakia	-4.1	-4.2	-2.6	-2.8	-2.7	43.3	51.9	54.6	53.5	52.9
Slovenia	-6.6	-4.1	-15.0	-5.0	-2.9	46.4	53.7	70.8	80.8	84.0
Spain	-9.5	-10.4	-6.9	-5.9	-4.4	69.5	85.4	93.7	99.3	99.7
Sweden	-0.1	-0.9	-1.4	-1.7	-0.9	36.9	37.2	39.8	44.9	43.8
United Kingdom[2]	-7.7	-7.5	-5.9	-5.1	-4.0	82.6	84.7	86.6	87.3	87.6

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. These data are also part of the EU28 aggregate.

3) 19 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.

Source: Eurostat (2015b).

Table B.16: Transactions of General Government of EU Countries in 2014

(in % of GDP)

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Collective consumption	Individual consumption	Investments[1]	Interest expenditure
EU28	45.2	48.2	10.3	16.5	7.8	13.1	2.9	2.5
EA19 [2]	46.8	49.4	10.3	17.4	7.9	13.2	2.7	2.7
Austria	50.0	52.7	10.6	19.4	7.4	12.4	3.0	2.5
Belgium	52.0	55.1	12.7	17.3	8.8	15.7	2.4	3.1
Bulgaria	36.3	42.1	9.5	12.2	8.1	8.4	5.2	0.9
Croatia	42.6	48.2	11.8	14.4	10.0	10.1	3.7	3.5
Cyprus	40.4	49.3	13.2	14.8	9.2	6.8	1.8	2.9
Czech Republic	40.6	42.6	8.8	13.0	9.1	10.7	4.2	1.3
Denmark	58.4	56.9	16.8	17.8	7.7	18.9	3.9	1.5
Estonia	38.7	38.0	10.8	10.6	8.8	10.4	5.0	0.1
Finland	54.9	58.3	14.2	19.6	8.2	16.6	4.1	1.2
France	53.6	57.5	13.0	20.2	8.6	15.6	3.7	2.2
Germany	44.6	44.3	7.7	15.5	6.8	12.6	2.2	1.8
Greece	46.4	49.9	12.1	19.4	10.9	9.0	3.9	3.9
Hungary	47.4	49.9	10.4	14.0	10.2	10.0	5.5	4.0
Ireland	34.4	38.2	9.8	12.1	5.2	12.0	2.0	4.0
Italy	48.2	51.2	10.2	20.3	8.1	11.4	2.2	4.6
Latvia	35.6	37.1	9.5	10.2	9.4	8.1	4.4	1.4
Lithuania	34.1	34.8	9.5	10.7	7.6	9.3	3.5	1.6
Luxembourg	43.8	42.4	8.9	15.7	6.6	10.5	3.5	0.4
Malta	41.9	44.0	13.3	12.1	9.1	11.2	3.8	2.9
Netherlands	43.9	46.2	9.2	11.7	8.6	17.3	3.5	1.4
Poland	38.8	42.1	10.4	14.3	8.5	9.8	4.5	1.9
Portugal	44.5	51.7	11.8	17.7	8.6	10.0	2.0	4.9
Romania	33.5	34.9	7.6	10.5	7.4	6.5	4.3	1.7
Slovakia	38.9	41.6	8.7	13.9	8.3	10.6	3.6	1.9
Slovenia	44.8	49.8	11.4	16.5	7.8	11.3	5.2	3.2
Spain	38.6	44.5	11.0	16.4	8.4	11.0	2.1	3.4
Sweden	50.1	51.8	12.6	13.9	7.4	18.9	4.5	0.7
United Kingdom	38.2	43.9	9.5	14.1	7.3	12.4	2.7	2.7

Note: 1) Gross fixed capital formation.

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

Source: Eurostat (2015a).

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

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

Published	Topic
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
November 2015	Fiscal Impulse Fiscal Framework Reform in the Czech Republic

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

Published	Box Topic
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
May 2015	Box 1: Expansion of the General Government Sector
November 2015	Box 1: Expansion of the General Government Sector Box 2: Czech Economy Growth and the Tax Revenue Development in 2015 Box 3: Expenditure Rule Technique

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