Ministry of Finance
Economic Policy Department

Fiscal Outlook

of the Czech Republic

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The Fiscal Outlook of the Czech Republic is published by the Economic Policy Department of the MF CR, since 2016 annually in the half of November. It contains forecast of the current and next year (i.e. up to 2018) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2020). The Outlook is available on internet pages of MF CR at:

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

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

Fiscal.Outlook@mfcr.cz

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List of Abbreviations

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
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
IMF .... International Monetary Fund
MF CR .... Ministry of Finance of the Czech Republic
OECD .... Organisation for Economic Co-operation and Development
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 18 October 2017 release, fiscal data to the 2 November 2017 release, data for international comparison to the 9 November 2017 release and government bond yields to the 13 November 2017 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 and Summary

In the first half of the year, the Czech economy grew by 3.7% compared to the previous year. The growth was driven by robust domestic demand backed by high positive balances of foreign trade. The impressive dynamics of the Czech economy is also reflected in the performance of public finances. Without distortion by European Union projects, the balance of the state budget between January and October reached almost 17 billion CZK. By the end of September, local governments reported a surplus exceeding 44 billion CZK and health insurance companies reported a positive balance exceeding 6 billion CZK. Despite an increase in current and investment expenditure, the reason for such high surpluses is an above-average growth in tax revenue. Tax titles accounting for approximately three quarters of total tax revenue have been growing at least 8% this year.

In 2016, the Czech Republic's public finances ended in surplus for the first time. The shift to surplus outcome was the result of a substantial improvement in the structural balance. The current forecast of the general government sector performance this year and in the coming years suggests that it was not an exception. In accordance with the expected macroeconomic development and budgetary impact of government policies we estimate for the coming years that the structural balance should continue to be positive and the overall balance should keep improving with a firm economic growth.

A set of legal regulations was adopted in January 2017 which transposed into Czech law Council Directive on requirements for budgetary frameworks of the Member States. From this group, the key Act on fiscal responsibility rules has completely changed the method expenditure frameworks for the state budget and state funds are set. Determination of expenditure frameworks now results from the medium-term budgetary objective based on the concept of structural balance, which does not include the effects of the business cycle and one-off measures. The medium-term budgetary objective ensures long-term sustainability of the entire general government sector as well as room for automatic stabilizers. The 2017 reform of the fiscal and budgetary framework connected the medium-term budgetary objective with the national budgetary methodology for the state budget and state funds, thus introducing EU regulations regarding the Stability and Growth Pact into the national budgetary process.

The values and derivations of expenditure frameworks for 2018 to 2020 are contained in the Budgetary Strategy for the General Government Sector of the Czech Republic, approved by the Government on 24 April 2017. The updated framework amounts are the basis for this year's draft of the state budget for 2018, state fund budgets and their medium-term outlooks. The present Fiscal Outlook of the Czech Republic relies on them in particular at the level of public expenditure set-up. Moreover, it is based on the November Macroeconomic Forecast for the Czech Republic by the Ministry of Finance, to which it adds detailed aspects of the fiscal development.

The Fiscal Outlook of the Czech Republic expects a surplus of the general government sector performance of 1.1% of GDP for this year, consisting mainly of the balance of local governments. For 2018, we estimate a further increase in the general government surplus to 1.3% of GDP, despite considerable dynamics of employee compensation, social benefits and investment. The projected strong growth in tax revenue including social security contributions should be, similarly to this year, driven not only by the economic boom but also by revenues from the measures against tax evasion. The outlook of the economy beyond 2018 will be determined by the new set-up of economic policy of the government that will be appointed after October elections to the Chamber of Deputies. However, the current trend indicates a gradual improvement in the general government balance to 1.7% of GDP in 2020, and a decrease in the debt-to-GDP ratio to approx. 31% in the same year.

The Fiscal Outlook of the Czech Republic also brings first information about the result of new long-term projections of pension expenditure. The quantified future costs give an idea about the causes and magnitude of the risks for long-term sustainability of the pension system in the Czech Republic. The new Eurostat demographic projection foresees a relatively large decline in the population of the Czech Republic in the long term. The ratio of people over the age of 65 to the working age population (15–64 years) should almost double by 2070 and reach approximately 50%. Although the projection of the number and structure of the Czech Republic population is relatively pessimistic, its impact on the development of pension expenditure over the time is moderated by the current developments of the pension account. Its deficit in 2016 was 0.3% of GDP. In addition to demographic developments, the deficit of the pension system is significantly deepened by recent changes to the system, especially introduction of a ceiling on the retirement age. However, the current system contains a possibility of retirement age revision. If the retirement age is adequately increased based on life expectancy, future costs of the pension system may be significantly reduced.

The economic developments in the recent years have led to a sharp increase in the number of independent fiscal institutions in the world. In the European Union, the institutional framework for fiscal policy has been strengthened by an agreement on new common legislation that requires the introduction of elements of independent fiscal institutions in every Member State. On the occasion of coming into effect of the new Act on Fiscal Responsibility Rules, which established the National Budget Council in the Czech Republic, the last, thematic, chapter deals with the functioning of independent fiscal institutions, their functions and activities. From the formal point of view, the Czech National Budgetary Council is rather a small fiscal council, however, with a considerable methodological, consultancy and evaluation role in the national budgetary process.

1 Macroeconomic Framework for the Fiscal Forecast

The Czech economy is in exceptionally good shape and benefits from favourable internal and external conditions. The QoQ real GDP growth in the first quarter of 2017 was 1.5% and in the second quarter even record-breaking 2.5%. However, despite an expected significant slowdown of the QoQ dynamics in the second half of the year, the YoY economic growth should remain high. For the entire 2017, GDP should thus increase by 4.1%. A slowdown to 3.3% is expected for 2018, and economy could grow by approx. 2.5% per year in 2019–2020.

The dominant factor of the 2017 growth should be domestic demand, both final consumption expenditure of households and of the general government sector and gross fixed capital formation. A strong positive contribution to GDP growth should also be reported by balance of foreign trade. Export growth should be supported not only by export markets growth but also, to a lesser extent, by increasing export performance. Import of goods and services should grow more slowly than export, mainly due to the dynamics of gross fixed capital formation in the first half of this year (which is, similarly to export, characterized by high import intensity). Net exports should support economic growth also in the coming years, although not as significantly as in 2017. GDP growth in the coming years should be driven mainly by domestic demand, both consumption and investment.

Household consumption is, in addition to increasing disposable income, also encouraged by consumer optimism regarding future developments of the economy which is reflected in the YoY decline in savings. Household consumption could therefore increase by 3.9% in 2017. Disposable income increase in 2018 will reflect high wage dynamics, further wage increases in the general government sector, reduction in the tax burden on families with children, and increased social benefits. We expect that the growth in final consumption expenditure of households will slow down to 3.5% despite further decline in savings. As a result of lower disposable income dynamics, household consumption growth could slow down to 2.6% in 2019 and 2.2% in 2020.

Gross fixed capital formation started increasing again in 2017 after a drop in 2016. Private investment growth continued, and growth restarted in investment by the general government sector which was significantly affected in 2016 by the transition to the 2014–2020 financial perspective. Private investment is stimulated by gross operating surplus growth, eased monetary conditions that are reflected in growth of loans to non-financial corporations, and slightly above-average use of production capacities in the manufacturing industry. Also, the increasing lack of employees could motivate businesses to invest in order to increase labour productivity. Conversely, certain risks in the external environment could hamper private investments. In the case of investment by the general government sector, we expect stable growth in investment expenditure financed from national resources. Investment should also be supported by a gradual start of implementation of projects co-funded by the EU funds under the 2014–2020 financial perspective (see subchapter 2.2). Gross fixed capital formation could thus increase by 6.2% in 2017; however, its growth could gradually slow down to 3.0% in 2020. In the entire horizon of 2017–2020, both private investment and investment of the general government sector should contribute positively to gross fixed capital formation.

The YoY consumer prices growth accelerated significantly above the CNB's inflation target at the turn of 2016 and 2017. We expect that inflation will be in the upper half of the inflation target tolerance band also in 2018. Pro-inflationary effects of higher crude oil prices, unit labour cost growth and a positive output gap should outweigh anti-inflationary effects stemming from the expected tightening of monetary conditions both in the exchange rate and interest component. The average inflation rate should thus reach 2.4% both in 2017 and in 2018. Consumer prices growth should slightly slow down in subsequent years and the inflation rate should be 2.0% in 2019 and 1.8% in 2020. The contribution of administrative measures to inflation should be small in the entire 2017–2020 horizon.

The labour market situation shows signs of overheating. The unemployment rate in the Labour Force Survey methodology dropped under 3% and the share of registered unemployed is declining. The number of job vacancies is record high, employment and participation rates are growing, and wage growth has accelerated considerably. We believe that we cannot expect further significant unemployment rate reductions in the survey, and the rate could decrease from the expected 3.0% in 2017 to 2.7% in 2019–2020. Employment could increase by 1.4% in 2017, but it should grow at a considerably slower pace in the coming years, by 0.4% in 2018 and by 0.3% per year in 2019–2020. There will be two contradictory forces: a decrease in the working age population and an increase in the participation rate which will also be supported, in addition to increasing the retirement age, by changes in the structure of the working age population (the share of age groups with a naturally high participation rate will grow). The wage bill should increase dramatically in 2017 and 2018 – by 7.4% in 2017 and even by 7.6% in 2018. Wage and salary growth should be under 5% in 2019–2020. Wages and salaries should rise not only thanks to improving situation in the private sector and growth in salaries in the general government sector, but also the aforementioned imbalance on the labour market.

Increases of the minimum and guaranteed wages are also a significant factor in 2017 and 2018.

The current account of the balance of payments has been reaching a surplus since 2014. The current account should show positive balance in the whole horizon of 2017–2020, with a high surplus of the balance of goods and services and, on the contrary, a significant deficit of primary incomes.

If we take into account the probability of occurrence of forecast risks, we consider them balanced. The most significant risk in the external environment is, in our view, the possibility of the future relationships between the United Kingdom and the EU significantly increasing barriers to international trade. The Czech economy could also be affected by a sharp slowdown of China's growth, escalation of problems of the Italian banking sector or some geopolitical factors (increasing protectionism, separatist tendencies in some EU countries, migration crisis). On the other hand, however, growth prospects of our main trading partners are improving, and foreign demand could develop more favourable compared to our estimates, which would significantly benefit our strongly export-oriented economy. Domestic factors include risks associated with the dynamics of mortgage loans and real estate prices. Furthermore, a key aspect in terms of economic growth will, with regard to the overheating labour market and the anticipated demographic development, be increasing labour productivity. Aspects essential for its growth include the development of investment associated with the investment cycle of programming periods of the European Structural and Investment Funds.

Table 1.1: Main Macroeconomic Indicators (2016–2020)

		2016	2017	2018	2019	2020	2016	2017	2018	2019
		Actual	Current Forecast and Outlook				April 2017 Convergence Programme			
Gross domestic product	*bn CZK, c.p.*	**4773**	**5024**	**5299**	**5547**	**5790**	4715	4889	5103	5322
	% growth, s.p.	**2.6**	**4.1**	**3.3**	**2.6**	**2.4**	2.4	2.5	2.5	2.4
Private consumption	*% growth, s.p.*	**3.6**	**3.9**	**3.5**	**2.6**	**2.2**	2.9	2.4	2.7	2.2
Government consumption	*% growth, s.p.*	**2.0**	**1.9**	**1.7**	**1.4**	**1.4**	1.2	1.7	1.5	1.4
Gross fixed capital formation	*% growth, s.p.*	**-2.3**	**6.2**	**4.1**	**3.4**	**3.0**	-3.7	3.8	3.0	3.0
Contr. of net exports to GDP growth	*p.p., s.p.*	**1.2**	**0.9**	**0.3**	**0.3**	**0.3**	1.1	0.2	0.2	0.4
GDP deflator	*% growth*	**1.2**	**1.1**	**2.1**	**2.0**	**2.0**	1.1	1.1	1.8	1.9
Inflation	*in %*	**0.6**	**2.4**	**2.4**	**2.0**	**1.6**	0.6	2.4	1.7	1.8
Employment	*% growth*	**1.9**	**1.4**	**0.4**	**0.3**	**0.3**	1.8	1.1	0.3	0.3
Unemployment rate	*average in %*	**4.0**	**3.0**	**2.8**	**2.7**	**2.7**	4.0	3.4	3.3	3.2
Wages and salaries	*% growth, c.p.*	**5.8**	**7.4**	**7.6**	**4.9**	**4.5**	5.8	5.7	4.8	4.5
Current account balance	*in % of GDP*	**1.1**	**0.6**	**0.5**	**0.7**	**1.0**	1.1	0.4	0.5	1.0
Assumptions:										
Exchange rate CZK/EUR		**27.0**	**26.4**	**25.5**	**25.1**	**24.7**	27.0	26.9	26.3	25.6
Long-term interest rates	*% p.a.*	**0.4**	**0.9**	**1.5**	**2.0**	**2.3**	0.4	0.9	1.5	2.0
Crude oil Brent	*USD/barrel*	**43.6**	**52.9**	**55.2**	**54.4**	**54.3**	43.6	56.3	56.8	56.4
GDP in Eurozone EA12	*% growth, s.p.*	**1.8**	**2.1**	**2.0**	**1.8**	**1.8**	1.7	1.5	1.6	1.7

Note: Figures for employment and unemployment are based on the Labour Force Survey.
Source: MF CR (2017a, 2017b).

2 Short-term Development of General Government Sector Finances

2.1 General Government Sector Finances in the CR in 2016

According to data published by the CZSO (2017b), the general government sector reached in 2016 a surplus of 35 billion CZK, i.e., 0.7% of GDP. If we take into account the business cycle and one-off or other temporary operations, the structural balance amounted to 0.8% of GDP. This means that the surplus performance of the general government sector is not cyclical or one-off, but it is a direct influence of government measures.

In comparison with the 2017 Convergence Programme of the CR (MFCR, 2017a) and the April Government Deficit and Debt Notification, the CZSO revised the 2016 data with a positive impact on the overall balance by 7.4 billion CZK, i.e., 0.1 pp. The total amount of general government expenditure did not change substantially. The increase in expenditure capital transfers (by 8.6 billion CZK) was offset by lower expenditure on gross fixed capital formation (by 3.1 billion CZK) and subsidies (by 5.7 billion CZK). The increase in surplus is therefore due almost exclusively to the revenue side with a positive adjustment in the amount of income taxes (by 9.2 billion CZK), especially the corporate income tax. This revision is related to updated data available from tax returns and tax settlement (of tax overpayments or underpayments), which always, in accrual terms, influence the previous year. The resulting working balance was negatively impacted by taking into account additional information about cash flows from EU funds (deterioration by 3 billion CZK).

The general government debt reached 1,754.9 billion CZK at the end of 2016, which is 36.8% of GDP. A decrease by 0.5 pp in comparison with the April Notification is associated solely with the revision of nominal GDP.

Table 2.1: General Government Revenue (2011–2017)
(in % of GDP)

	2011	2012	2013	2014	2015	2016	2017
General government revenue	**40.3**	**40.5**	**41.4**	**40.3**	**41.1**	**40.1**	**40.4**
Tax revenue	**18.9**	**19.3**	**19.9**	**19.1**	**19.5**	**19.9**	**20.1**
Individual income tax	3.5	3.6	3.7	3.7	3.6	3.8	4.0
Corporate income tax	3.2	3.1	3.2	3.3	3.4	3.5	3.4
Value added tax	6.9	7.0	7.4	7.4	7.3	7.4	7.7
Excise taxes	4.2	4.3	4.4	3.5	4.0	3.8	3.6
Other taxes and contributions	1.1	1.2	1.2	1.2	1.2	1.3	1.2
Social security contributions	**14.7**	**14.8**	**14.8**	**14.6**	**14.4**	**14.7**	**15.1**
Sales	**3.6**	**3.6**	**3.7**	**3.5**	**3.4**	**3.3**	**3.2**
Other revenues	**3.1**	**2.8**	**3.0**	**3.1**	**3.8**	**2.2**	**2.0**

Source: CZSO (2017a, 2017b). Year 2017 MF CR.

Table 2.2: General Government Expenditure (2011–2017)
(in % of GDP)

	2011	2012	2013	2014	2015	2016	2017
General government expenditure	**43.0**	**44.5**	**42.6**	**42.2**	**41.7**	**39.4**	**39.3**
Government consumption	20.2	19.8	20.2	19.7	19.2	19.2	19.1
Social benefits other than social transfers in kind	13.1	13.1	13.3	12.9	12.4	12.2	12.0
Gross fixed capital formation	4.5	4.2	3.7	4.1	5.1	3.3	3.4
Other expenditures	5.3	7.4	5.4	5.5	5.0	4.7	4.8

Source: CZSO (2017a, 2017b).Year 2017 MF CR.

Table 2.3: Balance of General Government and of Subsectors (2011–2017)
(in % of GDP)

	2011	2012	2013	2014	2015	2016	2017
General government balance	**-2.7**	**-3.9**	**-1.2**	**-1.9**	**-0.6**	**0.7**	**1.1**
Central government balance	-2.3	-3.7	-1.6	-2.0	-1.2	-0.4	0.1
Local government balance	-0.3	-0.1	0.3	0.2	0.6	1.0	0.9
Social security funds balance	-0.2	-0.2	0.0	-0.1	0.0	0.1	0.1
Primary balance	**-1.4**	**-2.5**	**0.1**	**-0.6**	**0.4**	**1.7**	**1.9**

Source: CZSO (2017a, 2017b). Year 2017 MF CR.

Table 2.4: Debt of General Government and Change in the Gross Debt (2011–2017)
(in % of GDP)

	2011	2012	2013	2014	2015	2016	2017
General government debt	**39.8**	**44.5**	**44.9**	**42.2**	**40.0**	**36.8**	**34.7**
Central government debt	37.3	41.8	42.3	39.7	37.9	35.9	34.1
Local government debt	2.6	2.8	2.8	2.7	2.4	1.9	1.6
Social security funds debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt-to-GDP ratio	**2.5**	**4.6**	**0.4**	**-2.7**	**-2.2**	**-3.2**	**-2.1**
Primary general government balance	1.4	2.5	-0.1	0.6	-0.4	-1.7	-1.9
Interest expenditure	1.3	1.4	1.3	1.3	1.1	0.9	0.8
Nominal GDP growth	-0.7	-0.3	-0.4	-2.2	-2.6	-1.5	-1.8
Other factors	0.4	1.0	-0.4	-2.4	-0.3	-1.0	0.9

Source: CZSO (2017a, 2017b). Year 2017 MF CR and Eurostat (2017b).

2.2 General Government Sector Finances in the CR in 2017

We expect for 2017 that the general government sector will achieve a surplus of 1.1% of GDP, of which a surplus of local government budgets should account for more than three quarters. Expectations of better performance in the current year are supported by the current development of cash performance of the state budget, local government budgets and tax revenue collection. The state budget balance for the first 10 months of the year, net of the influence of EU funds and financial mechanisms on both the revenue and expenditure sides, achieved a surplus of almost 17 billion CZK. That was a YoY improvement by more than 3 billion CZK.

In terms of the structural balance, there should be a slight YoY decline in the surplus by 0.3 pp to 0.5% of GDP. This is to a large extent also due to the expected increase in investment expenditure after the drop in 2016; the forecast envisages start of projects from the 2014–2020 financial perspective as well as an increase in national investment. In total, we expect an increase in general government investment expenditure by more than 11%.

In comparison with the 2017 Convergence Programme of the CR (MFCR, 2017a), we expect an improvement of the balance by 0.7 pp. The reason is mainly the dynamics of public budget revenues. As regards cash collection, higher revenues are expected for both direct (by 19.4 billion CZK) and indirect taxes (by 16.3 billion CZK). In addition to better collection of tax revenues, higher revenues are expected, in comparison with the spring forecast, for social security contributions (by almost 18 billion CZK). The positive revenue development should, however, be partly moderated by greater burden on the expenditure side. That should reflect a higher growth in compensation of employees (by 4.7 billion CZK), social benefits (by 2.1 billion CZK) and, most importantly, transfer payments (by 11.6 billion CZK). The forecast of expenditure on subsidies (by 5.7 billion CZK) and interest costs of the general government debt service (by 2 billion CZK) have been adjusted in the opposite direction. The last substantial change is a revision of the forecast of the general government investment, where we expect, due to the current development of cash performance and the dynamics of gross fixed capital formation, a lower growth (by 9.5 billion CZK) in comparison to the Convergence Programme forecast. The following part of the subchapter explains these differences.

General government revenues should increase by 6.0% YoY in 2017, to 40.4% of GDP, with tax revenue including social security contributions being the determining factor. Total tax revenue is estimated to be more than 7% higher. As a result of increasing the efficiency of tax collection, the overall tax quota should increase by 0.6 pp to 35.3% of GDP.

Indirect tax revenue should increase by 6%, primarily due to value-added tax, whose collection we expect to increase by almost 10%. The growth rate is thus probably to be more than 3 pp higher than the growth of the macroeconomic base. Cash collection shows the value-added tax increasing by 9.1% in the first 10 months of 2017, whereby it is more than one third higher than the final consumption expenditure growth. Collection and revenue reflect measures introduced since 2016. These include primarily VAT reporting and electronic registration of sales, where the first stage, since December 2016, applied to entrepreneurs in the area of catering and accommodation services and in the second stage, from 1 March 2017, also retail and wholesale. The expected annual impact of both these measures is quantified as 12.6 billion CZK. The estimate does not take into account receipt lottery introduced on 1 October 2017, which may further increase the annual effect of electronic registration of sales. Collection was slightly negatively affected by a reduction in the value-added tax rate on catering services from 21% to 15% and from 15% to 10% for newspapers and magazines.

The excise tax revenue should increase only by 1%, which is affected by adopted measures with a negative budgetary impact. As regards excise tax on mineral oils, this concerns refunds for agricultural primary producers, with the possibility to apply for a tax refund retrospectively also for 2016. The estimated impact in 2017 is quantified at 1.9 billion CZK. Collection of excise tax on tobacco products will be influenced by adoption of the anti-smoking law (Act No. 65/2017 Coll.), whose discretionary impact is estimated at approx. 1.1 billion CZK. This influence should, however, be compensated by increased rates for tobacco products with a positive effect also in the VAT revenue.

Direct taxes should grow at a rate exceeding 7%, mainly due to high dynamics of personal income tax. The YoY revenue from this tax should increase by 11%, as evidenced by the current 2017 tax revenue and more than 11% cash collection since the beginning of the year. In addition to a strong wage bill growth, which is estimated at 7.4% for 2017 (see Chapter 1), we also expect revenue from both stages of electronic registration of sales with an impact of approx. 3.4 billion CZK (after taking into account a one-off tax credit offsetting acquisition of hardware and software for electronic registration of sales). By contrast, some pro-family policy measures (e.g., higher tax deduction for the second and further children with a YoY impact of 1.6 billion CZK) or modification of conditions for the use of flat rate expenditure for tax purposes with an impact of 1.8 billion CZK (Act No. 170/2017 Coll.) act against. The revenue should also be negatively affected as a result of exemption of service rent and housing benefits for armed forces (an impact of approx. 1 billion CZK) and an increase in the limit for contributions for pension and life insurance deductible from the tax base (an impact of approx. 1.4 billion CZK).

Corporate income tax revenue should increase by 3%, also reflecting a positive effect of electronic registration of sales (expected as 1.7 billion CZK YoY), although to a lesser extent than in the case of personal income tax or value-added tax.

The dynamics of social security contributions is determined by the growth of employment and, more importantly, of the average wage. A positive effect in the form of a YoY increase by approx. 3.8 billion CZK can be also expected as a result of electronic registration of sales. All these factors account for the projected 8% YoY growth in social security contributions. The forecast is also supported by the current cash collection, where contributions to social security and health insurance increased by 8.5% YoY in the first 10 months.

As regards non-tax revenues, we expect capital transfers to grow by almost 6%, in particular due to higher subsidies for projects co-financed from EU funds. By contrast, we expect current transfers to decline in comparison with 2016.

General government expenditure should increase by 5% YoY, which would, however, be a decline by 0.1 pp to 39.3% of GDP due to a faster nominal GDP growth.

Compared to 2016, expenditure on general government final consumption should accelerate its dynamics and grow by 4.5%; similarly to the previous year, of which we expect the fastest growth in the compensation of employees (6.5%). The overall increase in compensation in 2017 is due to the wage increase since November 2016 and the increase in salary scales in several segments of the general government sector since July 2017, as well as an approved increase in salary scales since November 2017 (see Chapter 3). Intermediate consumption should grow at a rate exceeding 4% compared to 2016 due to higher real consumption (e.g. purchases in medical facilities included in the general government sector) but also due to a higher inflation rate. National accounts data for the first two quarters of this year show that the current YoY growth is mainly due to growth in intermediate consumption in the local government subsector with a dynamics higher than 6%. Social transfers in kind are projected to increase by 4.3%, just as in the previous year, mainly as a result of higher healthcare spending which has increased by 6% YoY in the first 9 months.

Cash social benefits should increase by 3.5% in 2017. They reflect full use of the possibility of statutory indexation of pensions up to 2.7% (instead of 1.3% according to the standard indexation formula). The budgetary effect of this discretionary measure is approx. 5.6 billion CZK. Furthermore, the forecast predicts an impact of an increase in care allowance by 10% with effect since August 2016, which foresees a further expenditure increase by 1.3 billion CZK in 2017.

Similarly to 2016, we expect a significant decline in interest costs, by more than 10%. This is the result of a combination of several factors, notably refinancing past issues in the environment of low interest rates, surplus cash performance of the state budget and local government budgets, and debt portfolio management strategy.

General government investment activity will show more than 11% YoY nominal growth in 2017 according to estimates of the MF CR. These investments should be funded from national resources as well as EU funds. As regards state budget cash performance, an increased activity of capital spending can be observed since July 2017. Investment in that period amounted to 31.2 billion CZK, which is almost 11 billion CZK more than for the entire first half of 2017 and almost by 9.6 billion CZK more than in the same period of 2016. The accelerating gross fixed capital formation growth rate in 2017 is also evidenced by data from national accounts for the first half of the year, where a slight initial growth by 2.2% in the first quarter accelerated to 10% in the second quarter.

Total subsidies and transfers should increase by 6.3% and they should reflect an increase in state contributions to renewable energy resources.

The estimated decrease in the absolute amount of the general government debt by almost 12 billion CZK by the end of 2017 and nominal GDP growth by 5.3% should lead to a YoY decrease in relative debt by 2.1 pp to 34.7% of GDP.

2.3 International Comparison

2.3.1 General Government Balance

The general government deficit of EU countries was 1.7% of GDP in 2016. In comparison with 2015 it was lower by 0.7 pp. The CR recorded a general government surplus of 0.7% of GDP, which was the fifth highest surplus in the EU in that year.

The highest general government deficit in 2016 was recorded by Spain (4.5% of GDP), followed by France (3.4% of GDP) and Romania (3.0% of GDP). Conversely, general government deficit under the reference threshold of the Stability and Growth Pact was achieved by 15 EU Member States. A higher surplus than in the CR was recorded by Luxembourg (1.6% of GDP), Malta and Sweden (both 1.1% of GDP), and Germany (0.8% of GDP). Whereas the surplus in Germany was mainly due to all subsectors, in Luxembourg it was mainly health insurance companies and in Sweden central government. The local government sector in Sweden has been in deficit in recent years. The group of countries with general government surplus also includes Greece (0.5% of GDP), which, in addition, recorded the highest structural surplus in the EU (5.5% of GDP). It follows that the Stability and Growth Pact criterion for deficits was met by significantly more EU countries (26 in total) in 2016 than in previous years.

19 EU Member States expect general government deficit in 2017; however, the deficit reference threshold should be probably exceeded only by Spain (−3.1% of GDP). Very similar values of the general government deficit as in 2016 were notified by Romania (−3.0% of GDP) and France (−2.9% of GDP), which should thus look to end the Excess Deficit Procedure it has been subjected to since 2009. By contrast, the remaining 9 EU Member States are predicting a surplus, the highest in the CR (1.1% of GDP), Cyprus and Sweden (both 1.0% of GDP). Compared to 2016, a worse result of the general government performance in relative terms to GDP is expected in 12 EU Member States, in 4 of which it being a decrease in the surplus. A turn from surplus to deficit, though not dramatic, is predicted in Latvia and Greece. An opposite trend is expected in Estonia.

2.3.2 General Government Debt

Across the EU, the general government debt reached a consolidated value of 83.2% of GDP in 2016, i.e., 1.3 pp less than in 2015.

Greece remains the most indebted EU country. In 2012, part of the general government debt was remitted by private creditors; nevertheless, due to the marked economic decline lasting several years, the relative indicator of general government debt further deepened to almost 181% of GDP in 2016. However, the debt is to decrease by 4.0 pp in 2017. Other countries with a government debt above 100% of GDP remain Italy, Portugal, Cyprus and Belgium, with Spain oscillating around this level and France approaching.

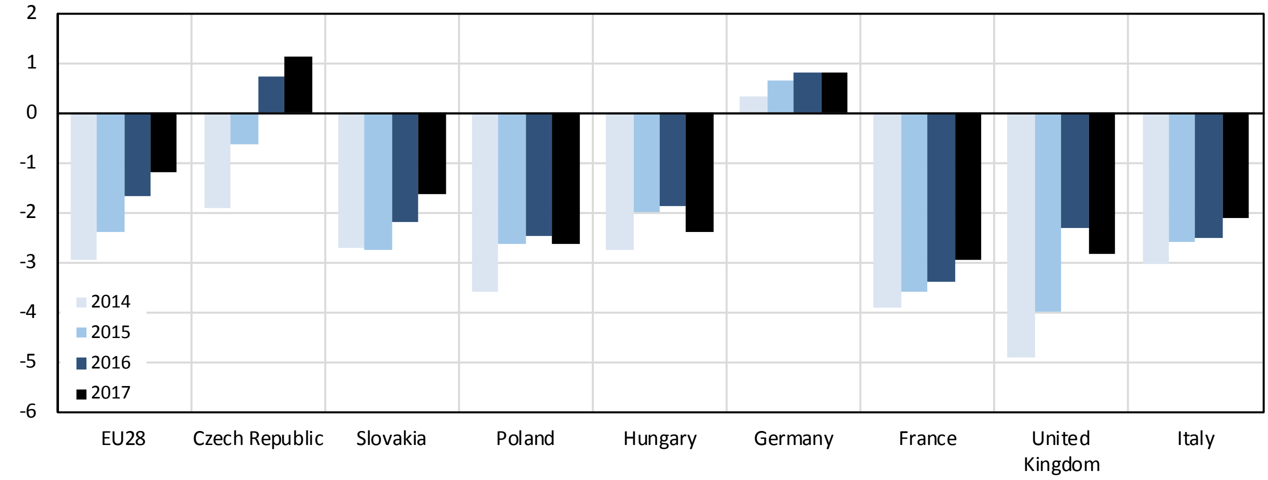
Debts have been growing relatively fast in Bulgaria, Finland, Croatia and Slovenia in recent years, but national authorities estimate that it should stop in 2017. Conversely, Ireland has significantly reduced its debt recently. While in 2007 the Irish debt was at 23.9% of GDP, 5 years later, as a result of the financial crisis, it increased to 119.6% of GDP. However, it was at 72.8% of GDP in 2016 and is predicted to decline further. However, the dominant factor in debt decline was the development of GDP as the absolute debt amount increased approximately four-and-a-half times between 2007 and 2012. Conversely, it declined only by 4.5% after 2012. In addition to the CR, the relative debt ratio has been positively developing in Denmark, Estonia, Hungary, Sweden, Germany, the Netherlands, Slovakia and Malta. For a long time, this indicator is by far the lowest in Estonia (9.4% of GDP in 2016 and 9.0% of GDP in 2017), although in absolute terms the debt more than doubled in 2011–2014 and thereafter remains at roughly the same level. The debt fiscal criterion of 60% of GDP was not met by 16 EU Member States in 2016; in 2017, the debt of the Netherlands should fall below this limit.

Note: In connection with the Autumn Government Deficit and Debt Notification according to Art. 15 (1) of the Council Regulation (EC) No 479/2009, as subsequently amended, Eurostat expressed a reservation to France regarding poor quality of the reported data reported for the local development agency.[1] Reservations previously expressed on Belgium for failure to include public hospitals in the general government sector and on Hungary for the same in the case of Eximbank[2] and certain operations carried out by the Hungarian Central Bank in favour of the state still apply. On the contrary, Eurostat no longer applies its reservation raised in spring 2017 on Luxembourg because Luxembourg has included public hospitals in the general government sector, completed data for local governments, and eliminated several methodological shortcomings. Eurostat also withdrew one reservation from spring 2017 on Hungary which, unlike in the case of Eximbank, newly included in the general government sector a local equivalent of the Czech Financial Market Guarantee System and another entity to strengthen the financial market stability.

[1] *Agence française de développement* is a French government agency with the status of a public financial institution. Its objective is to promote sustainable development and fight against poverty in former French colonies and in current French overseas territories.

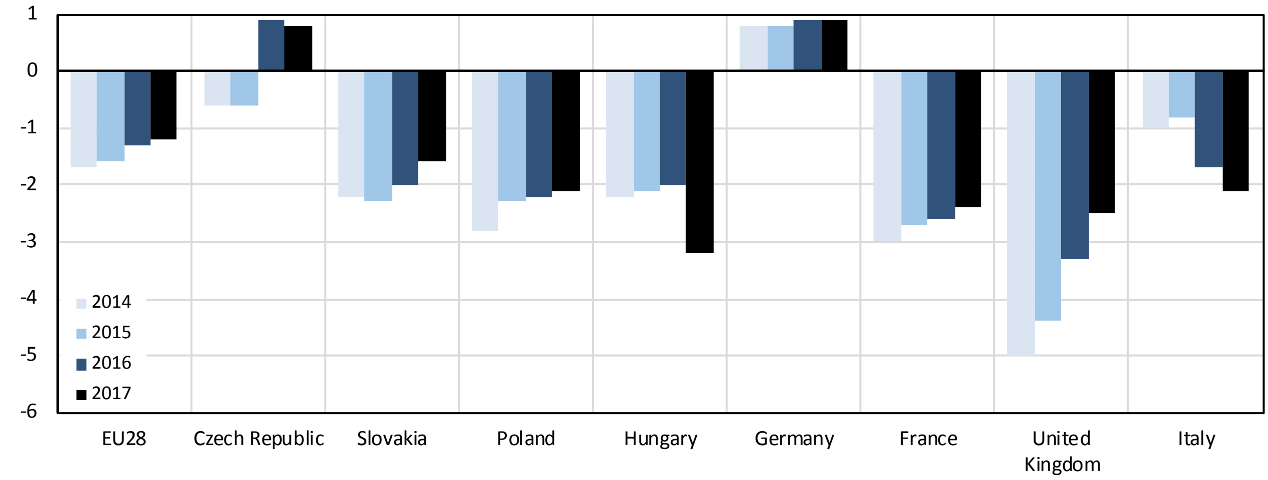
[2] *Magyar Export-Import Bank Zrt*. (*Hungarian Export-Import Bank Plc*) may be likened to the Czech Export Bank, which was included in the general government sector in September 2014.

Graph 2.1: General Government Balance in Selected EU Countries (2014–2017)
(in % of GDP)



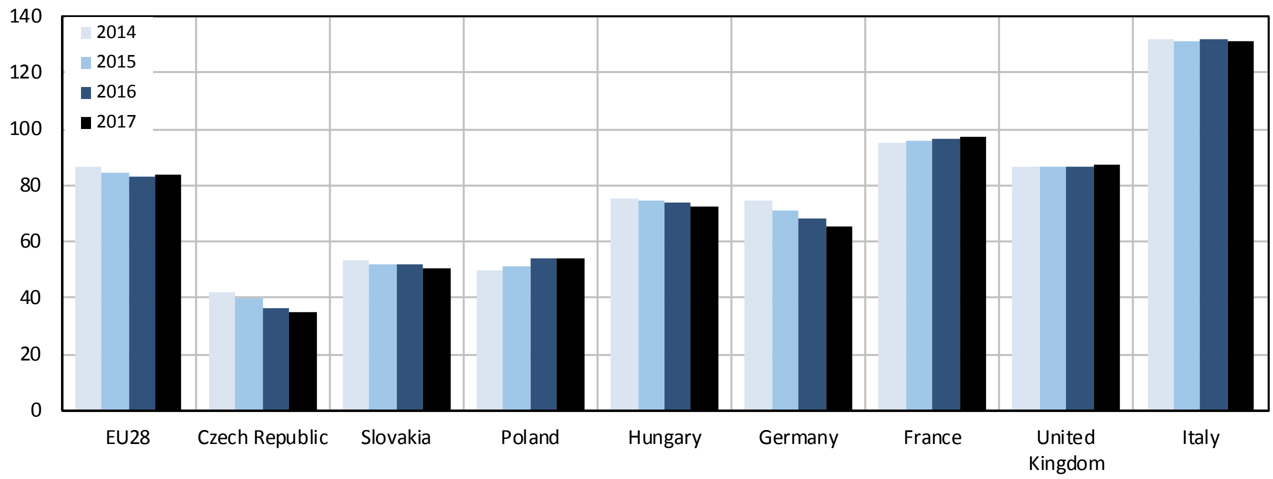
Note: Data of the United Kingdom are for the financial year (1 April of year T to 31 March of year T+1).
Source: Eurostat (2017b), data for the EU 28 in 2017: EC (2017b). Nominal GDP of the Czech Republic in 2017: MF CR (2017b).

Graph 2.2: Structural Balance of the General Government in Selected EU Countries (2014–2017)
(in % of GDP)



Source: EC (2017b).

Graph 2.3: General Government Debt in Selected EU Countries (2014–2017)
(in % of GDP)



Note: Data of the United Kingdom are for the financial year (1 April of year T to 31 March of year T+1).
Source: Eurostat (2017b), data for the EU 28 in 2017: EC (2017b). Nominal GDP of the Czech Republic in 2017: MF CR (2017b).

2.3.3 General Government Debt Financing

Compared to 2016, when, with the exception of Greece and Portugal, government bond yields declined significantly, there is a different trend in government bond yields across the EU in 2017. The different developments in yields across EU countries are due to perception of the countries' fiscal policies and economic stability by financial markets rather than reflection of the development of their macroeconomic indicators. If we compare the period of 2016 and January to October 2017, only 8 EU countries (Bulgaria, Greece, Croatia, Cyprus, Lithuania, Hungary, Romania and the United Kingdom) have recorded a fall in government bond yields. Besides continuing improvement in the general government performance, a clear determinant of the revenue developments cannot be found.

High confidence of financial markets in the German economy was also reflected in a decrease in yields of government bonds with time to maturity up to 10 years into negative values. The subsequent rise in inflation expectations was reflected in an increase in the German government bond yields, which showed a slight upward trend to 0.35% in September 2017.

The developments of spreads (Graph 2.4), expressed as yield differences of 10-year government bonds against German bonds of the same type, has started, after the 2008 and 2009 recession, to reflect more closely the general government performance indicators. The indicator primarily reflects financial markets' confidence in the country. Despite the Brexit, interest rates on government bonds in the United Kingdom did not see an increase in their levels but, on the contrary, their value declined.

The upper right graph shows the development in EU countries that accepted assistance from EU and IMF rescue funds. Spreads of these countries have decreased significantly since the outbreak of the debt crisis. The largest decrease in spreads in this group was recorded by Ireland, which managed to restore its economy and improve fiscal indicators. Since March 2016, Greece's spreads have relatively stabilized after implementation of reforms required by creditors, thus reflecting the country's approach to the fulfilment of the third rescue mechanism. Also, Greece, only for the third time since 2010, successfully issued government bonds on the primary market in July 2017. It uses borrowing to finance financial commitments resulting from rescue mechanisms.

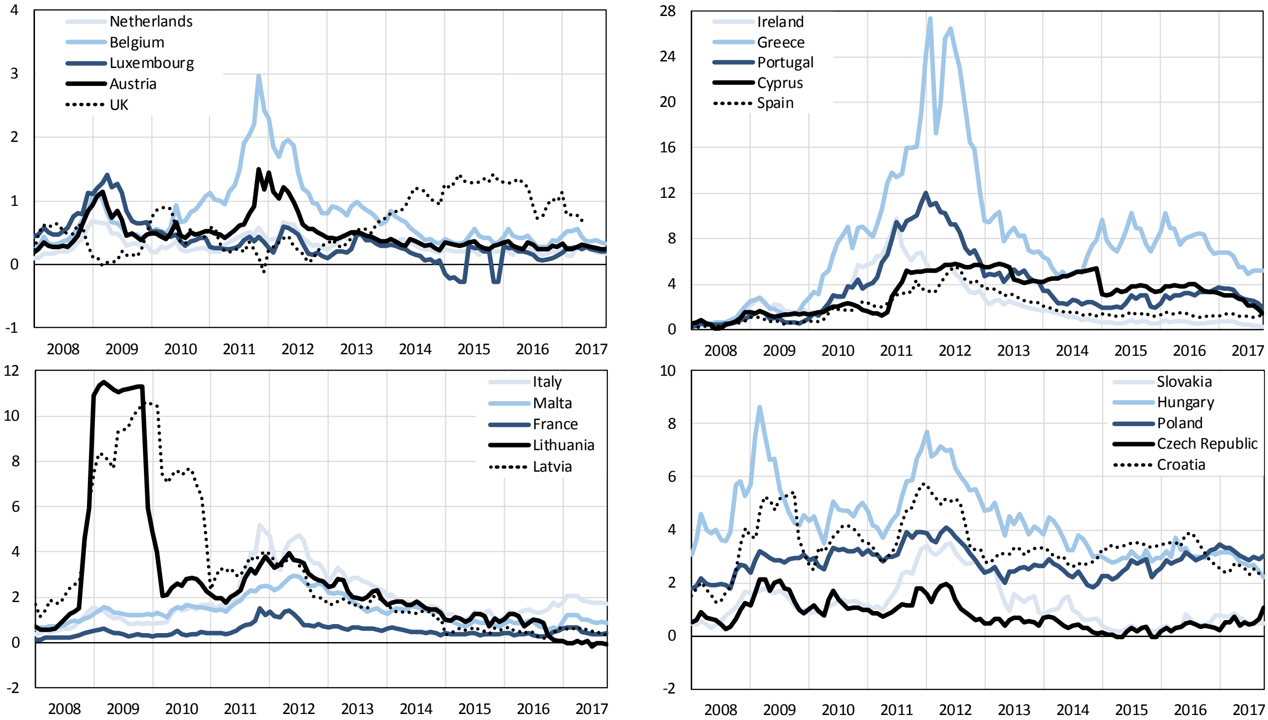
The bottom left graph shows countries with marked fluctuations in the values of spreads during the global crisis which, unlike the groups in the upper right graph, did not accept assistance from EU and IMF rescue funds. The values of spreads of French government bonds reflect structural problems and long-lasting exceeding of the Stability and Growth Pact limits. In Latvia and Lithuania, the levels of spreads have remained, after the end of the financial crisis, at low levels in recent years. Interest rates growth, attributed in particular to unresolved problems of the banking sector, is reflected in spread increase in Italy. The situation has been partly stabilized so far by rescuing the third largest Italian bank and liquidating two smaller regional banks in June 2017, which has been reflected in the development of government bond yields.

The countries of Central Europe and Croatia can be divided into two groups in terms of spread levels. Due to the good condition of public finances, financial markets from this geographical area perceive most positively the CR, which even in January 2015 saw a lower risk premium on issued government bonds than was the case in Germany. However, spreads of Czech bonds increased in 2017 mainly due to higher inflation expectations and monetary policy tightening. The yields of Slovak government bonds have also oscillated at similar levels as in the CR in the last three years.

Issuance of government bonds is not the only way to cover the general government debt. There are countries in the EU with another important source of funding, which is loans. It follows from the National Autumn Government Deficit and Debt Notifications that in 2016 loans made up the major part of total funds for covering the consolidated debt in three Member States. These states include Estonia (86.6% of total debt), Greece (80.0%) and Cyprus (66.9%). While this share has been more or less constant in Estonia due to long-term loans from the European Investment Bank and very low general government indebtedness, it has shot up in Greece and Cyprus in recent years. In 2011, the share of loans was 29% in Greece and 31.1% in Cyprus. The change in the debt structure by instrument reflects loans from the IMF and EU stabilization mechanisms.

Graph 2.4: Spreads of Bonds of Selected EU Countries (January 2008 to October 2017)

(in percentage points, difference against German bonds, monthly average)



Note: Spreads are calculated as the difference in yields of ten-year bonds for convergence means of the specific country and those of Germany. 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. For the United Kingdom, the relevant yields of 10Y bonds are not available since July 2017 due to the continuation of the withdrawal from the EU procedure.

Source: ECB (2017). MF CR calculations.

3 Medium-term Fiscal Outlook

Since 2017, the CR has ranked among countries that have fiscal rules at national levels. The rule sets the limits for the fiscal policy framework. However, fiscal rules as such do not guarantee an economically rational set-up of public finances. There is still a need for governments to actively engage in establishing the budgets so that their set-up reflects the country's economic situation, its financial capabilities and the position of the economy within the business cycle. This is partly related to the problem of political cycle, where the pressure is growing to increase expenditure (usually social) or reduce the tax burden depending on the election dates, not with regard to the needs of the national economy.

3.1 Fiscal Policy Objectives

Based on the results of the October Government Deficit and Debt Notification, the general government sector reported a surplus of 0.7% of GDP in 2016. In 2017, the surplus should be 1.1% of GDP (Eurostat, 2017b), Positive effects follow from the robust economic performance and measures against tax evasion have had a positive effect – VAT reporting in effect since January 2016 and electronic registration of sales in effect since December 2016 and gradually introduced into sectors stipulated by law. The surplus should continue also between 2018 and 2020, and gradually improve to 1.7% of GDP in 2020. This reflects not only the expected surplus of local government budgets, but also improving performance at the central government level.

Positive values should also be seen in the structural balance, which reached its highest level in the history of the CR in 2016, namely 0.8% of GDP. We estimate the structural balance at 0.5% of GDP in 2017 and 0.4% of GDP in 2018. In the years of the outlook, structural surpluses should gradually increase to 0.8% of GDP at the end of the forecast horizon (see Table 3.1). The predicted development of general government revenue and expenditure is detailed in Subchapter 3.3.

The concept of structural balance is closely related to the institution of medium-term budgetary objective, which corresponds to −1% of GDP for the CR and which has been successfully met. Nonetheless, achieving this goal, in addition to a substantial margin, should not in any way affect the consolidation effort at the state budget level. The problem of the general government sector in the CR is an imbalance in the performance of its parts. The subsector of social security funds (primarily health insurance companies) has essentially a balanced budget and does not have any debt. The subsector of local governments has constantly been in surplus in the past years, in particular with the 2016 surplus of 1.0% of GDP. However, both subsectors achieve their results also due to transfers from the state budget and changes in the tax assignment which have been implemented in the last years always for the benefit of municipalities and regions. However, the state budget has never ended in surplus in the accrual methodology since 2002 since when we have detailed information from national accounts is available. However, in the case of need of an active fiscal policy in times of economic downturn or redistribution of income in the society, virtually the entire burden lies on the state budget. It is therefore necessary to manage public finances prudently and to create reserves in good times not only as a whole but with regard to each component and its function.

Ensuring reserves for the performance of counter-cyclical fiscal policy should thus currently lead through further improvement in the balances of state budget and state funds. In a situation of a very positive output gap, the state budget and state fund budgets should generate persistent surpluses. However, the particular fiscal strategy, especially after 2018, will depend on the concept of the government that will be established on the basis of the October 2017 elections.

Table 3.1: Fiscal Policy Stance (2014–2020)
(in % of GDP, fiscal effort in percentage points)

	2014	2015	2016	2017	2018	2019	2020
General government balance	**-1.9**	**-0.6**	**0.7**	**1.1**	**1.3**	**1.6**	**1.7**
Cyclical component	-0.8	0.1	0.0	0.6	0.9	0.9	0.9
One-off and other temporary measures	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0
Structural balance	-0.9	-0.5	0.8	0.5	0.4	0.7	0.8
Fiscal effort (Change in structural balance)	**-1.2**	**0.4**	**1.3**	**-0.3**	**-0.1**	**0.2**	**0.2**
Cyclical component according to ECB method	-0.6	0.1	0.5	0.0	0.2	0.1	0.0
Structural balance according to ECB method	-1.1	-0.5	0.3	1.1	1.1	1.5	1.7
Fiscal effort according to ECB method	**-0.9**	**0.6**	**0.8**	**0.7**	**0.1**	**0.4**	**0.2**

Note: Different development of the cyclical component of the balance (and therefore of the structural balance) according to the Organisation of Economic Co-operation and Development and the European Central Bank is caused because the method of Organisation of Economic Co-operation and Development uses the cycle calculated directly from output gap, while the other method models the cyclical development of cyclically-dependent items of revenue and expenditure to the cyclical development of specific macroeconomic bases (compensation of employees in the private sector, wages in the private sector, net operating surplus, consumption of households and unemployment). These bases have different cyclical behaviour than the GDP and its potential.
Source: CZSO (2017a, 2017b). Forecast and calculations by MF CR.

3.2 Medium-term Expenditure Framework

Since the 2017 (with Act No. 23/2017 Coll. on fiscal responsibility rules coming into effect) expenditure frameworks have been derived from the general government balance in the internationally comparable accrual methodology of the European system of national and regional accounts (ESA 2010). The general government balance is adjusted for the expected influence of the business cycle and any one-off or other temporary measures. If we subtract the predicted amount of structural balances of all other units of the general government sector outside the state budget and state funds, we obtain the expected amount of structural balance of the state budget and state funds. Cash-based expenditure frameworks will then result from subtraction of methodological adjustments that distinguish between accrual and cash-based transactions, and addition of predicted consolidated cash revenue of the state budget and state funds. Act No. 218/2000 Coll. allows the MF CR to update the amounts of expenditure frameworks stipulated every year in the Budgetary Strategy for the General Government Sector of the Czech Republic (see MF CR, 2017c) in the process of preparation of draft state budget and state fund budgets or of their medium-term outlooks using the following exhaustive list:

a) a change in the projected total revenue including revenue from the EU budget and from financial mechanisms for the given year adjusted for the influence of the business cycle and for the influence of one-off and temporary operations;
b) the influence of a significant deterioration in economic development where the MF CR predicts a YoY real GDP decline by at least 3% in that given quarter;
c) the influence of deteriorated security situation of the state associated with the government's announcement of emergency measures to increase the defence capability of the state;
d) the influence of natural disaster relief;
e) 0.3% of that amount if necessary to take into account the influences not accounted for in determining this amount.

The Government of the CR approved, through its Resolution No. 314 on the Budgetary Strategy for the General Government Sector of the CR, a cash-based consolidated expenditure framework of the CR's state budget and state funds of 1,394 billion CZK for 2018, 1,426 billion CZK for 2019 and 1,455 billion CZK for 2020. The framework values were adjusted, within the above limits, as follows:

In the area of macroeconomic forecast, both the levels and the dynamics were increased. Different levels of quantities from national accounts are also significantly influenced by a revision of previous years done by the CZSO in June 2017. The revision of historic data and an update of the macroeconomic forecast lead to a significant change in the output gap estimate. Its size for 2018 was estimated at the time of preparation of the draft state budget at 2.3% of potential product, which is almost threefold compared to April 2017. Faster predicted real GDP dynamics is transformed to potential product only to a limited extent and, furthermore, only through some items. An increase in the positive output gap thus, based on the logic of the fiscal rule based on structural balance, reduced the expenditure framework.

The different forecast of state budget and state funds cash revenue was based not only on an updated macroeconomic forecast but also on data on tax collection, which had been known for eight months of 2017 at the time of forecast preparation, and on new discretionary measures. Act No. 260/2017 Coll., amending Act No. 243/2000 Coll., on tax assignment, has a strong influence on the new forecast of state budget revenue. An amendment to the act on tax assignment increases revenues for budgets of cities and municipalities at the expense of state budget revenues by approximately 9 billion CZK. The Budgetary Strategy for the General Government Sector of the CR expected funds from the EU and financial mechanisms of 70.0 billion CZK; the amount increased by 0.2 billion CZK only.

Based on a new forecast of state budget and state funds revenues, except revenue from the EU and financial mechanisms, it was possible to increase the expenditure framework for 2018 by 48.5 billion CZK. The influence of the business cycle on revenue change was estimated at 1.9 billion CZK. The updated amount of the consolidated expenditure framework of the state budget and state funds for 2018 (see Table 3.2) is, rounded to billions CZK, similarly to the procedure in the original framework in the Budgetary Strategy for the General Government Sector of the CR, 1,441 billion CZK.

In the years of the outlook, expenditure frameworks were adjusted in the same manner as for 2018. Cash revenues for the state budget and state funds, excluding revenue from the EU or financial mechanisms, were increased by 49.8 billion CZK in 2019 and 54.8 billion CZK in 2020. The influence of the cyclical component was similar in both years. As regards funds from the EU and financial mechanisms, the forecast expects the same amounts as does the Budgetary Strategy for the General Government Sector of the CR, i.e., 70 billion CZK. Rounded to billions CZK, the new expenditure framework is 1,474 billion CZK for 2019 and 1,508 billion CZK for 2020.

Table 3.2: Adjustments of the Original Medium-Term Expenditure Framework
(in CZK bn.)

		2018	2019	2020
Consolidated expenditure framework according to Government Resolution 314/2017		**1 394**	**1 426**	**1 455**
Adjustment in state budget and state funds cash revenues *	+	48.5	49.8	54.8
Cyclical component in adjusted state budget and state funds revenues	-	1.9	2.0	1.9
Change in EU and financial mechanisms revenues forecast	+	0.2	0.0	0.0
Adjusted consolidated expenditure framework of state budget and state funds (rounded)		**1 441**	**1 474**	**1 508**

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

3.3 General Government Medium-term Outlook

The general government sector consists of central government, local government and social security funds. The state budget is the dominant element in the central government. Although the state budget will be, especially after 2018, predominantly subject to the priorities and strategy of the government established based on this year's elections for the Chamber of Deputies, the overall framework of state budget and state funds expenditure is determined by a fiscal rule derived from the medium-term budgetary objective of the CR. In view of this, we expect the state budget to continue the trend in its performance towards improvement.

As far as social security funds are concerned, we expect, with regard to their performance in the past, virtually balanced revenues and expenditures. In addition to an approved on average approx. 5% increase in payments from the state budget for state insured persons, relatively robust dynamics of the wage bill, and hence revenue from health insurance contributions, is forecasted. This should, also with regard to the method of determination of the expenditure side in this subsector, fully cover the needs of the healthcare system in 2018–2020.

Local governments show considerable surpluses, especially in recent years. This is due not only to the increase in revenues (whether through a change in the tax assignment, economic development or sharing the effects of the measures against tax evasion), but also by a drop in investment expenditure in 2016 and so far only by its slight increase. The development of local governments' investment is mainly influenced by the transition to the new financial perspective 2014–2020 for EU funds, which is still launching. Gradually, we expect growth in investment expenditure and a slight decrease in surpluses (see Table 3.3) for local government (similarly to the entire sector).

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

		2016	2017	2018	2019	2020
General government balance	*% of GDP*	**0.7**	**1.1**	**1.3**	**1.6**	**1.7**
Central government	*% of GDP*	-0.4	0.1	0.5	0.9	1.1
Local governments	*% of GDP*	1.0	0.9	0.8	0.7	0.6
Social security funds	*% of GDP*	0.1	0.1	0.0	0.0	0.0
Total revenue	*% of GDP*	**40.1**	**40.4**	**40.8**	**40.6**	**40.4**
	growth in %	1.5	6.0	6.5	4.2	3.8
Total expenditure	*% of GDP*	**39.4**	**39.3**	**39.5**	**39.0**	**38.7**
	growth in %	-1.9	5.0	6.0	3.5	3.5

Source: Year 2016 CZSO (2017a, 2017b). Forecast and calculations by MF CR.

3.3.1 General Government Revenue

The development of the general government revenue in the years of the outlook shall be influenced mainly by favourable macroeconomic environment and more efficient tax collection through more effective prevention of tax evasion. We expect an average increase in general government revenue of 4.8% and in tax revenues (including social security contributions) of 5.0%.

In the years of the outlook, we predict that the personal income tax revenue will grow at an average rate of 7.8%; however, the dynamics should slow down. If we take into account wage distribution and the method of tax calculation, the growth rates in individual years are influenced mainly by the forecast of wage bill development in the economy, but also by the distribution of discretionary measures. In 2018 and 2019, tax revenues will be positively influenced by electronic registration of sales (Act No. 112/2016 Coll.), increasing the revenues by 3.3 billion CZK in 2018 and further 0.5 billion CZK in 2019. The aforementioned impacts already include a one-off credit for taxpayers of electronic registration of sales, which should compensate for the initial cost. The volume of predicted discretions is influenced by involvement of other entities in electronic registration of sales. Liberal professions and persons conducting business in transport or agriculture will join the system in March 2018. The law will become effective for selected crafts and other manufacturing activities in June 2018.

As regards pro-family policies, Act No. 200/2017 Coll. was adopted, which, among other things, changes laws in the area of personal income tax. With effect from 1 January 2018, tax credit for the first child will increase by 150 CZK per month, which should lead to a drop in personal income tax by 2.1 billion CZK in 2018. Other measures negatively influencing tax revenue include introduction of new sickness insurance allowances, in particular long-term care allowance (Act No. 310/2017 Coll.) with an expected impact of 0.3 billion CZK from 2018.

Similar factors to those applicable to personal income tax will influence the developments of social security contributions; in addition, increased state payments for state insured persons will amount to approx. 3.5 billion CZK per year until 2020. The average social security contributions growth is predicted at 5.8% in the years of the outlook after taking into account the discretionary measures. It should grow also due to an increase in the tax assessment base for entrepreneurs as a result of introduction of electronic registration of sales. We expect discretionary measures for social and health insurance, in connection with the Act on Registration of Sales coming into effect for additional entities, at approx. CZK 2.2 billion in 2018 and further CZK 0.5 billion in 2019. Introduction of new sickness insurance allowances, namely the aforementioned long-term care allowance and also paternity leave (Act No. 148/2017 Coll.), for which we expect a total effect of approx. 1.1 billion CZK, act on the social and health insurance system revenue in the opposite direction in 2018.

Corporate income tax revenue should grow on average by 3.8%, with acceleration in the last years of the outlook. This trajectory is determined by a projected acceleration of gross operating surplus, which primarily derives from a relatively stable nominal GDP growth in the years of the outlook and expected gradual slowdown in the wage bill growth. We expect there will be an increase in revenue of this tax as a result of introduction of electronic registration of sales, amounting to, in YoY terms, 1 billion CZK in 2018 and 0.2 billion CZK in 2019.

As regards value added tax revenues, we predict an average growth by 5.1% in the years of the outlook. Autonomous developments correspond with an increase in nominal household consumption and part of relevant consumption of general government, which we predict on average 4.7% in the years of the outlook. Key measures against tax evasion will also have a positive effect. We expect VAT reporting to increase VAT revenue by 3 billion CZK YoY in 2018. The expected effect of the Act on Registration of Sales is estimated at 2.7 billion CZK in 2018 and an additional 0.6 billion CZK in 2019. An increase in the tax rate on tobacco products will also contribute to higher collection (0.3 billion CZK). Measures with a negative effect on VAT collection in 2018 with a cumulative budgetary impact of CZK 0.4 billion include a measure enabling the Czech Television and the Czech Radio claim tax refunds to the same extent as commercial stations (Act No. 170/2017 Coll.) and shift of newspapers and magazines from the 15% to the 10% rate (amendment No. 33/2017 Coll.).

Excise tax revenue reflects the effects of discretionary measures and slowing growth rate of real household consumption, which should gradually decrease from 3.5% in 2018 to 2.2% in 2020. The slowing excise tax revenue growth at the end of the outlook is also due to termination of increase in tax burden on tobacco products (Act No. 315/2015 Coll.). The year 2018 is the last one in a row when the tobacco tax rate will rise as part of the three-year plan to increase the excise duty rate on tobacco products. The expected effect on the YoY excise tax revenue growth is 1.4 billion CZK. The growth will also be supported due to commencement of the second period of excise tax refund on diesel consumed in agricultural primary production by livestock producers, “green diesel” (amendment No. 453/2016 Coll.). Introduction of three tax rates depending on livestock production intensity, applicable between 1 July 2017 and 31 December 2018, should mitigate the negative YoY effect on revenues compared with 2017 by 0.5 billion CZK in 2018, and an additional 1 billion CZK in 2019. We predict a moderate negative effect on excise tax revenue of 0.3 billion CZK in 2018 in connection with adoption of a so-called anti-smoking law (Act No. 65/2017 Coll.), whose coming into effect should reduce tobacco products consumption.

As regards other income, for 2018–2020 we expect growth in investment subsidies in line with gradual increase in implementation of projects from EU funds in the 2014–2020 programming period.

Table 3.4: General Government Revenue

	2016	2017	2018	2019	2020
bn CZK					
Total revenue	**1916**	**2030**	**2163**	**2253**	**2339**
Tax revenue	**948**	**1009**	**1073**	**1113**	**1150**
Taxes on production and imports	587	622	655	673	692
Value added tax	354	388	417	434	451
Excise taxes	158	160	165	167	168
Current taxes on income, wealth, etc.	361	387	418	440	459
Personal income tax	183	203	230	243	254
Corporate income tax	167	172	177	184	192
Capital taxes	0	0	0	0	0
Social contributions	**703**	**759**	**818**	**859**	**898**
Property income	**36**	**35**	**32**	**33**	**33**
Other	**228**	**227**	**240**	**248**	**258**
growth in %					
Total revenue	**1.5**	**6.0**	**6.5**	**4.2**	**3.8**
Tax revenue	**6.0**	**6.4**	**6.4**	**3.7**	**3.4**
Taxes on production and imports	4.4	6.0	5.3	2.8	2.7
Value added tax	6.2	9.8	7.4	4.0	3.9
Excise taxes	3.0	1.1	3.1	1.1	0.7
Current taxes on income, wealth, etc.	8.7	7.1	8.2	5.1	4.3
Personal income tax	11.2	11.0	13.1	5.8	4.6
Corporate income tax	6.6	3.0	2.8	4.3	4.2
Capital taxes	54.5	82.5	-16.9	-20.4	1.0
Social contributions	**6.1**	**8.0**	**7.8**	**5.0**	**4.5**
Property income	**0.5**	**-2.9**	**-10.4**	**3.5**	**1.8**
Other	**-22.3**	**-0.4**	**5.5**	**3.7**	**3.7**
Tax burden *% of GDP*	**34.7**	**35.3**	**35.8**	**35.7**	**35.5**

Note: Excise taxes are adjusted for subsidies on renewable energy resources.
Source: Year 2016 CZSO (2017b). Forecast and calculations by MF CR.

Table 3.5: Structure of Discretionary Measures (2018–2020)

	2018	2019	2020
Total revenue measures	**24.9**	**2.8**	**-0.1**
Direct taxes	**17.7**	**1.2**	**0.0**
Personal income tax	4.0	0.5	0.0
Corporate income tax	1.0	0.2	0.0
Social security contributions	12.7	0.5	0.0
Indirect taxes	**7.2**	**1.6**	**0.0**
Value added tax	5.6	0.6	0.0
Excises	1.6	1.0	0.0
Other revenues	**0.1**	**0.1**	**-0.1**
Total expenditure measures	**-57.9**	**-5.7**	**-3.3**
Social benefits	-12.1	-2.6	-3.3
Compensation of employees	-31.0	0.0	0.0
Healthcare	-13.7	0.0	0.0
Other expenditures	-1.1	-3.1	0.0
Total impact on balance	**-33.0**	**-2.9**	**-3.4**
% GDP	-0.6	-0.1	-0.1

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.
Source: MF CR.

3.3.2 General Government Expenditure

In 2018–2020, we estimate an average YoY increase in general government expenditure of 4.3%. In relation to GDP, expenditure should increase by 0.2 pp to 39.5% of GDP YoY in 2018, and for the following two years of the outlook we predict its slight decrease to 38.7% of GDP.

In 2018, we expect a significant increase in cash social benefits, which reflects the measures adopted in 2017 and macroeconomic development. The most significant item of growth in social spending is an increase in pension benefits. As a result of the rise in the price level and, in the recent years, of substantial real wage growth, pensions will be indexed by 4%, which will require additional expenditure of approx. 17 billion CZK. Part of this increase is due to a change in the indexation formula (Act No. 203/2017 Coll.), which, since 2018, is the sum of consumer price index or pensioner cost of living index growth (whichever is higher) and one half of real wage growth. This change has increased expenditure by approx. 3 billion CZK annually, i.e., with a cumulative increase of approx. 9 billion CZK in 2020.

Other measures adopted aim to support people with disabilities, both by increasing the benefits and providing them to a wider range of applicants and by supporting their employment (Acts No. 301/2017 Coll., 93/2017 Coll. and No. 327/2017 Coll.). The supported target group is also persons who care for the long-term ill or are themselves long-term ill (Acts No. 259/2017 Coll. and 310/2017 Coll.). Last but not least, the state aims to support families with children, by increasing social benefits, supporting the return of mothers to the labour market or introducing paternity leave (Acts No. 148/2017 Coll. and 200/2017 Coll.). Discretionary growth in expenditure in the social area is calculated as a total of approx. 12 billion CZK in 2018. In addition to the aforementioned impacts in the area of pensions, the most significant impact will be that of the pro-family policy measures in the total volume of almost 5 billion CZK and adjustments in the area of sickness insurance with a total impact of approx. 3.5 billion CZK. The development of cash social benefits also reflects, in the national accounts methodology, higher payments for state insured persons by 3.5 billion CZK per year until 2020. Overall, the growth in cash social benefits should accelerate to 5.4% in 2018, followed by a decrease in the growth rate to an average 3.4%.

General government final consumption will be driven, in the years of the outlook, mainly by increasing expenditure on compensation of employees and social transfers in kind, to a lesser extent by intermediate consumption. In 2018, we predict an increase in compensation of employees exceeding 7%. It reflects the approved increase in salary scales for virtually all employees in the general government sector by 10%, excluding teachers, whose scales will increase by 15%, with effect from November 2017, and healthcare scales increasing by 10% as of January 2018. The net impact on the balance is then in any case significantly lower due to the fact that significant part of the increased volume of compensation of employees at the same time represents higher general government revenue in the form of personal income tax and social security contributions, leaving aside higher consumption tax revenues as a secondary effect. As a result of a relatively rapid growth in state employee salaries in recent times, we expect that the growth will slow down to approx. 3.5% in the last years after 2018.

We expect the growth in social transfers in kind to accelerate to approx. 5.7% in 2018. The primary reason is the expected growth in revenue of the healthcare system, which is also likely to be reflected in the expenditure set-up. The growth will also be influenced by discretionary measures of 0.7 billion CZK as a result of higher benefits for people with disabilities (Act No. 301/2017 Coll.) and of 0.4 billion CZK in connection with reduction in protective limits for co-payments for drugs for children under 18 years and pensioners (Act No. 290/2017 Coll.). In the remaining years of the outlook, we anticipate a slight slowdown in the growth rate to 3.4%, which is primarily based, after taking into account higher payments for state insured persons, on forecast of future inflation developments and slowing wage bill growth rate in the economy (declining dynamics of funds for health insurance). Given a relatively balanced performance of the social security funds, we therefore also expect a slight decline in the dynamics of its expenditure.

The intermediate consumption growth rate should be 3% in the years of the outlook. The expected moderate slowdown compared to 2017 is mainly caused by a predicted lower inflation rate, which should, after 2.4% growth in consumer price index in 2018, decrease back under the CNB's inflation target in 2020 (for more information see Chapter 1).

The main components of general government final consumption are strongly influenced by the development in public health insurance. Based on data from the Reimbursement Decree for 2018, the total amount of public health insurance system expenditure should be almost 293 billion CZK (i.e., a YoY growth by approx. 6.1%). Health insurance companies will redistribute, using the reimbursement mechanism, 283.3 billion CZK (i.e. 5.3% of GDP) to medical facilities, which is a YoY increase by approx. 17 billion CZK for all segments. The largest increase is in the segment of inpatient care, approx. 13 billion CZK, mainly for reimbursements to providers of inpatient care, which should cover increased salaries of healthcare workers by 10% and the surcharge for shift work of nurses and an increase in reimbursement items in, predominantly, specialized facilities. In other segments of health care, we expect a total expenditure increase by approx. 4 billion CZK (for example, expenditure increase by 2.7 billion CZK is expected for outpatient care, which is largely caused by the natural growth of the segment and increasing volume of care).

As regards gross fixed capital formation, we predict almost 9% dynamics in 2018, which should decrease to a level close under 7% in further years of the outlook. In 2018, we expect the investment co-financed from EU funds to increase by 20%. We expect that the gradual start-up of projects co-financed from EU funds leading to a relatively lower investment growth in 2017 compared to the spring forecast (see Chapter 2), will be adequately offset in 2018. In the coming years, investment co-financed from EU resources should grow at around 10% annually. This dynamics leaves room for acceleration of implementation of these projects towards the end of the 2014–2020 financial perspective, i.e. from 2021 to 2023. Financial resources from EU funds should complement national resources mainly in the areas of investment in infrastructure, science and research, and employment.

Refinancing of earlier issues with higher interest rates, we still expect for 2018 a slight decrease in interest costs of service of the general government debt by 0.8%. Also with regard to the expected development of monetary policy of the CR we expect a gradual growth in rates, which should lead, in absolute terms, to a slight increase in interest expenditure in the years of the outlook. In relative terms, interest expenditure should drop to around 0.7% of GDP throughout the outlook. Subchapter 3.3.3 deals with these issues in detail.

Table 3.6: General Government Expenditure

	2016	2017	2018	2019	2020
CZK bn					
Total expenditure	**1881**	**1974**	**2092**	**2164**	**2240**
Final consumption expenditure	**919**	**960**	**1008**	**1038**	**1070**
Collective consumption	434	451	476	488	500
Individual consumption	485	509	532	550	569
Social benefits in kind	148	154	163	169	174
Transfers of individual non-market goods and services	337	355	369	381	395
Social transfers other than in kind	**581**	**602**	**634**	**657**	**678**
Interest	**45**	**40**	**40**	**40**	**42**
Subsidies	**108**	**114**	**121**	**124**	**128**
Gross fixed capital formation	**156**	**173**	**188**	**201**	**215**
Other	**72**	**85**	**101**	**103**	**107**
Compensation of employees	**419**	**447**	**479**	**495**	**513**
Total social transfers	**729**	**756**	**797**	**826**	**852**
growth in %					
Total expenditure	**-1.9**	**5.0**	**6.0**	**3.5**	**3.5**
Final consumption expenditure	**4.0**	**4.5**	**4.9**	**3.0**	**3.0**
Collective consumption	4.4	4.0	5.5	2.6	2.5
Individual consumption	3.7	5.0	4.4	3.4	3.5
Social benefits in kind	4.3	4.3	5.7	3.5	3.4
Transfers of individual non-market goods and services	3.4	5.3	3.9	3.4	3.5
Social transfers other than in kind	**2.3**	**3.5**	**5.4**	**3.6**	**3.2**
Interest	**-8.8**	**-10.2**	**-0.8**	**1.5**	**4.3**
Subsidies	**2.7**	**5.7**	**6.0**	**3.0**	**3.0**
Gross fixed capital formation	**-34.1**	**11.1**	**8.8**	**6.9**	**6.9**
Other	**-2.9**	**17.2**	**19.5**	**1.7**	**3.7**
Compensation of employees	**5.4**	**6.5**	**7.2**	**3.5**	**3.5**
Total social transfers	**2.7**	**3.6**	**5.5**	**3.6**	**3.2**

Source: Year 2016 CZSO (2017b). Forecast and calculations by MF CR.

3.3.3 General Government Debt

By the end of 2017, we expect general government debt at 34.7% of GDP, which is a YoY decrease of 2.1 pp. With the assumed stabilization of the absolute value of the state debt at the end of the year, as reported by the updated Czech Republic Funding and Debt Management Strategy for 2017 (MF CR, 2017d), the decrease of general government debt-to-GDP ratio is a result of the projected reduction in the local government debt, associated with their expected surplus performance, and nominal GDP dynamics. The relative debt ratio of the general government sector has been significantly decreasing in recent years. From the highest value in 2013, the ratio decreased by 8.1 pp as of the end of 2016. As a result, the CR is one of the least indebted countries in the EU (for details see part 2.3.2). The debt-to-GDP ratio is at safe distance both from the debt reference value stipulated by the Maastricht convergence criteria and the Stability and Growth Pact and the limit of the national debt rule, applicable since

February 2017, when Act No. 23/2017 Coll., on fiscal responsibility rules, came into effect.

We also predict a further decrease in the debt-to-GDP ratio in the years 2018–2020, in total by more than 2.2 pp down to 30.9% of GDP (Table 3.7). The absolute amount of the general government debt for 2018–2020 derived, in particular, from the planned state budget performance and the assumed state debt development, as well as from the expected surplus of local governments. If general government surpluses were to be used for further debt repayments, the general government debt decline would be even higher.

Contributions of interest expenditure to the debt-to-GDP ratio changes should decrease from 0.8% of GDP in 2017 to 0.7% of GDP at the end of the forecast horizon. The decrease in the relative amount of interest expenditure is due to the low yields of newly issued government bonds and the contribution of nominal GDP growth to the value of the indicator. In the outlook horizon, we expect, in view of the tightening of monetary conditions (end of CNB's foreign exchange interventions and an assumption of monetary-policy rate increases), a gradual increase in the absolute amount of interest costs. The long-term interest rate indicator for convergence purposes should thus increase from 0.9% in 2017 to 2.3% in 2020.

Low government bond yields in all maturity segments have been achieved also thanks to fiscal discipline of the CR positively perceived by financial markets and accentuated by international institutions and rating agencies.[3] The valued budgetary circumspection is a basic prerequisite for resilience to external shocks. Another effect on interest rate reduction is a surplus of free liquidity on interbank markets due to easement of monetary policies of the European central bank (and of the CNB until spring 2017). The latter factor of lower interest expenditure is related to a lower supply of government bonds on the primary market due to surplus state budget performance and effective management of available financial assets. Thanks to these effects, there were additional revenues from the sale of government bonds with a negative interest yield of 2.3 billion CZK between 2015 and the end of the third quarter of 2017.

The current forecast does not anticipate any significant privatisation revenue under Act No. 92/1991 Coll., on conditions of transfer of state property to other persons, as amended.

The highest share in the general government debt is owed by the central government subsector (see Table 3.7). In 2017, the value of the debt is expected to be over 1,712 billion CZK, which is approx. a 96% share in the total general government debt. The local governments' debt represents the remaining approx. 4% of the total debt. We expect it to be 79 billion CZK in 2017 and to gradually fall in 2018–2020 due to projected surplus performance and, to a certain extent, also due to effect of Act No. 23/2017 Coll., on fiscal responsibility rules. The Act stipulates for local governments the minimum amount of principal repayment above a prudent level of external sources (for details see MF CR, 2016). The subsector of social security funds has been showing negligible debts for a long period of time.

Table 3.7: Gross Consolidated Government Debt

		2015	2016	2017	2018	2019	2020
General government	*CZK bn*	**1836**	**1755**	**1743**	**1754**	**1778**	**1791**
Central government	*CZK bn*	1740	1714	1712	1731	1760	1777
Local government	*CZK bn*	111	89	79	72	68	62
Social security funds	*CZK bn*	1	0	0	0	0	0
General government debt to GDP ratio	*% of GDP*	**40.0**	**36.8**	**34.7**	**33.1**	**32.1**	**30.9**
Contributions to change in debt-to-GDP ratio							
Change in debt	*p.p.*	-2.2	-3.2	-2.1	-1.6	-1.0	-1.1
Primary balance	*p.p.*	**-0.4**	**-1.7**	**-1.9**	**-2.1**	**-2.3**	**-2.4**
Interest	*p.p.*	**1.1**	**0.9**	**0.8**	**0.8**	**0.7**	**0.7**
Nominal GDP growth	*p.p.*	**-2.6**	**-1.5**	**-1.8**	**-1.8**	**-1.5**	**-1.3**
Stock-flow adjustment	*p.p.*	**-0.3**	**-1.0**	**0.9**	**1.5**	**2.0**	**1.9**
Difference between cash and accruals	*p.p.*	-0.4	0.2	0.0	0.0	0.0	0.0
Net acquisition of financial assets	*p.p.*	0.3	-1.2	0.9	1.5	2.0	1.9
Revaluation effects and other	*p.p.*	-0.1	0.0	0.0	0.0	0.0	0.0

Source: Data on general government sector and subsectors debt up to 2016 CZSO (2017b). Forecast and calculations by MF CR.

[3] On 1 September 2017, Fitch improved the outlook on Czech Republic's Long-Term Foreign- and Local-Currency Issuer Default Ratings to Positive. At the same time, the agency also confirmed grade A+. Fitch highlighted in particular the overall improvement in performance and reduction in the general government debt, as well as strong economic growth.

3.3.4 Cyclical Development and Fiscal Impulse

Output gap, which was practically closed in 2016, should increase significantly in 2017 and 2018 due to a strong economic growth. At the end of the forecast horizon we expect it to stabilize around 2.5% of the potential product. As a result, we expect that the cyclical component of the general government balance will also be positive from 2017.

In the item one-off and other temporary operations, one-off revenue of 2.6 billion CZK from an auction sale of new frequency bands was taken into account in 2016. On the expenditure side, in 2016 there was a one-off pension increase with an impact of 3.5 billion CZK, and subsidies the amount of 1.2 billion CZK were paid out to help farmers due to draught. We expect the overall influence of one-off and temporary measures to be negligible in 2017 and zero in the years of the outlook.

Fiscal effort, which was positive in 2016, is projected to be slightly negative in 2017 and 2018. This is mainly the result of expenditure measures, in particular increases in wage and salary expenditure, social benefits and a gradual recovery of investment expenditure after the 2016 fall. On the other hand, the method of calculation of the cyclical component of the balance is not able to accurately handle discretionary tax revenues. In particular, this is the case of revenue that does not depend on the business cycle phase, such as newly introduced measures against tax evasion. The structural balance should slightly decrease, though still significantly staying above the medium-term budgetary objective.

In 2019–2020, we expect fiscal policy to be again more restrictive, especially as a result of the slowdown in dynamics of expenditure items, especially components of government final consumption and cash social benefits (see Subchapter 3.3.2). The overall balance should thus further continuously improve to 1.7% of GDP in 2020; we expect the structural balance to be 0.8% of GDP in 2020.

Table 3.9 provides a comparison of the development of fiscal input impulse and fiscal effort with the opposite sign. It should be noted that these indicators are used for different purposes. While fiscal effort indicates the nature of fiscal policy (e.g. the pace of consolidation) and serves to assess the implementation of the excessive deficit procedure or the implementation of the preventive part of the Stability and Growth Pact (medium-term budgetary objective) in the EU, the fiscal impulse reflects the impact of fiscal policy on economic growth, and is therefore adjusted for other items that would distort the impact of fiscal policy. For more information on the methods of fiscal impulse calculation, refer to (MF CR, 2015).

It is apparent that the value of fiscal impulse significantly differs from fiscal effort (with the opposite sign) in 2016. The main cause of the difference is exclusion of revenues from EU funds and contributions to the EU budget which are not a fiscal impulse for the Czech economy, whereas investment expenditure co-financed from the EU are part of fiscal impulse. The YoY decline in investment expenditure was the main cause of the significantly negative fiscal impulse in 2016. We expect the values of fiscal impulse and the opposite fiscal effort to be essentially identical for 2017–2020. This is mainly due to a more stable development of expenditure co-financed from the EU funds than at the turn of the previous and current financial perspectives.

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

		2016	2017	2018	2019	2020
Real GDP growth	%	2.6	4.1	3.3	2.6	2.4
Potential GDP growth	%	2.7	2.6	2.5	2.5	2.5
Output gap	% PP	0.0	1.6	2.4	2.5	2.4
General government balance	% of GDP	**0.7**	**1.1**	**1.3**	**1.6**	**1.7**
Cyclical budgetary component	% of GDP	0.0	0.6	0.9	0.9	0.9
Cyclically adjusted balance	% of GDP	**0.7**	**0.6**	**0.4**	**0.7**	**0.8**
One-off and other temporary measures	% of GDP	-0.1	0.0	0.0	0.0	0.0
Structural balance	% of GDP	**0.8**	**0.5**	**0.4**	**0.7**	**0.8**
Change in structural balance (fiscal effort)	p.p.	**1.3**	**-0.3**	**-0.1**	**0.2**	**0.2**
Interest	% of GDP	0.9	0.8	0.8	0.7	0.7
Structural primary balance	% of GDP	**1.7**	**1.3**	**1.2**	**1.4**	**1.6**
Change in structural primary balance	p.p.	**1.2**	**-0.4**	**-0.1**	**0.2**	**0.2**

Source: MF CR.

Table 3.9: Fiscal Effort and Fiscal Impulse
(in percentage points)

	2016	2017	2018	2019	2020
Fiscal effort with opposite sign (expenditure – revenue)	**-1.3**	**0.3**	**0.1**	**-0.2**	**-0.2**
Difference of fiscal effort and fiscal impulse	**1.4**	**-0.2**	**-0.1**	**-0.1**	**-0.1**
Difference in revenue	**1.5**	**-0.1**	**-0.2**	**-0.1**	**-0.1**
Revenue from EU funds	1.5	-0.1	-0.2	-0.1	-0.1
Renewable energy inputation	-0.1	0.0	0.0	0.0	0.0
Differnce in expenditure	**0.0**	**-0.1**	**0.0**	**0.0**	**0.1**
Adjusted interest expenditure	-0.1	-0.1	0.0	0.0	0.0
EU budget contributions	0.0	0.0	0.1	0.0	0.0
Renewable energy inputation	0.1	0.0	0.0	0.0	0.0
Fiscal impulse - input approach	**-2.7**	**0.5**	**0.2**	**-0.2**	**-0.1**

Note: The basis for calculation of the fiscal impulse is the YoY change in the structural balance with the opposite sign, adjusted for: interest payments, income from EU Funds and financial mechanisms, contributions to the EU budget and so-called redirecting of renewable energy resources through the general government sector. Further adjustment of the impulse for activating science and research and payments for state-insured persons do not affect the balance; however, due to various multiplicators they may influence the output impulse calculation.
Source: MF CR.

3.4 Sensitivity Analysis

The sensitivity analysis is conducted by means of a dynamic general equilibrium model developed by the MF CR. The model enables us to analyse the impact of both macroeconomic and fiscal shocks on the economy. In the case of the small and open Czech economy, economic development is largely dependent on the development of the external environment, 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.

3.4.1 Lower GDP Growth in the EU in 2018

The first scenario is based on an assumption that GDP growth in the EU will be approximately 2 pp lower in 2018 compared to the baseline scenario. This difference approximately corresponds to the amount of standard deviation of growth for the period from 2000 to mid- 2017.

Considering the close relationship of the Czech economy with the EU, this scenario would impact negatively on real growth in the Czech Republic primarily through exports, more than three quarters 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, which would grow slower by 0.6 pp in 2018 and by 0.3 pp in 2019. This would also affect unemployment, especially in 2018. However, with regard to the current labour market situation, we do not expect significant impacts of these effects on unemployment. Unemployment could temporarily increase slightly. Influences on inflation in this scenario would stem mainly from lower demand for domestic goods, both by domestic and foreign entities.

The investment activity of firms would also be affected negatively, the growth rate of which would be less than 2% versus the baseline scenario expecting a growth of almost 3%. Household consumption would record a decrease in the growth rate of approximately 0.6 pp, in particular as a consequence of lower wage growth (and a higher unemployment rate).

The general government balance would be affected by lower income tax revenue from both individuals and companies, as well as by lower taxes on consumption. Together with an increase in the expenditure side by social benefits paid out, the general government surplus would decrease by 0.1–0.3 pp in the years of the outlook. Lower surpluses would lead to a slower debt decrease to 31.6% of GDP in the last year.

Alongside the subsequent recovery of foreign demand in 2019, the Czech economy would accelerate its growth and approximation towards the baseline scenario.

3.4.2 Permanently Lower GDP Growth in the EU

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.

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 gradually recover, the potential negative impacts of development abroad would be mitigated in the following years, but probably beyond the outlook horizon.

In spite of that, the debt-to-GDP ratio should continue to decrease more slowly in the general government sector versus the baseline scenario, by up to 1.5 pp in 2020.

3.4.3 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 2018, which points out the sensitivity of economic and fiscal developments to interest rates.

A higher interest rate would dampen domestic demand. This would be reflected primarily through private investment in fixed capital (increased business costs). The growth rate of household consumption would also decrease, which would also be affected by increased business costs through lower wage growth. The share of savings could also grow at the expense of consumption, especially among high-income individuals. A slightly lower domestic price level would act against as a beneficial effect, which would rather support real consumption.

This scenario would also have negative consequences on foreign trade due to gradual moderate appreciation of the koruna, and a subsequent decrease in the export volume. A stronger koruna exchange rate would also help imports, the volumes of which would grow. That would, overall, cause a slight deterioration in the balance of foreign trade, thus contributing to a decline in GDP.

Table 3.10: Model Scenarios of Macroeconomic Simulations

		2017	2018	2019	2020
Baseline Scenario					
Gross domestic product	*Y-o-Y in %*	**4.1**	**3.3**	**2.6**	**2.4**
Private consumption	*Y-o-Y in %*	3.9	3.5	2.6	2.2
Gross fixed capital formation	*Y-o-Y in %*	6.2	4.1	3.4	3.0
Exports	*Y-o-Y in %*	5.8	5.7	4.9	4.7
Imports	*Y-o-Y in %*	5.2	5.7	5.0	4.7
Inflation (CPI)	*Y-o-Y in %*	**2.4**	**2.4**	**2.0**	**1.8**
Unemployment rate	*in %*	**3.0**	**2.8**	**2.7**	**2.7**
General government balance	*% of GDP*	**1.1**	**1.3**	**1.6**	**1.7**
Gross government debt	*% of GDP*	**34.7**	**33.1**	**32.1**	**30.9**
Alternative Scenario I - Lower GDP Growth in EU in 2018					
Gross domestic product	*Y-o-Y in %*	**4.1**	**2.7**	**2.3**	**2.3**
Private consumption	*Y-o-Y in %*	3.9	2.9	2.2	1.9
Gross fixed capital formation	*Y-o-Y in %*	6.2	3.0	2.6	2.5
Exports	*Y-o-Y in %*	5.8	4.0	3.8	4.5
Imports	*Y-o-Y in %*	5.2	4.0	3.4	4.2
Inflation (CPI)	*Y-o-Y in %*	**2.4**	**2.2**	**1.8**	**1.8**
Unemployment rate	*in %*	**3.0**	**3.2**	**2.9**	**2.7**
General government balance	*% of GDP*	**1.1**	**1.0**	**1.3**	**1.6**
Gross government debt	*% of GDP*	**34.7**	**33.4**	**32.6**	**31.6**
Alternative Scenario II - Permanently Lower GDP Growth in EU					
Gross domestic product	*Y-o-Y in %*	**4.1**	**2.7**	**2.1**	**1.9**
Private consumption	*Y-o-Y in %*	3.9	2.9	1.7	1.2
Gross fixed capital formation	*Y-o-Y in %*	6.2	3.0	2.5	2.4
Exports	*Y-o-Y in %*	5.8	4.0	3.5	3.4
Imports	*Y-o-Y in %*	5.2	4.0	3.3	3.2
Inflation (CPI)	*Y-o-Y in %*	**2.4**	**2.2**	**1.7**	**1.4**
Unemployment rate	*in %*	**3.0**	**3.2**	**3.2**	**3.1**
General government balance	*% of GDP*	**1.1**	**1.0**	**1.2**	**1.2**
Gross government debt	*% of GDP*	**34.7**	**33.4**	**32.9**	**32.4**
Alternative Scenario III - Higher Interest Rate					
Gross domestic product	*Y-o-Y in %*	**4.1**	**3.0**	**2.3**	**2.3**
Private consumption	*Y-o-Y in %*	3.9	3.4	2.3	2.0
Gross fixed capital formation	*Y-o-Y in %*	6.2	3.9	3.5	3.3
Exports	*Y-o-Y in %*	5.8	5.5	4.8	4.7
Imports	*Y-o-Y in %*	5.2	5.9	5.2	4.8
Inflation (CPI)	*Y-o-Y in %*	**2.4**	**2.1**	**1.7**	**1.6**
Unemployment rate	*in %*	**3.0**	**3.0**	**3.0**	**2.7**
General government balance	*% of GDP*	**1.1**	**1.2**	**1.4**	**1.7**
Gross government debt	*% of GDP*	**34.7**	**33.2**	**32.3**	**31.3**

Source: Baseline scenario MF CR (2017b). MF CR calculations.

The aforementioned effects would be reflected cumulatively in a slower GDP growth in the outlook horizon, approximately by 0.3–0.4 pp, and concomitant higher unemployment against the baseline scenario.

As in the case of lower GDP growth in the EU, but to a lesser extent, general government revenues would be affected by lower tax revenue both from businesses and individuals, and higher unemployment. The deteriorated balance development against the baseline scenario would then again be reflected in the debt, the yield curve of which would also be increased by the interest rate growth itself.

3.5 Long-term Sustainability of General Government Finance

At the end of September 2017, a peer review of long-term projections of the CR's pension expenditures took place within the Ageing Working Group in the EU Economic Policy Committee, where they were approved in October. Their results will be available in the Ageing Report, which is to be published in spring 2018 and contain projections of expenditure until 2070, traditionally in five areas – pensions, healthcare services under the public health insurance system, long-term care, education and unemployment benefits. The MF CR actively participates in the preparation of the Report and processes projections of pension expenditures. The projections of other expenditures are calculated on the basis of models developed by the Commission and verified by the Member States.

In addition to common macroeconomic and demographic assumptions and projections (see Table 3.11), approved reform measures in the area of pension security are also factors influencing new projections.

Table 3.11: Demographic and Macroeconomic Assumptions of Projections

		2016	2020	2030	2040	2050	2060	2070
Labour productivity growth	*per hour*	1.1	2.0	2.0	1.9	1.7	1.6	1.5
Real GDP growth	*%*	2.2	1.9	1.8	1.1	1.1	1.5	1.4
Participation rate males (aged 20–64)	*%*	87.7	87.9	87.0	85.6	86.8	87.5	86.4
Participation rates females (aged 20–64)	*%*	72.0	72.9	73.7	71.8	72.7	74.3	73.0
Total participation rate (aged 20–64)	*%*	80.0	80.5	80.4	78.8	79.8	81.0	79.8
Unemployment rate (aged 20–64)	*%*	3.9	3.1	4.0	4.0	4.0	4.0	4.0
Population aged 65+	*% of total population*	18.6	20.3	22.6	25.7	29.1	30.4	28.3

Source: EC, Eurostat (2017c).

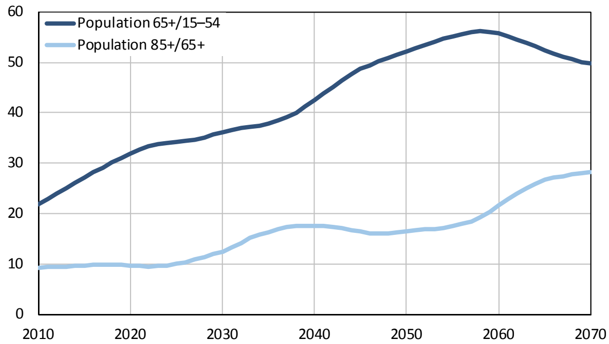
First and foremost, as far as the pension system parameters are concerned, mention should be made of development of the statutory retirement age. Historically, the retirement age was first shifted to 63 years and subsequently to 65 years (with age being differentiated for women according to the number of children raised). In 2011, there was another adjustment, when it was adopted that the retirement age should keep increasing by 2 months a year and be unified at about 67 years. However, the law has been changed again in 2017 with effect from 1 January 2018 (Act No. 203/2017 Coll.). Under the current legislation, the retirement age will increase until unification at 65 years, which should be around 2030. The law envisages the Ministry of Labour and Social Affairs' periodical reporting, every five years, on the pension system to the Government. The Report will evaluate the current retirement age and, where applicable, determine any proposals for its adjustment based on the developments of life expectancy so that insured persons can spend a quarter of their lives in retirement. Moreover, changes to the retirement age should not apply to persons who are over 55 years of age at the time of revision. The Government will thus be able to commission the Ministry of Labour and Social Affairs, based on the Report submitted, with preparation of respective proposals on changes to the pension system, especially determining the retirement age. The developments of the statutory retirement age also influence the conditions for permanent widows and widowers pensions, where the age limit is associated with old-age pensions. As regards early retirements, the limit has been gradually shifting from three to five years before the statutory retirement age. This maximum five-year period may be used, at the cost of significant penalties, by persons whose statutory retirement age is 65 years or higher.

Pension indexation is determined as a sum of consumer price index or pensioner cost of living index growth (whichever is higher) and one half of real wage growth. These rules will apply from 1 January 2018, also following the adoption of Act No. 203/2017 Coll. Previously, the indexation formula was a sum of consumer price index growth and one third of real wage growth. Moreover, given the low inflation rate in the recent past, a change in the indexation of pensions was approved that, with effect from 2017, returned limited discretion to the government (Act No. 212/2016 Coll.). Should the increase in the average pension not reach 2.7% under the standard indexation formula, the government may order indexation of pensions up to that value. In other cases it is proceeded strictly in accordance with the statutory indexation formula.

Disability pensions were reformed with the effect from 2010. The number of disability pensions increased from two (full and partial) to three groups. Part of previously full disability pensions thus moved to the second degree (with a lower rate of previously partial pensions), and the group of previously partial disability pensions moved to the first degree, with a rate equalling two thirds of previously partial disability pensions. The effect of this change, which proved to be significant, remains. The total expenditure on disability pensions was 1.5% of GDP in 2009, just before the launch of the new system[4], it decreased by 0.4 pp YoY one year later. The last known value from 2016 was 0.9% of GDP.

A new population projection foresees a relatively large decline in the population of the CR in the long term. The dependency rate measured as the ratio of people over the age of 65 to the working age population (15–64 years) should almost double by 2070 and reach approximately 50%. That is, of course, not only a consequence of the decline in the working age population but also of increasing average life expectancy. The share of people aged 85 and older in the population of people aged 65 and older should more than double in the forecast horizon. Both indicators are shown in Graph 3.1.

Graph 3.1: Dependency Ratio and 85+/65+ Ratio
(in %)



Source: Eurostat (2017c). MF CR calculations.

The economic activity rates for age cohorts above 54 years are increasing in the projection until 2030 in line with the statutory retirement age increase. However, they remain approximately constant after 2030, which reflects the institutional set-up of the pension system. The pension system includes, as described earlier, a revision mechanism that should evaluate, every five years, life expectancy changes and, where applicable, shift the statutory retirement age. However, the revision mechanism does not oblige the government to present an amendment to the retirement age to the Parliament for approval; it is only a recommendation. For this reason, the Commission rejected a proposal for application of this revision mechanism in long-term projections. The projection thus works with retirement age as a fixed ceiling at 65 years from 2030 onwards.

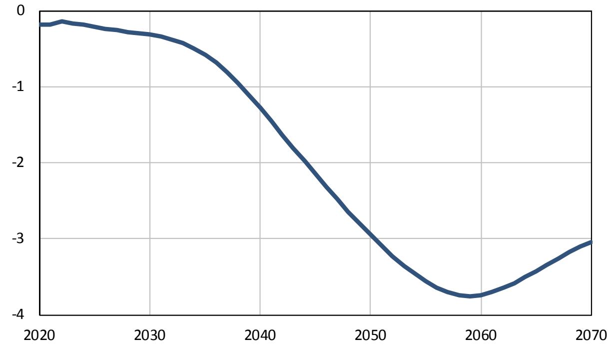
The development of pension expenditure has been relatively favourable in recent years, especially due to the macroeconomic developments. The initial value of expenditure in previous projections was 9.0% of GDP in 2013, whereas pension expenditure was 0.8 pp lower in 2016. By contrast, the higher growth of wage bill in the economy has led to a dynamic growth on the revenue side of the system. That influenced positively the system balance, which was −0.3% of GDP in 2016.

The trend of long-term pension projections is primarily determined by the demographic development and the statutory retirement age. For these reasons, pension expenditure until 2030 should be (in relation to GDP) basically stable at the level in the base year 2016. After 2030, however, the increase in retirement age will stop and people born in strong years in the 1970s will gradually retire. That will lead to a relatively dramatic expenditure increase to 11.7% of GDP just before 2060, followed by a decline to 10.9% of GDP at the end of the forecast horizon in 2070. The decline in expenditure is again due to demographic factors, where people born in weaker years in the 1990s and later will retire, replacing those born in stronger years.

The system's revenue remains constant over the projection horizon. That is based on the assumption of development of wages and salaries in the economy, which should develop in line with labour productivity. As a result, the share of the labour factor of production in GDP remains constant, from which the fixed rate of pension insurance at 28% of gross wage or salary is paid. The system's revenue thus reaches the level of the base year 2016 and is at 7.9% of GDP.

The resulting pension system balance projection (Graph 3.2) in relation to the constant revenue copies the course of pension expenditure. We expect that until 2030 this balance will be relatively stable at a level around the current −0.3% of GDP. Subsequently, the balance will deteriorate and fall almost to −4% of GDP around 2060. Finally, the deficit should start decreasing in the last decade of the projection. This is a significant deterioration compared to the previous projection (EC, 2015), where the balance fell just before the end of the projection to a minimum level above −2% of GDP.

Graph 3.2: Projection of Pension Account Balance
(in % of GDP)



Source: MF CR calculations.

[4] Disability pensions expenditure had been relatively stable at 1.4% of GDP between 2000 and 2008.

Table 3.12: Pension Expenditure Projections 2016–2070
(in % of GDP)

	2016	2020	2030	2040	2050	2060	2070
Total pensions	**8.2**	**8.1**	**8.2**	**9.2**	**10.8**	**11.6**	**10.9**
Old-age pensions	6.8	6.7	6.8	7.7	9.4	10.2	9.5
Disability pensions	0.9	0.8	0.8	0.8	0.8	0.7	0.8
Survivors' pensions	0.5	0.6	0.6	0.7	0.7	0.7	0.7

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

Since the method of modelling pension expenditure has remained unchanged since the last round, the reasons for the pension system balance deterioration can be divided into two groups. The first group is the assumptions (e.g., different demography), the second group is changes to the pension system (a different indexation formula and, most importantly, the retirement age ceiling).

While updates to the assumptions play a role in the dynamics of expenditure over time, favourable developments in the recent years act against it. In comparison with the base value in the previous projection around 9% of GDP, pension expenditure decreased to 8.2% of GDP in 2016. Although expenditure grows more dynamically in the new projection, it grows from a lower base and will end at virtually the same level in 2060 as it did in the previous projection (9.7% of GDP). The higher deficit is thus caused mainly by the system changes. According to calculations of the MF CR, the deterioration of the pension system balance in 2060 by approx. 1.9 pp is mostly due to the retirement age ceiling (an impact of 1.6 pp), whereas the change in the indexation formula increases expenditure by approx. 0.3 pp. In other words, the absolute ceiling on the retirement age would lead to an increase in pension expenditure, in current terms, by approx. 75 billion CZK, and the indexation formula change will increase expenditure by further approx. 15 billion CZK (Table 3.13).

Thus quantified costs give a fairly clear picture of future risks in terms of long-term sustainability of the pension system. If the retirement age adequately increases based on life expectancy, future costs of the pension system may be significantly reduced. The first revision will take place in 2018–2019.

Table 3.13: Comparison of 2015 and 2017 Pension Expenditure Projections
(in % of GDP)

	2016	2020	2030	2040	2050	2060	2070
Previous projection (EK 2015)	**8.9**	**9.0**	**9.0**	**9.0**	**9.6**	**9.7**	**-**
Level effect of initial position	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-
Effect of new assumptions (demography and macro)	0.0	-0.3	-0.2	0.2	0.5	0.7	-
Impact of retirement age ceiling at age 65	0.0	0.0	0.0	0.4	1.2	1.6	1.7
Impact of higher pension indexation	0.0	0.1	0.2	0.3	0.3	0.3	0.3
New projection	**8.2**	**8.1**	**8.2**	**9.2**	**10.8**	**11.6**	**10.9**

Note: The sum of partial effects is not necessarily equal to the total difference in projections due to rounding.
Source: EC (2015a). MF CR calculations.

4 Fiscal Councils

Sound and sustainable public finances are necessary to fulfil the core functions of fiscal policy. During the recent economic and debt crisis, the set-up of the stabilization function of fiscal policies of many countries turned out insufficient. It also turned out that economies able to cope faster and more effectively with the consequences of the crisis were those that, on a long term basis, had responsibly approached towards the fulfilment of fiscal rules in an environment of a transparent budgetary process. Institutional factors thus gained a different weight. However, ensuring a prudent approach in public finances is the more complicated the more strongly they are bound up with the political cycle. Equally, compliance with fiscal rules may not in itself be sufficient to adequately fulfil the fiscal policy's stabilisation function. That opened up room for complementation of the institutional environment with independent institutions with control and evaluation elements –Fiscal Councils. The aim of this thematic chapter therefore is to explain, on the occasion of the establishment of the National Budgetary Council of the CR, the role of fiscal councils in the national economy.

4.1 The Role of Fiscal Councils in the National Economy

Although the function of fiscal councils may be understood or implemented differently in practice, there is consensus on their core elements (EC, 2012, IMF, 2013 or OECD, 2015). Fiscal councils should be independent public institutions with a mandate to promote sustainable public finances. They should publicly evaluate fiscal policy and macroeconomic or other forecasts for budget purposes or, where applicable, be involved in forecast preparation. Fiscal councils are institutions to provide the government, parliament and the public with reliable information and recommendations on the management of public finances and potential impacts of policy measures. By fulfilling their role, they should promote transparent and reliable approach of the government towards fiscal policy, thus contributing to higher effectiveness of public finances. However, fiscal councils should not have decision-making powers in fiscal policy. Final measures should be left to elected political representatives.

The Organisation for Economic Co-operation and Development (OECD) has issued the following recommendations on the principles of independent fiscal institutions for its member states (OECD, 2014).[5] Effective fulfilment of the tasks entrusted requires that the independent fiscal institution be a public national body. The establishment of national independent fiscal, not only international, institutions will also best take into account the fiscal framework specifics and experience of that given country. As regards independence and impartiality, the OECD recommends that the period of office of institution members does not correspond to the election cycle. The chairperson should be employed full-time in the institution with a corresponding salary, and strict rules against conflict of interest should be defined for the leading representatives of the institution as well as for its employees. The institution management should also have absolute freedom in hiring and dismissing its employees and the conditions of their employment should correspond to the conditions of civil service. As regards the mandate, the institution should have the freedom to prepare reports and analysis at its discretion. Typical tasks of the independent fiscal institution are macroeconomic and budgetary projections, analyses of draft public budgets, evaluation of compliance with the country's fiscal rules or economic objectives, analyses of costs of discretionary measures, or thematic studies on selected aspects of public finances. The institution should also have access to all important information necessary for the performance of its tasks, including partial methodologies and assumptions on which the budget is based. Any restrictions of access to information should be enshrined in legislation. The reports and analyses by the institution should be publicly available, and those with mandatory publication should have dates of issue set. In OECD's view, the institution should also use a communication channel in relation to the public from the outset. Informed public can then urge the government to act in a transparent and responsible way in budgetary measures. It is also recommended that the activities of the independent fiscal institution should be evaluated by external inland or international experts.

4.1.1 Shortcomings in the fiscal policy set-up, and their remedy

The establishment of fiscal councils and the tasks assigned to them respond to particular problems in the fulfilment of fiscal policy objectives. It is mostly a combination of an inconsistent approach to public finance management and disproportionate government stimuli to the economy. General government violations in accessing and setting fiscal policies are captured comprehensively by Alesina and Passalacqua (2015),

[5] A set of 22 principles is divided into the following nine areas: consensus across the political spectrum, independence and impartiality, clear and firm mandate, credible and sufficient means to exercise the mandate, relationship to legislative power, access to information, transparency, effective communication, and external evaluation of the institution's activities. The application of the principles on the establishment of an independent fiscal institution in the legislative practice of the CR is analysed in the November 2015 Fiscal Outlook of the CR (MF CR, 2015).

Hagemann (2011), and Beetsma and Debrun (2016). The shortcomings may be divided into the following areas:

Linkage of fiscal policy to the political cycle is connected especially with reduction in taxes and increased expenditure, favourable for voters, before elections. The positive relation between the election dates, and therefore political motivation of the government party/parties to achieve better election results and adoption of discretionary measures increasing the deficit is confirmed, for example, by Poterba and von Hagen (1999) or Hagemann (2011).

Non-transparent or unclear assumptions and forecasts of budgetary indicators, including macroeconomic ones, may be the cause of predictions with long-term optimistic bias that do not take into account retrospective assessment of indicators thus contributing to inaccurate budgeting. As the IMF (2013) states, the effects may include overestimation of tax revenue forecasts or, conversely, underestimation of the volume of some public expenditure. The role of fiscal councils is quite different in this area in practice. Fiscal councils are either directly responsible for the preparation of forecasts for budgetary purposes, partially involved in the preparation of forecasts or they exercise their influence though ex ante or ex post forecast evaluation. The relation between more accurate forecasts and powers of the fiscal council is captured in subchapter 4.1.2.

Fiscal policy set-up without a link to intergenerational solidarity creates inequality between generations. Solidarity concerns younger generations with older ones as well as older ones with younger ones because it is not only about the size or dynamics of public finance indebtedness but also about the structure of expenditure. The subject of intergenerational solidarity is, for example, expenditure on old-age pensions or over-generational investment. Jackson and Yariv (2012) see a difference in the emphasis on intergenerational solidarity among different interest groups. The groups may, according to their influence, enforce a certain set-up of public revenue and expenditure without taking into account the condition of intertemporal budget constraint. Alesina and Tabellini (1990) identify in this area a strong influence of political programmes of parties. Where there are competing parties with very different political programmes, this increases the probability of the party in the office not being re-elected. This leads to a lower inclusion of the cost of future repayment of current debts with a negative impact on the younger (or still unborn) generations.

A very common feature of fiscal policies is their **pro-cyclical set-up**. In this respect, even compliance with fiscal rules may not reveal shortcomings. Rules may be wrongly set up or pro-cyclical in nature (for example, the possibility of reaching a deficit to a certain amount irrespective of the position of the economy in the business cycle, or generally the debt rules, etc.). Fiscal policy makers may also rely, for example, on continuation of the boom and to spend the additional revenue on further expenditure rather than strengthening the fiscal capacity or they may reduce public expenditure at the time of a recession instead of making fiscal stimuli to the economy (see, e.g., Halac and Yared, 2014). As shown by Nerlich and Reuter (2015) or Bova et al. (2014), fiscal rules limit the tendencies towards a pro-cyclical fiscal policy but one cannot say they reduce them significantly. Results of a study by Bova et al. (2014) attach more weight in the limitation of the pro-cyclical character of public finance to other complementary measures, especially the activities of fiscal councils.

In the event of **fiscal illusion and information asymmetry**, voters do not perceive the business cycle influence on public finances and public budget constraints. That increases pressure on adoption of measures disproportionately reducing tax burden or increasing public expenditure (see, e.g. Miranda and Picur, 2003). Fiscal councils should provide the public with comprehensible assessments or recommendations on the state and outlook of public budgets. The model of Beetsma and Debrun (2016) works with the hypothesis that the society benefits most from the functioning of a fiscal council if the council can reduce the information asymmetry between the government and the voters. Fiscal councils contribute to the welfare of the society by increasing the probability of re-election of a fiscally responsible government and by potentially deterring the government from excessive deficits of public finances.

The elimination of several of the above shortcomings is based not only on the competencies entrusted to the fiscal council but also on its **communication skills**. The importance of communication channels for improving the economic performance is shown by studies by Coletta et al. (2015) or the IMF (2013). Frequent mutual communication, including free access to information, must be ensured between budgetary policy makers and fiscal councils. Fiscal council's analysis and recommendations should be adopted or respected, otherwise the government should explain clearly enough why it deviates from the recommendations. Equally important is the communication channel directly in relation to the public (see also information asymmetry above), especially to voters and interest groups involved in the budgetary process.

The credibility of the fiscal council statements and recommendations is reduced further if its representatives and the apparatus are not independent experts and do not have adequate financial resources separate from the influence of the evaluated entities.

4.1.2 Positives and negatives of functioning of fiscal councils identified in economic literature

The literature summarizing the results of the functioning of fiscal councils using statistical and econometric methods is quite extensive. Establishment and development of powers entrusted to fiscal councils have been relatively dynamic in recent years. Studies are thus often based not only on various analytical methods but also on different data sets. To capture empirically the relation between the activities of the fiscal council and the results of its work is relatively problematic because strong fiscal councils are created – and their recommendations are respected – mainly by fiscally responsible governments, which is consistently shown by a number of studies (see Alesina and Passalacqua, 2015, Beetsma and Debrun, 2016, Debrun et al., 2009, Krogstrup and Wälti, 2008). On the contrary, governments with imprudent fiscal policies restrict fiscal councils or do not fully exploit the results of fiscal councils' activities.

Confirmation of the hypothesis of contribution of fiscal councils is often dependent on particular characteristics and functions of the fiscal council. The mere presence of fiscal councils is not automatically connected with better management of public finances (IMF 2013). Only certain characteristics and powers of fiscal councils contribute to that. Regression results show that statistically significant characteristics are the power to monitor fiscal rules, assessment of impact of measures, preparation or evaluation of forecasts by the fiscal council, independence of the institution enshrined in law, frequent publication of reports and analyses in media, and adequate staffing. Safeguards of the fiscal council's budget, on the contrary, proved as statistically insignificant.

Furthermore, the IMF's study (2013) identifies two main channels through which fiscal councils may help improve the general government performance. The first channel is the possibility to present technical reports and analyses in the budgetary process. This includes, in particular, the possibility to provide or evaluate macroeconomic and budgetary forecasts the budget is based on, or the possibility to monitor and evaluate compliance with fiscal rules and use of escape clauses. The second, indirect, channel is efforts to limit political decisions connected with the consequences of the election cycle or influence of interest groups. In that case, the fiscal council is to evaluate the actual costs of each measure and to publish its analyses in media, thereby increasing the voters' awareness of the impacts of government decisions. The results of multiple panel regressions are positive between the presence of a fiscal council and improved fiscal performance measured by the cyclically adjusted primary balance (e.g., Hagemann, 2011, Lebrun, 2009), which suitably captures the influence of government's discretionary measures on fiscal policy. Coletta et al. (2015) confirm, using panel regression explaining the YoY change in cyclically adjusted primary balance, a positive contribution of fiscal councils also on a sample of EU Member States. The results take into account specific characteristics and powers of fiscal councils, set-up of fiscal rules including their fulfilment monitoring and sanctioning mechanisms, the influence of the general government debt level and output gaps. According to their conclusions, the presence and specific characteristics of fiscal councils contribute to economic improvement even more than existence of fiscal rules and their sanctioning mechanisms. Their results also underline the importance of the legal basis of fiscal councils, that is, independence, a wide range of possibilities of access to information, and respect for recommendations by budgetary policy makers.

Numerous studies (Frankel and Schreger, 2012, Debrun et al. 2014 as well as, e.g., Hagemann, 2011, Jonung and Larch, 2006, Lebrun, 2009) also concentrate on empirically demonstrable statistical significance among more accurate forecasts by the fiscal council or the body responsible for budgeting and the associated powers of the fiscal council. Frankel and Schreger (2012) concluded that budgetary forecasts of countries in the euro area had been too optimistic, especially during the economic boom or when it was estimated that a country could exceed the threshold of the general government deficit fiscal rule. This effect was mitigated after a fiscal council was established. Debrun et al. (2014) conducted an analysis for the entire EU. There is a lower average forecast error for the primary balance and cyclically adjusted balance, and forecasts are rather slightly conservative. Lower average forecast errors are reported by those EU countries whose fiscal councils' recommendations enjoy greater respect from the government, whose reports are taken over by media more often and that have the power to provide or evaluate macroeconomic forecasts for public budgeting. The results also show that establishment of a fiscal council lead only to a slight decrease in the average forecast error for real GDP growth. This is explained by the fact that there had been a number of other institutions before the introduction of the fiscal council that had prepared real GDP growth forecasts.

4.2 Fiscal Councils in EU Law and the Reflection of EU Law in Practice

4.2.1 Fiscal council under EU law

Euro area states are obliged, based on Regulation No 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, to establish national fiscal councils. Fulfilment of fiscal rules by EU Member States must be, as stipulate by Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, monitored by an independent institution.

EU Member States also committed themselves to establish fiscal councils in the Treaty on Stability, Coordination and Governance. That international treaty largely contains provisions of Council Directive 2011/85/EU and Regulation No 473/2013. The Treaty obliges euro-area and other signatory countries to establish an independent body with a mandate to monitor compliance with national regulations in the area of fiscal policy and to prepare or at least evaluate macroeconomic and budgetary forecasts used in the budgetary process.

Adoption of this legislation was also in response to a mismatch between budget commitments in stability and convergence programmes and their fulfilment in budgeting. The role of fiscal councils thus complements the numerical fiscal rules of the Stability and Growth Pact. In evaluating the fiscal policy set-up, they basically stand in for multilateral surveillance of the Commission, with a greater tendency to take into account the domestic environment.

The requirements of Council Directive 2011/85/EU apply to all EU Member States. As the Directive has an indirect effect, a Member State may select the methods and means of implementation of the Directive into national law. As Box 1 shows, a Member State is to ensure monitoring of compliance with fiscal rules by an independent institution. It is up to the legislators of the Member State to what extent and to what institution these powers are granted. The role of fiscal councils is also outlined in EC's recommendation on common principles of national fiscal corrective mechanisms (EC, 2012). According to the recommendation, fiscal councils are expected to assess the compliance of application of corrective mechanisms of national fiscal rules with national legislation, including correct and legal triggering of escape clauses enshrined in the law. It must also be ensured that the entity responsible for fiscal policy implementation is obliged to explain to the fiscal council any deviation from the implementation of fiscal rules. The EC also proposes several criteria guaranteeing a high degree of autonomy of an independent fiscal institution which should be enshrined, preferably, in constitutional laws. This includes, in particular, its independence, adequate budget and access to information relevant to the exercise of its mandate. These criteria were directly introduced in Regulation 473/2013 one year later. However, the Regulation only applies to euro-area countries and has a direct effect. After a euro-area country establishes an independent body, the fiscal council automatically has the powers laid down in the Regulation (Article 6 of the Regulation) and must meet the independence parameters (Article 2 of the Regulation), see Box 1.

Box 1: Requirements of Directive 2011/85/EU and Regulation No 473/2013 on establishment of national fiscal councils

Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States stipulates, in Art. 6(1)(b), effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States.

Regulation No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area obliges:

i. In Article 6, to establish independent bodies monitoring compliance with fiscal rules.

   1. Member States are to establish independent bodies for monitoring compliance with:
      a) numerical fiscal rules incorporating into the national budgetary processes their medium-term budgetary objectives;
      b) numerical fiscal rules (deficit and debt values stipulated in accordance with the Treaty on the Functioning of the EU, including compliance with the medium-term budgetary objectives of the Member States).

   2. Those bodies are to, where appropriate, provide public assessments with respect to national fiscal rules, inter alia relating to:
      a) the occurrence of circumstances leading to the activation of the correction mechanism for cases of significant observed deviation from the medium-term objective or the adjustment path towards it, that is, adoption of necessary measures to avoid an excessive deficit in line with the Council recommendations;
      b) whether the budgetary correction is proceeding in accordance with national rules and plans;
      c) any occurrence or cessation of circumstances as a result of an unusual event outside the control of the Member State concerned which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole (tenth subparagraph of Article 5(1) of Regulation 1466/97/EU) which may allow a temporary deviation from the medium-term budgetary objective or the adjustment path towards it, provided that such a deviation does not endanger fiscal sustainability in the medium term.

ii. For the purposes of the Regulation, Art. 2 states the following definitions:
   a) 'independent bodies' means bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability, including:

i) a statutory regime grounded in national laws, regulations or binding administrative provisions;
ii) not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body;
iii) the capacity to communicate publicly in a timely manner;
iv) procedures for nominating members on the basis of their experience and competence;
v) adequate resources and appropriate access to information to carry out their mandate;

b) ‘independent macroeconomic forecasts’ means macroeconomic forecasts produced or endorsed by independent bodies.

Further scope of powers entrusted to fiscal councils depends on the decision of the given country. EU legislative acts do not specify whether the tasks assigned are to be performed by one or several bodies. The decision to establish a new institution or to assign tasks to an existing institution is also fully within the competence of the Member State. As outlined in the following subchapter, EU Member States usually consider it more efficient and transparent to delegate these powers to only one institution, thereby avoiding excessive fragmentation of tasks or overlapping competencies.

Representatives of EU Member States' fiscal councils agreed in 2015 to establish the Network of EU Independent Fiscal Institutions. The purpose of the EU IFIS is primarily to share resources, exchange experience among national fiscal councils and to cooperate with the EU institutions, in particular with the European Fiscal Board, and to participate in streamlining EU fiscal rules.

4.2.2 European Fiscal Board

EC Decision 2015/1937/EU establishing an independent advisory European Fiscal Board was based on a particular proposal in the Five Presidents’ Report: Completing Europe’s Economic and Monetary Union (EC, 2015b). Its establishment should lead to coordination and complementation of functions of already created fiscal councils and contribute to the understanding the EU, especially the euro area, as a single economic space.

Its basic tasks under are (EC 2015/1937/EU) to:

a) evaluate the implementation of the EU fiscal framework,
b) advise on the orientation of fiscal policy for the euro area as a whole,
c) cooperate with national fiscal councils of the Member States, and
d) provide, at the request of the Commission President, ad hoc advice.

The actual scope of European Fiscal Board’s tasks will gradually develop according how the Board will interpret its role in the coordination of fiscal policy. It may only provide advice, discuss internally with the EC or publish analyses or even propose reforms for the euro area. For the time being, however, it has focused on advice and discussions with the EC. It is to contribute, in its consultative capacity, to the EC multilateral fiscal surveillance. It should thus balance the EC's position between the evaluation of fiscal discipline and promotion of economic growth. The EC has a power based on which it may, taking into account specific circumstances, mitigate escalation of the excessive deficit procedure or not initiate it at all. Specific circumstances are evaluated by the EC itself without single evaluation methodology. Therefore, Member States may be treated differently in the case of excessive deficits. The establishment of an independent European Fiscal Board should make this process more transparent by the European Fiscal Board providing the EC with advice and with evaluating itself the implementation of the Stability and Growth Pact.

The European Fiscal Board summarizes its work and opinions in annual reports. It published its first annual report (EFB, 2017) with a summary of recommendations for the euro area for 2018 in June 2017 (see Box 2).

Box 2: Selected recommendations of the European Fiscal Board for the implementation of fiscal policy and public budgeting in the euro-area countries for 2018

The European Fiscal Board recommends a neutral fiscal policy for the euro area as a whole for 2018. Budgeting should be coordinated among states and, as far as possible, the states should consider whether to establish their budgets in a restrictive or expansive manner, taking into account the rules of the Stability and Growth Pact. The European Fiscal Board bases its position on specific economic policy governance in the euro area. The economic policy governance of the euro area and the rules of the Pact are set in such a way that they may require consolidation and expansion of fiscal capacities in conditions where fiscal policy should be oriented rather expansively. On the other hand, some euro-area countries have fiscal space to implement expansionary fiscal policies, although their positions in the business cycle may not be appropriate for such fiscal policy set-up. These states could promote economic growth with cross-border effects in the euro area through fiscal impulses up to the medium-term budgetary objective. Stronger economic growth can then contribute to reducing the general government debt. The European Fiscal Board also points out that the projections of debt developments published in the EC spring forecast (EC, 2017a) are significantly dependent on changes in macroeconomic indicators, in particular, interest rates, and there is a high risk of deviation from the compliance with the rules of the Stability and Growth Pact. The European Fiscal Board points out that rigorous application of the Stability and Growth Pact rules combined with unused available fiscal capacities up to the medium-term budgetary objective of some euro-area countries could restrict economic growth.

The European Fiscal Board also recommends euro-area countries to assess and, where appropriate, adjust the structure of general government expenditure in order to increase investment expenditure, which is still, after a large fiscal restriction in the euro area, at around ¾ of 2008. Increasing investment expenditure should also be complementary to supporting private investment.

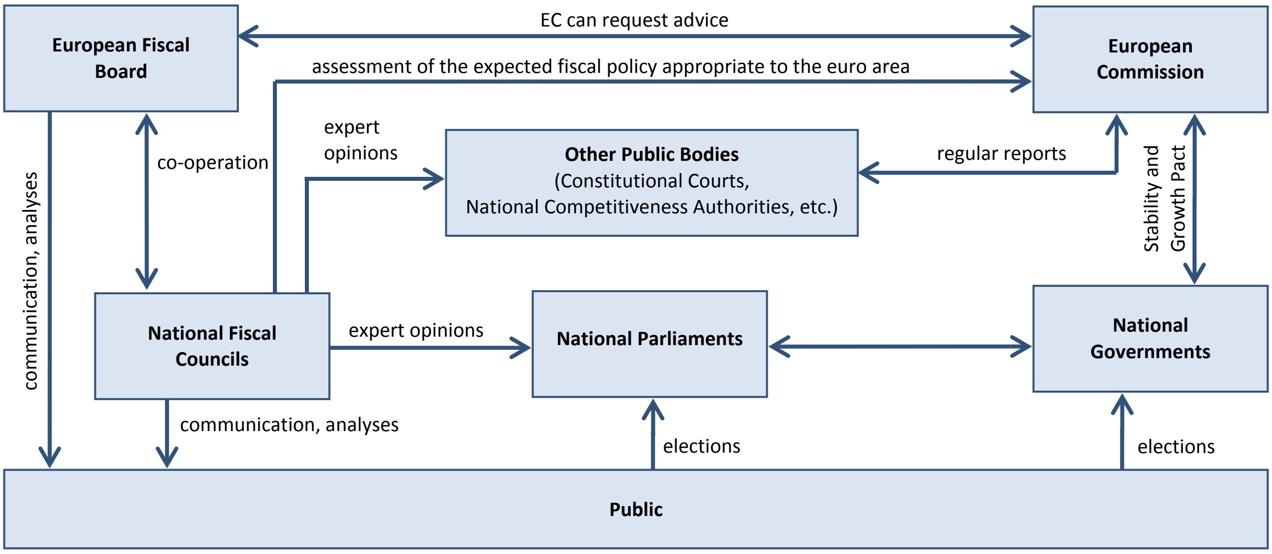
Source: EFB (2017).

Unlike national councils, the European Fiscal Board does not direct its recommendations directly to economic policy makers, but is rather an advisory body to the EC. National fiscal councils aim at interpreting the economic policy of just one national or local government. In contrast, the European Fiscal Board should provide independent assessment of several, sometimes contradictory, fiscal policy set-ups in different EU countries and seek to coordinate them (see Graph 4.1).

The European Fiscal Board consists of a Chair and four members who are appointed by the EC on the proposal from its Chair for a period of three years with the possibility of one renewal of the mandate. They are selected from among internationally recognized experts in macroeconomics and public finance with relevant experience for fiscal policy and budgetary processes. Members are assisted by a secretariat which is administratively affiliated to the Secretariat-General of the EC. Members should act independently, not take instructions from other EU institutions or bodies, or from public and private bodies in the Member States.

From an institutional point of view, the independence of the European Fiscal Board on the EC may be considered insufficient, particularly due to the manner of appointing the Members or the interconnection of its secretariat with the EC. The European Fiscal Board can address its reports and recommendations only to the EC and the public. A question remains open how the work of the European Fiscal Board and national fiscal councils will be coordinated. Moreover, the European Fiscal Board does not have the right to submit its assessments and recommendations to the Council of the EU or the Eurogroup, which are also key to fiscal policy coordination and to enforcement of the Stability and Growth Pact rules.

Graph 4.1: European System of Fiscal Councils and its Role in Increasing the Budgetary Responsibility



Source: Wruuck and Wiemer (2016).Modified by MF CR.

4.3 Typology of Fiscal Councils

The characteristic of a fiscal council as a government-independent institution whose role is to impartially assess the fiscal and budgetary policies of the government, particularly in terms of fiscal responsibility and sustainability of public finances without itself being an active economic policy maker, presented at the beginning of the chapter, is a universally accepted definition. However, due to the different periods of establishment of fiscal councils, different political, legal and institutional environments as well as economic theory developments, the practical concept is very diverse. Fiscal councils may vary, inter alia, by their legal status, financing, size and mandate they exercise in the individual countries, or by the length of the term of office of council members. All these parameters also affect the degree of their independence. An overview of fiscal councils in the EU compared to the Czech National Budgetary Council is provided in Table 4.1.

4.3.1 Establishment of fiscal councils and appointment of members

In most EU Member States, fiscal councils were established by law; in Estonia, France, Italy, Lithuania, Hungary, Portugal, Slovakia and Spain, these laws were constitutional or organic[6] laws. The Croatian Fiscal Policy Committee and the Swedish Fiscal Policy Council were established by government decision.

Fiscal council members are usually appointed by the government of the parliament of the Member State. Other institutions that nominate and appoint fiscal council members are central banks (Estonia, Croatia, Germany, Portugal, Romania, Slovakia), presidents (France, Hungary, Slovakia), representatives of the provincial or local governments or social security funds (Germany, Austria), chambers of commerce or trade unions (Luxembourg, Austria), audit authorities (Croatia, Luxembourg, Portugal), banking associations (Romania) or academies of sciences, other scientific institutions or universities (Croatia, Romania, Germany); in Sweden, a member of the fiscal council is appointed by the government on the proposal from the current board members.

The term of office of a fiscal council member is several years, most commonly 5–7 years. An exception is members of the Dutch Advisory Division of the Council of State *(Raad van State)*, who may be appointed for life.

4.3.2 The size and the institutional set-up

The boards of fiscal councils tend to consist of several members, usually with an odd number, in EU Member States. The largest is the 26-member Danish Economic Council, but it was originally a wage growth bargaining body gathering representatives of trade unions, government, central bank and independent economists. Relatively numerous are the Austrian Fiscal Council (15 members), the Belgian Public Sector Borrowing Section of the High Council of Finance (12 members) and the French High Council of Public Finance (11 members).

Despite the fact that fiscal councils are compared with other independent economic policy institutions, the number of administrative staff in fiscal councils is clearly lower, at single digits or, at maximum, tens of employees. According to IMF data (2016), a certain exception is the National Audit Office of Finland, which is, however, also an audit authority, the Netherlands Bureau for Economic Policy Analysis, and the Belgian Federal Planning Bureau, which have approximately one hundred administrative workers.

A smaller size of the administrative apparatus is also associated with the institutional set-up of fiscal councils. Although they are formally independent from the definition, they may be established as a part of already existing institution to perform their activities. According to Jankovics and Sherwood (2017), this parent institution of fiscal councils is the central bank in the case of Estonia and Austria, the parliament in the case of Croatia, Italy and one of the two Greek institutions, the audit authority in the case of Finland, France and Lithuania, the Ministry of Economy and the Council of State in the case of Dutch fiscal institutions, the High Council of Finance for the Public Sector Borrowing Section in Belgium, the Stability Council in Germany and the Academy of Sciences in Romania. Other fiscal councils in the EU were established as institutionally independent.

4.3.3 Activities of fiscal councils

The focus of fiscal councils in the EU is primarily to monitor compliance with fiscal rules in the given Member State and consistency of the government economic policy, defined objectives and strategic priorities of the government. In most Member States, fiscal councils also monitor the long-term sustainability of government economic policies. Fiscal councils also generally evaluate economic forecasts of the government or relevant ministries and, to a lesser extent, they produce their own forecasts. In addition to ex ante analyses, they also carry out ex post evaluations of the government's economic policy impacts. As the IMF (2016) states, fiscal councils are involved in the budgetary process in most countries. In Belgium, the Netherlands and the United Kingdom, fiscal councils' economic forecasts are directly used in the budget preparation, while in other countries governments have to explain any inconsistency of the draft budget with the fiscal council's forecast. Fiscal councils are often involved in formal consultations with the government in budget preparation or parliamentary budget discussions. In Hungary, the fiscal council has the right of veto when approving a budget inconsistent with the debt rule.

4.3.4 Comparison of the National Budgetary Council with fiscal councils of other EU countries

The National Budgetary Council, as established by Act No. 23/2017 Coll., on fiscal responsibility rules, should primarily evaluate the implementation of numerical fiscal rules like other fiscal councils in the EU Member States. These numerical rules in the CR, pursuant to Act No. 23/2017 Coll., include, in particular, the rule of total general government expenditure and the related derivation of the state budget and state funds expenditure framework, the general government debt rule and the local government debt rule.

[6] It was organic law in the case of France, Portugal and Spain. Organic laws in these countries are based directly on the constitution and are superior to other laws.

Table 4.1: Fiscal Councils in the EU

Member State	Name of the Institution	Prepare Forecast	Assess Forecast	Fiscal Rules	Recommendations	Long-Term Sustainab.	Since	Members	Term (years)
Austria	Fiscal Advisory Council	yes	yes	yes	yes	yes	1970	15	4
Belgium	Federal Planning Bureau	yes	yes	no	no	yes	1959	2	4
Belgium	High Council of Finance - Public Sector Borrowing Section	no	no	yes	yes	yes	1989	12	5
Bulgaria	Fiscal Council of Bulgaria	no	yes	yes	yes	no	2016	5	6
Croatia	Fiscal Policy Committee	no	yes	yes	no	yes	2013	7	5
Cyprus	Fiscal Council	no	yes	yes	yes	no	2014	3	6
Denmark	Danish Economic Council	yes	yes	yes	yes	yes	1962	26	6
Estonia	Fiscal Council	no	yes	yes	yes	yes	2014	6	5
Finland	National Audit Office of Finland	no	yes	yes	yes	no	2013	7	6
France	High Council of Public Finance	no	yes	yes	no	yes	2013	11	5
Germany	Independent Advisory Board to the German Stability Council	no	yes	yes	no	yes	2010	9	4
Greece	Parliamentary Budget Office	no	yes	yes	yes	no	2010	5	5
Greece	Hellenic Fiscal Council	no	yes	yes	yes	no	2015	5	6
Hungary	Fiscal Council	yes	yes	yes	no	yes	2009	3	9
Ireland	Irish Fiscal Advisory Council	no	yes	yes	yes	yes	2011	5	4
Italy	Parliamentary Budget Office	no	yes	yes	no	yes	2014	5	6
Latvia	Fiscal Discipline Council	no	yes	yes	yes	yes	2014	6	6
Lithuania	National Audit Office	no	yes	yes	yes	yes	2015	1	5
Luxembourg	National Council of Public Finance	no	yes	yes	no	no	2014	7	4
Malta	Malta Fiscal Advisory Council	no	yes	yes	yes	no	2015	3	4
Netherlands	Netherlands Bureau for Economic Policy Analysis	yes	no	yes	no	yes	1945	3	7
Netherlands	Raad van State	no	yes	yes	yes	no	2014	5	-
Portugal	Portuguese Public Finance Council	no	yes	yes	yes	yes	2012	7	7
Romania	Fiscal Council	yes	yes	yes	yes	yes	2010	5	9
Slovakia	Council for Budget Responsibility	no	no	yes	no	yes	2011	3	7
Slovenia	Fiscal Council	no	no	yes	no	yes	2015	3	5
Spain	Independent Authority of Fiscal Responsibility	yes	yes	yes	yes	yes	2014	5	6
Sweden	Swedish Fiscal Policy Council	no	yes	yes	yes	yes	2007	6	3
UK	Office for Budget Responsibility	yes	yes	yes	no	yes	2010	3	5
Czech Republic	National Budgetary Council	no	partially*	yes	no	yes	2017	3	6

Note: "Prepare Forecast" indicates, if the fiscal council takes part in the forecast preparation for budgetary purposes. "Assess Forecast" indicates, if the fiscal council evaluates the economic forecasts. "Fiscal Rules" indicate the participation of the fiscal council in the evaluation of fiscal rules compliance. "Recommendations" stand for fiscal council recommendation on the government economic policy beyond the scope of numeric fiscal rules compliance. "Long-Term Sustainab." expresses, if the fiscal council evaluates the long-term sustainability of the public sector finances. The term of a board member of the Dutch Raad van State can be for life.

** The evaluation of forecasts for budgetary purposes is in the CR performed by the Committee for Budgetary Forecasts, whose members are nominated by the National Budgetary Council.*

Source: IMF (2016), Act No. 23/2017 Coll.

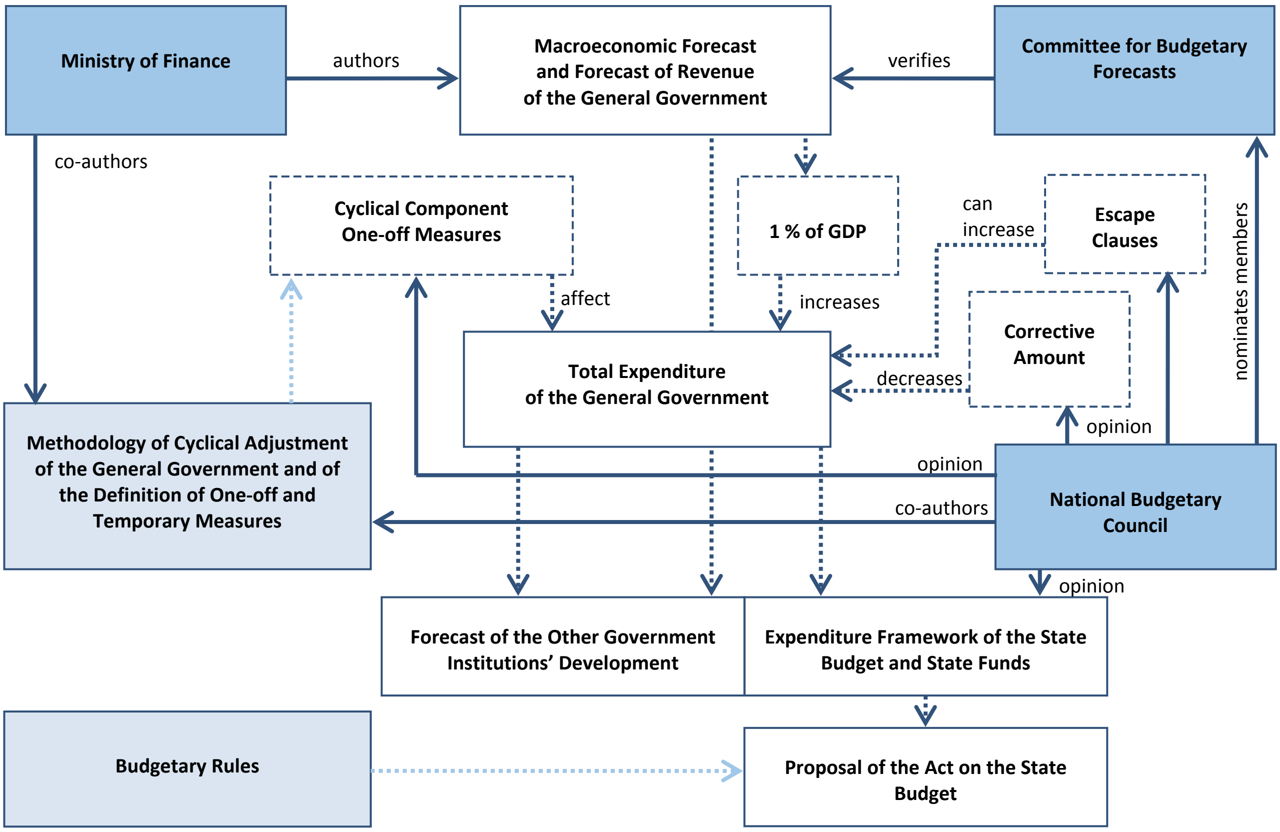
The National Budgetary Council should participate in the CR's budgetary process by assessing the impact of one-off and temporary operations on general government revenues and expenditures, any additional expenditure related to the projected significant deterioration in economic development, and a subsequent assessment of the expenditure framework of the state budget and state funds.

Like in many Member States, the National Budgetary Council should address the issue of long-term sustainability. In particular, its analyses should address how the planned government policies can influence the sustainability of public finances by their direct long-term effects. It should subsequently submit its assessments of compliance with fiscal rules or long-term sustainability the Chamber of Deputies.

Macroeconomic forecasts and revenue forecasts for the purposes of drafts state budget, state fund budgets and health insurance companies' plans are prepared by the Ministry of Finance in the CR. However, the National Budgetary Council is directly involved in the evaluation of such forecasts, through the aforementioned one-off operations or derivation of the state budget and state funds expenditure framework, but also, indirectly, in the form of nomination of all members of the Committee for Budgetary Forecasts. The Committee for Budgetary Forecasts is not, unlike the National Budgetary Council, a formal institution. It is an association of independent experts who carry out and publish budgetary forecasts themselves and are thus best and objectively able to assess the forecasts of the Ministry of Finance. The roles of the National Budgetary Council and the Committee for Budgetary Forecasts are shown in Graph 4.2.

From a formal point of view, the budget council in the Czech Republic is a rather small fiscal council. The National Budgetary Council has three members in board and the number of administrative staff is planned around ten. The Chair of the National Budgetary Council is nominated by the Government, another member by the Senate and the third one by the CNB, all for a term of 6 years except the first term for the two members. These nominations are then approved by the Chamber of Deputies. The nomination method and term of the mandate thus do not deviate from approaches common in other EU Member States. Institutionally, the National Budgetary Council should have an independent position, supported by funding from a separate chapter of the state budget.

Graph 4.2: National Budgetary Council and Committee for Budgetary Forecasts in the Budgetary Procedure



Note: Dark-blue boxes stand for institutions, light-blue boxes contain methodologies. Boxes with dashed borders depict partial inputs for the calculation of the total general government expenditure according to the Act No. 23/2017 Coll. Full arrows illustrate roles of institutions, dotted arrows represent the process of determination of the budgetary procedure parameters, while light dotted arrows depict methodological derivations.
Source: Act No. 23/2017 Coll., design by MF CR.

4.4 Conclusion

The economic developments especially in the recent years have led to a sharp increase in the number of independent fiscal councils in the world. In the EU, the institutional set-up in the area of fiscal policy changed with implementation of the respective directive, intergovernmental treaty and regulation. Many authors recommend entrusting fiscal policy implementation to an independent institution, as is the case with monetary policy. These efforts can be increasingly seen at the level of the euro area, where the shift of the stabilization function of public finances to an independent multinational authority could at the same time provide the basis for deeper integration within the European Economic and Monetary Union.

Although there is a certain analogy with central banks in the stabilization function, there are significant differences in principles in this area. Independent central banks have a clear mandate to meet clearly defined targets. If the central bank targets inflation, it has a numerical target and the bank's instruments to reach the target do not change much even if the inflation target changes. In other words, the central bank will operate with the same instruments, whether the inflation target is 2% or 3%. However, in the case of fiscal policy, there is virtually no specific objective on which there is a general consensus, because public finances have a broader range of functions: allocation, redistribution and stabilization ones. Moreover, public finance functions cannot be strictly separated. For example, promoting economic growth in the form of higher investment also allocates limited resources to a certain area, or changes to the tax system would very likely lead to income redistribution. The objective to stabilize economic output thus has, as a rule, also other objectives, and it is up to the relevant government, whose legitimacy stems from democratic elections, where these “complementary” objectives will be directed. The social contract people conclude through elections can hardly be replaced by an independent institution outside the democratic process.

The absence of a specific objective is also linked to another significant difference between the central bank and the fiscal council. The inflation target is determined symmetrically. If inflation is low or there is a risk of deflation, the central bank takes steps to increase inflation towards the target; and vice versa in the case of high inflation. In the case of fiscal policy, the objective is usually stabilization function to maintain output and employment at sustainable (potential) levels. However, potential levels, unlike inflation, are not observable and may vary considerably depending on the methodologies used to calculate them. If we consider the variables used in the context of fiscal rules (the deficit or debt level), they would always constitute rather a limit, a threshold value, than a target. Responsible public finance management cannot be defined in some simple way; it depends on whether or not a limit is exceeded. Unlike in the case of central banks, it would be very difficult to describe precisely what the focus of fiscal councils is if they should have the power to pursue fiscal policy.

In the past, irresponsible fiscal policy has led to an increase in government debt; the established system did not work very well. There are a number of causes leading to deficit bias. However, as Wren-Lewis (2010) shows, one of the ways to resolve them is an independent fiscal council conducting assessments of fiscal policy and government measures, informing the public and providing the government with recommendations. Such a mandate is not only sufficient, but perhaps even the most appropriate for an independent fiscal institution.

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A Annex of Tables – ESA 2010 Methodology

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

Table A.1: General Government Revenue

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total revenue	**1525**	**1556**	**1523**	**1558**	**1626**	**1646**	**1695**	**1739**	**1887**	**1916**
Current taxes on income, wealth, etc.	337	313	278	269	282	282	294	315	332	361
Social contributions 1)	577	599	560	578	593	600	607	629	663	703
Taxes on production and imports 2)	405	417	425	441	481	502	522	511	562	587
Capital taxes 3)	0	0	0	0	0	0	0	0	0	0
Property income	31	36	38	38	35	35	38	36	36	36
Interest	17	14	12	11	10	11	10	9	7	7
Other property income	14	22	26	26	25	25	28	28	29	30
Sales 4)	127	135	140	138	146	148	150	152	155	158
Other current transfers and subsidies	26	24	29	36	35	39	44	42	48	39
Investment grants	15	27	50	53	50	35	36	49	81	23
Other capital transfers	8	3	3	5	4	4	5	5	9	9
% growth										
Total revenue	**10.8**	**2.0**	**-2.1**	**2.3**	**4.4**	**1.2**	**2.9**	**2.6**	**8.5**	**1.5**
Current taxes on income, wealth, etc.	12.0	-7.0	-11.1	-3.3	4.8	0.0	4.0	7.4	5.3	8.7
Social contributions 1)	9.9	3.9	-6.6	3.3	2.5	1.3	1.1	3.6	5.5	6.1
Taxes on production and imports 2)	12.0	3.0	1.9	3.9	9.0	4.3	4.0	-2.1	10.1	4.4
Capital taxes 3)	-42.4	-44.8	-8.2	-3.4	0.9	0.9	-33.3	-93.5	10.0	54.5
Property income	7.8	16.7	4.0	-0.5	-6.9	0.8	7.0	-3.6	-0.5	0.5
Interest	18.6	-16.7	-17.2	-4.0	-12.3	6.8	-5.5	-12.9	-20.3	-7.0
Other property income	-3.2	58.4	17.9	1.1	-4.6	-1.6	12.5	-0.2	5.9	2.3
Sales 4)	11.8	6.7	3.2	-0.9	5.6	1.2	1.1	1.8	2.0	1.5
Other current transfers and subsidies	-5.4	-7.1	22.7	21.3	-0.7	10.5	13.5	-4.5	13.9	-18.9
Investment grants	1.0	86.1	84.7	4.9	-6.0	-29.0	1.5	36.3	66.6	-72.1
Other capital transfers	77.7	-61.8	-9.2	88.2	-25.8	9.3	18.6	-10.6	103.3	-4.6
% of GDP										
Total revenue	**39.7**	**38.7**	**38.7**	**39.3**	**40.3**	**40.5**	**41.4**	**40.3**	**41.1**	**40.1**
Current taxes on income, wealth, etc.	8.8	7.8	7.1	6.8	7.0	6.9	7.2	7.3	7.2	7.6
Social contributions 1)	15.0	14.9	14.2	14.6	14.7	14.8	14.8	14.6	14.4	14.7
Taxes on production and imports 2)	10.6	10.4	10.8	11.1	11.9	12.4	12.7	11.8	12.2	12.3
Capital taxes 3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.8	0.9	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Interest	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.1
Other property income	0.4	0.5	0.7	0.7	0.6	0.6	0.7	0.6	0.6	0.6
Sales 4)	3.3	3.4	3.6	3.5	3.6	3.6	3.7	3.5	3.4	3.3
Other current transfers and subsidies	0.7	0.6	0.7	0.9	0.9	1.0	1.1	1.0	1.1	0.8
Investment grants	0.4	0.7	1.3	1.3	1.2	0.9	0.9	1.1	1.8	0.5
Other capital transfers	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2

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 (2017b).

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Taxes and social contributions	**1319**	**1330**	**1263**	**1289**	**1356**	**1384**	**1422**	**1455**	**1557**	**1651**
Current taxes on income, wealth, etc.	**337**	**313**	**278**	**269**	**282**	**282**	**294**	**315**	**332**	**361**
Individuals or households	156	141	136	131	143	144	151	161	165	183
Corporations	171	162	132	127	129	127	133	144	157	167
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	10	10	10	10	10	10	10	10	11	11
Social security contributions	**577**	**599**	**560**	**578**	**593**	**600**	**607**	**629**	**663**	**703**
Actual contributions of employers	364	380	350	368	378	383	387	401	423	450
Imputed contributions of employers	0	0	1	1	1	1	1	1	1	1
Actual contributions of households	213	219	209	209	214	217	218	227	239	252
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**405**	**417**	**425**	**441**	**481**	**502**	**522**	**511**	**562**	**587**
Taxes on products [1]	389	401	409	421	457	479	501	489	538	562
Value added tax	232	260	259	263	277	286	304	319	333	354
Excises	145	128	140	148	171	176	179	151	183	181
Other taxes on products [2]	12	12	10	10	10	17	19	19	22	27
Other taxes on production [3]	16	16	16	20	24	23	21	21	24	25
Capital taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
% growth										
Taxes and social contributions	**11.0**	**0.8**	**-5.0**	**2.0**	**5.2**	**2.1**	**2.7**	**2.3**	**7.1**	**6.0**
Current taxes on income, wealth, etc.	**12.0**	**-7.0**	**-11.1**	**-3.3**	**4.8**	**0.0**	**4.0**	**7.4**	**5.3**	**8.7**
Individuals or households	12.7	-9.7	-3.8	-3.1	8.7	1.0	4.5	6.9	2.2	11.2
Corporations	11.4	-5.4	-18.3	-3.7	1.3	-1.2	4.0	8.5	8.8	6.6
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	13.1	8.2	1.7	0.0	-1.6	1.8	-1.4	0.0	5.4	0.9
Social security contributions	**9.9**	**3.9**	**-6.6**	**3.3**	**2.5**	**1.3**	**1.1**	**3.6**	**5.5**	**6.1**
Actual contributions of employers	9.4	4.5	-7.9	5.1	2.7	1.4	1.3	3.4	5.5	6.4
Imputed contributions of employers	-27.1	10.0	162.3	-17.3	31.8	-5.1	4.6	-21.5	40.1	-1.9
Actual contributions of households	10.7	2.9	-4.6	0.3	2.2	1.2	0.7	4.1	5.4	5.4
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**12.0**	**3.0**	**1.9**	**3.9**	**9.0**	**4.3**	**4.0**	**-2.1**	**10.1**	**4.4**
Taxes on products [1]	12.2	3.1	2.0	3.0	8.5	4.8	4.7	-2.3	10.0	4.4
Value added tax	8.7	12.1	-0.7	1.9	5.0	3.5	6.2	5.2	4.3	6.2
Excises	17.9	-11.1	9.1	5.6	15.4	2.9	1.6	-15.4	21.0	-0.8
Other taxes on products [2]	17.7	-0.4	-14.6	-4.3	-1.3	75.9	10.5	-0.2	17.7	20.4
Other taxes on production [3]	6.7	0.7	-2.4	25.6	20.1	-4.9	-9.8	2.7	12.5	3.9
Capital taxes	**-42.4**	**-44.8**	**-8.2**	**-3.4**	**0.9**	**0.9**	**-33.3**	**-93.5**	**10.0**	**54.5**

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 (2017b).

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

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Taxes and social contributions	**34.3**	**33.0**	**32.1**	**32.5**	**33.6**	**34.1**	**34.7**	**33.7**	**33.9**	**34.6**
Current taxes on income, wealth, etc.	**8.8**	**7.8**	**7.1**	**6.8**	**7.0**	**6.9**	**7.2**	**7.3**	**7.2**	**7.6**
Individuals or households	4.1	3.5	3.4	3.3	3.5	3.6	3.7	3.7	3.6	3.8
Corporations	4.5	4.0	3.4	3.2	3.2	3.1	3.2	3.3	3.4	3.5
Levy on lottery revenue	-	-	-	-	-	-	-	-	-	-
Other current taxes	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Social security contributions	**15.0**	**14.9**	**14.2**	**14.6**	**14.7**	**14.8**	**14.8**	**14.6**	**14.4**	**14.7**
Actual contributions of employers	9.5	9.4	8.9	9.3	9.4	9.4	9.5	9.3	9.2	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	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.2	5.3
Additional contributions of households	-	-	-	-	-	-	-	-	-	-
Taxes on production and imports	**10.6**	**10.4**	**10.8**	**11.1**	**11.9**	**12.4**	**12.7**	**11.8**	**12.2**	**12.3**
Taxes on products [1)]	10.1	10.0	10.4	10.6	11.3	11.8	12.2	11.3	11.7	11.8
Value added tax	6.0	6.5	6.6	6.6	6.9	7.0	7.4	7.4	7.3	7.4
Excises	3.8	3.2	3.6	3.7	4.2	4.3	4.4	3.5	4.0	3.8
Other taxes on products [2)]	0.3	0.3	0.3	0.2	0.2	0.4	0.5	0.4	0.5	0.6
Other taxes on production [3)]	0.4	0.4	0.4	0.5	0.6	0.6	0.5	0.5	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 (2017b).

Table A.4: Central Government Revenue

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total revenue	**1099**	**1115**	**1079**	**1107**	**1167**	**1180**	**1202**	**1221**	**1338**	**1370**
Current taxes on income, wealth, etc.	228	211	187	182	190	190	193	207	218	236
Social contributions	376	392	352	365	374	378	379	391	413	439
Taxes on production and imports	329	330	338	351	387	406	420	404	451	464
Capital taxes	0	0	0	0	0	0	0 -		-	-
Property income	23	27	30	30	28	27	30	29	30	29
Sales	63	66	67	68	75	76	75	78	81	81
Other revenue	80	89	105	111	112	103	105	112	145	121
% growth										
Total revenue	**11.5**	**1.4**	**-3.2**	**2.6**	**5.4**	**1.1**	**1.9**	**1.6**	**9.5**	**2.4**
Current taxes on income, wealth, etc.	12.3	-7.6	-11.2	-2.9	4.8	0.0	1.3	7.5	5.3	8.1
Social contributions	9.8	4.3	-10.4	3.7	2.7	0.9	0.4	3.2	5.6	6.2
Taxes on production and imports	12.9	0.5	2.4	3.9	10.2	4.9	3.4	-3.7	11.5	2.9
Capital taxes	-42.6	-45.7	-10.4	-2.7	-2.3	3.8	-33.5 -		-	-
Property income	6.9	17.3	9.2	2.5	-8.3	-3.0	11.4	-4.8	2.9	-0.5
Sales	13.5	4.8	2.1	1.8	9.8	0.9	-1.1	4.4	3.1	1.0
Other revenue	11.9	10.5	18.7	5.6	0.9	-8.0	1.8	6.4	30.1	-16.7

Source: CZSO (2017b).

Table A.5: Local Government Revenue

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total revenue	**449**	**461**	**482**	**488**	**483**	**455**	**478**	**506**	**544**	**535**
Current taxes on income, wealth, etc.	109	103	91	87	92	92	101	108	114	125
Social contributions	0	0	0	0	0	1	1	0	1	1
Taxes on production and imports	77	87	87	90	94	96	102	107	112	123
Capital taxes	0	0	0	0	0	0	0	0	0	0
Property income	7	8	7	7	7	8	8	8	7	7
Sales	64	69	72	70	71	72	75	74	75	76
Other revenue	193	194	224	233	219	187	192	209	237	203
% growth										
Total revenue	**7.5**	**2.6**	**4.6**	**1.1**	**-0.9**	**-5.8**	**4.9**	**5.8**	**7.6**	**-1.7**
Current taxes on income, wealth, etc.	11.3	-5.8	-11.0	-4.2	4.9	0.0	9.8	7.2	5.3	9.9
Social contributions	-45.5	-13.4	567.2	-10.9	43.8	17.7	-0.3	-19.9	50.4	1.9
Taxes on production and imports	8.3	13.8	0.0	3.7	4.4	1.9	6.5	4.2	4.7	10.4
Capital taxes	0.0	50.0	83.3	-18.2	77.8	-37.5	-30.0	42.9	10.0	54.5
Property income	6.4	6.3	-9.0	-5.8	0.1	16.5	-4.3	0.8	-13.1	4.7
Sales	10.2	8.6	4.3	-3.3	1.6	1.7	3.3	-0.7	0.8	2.1
Other revenue	4.5	0.8	15.4	3.9	-5.9	-14.6	2.8	8.7	13.4	-14.3

Source: CZSO (2017b).

Table A.6: Social Security Funds Revenue

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total revenue	**204**	**211**	**211**	**216**	**221**	**225**	**230**	**239**	**252**	**267**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	200	207	208	213	218	222	227	237	249	264
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	1	1	1	1	0	1	0	0	0	0
Sales	0	0	0	0	0	0	0	0	0	0
Other revenue	2	2	2	2	3	2	2	3	3	3
% growth										
Total revenue	**10.1**	**3.6**	**0.2**	**2.1**	**2.4**	**1.8**	**2.2**	**4.3**	**5.2**	**5.9**
Current taxes on income, wealth, etc.	-	-	-	-	-	-	-	-	-	-
Social contributions	10.0	3.2	0.4	2.6	2.2	2.0	2.2	4.3	5.2	5.8
Taxes on production and imports	-	-	-	-	-	-	-	-	-	-
Capital taxes	-	-	-	-	-	-	-	-	-	-
Property income	70.5	108.0	-24.2	-46.3	-18.7	9.7	-47.2	-5.2	-28.1	-21.7
Sales	-4.1	-14.4	-2.5	-1.7	20.2	-16.1	3.5	-5.9	-1.8	0.0
Other revenue	3.2	3.5	-5.0	-14.5	29.2	-19.3	8.1	11.2	10.1	9.3

Source: CZSO (2017b).

Table A.7: General Government Expenditure

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total expenditure	**1550**	**1635**	**1737**	**1724**	**1736**	**1806**	**1746**	**1822**	**1916**	**1881**
Compensation of employees	320	334	352	354	350	359	367	380	398	419
Intermediate consumption	266	279	292	290	281	259	270	274	283	291
Social benefits other than in kind [1)]	456	475	509	518	527	533	545	556	568	581
Social benefits in kind	103	108	120	121	124	130	133	140	142	148
Property income	41	40	49	52	53	59	55	57	49	45
Interest	41	40	48	52	53	58	55	56	49	45
Other property income	0	0	0	0	0	1	0	1	0	0
Subsidies	56	58	69	71	91	91	96	99	105	108
Gross fixed capital formation	182	212	237	202	181	169	152	178	236	156
Capital transfers [2)]	66	54	47	46	45	121	39	60	41	35
Investment grants [3)]	33	31	26	25	32	31	21	18	15	13
Other capital transfers	33	23	20	21	13	89	18	42	26	22
Other expenditure	59	74	62	71	84	84	89	79	94	97
Final consumption expenditure	**746**	**781**	**825**	**825**	**813**	**804**	**826**	**849**	**883**	**919**
Collective consumption [4)]	378	396	412	410	387	375	388	395	415	434
Individual consumption	368	385	413	416	427	429	438	454	468	485
% growth										
Total expenditure	**6.7**	**5.5**	**6.2**	**-0.7**	**0.7**	**4.0**	**-3.3**	**4.4**	**5.2**	**-1.9**
Compensation of employees	5.7	4.6	5.3	0.4	-1.0	2.7	2.0	3.5	4.8	5.4
Intermediate consumption	5.2	4.8	4.8	-0.9	-3.1	-7.7	4.1	1.5	3.4	2.8
Social benefits other than in kind [1)]	12.1	4.1	7.1	1.7	1.9	1.2	2.1	2.0	2.3	2.3
Social benefits in kind	8.4	5.3	11.4	0.3	2.6	4.7	2.6	4.8	1.4	4.3
Property income	13.2	-2.1	20.8	7.4	2.1	9.9	-5.8	2.6	-13.0	-8.8
Interest	13.2	-2.6	20.7	7.7	1.9	9.1	-4.9	2.0	-12.7	-8.8
Other property income	8.3	247.3	29.4	-30.1	40.6	117.2	-69.4	119.1	-44.4	-1.8
Subsidies	2.3	2.2	19.6	2.3	29.2	0.0	5.1	3.8	5.6	2.7
Gross fixed capital formation	0.0	16.3	11.7	-14.6	-10.6	-6.4	-10.0	16.8	32.8	-34.1
Capital transfers [2)]	4.2	-18.8	-13.3	-1.8	-2.6	169.8	-67.5	53.4	-32.3	-14.1
Investment grants [3)]	-2.5	-5.9	-15.3	-5.8	28.6	-1.8	-32.2	-14.5	-19.1	-12.8
Other capital transfers	11.7	-31.5	-10.4	3.3	-39.4	598.0	-79.8	133.5	-37.9	-14.8
Final consumption expenditure	**4.9**	**4.7**	**5.7**	**0.0**	**-1.5**	**-1.1**	**2.7**	**2.8**	**4.0**	**4.0**
Collective consumption [4)]	3.8	4.9	4.2	-0.7	-5.6	-3.0	3.5	1.7	5.2	4.4
Individual consumption	6.0	4.5	7.3	0.7	2.6	0.6	2.0	3.8	3.0	3.7

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 (2017b), MF CR.

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

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total expenditure	**40.4**	**40.6**	**44.2**	**43.5**	**43.0**	**44.5**	**42.6**	**42.2**	**41.7**	**39.4**
Compensation of employees	8.3	8.3	9.0	8.9	8.7	8.9	8.9	8.8	8.7	8.8
Intermediate consumption	6.9	6.9	7.4	7.3	7.0	6.4	6.6	6.4	6.2	6.1
Social benefits other than in kind	11.9	11.8	12.9	13.1	13.1	13.1	13.3	12.9	12.4	12.2
Social benefits in kind	2.7	2.7	3.1	3.0	3.1	3.2	3.3	3.2	3.1	3.1
Property income	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.1	0.9
Interest	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.1	0.9
Other property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	1.5	1.4	1.8	1.8	2.3	2.2	2.3	2.3	2.3	2.3
Gross fixed capital formation	4.8	5.3	6.0	5.1	4.5	4.2	3.7	4.1	5.1	3.3
Capital transfers	1.7	1.3	1.2	1.2	1.1	3.0	1.0	1.4	0.9	0.7
Investment grants	0.9	0.8	0.7	0.6	0.8	0.8	0.5	0.4	0.3	0.3
Other capital transfers	0.9	0.6	0.5	0.5	0.3	2.2	0.4	1.0	0.6	0.5
Other expenditure	1.5	1.8	1.6	1.8	2.1	2.1	2.2	1.8	2.0	2.0
Final consumption expenditure	**19.4**	**19.4**	**21.0**	**20.8**	**20.2**	**19.8**	**20.2**	**19.7**	**19.2**	**19.2**
Collective consumption	9.8	9.8	10.5	10.3	9.6	9.2	9.5	9.2	9.0	9.1
Individual consumption	9.6	9.6	10.5	10.5	10.6	10.6	10.7	10.5	10.2	10.2

Source: CZSO (2017b), MF CR.

Table A.9: Central Government Expenditure

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total expenditure	**1151**	**1197**	**1258**	**1249**	**1259**	**1331**	**1266**	**1309**	**1395**	**1390**
Compensation of employees	164	171	181	179	172	179	183	190	200	210
Intermediate consumption	137	141	148	144	139	123	128	131	141	143
Social benefits other than in kind	437	453	485	491	501	530	540	552	564	577
Social benefits in kind	2	2	3	4	5	9	12	14	15	14
Interest	38	37	46	50	52	56	54	55	48	44
Subsidies	28	28	34	33	54	53	57	59	63	65
Gross fixed capital formation	113	123	128	107	88	88	76	80	122	92
Capital transfers	63	54	55	52	53	119	36	56	48	42
Other expenditure	168	187	178	190	195	174	179	172	195	203
% growth										
Total expenditure	**8.4**	**3.9**	**5.1**	**-0.7**	**0.7**	**5.7**	**-4.9**	**3.4**	**6.5**	**-0.3**
Compensation of employees	6.8	4.2	5.6	-1.3	-3.4	3.7	2.4	3.7	5.1	5.3
Intermediate consumption	8.7	3.1	4.5	-2.5	-3.7	-11.3	4.2	2.5	7.3	1.8
Social benefits other than in kind	10.8	3.7	7.0	1.4	2.0	5.6	2.0	2.1	2.3	2.3
Social benefits in kind	-23.9	-18.2	36.6	53.3	20.0	83.4	37.2	15.4	1.8	-1.1
Interest	12.8	-4.0	24.3	9.9	2.2	8.9	-4.2	1.9	-12.9	-8.7
Subsidies	4.6	-0.4	21.2	-5.1	64.4	-0.5	6.9	2.7	7.0	3.4
Gross fixed capital formation	6.8	9.4	4.0	-17.0	-17.5	0.2	-14.2	6.0	52.0	-24.8
Capital transfers	1.7	-15.4	2.1	-5.0	2.4	123.5	-69.3	55.1	-15.1	-13.0
Other expenditure	7.6	11.5	-4.5	6.4	2.7	-10.9	3.0	-3.8	13.2	3.9

Source: CZSO (2017b).

Table A.10: Local Government Expenditure

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total expenditure	**438**	**469**	**507**	**503**	**495**	**458**	**466**	**498**	**518**	**486**
Compensation of employees	152	159	167	171	174	177	180	186	194	205
Intermediate consumption	127	135	142	142	140	134	139	140	141	146
Social benefits other than in kind	20	22	24	26	26	4	4	4	4	4
Social benefits in kind	3	3	3	2	3	0	-	-	-	-
Interest	3	3	3	2	2	2	1	1	1	1
Subsidies	28	29	35	38	38	38	39	41	42	43
Gross fixed capital formation	69	88	108	95	92	81	77	97	114	64
Capital transfers	26	18	12	12	7	11	10	12	5	4
Other expenditure	10	10	14	14	14	12	15	16	17	18
% growth										
Total expenditure	**2.1**	**6.9**	**8.2**	**-0.8**	**-1.6**	**-7.5**	**1.8**	**6.9**	**4.1**	**-6.3**
Compensation of employees	4.5	4.8	4.9	2.4	1.5	1.9	1.7	3.3	4.5	5.6
Intermediate consumption	1.6	6.4	4.7	0.6	-1.9	-4.4	4.4	0.7	0.0	3.9
Social benefits other than in kind	53.5	13.4	9.3	7.6	-1.5	-85.2	17.8	-11.1	7.0	0.1
Social benefits in kind	19.0	-11.3	0.2	-16.4	11.1	-99.0	-	-	-	-
Interest	16.8	17.9	-20.9	-32.3	-7.5	16.6	-23.3	4.0	-9.2	-15.3
Subsidies	0.0	4.8	18.1	9.6	-1.0	0.6	2.6	5.3	3.6	1.7
Gross fixed capital formation	-9.4	27.2	22.2	-11.7	-2.7	-12.6	-5.1	27.1	17.3	-44.1
Capital transfers	3.4	-30.3	-31.7	-1.3	-42.1	55.8	-11.2	25.8	-63.4	-5.3
Other expenditure	-7.0	-0.7	36.0	-1.5	2.8	-16.2	31.1	0.9	8.8	7.4

Source: CZSO (2017b).

Table A.11: Social Security Fund Expenditure

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
Total expenditure	**187**	**201**	**222**	**224**	**228**	**232**	**229**	**242**	**250**	**262**
Compensation of employees	3	4	4	4	4	4	4	4	4	4
Intermediate consumption	2	2	3	3	3	3	2	2	2	2
Social benefits other than in kind	-	0	0	0	0	0	0	0	0	0
Social benefits in kind	97	103	115	114	116	121	121	125	127	133
Interest	0	0	0	-	0	-	-	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	0	1	1	1	1	1	0	1	0	0
Capital transfers	-	-	-	0	-	-	-	-	-	-
Other expenditure	85	91	99	102	104	104	102	110	117	122
% growth										
Total expenditure	**8.3**	**7.1**	**10.5**	**1.2**	**1.5**	**1.7**	**-1.3**	**5.9**	**3.3**	**4.7**
Compensation of employees	6.5	12.0	9.6	-0.2	-2.3	-3.0	-0.6	2.5	4.9	2.6
Intermediate consumption	10.1	21.8	26.3	9.9	-21.5	1.3	-15.8	-1.0	-6.4	-3.5
Social benefits other than in kind	-	-	600.0	0.0	-28.6	-20.0	12.5	-22.2	28.6	11.1
Social benefits in kind	9.2	6.4	11.2	-0.5	1.8	3.8	0.0	3.7	1.4	5.0
Interest	-	-50.0	0.0	-	-	-	-	-	-	-
Subsidies	-	-	-	-	-	-	-	-	-	-
Gross fixed capital formation	-0.4	64.4	48.4	-15.7	-14.1	-23.7	-59.6	119.0	-22.6	-18.7
Capital transfers	-	-	-	-	-	-	-	-	-	-
Other expenditure	7.3	7.1	9.0	3.1	2.1	-0.3	-2.1	8.5	5.7	4.7

Source: CZSO (2017b).

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
General government	**-25**	**-80**	**-214**	**-166**	**-110**	**-160**	**-51**	**-83**	**-29**	**35**
Central government	-52	-82	-179	-142	-92	-151	-64	-88	-57	-19
Local governments	11	-8	-25	-15	-11	-2	12	8	26	49
Social security funds	16	10	-11	-9	-7	-7	1	-3	2	5
% of GDP										
General government	**-0.7**	**-2.0**	**-5.5**	**-4.2**	**-2.7**	**-3.9**	**-1.2**	**-1.9**	**-0.6**	**0.7**
Central government	-1.4	-2.0	-4.6	-3.6	-2.3	-3.7	-1.6	-2.0	-1.2	-0.4
Local governments	0.3	-0.2	-0.6	-0.4	-0.3	-0.1	0.3	0.2	0.6	1.0
Social security funds	0.4	0.2	-0.3	-0.2	-0.2	-0.2	0.0	-0.1	0.0	0.1

Source: CZSO (2017b).

Table A.13: General Government Debt by Instruments

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK bn										
General government debt	**1055**	**1137**	**1319**	**1480**	**1606**	**1805**	**1840**	**1819**	**1836**	**1755**
Currency and deposits	9	10	10	9	3	8	7	10	5	8
Securities other than shares	889	967	1125	1280	1408	1603	1639	1623	1648	1593
Loans	157	160	184	191	195	194	194	186	183	154
Central government debt	**972**	**1049**	**1224**	**1383**	**1506**	**1698**	**1734**	**1714**	**1740**	**1714**
Currency and deposits	9	10	10	9	3	8	7	10	5	8
Securities other than shares	864	943	1109	1265	1394	1592	1627	1613	1638	1581
Loans	99	97	105	110	109	98	100	91	97	125
Local government debt	**89**	**92**	**99**	**101**	**103**	**113**	**116**	**116**	**111**	**89**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	26	26	17	17	15	15	16	13	13	13
Loans	63	66	82	84	88	97	100	103	98	76
Social security funds debt	**0**	**0**	**0**	**0**	**0**	**0**	**2**	**1**	**1**	**0**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	0	0	0	0	0	0	2	1	1	0
% growth										
General government debt	**8.4**	**7.8**	**16.0**	**12.2**	**8.5**	**12.4**	**1.9**	**-1.2**	**0.9**	**-4.4**
Currency and deposits	11.2	10.3	-0.1	-11.7	-61.1	153.8	-18.7	45.7	-46.2	46.5
Securities other than shares	11.2	8.8	16.3	13.8	10.0	13.9	2.2	-1.0	1.6	-3.4
Loans	-5.4	1.9	15.2	3.8	1.9	-0.8	0.5	-4.3	-1.9	-15.7
Central government debt	**8.8**	**8.0**	**16.6**	**13.1**	**8.9**	**12.7**	**2.1**	**-1.2**	**1.6**	**-1.5**
Currency and deposits	10.8	6.6	-0.1	-11.5	-60.8	151.8	-18.4	45.3	-46.0	46.1
Securities other than shares	11.5	9.1	17.7	14.1	10.2	14.2	2.2	-0.9	1.6	-3.5
Loans	-10.4	-1.6	8.0	4.6	-1.0	-9.8	2.0	-9.1	6.5	29.3
Local government debt	**1.6**	**3.9**	**7.9**	**1.5**	**2.6**	**9.2**	**3.2**	**-0.1**	**-4.8**	**-19.2**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	1.8	-0.4	-33.3	-0.6	-11.5	2.4	5.0	-17.1	-2.9	1.3
Loans	1.4	5.7	23.8	1.9	5.4	10.4	3.0	2.6	-5.0	-22.0
Social security funds debt	**-69.1**	**62.7**	**-44.8**	**-26.4**	**415.4**	**-9.0**	**928.4**	**-43.1**	**-41.1**	**-85.1**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	-	-	-	-	-	-	-	-	-	-
Loans	-69.1	62.7	-44.8	-26.4	415.4	-9.0	928.4	-43.1	-41.1	-85.1

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 (2017b).

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government debt	**27.5**	**28.3**	**33.6**	**37.4**	**39.8**	**44.5**	**44.9**	**42.2**	**40.0**	**36.8**
Currency and deposits	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.2
Securities other than shares	23.1	24.0	28.6	32.3	34.9	39.5	40.0	37.6	35.9	33.4
Loans	4.1	4.0	4.7	4.8	4.8	4.8	4.7	4.3	4.0	3.2
Central government debt	**25.3**	**26.1**	**31.1**	**34.9**	**37.3**	**41.8**	**42.3**	**39.7**	**37.9**	**35.9**
Currency and deposits	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.2
Securities other than shares	22.5	23.4	28.2	31.9	34.6	39.2	39.7	37.4	35.6	33.1
Loans	2.6	2.4	2.7	2.8	2.7	2.4	2.4	2.1	2.1	2.6
Local government debt	**2.3**	**2.3**	**2.5**	**2.5**	**2.6**	**2.8**	**2.8**	**2.7**	**2.4**	**1.9**
Currency and deposits	-	-	-	-	-	-	-	-	-	-
Securities other than shares	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Loans	1.6	1.6	2.1	2.1	2.2	2.4	2.4	2.4	2.1	1.6
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 (2017b).

Table A.15: General Government Balance and Debt of EU Countries (2013–2017)
(in % of GDP)

	Balance					Debt				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
EU28	-3.3	-3.0	-2.4	-1.7	-1.2	85.6	86.5	84.5	83.2	83.5
EA19 [1]	-3.0	-2.6	-2.1	-1.5	-1.1	91.3	91.8	89.9	88.9	89.3
Austria	-1.9	-2.7	-1.0	-1.6	-0.9	81.0	83.8	84.3	83.6	78.3
Belgium	-3.1	-3.1	-2.5	-2.5	-1.5	105.5	106.8	106.0	105.7	103.8
Bulgaria	-0.4	-5.5	-1.6	0.0	0.0	17.0	27.0	26.0	29.0	25.4
Croatia	-5.3	-5.1	-3.3	-0.9	-1.3	81.7	85.8	85.4	82.9	81.1
Cyprus	-5.1	-8.8	-1.2	0.5	1.0	102.6	107.5	107.5	107.1	102.3
Czech Republic	-1.2	-1.9	-0.6	0.7	1.1	44.9	42.2	40.0	36.8	34.7
Denmark	-1.2	1.1	-1.8	-0.6	-1.4	44.0	44.0	39.5	37.7	36.3
Estonia	-0.2	0.7	0.1	-0.3	0.0	10.2	10.7	10.0	9.4	9.0
Finland	-2.6	-3.2	-2.7	-1.7	-1.2	56.5	60.2	63.6	63.1	62.5
France	-4.1	-3.9	-3.6	-3.4	-2.9	92.4	95.0	95.8	96.5	97.0
Germany	-0.1	0.3	0.6	0.8	0.8	77.4	74.6	70.9	68.1	65.5
Greece	-13.2	-3.6	-5.7	0.5	-1.2	177.4	179.0	176.8	180.8	176.8
Hungary	-2.6	-2.7	-2.0	-1.9	-2.4	76.0	75.2	74.7	73.9	72.4
Ireland	-6.1	-3.6	-1.9	-0.7	-0.3	119.4	104.5	76.9	72.8	70.1
Italy	-2.9	-3.0	-2.6	-2.5	-2.1	129.0	131.8	131.5	132.0	131.6
Latvia	-1.0	-1.2	-1.2	0.0	-0.8	39.0	40.9	36.9	40.6	39.5
Lithuania	-2.6	-0.6	-0.2	0.3	0.1	38.8	40.5	42.6	40.1	41.4
Luxembourg	1.0	1.3	1.4	1.6	0.6	23.7	22.7	22.0	20.8	23.0
Malta	-2.4	-1.8	-1.1	1.1	0.8	68.4	63.8	60.3	57.6	54.9
Netherlands	-2.4	-2.3	-2.1	0.4	0.6	67.8	68.0	64.6	61.8	57.5
Poland	-4.1	-3.6	-2.6	-2.5	-2.6	55.7	50.2	51.1	54.1	53.8
Portugal	-4.8	-7.2	-4.4	-2.0	-1.5	129.0	130.6	128.8	130.1	127.7
Romania	-2.1	-1.4	-0.8	-3.0	-3.0	37.8	39.4	37.9	37.6	37.1
Slovakia	-2.7	-2.7	-2.7	-2.2	-1.6	54.7	53.5	52.3	51.8	50.9
Slovenia	-14.7	-5.3	-2.9	-1.9	-0.8	70.4	80.3	82.6	78.5	75.2
Spain	-7.0	-6.0	-5.3	-4.5	-3.1	95.5	100.4	99.4	99.0	98.0
Sweden	-1.4	-1.6	0.2	1.1	1.0	40.8	45.5	44.2	42.2	38.6
United Kingdom [2]	-5.6	-4.9	-4.0	-2.3	-2.8	85.9	86.6	86.7	86.8	87.7

Note: [1] 19 current member states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
[2] Data for the financial year (1 April of year T to 31 March of year T+1).
Source: Eurostat (2017b), data for the EU 28 and the EA 19 in 2017: EC (2017b). Nominal GDP for the Czech Republic in 2017 MF CR (2017b).

Table A.16: Transactions of General Government of EU Countries in 2016

(in % of GDP)

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Collective consumption	Individual consumption	Investments[1]	Interest expenditure
EU28	44.7	46.3	10.0	16.0	7.5	12.9	2.7	2.1
EA19 [2)]	46.1	47.6	10.0	17.0	7.6	13.0	2.5	2.2
Austria	49.1	50.7	10.7	19.0	7.4	12.6	3.0	2.1
Belgium	50.7	53.2	12.4	17.2	8.1	15.5	2.2	2.9
Bulgaria	34.9	35.0	9.0	11.7	7.8	7.9	2.6	0.9
Croatia	46.3	47.2	11.4	13.7	9.9	9.9	3.1	3.2
Cyprus	38.8	38.3	12.4	14.1	8.7	6.5	2.3	2.6
Czech Republic	40.1	39.4	8.8	12.2	9.1	10.2	3.3	0.9
Denmark	52.9	53.5	15.9	16.9	7.3	18.2	3.7	1.4
Estonia	40.3	40.6	11.8	11.9	9.2	11.5	4.8	0.1
Finland	54.0	55.8	13.3	19.6	7.9	16.1	4.0	1.1
France	53.0	56.4	12.7	19.9	8.2	15.4	3.4	1.9
Germany	45.0	44.2	7.5	15.5	6.8	12.8	2.1	1.3
Greece	50.2	49.7	12.4	20.2	11.2	9.1	3.2	3.2
Hungary	44.8	46.7	10.9	12.8	10.0	10.3	3.1	3.2
Ireland	26.4	27.1	7.0	8.2	4.1	8.3	1.8	2.2
Italy	46.9	49.4	9.8	20.1	7.7	11.1	2.1	4.0
Latvia	37.4	37.4	10.2	10.1	9.4	8.7	3.5	1.0
Lithuania	34.5	34.2	9.8	11.0	7.4	9.8	3.0	1.3
Luxembourg	43.8	42.1	8.8	15.3	6.9	9.9	3.9	0.3
Malta	39.2	38.0	11.9	10.3	7.1	9.7	2.5	2.2
Netherlands	43.8	43.4	8.7	11.3	8.2	16.5	3.5	1.1
Poland	38.7	41.2	10.3	15.3	8.1	9.8	3.3	1.7
Portugal	43.0	45.0	11.3	17.1	9.0	9.0	1.5	4.2
Romania	31.0	34.0	8.2	10.7	7.3	7.0	3.6	1.5
Slovakia	39.3	41.5	9.1	13.9	8.8	10.6	3.2	1.6
Slovenia	43.3	45.1	11.3	15.5	7.8	10.9	3.2	3.0
Spain	37.7	42.2	10.8	15.5	8.0	10.9	1.9	2.8
Sweden	50.6	49.5	12.5	13.1	7.1	19.1	4.4	0.4
United Kingdom	38.6	41.5	9.1	13.4	6.7	12.1	2.7	2.4

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 (2017a).

B Glossary

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

Capital transfers include acquisition or loss of an asset without equivalent consideration. They may be made in cash or in kind. **Capital transfer in cash** is defined as cash transfer without expected consideration from the unit which received the transfer. **Capital transfer in kind** is based on the transfer of ownership of an asset, other than inventory and cash, or decommitment by a creditor for which no consideration was received, eventually assumption of debt, etc.

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

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

Government **final consumption expenditure** includes government payments which are subsequently used for consumption of individuals in the household sector (mainly reimbursement of health care by health insurance companies for services provided by medical facilities) or they are consumed by the entire society (such as expenditure on army, police, judiciary, state administration, etc.). General government services, provided for consumption to the entire society, are usually valued at the level of one's own costs for a given service because they do not pass through a market which would value them. For the above reasons, consumption consists mainly of intermediate consumption (i.e. goods and services, except fixed assets, consumed in the process of production of another good or service), compensation of employees (gross wages and salaries including social contributions paid by employer), social transfers in kind for households or fixed capital consumption. The value calculated is not the entire value of these transactions but only the value associated with the production valued as one's own costs. The costs of creation of activities which pass a market fully or partly and for which the sector receives payment are excluded from general government consumption expenditure.

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

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

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

Government Deficit and Debt Notification is quantification of fiscal indicators submitted by each EU Member State twice a year to the European Commission. It is compiled for the general government sector using the accrual methodology. The Czech Statistical Office processes data for the past four years *t−4* to *t−1*; MF CR supplies prediction for the current year *t*. Notification includes a basic set of notification tables, which include mainly key indicators such as balance and debt, including explanations of the link to balance in the national methodology as well as a number of additional questionnaires such as a table of state guarantees, etc.

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

Medium-Term Objective (MTO) is expressed in the structural balance and implies long-term sustainability of public finance of the country. For the CR it currently corresponds to the level of structural balance of −1% of GDP.

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

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

Social security benefits in cash are social security benefits (e.g. pensions, social benefits) paid out from the government to households.

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

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

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

Published	Topic
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
November 2016	Long-term Projections of Public Expenditure on Health Care
November 2017	Fiscal Councils

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 Box 2: Changes in General Government Sector Statistics in the System of National Accounts Box 3: Planned Measures against Tax Evasion Box 4: Impact of New Estimates of Elasticities of Cyclically Sensitive Revenue and Expenditure on the Cyclical Component of Balance
May 2015	Box 1: Expansion of the General Government Sector
November 2015	Box 1: Expansion of the General Government Sector Box 2: Czech Economy Growth and the Tax Revenue Development in 2015 Box 3: Expenditure Rule Technique
November 2016	Box 1: Effect of Supply Factors on Health-Care Expenditure
November 2017	Box 1: Requirements of Directive 2011/85/EU and Regulation No 473/2013 on establishment of national fiscal councils Box 2: Selected recommendations of the European Fiscal Board for the implementation of fiscal policy and public budgeting in the euro-area countries for 2018

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