1 Introduction

As traditionally, this current issue of the Fiscal Outlook concentrates especially on analysing the latest developments in public finances, as well as on the medium-term outlook for the state budget and entire general government sector until 2011. It focuses, too, on explaining the surprisingly favourable results achieved in 2007.

In this connection, it may be useful to remember that the data and information presented in Chapter 2: "Development of public finances" should be interpreted differently from that in Chapter 3: "Medium-term fiscal outlook".

Chapter 2 uses data from the past along with anticipated economic results for the current year that typically are not going to be fundamentally influenced by the economic policy decisions. In addition to analysis of past development, therefore, it contains an autonomous prediction of finances for the current year.

By contrast, the outlook for the next three years presented in Chapter 3 is rigorously based upon the declared intentions regarding fiscal policy for the following three years. It is not a macroeconomic prediction of public finances, therefore, but a quantification of government plans that includes identifying the assumptions upon which the execution of those plans are conditioned. The potential risks that the actual development will deviate from those plans are also stated in the text.

The featured topic of this issue is that of flat tax. Chapter 4 briefly summarises the main principles of this concept and provides information on the experience to date with the workings of flat taxes in selected, mainly new EU member states.

1.1 Macroeconomic development

The Czech Republic finds itself today in a favourable macroeconomic situation. Gross domestic product in constant prices has been growing since 2005 at rates exceeding 6%. The Czech economy's output is running above the level of its long-term potential. Within the outlook's time horizon, we expect that this positive output gap will close around 2010, and therefore real GDP will come closer to its potential. We expect that a labour force deficit will be the factor limiting economic growth. Even increased hiring of workers from abroad will not solve the problem. When the price shock from the turn of 2007 into 2008 disappears, the expected GDP growth at the outlook's horizon will hover just above 5%.

At this phase in the economic cycle, real GDP growth is driven mainly by final domestic demand. Closing of the output gap will again bring increased contribution from foreign trade at the expense of domestic demand. Changes in tax rates approved together with the public budgets stabilisation measures are expected to support investment activities, while also driving the need to substitute the scarce and increasingly expensive labour force. Gross fixed capital formation is also expected to be supported by infrastructure investments co-financed by European funds.

On the other hand, government savings should be reflected in decreased real government consumption. This trend will not be affected by expenditures incurred due to the EU presidency in 2009.

In 2008, private consumption growth will be limited by developments in disposable income. At the turn of 2007 into 2008, there was a one-time increase in the general price level, which caused real earnings growth to slow down. Private consumption will also be decelerated by investments into housing as there will be a growing volume of mortgage loan repayments. Within the outlook's time horizon, however, private expenditures should grow disproportionately less in comparison to GDP, that being approximately by 1 percentage point less than the GDP growth rate.

After temporarily declining in 2008, the terms of trade will switch to positive values. That will also accelerate growth in the implicit GDP deflator. Nevertheless, nominal GDP's growth rate should slow from 8.2% in 2008 to around 7.8% in 2011.

The Czech currency's strengthening exchange rate will ensure low-inflationary development in the coming years. After a one-time jump up in prices at the turn of 2007 and 2008 that was due to accelerating growth in global prices for food and oil and accompanied by an increase in indirect taxation, the outlook is for inflation to drop to a range tolerably near to the CNB's inflation target – and even in consideration of its announced decrease from 3.0% to 2.0% from 2010. The wage growth rate is expected to correspond to growth in work productivity and ought not cause serious inflation pressures.

As a consequence of the continuing economic growth, the unemployment rate is rapidly declining. In the coming years, we anticipate that it will gradually decrease to the frictional unemployment rate. Meanwhile, the rate of economic activity will grow in the age group of over 60 years of age. The economic growth will continue to prompt an inflow of labour from other countries. In addition to the consequences for economic growth, the labour market should gradually reflect the structural changes targeting stronger motivation for employment. These are conditioned upon steps toward stabilising public finances and the consequent changes in payments for social benefits. Demand for labour should be reflected in wage growth, although this growth could be damped down by lower wages for labour coming from abroad.

The deficit in the current account balance will continue to decline, and growth in the trade balance surplus will outweigh the decrease in the income account. Export growth and imports substitution from newly built capacities will exceed profit repatriations from those investments.

The prediction is vulnerable to increasing external risks related to the threat that impacts from the mortgage crisis in the USA will shift to EU countries, as well as by uncertainties related to the price developments for raw materials, and particularly for oil and food.

Table 1-1: Main macroeconomic indicators

		2007	2008	2009	2010	2011	2008	2009	2010
			Forecast	*Forecast*	*Outlook*	*Outlook*	*Fiscal Outlook - October '07*		
Gross domestic product	*(bn CZK, curr.p.)*	3 558	3 851	4 138	4 451	4 798	*3 821*	*4 110*	*4 421*
	(growth in %, const.p.)	6.5	4.9	5.1	5.3	5.3	*5.0*	*5.1*	*5.3*
Private consumption	*(growth in %, const.p.)*	5.6	3.6	4.3	4.2	4.2	*4.2*	*4.6*	*4.2*
Government consumption	*(growth in %, const.p.)*	0.9	-0.6	-0.3	-0.5	0.0	*-0.4*	*-0.3*	*-0.5*
Gross fixed capital formation	*(growth in %, const.p.)*	6.1	8.1	7.8	7.2	7.2	*9.0*	*7.8*	*7.2*
Contr. of net exports to GDP growth	*(p.p., const.p.)*	1.0	0.8	1.3	1.6	1.5	*-0.1*	*1.0*	*1.5*
GDP deflator	*(growth in %)*	3.4	3.2	2.2	2.2	2.4	*3.1*	*2.3*	*2.2*
Inflation	*(in %)*	2.8	6.0	2.7	2.5	2.2	*3.8*	*2.2*	*2.0*
Employment (LFS)	*(growth in %)*	1.9	1.7	0.8	0.3	0.2	*1.1*	*0.5*	*0.2*
Unemployment rate (reg.)	*(average in %)*	6.6	5.2	4.3	4.0	4.0	*5.9*	*5.6*	*5.5*
Wages and salaries	*(growth in %, curr.p.)*	8.9	9.0	8.2	7.2	7.0	*7.4*	*7.1*	*7.0*
Current account to GDP ratio	*(in %)*	-2.5	-3.0	-2.1	-1.6	-1.0	*-2.5*	*-1.7*	*-1.0*

1.2 Fiscal policy objectives

The main fiscal policy objective remains to reduce the general government deficit. Within the framework of EU fiscal rules, the Czech Republic has undertaken to reduce the structural deficit to 1% of GDP by 2012 at the latest. At the same time, the present government aims to achieve a balanced budget around 2014.

Since joining the EU, the Czech Republic finds itself in the excessive dificit procedure (EDP). The deadline for reducing general government deficit bellow 3% of GDP had been set by the end of 2008 at the latest. Presently there run, within EU committees, talks on an early abrogation of this procedure since based on the opinion of the European Commission the Czech Republic has succeeded in lowering its deficit below the reference threshold in a transparent and sustainable manner already in 2007.

The medium-term outlook for the state budget counts upon adhering to the established expenditure frameworks. With respect to increase in the prediction for budget revenues compared to the previous outlook, it is therefore possible to expect reaching substantially lower deficits than those corresponding to the fiscal targets heretofore. Consistent use of additional revenues to decrease the deficit is the main factor upon which are predicated the significantly better results in comparison to the previous outlook.

The approved volume of expenditure limits is expected, along with the updated revenues prediction, to result in a general government balance of -1.6% of GDP in 2009 and -1.5% of GDP in 2010. Meanwhile, the government has approved a new fiscal target for the general government balance at -1.2% of GDP in 2011.

Starting in 2008, fiscal development is influenced by an approved set of measures to stabilise public finances. There is a shift in the revenues structure from direct taxation to indirect taxation, which is accompanied by a negative impact on the amount of tax receipts in the range of some 0.6% of GDP until 2010. Unfortunately, the expenditure side shows that not even those social spending measures already adopted will be sufficient to halt the growth trend in the share of mandatory expenditures. Compared to the previous outlook, the expected increase in social expenditures is considerably higher. On the one hand, this is caused by less favourable developments in the relevant macroeconomic variables, and in particular inflation, which is reflected in higher pension indexed (by roughly 0.3% of GDP in 2009 and 2010). Another factor is higher than expected payment of some newly adjusted social benefits (totalling roughly 0.1% of GDP), such as sickness insurance allowances or benefits for care. In total, the estimation of social expenditures for 2009 and 2010 is approximately 0.4% of GDP higher than in the previous outlook, which, given the spending limits, requires corresponding cuts in non-entitlement expenditures. According to present estimates, the dynamic increase in social outlays will continue to cut into the area of discretionary budget spending.

Among those factors increasing the uncertainty of the fiscal outlook, we may mention in particular the timing and method of recording the planned redress for some property-related injustices suffered by churches in the past[1], the final form of taxation of individuals from 2009 onward, and growth in total salaries and wages in the general government sector.

During 2007, in contrast with the original expectations, no positive fiscal impulse occurred, and, to the contrary, the general government deficit dropped considerably. The expected unfavourable impact of the rapid increase in social expenditures was proven, but it was more than compensated by higher revenues and expenditure savings in the areas of subsidies, current transfers, and investments resulting from enormous transfers of unspent funds into reserve funds.

Considering the favourable result in 2007, the view changed regarding the originally expected fiscal austerity for 2008 and partially for the following years. The present strategy only contemplates moderate deficit reduction until 2012 and very limited macroeconomic impact from fiscal policy in individual years. In view of the reappraisal of the expected development for social expenditures, the restrictive impact on household disposable income will be rather moderate. Another influence that will moderate the restrictive effect is the fact that large transfers to reserve funds in the past years will mean additional sources for expenditures in 2008, and possibly in the following years.

An inflow of monies from EU funds remains a substantial expansive factor. The funds, in principle, have no immediate influence on the general government balance, because they represent both the government's expenditure and revenue, but they also represent additional extensive demand-creating sources.

Table 1-2: Fiscal policy stance (ESA 95, % of GDP)

	2007 *Preliminary*	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
General government balance	-1.6	-1.5	-1.6	-1.5	-1.2
Cyclical component	0.4	0.2	0.1	0.0	0.0
One-off and other temporary measures	-0.3	-0.1	0.0	0.0	0.0
Structural balance	-1.7	-1.6	-1.6	-1.5	-1.1
Fiscal effort [1)]	0.9	0.1	0.0	0.1	0.4

[1)] Fiscal effort is defined as year-on-year change of the structural balance. Sometimes, this indicator is referred as the fiscal stance.

Due to rather extensive legislative changes, whose influence could not be evaluated sufficiently thus far and which influence the revenue and expenditure sides of the general government finances, the fiscal outlook is encumbered by an increased level of uncertainty.

[1] The final form and time of approving the law will be important in determining when and to what extent this liability will be reflected in the general government finances under the ESA 95 methodology. Inclusion of the principal (the sum of CZK 83 bn is being considered) into the deficit at the time of approving the act and recording interest on principal in those individual years when the liability will be repaid seems at present to be the most probable variant. However, financial demands upon the budget will be equal to individual repayments (i.e. redemption of the principal and interest paid in the individual years).

2 Development of public finances

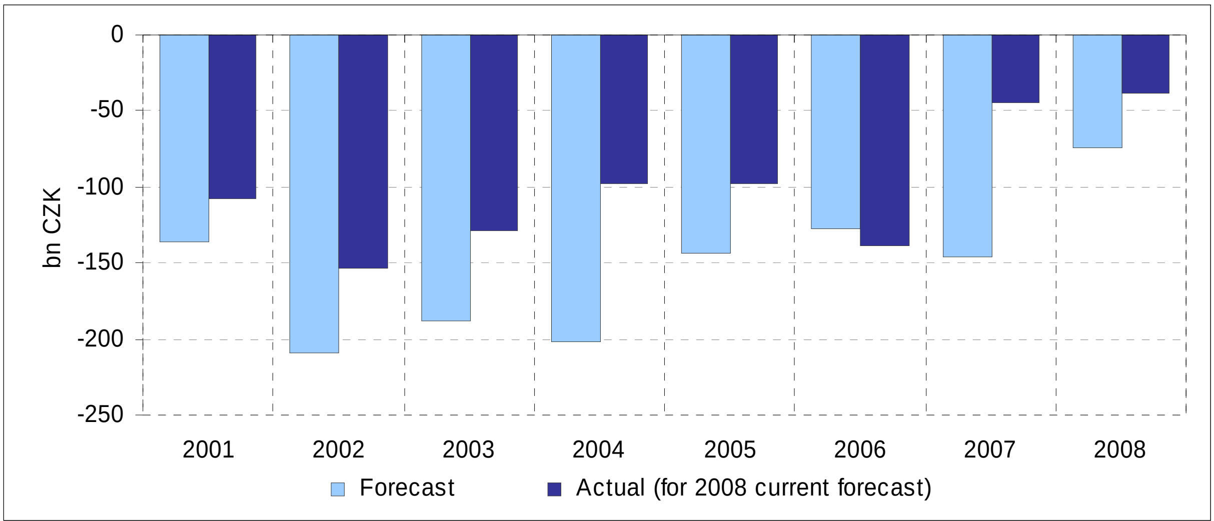
2.1 Public budgets – cash flows

Public budgets in 2007

The **balance of public budgets net of financial operations**[2] was CZK -44.0 bn in 2007, and as a proportion of GDP it was -1.2%. Compared to the original expectations in the draft Czech Republic State Budget Act documentation for 2007, the deficit was lower by CZK 102.1 bn. The **balance for fiscal targeting** was even CZK 113.4 bn better in comparison to the original assumptions and came to CZK -35.5 bn. It reached -1.0% of GDP, which is 2.9 percentage points better than originally planned.

This trend repeats the situation from past years, when, with the exception of 2006, the total public budget deficit developed better than originally predicted. Expectations for total revenues were exceeded by CZK 16.8 bn and expenditures were lower by CZK 85.3 bn. The following graph shows a comparison of those results anticipated and actually achieved in public budgets balances during 2001 to 2007, as well as the change in the expected deficit for 2008.

Graph 2-1: Anticipated and actual public budget balances in 2002–2008



The main reason that **revenues** surpassed expectations was considerably higher tax collection (including for social and health insurance), which was higher by CZK 47.1 bn. The income was higher for all types of taxes. Collection of corporate income tax developed the best, and it was CZK 9.2 bn

[2] Financial operations particularly mean loans provided and their instalments as well as revenues from privatisation. Cash flow balance of public budgets net of these items shows the financial situation of public budgets better, because these financial operations do not represent change in the balance of financial assets and liabilities.

higher than anticipated in the budget. Positive development was also recorded in personal income tax (higher by CZK 7.5 bn), and VAT income was higher by CZK 6.3 bn. Contrary to the original expectations, collection of social security insurance contributions developed even better than favourably (higher by CZK 20.5 bn), resulting mainly from the positive economic development (reflected in positive labour market development, growth in salaries and wages). In contrast, subsidies received from international institutions (by CZK 26.5 bn) were substantially lower than expected, as were non-tax revenues (by CZK 3.6 bn) relating primarily to revenues from businesses and property income (dividends, returns of transfers from past years, and the like).

Total **expenditure** savings were CZK 85.3 bn. Neither the originally presumed current spending (savings of CZK 53.4 bn) nor capital expenditures (savings of CZK 31.9 bn) reached the projected level. On the current expenditures side, spending for the item “other non-investment purchases and related expenditures” (savings of CZK 12.0 bn) was lower and total subsidies and other current transfers (CZK 35.3 bn was not drawn) were lower with the exception of subsidies to financial institutions (exceeded by CZK 12.9 bn). Capital spending funds in the amount of CZK 22.8 bn for acquisition of investments were not drawn. Although capital transfers to non-financial public enterprises were exceeded, they also had total savings of CZK 9.1 bn. Inasmuch as the unspent funds were mostly transferred to reserve funds and therefore may be used in the future, the undrawn funds need to be regarded as deferred expenditures rather than public budget savings.

The **state budget deficit,** which is presented here (in contrast to commonly publicised data) net of financial operations (CZK 2.3 bn), including the Czech Consolidation Agency loss (CZK 13.2 bn) and adjusted by the reserve funds impact[3] (deficit improvement by CZK 31.1 bn), reached CZK 46.2 bn. As a result of changes in revenues and expenditures in comparison to budget documentation for the year 2007, it was lower by CZK 44.2 bn. This contributed decisively to improving the final balance of public budgets.

State budget revenues were higher by CZK 15.7 bn in comparison to the budget documentation. In particular, collection of tax revenues developed positively (including social and health insurance contributions), and it was better by CZK 28.1 bn. In particular, there were higher collections of social and health insurance contributions (by CZK 12.5 bn), of corporate income tax (by 7.2 bn), personal income tax (by CZK 4.0 bn) as well as VAT (by CZK 3.0 bn). However, the sum of subsidies from international institutions (by CZK 18.4 bn) was considerably lower.

Actual **state budget outlays** were CZK 28.5 bn lower than the original projection. All expenditure items were lower in current expenditures (savings of CZK 23.8 bn) with the exception of wages of employees and transfers to public budgets from one level of government to another. Capital expenditures were also lower by CZK 4.7 bn, but while reduced expenditures on acquisition of investments was seen on one side, this was partly compensated by higher expenditures on investment transfers to budgets at another level of government.

[3] Contrary to the state budget methodology, transfers to reserve funds are not considered as expenditures, as in reality they are not. Likewise, drawing from the reserve funds is not considered a state budget revenue.

With the exception of off-budget funds, the finances of all public budget subjects improved. Contrary to the original expectations for the approved 2007 state budget, local budgets in particular had markedly better financial results (by CZK 17.4 bn) and so did health insurance companies (by CZK 17.1 bn).

Public budgets had insufficient funds available and so the development described resulted in **debt** growing by CZK 95.4 bn. As at 31 December 2007, the debt was CZK 973.2 bn (compared to the projected CZK 981.0 bn), which is 27.4% of GDP. The main reason for the rising public debt – as in past years – was above all the state budget deficit. The debt is growing faster than the total deficit in public budgets because government securities are being issued also for funds that, in the end, were not used and were transferred to reserve funds in the relevant year. Such ineffective practice from past years is to be eliminated from 2008 onward through a change in the budgetary rules. Accordingly, unspent funds will not accumulate in reserve funds, but individual departments will only be entitled to their drawing in the future.

Public budgets in 2008

In 2008, we may expect further, albeit only moderate year-on-year improvement in the development of public budget cash flows. However, there is a considerable shift in expectations compared to the original assumptions approved in the budget documentation.

The predicted total **deficit, net of financial operations**, will be roughly CZK 38.6 bn and is expected to be approximately CZK 35.5 bn lower than planned. Compared to the original expectations, its proportion in GDP will decrease by 0.9 percentage points and will be 1.0%. Compared to the budget documentation, public budgets revenues will be higher by CZK 55.9 bn, while expenditures will be lower by CZK 20.4 bn. The **deficit selected for fiscal targeting** should be CZK 54.1 bn lower than planned and should reach CZK 40.7 bn. As a proportion of GDP, it will be 1.4 percentage points lower than the originally determined fiscal target for 2008 (2.5% of GDP) and will reach 1.1% of GDP (for more information see Chapter 3.1).

The **state budget**, in particular, has substantial influence in re-evaluating the cash flow estimate, and its deficit, net of financial operations, will be lower year on year by CZK 20.9 bn. Compared to the originally approved budget, the state budget deficit will be lower by CZK 40.3 bn and is expected to be approximately CZK 25.3 bn. Considerably **higher** (by CZK 56.4 bn) expected **revenues** will be reflected here. In particular, tax collections will develop positively (including social and health insurance contributions) – growing by CZK 25.6 bn. Compared to the original expectation, all tax revenue items will develop positively, with the exception of other taxes and fees and other tax revenues, which comprise only a minor part of tax revenues. The remaining part of the expected increase in state budget revenues will be in higher subsidies received. We may expect higher drawing from EU structural funds as well as greater use of reserve funds allotted to European projects. At the same time, state budget **expenditure savings** of CZK 16.1 bn are expected. The most important component of the savings is expenditures related to interest (savings of CZK 6.3 bn). Other savings will be seen in capital transfers, transfers to non-profit organisations and households, transfers to public budgets at other levels of government, and in other non-investment purchases.

According to the current estimations, other public budget subjects, too, will achieve better results than originally predicted. In particular, the outcomes are expected to be significantly better in the public health insurance sector (by CZK 7.7 bn) and local governments (by CZK 6.9 bn).

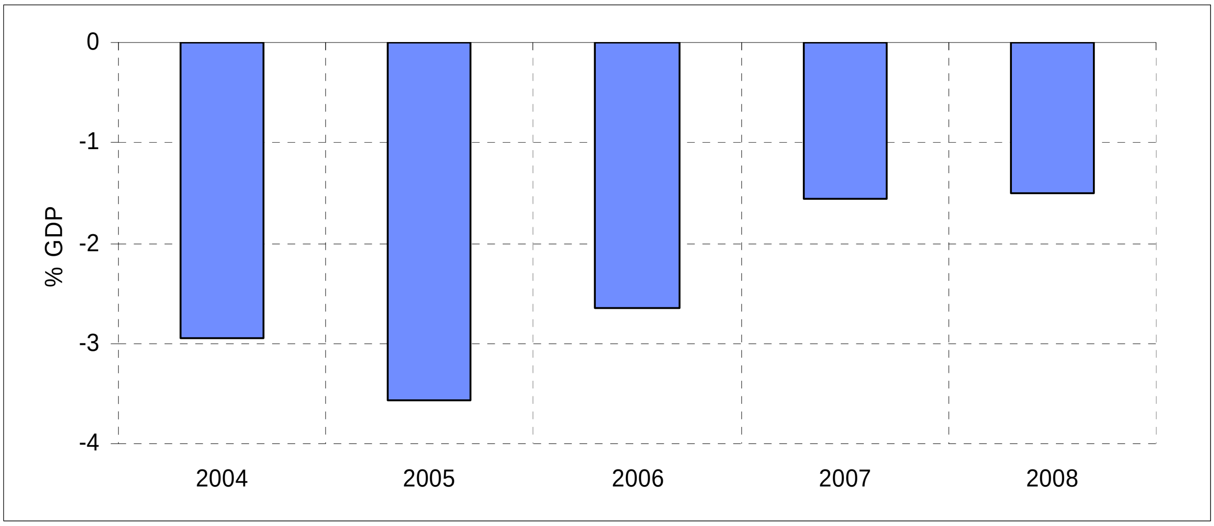
The bulk of the public budget deficit is to be financed by **loans and government bonds**. Their volume will reach CZK 1,051.6 bn, which is 27.7% of GDP. This is CZK 36.8 bn (0.8 percentage points) lower than originally expected. No major changes are anticipated in the proportions of the individual subjects in the public budget debts. The state debt (91.6%) will continue to carry the greatest weight in the debt of public budgets. Following will be the debt of municipal governments and state funds (the State Agricultural Intervention Fund and State Environmental Fund), which already have used up their own financial resources and will therefore finance their negative balances using debt instruments.

2.2 General government – national accounts (ESA 95)

In 2007, the general government balance reached CZK -55.4 bn, which was -1.6% of GDP. Compared to the October estimate, the deficit was lower by CZK 66 bn. All subsectors reached better balances, and the majority of the deficit belonged to the central government.

In 2008, the general government balance is expected to be CZK -57.9 bn, or -1.5% of GDP. The fiscal consolidation trend that has been successfully initiated will continue, as will the reduction of the general government deficit as a proportion of gross domestic product.

Graph 2-2: General government balance



Revenues, expenditures and balance in 2007

General government revenues increased by 9.6% in 2007, and these were CZK 46.4 bn higher in comparison to the October prediction. Tax revenues, in particular, contributed in large measure to this development (mainly corporate income tax and social contributions), as these were higher by CZK 18.0 bn. This development is mainly caused by rapid economic growth that has brought with it growth in tax assessment bases and companies' profits.

Another substantial factor improving the deficit compared to the October estimation is general government market production and payments for other non-market output, which, compared to predictions, were higher by CZK 9.1 bn. In particular, increased sales of so-called "semi-budgetary" organisations (budgetarily linked to another government body) had an influence in this area.

The last important contributor to improving the general government balance is receipts of capital transfers, which were higher by CZK 10.2 bn than originally predicted. This item includes in particular payments of receivables from state guarantees from other sectors of the national economy, as well as funds received from subjects outside the national economy (which are mainly EU sources).

Property income (mainly represented by interest income and dividends) is CZK 9.2 bn higher than originally predicted. A large part of this change, however, consists in a methodological adjustment regarding interest, which was reflected by the same amount in the general government intermediate consumption on the expenditure side and therefore has no influence on the overall deficit.

Compared to 2006, general government revenues growth accelerated by 2.5 percentage points and their level reached CZK 1,451.8 bn. The main driver of this growth was that of tax revenues, where the personal income tax and VAT accelerated again after some previous stagnation. In personal income tax area, there was a phasing down of legislative changes from the 2005–2006 period, and VAT was particularly impacted by the notification that its lower rate would be increased in 2008 and concerns about termination of the exception concerning the construction of apartment buildings and family houses.

Another item growing considerably was that of sales, which increased by 17.6%. This dynamics was driven especially by the introduction of the electronic toll system, which is a part of the general government sales.

General government expenditures grew by 6.7%, and compared to the October 2007 prediction they were lower by CZK 19.6 bn. Subsidies and other current transfers, which were lower by CZK 22.8 bn in comparison to the original predictions, represented the dominant influence on this development. The main reason is the fact that a number of mainly European projects were not carried out, and so the unspent funds were subsequently transferred to reserve funds.

Another important item that resulted in savings compared to the original prediction was gross capital formation, which, compared to the October estimate, was lower by CZK 9.0 bn. The government investments, therefore, were realised at a lower level than had been assumed.

On the contrary, the intermediate consumption item increased by CZK 10.4 bn. As stated above, however, that increase was largely due to a methodology adjustment that occurred also on the revenue side and thus had no influence on the deficit.

Compared to 2006, general government expenditures growth accelerated by 1.9 percentage points to reach the level of spendings CZK 1,507.2 bn. The utterly dominant factor in that growth was social contributions, for which legislative changes adopted in the previous year (new construction of the subsistence minimum, Act on Assistance in Material Need, etc.) were reflected and social benefits grew most rapidly.

Compared to the October prediction, the **general government balance** reached better results in all subsectors. The central government played the dominant role here. Its balance was better by CZK 43.2 bn and reached CZK -83.3 bn.

Rather dramatic growth was seen also in the local government subsector, where the outcome was better by CZK 16.7 bn and a balance of CZK 10.5 bn was reported. After a long period, it thus reached a considerable surplus. This was mainly due to tax revenues that were higher than expected and in which the local budgets partially share. On the expenditure side, meanwhile, there were dramatic savings, which mainly showed up in capital expenditures (for projects that were not executed).

Relative to the assumptions, social security funds increased their surplus by CZK 6.2 bn to CZK 17.4 bn. This may be due in particular to higher collection of insurance contributions in relation to increased assessment bases and also to lower costs for health care.

Box 1: An appraisal of prediction error in the 2007 government balance

If we wish to identify the actual causes of the better than expected general government finances in 2007, it is necessary to further adjust a previous analysis for operations that have the same influences on both the revenue and expenditure sides and thus have no influence on the balance. The basic idea is to net out revenues and expenditures of the potential prediction errors those items entail. We would thereby estimate revenues and expenditures more correctly, but this would have no influence on the estimate of the general government balance. This step will provide us with a better picture of the main sources of errors in predicting balances. As a consequence, we will see that the majority of deviations will switch from the revenues side to the expenditures side.

Adjustments for operations not influencing the balance:

- Revenues and expenditures (specifically, property income and intermediate consumption items) will be reduced by the impact of a change in methodology for recording FISIM in an amount of approximately CZK 7.0 bn.
- Both sides will be reduced by items related to production. The general government production, in particular, is valued by the value of intermediate consumption, compensation of employees, fixed capital consumption and taxes for production less subsidies provided. Considered, too, can be the negative margin, which we ignore in this case due to its negligible amount. However, only a certain part of the total costs falls to production, which also appears in revenues. Therefore, production can be reduced on both sides only by the value of costs for intermediate consumption and compensation to employees (fixed capital consumption is not an expenditure under the ESA 95 methodology) that is allocated to sales, which are also included in the general government revenues. Therefore, if we carry out such netting, the items “intermediate consumption” (hence the deviation of the result from the prediction will nearly disappear in intermediate consumption), “compensation of employees” and “production” will be adjusted. The interpretation, therefore, may be as follows: If the actual production were at the predicted level (i.e. lower), the costs on such production would necessarily have to be lower, too. An error in predicting the production level has only limited influence on the balance estimation, because it is closely linked to the cost items in expenditures.
- Another substantial adjustment results from the fact that use of financing sources from EU funds was underestimated in the prediction. Using these funds is to a large extent reflected as an investment subsidy received on the revenue side and as an investment expenditure on the expenditure side – with no direct influence on the balance. It is very difficult, however, to predict the amount of funds received from the EU. If we again ignored such error in revenues and expenditures, we would come to the conclusion that gross fixed capital formation not related to projects financed from the EU was, compared to predictions, lower by this error, and we would markedly overestimate expenditures on “domestic” fixed investments in the prediction.
- Other items remain unchanged.

Having made the aforementioned changes, we can see that the majority of differences in the deficit can be explained by the spending side. Therefore, the error mainly consists in non-realised expenditures of CZK 41.3 bn (where government investments, other current transfers, and subsidies carry the greatest weight).

On the other hand, on the revenues side, the revenues forecast was exceeded by CZK 24.7 bn. Taxes and social security contributions comprise the main part of the difference on the revenue side and have the dominant influence.

Table 2-1: Explanations for deficit forecast differences in 2007

	Balance - forecast from October 2007	*(bn CZK)*		**-121.4**
Revenue	Taxes	*(bn CZK)*	**24.7**	18.0
	Property income	*(bn CZK)*		2.2
	Production	*(bn CZK)*		1.9
	Capital transfers	*(bn CZK)*		2.7
	Other	*(bn CZK)*		-0.1
Expenditure	Gross fixed capital formation	*(bn CZK)*	**41.3**	15.7
	Compensation of employees	*(bn CZK)*		3.2
	Subsidies	*(bn CZK)*		6.8
	Social benefits	*(bn CZK)*		3.8
	Other current transfers	*(bn CZK)*		16.0
	Other	*(bn CZK)*		-4.2
	Balance - preliminary from April 2008	*(bn CZK)*		**-55.4**

Note: Data state the influence of an error in prediction on the final balance (i.e. positive figures represent underestimation of revenues and overestimation of expenditures in the prediction dated October 2007).

Due to the impossibility of precisely determining all the necessary items for the previous analysis, it was necessary to adopt some simplifying assumptions:

- The proportions of individual costs components for production remain constant.
- The cost structure is identical for all types of general government production.
- All investment subsidies that were not originally predicted went to gross fixed capital formation.

Revenues, expenditures and balance in 2008

In 2008, we expect to see a slowing in growth of **general government revenues** to 6.5%, which therefore will reach CZK 1,546.7 bn. Most interesting is to look at general government tax revenues, which, to a certain extent, copy the government's reform of public finances.

Income taxes (represented here by corporate income tax and personal income tax) will see moderate decline by 0.6% in 2008. The main reasons relate to legislative changes adopted as part of government reform measures in 2007 (e.g. cancellation of tax brackets and introducing a uniform income tax rate for individuals, adjustment of tax allowances, decreasing corporate income tax rate to 21% for 2008).

On the contrary, a considerable increase of 23.6% is expected in VAT, due to the rise of the lower rate from 5% to 9%.

In 2008, development in excise taxes is expected to be influenced by ecological tax reform. An excise tax on energy has been newly introduced. At the same time, the tax on tobacco products has been increased in 2008. The excise tax growth rate is expected, however, to be just 3.6%, particularly due to the possibility for advance stockpiling of cigarette stamp labels. Due to this stockpiling effect, there was a shift of the expected tax collection from 2008 to 2007.

There is a switch, therefore, from direct taxation to indirect taxation – the latter having a linear construction and, therefore, less distorting effects on economic activity. Introducing a uniform income tax rate for individuals also contributes to the tax system's becoming less progressive. Thereby, the fact that the marginal tax rate is non-increasing should stimulate activity among economic entities. Certainly, tax revenues also will be influenced by the economic growth rate that is expected to be gradually slowing.

On the revenues side, growth in the investment subsidies item is expected to set a quick pace – rising by 76% to CZK 22.8 bn. In particular, EU money for extensive infrastructure investments is expected in 2008.

Table 2-2: Structure of general government revenue

		2003	2004	2005	2006	2007	2008
General government revenue	*(in % GDP)*	40.7	42.2	41.4	41.0	40.8	40.2
-tax revenue	*(in % GDP)*	20.7	21.2	20.6	20.0	19.9	19.9
-social contributions	*(in % GDP)*	15.1	16.1	16.1	16.2	16.2	15.8
-sales	*(in % GDP)*	2.9	2.8	2.7	2.5	2.7	2.5
-other revenues	*(in % GDP)*	2.0	2.2	1.9	2.2	2.0	1.9

Table 2-3: Structure of tax revenue and social contributions

		2003	2004	2005	2006	2007	2008
Tax revenue and social contributions	*(in % GDP)*	35.8	37.3	36.8	36.3	36.1	35.7
-individual income tax	*(in % GDP)*	4.9	4.8	4.6	4.2	4.3	3.9
-corporate income tax	*(in % GDP)*	4.6	4.7	4.5	4.8	4.8	4.4
-VAT	*(in % GDP)*	6.4	7.2	7.0	6.5	6.4	7.3
-excise taxes	*(in % GDP)*	3.4	3.5	3.7	3.7	3.6	3.5
-social contributions	*(in % GDP)*	15.1	16.1	16.1	16.2	16.2	15.8
-other taxes and contributions	*(in % GDP)*	1.5	1.0	0.9	0.8	0.8	0.8

General government expenditures will grow by 6.5% in 2008 and reach CZK 1,604.6 bn. Gross fixed capital formation will expand most dynamically, and it will rise by 15.1%. This item includes especially extensive investments in infrastructure financed predominantly from European funds. Investments from EU funds will be financed through investment subsidies received into general government revenues, and thus they will not worsen the deficit. Only the Czech Republic's co-financing of these investments is a negative factor for the balance.

Other significantly growing items are current transfers, subsidies for production, and obviously interest, the latter reflecting both the rising general government debt and increasing interest rates.

In contrast, social benefits have decelerated considerably, and, compared to 2007, they will grow by only 2.6%. Here are reflected especially reform measures in the social area, which were adopted in 2007. Accordingly, in compensation of employees within the general government sector, we expect to see the growth decelerate to 3.5% compared to 2007.

This development shows that spending priorities are to a large extent switching to the government investment side, which thus may create good prerequisites for further economic growth.

Table 2-4: Structure of general government expenditure

		2003	2004	2005	2006	2007	2008
General government expenditure	*(in % GDP)*	47.3	45.1	44.9	43.6	42.4	41.7
-government consumption	*(in % GDP)*	23.4	22.1	22.0	21.2	20.0	19.4
-social benefits other than social transfers	*(in % GDP)*	12.2	12.9	12.6	12.6	12.8	12.3
-gross fixed capital formation	*(in % GDP)*	4.5	4.8	4.9	5.0	4.8	5.1
-other expenditure	*(in % GDP)*	7.1	5.3	5.4	4.8	4.7	4.9

In absolute figures, the **general government deficit** is expected to rise by roughly CZK 2.6 bn, and thereby reach CZK 57.9 bn. Expressed as a ratio to GDP, the deficit will decline modestly in comparison to 2007 to 1.5% of GDP. The central government subsector is expected to achieve significant improvement of CZK 8.6 bn compared to 2007, which will be reflected especially in the state budget.

We expect finances in the local government subsector will worsen by CZK 8.7 bn after the surprisingly good results in 2007, but it still will have a moderate surplus. Particularly reflected here will be a lower expected GDP growth rate compared to that of 2007, and that will result in lower tax collections. Accordingly, we can no longer expect such significant budget savings and non-drawing of capital expenditures in 2008. The social security funds subsector, represented by health insurance companies, will again have very good results in 2008, and a surplus of about CZK 14.9 bn is expected. This moderate worsening will be due, among other reasons, to a negative impact from introducing an upper limit on the assessment base for social and health insurance.

Table 2-5: General government balance

		2003	2004	2005	2006	2007	2008
General government balance	*(in % GDP)*	-6.6	-2.9	-3.6	-2.6	-1.6	-1.5
Central government balance	*(in % GDP)*	-6.0	-2.7	-3.5	-2.6	-2.3	-1.9
Local government balance	*(in % GDP)*	-0.5	-0.2	-0.1	-0.4	0.3	0.0
Social security funds balance	*(in % GDP)*	-0.1	-0.1	0.0	0.4	0.5	0.4
Primary balance [1)]	*(in % GDP)*	-5.5	-1.8	-2.4	-1.5	-0.4	-0.4

[1)] *The primary balance is the general government balance excluding outlays for interest payments.*

General government debt

In 2007, the general government debt reached CZK 1,019.4 bn, which is 28.7% of GDP. Compared to 2006, the absolute debt grew by 7.1% but the debt as a proportion of GDP dropped in 2007 because of the rapid GDP growth.

The 2007 debt reached a value that was CZK 51.8 bn lower than that of the October estimate. To a certain extent, the debt's development was expected to reflect that of the deficit, and therefore the difference may be partly attributed to the general government debt that was lower than expected. Revaluation of state guarantees provided for liabilities in foreign currencies also had an influence on the debt's growth being less than earlier predicted.

In spite of this fact, the general government debt grew in 2007 by more than would have been necessary with respect to expenditure needs, as can be seen in Table 2-7 (net accumulation of financial assets). In particular, funds were deposited into bank accounts that in many cases could have been used to achieve expenditure savings. These unused funds are then inefficiently covered by issuing government bonds or taking on loans.

Table 2-6: Gross consolidated general government debt

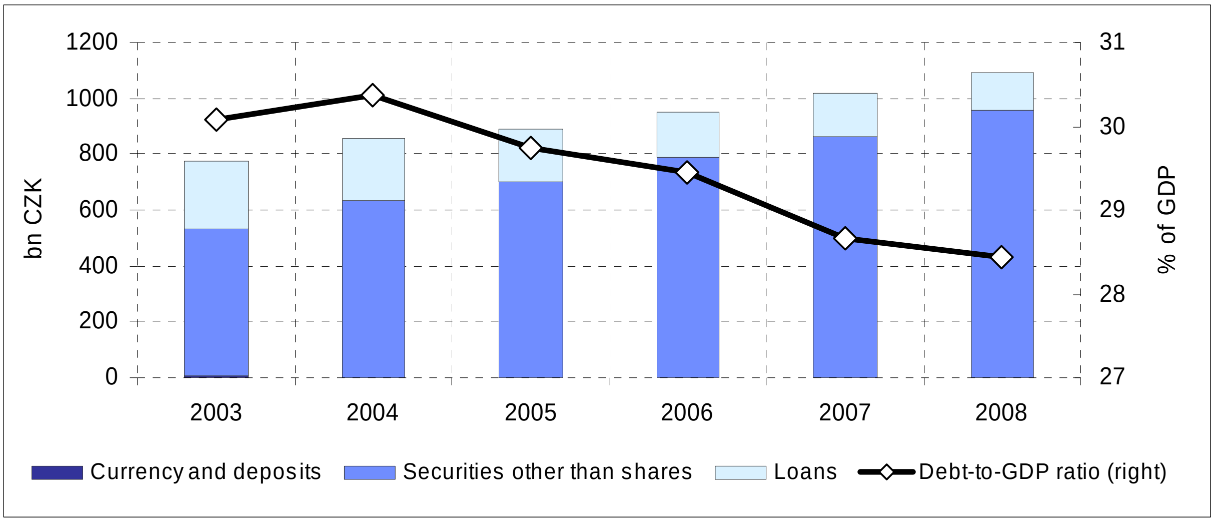
		2003	2004	2005	2006	2007	2008
General government debt	*(in % GDP)*	30.1	30.4	29.7	29.4	28.7	28.4
Central government debt	*(in % GDP)*	28.2	28.1	27.3	26.9	26.3	26.3
Local government debt	*(in % GDP)*	2.3	2.6	2.6	2.7	2.5	2.3
Social security funds debt	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0

Table 2-7: Stock-flow adjustment

		2003	2004	2005	2006	2007
Gross debt	(in % GDP)	30.1	30.4	29.7	29.4	28.7
Change in gross debt	(p.p.)	1.6	0.3	-0.6	-0.3	-0.8
Decomposition of change in gross debt						
Nominal GDP growth	(p.p.)	-1.2	-2.5	-1.8	-2.2	-2.7
General government net lending (+) /net borrowing (-)	(p.p.)	6.6	2.9	3.6	2.6	1.6
Other factors	(p.p.)	-3.8	-0.1	-2.5	-0.7	0.3
- Difference between cash and accrual	(p.p.)	-0.4	-0.7	-0.8	0.3	-1.1
- Net accumulation of financial assets	(p.p.)	-3.6	0.6	-1.2	-0.9	1.6
of which: privatisation proceeds	(p.p.)	1.0	0.6	3.6	0.1	0.4
- Revaluation and other factors	(p.p.)	0.2	0.0	-0.5	-0.2	-0.1

In 2008, a debt is expected at CZK 1,095.2 bn, which is 28.4% of GDP. The trend of decreasing the debt in relation to GDP will continue. The bulk of the debt is formed by issuing bonds, the trend of securitisation of the state debt continues and loan proportion in the bulk falls. The central government subsector formed the overwhelming majority, followed by the local government subsector. Social security funds show a long-term negligible indebtedness rate.

Graph 2-3: Debt by instruments



2.3 International comparison

General government balance

In 2007, the general government balance of the EU27 countries was -0.9% of GDP. Development over the past several years points to a distinctive and systematic reduction in the EU27 deficit. The Czech Republic, with its balance at -1.6% of GDP, is therefore still notably below the EU27 average.

At -5.5% of GDP, Hungary had the poorest general government balance in 2007. Hungary expects the deficit to decrease to 4.0% in 2008, which is its most favourable expected value of the last four years.

Italy, Poland, Romania and Slovakia expect deficits larger than 2% in 2008. With the exception of Romania, these all are worse in comparison to the previous year.

Among the new member states, the Baltic states have been very successful in the fiscal area in the past years, although Estonia, after several years' time, expects a deficit, as does Cyprus. The Scandinavian countries have achieved the highest surpluses, and, perhaps surprisingly, Bulgaria has as well. Significant consolidation of public budgets is seen in Greece, where the deficit has been cut quite successfully. While in 2004 Greece had a deficit of 7.4% of GDP, this year it is expected to be just 1.6%. That is approximately on the level of the Czech Republic.

General government debt

General government debt should approximately reflect the development of budget deficits in the concerned countries over the long term. In the EU27 countries, the general government debt reached 58.7% of GDP in 2007. In the context of the past several years, this is a very modest decline.

In the Czech Republic, there is a relatively good situation with respect of the general government debt. Over the long term, the debt has hovered around 30% of GDP. In the past few years it has been even below the 30% mark, and the Czech Republic still could easily meet the Maastricht debt convergence criterion.

Three countries – Italy, Belgium and Greece – still rank among the EU27 countries with the highest indebtedness. Unlike Italy, however, Greece and Belgium have begun to consolidate their public finances and to significantly decrease their debts as a proportion of GDP. Italy is also the only EU27 country whose debts even exceed its overall yearly output. The debt development in Bulgaria and Romania is clearly worthy of note, and we can observe a very significant decline in their indebtedness (see Table 5-19).

Table 2-8: General government balance and debt in selected EU countries

		Balance					Debt				
		2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
EU27	(in % GDP)	-2.8	-2.5	-1.4	-0.9	.	62.1	62.6	61.3	58.7	.
Czech Republic	(in % GDP)	-3.0	-3.6	-2.7	-1.6	-1.5	30.4	29.7	29.4	28.7	28.4
Slovakia	(in % GDP)	-2.4	-2.8	-3.6	-2.2	-2.3	41.4	34.2	30.4	29.4	30.1
Poland	(in % GDP)	-5.7	-4.3	-3.8	-2.0	-2.5	45.7	47.1	47.6	45.2	44.4
Hungary	(in % GDP)	-6.5	-7.8	-9.2	-5.5	-4.0	59.4	61.6	65.6	66.0	66.6
Germany	(in % GDP)	-3.8	-3.4	-1.6	0.0	-0.5	65.6	67.8	67.6	65.0	63.1
France	(in % GDP)	-3.6	-2.9	-2.4	-2.7	.	64.9	66.4	63.6	64.2	.
United Kingdom	(in % GDP)	-3.4	-3.4	-2.6	-2.9	.	40.4	42.1	43.1	43.8	.
Italy	(in % GDP)	-3.5	-4.2	-3.4	-1.9	-2.4	103.8	105.8	106.5	104.0	103.0

3 Medium-term fiscal outlook

3.1 Medium-term outlook of the state budget and expenditure frameworks

The surprisingly good result for the public budget balances in 2007 indicates that in the coming years public finances could achieve significantly lower deficits than the fiscal targets set last year. The targets counted on achieving balances of -3.0% of GDP in 2008, -2.6% in 2009 and -2.3% of GDP in 2010. In 2007, however, the balance of public budgets as a proportion of GDP (under the fiscal targeting methodology) was as much as 2.9 percentage points better than originally planned. This huge improvement was achieved in part because tax revenues were higher than expected and in part through transferring another enormous volume of unspent budgeted funds to reserve funds.

The results achieved in 2007 were better than expected and will also be reflected to a certain extent in balances for the coming years. It cannot be expected, however, that the result will again be better than the approved budget to the same extent. We presume that the improvement on the revenues side is largely of a permanent nature. The level of expected revenues has been adjusted upwards several times in recent years, partly due to the conservative predictions of the Ministry of Finance in the conditions of continuously changing tax legislation, partially to reflect the cyclical expansion in the economy, but especially thanks to the structural increase (expressing that part of the increase in revenues that can be regarded as permanent), the intensity of which is difficult to anticipate.

On the expenditure side, however, only a relatively small part of last year's improvement can be regarded as permanent savings. The majority of the unspent funds has the nature of deferred consumption and, to the contrary, can burden the public finance balances in the coming years. As at the end of 2007, the reserve funds totalled CZK 96.6 bn (2.7% of GDP). Of these, roughly two thirds comprise funds for programmes co-financed by the EU (i.e. they are covered by revenues from the EU) and do not affect the deficit. One third of the reserve funds (equal to 0.9% of GDP) is comprised of funds which, if included into expenditures, will deepen the deficit in the coming period.

To estimate the balance of public budgets in 2008, the following factors are of major importance: (i) tax revenues higher than originally expected, (ii) expenditure savings achieved by implementing the aggregate of the government's stabilisation measures (reducing the volume of budgeted outlays), (iii) to a small repetition of expenditure savings from 2007 (realisation of expenditures lower than budgeted), and (iv) mobilising part of the financial resources in the reserve funds to meet expenditures (for expenditures in addition to those budgeted). In contrast to the expectations in the previous outlook, these influences taken as a whole should lead to a lower deficit. The balance should remain at about the same level as in 2007.

The fiscal outlook for 2009 and 2010 is consistently based on the presumption of fulfilling the approved expenditure frameworks. Therefore, the expected lower deficit level in these years is caused almost exclusively by higher expected revenues. The additional revenues of the state budget (SB) and state funds (SF) to which the expenditure frameworks apply will be fully used to reduce the deficit, in accordance with the principles of fiscal targeting.

We presume that the additional revenues flowing to the municipal and regional governments and health insurance companies will be used only partially to improve the balance of the public budgets. These components of the public finances enjoy spending autonomy, currently operate with surpluses, and will apparently use a part of the additional revenues to increase expenditures. In 2007, the public budget institutions other than SB and SF recorded a relatively considerable surplus. In 2008, we expect a moderate surplus for these components again, but they should subsequently have small deficits. For local budgets and health insurance companies, we accept an assumption of approximately balanced finances. A deficit in the approximate amount of 0.3% of GDP will be caused especially by the necessity to settle obligations connected with clean-up of old environmental damages. Nevertheless, the specific impact of these payments will depend on the manner selected for settling these obligations. In view of recent developments, the assumptions regarding public budget operations other than SB and SF can be regarded as quite conservative. As compared to the previous outlook, however, it can be seen as more optimistic.

Table 3-1: Calculation of expenditure frameworks from fiscal targets

			2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
Target for government sector [1] **(ESA 95)**	*(bn CZK)*	*[1]*	**-56.1**	**-58.3**	**-64.5**	**-67.9**	**-57.6**
	(% of GDP)	*[2]*	-1.6	-1.5	-1.6	-1.5	-1.2
Difference ESA 95 - Fiscal targeting	*(bn CZK)*	*[3]*	-20.5	-17.6	-12.4	-18.2	-11.5
Target for public budgets (national fiscal targeting)	*(bn CZK)*	*[4=1-3]*	**-35.5**	**-40.7**	**-52.1**	**-49.7**	**-46.1**
	(% of GDP)	*[5]*	**-1.0**	**-1.1**	**-1.3**	**-1.1**	**-1.0**
Public budgets other than SB and SF	*(% of GDP)*	*[6]*	0.8	0.1	-0.3	-0.3	-0.3
Target for state budget and state funds	*(% of GDP)*	*[7=5-6]*	-1.8	-1.1	-1.0	-0.8	-0.7
	(bn CZK)	*[8]*	-63.5	-44.0	-40.8	-35.9	-33.4
State budget	*(bn CZK)*	*[8a]*	-32.0	-26.8	-35.1	-34.6	-33.7
State funds	*(bn CZK)*	*[8b]*	-31.5	-17.3	-5.7	-1.4	0.3
Revenue forecast of SB and SF	*(bn CZK)*	*[9]*	1028.8	1215.7	1051.1	1092.4	1140.4
State budget	*(bn CZK)*	*[9a]*	961.7	1087.7	1014.4	1051.3	1098.5
State funds	*(bn CZK)*	*[9b]*	67.2	128.1	36.8	41.1	41.9
New expenditure frameworks	*(bn CZK)*	*[10=9-8]*	1092.3	1259.8	**1091.9**	**1128.4**	**1173.7**
State budget	*(bn CZK)*	*[10a]*	993.6	1114.5	1049.5	1085.9	1132.2
State funds	*(bn CZK)*	*[10b]*	98.7	145.3	42.4	42.5	41.5

[1] *The general government balance for the purposes of the Maastricht criterion and excessive deficit procedure (EDP B.9). This concerns the general government balance (B.9), adjusted for interest from swap operations, and hence there is a slight difference from the balance presented in Chapter 2.2.*

Note: Lower level of revenues and expenditures from 2009 (without the influence on the balance) stems from the fact that in the outlook there are not included expected revenues from the EU funds and expenditures financed by them.

The current estimates show that the general government deficit under the ESA 95 methodology will reach slightly higher values in the coming years than will the public budgets deficit based on the national fiscal targeting methodology (for more detailes see Chapter 3.2).

While taking the aforementioned factors and assumptions into account, we expect that the general government balance will hover roughly around the level of -1.5% of GDP under the ESA 95 international methodology during 2008–2010. A drop in the deficit to this lower level led to the government's approving a more ambitious fiscal target for the general government balance in 2011 at the level of -1.2% of GDP. This target should allow for achieving the medium-term budgetary objective that is set for the Czech Republic within the EU fiscal rules. Medium-term objective is set for the structural balance and amounts to -1.0% of GDP. The Czech Republic is obliged to achieve it as soon as possible, at latest by 2012, which is only one year beyond the current outlook's horizon.

The expenditure frameworks for 2009 and 2010 are held at the level approved last year due to the absence of permitted adjustments (see Table 3-2). Expenditure frameworks have been decreased by the amount of the decline in a state budget subsidy to state funds, so that consolidated expenditures of SB and SF remained at the same level. In the autumn update of the state budget's outlook, expenditure framework for 2009 will be increased at least by an expected amount of expenditures financed from the EU funds. The expenditure framework for 2011, which will ensure achieving the established fiscal target in the amount of -1.2% of GDP, should be set at the level of CZK 1,173.7 bn.

Table 3-2: Adjustments of approved expenditure frameworks according to the budgetary rules (fiscal targeting methodology, bn CZK)

		2009	2010
Frameworks approved in 2007 - unconsolidated	[1]	**1100.9**	**1137.5**
Consolidation (planned in 2007)	[2]	23.2	23.7
Frameworks approved in 2007 - consolidated	[3=1-2]	1077.7	1113.8
Adjustments according to the budgetary rules	[4=5+6+7]	-	-
- change in tax assignment	[5]	-	-
- change in expenditure financed from EU funds	[6]	-	-
- unforeseen major influences	[7]	-	-
Frameworks approved in 2007 adjusted - consolidated	[8=3+4]	1077.7	1113.8
Consolidation (planned in May 2008)	[9]	14.2	14.6
Frameworks approved in 2007 adjusted - unconsolidated	[10=8+9]	**1091.9**	**1128.4**

It should be pointed out that observance of the spending limits in 2009 and 2010 cannot be achieved autonomously and is conditioned upon implementing additional budgetary cuts in non-entitlement expenditures in the approximate amount of 0.4% of GDP in 2009 and 0.6% of GDP in 2010. The main reason for this is higher expected growth in mandatory social expenditures, particularly due to less favourable development of the relevant macroeconomic variables. The higher indexation of pensions due to higher inflation in 2008 will have the most significant negative impact on the budget. In some cases, the positive impacts of stabilisation measures in the social area will likely be moderately lower than originally expected.

The measures adopted to date are not yet likely to lead to a halt in the increasing proportion of mandatory expenses relative to total state budget expenditures. According to the current budgetary outlook, the proportion of mandatory expenditures should show only a one-time decrease by roughly 2.2 percentage points in 2008, and it should increase again by as much as 4.0 percentage points, up to 56.5%, by 2010. This proportion should decrease moderately again as late as in 2011. Therefore, the planned restructuring of the expenditures side remains conditioned by the adoption of additional measures.

Table 3-3: Assessment of the fulfilment of expenditure frameworks (fiscal targeting methodology, bn CZK)

		2009	2010
Frameworks approved in 2007 adjusted	[1]	1091.9	1128.4
New expenditure frameworks	[2]	1091.9	1128.4
Tightening (-) / breach (+) of expenditure frameworks	[3=2-1]	**0.0**	**0.0**

3.2 General government medium-term outlook

General government balance

The expected general government outcomes are determined to a large extent by the aforementioned state budget's medium-term outlook and the expenditure frameworks for the state budget and state funds, which represent approximately two thirds of the total general government expenditures. Other units included in the general government sector, and especially municipal and regional governments and health insurance companies, are not under direct control of the government. Their balances, along with the accuracy of the tax revenue predictions, are the main uncertainties as to whether or not the government will manage to achieve the planned fiscal targets and whether the public finances will have the intended impact on the economy. Another element that increased the uncertainty of the government outcomes is the possibility to transfer an unlimited amount of unspent budget funds to the following years. In recent years, therefore, government expenditures have repeatedly reached a lower level than planned, which indicates systematic overestimation of budget expenditures.

Table 3-4 contains planned public finance results under the national cash fiscal targeting methodology that are taken from the general government medium-term outlook presented in the previous section and the corresponding expected balances under the international accrual ESA 95 methodology. The main factor that will influence the differences between the balances under both methodologies in the fiscal outlook's horizon is the different cash and accrual impacts of the tax reform on tax revenues. While the accrual revenues (tax liability) will decrease immediately in the case of a tax rate reduction, the cash impact is delayed due to the method of advance payment. In a period of decreasing taxes, the accrual revenues usually come to a smaller amount than do the cash collections, and we can expect that this factor will moderately deepen the deficit under ESA 95 relative to the fiscal targeting.

In the year 2011 the level of balance according to both methodologies should come closer. It should be stressed that estimates of differences between the two methodologies are quite uncertain. The methodologies differ in many aspects and the differences may come to large amounts.

Table 3-4: Balance according to national fiscal targeting methodology and national accounts

		2007	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
Balance of public budgets (fiscal targeting)	*(bn CZK)*	-35.5	-40.7	-52.1	-49.7	-46.1
	(% of GDP)	**-1.0**	**-1.1**	**-1.3**	**-1.1**	**-1.0**
Differences between ESA 95 and fiscal targeting [1]	*(bn CZK)*	-20.5	-17.6	-12.4	-18.2	-11.5
General government balance [2] (ESA 95)	*(bn CZK)*	-56.1	-58.3	-64.5	-67.9	-57.6
	(% of GDP)	**-1.6**	**-1.5**	**-1.6**	**-1.5**	**-1.2**

[1] *The differences between the methodologies stem from differences between cash and accruals, coverage of the government sector and other methodological differences.*

[2] *The general government balance for the purpose of the Maastricht convergence criterion and excessive deficit procedure (EDP B.9). This concerns the general government balance (B.9) as adjusted for interest from swap operations, and hence there is a slight difference from the balance presented in Chapter 2.2 and in the Annex of Tables.*

Compared to the previous fiscal outlook of October 2007, the expected general government balances are now at substantially lower levels. This is especially due to the surprisingly good result for 2007 (when the government balance was -1.6% of GDP compared to the predicted -3.4% of GDP). The main cause of the improved government balance is the increased estimated revenues from taxes and social contributions that we regard, for the most part, as permanent. By contrast, savings on the expenditure side, which were the dominant factor leading to the better results in 2007, are for the most part regarded as temporary. Considering the presumption of meeting and drawing up the expenditure frameworks, we do not expect expenditure savings, compared to the previous outlook, with a positive impact on the balance.

The general government balance as a proportion of GDP in 2008 should reach -1.5%, and thus decline only moderately year on year (in the previous outlook the deficit was planned to decrease by 0.5 percentage points). The estimated savings in the social area in 2008 will be lower, especially due to the extraordinary valorisation of pensions, with an impact equalling -0.2% of GDP. Another material factor that will inhibit deficit reduction is the postponement of expenditures from 2007 in the form of transfers to reserve funds and their utilisation in 2008 and the following years.

Provided that the expenditure frameworks are observed, the government balance in 2009 and 2010 will approximately stagnate. At the same time, the development in this period is encumbered with the risk that the deficit will reach higher levels. An increase in inflation in 2008, which implies higher indexation of certain social benefits and moderate slowing of economic growth creates additional pressure that the public finances will need to face up to in this period. Furthermore, the Sickness Insurance Act will come into effect and will have a negative affect on the budget. For 2010 there remains unsolved the payment of health insurance for state insurees for which the state budget outlook counts on further savings from 2008 and 2009 in the extent of ca 0.2% of GDP. That is not, however, supported by legislation. There is also a certain risk involved in the intention to maintain very low growth in the volume of wages and salaries within the public administration and to achieve an adequate increase in the average salary by reducing the number of employees.

For the time being, the outlook does not take into account the fiscal impact of the act on remedying certain property-related injustices suffered by churches. Passage of this law would mean a one-time increase in the general government deficit by the entire principal amount of the financial compensation in the given year (ca 2.2% of GDP), followed by an increase only by the interest on the principal amount for each following year. The budget burden in financial terms is around 0.1% of the 2008 GDP and is fixed for the entire period of payments (60 years). Hence, its relative significance will gradually decline over time.

A positive feature in the outlook remains the fact that the additional revenues of the state budget and state funds are fully used to reduce the deficit. Nevertheless, the current estimates show that the measures so far adopted are not yet sufficient to reverse the increase in share of social expenditures. In 2009 and 2010, we expect a more rapid increase in social transfers relative to the rise in total government expenditures (see Table 3-7).

Table 3-5: General government developments (ESA 95)

		2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
General government balance	*(% of GDP)*	**-1.6**	**-1.5**	**-1.6**	**-1.5**	**-1.2**
Total revenue	*(% of GDP)*	**40.8**	**40.2**	**39.3**	**38.3**	**38.0**
	(growth in %)	9.6	6.5	5.2	4.8	6.8
Total expenditure	*(% of GDP)*	**42.4**	**41.7**	**40.9**	**39.8**	**39.1**
	(growth in %)	6.9	6.5	5.4	4.8	5.9

The development until 2011 will be characterised by a continuing decrease in the proportion of revenues and expenditures relative to GDP due to the autonomous decline in the tax quota, active reduction of the tax burden, and active expenditure measures. The general government balance should hover safely above the level of -3% of GDP and should head towards the medium-term budgetary objective of -1.0% of GDP in 2012. Under unchanged economic policies, however, it would not be possible to achieve this trajectory and to shift closer to a budgetary balance. Such aims are conditioned upon the realisation of budget cuts and acceptance of further systematic savings measures.

General government revenues

The general government revenues will record a slowdown of dynamics resulting from a slight cooling of economic growth and, to a larger extent, from active steps to reduce the tax burden.

In 2008, the reduction in direct tax rates is compensated by the increase in the reduced VAT rate and in excise taxes. In 2009 and 2010, the growth rate of tax revenues will be slowed by further decline in income tax rates. In the tax revenues structure, there is an obvious shift from direct taxes on income and wealth to indirect taxes on production and import. The main change compared to the previous outlook is a considerable increase in the prediction for the corporate income tax.

Table 3-6: General government revenue

		2007	2008	2009	2010	2011
			Forecast	*Outlook*	*Outlook*	*Outlook*
Total revenue	*(bn CZK)*	**1451.8**	**1546.7**	**1627.7**	**1705.5**	**1821.0**
	(growth in %)	9.6	6.5	5.2	4.8	6.8
Tax revenue	*(bn CZK)*	**709.0**	**765.8**	**803.9**	**834.8**	**892.1**
	(growth in %)	9.5	8.0	5.0	3.9	6.9
Taxes on production and imports	*(bn CZK)*	**381.2**	**441.0**	**470.8**	**490.2**	**516.9**
	(growth in %)	8.5	15.7	6.7	4.1	5.4
of which: Value added tax	*(bn CZK)*	***226.8***	***280.2***	***295.8***	***312.4***	***336.1***
	(growth in %)	*8.6*	*23.6*	*5.6*	*5.6*	*7.6*
Excise taxes	*(bn CZK)*	***129.3***	***134.0***	***148.2***	***150.1***	***152.1***
	(growth in %)	*7.9*	*3.6*	*10.6*	*1.3*	*1.3*
Current taxes on income, wealth, etc.	*(bn CZK)*	**327.0**	**324.3**	**332.7**	**344.3**	**374.9**
	(growth in %)	10.8	-0.8	2.6	3.5	8.9
of which: Personal income tax	*(bn CZK)*	***151.8***	***150.9***	***148.3***	***154.9***	***165.1***
	(growth in %)	*11.1*	*-0.6*	*-1.8*	*4.5*	*6.6*
Corporate income tax	*(bn CZK)*	***171.2***	***170.3***	***180.1***	***184.9***	***205.1***
	(growth in %)	*10.6*	*-0.6*	*5.8*	*2.7*	*10.9*
Capital taxes	*(bn CZK)*	**0.8**	**0.4**	**0.4**	**0.4**	**0.4**
	(growth in %)	2.0	-49.7	-2.4	0.0	0.0
Social contributions	*(bn CZK)*	**576.8**	**609.6**	**640.1**	**665.7**	**709.6**
	(growth in %)	9.9	5.7	5.0	4.0	6.6
Property income	*(bn CZK)*	**29.2**	**28.0**	**23.8**	**23.0**	**21.3**
	(growth in %)	14.4	-4.4	-15.0	-3.3	-7.4
Other	*(bn CZK)*	**136.7**	**143.3**	**159.9**	**182.0**	**198.0**
	(growth in %)	8.1	4.8	11.6	13.8	8.8
Tax burden	*(% of GDP)*	**36.1**	**35.7**	**34.9**	**33.7**	**33.4**

Social and health insurance contributions will develop more slowly than the volume of wages and salaries, due to the introduction of a maximum assessment base for insurance in 2008 and modifications to sickness insurance that should come into force in 2009 and further increase its impact in 2010.

As a result, the aforementioned measures will bring a decline in the compound tax quota between the years 2007 and 2011 of about 2.7 percentage points of GDP. In comparison with the previous outlook, however, the decline of the tax quota is expected to be slightly slower.

The presumption is also conservative for property income (i.e. interest received and dividend income from state-owned companies). Conversely, increased drawing from EU funds (included in the item "Other") will contribute to growth in revenues. These revenues only finance the expenditures on the respective projects, however, and from the purely statistical point of view they have no direct positive impact on the balance.

General government expenditures

Provided that the approved expenditure frameworks are observed, government expenditures will grow until 2011 at a significantly lower rate than that of nominal GDP growth.

With the dynamic increase in investment expenditures supported by co-financing from the EU, the restriction of social benefits permitted by the adoption of a stabilisation measure in 2007 and reduction in collective government consumption, in particular, will contribute to the slowdown. It is clear that in order to observe the expenditure frameworks and achieve the stated deficits, general government will have to considerably rein in its consumption behaviour. Real government consumption should slightly decrease in the outlook's horizon, and its growth will hover around 3% in nominal terms. In line with current intentions, this should also be helped by a very modest increase in the volume of salaries and wages in the government sector.

Table 3-7: General government expenditure

		2007	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
Total expenditure	*(bn CZK)*	**1507.2**	**1604.6**	**1691.8**	**1773.1**	**1878.3**
	(growth in %)	6.9	6.5	5.4	4.8	5.9
Final consumption expenditure	*(bn CZK)*	**713.1**	**747.0**	**770.7**	**792.3**	**820.0**
	(growth in %)	4.1	4.8	3.2	2.8	3.5
Collective consumption	*(bn CZK)*	**356.4**	**378.9**	**373.5**	**383.7**	**394.9**
	(growth in %)	4.1	6.3	-1.4	2.7	2.9
Individual consumption	*(bn CZK)*	**356.7**	**368.1**	**397.2**	**408.6**	**425.1**
	(growth in %)	4.1	3.2	7.9	2.9	4.0
Social benefits in kind	*(bn CZK)*	**185.8**	**198.1**	**214.7**	**223.8**	**238.3**
	(growth in %)	8.5	6.6	8.4	4.2	6.5
Transfers of individual non-market goods and services	*(bn CZK)*	**170.9**	**170.0**	**182.4**	**184.9**	**186.8**
	(growth in %)	-0.2	-0.6	7.3	1.3	1.1
Social transfers other than in kind	*(bn CZK)*	**453.9**	**472.2**	**495.7**	**522.1**	**545.8**
	(growth in %)	11.4	4.0	5.0	5.3	4.5
Interest	*(bn CZK)*	**40.3**	**44.4**	**46.6**	**48.1**	**52.9**
	(growth in %)	13.5	10.3	4.8	3.4	10.0
Subsidies	*(bn CZK)*	**62.6**	**68.9**	**75.7**	**75.7**	**79.5**
	(growth in %)	2.0	10.0	10.0	0.0	5.0
Gross fixed capital formation	*(bn CZK)*	**171.2**	**197.0**	**226.9**	**256.6**	**290.5**
	(growth in %)	6.0	15.1	15.2	13.1	13.2
Other	*(bn CZK)*	**66.1**	**75.1**	**76.1**	**78.2**	**89.6**
	(growth in %)	11.7	13.7	1.4	2.7	14.5
Compensation of employees	*(bn CZK)*	**268.3**	**277.6**	**287.5**	**300.5**	**314.0**
	(growth in %)	6.3	3.5	3.6	4.5	4.5
Total social transfers	*(bn CZK)*	**639.7**	**670.3**	**710.5**	**745.8**	**784.1**
	(growth in %)	10.6	4.8	6.0	5.0	5.1

The only expenditures that will record dynamic growth should be investments into fixed capital, which already have been strengthened in the budget for 2008, and greater inflow of money from EU funds can be expected in the years to come. Based upon the preliminary results for 2007, assumptions on the rate of drawing structural funds have been increased slightly and should lead to growth in nominal government investments of around 15% by 2009, with moderate slowing thereafter.

The outlook for the other expenditure items is highly volatile and depends upon the intentions approved in the medium-term state budget outlook.

General government debt

Government debt as a proportion of GDP was lower in 2007 and will decrease more rapidly in the following years than had been expected in the previous outlook. The main reason is the lower expected deficits across the outlook's entire horizon.

A breakdown into individual factors affecting the debt as a proportion of GDP shows that the government deficit fell below the level that stabilises debt as a proportion of GDP. The negative contribution of GDP growth in current prices is greater than the positive contribution of the government deficit. With the expected dynamics of nominal GDP, the deficit should remain below this level in the coming years. The debt as a proportion of GDP could thus decline by approximately 2.4 percentage points by 2011.

There is interesting information also in other factors affecting the level of debt (the so-called stock-flow adjustment) which express the difference between the balance (flow variable) and the change in debt (stock variable). The main factor influencing the level of government debt is usually the government balance – in the case of deficits, the debt usually accumulates, and in the case of surpluses, the debt decreases. Nevertheless, there are three fundamental groups of reasons as to why the debt can develop differently than would correspond to the simple cumulation of deficit or surplus balances: (i) the debt is in principle a cash concept and an immediate cause of growing indebtedness is insufficient cash funds, while under the ESA 95 methodology, the balance is reported on the accrual principle; (ii) the government balance is a balancing item of changes in all financial assets and liabilities, while the debt is defined as a summary of only certain liabilities (specifically, currency and deposits, bonds, and loans received), and therefore a change in assets and non-debt liabilities affects the balance without influencing the debt; (iii) the debt is valued at nominal value, while the balance is based on valuations at market prices, the level of the foreign debt may be influenced also by exchange rate differences.

The result from 2007 shows that the financial assets, and specifically cash, accumulated quite significantly. That put the brakes on the decline in the proportion of the debt. This fact can also be interpreted as meaning that the increased holding of cash is financed by bond issues. A similar development – albeit to a lesser extent – is expected also in 2008. Therefore, if cash is managed more effectively, it is clearly possible that the increase in the absolute level of debt in 2008 could be less than planned.

Table 3-8: Gross consolidated government debt

		2006	2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
General government	*(bn CZK)*	**951.5**	**1019.4**	**1095.2**	**1142.0**	**1203.0**	**1260.0**
Central government	*(bn CZK)*	870.2	935.2	1013.6	1061.5	1122.0	1179.6
Local government	*(bn CZK)*	86.6	87.9	87.4	86.4	86.7	84.8
Social security funds	*(bn CZK)*	0.2	0.1	0.0	0.0	0.3	1.6
Government debt to GDP ratio	*(% of GDP)*	**29.4**	**28.7**	**28.4**	**27.6**	**27.0**	**26.3**
Contribution to change in debt							
Change in debt	*(p.p.)*	**-0.3**	**-0.8**	**-0.2**	**-0.8**	**-0.6**	**-0.8**
Primary balance	*(p.p.)*	**1.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.1**
Interest	*(p.p.)*	**1.1**	**1.1**	**1.2**	**1.1**	**1.1**	**1.1**
Nominal GDP growth	*(p.p.)*	**-2.2**	**-2.7**	**-2.2**	**-2.0**	**-1.9**	**-2.0**
Stock-flow adjustment	*(p.p.)*	**-0.7**	**0.3**	**0.5**	**-0.4**	**-0.2**	**0.0**
Difference between cash and accruals	*(p.p.)*	0.3	-1.1	-0.5	-0.2	-0.1	0.0
Net acquisition of financial assets	*(p.p.)*	-0.9	1.6	0.9	-0.2	0.0	0.0
of which: privatisation proceeds	*(p.p.)*	*0.1*	*0.4*	*0.6*	*0.0*	*0.0*	*0.0*
Revaluation effects and other	*(p.p.)*	-0.2	-0.1	0.0	0.0	0.0	0.0

The item "Net acquisition of financial assets" captures the aggregate change in financial assets and non-debt liabilities. The privatisation revenues express accumulated cash due to the sale of ownership interests. Hence, the privatisation itself has no influence on the change in financial assets; it relates to one financial asset's being replaced by another. However, the privatisation revenues express the extent to which the accumulated cash may be used in a given year or in following years to finance expenditures, thereby reducing the need for debt financing.

From as early as 2009, we expect that the other factors will work to a smaller extent towards a more rapid decline in debt. As mentioned above, the cash flow balance that is crucial for debt financing needs would achieve rather more favourable results in this period than would the accrual balance (see the item Difference between cash and accruals).

This outlook does not count upon any additional privatisation events not yet approved. Considering the fact that these are nevertheless rather likely to occur, there is a risk that the debt projection will be overstated.

Cyclical development

According to the current estimates of GDP potential and the macroeconomic prediction, the Czech economy reached the peak of its economic cycle in 2007. Within the outlook's horizon, the positive output gap should be gradually closing due to a slowing of the real GDP growth rate to below its potential level. This will be manifest by a lowering of the positive cyclical balance component of general government, which will impede efforts to reduce the nominal deficit.

Fiscal effort (fiscal stance), defined as the year-on-year change in the structural balance, was unexpectedly strong in 2007. In contrast to the expected worsening of the structural balance by 0.8 percentage points of GDP, it eventually improved by 0.9 percentage points. The fiscal effort in 2008 through 2010 will be only very moderate in light of the nominal deficit's expected stability.

A more rapid decline in the structural deficit can be expected as late as in 2011, by which time the negative fiscal impacts of reducing the tax rates will fade away.

Table 3-9: Structural government balance (% GDP)

		2007	2008	2009	2010	2011
			Forecast	*Outlook*	*Outlook*	*Outlook*
Real GDP growth	*(in %)*	6.5	4.9	5.1	5.3	5.3
Potential GDP growth	*(in %)*	5.4	5.5	5.5	5.6	5.5
Output gap		1.3	0.8	0.4	0.1	-0.1
General government balance		**-1.6**	**-1.5**	**-1.6**	**-1.5**	**-1.2**
Cyclical budgetary component		0.4	0.2	0.1	0.0	0.0
Cyclically adjusted balance		**-2.0**	**-1.7**	**-1.7**	**-1.6**	**-1.2**
One-off and other temporary measures		-0.3	-0.1	0.0	0.0	0.0
Structural balance		**-1.7**	**-1.6**	**-1.6**	**-1.5**	**-1.1**
Interest		1.1	1.2	1.1	1.1	1.1
Structural primary balance		**-0.5**	**-0.5**	**-0.5**	**-0.4**	**0.0**
Fiscal effort		**0.9**	**0.1**	**0.0**	**0.1**	**0.4**

By our estimates, the structural balance should be around -1.6% of GDP. That is also the level of the so-called minimum benchmark[4] which should ensure that, in case of recession, the Czech Republic would not drop back to below the reference level of -3% of GDP.

Within the outlook's horizon, we currently do not count upon any one-time transactions that could significantly impact upon the government balance. Nevertheless, falling into this category would be any financial compensation to remedy certain property-related injustices suffered by the churches in the past.

3.3 Long-term sustainability of public finances

Although the Czech Republic ranks among the countries with the lowest levels of government debt, the relatively high expected public budgets deficits in long-term projections (until 2050) lead to expectations for increasing debt and endanger the sustainability of public finances. In recent years, the public finance deficit has declined below the level that allows for stabilising the debt as a proportion of GDP, but there remains the problem of its sustainability over a longer time horizon. Thus, the long-term outlook for public finances represents the main risk to the economic pillar that is long-term sustainable development.

The expected growth in outlays – especially for the pension system – represents a considerable burden upon the public finances. To achieve their long-term sustainability, it is essential in the medium-term horizon that planned consolidation of the public finances be completed, which should strengthen the budget position, and that additional structural reforms of the health care system and especially of the pension system be carried out, in order to limit the growth in outlays associated with ageing of the

[4] For more information see Fiscal Outlook from April 2007 or the permanent Methodological Annex to the Fiscal Outlook that is available on the website of the Ministry of Finance (www.mfcr.cz).

population. In connection to this, in mid-2006 the government began preparing reforms for the pension and health care systems, aiming to strengthen their long-term sustainability.

Regarding the pension system, the first phase is to implement parametric adjustments (especially increasing the retirement age to 65 years, extending the minimum length of insurance period, limiting non-contributory periods and creating a reserve account for Parliament. Furthermore, legislative regulations are being prepared in relation to private pension funds (separating the assets of shareholders and clients, further support to employers' participation in the contributory retirement insurance, etc.). These changes may also facilitate future introduction of a possible pension system pillar (so-called opt-out system) that will be based upon the possibility of an opt-out from the pay-as-you-go system. Debate at the top levels of the political parties continues over strategic issues as to the direction of the pension system.

In the health care area, regulatory fees came into force on 1 January 2008 (fees for doctor visits, for filling drug prescriptions, and for hospital stays) that aim to limit the excessive use of medical care. Initial experience shows that this could be a relatively efficient regulatory measure. At the same time, a revision to the range of health insurance is being prepared (including to introduce options for selecting the scope of insurance and with possibilities to pay extra fees for extra care or to take out additional insurance for such extra care) and other changes in the system that should level the competitive playing field for health care institutions. Possible future strategic changes are being analysed through a committee of independent experts with the goal to evaluate the current state of the health care system and its prospects and then to propose possible solutions.

4 Topic: Flat tax in practice

The flat tax has been chosen as the special topic for this issue because it is a subject drawing considerable attention and interest in the Czech Republic today. A brief theoretical introduction is followed by a practical section emphasising EU countries that have recently introduced certain aspects of the so-called flat tax.

4.1 Theoretical introduction

The fundamental idea of a **flat tax** consists in reducing and unifying the tax rate while at the same time broadening the tax base by abolishing a wide range of various complicated exceptions, exemptions, credits, etc.[5] The essence of transition to a flat tax is fiscal neutrality. A main intention, too, is to take in the shadow economy. Depending upon the specific structure of income and consumption that should make it possible to reduce the tax burden for the majority of current taxpayers.

The theory of the flat tax was developed by Robert Hall and Alvin Rabushka, economists at Stanford University, and described in the early 1980s in their paper *The Flat Tax*. Their concept covers only income-related taxes and is founded upon removing all tax duplications, simplicity and low administrative demands, a single rate (they recommend 19%), introducing only a single deductible item[6], and excluding taxation of interest. It is a fully integrated system, despite the fact that incomes are divided into those of individuals (personal flat tax, PFT[7]), i.e. wages and pensions, and income of legal entities (corporate flat tax, CFT[8]), i.e. other income including material emoluments and bonuses. From an international viewpoint, only earnings gained in the territory of the respective country are to be subject to tax, regardless of the taxpayer's citizenship. For CFT, the decisive factor is the physical presence of the legal entity in a country, and the flat tax applies only to domestic economic activities and export.

Beyond this scope, two other components are important in the EU and can be successfully included into a flat tax system: the payroll tax (social security and health insurance) and VAT.[9] The former

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[5] The term "flat tax" often coincides in practice with the term "unitary tax rate". It is useful, however, to differentiate between these two terms. Flat rate has a broader sense that, in addition to a unitary rate, is also characterised by a simplified tax base. Alternatively, variants can exist that maintain higher degrees of tax progressivity (i.e. a flat tax with multiple tax brackets, or without a unitary tax rate at all). The principle of horizontal equity is maintained in this modification, too, because the focal point of the entire mechanism is right in the tax base.

[6] In addition to the non-taxable minimum (which creates moderate progressivity for the PFT), a basic deductible item for dependents is allowed, but no other items.

[7] A variant of the PFT is Friedman's negative tax, which can be imagined as a flat tax rate that can be either paid in to the state or paid out by the state (i.e., as a transfer payment), depending on the amount of gross income.

[8] A key element of the CFT is inclusion of an entire investment into costs already in the year of that item's acquisition. The system of depreciation for tax purposes is therefore eliminated.

[9] Other, lower-volume taxes coexist with the comprehensive flat tax and supplement the entire tax system.

either takes the form of a material emolument or, as in the Czech Republic, extends the tax base to the so-called super-gross wage. VAT uses just one rate, and unchanged relative prices of goods or services therefore do not produce undesirable substitution effects.[10]

The flat tax system has numerous advantages and disadvantages, and it would go beyond the scope of this chapter to explain them all. We will only mention the reduction in total costs (administration costs and deadweight losses) as an advantage, and all the costs associated with their introduction[11] as a disadvantage.

4.2 Practical experience

In this section regarding actual practice, it is important to begin by stating that the flat tax in its pure form **has never yet been introduced anywhere in the world**. Tax systems in individual countries and regions only come more or less close to it in their certain aspects. The reason is obvious: Taxation is a public and political matter, and neither economic theory nor recommendations are of a single view on the flat tax question. Moreover, taxes in EU countries must be set in accordance with EC regulations.[12] Nevertheless, actual practice has so far proven that even individual components of the flat tax can work – and even if aspects of the flat tax that are favourable for the economy and through which the flat tax should stimulate the economic subjects are sometimes omitted.

It is primarily because of the countries of the former Soviet Union and other East European countries that have been quite successful in introducing flat tax systems – despite the objections of major international institutions – that the flat tax system has been experiencing a rather successful upsurge. The system eliminates considerable tax administration expenses for both governments and business enterprises. One of the world's most liberal and successful economies is Hong Kong,[13] which has been using since 1947 a dual tax approach that includes both progressive taxation (2–20%) and a flat tax (16%). The flat tax – or certain of its features – exists today in more than 30 countries. The most significant countries outside of the EU include Russia, Serbia, Macedonia and Ukraine, as well as certain regions (Normandy, some US states, and others). The flat tax was rejected in some countries (Germany, the Netherlands, New Zealand and Poland), while it is being considered or is already planned for introduction in other countries (Croatia, US, Great Britain, Bulgaria and Greece).

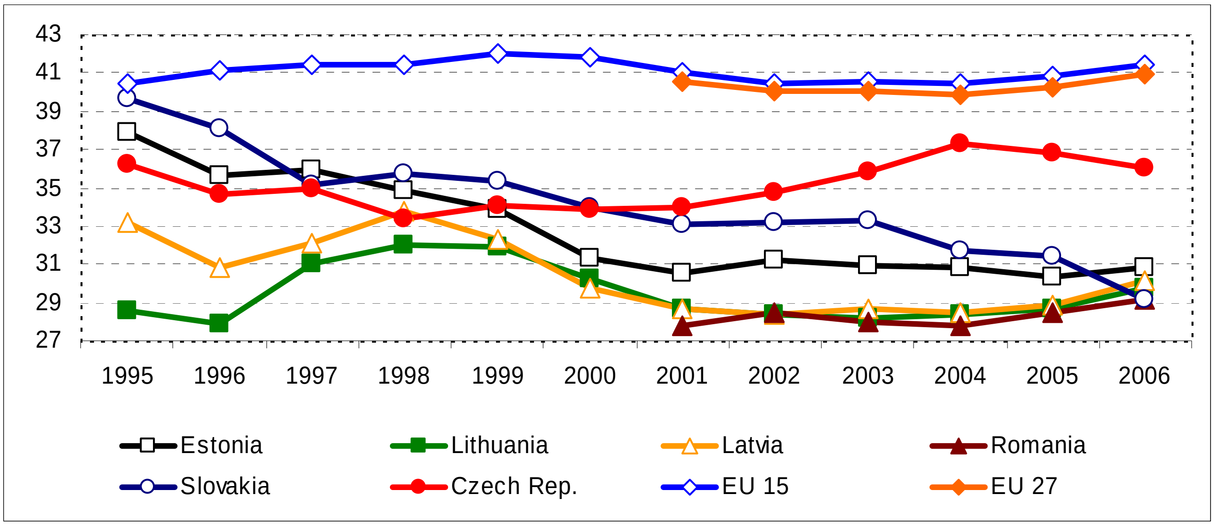
Among EU countries, the flat tax was implemented by all three Baltic countries very soon after their declaring independence: in 1994 in **Estonia** and one year later in **Latvia** and **Lithuania**. All three countries demonstrate very respectable fiscal discipline. In 2004, the flat tax was introduced in **Slovakia** and in the following year in **Romania**. We should not of course omit the Czech Republic,

[10] On the other hand, there is a disadvantage in higher degression, and, according to the principle of ability to pay, it seems to be more equitable to tax consumption with differing rates.
[11] Transitional and incremental measures should be introduced to prevent an undesirable fiscal or monetary shortfall that could destabilise the entire economy. Societal consensus is also necessary.
[12] While the EU calls for the principle of taxation at the country of destination, for example, the flat tax theory for VAT includes the principle of taxation in the country of origin. Therefore, under flat tax theory, export is subject to VAT.
[13] It was Hong Kong that Hall and Rabushka used as their example.

which, rather than the *true flat tax*[14] concept, eventually opted for a political compromise solution in the form of a "reduced flat tax" for both individuals and corporate entities while maintaining two VAT rates. This reform came into effect on 1 January 2008.

Let us now focus more closely on those EU countries with a flat tax – and most specifically on certain of their characteristic features. These countries are typified by rapid real GDP growth after 2000, high proportions of indirect taxes, rising excise taxes, and a rather higher share of social security contributions in the tax structure. At the same time, these countries show low ratios of income taxes to GDP and extremely low taxation on capital. Their total tax quotas show a rather decreasing trend and are far below the averages of the old and current EU countries (see following graph, with Czech Republic included for comparison):

Graph 4-1: Tax quota (%)



Source: Eurostat (Note: Data for Romania and EU 27 are available only from 2001.)

Estonia

The flat tax consists in a unitary tax rate for both PFT and CFT. It was reduced in several steps from the original 26% to the current 21%, and this trend will continue until reaching 18% in 2011. VAT is maintained at two rates: an 18% basic rate and a 5% lower rate. Other taxes do not fall within the flat tax concept, although these were increased to neutralize fiscally the reduced revenues under the PFT and CFT.

In 2000, Estonia introduced within its CFT a special corporate tax. Undistributed income in the country is not taxed, unlike the profit intended for paying out dividends or to firms' ownership interests. Companies thus have very strong motivation to reinvest profit and thereby support further economic growth. Despite the potential for a fiscal shortfall, revenues from CFT grew in nominal

[14] The true flat tax goes beyond the scope of Hall-Rabushka's idea of flat tax, and it basically means a unitary tax for PFT, CFT and VAT en bloc. A system similar to that was also used in Slovakia.

value by more than 2.5 times from 2001 to 2005 (growth in receipts was seen also for consumption and labour taxes, as real growth in Estonia's economy has not dropped below 7% since 2000), even though Estonia has one of the lowest implicit tax rates on capital in today's EU (Table 4-1). Depreciation remained unchanged, although small entrepreneurs fully include investments in their expenses.

PFT has a Hall-Rabushka nature, with the exception of that on capital-related income – dividends, interest, capital gains, and the like are subject to tax. Other deductible items also exist outside the framework of the classic flat tax. Their total annual amount has an upper limit, however, and these cannot exceed 50% of taxable income. Social security and health insurance are ensured by the so-called social tax that is paid by employers and self-employed persons in the amount of 33% of an employee's gross salary. On the other hand, employees' insurance is insignificant, and instead of the PAYG[15] system, payments are made to an imaginary personal pension account. The labour tax has been steadily decreasing since 1995 and has already dropped below the EU level (Table 4-2).

In 2005, doubts emerged about the equity and viability of the flat tax in Estonia, because differences in incomes had supposedly increased. Moreover, the degree of redistribution in social expenditures grew and VAT increased disproportionally. That was thought to cause considerable uncertainty for Estonia's long-term development. Nevertheless, the flat tax was maintained even after the elections in March 2007. The tax return form is now so simple that it takes no longer than 15 minutes to fill in.

Table 4-1: Implicit tax rate on capital (in % of income from savings, capital and enterprising)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Estonia	24.7	15.6	17.7	18.2	15.8	6	5	6.4	8.5	8.9	8.1
Lithuania	15.1	15.4	15.6	16.2	15.5	10.6	8.1	7.5	9.2	10.8	11.4
Latvia	.	.	.	.	19.0	11.2	11.5	9.3	7.8	7.8	.
Slovakia	**33.5**	**30.1**	24.9	24.0	22.1	19.5	17.1	17.4	16.8	16	14.4
Czech Rep.	26.4	22.3	24.0	20.3	21.3	20.9	22.3	23.8	24.7	25.4	23.2
EU 27	25.7	27.5	28.6	29.1	32.0	32.4	30.7	29.7	29.1	29.9	31.4

Source: Eurostat

Note: Data for Romania are not available.

Lithuania

The Lithuanian tax system is actually quite far from the flat tax concept, so there is a question as to why it is actually referred to as a flat tax system at all. There are even three VAT rates (18% standard rate, plus 5% and 9% lower rates). Moreover, the European Commission indicates a 0% rate for export. The personal income tax (we cannot call it a PFT) has a dual character. Returns on capital, fees, pensions, rent or royalties are subject to a 15% rate, while earned income is now subject to a 24% rate (with the tax rate being gradually decreased from the original 33% rate).

[15] *Pay as you go* – a continuously financed pension system.

Corporate income tax cannot be regarded as a flat tax, either. The rate is similar to the personal income tax rates (it was decreased several times from 29% in 2000 to the current 15%). In contrast to Estonia, moreover, 0% taxation on reinvested profit was abolished in Lithuania. However, some dividends are not subject to tax at all. The condition is that the person who is paid the dividends has control over more than 10% of the voting rights in the company distributing the profit for an uninterrupted period of one year. Therefore, the only attribute of the flat tax is to prevent double taxation of distributed profit.

Contributions to social insurance are paid by both employers and employees. Employees pay 3% of their gross salaries, employers pay 31%. In 2006 and 2007, the so-called social tax on socially oriented programmes and measures was temporarily introduced and it is paid by legal entities. The tax base also included profit, with a 4% rate for 2006 and 3% rate for 2007. This tax apparently contradicted the principle of simplicity and efficiency in the tax system. Among the five countries mentioned here, Lithuania has the highest share of labour taxation (including social security insurance) in the total taxation (50.7% in 2005, peak of 54.1% in 2000). The development of the implicit tax rates over time is shown in tables 4-1 through 4-3.

Table 4-2: Implicit tax rate on labour employed (in % of labour costs)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Estonia	39.2	39.1	38.5	39.8	39.5	37.8	37.3	37.8	36.5	35.2	33.1
Lithuania	34.5	35.0	38.4	38.3	38.7	41.2	40.3	38.1	36.9	36	35.9
Latvia	39.2	34.6	36.1	37.2	37.0	36.7	36.5	37.8	36.6	36.7	36.2
Romania	.	.	.	.	.	.	.	31.5	29.7	28.1	26.7
Slovakia	39.5	40.0	39.4	40.7	40.0	38.7	39.1	38.8	38	35.7	33.7
Czech Rep.	40.5	39.5	40.3	40.7	40.5	40.7	40.3	41.2	41.4	41.7	41.3
EU 27	37.0	37.4	37.5	37.5	37.3	37.1	36.8	36.6	36.7	36.3	36.5

Source: Eurostat

Latvia

This Baltic republic was characterised by a 25% PFT since its introduction. Starting this year, a significantly lower 15% rate applies. Dividends are not subject to tax provided they are from profit created in the territory of the European Economic Area (EEA). Otherwise, they are subject to a 10% tax. Moreover, interest and insurance payments received by residents from financial institutions having their registered seats in EEA countries are also not subject to tax. Non-resident individuals are obliged to pay a 25% withholding tax at source, and for corporate entities this rate is 10%.

The statutory CFT rate fell gradually during 2001–2004 from 25% to the current 15%, and further decrease is being considered. Taxation is applied to groups of companies, allowing them to offset losses among their subsidiaries.

The basic 18% VAT rate has been accompanied since 2003 by a lower rate (9% originally, 5% since May 2004). Hence, its fate was just the opposite of the lower VAT rate in the Czech Republic. The range of goods and services to which it applies is broadened almost every year.

Since 1995, a provisional social security insurance system has been in operation that is based on contributions, as in Estonia. Rates within the public insurance vary. Typically, they total 33.09% for employment relationships (employer 24.09% and employee 9%) and 29.95% for self-employed persons. Insurance is paid only within certain annual limits of the gross wage.

As can be seen from Table 4-1, Latvia has one of the lowest implicit tax rates on capital in the EU, and it is only about one quarter of the current EU average.

Slovakia

Perhaps the most consistent and best-developed tax reform that concerns the flat tax, and which therefore deserves the closest attention, is the Slovak version with its unitary rate of 19% for individuals, corporate entities, as well as for VAT (*true flat tax*). This is in fact the rate recommended by Hall and Rabushka. It was accompanied in a coordinated way by social and retirement reforms as well as by health system reform. In addition, certain fiscally insignificant property taxes and dividend taxes were abolished in order to eliminate tax duplications. Likewise, returns on capital are taxed only at the level of a company's profit.

The PFT is imposed on the aggregate income, both financial and in kind. For capital gains, there exist three exceptions relating to the sale of real estate and movable assets (which are exempt from taxation depending upon the established duration of the ownership right) and one exception relates to the sale of securities. Institution of a non-taxable minimum, newly introduced in 2007, highlights the progressive nature of the taxation. This exemption's full amount can be claimed up to the established minimum annual income. If the annual income exceeds the set minimum amount, a lower exemption limit is applied, and from a certain higher level of total annual income no exemption limit can be applied. The amounts are based on various multiples of the subsistence minimum.[16] Other tax-deductible items include amounts for dependents and contributions to pension and life insurance.

Establishing the CFT eliminated all exceptions and exemptions, such as tax holidays or special tax rates. Depreciation remained in effect. Losses can be set off against taxable income in the following five periods – and even in case of dissolving a company without liquidation. An option to use flat-rate deductible expenses replaced the flat-rate tax that was abolished. Unlike in Latvia, the option of group taxation does not exist in Slovakia.

As in Estonia and the Czech Republic, the public expressed a certain dissatisfaction with the flat tax, which resulted in a lower 10% VAT rate on medical needs being introduced in 2007. Also under consideration is applying the lower VAT rate to a wider range of goods and services.

Three remaining reforms brought the introduction of pension insurance (employees pay 4% of their gross wage, employers pay 14%), health insurance (4% and 10%), disability insurance (both 3%), sickness insurance (both 1.4%), and unemployment insurance (both 1%), including their ceilings. Moreover, employers pay accidence insurance (0.8%), the absolute amount of which is not limited, and they also pay a total of 5% to special funds. Nevertheless, in the period 1995–2005, the proportion of this sector in GDP fell from 14.1% to 10.8%, due to the reduced contributions paid by employers and only moderate growth in employees' contributions. In 2005, a private pension insurance plan was launched that receives 9% of social contributions.

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[16] For more information see Act No. 595/2003 Coll., as subsequently amended, Section 11, paragraph 2.

Table 4-3: Implicit tax rate on consumption (in % of consumption expenditures)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Estonia	20.6	19.2	20.7	18.4	18.0	19.7	19.4	20	20.4	20.5	23.8
Lithuania	17.7	16.4	20.4	20.7	19.2	17.8	17.4	17.8	17	16	16.5
Latvia	19.3	17.9	18.8	21.1	19.5	18.7	17.5	17.4	18.6	18.5	20.4
Romania	.	.	.	.	.	.	14.4	16.4	18.3	16.8	18.5
Slovakia	27.1	26.0	25.4	23.1	22.2	21.8	18.8	19.9	19.4	21.5	21.9
Czech Rep.	22.1	21.2	19.4	18.6	19.7	19.4	18.9	19.3	19.6	22	22.1
EU 27	20.1	20.0	20.1	20.0	20.5	20	19.6	19.7	19.7	19.8	19.8

Source: Eurostat

Romania

Romanian legislation implements a 16% flat tax rate for individuals as well as legal entities. So-called micro-enterprises[17] have an option to choose. Their alternative to the flat tax is a 2.5% turnover tax (1.5% in 2006, 2% in 2007 and 3% in 2009). Returns on capital are also subject to the flat tax, but proceeds from gambling and nightclubs are subject to a 5% turnover tax.

The CFT and PFT rates are identical, but the system is of the standard sort, which means that profits are taxed twice – both at the corporate level and after their distribution. Since 2004, accelerated depreciation can be used, and up to 50% of the value is expensed in the first year. There is also the option to use 20% of the investment into fixed assets to reduce the tax base.

The basic VAT rate is 19%, and, as in those countries previous discussed, a lower rate of 9% applies to goods and services with various social or health aspects.

In the cases of both PFT and VAT, a large number of assorted exemptions and allowances have been preserved. The Romanian legislation continues to be overly complex and unclear. Nevertheless, the local ministry of finance has declared that the volume of tax revenues exceeded all expectations for the first eight months from the introduction of the flat tax, and a budget surplus of 1.12% of GDP was reported at the end of July 2005.

The social system includes obligatory contributions to social security and health insurance (an employer pays a total of 35.75% of an employee's gross wage, the employee pays 16%). Additionally, an employee pays 1% to the national unemployment fund, and an employer pays 3.5% on a voluntary basis and 0.75% on an obligatory basis to the fund for medical compensation and expenses. Contributions are tax deductible.

Although data are available only since 2001, Romania is well known for having by far the greatest share of consumption tax in the structure of its tax revenues. In 2005, this share totalled 44.3%, which is an almost unbelievable 16.2 percentage points more than the average of the entire EU.

[17] See the amended Romanian fiscal code – Law regarding the changes and completions to Act No. 571/2003, Art. 103.

Paradoxically, according to Table 4-3, it has one of the lowest tax burdens on consumption and the absolute lowest total level of taxation in the entire EU (see Graph 4-1).

4.3 Conclusion

In 1994, when the Estonians put the idea of a flat tax partially into practice, the world did not pay much attention to such a courageous and radical step. It was only the introduction of a flat tax in Russia that caught the world's notice. This launched an avalanche, and flat tax systems began to sprout up like mushrooms after a rainstorm, especially to the east of the Czech Republic. Some of the Western European states resented this fact, because the tax competition was supposedly depriving them of investors. In particular, Germany and France, speaking through their government representatives, stated that the existence of low taxation in the Baltic republics is only permitted by large subsidies from the EU, and they requested a ban on "fiscal dumping". Nevertheless, European tax harmonisation requires unanimous approval by all EU members, including, of course, those with the flat tax. The attributes of flat taxes introduced so far do not contradict the existing tax harmonisation.

Although there may – and probably does – exist a certain relationship between economic growth driven by the inflow of foreign investment and reduced tax burdens, GDP may also grow due to many other factors. These may or may not relate to introduction of a flat tax and can include changes in tax collection, other reform measures, joining the EU, opening of eastern markets, various geopolitical or demographic influences, and economic acceleration after successful transformation steps. In the cases of Romania and Slovakia, moreover, the timeline that we have available for monitoring is very short.

The only thing that can be demonstrably established is to compare the tax legislation and overall levels of administrative demands (i.e., the extent of rules and regulations, the various exceptions, exemptions, and boxes to be filled in the tax return form, the number of legislative changes and updates, and the like) before and after introduction of the flat rate. The relationship to potential GDP growth and the development of other macroeconomic aggregates, however, can be evaluated only on a longer time horizon.

Nevertheless, despite the initial scepticism and several minor international disagreements, the flat tax seems to be bearing fruit, and time will show whether it is a justifiable and viable mechanism for the long term or only a passing and otherwise not very practical experiment. If it continues to be accompanied by successful economic development, however, it is possible that in the near future even more developed western states will step out from the shadow of their conservatism and finally let themselves be inspired by the East.

This topic will be dealt with in greater detail in an informational study that is being prepared and will be published on the web site of the Ministry of Finance (www.mfcr.cz). See Čižík, Vojtěch: Rovná daň – teorie a praxe (Flat tax – theory and practice, published in Czech only).

5 Annex of tables – general government in the ESA 95 methodology

Data for government revenues and expenditures are consolidated at the appropriate level. The consolidation represents the exclusion of mutual flows of interest and of current and capital transfers within one subsector as well as among the individual subsectors of the general government.

5.1 Revenues

Table 5-1: General government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**713.6**	**761.7**	**802.3**	**833.9**	**911.4**	**974.4**	**1049.4**	**1187.7**	**1235.7**	**1324.2**	**1451.8**
	prev.year=100	108.0	106.7	105.3	103.9	109.3	106.9	107.7	.	104.0	107.2	109.6
Current taxes on income, wealth, etc.	*bn CZK*	**160.1**	**165.6**	**176.1**	**181.4**	**206.8**	**223.8**	**247.4**	**269.8**	**273.4**	**295.2**	**327.0**
	prev.year=100	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	110.8
Social contributions[1)]	*bn CZK*	**264.8**	**281.7**	**292.7**	**312.0**	**335.0**	**367.4**	**388.9**	**452.8**	**482.1**	**524.8**	**576.8**
	prev.year=100	110.4	106.4	103.9	106.6	107.4	109.7	105.8	.	106.5	108.8	109.9
Taxes on production and imports[2)]	*bn CZK*	**208.8**	**218.9**	**240.3**	**247.9**	**258.0**	**266.7**	**285.4**	**325.3**	**342.3**	**351.4**	**381.2**
	prev.year=100	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.7	108.5
Capital taxes[3)]	*bn CZK*	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	102.0
Property income	*bn CZK*	**15.6**	**15.7**	**12.8**	**18.3**	**26.2**	**29.8**	**24.5**	**23.2**	**21.2**	**25.6**	**29.2**
	prev.year=100	113.0	100.8	81.2	143.4	142.8	113.9	82.3	94.5	91.6	120.5	114.4
Interest	*bn CZK*	**12.3**	**13.1**	**9.9**	**15.0**	**15.4**	**22.0**	**17.2**	**14.2**	**12.6**	**12.6**	**16.6**
	prev.year=100	109.4	106.1	76.1	151.0	102.5	143.1	78.1	82.5	88.5	100.0	131.9
Other property income	*bn CZK*	**3.3**	**2.7**	**2.8**	**3.3**	**10.8**	**7.8**	**7.3**	**9.0**	**8.7**	**13.0**	**12.7**
	prev.year=100	128.9	81.0	106.6	116.7	325.2	72.4	93.9	122.7	96.4	150.2	97.6
Sales[4)]	*bn CZK*	**47.2**	**58.2**	**56.4**	**58.3**	**63.0**	**66.4**	**75.4**	**77.8**	**79.9**	**81.9**	**96.2**
	prev.year=100	100.2	123.2	96.9	103.5	108.0	105.5	113.4	103.3	102.6	102.5	117.6
Other current transfers and subsidies	*bn CZK*	**15.9**	**19.5**	**22.1**	**12.4**	**15.8**	**16.5**	**21.3**	**28.3**	**26.0**	**25.3**	**22.5**
	prev.year=100	124.9	122.6	113.5	56.2	126.8	104.2	129.7	132.5	92.0	97.1	89.0
Investment grants	*bn CZK*	**0.0**	**0.0**	**0.0**	**0.1**	**0.5**	**0.9**	**2.8**	**3.1**	**4.7**	**13.9**	**13.0**
	prev.year=100	X	314.3	145.5	225.0	754.2	171.8	301.5	110.1	151.6	296.6	93.2
Other capital transfers	*bn CZK*	**0.7**	**1.5**	**1.4**	**2.9**	**5.5**	**2.1**	**2.8**	**6.8**	**5.3**	**5.4**	**5.0**
	prev.year=100	24.4	227.0	92.5	206.2	186.2	37.8	134.8	243.3	78.2	102.3	92.6

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

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

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

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

Table 5-2: General government revenue – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*(in % GDP)*	39.4	38.2	38.6	38.1	38.7	39.5	40.7	42.2	41.4	41.0	40.8
Current taxes on income, wealth, etc.	*(in % GDP)*	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.1	9.2
Social contributions	*(in % GDP)*	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.2	16.2
Taxes on production and imports	*(in % GDP)*	11.5	11.0	11.5	11.3	11.0	10.8	11.1	11.6	11.5	10.9	10.7
Capital taxes	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	*(in % GDP)*	0.9	0.8	0.6	0.8	1.1	1.2	1.0	0.8	0.7	0.8	0.8
Interest	*(in % GDP)*	0.7	0.7	0.5	0.7	0.7	0.9	0.7	0.5	0.4	0.4	0.5
Other property income	*(in % GDP)*	0.2	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.4
Sales	*(in % GDP)*	2.6	2.9	2.7	2.7	2.7	2.7	2.9	2.8	2.7	2.5	2.7
Other current transfers and subsidies	*(in % GDP)*	0.9	1.0	1.1	0.6	0.7	0.7	0.8	1.0	0.9	0.8	0.6
Investment grants	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.4
Other capital transfers	*(in % GDP)*	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.1

Table 5-3: General government tax revenue and social contributions

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Taxes and social contributions	*bn CZK*	**634.2**	**666.7**	**709.6**	**741.8**	**800.5**	**858.7**	**922.6**	**1048.6**	**1098.6**	**1172.2**	**1285.9**
	prev.year=100	108.5	105.1	106.4	104.6	107.9	107.3	107.4	.	104.8	106.7	109.7
Current taxes on income, wealth, etc.	*bn CZK*	**160.1**	**165.6**	**176.1**	**181.4**	**206.8**	**223.8**	**247.4**	**269.8**	**273.4**	**295.2**	**327.0**
	prev.year=100	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	110.8
Tax on individual or household income incl. holding gains	*bn CZK*	**87.4**	**94.0**	**93.0**	**99.7**	**106.2**	**114.9**	**125.5**	**135.0**	**136.4**	**136.6**	**151.8**
	prev.year=100	108.9	107.6	98.9	107.2	106.5	108.2	109.3	107.6	101.0	100.2	111.1
Taxes on the income or profits of corporations incl. holding gains	*bn CZK*	**69.4**	**67.5**	**79.5**	**76.2**	**96.3**	**105.7**	**117.8**	**131.7**	**133.5**	**154.8**	**171.2**
	prev.year=100	122.7	97.3	117.8	95.9	126.4	109.8	111.4	111.9	101.3	116.0	110.6
Levy on lottery revenue	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**0.5**	**0.6**	**0.6**	**0.7**	**0.8**
	prev.year=100	X	X	X	X	X	X	X	117.4	112.5	110.3	113.1
Other current taxes	*bn CZK*	**3.4**	**4.2**	**3.6**	**5.6**	**4.3**	**3.2**	**3.6**	**2.5**	**2.9**	**3.1**	**3.3**
	prev.year=100	91.0	122.2	87.0	153.6	77.6	74.0	112.8	69.1	117.4	105.0	106.7
Social contributions	*bn CZK*	**264.8**	**281.7**	**292.7**	**312.0**	**335.0**	**367.4**	**388.9**	**452.8**	**482.1**	**524.8**	**576.8**
	prev.year=100	110.4	106.4	103.9	106.6	107.4	109.7	105.8	.	106.5	108.8	109.9
Actual social contributions[1]	*bn CZK*	**264.7**	**281.5**	**292.5**	**311.5**	**334.8**	**367.2**	**388.6**	**452.4**	**481.7**	**524.4**	**576.3**
	prev.year=100	110.4	106.4	103.9	106.5	107.5	109.7	105.8	.	106.5	108.9	109.9
Employers' actual social contributions	*bn CZK*	**185.0**	**197.0**	**204.6**	**216.9**	**233.2**	**255.9**	**270.7**	**289.8**	**308.7**	**332.4**	**363.7**
	prev.year=100	110.4	106.5	103.8	106.0	107.5	109.7	105.8	107.0	106.5	107.7	109.4
Employees' social contributions	*bn CZK*	**65.9**	**70.2**	**73.0**	**77.3**	**82.7**	**89.6**	**94.9**	**101.3**	**108.3**	**116.6**	**127.7**
	prev.year=100	110.0	106.4	104.0	105.9	107.0	108.4	105.9	106.8	106.9	107.6	109.5
Social contributions by self- and non-employed persons[1]	*bn CZK*	**13.7**	**14.3**	**14.9**	**17.3**	**18.9**	**21.7**	**23.0**	**61.3**	**64.8**	**75.4**	**85.0**
	prev.year=100	112.5	104.4	104.3	115.9	109.1	114.9	106.1	.	105.6	116.5	112.6
Imputed social contributions	*bn CZK*	**0.1**	**0.2**	**0.2**	**0.4**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**	**0.5**
	prev.year=100	95.3	197.6	124.7	209.4	57.9	102.4	117.5	136.6	98.5	102.0	121.2
Taxes on production and imports	*bn CZK*	**208.8**	**218.9**	**240.3**	**247.9**	**258.0**	**266.7**	**285.4**	**325.3**	**342.3**	**351.4**	**381.2**
	prev.year=100	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.7	108.5
Taxes on products[2]	*bn CZK*	**197.0**	**206.8**	**227.0**	**234.2**	**244.9**	**253.6**	**271.7**	**313.1**	**330.4**	**339.0**	**368.0**
	prev.year=100	103.5	105.0	109.8	103.1	104.6	103.5	107.2	115.2	105.5	102.6	108.6
VAT	*bn CZK*	**114.5**	**121.1**	**136.5**	**141.3**	**149.3**	**155.1**	**164.3**	**202.1**	**210.6**	**208.8**	**226.8**
	prev.year=100	106.4	105.8	112.8	103.5	105.6	103.9	105.9	123.0	104.2	99.2	108.6
Excises	*bn CZK*	**60.9**	**64.4**	**71.4**	**71.4**	**76.8**	**79.5**	**87.5**	**99.2**	**110.5**	**119.9**	**129.3**
	prev.year=100	104.9	105.7	110.9	100.0	107.6	103.6	110.0	113.4	111.4	108.5	107.9
Other taxes on products[3]	*bn CZK*	**21.6**	**21.3**	**19.2**	**21.5**	**18.9**	**18.9**	**20.0**	**11.8**	**9.2**	**10.3**	**11.9**
	prev.year=100	87.2	98.8	89.8	111.9	88.0	100.2	105.8	59.1	78.2	111.1	116.1
Other taxes on production[4]	*bn CZK*	**11.8**	**12.1**	**13.2**	**13.7**	**13.1**	**13.1**	**13.7**	**12.3**	**12.0**	**12.4**	**13.1**
	prev.year=100	89.2	102.7	109.1	103.8	95.1	100.6	104.2	89.6	97.7	104.0	105.6
Capital taxes	*bn CZK*	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	102.0

1) *From 2004 onwards including contributions of so-called state social insurance policy holders, whose contributions are paid by state.*
2) *Taxes that are payable per unit of some good or service produced or transacted.*

[3] *This item contains, for example, customs duty, taxes from financial and capital transactions, payments from entertainment, lottery taxes and other.*

[4] *All taxes that enterprises incur as a result of engaging in production, independenty of the quantity or value of the goods and services produced or sold.(real estate tax, road tax, etc.)*

Table 5-4: General government tax revenue and social contributions – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Taxes and social contributions	in % GDP	**35.0**	**33.4**	**34.1**	**33.9**	**34.0**	**34.8**	**35.8**	**37.3**	**36.8**	**36.3**	**36.1**
Current taxes on income, wealth, etc.	in % GDP	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.1	9.2
Tax on individual or household income incl. holding gains	in % GDP	4.8	4.7	4.5	4.6	4.5	4.7	4.9	4.8	4.6	4.2	4.3
Taxes on the income or profits of corporations incl. holding gains	in % GDP	3.8	3.4	3.8	3.5	4.1	4.3	4.6	4.7	4.5	4.8	4.8
Levy on lottery revenue	in % GDP	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
Other current taxes	in % GDP	0.2	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	in % GDP	**14.6**	**14.1**	**14.1**	**14.2**	**14.2**	**14.9**	**15.1**	**16.1**	**16.1**	**16.2**	**16.2**
Actual social contributions	in % GDP	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.2	16.2
Employers' actual social contributions	in % GDP	10.2	9.9	9.8	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.2
Employees' social contributions	in % GDP	3.6	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6
Social contributions by self- and non-employed persons	in % GDP	0.8	0.7	0.7	0.8	0.8	0.9	0.9	2.2	2.2	2.3	2.4
Imputed social contributions	in % GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	in % GDP	**11.5**	**11.0**	**11.5**	**11.3**	**11.0**	**10.8**	**11.1**	**11.6**	**11.5**	**10.9**	**10.7**
Taxes on products	in % GDP	10.9	10.4	10.9	10.7	10.4	10.3	10.5	11.1	11.1	10.5	10.3
VAT	in % GDP	6.3	6.1	6.6	6.5	6.3	6.3	6.4	7.2	7.0	6.5	6.4
Excise taxes	in % GDP	3.4	3.2	3.4	3.3	3.3	3.2	3.4	3.5	3.7	3.7	3.6
Other taxes on products	in % GDP	1.2	1.1	0.9	1.0	0.8	0.8	0.8	0.4	0.3	0.3	0.3
Other taxes on production	in % GDP	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Capital taxes	in % GDP	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Table 5-5: Central government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	bn CZK	**519.5**	**547.2**	**581.7**	**605.3**	**675.1**	**702.2**	**750.0**	**832.3**	**842.1**	**897.5**	**982.0**
	prev.year=100	106.8	105.3	106.3	104.1	111.5	104.0	106.8	.	101.2	106.6	109.4
Current taxes on income, wealth, etc.	bn CZK	**88.6**	**91.3**	**93.8**	**98.5**	**154.1**	**160.1**	**176.9**	**193.2**	**181.7**	**197.1**	**219.1**
	prev.year=100	115.0	103.0	102.8	105.0	156.4	103.9	110.5	109.2	94.1	108.5	111.2
Social contributions[1]	bn CZK	**189.3**	**201.5**	**208.9**	**221.8**	**241.1**	**262.9**	**277.2**	**300.1**	**318.7**	**342.6**	**376.3**
	prev.year=100	110.9	106.4	103.7	106.2	108.7	109.0	105.5	.	106.2	107.5	109.8
Taxes on production and imports	bn CZK	**203.7**	**213.5**	**234.9**	**242.0**	**221.5**	**224.2**	**240.3**	**270.4**	**272.3**	**281.6**	**305.7**
	prev.year=100	102.5	104.8	110.0	103.0	91.5	101.2	107.2	112.5	100.7	103.4	108.5
Capital taxes	bn CZK	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.3	96.9	109.7	117.0	108.9	115.0	71.3	118.8	110.0	102.0
Property income	bn CZK	**11.7**	**10.7**	**7.9**	**13.5**	**22.0**	**22.6**	**17.4**	**15.0**	**14.5**	**18.4**	**20.7**
	prev.year=100	108.8	92.1	73.2	171.3	163.0	102.9	77.2	86.1	96.4	126.8	113.0
Sales	bn CZK	**14.6**	**14.6**	**17.6**	**18.1**	**21.2**	**22.2**	**25.7**	**27.6**	**28.3**	**29.4**	**38.0**
	prev.year=100	83.9	99.5	121.1	102.8	117.2	104.6	115.5	107.5	102.8	103.8	129.2
Other revenue	bn CZK	**11.0**	**15.1**	**18.1**	**10.9**	**14.6**	**9.5**	**11.6**	**25.4**	**25.9**	**27.6**	**21.4**
	prev.year=100	97.4	137.3	120.2	60.1	134.2	65.2	122.0	218.9	101.9	106.4	77.5

[1] *From 2004 onwards including contributions of so-called state social insurance policy holders, whose contributions are paid by state.*

Table 5-6: Local government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**166.1**	**203.0**	**192.1**	**200.1**	**228.3**	**260.0**	**328.7**	**349.3**	**351.6**	**375.5**	**400.3**
	prev.year=100	67.8	122.2	94.6	104.2	114.1	113.9	126.4	106.3	100.6	106.8	106.6
Current taxes on income, wealth, etc.	*bn CZK*	**71.5**	**74.4**	**82.2**	**82.9**	**52.7**	**63.8**	**70.5**	**76.6**	**91.7**	**98.1**	**107.9**
	prev.year=100	112.8	104.0	110.6	100.9	63.5	121.1	110.5	108.8	119.6	107.0	110.0
Social contributions	*bn CZK*	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**
	prev.year=100	73.9	197.1	100.0	62.7	190.5	60.0	104.2	120.0	121.7	161.6	159.3
Taxes on production and imports	*bn CZK*	**5.0**	**5.3**	**5.3**	**5.9**	**36.5**	**42.5**	**45.1**	**55.0**	**70.0**	**69.8**	**75.5**
	prev.year=100	102.5	105.9	100.0	110.1	620.0	116.3	106.2	121.8	127.4	99.6	108.2
Capital taxes	*bn CZK*	**-**	**0.0**	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	prev.year=100	X	X	0.0	X	X	X	X	180.0	100.0	44.4	100.0
Property income	*bn CZK*	**3.6**	**4.5**	**4.7**	**4.5**	**3.7**	**6.9**	**6.8**	**8.0**	**6.5**	**7.0**	**7.8**
	prev.year=100	126.7	125.9	102.8	95.9	82.0	187.2	99.7	116.6	82.2	107.2	111.4
Sales	*bn CZK*	**32.4**	**43.5**	**38.7**	**40.1**	**41.3**	**44.1**	**49.6**	**50.1**	**51.4**	**52.3**	**58.1**
	prev.year=100	109.5	134.0	88.9	103.8	103.0	106.6	112.5	101.0	102.6	101.8	111.1
Other revenue	*bn CZK*	**53.5**	**75.2**	**61.1**	**66.7**	**94.0**	**102.8**	**156.6**	**159.6**	**131.9**	**148.2**	**150.8**
	prev.year=100	37.1	140.7	81.2	109.1	141.0	109.4	152.3	101.9	82.6	112.4	101.7

Table 5-7: Social security funds revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**95.1**	**104.9**	**112.5**	**119.4**	**127.4**	**138.4**	**149.1**	**159.1**	**169.6**	**184.8**	**203.6**
	prev.year=100	110.8	110.3	107.3	106.1	106.7	108.6	107.8	.	106.6	109.0	110.2
Current taxes on income, wealth, etc	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Social contributions [1)]	*bn CZK*	**75.4**	**80.1**	**83.8**	**90.1**	**93.9**	**104.5**	**111.7**	**152.6**	**163.4**	**182.1**	**200.3**
	prev.year=100	109.2	106.3	104.5	107.6	104.2	111.3	106.8	.	107.1	111.4	110.0
Taxes on production and imports	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Capital taxes	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Property income	*bn CZK*	**0.4**	**0.5**	**0.3**	**0.4**	**0.6**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.8**
	prev.year=100	135.8	147.8	54.9	147.9	128.2	74.9	73.7	95.1	106.5	94.5	257.0
Sales	*bn CZK*	**0.1**	**0.1**	**0.1**	**0.1**	**0.4**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.1**
	prev.year=100	245.2	108.7	58.9	100.0	609.1	34.8	75.7	145.3	103.2	95.0	92.7
Other revenue	*bn CZK*	**19.2**	**24.1**	**28.4**	**28.7**	**32.5**	**33.3**	**37.1**	**6.0**	**5.8**	**2.3**	**2.4**
	prev.year=100	116.7	125.4	117.9	101.2	113.2	102.3	111.3	16.2	95.9	40.2	103.3

[1)] *From 2004 onwards including contributions of so-called state social insurance policy holders, whose contributions are paid by state.*

5.2 Expenditures

Table 5-8: General government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**782.5**	**861.7**	**879.6**	**915.4**	**1046.5**	**1141.2**	**1219.5**	**1270.5**	**1342.3**	**1409.6**	**1507.2**
	prev.year=100	109.2	110.1	102.1	104.1	114.3	109.1	106.9	.	105.7	105.0	106.9
Final consumption expenditure	*bn CZK*	**379.3**	**399.7**	**440.6**	**460.9**	**496.7**	**549.5**	**603.2**	**621.6**	**658.5**	**684.7**	**713.1**
	prev.year=100	111.4	105.4	110.2	104.6	107.8	110.6	109.8	103.1	105.9	104.0	104.1
Collective consumption[1)]	*bn CZK*	**181.4**	**187.4**	**217.3**	**232.1**	**241.7**	**271.2**	**305.6**	**296.5**	**329.7**	**342.2**	**356.4**
	prev.year=100	115.5	103.3	116.0	106.8	104.2	112.2	112.7	97.0	111.2	103.8	104.1
Individual consumption	*bn CZK*	**198.0**	**212.3**	**223.3**	**228.9**	**254.9**	**278.3**	**297.6**	**325.1**	**328.8**	**342.5**	**356.7**
	prev.year=100	107.9	107.3	105.2	102.5	111.4	109.2	106.9	109.2	101.1	104.2	104.1
Social transfers in kind[2)]	*bn CZK*	**95.2**	**104.8**	**111.1**	**115.4**	**127.5**	**142.1**	**150.2**	**160.7**	**167.4**	**171.2**	**185.8**
	prev.year=100	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	108.5
Transfers of individual non-market goods or services[3)]	*bn CZK*	**102.8**	**107.6**	**112.2**	**113.5**	**127.5**	**136.2**	**147.3**	**164.3**	**161.4**	**171.3**	**170.9**
	prev.year=100	108.1	104.7	104.3	101.1	112.3	106.9	108.2	111.5	98.2	106.2	99.8
Social benefits other than social transfers in kind[4)]	*bn CZK*	**208.1**	**225.6**	**243.8**	**263.9**	**280.5**	**305.1**	**315.6**	**361.9**	**376.4**	**407.4**	**453.9**
	prev.year=100	113.5	108.4	108.0	108.3	106.3	108.8	103.4	.	104.0	108.2	111.4
Interest	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.8**	**30.5**	**29.3**	**32.6**	**34.4**	**35.5**	**40.3**
	prev.year=100	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.5
Subsidies	*bn CZK*	**49.3**	**57.9**	**61.1**	**61.0**	**65.4**	**56.6**	**68.2**	**59.0**	**54.7**	**61.4**	**62.6**
	prev.year=100	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	102.0
Gross fixed capital formation	*bn CZK*	**77.3**	**83.8**	**67.7**	**79.1**	**83.4**	**95.2**	**117.2**	**136.4**	**146.5**	**161.5**	**171.2**
	prev.year=100	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	106.0
Other expenditures	*bn CZK*	**48.2**	**71.6**	**45.2**	**32.1**	**96.7**	**104.3**	**86.0**	**59.0**	**71.8**	**59.2**	**66.1**
	prev.year=100	87.2	148.5	63.2	71.0	301.0	107.8	82.4	68.6	121.7	82.4	111.7

[1)] *Value of all services provided to all members of society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development.*
[2)] *Social benefits in kind are social transfers in kind intended to relieve households of financial burden of social risks or needs, i.e. payments from insurance enterprises to health care institutions for services provided to households.*
[3)] *Goods or services provided to individual households free or at prices which are not economically significant by non-market producers (education, health service, housing, culture, sport, etc.).*
[4)] *From 2004 onwards including transfers (social contributions) paid by state for so-called state social insurance policy holders.*

Table 5-9: General government expenditure – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*(in % GDP)*	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	44.9	43.6	42.4
Final consumption expenditure	*(in % GDP)*	20.9	20.0	21.2	21.1	21.1	22.3	23.4	22.1	22.0	21.2	20.0
Collective consumption	*(in % GDP)*	10.0	9.4	10.4	10.6	10.3	11.0	11.9	10.5	11.0	10.6	10.0
Individual consumption	*(in % GDP)*	10.9	10.6	10.7	10.5	10.8	11.3	11.5	11.5	11.0	10.6	10.0
Social transfers in kind	*(in % GDP)*	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.2
Transfers of individual non-market goods or services	*(in % GDP)*	5.7	5.4	5.4	5.2	5.4	5.5	5.7	5.8	5.4	5.3	4.8
Social benefits other than social transfers in kind	*(in % GDP)*	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6	12.8
Interest	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Subsidies	*(in % GDP)*	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8
Gross fixed capital formation	*(in % GDP)*	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.8
Other expenditures	*(in % GDP)*	2.7	3.6	2.2	1.5	4.1	4.2	3.3	2.1	2.4	1.8	1.9

Table 5-10: General government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**782.5**	**861.7**	**879.6**	**915.4**	**1046.5**	**1141.2**	**1219.5**	**1270.5**	**1342.3**	**1409.6**	**1507.2**
	prev.year=100	109.2	110.1	102.1	104.1	114.3	109.1	106.9	.	105.7	105.0	106.9
Compensation of employees	*bn CZK*	**133.9**	**135.0**	**151.4**	**154.7**	**172.9**	**191.6**	**214.2**	**222.1**	**237.9**	**252.4**	**268.3**
	prev.year=100	105.6	100.9	112.1	102.2	111.8	110.8	111.8	103.7	107.1	106.1	106.3
Intermediate consumption	*bn CZK*	**113.1**	**115.1**	**132.7**	**144.0**	**152.9**	**173.6**	**196.0**	**193.5**	**205.9**	**211.7**	**216.1**
	prev.year=100	118.1	101.8	115.3	108.5	106.2	113.5	112.9	98.7	106.4	102.8	102.1
Social benefits other than social transfers in kind[1]	*bn CZK*	**208.1**	**225.6**	**243.8**	**263.9**	**280.5**	**305.1**	**315.6**	**361.9**	**376.4**	**407.4**	**453.9**
	prev.year=100	113.5	108.4	108.0	108.3	106.3	108.8	103.4	.	104.0	108.2	111.4
Social benefits in kind	*bn CZK*	**95.2**	**104.8**	**111.1**	**115.4**	**127.5**	**142.1**	**150.2**	**160.7**	**167.4**	**171.2**	**185.8**
	prev.year=100	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	108.5
Property income	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.9**	**30.6**	**29.3**	**32.6**	**34.4**	**35.6**	**40.4**
	prev.year=100	99.8	114.1	91.6	86.8	129.3	128.2	95.9	111.2	105.6	103.3	113.5
Interest	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.8**	**30.5**	**29.3**	**32.6**	**34.4**	**35.5**	**40.3**
	prev.year=100	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.5
Other property income	*bn CZK*	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**
	prev.year=100	X	183.3	118.2	200.0	80.8	150.0	74.6	112.8	96.2	141.2	100.0
Subsidies	*bn CZK*	**49.3**	**57.9**	**61.1**	**61.0**	**65.4**	**56.6**	**68.2**	**59.0**	**54.7**	**61.4**	**62.6**
	prev.year=100	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	102.0
Gross fixed capital formation	*bn CZK*	**77.3**	**83.8**	**67.7**	**79.1**	**83.4**	**95.2**	**117.2**	**136.4**	**146.5**	**161.5**	**171.2**
	prev.year=100	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	106.0
Capital transfers[2]	*bn CZK*	**72.4**	**92.8**	**77.7**	**57.6**	**127.5**	**120.2**	**98.4**	**72.4**	**76.4**	**59.2**	**60.4**
	prev.year=100	144.6	128.2	83.7	74.2	221.3	94.3	81.8	73.7	105.5	77.4	102.0
Investment grants[3]	*bn CZK*	**18.7**	**19.1**	**22.4**	**25.9**	**27.5**	**36.9**	**35.2**	**35.2**	**33.9**	**36.7**	**36.5**
	prev.year=100	98.7	102.1	117.8	115.6	105.8	134.5	95.2	100.1	96.3	108.4	99.4
Other capital transfers	*bn CZK*	**53.8**	**73.8**	**55.2**	**31.7**	**100.0**	**83.3**	**63.2**	**37.2**	**42.5**	**22.5**	**23.9**
	prev.year=100	172.5	137.3	74.8	57.4	315.8	83.2	75.9	58.9	114.3	52.8	106.3
Other expenditure	*bn CZK*	**13.0**	**23.5**	**13.0**	**21.3**	**12.5**	**26.3**	**30.3**	**31.8**	**42.5**	**49.3**	**48.5**
	prev.year=100	37.3	181.5	55.1	164.3	58.9	209.5	115.4	104.8	133.8	116.1	98.4

[1] *Transfers to households, in cash or in kind, intended to relieve them of financial burdens from a number of risks or needs (for example, sickness, disability, old age, unemployment, family, etc.). From 2004 onwards including contributions of so-called state social insurance policy holders, whose contributions are paid by state.*

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

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

Table 5-11: General government expenditure – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*(in % GDP)*	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	44.9	43.6	42.4
Compensation of employees	*(in % GDP)*	7.4	6.8	7.3	7.1	7.4	7.8	8.3	7.9	8.0	7.8	7.5
Intermediate consumption	*(in % GDP)*	6.2	5.8	6.4	6.6	6.5	7.0	7.6	6.9	6.9	6.5	6.1
Social benefits other than social transfers in kind	*(in % GDP)*	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6	12.8
Social benefits in kind	*(in % GDP)*	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.2
Property income	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Interest	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Other property income	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	*(in % GDP)*	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8
Gross fixed capital formation	*(in % GDP)*	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.8
Capital transfers	*(in % GDP)*	4.0	4.7	3.7	2.6	5.4	4.9	3.8	2.6	2.6	1.8	1.7
Investment grants	*(in % GDP)*	1.0	1.0	1.1	1.2	1.2	1.5	1.4	1.3	1.1	1.1	1.0
Other capital transfers	*(in % GDP)*	3.0	3.7	2.7	1.4	4.3	3.4	2.5	1.3	1.4	0.7	0.7
Other expenditure	*(in % GDP)*	0.7	1.2	0.6	1.0	0.5	1.1	1.2	1.1	1.4	1.5	1.4

Table 5-12: Central government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**574.7**	**652.9**	**660.5**	**681.5**	**799.8**	**853.1**	**904.3**	**907.7**	**946.9**	**982.1**	**1065.3**
	prev.year=100	99.4	113.6	101.2	103.2	117.4	106.7	106.0	.	104.3	103.7	108.5
Compensation of employees	*bn CZK*	**95.4**	**94.8**	**106.0**	**107.2**	**106.4**	**117.0**	**108.8**	**110.8**	**120.9**	**128.2**	**136.8**
	prev.year=100	103.4	99.4	111.8	101.1	99.3	109.9	93.0	101.9	109.1	106.1	106.7
Intermediate consumption	*bn CZK*	**58.1**	**53.9**	**65.3**	**74.8**	**74.2**	**86.7**	**96.9**	**93.5**	**104.4**	**100.9**	**104.9**
	prev.year=100	126.7	92.7	121.3	114.4	99.3	116.8	111.8	96.5	111.7	96.6	104.0
Social benefits other than social transfers in kind[1)]	*bn CZK*	**204.3**	**220.5**	**236.2**	**254.6**	**271.5**	**294.9**	**303.8**	**350.0**	**364.7**	**395.4**	**435.4**
	prev.year=100	133.2	107.9	107.1	107.8	106.6	108.6	103.0	.	104.2	108.4	110.1
Social benefits in kind	*bn CZK*	**1.4**	**1.6**	**1.8**	**1.9**	**3.1**	**3.3**	**2.2**	**1.9**	**0.9**	**0.9**	**2.4**
	prev.year=100	108.8	116.4	110.0	105.3	164.8	107.1	67.2	84.0	50.5	92.4	277.2
Interest	*bn CZK*	**18.6**	**20.4**	**18.6**	**16.7**	**21.9**	**28.5**	**26.9**	**29.6**	**32.3**	**33.2**	**37.5**
	prev.year=100	100.9	110.0	90.9	89.7	131.3	130.5	94.4	109.9	109.0	102.9	112.8
Subsidies	*bn CZK*	**36.6**	**44.0**	**45.6**	**43.7**	**48.8**	**38.3**	**38.9**	**32.7**	**25.4**	**30.2**	**31.3**
	prev.year=100	109.6	120.2	103.7	95.9	111.5	78.6	101.5	84.0	77.7	118.9	103.5
Gross fixed capital formation	*bn CZK*	**24.7**	**26.3**	**31.7**	**36.8**	**34.5**	**33.7**	**46.9**	**62.0**	**76.9**	**80.6**	**97.9**
	prev.year=100	136.9	106.8	120.2	116.4	93.7	97.6	139.1	132.2	124.1	104.9	121.4
Capital transfers	*bn CZK*	**85.3**	**119.4**	**79.7**	**64.8**	**133.2**	**129.3**	**109.0**	**86.5**	**86.7**	**68.0**	**60.1**
	prev.year=100	71.2	140.1	66.7	81.4	205.6	97.1	84.3	79.3	100.2	78.4	88.5
Other expenditure	*bn CZK*	**50.5**	**71.9**	**75.7**	**81.0**	**106.2**	**121.4**	**170.8**	**140.7**	**134.7**	**144.6**	**159.1**
	prev.year=100	52.8	142.4	105.3	107.1	131.0	114.3	140.7	82.4	95.7	107.3	110.0

[1)] *From 2004 onwards including contributions of so-called state social insurance policy holders, whose contributions are paid by state.*

Table 5-13: Local government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**178.6**	**196.2**	**191.2**	**209.3**	**238.4**	**271.7**	**342.8**	**354.0**	**353.1**	**388.1**	**389.7**
	prev.year=100	87.2	109.9	97.4	109.5	113.9	114.0	126.1	103.3	99.8	109.9	100.4
Compensation of employees	*bn CZK*	**36.7**	**38.4**	**43.4**	**45.5**	**64.2**	**72.1**	**102.8**	**108.6**	**114.2**	**121.1**	**128.2**
	prev.year=100	111.9	104.5	113.0	104.7	141.3	112.2	142.6	105.7	105.1	106.1	105.8
Intermediate consumption	*bn CZK*	**53.8**	**60.0**	**66.2**	**68.1**	**77.3**	**85.5**	**97.3**	**98.1**	**99.5**	**109.1**	**109.2**
	prev.year=100	111.3	111.5	110.4	102.9	113.5	110.6	113.9	100.8	101.4	109.7	100.1
Social benefits other than social transfers in kind	*bn CZK*	**3.8**	**5.1**	**7.5**	**9.3**	**9.0**	**10.2**	**11.8**	**11.9**	**11.7**	**12.0**	**18.5**
	prev.year=100	12.6	135.0	146.9	124.2	96.6	113.4	115.6	100.6	98.6	102.5	154.6
Social benefits in kind	*bn CZK*	**1.4**	**1.6**	**1.8**	**2.0**	**1.2**	**1.4**	**2.4**	**2.5**	**2.6**	**2.8**	**3.3**
	prev.year=100	145.4	111.1	114.3	109.1	61.1	115.6	169.9	104.5	102.4	108.9	119.0
Interest	*bn CZK*	**1.6**	**2.6**	**2.6**	**1.7**	**1.9**	**2.0**	**2.4**	**3.0**	**2.2**	**2.4**	**2.9**
	prev.year=100	85.3	160.6	99.4	67.6	110.3	104.5	118.9	126.8	72.9	108.1	120.7
Subsidies	*bn CZK*	**12.7**	**13.9**	**15.5**	**17.2**	**16.6**	**18.2**	**29.3**	**26.3**	**29.3**	**31.2**	**31.3**
	prev.year=100	176.8	109.7	111.4	111.3	96.6	109.6	160.7	89.8	111.6	106.3	100.5
Gross fixed capital formation	*bn CZK*	**51.9**	**56.5**	**35.2**	**41.6**	**48.3**	**60.7**	**69.7**	**73.8**	**68.9**	**80.4**	**72.9**
	prev.year=100	89.3	108.8	62.3	118.0	116.2	125.6	114.9	105.9	93.3	116.8	90.7
Capital transfers	*bn CZK*	**11.5**	**8.5**	**14.9**	**13.3**	**14.2**	**11.9**	**16.4**	**20.3**	**13.6**	**15.0**	**15.1**
	prev.year=100	93.6	73.9	176.0	89.4	106.7	83.4	138.2	123.7	67.1	109.9	100.6
Other expenditure	*bn CZK*	**5.2**	**9.7**	**4.0**	**10.5**	**5.5**	**9.8**	**10.7**	**9.5**	**11.2**	**14.2**	**8.3**
	prev.year=100	39.0	186.7	41.6	262.3	52.3	178.5	108.9	88.7	117.4	126.8	58.9

Table 5-14: Social security fund expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**96.2**	**106.0**	**112.0**	**115.5**	**127.7**	**142.6**	**150.8**	**161.7**	**169.8**	**173.0**	**186.2**
	prev.year=100	106.6	110.2	105.7	103.1	110.6	111.6	105.8	107.2	105.0	101.9	107.6
Compensation of employees	*bn CZK*	**1.8**	**1.8**	**2.0**	**2.1**	**2.3**	**2.5**	**2.7**	**2.7**	**2.9**	**3.0**	**3.3**
	prev.year=100	108.8	104.1	111.0	101.9	109.5	111.1	105.4	102.7	105.7	105.3	107.0
Intermediate consumption	*bn CZK*	**1.2**	**1.3**	**1.2**	**1.1**	**1.4**	**1.5**	**1.9**	**1.9**	**2.0**	**1.6**	**2.0**
	prev.year=100	76.1	105.5	92.9	94.8	127.3	105.3	123.4	102.1	105.9	81.4	121.6
Social benefits other than social transfers in kind	*bn CZK*	**-**	**-**	**0.0**	**-**	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**0.0**
	prev.year=100	X	X	X	0.0	X	X	X	X	X	200.0	100.0
Social benefits in kind	*bn CZK*	**92.4**	**101.5**	**107.5**	**111.5**	**123.2**	**137.4**	**145.6**	**156.3**	**163.9**	**167.5**	**180.0**
	prev.year=100	107.3	109.9	105.8	103.8	110.4	111.6	106.0	107.4	104.8	102.2	107.5
Interest	*bn CZK*	**0.1**	**0.2**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	prev.year=100	215.7	168.2	42.2	23.1	77.8	50.0	85.7	100.0	16.7	300.0	100.0
Subsidies	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Gross fixed capital formation	*bn CZK*	**0.7**	**0.9**	**0.8**	**0.7**	**0.6**	**0.9**	**0.6**	**0.7**	**0.8**	**0.5**	**0.5**
	prev.year=100	140.7	129.4	85.8	84.0	84.0	154.6	69.5	111.1	119.1	58.3	103.2
Capital transfers	*bn CZK*	**-**	**-**	**0.1**	**0.0**	**-**	**0.0**	**0.0**	**0.1**	**-**	**-**	**-**
	prev.year=100	X	X	X	6.6	0.0	X	81.4	174.3	0.0	X	X
Other expenditure	*bn CZK*	**0.1**	**0.2**	**0.3**	**0.1**	**0.3**	**0.2**	**0.1**	**0.0**	**0.3**	**0.4**	**0.4**
	prev.year=100	13.7	455.8	108.4	31.5	332.1	82.2	29.4	64.6	671.4	127.7	123.9

5.3 Balance

Table 5-15: General government net lending/net borrowing by subsectors

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government net lending (+)/net borrowing (-)	*bn CZK*	**-68.8**	**-100.1**	**-77.3**	**-81.5**	**-135.0**	**-166.8**	**-170.0**	**-82.7**	**-106.6**	**-85.5**	**-55.4**
Central government net lending (+) /net borrowing (-)	*bn CZK*	**-55.2**	**-105.7**	**-78.7**	**-76.2**	**-124.6**	**-150.9**	**-154.3**	**-75.4**	**-104.8**	**-84.6**	**-83.3**
Local government net lending (+) /net borrowing (-)	*bn CZK*	**-12.5**	**6.8**	**0.9**	**-9.2**	**-10.1**	**-11.7**	**-14.1**	**-4.6**	**-1.6**	**-12.7**	**10.5**
Social security funds net lending (+) /net borrowing (-)	*bn CZK*	**-1.2**	**-1.1**	**0.5**	**3.9**	**-0.3**	**-4.2**	**-1.7**	**-2.7**	**-0.2**	**11.8**	**17.4**

Table 5-16: General government net lending/net borrowing by subsectors – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government net lending (+)/net borrowing (-)	*(in % GDP)*	-3.8	-5.0	-3.7	-3.7	-5.7	-6.8	-6.6	-2.9	-3.6	-2.6	-1.6
Central government net lending (+) /net borrowing (-)	*(in % GDP)*	-3.0	-5.3	-3.8	-3.5	-5.3	-6.1	-6.0	-2.7	-3.5	-2.6	-2.3
Local government net lending (+) /net borrowing (-)	*(in % GDP)*	-0.7	0.3	0.0	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.4	0.3
Social security funds net lending (+) /net borrowing (-)	*(in % GDP)*	-0.1	-0.1	0.0	0.2	0.0	-0.2	-0.1	-0.1	0.0	0.4	0.5

5.4 Debt

Table 5-17: General government debt by subsectors and instruments

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government debt by instruments	bn CZK	**236.7**	**299.8**	**340.5**	**405.4**	**591.5**	**702.3**	**775.0**	**855.1**	**888.6**	**951.5**	**1019.4**
	prev.year=100	112.8	126.7	113.6	119.1	145.9	118.7	110.3	110.3	103.9	107.1	107.1
Currency and deposits	bn CZK	**-**	**-**	**-**	**-**	**7.2**	**24.4**	**4.0**	**2.8**	**0.6**	**0.0**	**-**
	prev.year=100	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0
Securities other than shares	bn CZK	**160.3**	**196.4**	**232.1**	**275.6**	**354.8**	**427.4**	**528.4**	**633.8**	**698.2**	**788.6**	**865.2**
	prev.year=100	108.6	122.5	118.2	118.7	128.7	120.5	123.6	119.9	110.2	112.9	109.7
Loans	bn CZK	**76.4**	**103.4**	**108.4**	**129.8**	**229.5**	**250.5**	**242.6**	**218.5**	**189.8**	**162.9**	**154.2**
	prev.year=100	122.8	135.3	104.8	119.7	176.9	109.2	96.8	90.0	86.9	85.8	94.7
Central government debt	bn CZK	**211.2**	**271.7**	**314.6**	**378.3**	**559.8**	**660.6**	**725.6**	**790.4**	**816.0**	**870.2**	**935.2**
	prev.year=100	112.7	128.7	115.8	120.2	148.0	118.0	109.8	108.9	103.2	106.6	107.5
Currency and deposits	bn CZK	**-**	**-**	**-**	**-**	**7.2**	**24.4**	**4.0**	**2.8**	**0.6**	**0.0**	**-**
	prev.year=100	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0
Securities other than shares	bn CZK	**145.7**	**185.0**	**222.4**	**267.9**	**347.8**	**415.4**	**517.4**	**611.5**	**674.8**	**765.9**	**843.0**
	prev.year=100	107.2	126.9	120.2	120.5	129.8	119.4	124.6	118.2	110.3	113.5	110.1
Loans	bn CZK	**65.4**	**86.7**	**92.2**	**110.4**	**204.8**	**220.8**	**204.2**	**176.0**	**140.6**	**104.3**	**92.2**
	prev.year=100	126.9	132.5	106.4	119.7	185.5	107.8	92.5	86.2	79.9	74.1	88.5
Local government debt	bn CZK	**31.9**	**36.0**	**34.5**	**35.8**	**40.3**	**50.0**	**59.0**	**72.0**	**79.1**	**86.6**	**87.9**
	prev.year=100	117.3	112.7	95.7	103.9	112.7	124.0	118.0	122.1	109.8	109.5	101.5
Currency and deposits	bn CZK	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	bn CZK	**14.7**	**12.0**	**10.1**	**8.2**	**7.1**	**12.3**	**11.9**	**22.6**	**24.0**	**23.1**	**22.8**
	prev.year=100	124.1	81.9	83.9	81.5	86.8	172.4	96.6	190.7	105.8	96.5	98.4
Loans	bn CZK	**17.3**	**24.0**	**24.4**	**27.6**	**33.2**	**37.7**	**47.1**	**49.4**	**55.1**	**63.5**	**65.1**
	prev.year=100	112.1	138.9	101.6	113.1	120.4	113.6	125.0	104.8	111.6	115.2	102.6
Social security funds debt	bn CZK	**2.4**	**1.7**	**1.2**	**0.7**	**0.5**	**0.4**	**0.3**	**0.2**	**0.3**	**0.2**	**0.1**
	prev.year=100	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	29.8
Currency and deposits	bn CZK	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	bn CZK	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Loans	bn CZK	**2.4**	**1.7**	**1.2**	**0.7**	**0.5**	**0.4**	**0.3**	**0.2**	**0.3**	**0.2**	**0.1**
	prev.year=100	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	29.8

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

Table 5-18: General government debt by subsectors and instruments – ratios to GDP

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government debt based on instruments	*(in % GDP)*	13.1	15.0	16.4	18.5	25.1	28.5	30.1	30.4	29.7	29.4	28.7
Currency and deposits	*(in % GDP)*	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	8.9	9.8	11.2	12.6	15.1	17.3	20.5	22.5	23.4	24.4	24.3
Loans	*(in % GDP)*	4.2	5.2	5.2	5.9	9.8	10.2	9.4	7.8	6.4	5.0	4.3
Central government debt	*(in % GDP)*	11.7	13.6	15.1	17.3	23.8	26.8	28.2	28.1	27.3	26.9	26.3
Currency and deposits	*(in % GDP)*	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	8.0	9.3	10.7	12.2	14.8	16.9	20.1	21.7	22.6	23.7	23.7
Loans	*(in % GDP)*	3.6	4.3	4.4	5.0	8.7	9.0	7.9	6.3	4.7	3.2	2.6
Local government debt	*(in % GDP)*	1.8	1.8	1.7	1.6	1.7	2.0	2.3	2.6	2.6	2.7	2.5
Currency and deposits	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	0.8	0.6	0.5	0.4	0.3	0.5	0.5	0.8	0.8	0.7	0.6
Loans	*(in % GDP)*	1.0	1.2	1.2	1.3	1.4	1.5	1.8	1.8	1.8	2.0	1.8
Social security funds debt	*(in % GDP)*	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Loans	*(in % GDP)*	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

5.5 International comparison

Table 5-19: General government balance and debt of EU countries

		Balance					Debt				
		2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
EU 27	*(in % GDP)*	-2.8	-2.5	-1.4	-0.9	.	62.1	62.6	61.3	58.7	.
EA	*(in % GDP)*	-2.9	-2.5	-1.3	-0.6	.	69.7	70.3	68.6	66.6	.
Belgium	*(in % GDP)*	0.0	-2.3	0.3	-0.2	0.0	94.2	92.1	88.2	84.9	81.5
Bulgaria	*(in % GDP)*	1.4	1.8	3.0	3.4	3.0	37.9	29.2	22.7	18.2	16.9
Czech Republic	*(in % GDP)*	-3.0	-3.6	-2.7	-1.6	-1.5	30.4	29.7	29.4	28.7	29.0
Denmark	*(in % GDP)*	1.9	5.0	4.8	4.4	3.8	43.8	36.4	30.4	26.0	21.8
Estonia	*(in % GDP)*	1.6	1.8	3.4	2.8	-1.1	5.1	4.5	4.2	3.4	3.5
Finland	*(in % GDP)*	2.4	2.9	4.1	5.3	4.6	44.1	41.3	39.2	35.4	32.8
France	*(in % GDP)*	-3.6	-2.9	-2.4	-2.7	.	64.9	66.4	63.6	64.2	.
Ireland	*(in % GDP)*	1.4	1.6	3.0	0.3	-0.9	29.5	27.4	25.1	25.4	25.9
Italy	*(in % GDP)*	-3.5	-4.2	-3.4	-1.9	-2.4	103.8	105.8	106.5	104.0	103.0
Cyprus	*(in % GDP)*	-4.1	-2.4	-1.2	3.3	1.1	70.2	69.1	64.8	59.8	48.9
Lithuania	*(in % GDP)*	-1.5	-0.5	-0.5	-1.2	-0.4	19.4	18.6	18.2	17.3	16.4
Latvia	*(in % GDP)*	-1.0	-0.4	-0.2	0.0	0.7	14.9	12.4	10.7	9.7	8.9
Luxemburg	*(in % GDP)*	-1.2	-0.1	1.3	2.9	1.3	6.3	6.1	6.6	6.8	7.2
Hungary	*(in % GDP)*	-6.5	-7.8	-9.2	-5.5	-4.0	59.4	61.6	65.6	66.0	66.6
Malta	*(in % GDP)*	-4.6	-3.0	-2.6	-1.8	-1.2	72.6	70.4	64.2	62.6	60.6
Germany	*(in % GDP)*	-3.8	-3.4	-1.6	0.0	-0.5	65.6	67.8	67.6	65.0	63.1
Netherlands	*(in % GDP)*	-1.7	-0.3	0.5	0.4	1.1	52.4	52.3	47.9	45.4	42.8
Poland	*(in % GDP)*	-5.7	-4.3	-3.8	-2.0	-2.5	45.7	47.1	47.6	45.2	44.4
Portugal	*(in % GDP)*	-3.4	-6.1	-3.9	-2.6	-2.4	58.3	63.6	64.7	63.6	63.4
Austria	*(in % GDP)*	-3.7	-1.5	-1.5	-0.5	-0.6	63.8	63.5	61.8	59.1	57.7
Romania	*(in % GDP)*	-1.2	-1.2	-2.2	-2.5	-2.4	18.8	15.8	12.4	13.0	12.7
Greece	*(in % GDP)*	-7.4	-5.1	-2.6	-2.8	-1.6	98.6	98.0	95.3	94.5	91.0
Slovakia	*(in % GDP)*	-2.4	-2.8	-3.6	-2.2	-2.3	41.4	34.2	30.4	29.4	30.1
Slovenia	*(in % GDP)*	-2.3	-1.5	-1.2	-0.1	-0.9	27.6	27.5	27.2	24.1	23.4
Spain	*(in % GDP)*	-0.3	1.0	1.8	2.2	1.2	46.2	43.0	39.7	36.2	34.0
Sweden	*(in % GDP)*	0.8	2.2	2.3	3.5	2.9	51.2	50.9	45.9	40.6	35.6
United Kingdom	*(in % GDP)*	-3.4	-3.4	-2.6	-2.9	.	40.4	42.1	43.1	43.8	.

Table 5-20: General government transactions of EU countries in 2006

Transactions / Country		Revenue	Expenditure	Compensation of employees	Cash social benefits	Consumption [1]	Investments [2]	Interest expenditure
EU 27	(in % GDP)	44.9	45.8	10.4	15.1	20.4	2.6	2.7
EA	(in % GDP)	47.1	47.7	10.4	16.4	20.7	2.6	3.1
Belgium	(in % GDP)	48.7	48.9	11.8	15.6	22.4	1.7	3.9
Bulgaria	(in % GDP)	41.2	37.8	9.0	10.9	16.2	4.8	1.0
Czech Republic	(in % GDP)	40.8	42.4	7.5	12.8	20.0	4.8	1.1
Denmark	(in % GDP)	55.1	50.6	16.7	15.0	25.9	1.8	1.5
Estonia	(in % GDP)	36.9	33.7	9.2	8.8	17.1	4.4	0.1
Finland	(in % GDP)	52.7	47.5	12.9	15.3	21.2	2.5	1.5
France	(in % GDP)	49.9	52.6	12.9	17.5	23.3	3.3	2.7
Ireland	(in % GDP)	36.7	36.4	9.9	9.7	16.8	4.2	1.0
Italy	(in % GDP)	46.6	48.5	10.7	17.3	19.8	2.4	5.0
Cyprus	(in % GDP)	47.2	43.9	14.6	12.1	17.8	3.1	3.2
Lithuania	(in % GDP)	34.3	35.6	10.1	9.3	16.9	5.2	0.7
Latvia	(in % GDP)	38.0	38.0	11.5	7.6	18.2	5.7	0.5
Luxemburg	(in % GDP)	40.5	37.5	7.3	13.1	15.0	3.8	0.2
Hungary	(in % GDP)	44.6	50.1	11.4	15.2	21.2	3.6	4.1
Malta	(in % GDP)	40.7	42.5	13.1	12.4	19.3	4.1	3.4
Germany	(in % GDP)	43.9	43.9	6.9	17.3	18.0	1.5	2.8
Netherlands	(in % GDP)	46.3	45.9	9.3	10.6	25.3	3.4	2.3
Poland	(in % GDP)	40.4	42.4	9.6	14.4	18.0	4.1	2.6
Portugal	(in % GDP)	43.1	45.8	12.9	15.2	20.2	2.4	2.9
Austria	(in % GDP)	47.5	48.2	9.0	17.6	18.1	1.0	2.8
Romania	(in % GDP)	34.4	36.9	9.7	9.4	15.9	5.5	0.7
Greece	(in % GDP)	40.2	43.3	11.1	17.3	16.6	3.0	4.3
Slovakia	(in % GDP)	34.7	36.9	6.8	11.6	17.3	1.9	1.4
Slovenia	(in % GDP)	43.2	43.3	10.9	14.7	18.2	3.7	1.3
Spain	(in % GDP)	41.0	38.8	10.2	11.6	18.4	3.8	1.6
Sweden	(in % GDP)	56.0	52.6	15.1	15.3	25.9	3.1	1.9
United Kingdom	(in % GDP)	40.9	43.7	10.8	12.5	21.1	1.8	2.2

[1] *Collective and individual consumption of general government.*
[2] *Gross fixed capital formation.*