

# 1 Introduction

After a respite of several years, in 2009 the Czech Republic's public finances found themselves in an unfavourable situation. It appears that the temporarily improved situation was mainly due to the economy's cyclical development, and the reforms undertaken since 2006 were far from sufficient to ensure sustainability of the public budgets in the medium term.

In the long term, there is one more phenomenon threatening the Czech Republic's public finances: demographic trends, and in particular the adverse effects these will have on the pension system. The Czech Republic, therefore, like other developed countries, will not avoid a phase of fiscal consolidation, whether its effects will be on the expenditure or revenue side.

A relatively favourable report, albeit more in terms of the Czech Republic's credibility than in terms of public budgets management, regards compliance with the planned amount of the state budget for at least 2010. In June, the government approved the planned state deficit for the next year, which was eventually not only respected but the proposal submitted to the Parliament foresees an even slightly lower deficit.

The present Fiscal Outlook is based, in its revenue and expenditure parameters, on the state budget draft and its medium-term perspective, and therefore it considers all measures which have been approved by the government and/or the Parliament of the Czech Republic up to 25 September 2009.

Although the values presented in the Fiscal Outlook can be considered realistic, they are subject to the following assumptions: i) neither lower nor higher than expected economic growth will occur, ii) the structure of the growth or decline of the individual items and factors affecting GDP will not be significantly different from those envisaged in this publication and in the Macroeconomic Forecast, iii) no further stimulus or restrictive measures will become effective, and iv) there will be no unexpected timing incongruities between the revenues and expenditures of the government sector.

The special topic of this edition is the issue of long-term fiscal projections, the concept of accrual taxes and their method of calculation in the Czech Republic. This is an issue that the Ministry of Finance is addressing in cooperation with the European Commission within the Working Group on Ageing Populations. This relates to spending on pensions, health care, long-term care, education and unemployment.

## 1.1 Macroeconomic development

*The Czech economy is developing under the influence of the global economic crisis. Given the size of the Czech economy as well as its openness, its recovery will depend mainly on the development of the external environment.*

In the last quarter of 2008, external conditions changed abruptly. A drop in foreign demand was reflected in the development of domestic macroeconomic indicators. The Czech economy entered a period of economic recession in the 4th quarter of 2008 and the 1st quarter of 2009. Economic output decreased by more than 5%, but by the 2nd quarter of 2009 the decrease had already ended. Effects from a halt in the decline of our major trading partners' economies and stimulus measures from the Czech government are gradually becoming evident. According to the central projection, the economy should start growing again during 2010 but a negative production gap should persist throughout the

outlook's horizon with above-average unemployment, below-average production capacities' utilisation, but also low inflationary pressures.

The drop in employment and, from the start of 2010, the decrease in disposable income due to stabilisation measures, should gradually be reflected in household consumption during 2009 and in 2010. Households' efforts to generate savings to cover risks will also become evident. The low inflation rate, on the other hand, could contribute to an increase in household consumption. We also anticipate economising behaviour on the part of the government. Despite increased infrastructure investments, a deep slump in gross fixed capital formation is expected in 2009. Investments into housing continue to decline. Following the overheating of the market in 2007 and 2008, the situation should gradually return to a long-term sustainable trajectory. Regarding the situation of households, rather the opposite projection from this trajectory can be expected in the immediate term. In the forthcoming years, more efficient drawing from European funds could become evident and, with a gradually improving economic situation, production investments in the private sector should begin to pick up speed.

The year 2009 is one of significant disinflation. The regime of inflation targeting with a reduction in the inflation target to 2.0% from 2010, a strengthening exchange rate of the Czech crown, and the absence of both cost and demand pressures should ensure that low-inflationary development will continue in the coming years.

The extensive drop in employment is likely to be reflected in an unprecedentedly low growth rate for wages and salaries in 2009 and 2010. The reduction in salaries in the public sector will be reflected in the development of wages in the private sector. In the coming years, the payroll dynamics should gradually increase in accordance with the growth rate of nominal GDP.

**Table 1-1: Main macroeconomic indicators**

|                                     |                         | 2008  | 2009     | 2010     | 2011    | 2012    | 2010                     | 2011  | 2012  |
|-------------------------------------|-------------------------|-------|----------|----------|---------|---------|--------------------------|-------|-------|
|                                     |                         |       | Forecast | Forecast | Outlook | Outlook | Fiscal Outlook - May '09 |       |       |
| Gross domestic product              | (bn CZK, curr.p.)       | 3 694 | 3 603    | 3 623    | 3 812   | 4 015   | 3 747                    | 3 923 | 4 127 |
|                                     | (growth in %, const.p.) | 2,7   | -5,0     | 0,3      | 2,8     | 3,3     | 0,8                      | 2,4   | 3,0   |
| Private consumption                 | (growth in %, const.p.) | 3,4   | 0,7      | -1,3     | 2,3     | 2,5     | 0,9                      | 2,0   | 2,5   |
| Government consumption              | (growth in %, const.p.) | 1,6   | 2,0      | -1,0     | -0,6    | -0,2    | 1,2                      | 0,8   | 0,0   |
| Gross fixed capital formation       | (growth in %, const.p.) | -1,1  | -7,8     | -3,9     | 2,5     | 3,6     | -0,2                     | 2,5   | 3,0   |
| Contr. of net exports to GDP growth | (p.p., const.p.)        | 1,5   | -1,0     | 1,4      | 0,6     | 1,0     | 0,5                      | 0,6   | 1,0   |
| GDP deflator                        | (growth in %)           | 1,7   | 2,7      | 0,2      | 2,3     | 2,0     | 0,7                      | 2,2   | 2,2   |
| Inflation                           | (in %)                  | 6,3   | 0,9      | 1,4      | 1,8     | 2,0     | 0,9                      | 2,2   | 2,0   |
| Employment (LFS)                    | (growth in %)           | 1,6   | -1,3     | -1,9     | 0,0     | 0,5     | -1,6                     | -0,4  | 0,4   |
| Unemployment rate (reg.)            | (average in %)          | 4,4   | 6,5      | 8,4      | 8,2     | 7,6     | 7,5                      | 8,3   | 8,0   |
| Wages and salaries                  | (growth in %, curr.p.)  | 8,7   | -0,3     | -1,1     | 4,5     | 5,3     | 2,3                      | 4,7   | 5,2   |
| Current account to GDP ratio        | (in %)                  | -3,1  | -1,4     | 0,4      | 0,9     | 0,9     | -2,6                     | -2,3  | -1,2  |
| Assumptions                         |                         |       |          |          |         |         |                          |       |       |
| Exchange rate CZK/EUR               |                         | 24,9  | 26,3     | 24,9     | 24,1    | 23,3    | 25,0                     | 23,9  | 23,2  |
| Long-term interest rates            | (% p.a.)                | 4,6   | 4,9      | 4,3      | 4,3     | 4,3     | 4,5                      | 4,5   | 4,5   |
| Crude oil Brent                     | (USD/barrel)            | 97,7  | 61,4     | 78,8     | 92,5    | 92,8    | 65,5                     | 79,0  | 85,8  |
| GDP in Eurozone (EA-12)             | (growth in %, const.p.) | 0,8   | -4,0     | 0,9      | 1,7     | 2,1     | -0,5                     | 0,9   | 1,8   |

## 1.2 Fiscal policy objectives

As early as at the end of 2008, it was already apparent that the global economic decline would also hit the domestic economy and that the collapse of financial markets would increase the cost of state debt service. In the given situation, the government understandably focused on helping the domestic economy and improving the credibility of the state's financial stability. Already at the end of 2008 and subsequently at the beginning of 2009, the Government proposed and adopted measures to mitigate the impact of the decline and support the domestic economy in the aggregate amount of approximately 2% of GDP.<sup>1</sup>

These stimulative measures, together with the effects of automatic stabilisers, led to a sharp increase in the government sector deficit, which up till September was reported to total 6% of GDP. In this context, it is necessary to draw attention to two connections:

1. When evaluating the setting of fiscal policy in 2009 and 2010, one must realize that the expenditure frameworks applicable to these years were set in 2007, when the economy was at its peak growth, and then only minimally modified. Their settings, therefore, partly reflected the then-optimistic expectations for future developments. This higher level of planned expenditures means strengthening the significance of automatic stabilisers in the Czech economy in 2009 and 2010, however, and hence higher deficits.
2. The amount of the government sector deficits in 2009 through 2012 is significantly affected by the assumptions as to the impacts from the sale of allocated emission allowances (Kyoto Protocol). Although the cumulative impact upon the deficit is for the entire period of selling the allocated number of units and implementation of the spending on Green Savings project is zero, the deficits in each year are affected due to a time mismatch of revenues and expenditures. The stated deficit for 2009 is improved by almost CZK 11 billion. For 2010 and 2011 we are working with the assumption of a zero impact on the deficit, and in 2012 we assume compensating deterioration of the deficit.

A significant long-term overrun of deficit criteria could significantly reduce the Czech Republic's credit and consequently increase the government's debt financing costs or even impede the sale of government bonds and thus delay or even prevent the implementation of some government expenditures. For this reason, the government proposed and the Parliament approved a package of saving measures, particularly for 2010, in the amount of about 1.6% of GDP and supplemented by still other measures in the amount of about 0.4% of GDP, which are intended to keep the government sector deficit at the planned 5.3% of GDP.<sup>2</sup>

The remaining years of the medium-term outlook are affected by the gradually ending effectiveness of time-limited counter-crisis and savings measures. Ultimately, the planned government sector deficits amount to 5.6% of GDP in 2011 and 5.5% of GDP in 2010. The deterioration of the deficits in the years of the outlook relative to 2010 is due to the unstable situation caused by the deferral of early elections, which the government had not counted upon when preparing the outlook. For this reason,

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<sup>1</sup> From an economic point of view, the pace of approving anti-crisis PSP measures seems unfortunate. A series of measures were approved through the summer, and their anti-crisis effects may therefore be weakened.

<sup>2</sup> Likewise, there were also some stimulative measures in 2010.

the measures adopted have rather an ad hoc nature and therefore we can scarcely speak of long-term fiscal planning at present.

In June 2008, the excessive deficit procedure was abrogated with the Czech Republic. It is obvious that the Czech Republic will return to this procedure at the end of 2009. On the basis of the currently valid medium-term outlook, the government sector deficit will not drop below the 3% Maastricht criteria. Also, the reduction of the structural government deficit to 1% of GDP by 2012, which the Czech Republic had undertaken to meet within the EU fiscal rules, will not be achieved within the valid methodology for calculating the structural balance. Although the Czech Republic is one of the first EU countries to begin fiscal consolidation, it is certain that the European Commission will not allow any significant overrun of the 3% deficit mark in 2012. The Czech Republic will be obliged to continue fiscal consolidation.

The inflow of EU funds remains a substantial expansive factor. In principle, these have no immediate impacts on the government sector balance (except in relation to co-financing), because they represent both government revenues and expenditures at the same time. Still, they represent large additional sources creating demand.

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

|                                      | <b>2008</b><br><i>Preliminary</i> | <b>2009</b><br><i>Forecast</i> | <b>2010</b><br><i>Outlook</i> | <b>2011</b><br><i>Outlook</i> | <b>2012</b><br><i>Outlook</i> |
|--------------------------------------|-----------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| General government balance           | -2.1                              | -6.6                           | -5.3                          | -5.6                          | -5.5                          |
| Cyclical component                   | 0.8                               | -1.4                           | -2.0                          | -1.9                          | -1.7                          |
| One-off and other temporary measures | -0.1                              | 0.2                            | -0.1                          | -0.1                          | -0.3                          |
| Structural balance                   | -2.8                              | -5.4                           | -3.3                          | -3.8                          | -3.6                          |
| Change in structural balance         | -1.3                              | -2.6                           | 2.1                           | -0.5                          | 0.2                           |

## 2 Development of public finance

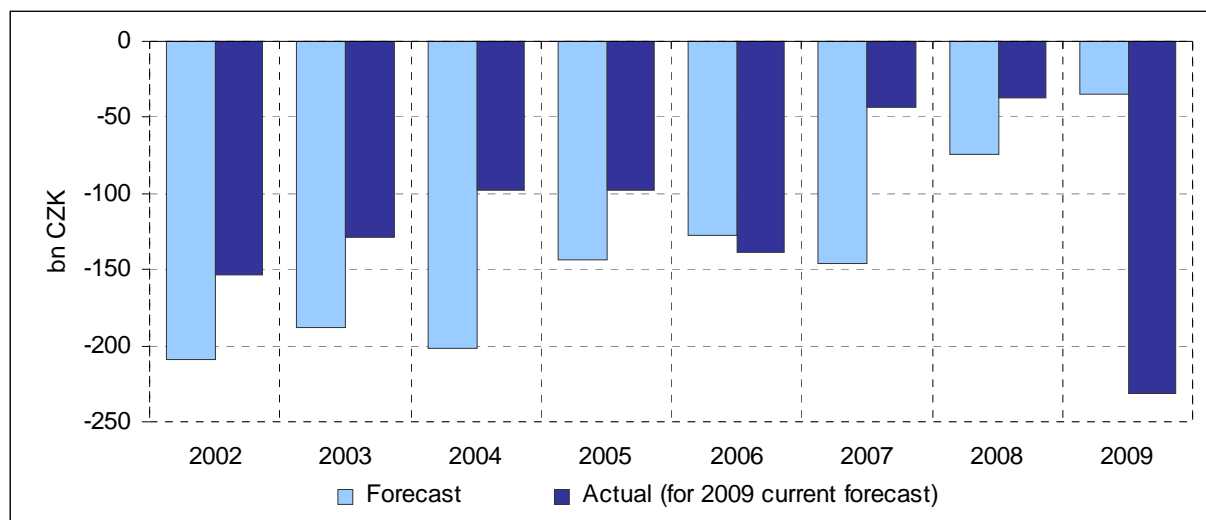
### 2.1 Public budgets – cash flows

#### Public budgets in 2009

The consequences of the economic crisis have resulted in a far more pronounced slowdown of economic growth than originally expected. This fact is reflected also in the development of public budgets' cash flows in 2009. There will be a significant deterioration in the public budgets' balance in comparison to the approved budget documentation for 2009. The public budgets' revenue and expenditure sides will be negatively affected, because, in addition to the economic slowdown, the impacts associated with the approved anti-crisis measures will be reflected there (Box 1). This will increase the deficit by a substantial CZK 98.3 bn.

We expect that the estimated **deficit net of financial operations** will reach ca CZK 231.8 bn, and compared to the assumption it should be CZK 196.7 bn higher. Its share in GDP will increase considerably by 5.4 p.p. in comparison to the assumptions and will be 6.4%. Compared to the budget documentation, public budgets revenues will be lower by CZK 197.5 bn. The **deficit selected for fiscal targeting** should be CZK 193.1 bn higher and reach CZK 233.4 bn. Expressed as a proportion of GDP, it will be 5.4 p.p. higher than the originally established fiscal target for 2009 (1.0% of GDP) and will reach 6.4% of GDP (for more information see Chapter 3.1). The **state budget**, in particular, has a vital influence in re-evaluating the cash flow estimate and its estimated deficit, net of financial operations. Compared to the originally approved budget, this will be higher by CZK 183.5 bn and should be approximately CZK 217.5 bn. Considerably lower expected revenues (by CZK 166.2 bn) will be reflected there. In particular, the development of tax collections (including social and health insurance contributions) will be noticeably poorer – decreasing by CZK 158.8 bn. Compared to the original expectation, all tax revenue items will develop more poorly. The greatest re-evaluation concerns the collection of social insurance contributions (less by CZK 66.4 bn). Anticipated revenues from direct taxes will also be appreciably lower (by CZK 53.0 bn). Expected revenues from indirect taxes will be CZK 38.4 bn lower, as excise taxes collection will decrease further (by CZK 20.6 bn). VAT revenues are expected to decrease by CZK 17.8 bn.

Graph 2-1: Anticipated and actual balances in 2002-2009



In comparison to the budget documentation, higher expenditures (by CZK 17.2 bn) can be expected for the state budget. The most significant increases are likely to occur in the cases of capital expenditures (by CZK 15.2 bn), debt service expenditures (by CZK 5.5 bn), and transfers to the public and non-profit organisations (by CZK 9.7 bn). On the other hand, the most significant decrease will occur in current subsidies to other enterprises (decrease by CZK 20.8 bn).

According to the current estimates, other public budget subjects, too, will achieve poorer results than originally predicted. In particular, the outcomes are expected to be significantly worse in local governments (by CZK 32.1 bn) and the public health insurance sector (by CZK 8.9 bn) while the state funds can be expected to improve slightly.

It is apparent from the expenditure side that no restructuring has yet been implemented there. The unsustainable expenditure trends established in the past are leading to growth in mandatory expenditures. The counter-crisis measures adopted contribute to a worsening of this development.

The bulk of the public budget deficit is to be financed by **loans and government bonds**. Their volume will reach CZK 1,234.4 bn, which is 34.5% of GDP. This is CZK 140.0 bn more than originally expected.

No major changes are anticipated in the shares attributable to the individual subjects in the public budgets indebtedness. The state debt (92.5%) will continue to have the greatest weight in the public budgets debt, followed by the debt of municipal governments and of state funds, where especially the State Agricultural Intervention Fund is required to finance its deficit balance using credit due to the lack of free cash resources. The year-on-year public budgets debt growth will accelerate considerably and reach 16.1%. The state debt will grow even faster (by 17.4%).

## Public budgets in 2010

In 2010, we can also expect considerable worsening in the development of public budgets. Although year-on-year there will be a significant decrease (by 68.3%) in the public budgets deficit, its amount will nevertheless remain very high in both absolute terms and as a share of GDP. The estimated **deficit net of financial operations** will be CZK 136.5 bn, i.e. 4.5% of GDP. Also the balance selected for fiscal targeting will decrease rather considerably year-on-year (by CZK 51.4 bn) and will be CZK -180.9 bn, i.e. 4.9% of GDP (for more information see Chapter 3.2). Expressed in proportion to GDP, revenues will increase by 2.2 p.p. while expenditures will stay almost unchanged. Revenues will increase annually by 6.3% and expenditures by 1.1%. This will cause a significant year-on-year decline in the deficit of public budgets.

The public budgets development is significantly affected by the continuing economic recession, and the measures to mitigate the impact of the decline are negatively reflected in the deficit amount (see Box 1). The overall result of public budgets also reflects the steps taken with the aim to reduce the state budget deficit (see Box 2). These approved measures are the main cause of the year-on-year decline in the state budget deficit, which will be CZK 56.5 bn, and thus will be the major factor in improving the developmental trends of public budgets. The principal measures are focused on the revenue side, but the savings occur, albeit to a lesser extent, also on the expenditure side. The tax burden increases due to this approach. The annual improvement is also seen in the expected operations of other public budgets subjects. The state budget deficit, net of financial operations, will be CZK 160.9 bn.

Due to the decline in public budgets, the year-on-year dynamics of their debt growth will slow down. The volume of loans and government bonds will reach CZK 1,422.2 bn, i.e. 39.3% of GDP. Expressed as a proportion of GDP compared to 2009, it will increase by 4.7 p.p. (and absolutely by CZK 178.8 bn). The weight of the state debt in the total public debt will slightly increase and reach 92.9%. Especially as a result of the crisis, but also due to the influence of expenditure trends established in the past, the dynamics of public budgets debt growth has already been high for several years. Debt service expenditures, which are a permanent burden of public budgets expenditures, will continue to grow.

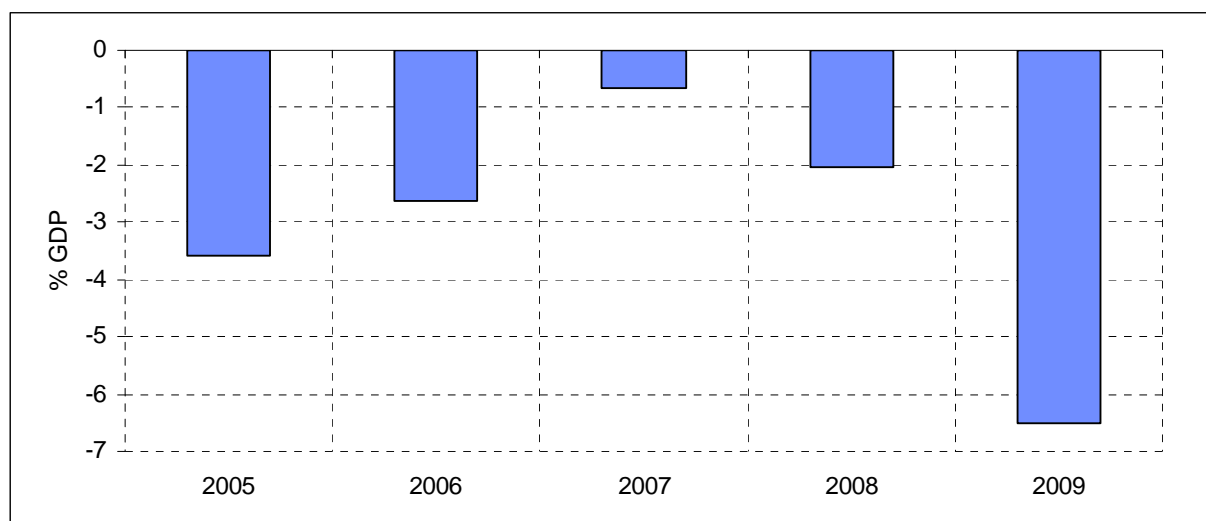
The facts, that the Czech Republic is in a cyclical phase of economic cooling and that no exceptional one-time revenues are no longer available as in past years to cover spending, are significantly reflected in the expected development of the deficit and public budget debt. All this is causing a deepening of the deficit tendencies established in the past in association with the unsustainable expenditure trends and growth in mandatory expenditures.

## 2.2 General government – national accounts (ESA 95)

In 2008, the general government balance reached CZK –77 bn, which was –2.1% of GDP. Compared to preliminary data of the Czech Statistical Office from April 2009, the deficit is worse by nearly CZK 23 bn.

The general government deficit is expected in 2009 to deepen considerably to as much as CZK 240 bn, which is 6.6% of GDP. After a relatively long time, the 3% border, relevant for fulfilling the Maastricht convergence criteria, will once again be exceeded.

**Graph 2-2: General government net lending / net borrowing**



### Revenues, expenditure and balance in 2008

General government **revenues** increased by only 1.8% **in comparison to 2007** and thus reached CZK 1,507.8 bn, which is 40.9% of GDP. The decreasing trend as to general government revenues' proportion in GDP thus continued. At the same time, households and companies continued to have a greater share in the available funds. In this case, it is essential to adjust the expenditure side to a similar extent and this development should not increase the government debt.



This low growth in general government revenues is mainly due to a significant decline in the growth dynamics of tax and social insurance contributions. These make up 90% of long-term revenues and, with their growth of 1.3%, they determine the situation to a certain extent.

A package of reform measures approved in 2007 was the main reason for this situation. The PIT and CIT were adjusted, which resulted in a year-on-year decrease in the revenues from those taxes. Furthermore, ceilings for social insurance were introduced which, relative to previous years, slowed the dynamics of their growth. This decrease in taxes was subsequently compensated on the revenues side by an increase in the reduced VAT rate and by introducing energy taxes.

General government revenues were also affected by the currently ongoing economic crisis, which was partially evident already at the close of 2008. In the last quarter of 2008, year-on-year growth of nominal GDP, which is one of the factors determining tax revenues, slowed down significantly.

Compared to April's preliminary data from the Czech Statistical Office, there was a downward revision of general government revenues by nearly CZK 10 bn. This was largely because of tax revenues that were revised downward by more than CZK 11 bn. In this case, it was particularly VAT (as anticipated in the previous issue of Fiscal Outlook) and CIT, which were revised on the basis of tax returns submitted for 2008.

In contrast to 2007, **general government expenditures** grew by 5.3% to CZK 1,583.4 bn, which represents 42.9% of GDP. Unlike the budget revenues, there was a downward turn in the trend of government expenditures as a proportion of GDP, and thus it is apparent that this development is difficult to sustain because it is significantly reflected in the growth of indebtedness.

The reform package approved in 2007 was reflected considerably both on the revenue and expenditure sides. It concerns especially a larger reduction in the growth rate of social transfers, and, on the other hand, accelerating growth in government investments. This is a quite favourable reorientation of spending priorities, but the essential question is how the current economic crisis is reflected here. Any reversal of this development in 2009 will, unfortunately, reduce the competitiveness and potential production capacity of the Czech Republic, which may in the future be reflected in the population's living standard.

Unlike the revenues, the economic crisis is not expected to have had any substantive impact on the expenditures side in 2008.

In 2008, the emission allowances were included for the first time in the balance sheet of the general government (State Environmental Fund) in a total amount of CZK 218 bn. These allowances were allocated to the Czech Republic for 5 years. Including the emission allowances into the balance sheet, however, influences neither the general government deficit nor the debt but only comprises another change in the volume of assets.

The subsequent drawing of emission allowances free of charge by domestic households and companies represents a capital transfer in the general government expenditures and, in addition, a decrease in the same amount is recorded in the net acquisition of the non-produced non-financial assets item on the expenditure side. This operation has no influence on the general government balance.

In case of selling emission allowances to other states (which applies to allowances under the Kyoto Protocol, because only those can be sold), the expenditure item (net acquisition of non-produced non-



financial assets) will decrease and, should the money obtained not be spent, the general government balance will improve.

Compared to April's preliminary Czech Statistical Office data, there was an upward revision of 2008 expenditures by more than CZK 13 bn. This case concerned particularly a revision of government investments, intermediate consumption and capital transfers, and always in an upward direction.

Compared to what awaits us, the **general government balance** in 2008 ended in a relatively favourable deficit of CZK 77 bn, which represents 2.1% of GDP. This was influenced mainly by the negative central government balance, which was nearly CZK 88 bn. The remaining two subsectors (local governments and social security funds) ended with an overall surplus of about CZK 10 bn. Compared to 2007, all subsectors worsened.

### Revenues, expenditure and balance in 2009

In 2009, due to the unfavourable economic situation, total general government revenues are expected to decrease by 6% to CZK 1,421.9 bn, which represents 39.5% of GDP.

The decrease of total revenues will be caused especially by revenues from taxes and social security insurance contributions, which will fall by more than 8%. Expressed relatively, these will reach 33.6% of GDP.

The revenues side in 2009 reflects both an impact from the economic crisis on general government tax revenues and the measures adopted by the government to combat the crisis.

With the exception of excise taxes (which increase by 3.6%), the revenues from all important taxes and social contributions are likely to decrease in 2009. The decrease will be most significant in CIT revenues, which will be lower by 21% in comparison with 2008. This is given especially because corporate taxes tend to have a highly cyclical character, and so companies' profits fluctuate much more than wages or consumption do.

Another tax for which we expect a significant decline is PIT, which should decrease by almost 18% compared to 2008.

In the cases of CIT and PIT, there is a certain inconsistency in the fact that the savings measures effects for 2009 are targeted on CIT (in the amount of about CZK 16 bn) and almost do not affect PIT. Therefore, if we adjust CIT revenues by this amount (i.e. assuming the cyclical effect only, without counter-crisis measures), we come to a CIT decrease of less than 12%. Inasmuch as this is a most pro-cyclical tax by nature, then this development is theoretically very interesting, because PIT shows a significantly greater cyclical decrease. A great risk is in the CIT advances paid in the current period. It is very difficult to estimate whether these correspond to the economic reality in the corporate sector or if there will be high repayment of CIT advances during 2010. In this case, they would accrue back to 2009 and thus would further reduce these tax revenues. Of course, the opposite situation might also be considered, whereby the advances are already reduced to a greater extent than would correspond to reality.

However, the excise tax increased by 3.6%, but this pace also includes the effect of legislative amendments approved in 2007 and the fact that the excise tax on tobacco products increased the following year. Merchants had begun to stockpile products already in 2007. The resulting revenues were therefore postponed from 2008 until 2009, when all the stocks were sold off. This created a low

basis in 2008 upon which the growth in 2009 is calculated. If we ignore this effect, there would be a noticeable decrease in excise taxes.

A rather considerable growth (by more than 27%) is expected in non-tax revenues, especially due to a greater inflow of investment subsidies from other sectors or from abroad. The investment subsidies situation concerns especially subsidies from the EU for the supported projects. These revenues are also reflected on the expenditures side (especially in government investments) and the general government balance is affected only in the amount of Czech co-financing.

**Table 2-1: Structure of general government revenues**

|                            |            | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------------|------------|------|------|------|------|------|------|
| General government revenue | (in % GDP) | 42.2 | 41.4 | 41.1 | 41.9 | 40.9 | 39.5 |
| -tax revenue               | (in % GDP) | 21.2 | 20.7 | 20.1 | 20.6 | 19.6 | 18.3 |
| -social contributions      | (in % GDP) | 16.1 | 16.2 | 16.3 | 16.3 | 16.2 | 15.3 |
| -sales                     | (in % GDP) | 2.8  | 2.7  | 2.5  | 2.7  | 2.8  | 2.9  |
| -other revenues            | (in % GDP) | 2.2  | 1.9  | 2.2  | 2.3  | 2.3  | 2.9  |

**Table 2-2: Structure of general government tax revenue**

|                                      |            | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------------------|------------|------|------|------|------|------|------|
| Tax revenue and social contributions | (in % GDP) | 37,3 | 36,8 | 36,4 | 36,9 | 35,8 | 33,6 |
| -personal income tax                 | (in % GDP) | 4,8  | 4,6  | 4,2  | 4,3  | 4,0  | 3,4  |
| -corporate income tax                | (in % GDP) | 4,7  | 4,5  | 4,8  | 5,0  | 4,4  | 3,6  |
| -VAT                                 | (in % GDP) | 7,2  | 7,1  | 6,5  | 6,4  | 6,9  | 6,8  |
| -excise taxes                        | (in % GDP) | 3,5  | 3,7  | 3,8  | 4,0  | 3,4  | 3,6  |
| -social contributions                | (in % GDP) | 16,1 | 16,2 | 16,3 | 16,3 | 16,2 | 15,3 |
| -other taxes and contributions       | (in % GDP) | 1,0  | 0,9  | 0,8  | 0,8  | 0,8  | 0,9  |

In contrast to the revenues, **general government expenditures** will retain a certain dynamics and are estimated to grow by 4.6% in 2009. They will rise considerably to 46% of GDP, especially due to the expected decrease in the economy's real output and relatively low anticipated inflation, which represents an increase of more than 3 p.p.

Final government consumption will grow by 4.2% in comparison to 2008, which represents only a very moderate decrease in its dynamics. Due to the serious economic situation, it is necessary to focus on the further decrease in its dynamics and stagnation in the coming years. This increase was mostly caused by the expenditures on individual consumption, and primarily relatively strong growth of the social security benefits that represent mainly general government expenditures on health care.

As a consequence of the higher unemployment growth caused by reduction in the number of job openings during a period of economic decline, social transfers (especially to the public) will also increase by 6.8% in comparison to 2008. As compared with previous years, and notwithstanding the crisis development, this is relatively understandable growth. Due to postponement of early elections from this year to the regular term in 2010, the risk associated with this item moves into the following year, and public choice theory would anticipate increased pressure on social security benefits and pensions growth in 2010. Before the last parliamentary elections in 2006, for example, very generous laws were adopted that pushed the growth rate of social transfers up to 12%. Moreover, the ongoing crisis may strengthen the motivation for political parties to stimulate consumption (which may be reflected only in short-term GDP growth), because this is very warmly received by the electorate.

Another substantial factor is growth in the general government's interest outlays paid due to its debtor position. These are estimated to grow by more than 13%, which is a development absolutely unsustainable in the long-term. The general government's interest outlays only draw off available

resources that could have been used for other spending priorities with positive multiplier effects. In addition, if the excessive expenditures are used primarily for consumption, they are, from the state's perspective, spent inefficiently. The basic priorities ought to be investment projects in infrastructure, R&D, and similar areas having long-term ability to boost the country's potential output, and hence the tax revenues that will facilitate payment of interest costs.

A relatively moderate increase is expected in 2009 for government investments, which will rise by only 1.6% in comparison to 2008. It is necessary to mention here the significant effect of the European funds, without which government investments would considerably decrease in 2009. This development substantially corresponds with the increase in investment subsidies on the revenue side from entities outside the general government (especially EU).

The overall dynamic on the revenues side in 2009 is slowed by sale of the allocated amount of emission allowances, considered rather conservatively to be approximately CZK 11 bn and which is revenue to the State Environmental Fund. A small portion of these resources is expected to be used this year (approximately CZK 0.5 bn), and therefore this item rather significantly improves the general government balance in 2009.

Concerning no-cost consumption of emission allowances by residential households and companies, this is an operation that has no impact on the deficit since the transfer involves both revenue and a corresponding outlay in the same amount.

Other expenditures developed generally in accordance with trends started in previous years.

**Table 2-3: Structure of general government expenditure**

|  | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|------|
| General government expenditure <i>(in % GDP)</i>               | 45.1 | 45.0 | 43.7 | 42.5 | 42.9 | 46.0 |
| -government consumption <i>(in % GDP)</i>                      | 22.1 | 22.1 | 21.3 | 20.3 | 20.4 | 21.8 |
| -social benefits other than social transfers <i>(in % GDP)</i> | 12.9 | 12.6 | 12.6 | 12.8 | 12.8 | 14.0 |
| -gross fixed capital formation <i>(in % GDP)</i>               | 4.8  | 4.9  | 5.0  | 4.7  | 5.0  | 5.2  |
| -other expenditure <i>(in % GDP)</i>                           | 5.3  | 5.4  | 4.8  | 4.7  | 4.8  | 5.1  |

The **general government balance** will reach approximately CZK 240 bn in 2009, which is 6.6% of GDP. This is significantly worse compared to the previous year. All subsectors will likely face such unfavourable development this year.

After the good results of the previous two years, the local government subsector will fall into deficit and will end with a balance of CZK -21 bn. As in the central government's case, the dominant role is played especially by tax revenues (which the two sectors share to a certain extent).

The financial results of the social security funds (mainly health insurance companies in the Czech Republic) will end with a deficit exceeding CZK 7 bn. Even in this case, the dominant influence is especially the decline in economic output, and thereby the lower basis from which the health insurance contributions are paid.

The general government's total deficit was significantly affected by the counter-crisis measures, which is shown in the following table.

**Box 1**

| Measures                                    | 2009           |      |              |
|---|----------------|------|--------------|
|   | ESA95 (bn CZK) |      |              |
|   | Rev            | Exp  | Balance      |
| <b>I. Tax measures</b>                      |                |      |              |
| 1 Changes in CIT                            | -16.0          | 0.0  | <b>-16.0</b> |
| 2 Changes in VAT                            | -2.5           | 0.0  | <b>-2.5</b>  |
| 3 Changes in social security contributions  | -36.4          | 0.0  | <b>-36.4</b> |
| <b>Total I</b>                              | <b>-54.9</b>   | 0.0  | <b>-54.9</b> |
| <b>II. Other measures</b>                   |                |      |              |
| 1 Salaries and social security expenditures | 0.4            | 2.9  | <b>-2.5</b>  |
| 2 R&D and infrastructure investments        | 0.0            | 9.3  | <b>-9.3</b>  |
| 3 Support of SME's                          | 0.0            | 4.5  | <b>-4.5</b>  |
| 4 EU funds and state funds                  | 0.0            | 5.1  | <b>-5.1</b>  |
| 5 Reserve funds integration                 | 0.0            | -1.5 | <b>1.5</b>   |
| <b>Total II</b>                             | 0.4            | 20.2 | <b>-19.8</b> |
| <b>Total I+II</b>                           | <b>-54.5</b>   | 20.2 | <b>-74.7</b> |

Compared to the estimates in the previous issue of the Fiscal Outlook, there is a significant revision downward in the deficit by nearly CZK 73 bn. The reason is found mainly on the revenue side, where there was a significant reassessment of tax revenues.

**Table 2-4: General government balance**

|   | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|
| General government balance <i>(in % GDP)</i>    | -3.0 | -3.6 | -2.6 | -0.7 | -2.1 | -6.7 |
| Central government balance <i>(in % GDP)</i>    | -2.7 | -3.5 | -2.6 | -1.6 | -2.4 | -5.8 |
| Local government balance <i>(in % GDP)</i>      | -0.2 | -0.1 | -0.4 | 0.5  | 0.0  | -0.6 |
| Social security funds balance <i>(in % GDP)</i> | -0.1 | 0.0  | 0.4  | 0.5  | 0.3  | -0.2 |
| Primary balance <i>(in % GDP)</i>               | -1.8 | -2.4 | -1.5 | 0.5  | -1.0 | -5.3 |

## General government debt

In 2008, the general government debt reached roughly CZK 1,105 bn, representing 30.0% of GDP. Compared to 2007, the absolute debt grew by some CZK 81 bn, which is a bit more than this year's deficit. In this case, therefore, there occurred an accumulation of general government financial assets.

**Table 2-5: General government debt**

|  | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|------|
| General government debt <i>(in % GDP)</i>    | 30.1 | 29.7 | 29.4 | 29.0 | 30.0 | 35.6 |
| Central government debt <i>(in % GDP)</i>    | 27.8 | 27.2 | 26.9 | 26.6 | 27.5 | 33.1 |
| Local government debt <i>(in % GDP)</i>      | 2.6  | 2.7  | 2.7  | 2.5  | 2.5  | 2.6  |
| Social security funds debt <i>(in % GDP)</i> | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |

At the end of 2009, the general government indebtedness is expected to be CZK 1,284 bn, which represents a sharp increase to 35.6% of GDP. Compared to the previous year, the debt increase is lower than the estimated deficit, and the increasing indebtedness is being slowed by the dissolution of state financial assets accumulated in previous years.

**Table 2-6: Stock-flow adjustment**

|  |            | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------------|------|------|------|------|------|------|
| Gross debt   | (in % GDP) | 30.1 | 29.7 | 29.4 | 29.0 | 30.0 | 35.6 |
| Change in gross debt                                     | (p.p.)     | 0.3  | -0.4 | -0.2 | -0.5 | 1.0  | 5.7  |
| Decomposition of change in gross debt                    |            |      |      |      |      |      |      |
| Nominal GDP growth                                       | (p.p.)     | -2.5 | -1.7 | -2.2 | -2.6 | -1.2 | 0.8  |
| General government net lending (+)<br>/net borrowing (-) | (p.p.)     | 2.9  | 3.6  | 2.6  | 0.7  | 2.0  | 6.5  |
| Other factors  | (p.p.)     | -0.1 | -2.3 | -0.7 | 1.5  | 0.1  | -1.7 |
| - Difference between cash and accrual                    | (p.p.)     | -0.7 | -0.8 | 0.4  | 0.0  | -1.3 | -0.6 |
| - Net accumulation of financial assets                   | (p.p.)     | 0.6  | -1.2 | -0.9 | 1.5  | 1.3  | -1.1 |
| of which: privatisation proceeds                         | (p.p.)     | 0.5  | 3.5  | 0.0  | 0.3  | 0.6  | 0.0  |
| - Revaluation and other factors                          | (p.p.)     | 0.0  | -0.4 | -0.2 | -0.1 | 0.1  | 0.0  |

The central government subsector accounts for the majority of the debt, followed at a great distance by the local government sector. Social security funds show an indebtedness rate that is negligible in the long term.

## 2.3 International comparison

### General government balance

In 2008, the general government balance of the EU-27 countries was -2.3% of GDP. The balance's more significant and systematic improvement of recent years was interrupted by the crisis, and the balance worsened by 1.5 p.p. compared to 2007. With its current deficit in the amount of 2.1% of GDP, the Czech Republic finds itself slightly under the EU-27 average.

At -7.7% of GDP, Greece had the poorest general government balance in 2008, and, perhaps surprisingly, Ireland had a deficit of -7.2% of GDP. In 2009, deficit performance in general government is for the first time expected by all the EU-27 countries at once, including the traditionally surplus countries (the figure for Denmark is not available, therefore we assume a 0.1% deficit based on the April government deficit and debt reports). The highest deficits should be reported by the island countries (the United Kingdom at 12.6% of GDP, Ireland at 12.0% of GDP) and in Greece (12.5% of GDP). As many as 20 countries, including the Czech Republic, expect deficits greater than the 3% Maastricht criteria figure due to the economic problems (see Table 5-19). With the exception of Malta, the general government performance will be worse in all EU countries compared to the previous year.

Among the new member states, Bulgaria has been fiscally very disciplined. It will record a slight deficit, after having long years of surpluses, as will Estonia and Cyprus. The European Commission will not likely declare the so-called excessive deficit procedure (EDP) in these countries. Compared to other countries, Hungary, despite its economic problems, will succeed to stabilise the amount of its general government debt. By contrast, in Latvia and Lithuania, which previously had been fiscally successful, the deficit will worsen most, and this also applies to the general government debt.

## General government debt

General government debt should approximately reflect the development of budget deficits in the given countries over the long term. The general government debt in the EU-27 countries reached 61.5% of GDP, which is 2.8 p.p. more than in 2007.

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. Nevertheless, its significant increase is expected in 2009 (35.6% of GDP). The Czech Republic still could easily meet the Maastricht debt convergence criterion for the time being, but great caution is necessary in view of the increasing dynamics of debt growth.

Three countries – Italy, Greece and Belgium – still rank among the EU-27 countries with the highest indebtedness. Italy has remained the only EU-27 country whose public debt, which was 105.8% of GDP in 2008 and 115.1% in 2009, even exceeds its overall annual output. The positive debt developments in Bulgaria and Sweden are clearly worthy of note. A relatively sharp worsening occurred in Ireland and Luxembourg in 2008, followed by Latvia and Lithuania, the United Kingdom and Greece, where the public debts will reach similar values as in Italy (112.9% of GDP). Traditionally, Estonia has the lowest proportion of general government debt to GDP (see Table 5-19).

**Table 2-7: General government balance and debt in selected EU countries**

|                |              | Balance |      |      |      |       | Debt  |       |       |       |       |
|----------------|--------------|---------|------|------|------|-------|-------|-------|-------|-------|-------|
|                |              | 2005    | 2006 | 2007 | 2008 | 2009  | 2005  | 2006  | 2007  | 2008  | 2009  |
| EU27           | ( in % GDP ) | -2.4    | -1.4 | -0.8 | -2.3 | .     | 62.7  | 61.3  | 58.7  | 61.5  | .     |
| Czech Republic | ( in % GDP ) | -3.6    | -2.6 | -0.7 | -2.1 | -6.6  | 29.7  | 29.4  | 29.0  | 30.0  | 35.6  |
| Slovakia       | ( in % GDP ) | -2.8    | -3.5 | -1.9 | -2.3 | -6.3  | 34.2  | 30.5  | 29.3  | 27.7  | 36.4  |
| Poland         | ( in % GDP ) | -4.1    | -3.6 | -1.9 | -3.6 | -6.3  | 47.1  | 47.7  | 45.0  | 47.2  | 51.2  |
| Hungary        | ( in % GDP ) | -7.9    | -9.3 | -5.0 | -3.8 | -3.9  | 61.8  | 65.6  | 65.9  | 72.9  | 78.4  |
| Germany        | ( in % GDP ) | -3.3    | -1.6 | 0.2  | 0.0  | -3.7  | 68.0  | 67.6  | 65.0  | 65.9  | 74.2  |
| France         | ( in % GDP ) | -2.9    | -2.3 | -2.7 | -3.4 | -8.2  | 66.4  | 63.7  | 63.8  | 67.4  | 77.1  |
| United Kingdom | ( in % GDP ) | -3.4    | -2.7 | -2.7 | -5.0 | -12.6 | 42.2  | 43.2  | 44.2  | 52.0  | 71.9  |
| Italy          | ( in % GDP ) | -4.3    | -3.3 | -1.5 | -2.7 | -5.3  | 105.8 | 106.5 | 103.5 | 105.8 | 115.1 |

### 3 Medium-term fiscal outlook

#### 3.1 Medium-term outlook for the state budget and expenditure frameworks

The balance of public budgets under the fiscal targeting methodology in 2008 was CZK –35.4 bn, or –1.0% of GDP. This result is 0.2 p.p. better than was expected in the previous Fiscal Outlook. For 2009, however, this deficit is currently estimated at 6.4% of GDP. We thus expect year-on-year worsening by 5.4 p.p. This worsening is understandably due to the significant drop in tax revenues and the growth in social benefits and interest payments at the given level of other expenditures.

Should such unfavourable economic development continue even in 2010, Parliament has approved the “Act Amending Certain Laws in Connection with the Draft Law on the State Budget of the Czech Republic for 2010”, that temporarily reduces some planned mandatory expenditures but mainly increases the tax revenues considerably. Due to observance (respectively slight lowering) of the 2010 expenditure framework – and therefore sterilising stimulative and cyclical expenditures – one can expect the deficit to reach 4.9% of GDP (fiscal targeting methodology).

These facts, and especially the expiration of temporary restrictions on mandatory expenditures, accompanied by a more considerable reduction in the expenditure framework for 2011, will generate a public budget deficit in the amount of 5.5% of GDP (see Table 3-1). The expected public budgets deficits in 2010 and 2011, respectively, are 3.2 and 4.2 p.p. higher than the assumption in the last Fiscal Outlook.

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

|  |                      | 2008          | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|--|----------------------|---------------|-------------------------|------------------------|------------------------|------------------------|
| <b>Target for government sector (ESA 95)</b>                 | (bn CZK) [ 1 ]       | <b>-77,4</b>  | <b>-239,6</b>           | <b>-195,8</b>          | <b>-215,7</b>          | <b>-222,6</b>          |
|  | (% of GDP) [ 2 ]     | -2,1          | -6,6                    | -5,3                   | -5,6                   | -5,5                   |
| Difference ESA 95 - Fiscal targeting                         | (bn CZK) [ 3 ]       | -40,2         | -7,7                    | -14,9                  | -4,2                   | -14,2                  |
| <b>Target for public budgets (national fiscal targeting)</b> | (bn CZK) [ 4=1-3 ]   | <b>-35,4</b>  | <b>-233,4</b>           | <b>-180,9</b>          | <b>-211,5</b>          | <b>-208,4</b>          |
|  | (% of GDP) [ 5 ]     | <b>-1,0</b>   | <b>-6,4</b>             | <b>-4,9</b>            | <b>-5,5</b>            | <b>-5,1</b>            |
| Public budgets other than SB and SF                          | (% of GDP) [ 6 ]     | 0,9           | -0,7                    | -0,3                   | -0,3                   | -0,2                   |
| Target for state budget and state funds                      | (% of GDP) [ 7=5-6 ] | -1,9          | -5,8                    | -4,7                   | -5,2                   | -5,0                   |
|  | (bn CZK) [ 8 ]       | -69,4         | -208,4                  | -163,7                 | -184,1                 | -184,0                 |
| State budget   | (bn CZK) [ 8a ]      | -46,7         | -205,2                  | -160,3                 | -184,5                 | -183,5                 |
| State funds  | (bn CZK) [ 8b ]      | -22,7         | -3,2                    | -3,5                   | 0,4                    | -0,5                   |
| Revenue forecast of SB and SF                                | (bn CZK) [ 9 ]       | 1081,7        | 1075,3                  | 1131,5                 | 976,4                  | 1013,3                 |
| State budget   | (bn CZK) [ 9a ]      | 987,2         | 937,7                   | 1018,1                 | 936,4                  | 973,4                  |
| State funds  | (bn CZK) [ 9b ]      | 94,4          | 137,6                   | 113,4                  | 40,0                   | 39,8                   |
| <b>New expenditure frameworks</b>                            | (bn CZK) [ 10=9-8 ]  | <b>1151,1</b> | <b>1283,7</b>           | <b>1295,2</b>          | <b>1160,5</b>          | <b>1197,2</b>          |
| State budget   | (bn CZK) [ 10a ]     | 1033,9        | 1142,9                  | 1178,3                 | 1120,9                 | 1156,9                 |
| State funds  | (bn CZK) [ 10b ]     | 117,2         | 140,8                   | 116,9                  | 39,6                   | 40,3                   |

*Notes: Reduction in the levels of revenues and expenditures from 2011 (without the influence on the expected balance) results from the fact that in the outlook for the 2009 state budget there are not included expected revenues from EU funds and the expenditure financed thereby.*

For public budgets other than the state budget and state funds, we expect, after a considerable economic worsening, a certain deficit improvement to 0.3% of GDP in 2010 and 2011 and to 0.2% of GDP in 2012. A deficit in the approximate amount of 0.3% of GDP will be caused especially by the



necessity to settle obligations connected with cleaning up old environmental damages. For local budgets and health insurance companies, we anticipate roughly balanced performance.

In December 2008, Parliament approved the amounts of the medium-term expenditure framework for 2010 and 2011 in Resolution No. 966/2008. For the state budget and state funds, those came to CZK 1,126.5 bn for 2010 and CZK 1,171.1 bn for 2011 on an unconsolidated basis.

Under the budgetary rules, only exhaustively specified items can be adjusted within the range of the approved expenditure frameworks. The expenditure framework for 2010 will have to be increased by newly included expected expenditures partly financed from EU funds in the amount of CZK 96.3 bn. Neither adjustments in respect of the budget tax allocation changes nor any other authorised adjustments are involved in 2010 and 2011. After taking into account changes of subsidy relations between the state budget and state funds (consolidation), the approved expenditure frameworks should reach CZK 1,296.0 bn in 2010 and CZK 1,170.6 bn in 2011 (see Table 3-2).

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

|   | 2010          | 2011          |
|---|---------------|---------------|
| <b>Frameworks approved in 2008 - unconsolidated</b> [ 1 ]               | <b>1126.5</b> | <b>1171.1</b> |
| Consolidation (planned in 2008) [ 2 ]                                   | 14.2          | 14.5          |
| Frameworks approved in 2008 - consolidated [ 3=1-2 ]                    | 1112.3        | 1156.6        |
| <b>Adjustments according to the budgetary rules</b> [ 4=5+6+7 ]         | <b>96.3</b>   | <b>0</b>      |
| - change in tax assignment [ 5 ]  | 0             | 0             |
| - change in expenditure financed from EU funds [ 6 ]                    | 96.3          | 0             |
| - unforeseen major influences [ 7 ]                                     | 0             | 0             |
| Frameworks approved in 2008 adjusted - consolidated [ 8=3+4 ]           | 1208.6        | 1156.6        |
| Consolidation (planned in 2009) [ 9 ]                                   | 87.3          | 14.0          |
| <b>Frameworks approved in 2008 adjusted - unconsolidated</b> [ 10=8+9 ] | <b>1296.0</b> | <b>1170.6</b> |

As stated above, there was a reduction of expenditure limits by CZK 0.8 bn for 2010 and by CZK 10.1 bn for 2011. For 2012, the proposed spending limit is CZK 1,197.2 billion.

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

|  | 2010        | 2011         |
|--|-------------|--------------|
| Frameworks approved in 2008 adjusted [ 1 ]                             | 1296.0      | 1170.6       |
| New expenditure frameworks [ 2 ]                                       | 1295.2      | 1160.5       |
| <b>Tightening (-) / breach (+) of expenditure frameworks</b> [ 3=2-1 ] | <b>-0.8</b> | <b>-10.1</b> |

## 3.2 General government medium-term outlook

### General government balance

The general government balance in 2008 is estimated at  $-2.1\%$  of GDP, which is 1.4 p.p. worse than in 2007. The shift in a part of excise tax income from tobacco products from 2008 to 2007, on the one hand, and the impacts of the economic problems of the second half of 2008, on the other one, contribute to this worsening of the balance. As a result of the economic recession, in 2009 we expect the general government balance to worsen to as much as  $-6.6\%$  of GDP. At the same time, just as in the case of the fiscal targeting methodology, the impacts of the counter-crisis measures introduced in Box 1 are taken into account.

The Czech Republic has a chance, as a result of the decrease in the carbon dioxide emission volume compared to the base year, to sell a certain volume of its so-called allocated emission allowances units to other states. These funds should be fully used to finance environmental projects. Therefore, there will be a cumulative impact on the general government in the selling period and the cost of implementing the expenditure program is zero. Since the revenues and expenditures will not be time-harmonised, however, the general government balance may be affected in individual years. The general government balance in the amount of  $-6.6\%$  of GDP also includes revenues from allocated units sales in the amount of CZK 11 bn and spending of approximately CZK 0.5 bn. The balance in 2009 is positively affected on account of this.

The adopted expenditure frameworks in 2010 to 2012 do not count on additional expenditures financed from sales of allocated emission allowances units, although this intention has been declared. Between 2010 and 2011, therefore, we accept the assumption that the general government balance will not be affected from this viewpoint or that the revenues and expenditures will be equal each year. We consider it fair for 2012 to offset the positive impact from 2009, and therefore we make the general government balance in 2012 worse by the same amount by which it was improved in 2009. This will ensure a zero cumulative impact on the balance. This has then an impact on the “Difference between ESA-95 and fiscal targeting” in 2012, see Table 3-1.

The outlook for 2010 to 2012 is predetermined by the approved expenditure limits for the state budget and state funds, which cover approximately two-thirds of total government expenditures. The outlook anticipates fulfilment of these limits. Government effort to reduce the deficit by tightening expenditure frameworks can be undoubtedly considered positive from the viewpoint of public budgets sustainability. The general government deficit is expected to be  $5.3\%$  of GDP in 2010,  $5.6\%$  of GDP in 2011, and  $5.5\%$  of GDP in 2012.

**Box 2**

| Measures for 2010  | ESA 95 (bn CZK) |              |             |
|--|-----------------|--------------|-------------|
|  | Rev             | Exp          | Balance     |
| <b>I. Saving measures</b>                                    |                 |              |             |
| 1. Property taxes  | 3.0             | 0.0          | <b>3.0</b>  |
| 2. Income tax  | 0.1             | 0.0          | <b>0.1</b>  |
| 3. Excise tax  | 10.9            | 0.0          | <b>10.9</b> |
| 4. VAT   | 13.4            | 0.0          | <b>13.4</b> |
| 5. Social security contributions and state employment policy | 31.0            | 0.0          | <b>31.0</b> |
| 6. State social support                                      | -0.6            | -0.6         | <b>0.0</b>  |
| 7. Sickness benefit  | 0.0             | -2.4         | <b>2.4</b>  |
| 8. Employment  | 0.0             | -3.5         | <b>3.5</b>  |
| 9. Health insurance  | -4.5            | 0.0          | <b>-4.5</b> |
| <b>Total I</b>   | <b>53.3</b>     | <b>-6.5</b>  | <b>59.8</b> |
| <b>II. Other measures</b>                                    |                 |              |             |
| 1. Salaries  | -2.3            | -5.4         | <b>3.1</b>  |
| 2. Other   | -7.5            | -17.7        | <b>10.2</b> |
| <b>Total II</b>  | <b>-9.8</b>     | <b>-23.1</b> | <b>13.3</b> |
| <b>Total I+II</b>  | <b>43.5</b>     | <b>-29.6</b> | <b>73.1</b> |

The fiscal targets for 2011 and 2012 should aim at the medium-term budgetary objective that is a part of EU fiscal rules for the Czech Republic. The Czech Republic is obliged to achieve this medium-term objective corresponding with the structural deficit of 1.0% of GDP by no later than 2012. On the basis of the proposed fiscal policy and established expenditure frameworks, this objective is likely not to be fulfilled in 2012.

**Table 3-4: General government developments (ESA 95)**

|  | 2008        | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|--|-------------|-------------------------|------------------------|------------------------|------------------------|
| General government balance <i>(% of GDP)</i> | <b>-2.1</b> | <b>-6.6</b>             | <b>-5.3</b>            | <b>-5.6</b>            | <b>-5.4</b>            |
| Central government <i>(% of GDP)</i>         | <b>-2.4</b> | <b>-5.8</b>             | <b>-5.4</b>            | <b>-5.6</b>            | <b>-5.4</b>            |
| Local governments <i>(% of GDP)</i>          | <b>0.0</b>  | <b>-0.6</b>             | <b>-0.1</b>            | <b>-0.1</b>            | <b>0.0</b>             |
| Social security funds <i>(% of GDP)</i>      | <b>0.3</b>  | <b>-0.2</b>             | <b>0.1</b>             | <b>0.0</b>             | <b>0.0</b>             |
| Total revenue <i>(% of GDP)</i>              | <b>40.9</b> | <b>39.5</b>             | <b>41.5</b>            | <b>41.0</b>            | <b>39.5</b>            |
| <i>(growth in %)</i>                         | 1.8         | -5.7                    | 5.7                    | 4.0                    | 4.2                    |
| Total expenditure <i>(% of GDP)</i>          | <b>42.9</b> | <b>46.0</b>             | <b>46.9</b>            | <b>46.7</b>            | <b>44.9</b>            |
| <i>(growth in %)</i>                         | 5.3         | 4.6                     | 2.5                    | 4.7                    | 4.1                    |

Table 3-4 more closely specifies the deficits for individual components of the government sector. For social security funds, we in fact expect balanced results, while in the case of local government institutions we expect these to gradually overcome the shock from the drop in revenues.

### General government revenues

The estimate of general government revenue dynamics for 2009 recorded considerable worsening since the date of the last Fiscal Outlook's issue. Compared to the spring Outlook, the prediction of total revenues was revised downward by approximately CZK 53 bn. The revised estimate for 2009

implies a year-on-year decline in general government revenues at 5.7%. On the contrary, the new estimates for 2010 represent, due to the increase in taxes, an improvement of annual general government revenue growth to 5.7% compared to the previous growth estimate of 1.6%. Future general government revenue growth trends in 2011 remain unchanged at the level of approximately 4%.

The main items worsening the general government revenues dynamic included revised estimates of the drop in tax revenues, and especially in the item current tax on income, wealth and other (downward correction by CZK 27 bn), social benefits contributions (approximately CZK 21 bn worse) and excise tax (worsening by CZK 11.1 bn compared to the spring Outlook).

The tax burden will hover around the level of 34% of GDP in a medium-term outlook.

**Table 3-5: General government revenues**

|                                       |               | 2008          | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|---------------------------------------|---------------|---------------|-------------------------|------------------------|------------------------|------------------------|
| <b>Total revenue</b>                  | (bn CZK)      | <b>1507.8</b> | <b>1421.9</b>           | <b>1502.9</b>          | <b>1563.3</b>          | <b>1629.6</b>          |
|                                       | (growth in %) | 1.8           | -5.7                    | 5.7                    | 4.0                    | 4.2                    |
| <b>Tax revenue</b>                    | (bn CZK)      | <b>722.7</b>  | <b>660.7</b>            | <b>709.1</b>           | <b>735.2</b>           | <b>764.7</b>           |
|                                       | (growth in %) | -0.8          | -8.6                    | 7.3                    | 3.7                    | 4.0                    |
| Taxes on production and imports       | (bn CZK)      | <b>405.6</b>  | <b>403.7</b>            | <b>442.8</b>           | <b>448.8</b>           | <b>458.6</b>           |
|                                       | (growth in %) | 2.9           | -0.5                    | 9.7                    | 1.4                    | 2.2                    |
| of which: Value added tax             | (bn CZK)      | <b>254.8</b>  | <b>246.8</b>            | <b>264.1</b>           | <b>267.2</b>           | <b>273.1</b>           |
|                                       | (growth in %) | 12.3          | -3.1                    | 7.0                    | 1.2                    | 2.2                    |
| Excise taxes                          | (bn CZK)      | <b>126.1</b>  | <b>130.7</b>            | <b>150.5</b>           | <b>152.7</b>           | <b>155.4</b>           |
|                                       | (growth in %) | -11.5         | 3.6                     | 15.1                   | 1.5                    | 1.8                    |
| Current taxes on income, wealth, etc. | (bn CZK)      | <b>316.7</b>  | <b>256.5</b>            | <b>266.1</b>           | <b>286.1</b>           | <b>305.8</b>           |
|                                       | (growth in %) | -5.1          | -19.0                   | 3.7                    | 7.5                    | 6.9                    |
| of which: Personal income tax         | (bn CZK)      | <b>148.8</b>  | <b>122.7</b>            | <b>129.1</b>           | <b>136.6</b>           | <b>147.1</b>           |
|                                       | (growth in %) | -3.0          | -17.6                   | 5.3                    | 5.8                    | 7.7                    |
| Corporate income tax                  | (bn CZK)      | <b>163.8</b>  | <b>129.3</b>            | <b>131.8</b>           | <b>144.2</b>           | <b>153.2</b>           |
|                                       | (growth in %) | -7.2          | -21.0                   | 1.9                    | 9.4                    | 6.2                    |
| Capital taxes                         | (bn CZK)      | <b>0.4</b>    | <b>0.4</b>              | <b>0.3</b>             | <b>0.3</b>             | <b>0.3</b>             |
|                                       | (growth in %) | -12.5         | 0.5                     | -38.2                  | 2.0                    | 2.0                    |
| <b>Social contributions</b>           | (bn CZK)      | <b>599.2</b>  | <b>549.9</b>            | <b>571.2</b>           | <b>592.8</b>           | <b>621.7</b>           |
|                                       | (growth in %) | 3.9           | -8.2                    | 3.9                    | 3.8                    | 4.9                    |
| <b>Property income</b>                | (bn CZK)      | <b>31.4</b>   | <b>31.6</b>             | <b>35.5</b>            | <b>36.9</b>            | <b>37.0</b>            |
|                                       | (growth in %) | 7.8           | 0.8                     | 12.2                   | 3.9                    | 0.5                    |
| <b>Other</b>                          | (bn CZK)      | <b>154.5</b>  | <b>179.6</b>            | <b>187.1</b>           | <b>198.5</b>           | <b>206.1</b>           |
|                                       | (growth in %) | 5.4           | 16.3                    | 4.1                    | 6.1                    | 3.9                    |
| <b>Tax burden</b>                     | (% of GDP)    | <b>35.8</b>   | <b>33.6</b>             | <b>35.3</b>            | <b>34.8</b>            | <b>33.6</b>            |

## General government expenditures

We anticipate a continuation in the government's economising behaviour, which will be enforced by the need to uphold tightened expenditure limits. There was a revision of general government estimates upward by approximately CZK 9 bn in 2010, however, including the expected shifting of the "Green Savings" program.

The situation improved (reduction of expenditures), on the other hand, in the case of collective consumption expenditures (their year-on-year growth by 1.2%, expected in the previous Fiscal Outlook for 2010, was revised to a year-on-year drop by 4.3%) and in the development of social transfers other than in-kind (originally expected year-on-year growth in 2010 by 5.1% was newly

revised by half, i.e. by 2.5%). There has also been a reduction in the estimate of employees' compensation as a result of saving measures introduced by the government in the state administration sector, as their originally expected zero annual increase was newly replaced by an assumed annual decrease by 5.4% for 2010.

Interest expenses will record a year-on-year increase by 13.2% this year, but the revised estimate is lower by CZK 3.4 bn for 2009 in comparison to the previous Fiscal Outlook. The annual increase of this item is still alarming for the next year. We estimate annual increase in interest expenses by 43.8% for 2010 and their year-on-year increase by a further 23%.

**Table 3-6: General government expenditure**

|   |               | 2008          | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|---|---------------|---------------|-------------------------|------------------------|------------------------|------------------------|
| <b>Total expenditure</b>                              | (bn CZK)      | <b>1583.4</b> | <b>1656.7</b>           | <b>1698.2</b>          | <b>1778.5</b>          | <b>1851.6</b>          |
|   | (growth in %) | 5.3           | 4.6                     | 2.5                    | 4.7                    | 4.1                    |
| <b>Final consumption expenditure</b>                  | (bn CZK)      | <b>753.2</b>  | <b>784.9</b>            | <b>777.1</b>           | <b>794.2</b>           | <b>803.3</b>           |
|   | (growth in %) | 4.9           | 4.2                     | -1.0                   | 2.2                    | 1.2                    |
| Collective consumption                                | (bn CZK)      | <b>373.6</b>  | <b>379.5</b>            | <b>363.2</b>           | <b>368.8</b>           | <b>360.2</b>           |
|   | (growth in %) | 5.2           | 1.6                     | -4.3                   | 1.5                    | -2.3                   |
| Individual consumption                                | (bn CZK)      | <b>379.6</b>  | <b>405.4</b>            | <b>413.9</b>           | <b>425.4</b>           | <b>443.2</b>           |
|   | (growth in %) | 4.5           | 6.8                     | 2.1                    | 2.8                    | 4.2                    |
| Social benefits in kind                               | (bn CZK)      | <b>198.6</b>  | <b>212.5</b>            | <b>216.9</b>           | <b>223.3</b>           | <b>232.9</b>           |
|   | (growth in %) | 6.1           | 7.0                     | 2.1                    | 2.9                    | 4.3                    |
| Transfers of individual non-market goods and services | (bn CZK)      | <b>181.0</b>  | <b>192.9</b>            | <b>197.0</b>           | <b>202.1</b>           | <b>210.3</b>           |
|   | (growth in %) | 2.8           | 6.6                     | 2.1                    | 2.6                    | 4.1                    |
| <b>Social transfers other than in kind</b>            | (bn CZK)      | <b>471.2</b>  | <b>503.1</b>            | <b>515.8</b>           | <b>539.0</b>           | <b>568.7</b>           |
|   | (growth in %) | 3.8           | 6.8                     | 2.5                    | 4.5                    | 5.5                    |
| <b>Interest</b>                                       | (bn CZK)      | <b>39.7</b>   | <b>44.9</b>             | <b>64.5</b>            | <b>79.4</b>            | <b>89.0</b>            |
|   | (growth in %) | -1.5          | 13.2                    | 43.8                   | 23.0                   | 12.1                   |
| <b>Subsidies</b>                                      | (bn CZK)      | <b>63.7</b>   | <b>65.3</b>             | <b>64.0</b>            | <b>64.5</b>            | <b>65.5</b>            |
|   | (growth in %) | 2.0           | 2.4                     | -2.0                   | 0.9                    | 1.5                    |
| <b>Gross fixed capital formation</b>                  | (bn CZK)      | <b>183.1</b>  | <b>186.1</b>            | <b>205.1</b>           | <b>219.8</b>           | <b>232.0</b>           |
|   | (growth in %) | 10.1          | 1.6                     | 10.2                   | 7.2                    | 5.6                    |
| <b>Other</b>  | (bn CZK)      | <b>72.5</b>   | <b>72.5</b>             | <b>71.7</b>            | <b>81.6</b>            | <b>93.1</b>            |
|   | (growth in %) | 14.4          | 0.0                     | -1.0                   | 13.8                   | 14.0                   |
| <i>Compensation of employees</i>                      | (bn CZK)      | <b>280.0</b>  | <b>289.6</b>            | <b>274.0</b>           | <b>284.2</b>           | <b>284.2</b>           |
|   | (growth in %) | 4.2           | 3.4                     | -5.4                   | 3.7                    | 0.0                    |
| <i>Total social transfers</i>                         | (bn CZK)      | <b>669.8</b>  | <b>715.6</b>            | <b>732.6</b>           | <b>762.2</b>           | <b>801.5</b>           |
|   | (growth in %) | 4.5           | 6.8                     | 2.4                    | 4.0                    | 5.2                    |

## General government debt

In 2008, the government debt repeatedly reached the level of 30% of GDP. For the years 2008–2012, we expect government debt to increase as a proportion of GDP by 14.3 p.p.

In 2007 and 2008, there was a significant accumulation of financial assets, namely currency and deposits, which slowed the decrease in the share of the general government debt. We expect the accumulated financial assets to be used to finance government expenditures in 2009–2012. This will contribute to slower increase in debt than would correspond to general government's economic results.

The outlook encompasses no privatisation projects not yet approved. In case of their realization and the use of privatisation revenues to finance government expenditures, the increase in government debt as a proportion of GDP will further slow down.

The difference between the balance (flow variable) and the change in debt (stock variable) is expressed by factors affecting the level of debt (the so-called stock-flow adjustment). The most significant factor influencing the level of government debt is usually the government balance – in the case of deficits, the debt accumulates, and in the case of surpluses, the debt decreases. The reasons for the difference between the size of accumulated and actual debt are as follow:

- Difference of accounting concepts: Debt is a cash concept; the cause of growing indebtedness is insufficiency of funds. On the other hand, the balance under the ESA 95 methodology is reported on the accrual principle.
- Difference of items included: The government balance is a balancing item of changes in all financial assets and liabilities while the debt is defined as a sum of only certain liabilities (specifically, currency and deposits, bonds, and loans received); a change in assets and non-debt liabilities thus affects the balance without influencing the debt.
- Difference in valuation: The debt is valued at its nominal amount while the balance is based on market prices. The level of foreign debt may be influenced also by differences in exchange rates.

**Table 3-7: Gross consolidated government debt**

|  |                   | 2007          | 2008          | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|--|-------------------|---------------|---------------|-------------------------|------------------------|------------------------|------------------------|
| <b>General government</b>                      | <i>(bn CZK)</i>   | <b>1023.8</b> | <b>1104.9</b> | <b>1284.4</b>           | <b>1434.2</b>          | <b>1603.9</b>          | <b>1780.5</b>          |
| Central government                             | <i>(bn CZK)</i>   | 939.1         | 1016.1        | 1190.9                  | 1337.3                 | 1503.8                 | 1680.4                 |
| Local government                               | <i>(bn CZK)</i>   | 88.4          | 91.9          | 95.1                    | 98.6                   | 101.7                  | 101.7                  |
| Social security funds                          | <i>(bn CZK)</i>   | 0.1           | 0.1           | 0.0                     | 0.0                    | 0.0                    | 0.0                    |
| <b>Government debt to GDP ratio</b>            | <i>(% of GDP)</i> | <b>29.0</b>   | <b>30.0</b>   | <b>35.6</b>             | <b>39.6</b>            | <b>42.1</b>            | <b>44.3</b>            |
| <b>Contribution to change in debt</b>          |                   |               |               |                         |                        |                        |                        |
| <b>Change in debt</b>                          | <i>(p.p.)</i>     | <b>-0.5</b>   | <b>1.0</b>    | <b>5.7</b>              | <b>3.9</b>             | <b>2.5</b>             | <b>2.3</b>             |
| <b>Primary balance</b>                         | <i>(p.p.)</i>     | <b>-0.5</b>   | <b>1.0</b>    | <b>5.4</b>              | <b>3.6</b>             | <b>3.6</b>             | <b>3.3</b>             |
| <b>Interest</b>                                | <i>(p.p.)</i>     | <b>1.1</b>    | <b>1.1</b>    | <b>1.2</b>              | <b>1.8</b>             | <b>2.1</b>             | <b>2.2</b>             |
| <b>Nominal GDP growth</b>                      | <i>(p.p.)</i>     | <b>-2.7</b>   | <b>-1.2</b>   | <b>0.7</b>              | <b>-0.2</b>            | <b>-2.0</b>            | <b>-2.1</b>            |
| <b>Stock-flow adjustment</b>                   | <i>(p.p.)</i>     | <b>1.5</b>    | <b>0.1</b>    | <b>-1.7</b>             | <b>-1.3</b>            | <b>-1.2</b>            | <b>-1.1</b>            |
| Difference between cash and accruals           | <i>(p.p.)</i>     | 0.0           | -1.3          | -0.6                    | -0.6                   | -0.5                   | -0.5                   |
| Net acquisition of financial assets            | <i>(p.p.)</i>     | 1.5           | 1.3           | -1.1                    | -0.7                   | -0.7                   | -0.6                   |
|  | <i>(bn CZK)</i>   | 54.5          | 48.4          | -40.2                   | -26.0                  | -26.0                  | -26.0                  |
| <i>of which: currency and deposits</i>         | <i>(bn CZK)</i>   | 76.2          | 74.6          | -38.2                   | -24.0                  | -24.0                  | -24.0                  |
| <i>equity and other shares (privatization)</i> | <i>(bn CZK)</i>   | -18.5         | -23.2         | 0.0                     | 0.0                    | 0.0                    | 0.0                    |
| <i>other assets and non-debt liabilities</i>   | <i>(bn CZK)</i>   | -3.3          | -3.0          | -2.0                    | -2.0                   | -2.0                   | -2.0                   |
| Revaluation effects and other                  | <i>(p.p.)</i>     | -0.1          | 0.1           | 0.0                     | 0.0                    | 0.0                    | 0.0                    |

## Cyclical development

According to the current estimates of GDP potential and the macroeconomic forecast, the Czech economy is in a recession phase, having reached the peak of its economic cycle in 2007. In 2009, we anticipate a decrease of the GDP growth rate below its potential level, whereby the positive output gap

will reverse into negative values. These unfavourable macroeconomic conditions will result in the nominal deficit's anticipated increase as a proportion of GDP in 2009.

Fiscal effort, defined as the year-on-year change in the structural balance, will not achieve positive values in 2008 and 2009. However, fiscal effort should increase in 2010 after the introduction of stability measures. Developments in 2011 and 2012, however, suggest further worsening in fiscal effort.

It is evident, however, that the medium-term budgetary objective, to which the Czech Republic is bound by the EU, will not be met in 2012 so long as the established fiscal policy is maintained.

**Table 3-8: Cyclically adjusted government balance (% of GDP)**

|                                      | 2008        | 2009<br><i>Forecast</i> | 2010<br><i>Outlook</i> | 2011<br><i>Outlook</i> | 2012<br><i>Outlook</i> |
|--------------------------------------|-------------|-------------------------|------------------------|------------------------|------------------------|
| Real GDP growth <i>(in %)</i>        | 2.7         | -5.0                    | 0.3                    | 2.8                    | 3.3                    |
| Potential GDP growth <i>(in %)</i>   | 3.5         | 3.0                     | 2.3                    | 2.3                    | 2.8                    |
| Output gap                           | 2.9         | -5.1                    | -6.9                   | -6.5                   | -6.1                   |
| <b>General government balance</b>    | <b>-2.1</b> | <b>-6.6</b>             | <b>-5.3</b>            | <b>-5.6</b>            | <b>-5.5</b>            |
| Cyclical budgetary component         | 0.8         | -1.4                    | -2.0                   | -1.9                   | -1.7                   |
| <b>Cyclically adjusted balance</b>   | <b>-2.9</b> | <b>-5.2</b>             | <b>-3.4</b>            | <b>-3.8</b>            | <b>-3.9</b>            |
| One-off and other temporary measures | -0.1        | 0.2                     | -0.1                   | -0.1                   | -0.3                   |
| <b>Structural balance</b>            | <b>-2.8</b> | <b>-5.4</b>             | <b>-3.3</b>            | <b>-3.8</b>            | <b>-3.6</b>            |
| Interest                             | 1.1         | 1.2                     | 1.8                    | 2.1                    | 2.2                    |
| <b>Structural primary balance</b>    | <b>-1.7</b> | <b>-4.2</b>             | <b>-1.5</b>            | <b>-1.7</b>            | <b>-1.3</b>            |
| <b>Change in structural balance</b>  | <b>-1.3</b> | <b>-2.6</b>             | <b>2.1</b>             | <b>-0.5</b>            | <b>0.2</b>             |

### 3.3 Long-term sustainability of public finances

Long-term projections of public expenditures are addressed as a separate topic in chapter 4 of this Fiscal Outlook.



## 4 Topic: Long-term fiscal projections

### 4.1 Introduction

The matter of long-term expenditure projections can be considered as a useful basis for a debate on the sustainability of public finances. Projections at the EU level (and even Norway participated in these long-term expenditure projections) for the member states are currently updated at three-year cycles and the results are published in the so-called Ageing Report.

Generally speaking, long-term projections are based on two inputs – a population projection and long-term GDP projection – and then there is also an important assumption on the development of real interest rates for pensions. The output is then an outlook for long-term development of expenditures in five areas: pensions, health care, long-term care, education, and unemployment benefits.

The projection horizon is set for around 50 years, so the latest projection ends in 2060. This period may seem too long and the analyses, in view of the uncertainty over such a long period, perhaps unreliable. One must recognise that a shorter horizon, and especially in the areas of sustainability of the pension schemes, would lose its sense. On the contrary, due to the very nature of the issues examined, the horizon should be as long as possible. And the analysis should be done in such a way as to examine changes in the population structure, which are characterised by relatively long persistence. Therefore, the projection horizon of 50 years may be considered a reasonable compromise.

### 4.2 Input data for the analysis

#### Population Projection

The population projection is prepared by demography experts at Eurostat and with significant contributions from the national statistical institutes of the member states. Compared to the previously used methodology that was, in principle “trendy”, the so-called “convergence” methodology has been used in the latest round. The substance of this methodology lies in the assumption that the main demographic factors – birth rate, mortality rate and level of net migration – are tending toward a certain value in all EU countries. The year 2150 was chosen for this convergence “point”. The values to which the EU countries must converge are determined in the cases of birth rates and mortality rates by the current situation of the “most advanced” countries. Meanwhile, net migration for the year 2150 is assumed to be zero (net migration shall converge to zero).

Birth rates are currently at the best level (data from 2006) in the Scandinavian countries, Great Britain, France and Ireland. The lowest fertility rate in these countries is 1.83 in Denmark; the highest is 1.98 in France. Slovakia has the lowest fertility rate in the EU (1.24). The expected target value of 1.85 was chosen for the fertility rate to which the EU countries should converge by 2150. In the Czech Republic’s case, the birth rate should be at the level of 1.52 by the end of the projection horizon (2060). The EU is expected to increase the total fertility rate from 1.52 in 2008, to 1.57 in 2030, and then to 1.64 in 2060.

Life expectancy in all EU countries increased between 1960 and 2006. The only exception are in Latvia and Lithuania, where the increase is slight, so there the average age expectancy in fact stagnated. On the other hand, the highest increase in life expectancy was recorded in Portugal, by

approximately 14.5 years. In 2006, the expected survival rates for women ranged in the EU from 76.2 years in Romania to 84.4 years in Spain and France, and for men from 65.3 years in Lithuania to about 78.8 in Cyprus and Sweden. In the EU as a whole, the average male life expectancy is expected to increase from 76 years in 2008 to 84.5 years in 2060, while the life expectancy of women should increase from 82.1 years in 2008 to 89 years in 2060. Differences in life expectancy between men and women are reduced, since the average life expectancy for men is growing by 8.5 years while that for women by only 6.9 years. It is worth noting that the highest increase is expected in the new member states, since their age expectancy today is lower and thus they will converge faster. Despite this, they will be consistently below the EU average in 2060.

In 2008, the net inflow of migrants into the EU was about 1,680,000 people. It is expected that in 2060 this could be about half (i.e. about 800,000 people). Cumulatively, the net migration is estimated to be 59 million people over the entire period between 2008 and 2060, the majority (39.6 million) immigrating to Italy, Spain, Germany and the UK.

Although the overall population of the EU increases slightly until 2060, this development will be very unevenly distributed. About half of the EU countries (mostly the new member states, including the Czech Republic), will however see a decline in population. Due to the aforementioned factors, the increase in the population's median age is from 40.4 years in 2008 to 47.9 years in 2060. The population aged 0–14 will decrease in most countries, as will the group of people of working age (in the Czech Republic's case, the decreasing number of people in the 0–14 group is higher by more than one-fifth, and for people of working age the decline is almost 30%). In contrast, the number of people aged 65+ is roughly doubled and the projected increase for people aged 80 and older is tripled (in the Czech Republic's case, the increases are about 110% and 265%, respectively). Of course, this development has negative consequences for the dependency ratio. In the Czech Republic, the share of the 65+ population in the working age population will increase from 20% to 61.4% and the overall dependency ratio (the proportion of people at non-productive age relative to the working age population) will rise from 40.7% to 84%.

## **GDP**

The unemployment and labour productivity inputs are used for purposes of the GDP projection.

The participation rate (share of labour in the working age population) will increase by 3.5 p.p. in the EU by the year 2060. In the Czech Republic's case, the increase will be about the same. In the individual cohorts (age groups), however, the situations of the EU and the Czech Republic differ. While in cohorts of 15–24 and 25–54 years in the EU as a whole the participation rate increases (by 2 p.p. and 1.6 p.p., respectively), in the Czech Republic it decreases in both cases (by 0.1 p.p. and 0.9 p.p. respectively). The highest increase in participation rate is observed in the 55–64 cohort, which grows by 15.1 p.p. in the EU and by 18.6 p.p. in the Czech Republic (which is, after Malta, Spain and Italy, the fourth largest increase in the EU). The labour supply in the EU will grow by 3.7% to 2020, primarily due to growth in the labour supply of women, but this trend reverses after 2020 and in 2060 the labour supply will be about 24.4 million people less than in 2007. This negative development is due to the negative demographic trends. The Czech Republic is one of 11 countries (in addition to the Czech Republic, these include also the Netherlands, Denmark, Finland, Estonia, Lithuania, Latvia, Poland, Slovenia, Romania and Bulgaria) where the labour supply is decreasing throughout the projection. In contrast, growth in labour supply throughout the projection period is recorded only in Cyprus, Luxembourg, Ireland, France, Sweden and the UK.

For unemployment projections, we use the assumption that development in the structural level of unemployment will be constant, while countries with higher current rates of unemployment than the current average in the EU-15 (6.2%) will reach that value by 2020. This applies to Belgium, Germany, Greece, Spain, France, Portugal, Hungary, Malta and Slovakia.

With the given population projections, the assumptions as to the measure of unemployment and labour force projections, the employment rate at working age is developing positively and growing in the EU from 65.5% in 2007 to 69.9% in 2060. In the Czech Republic, in the same years, the level of employment is increasing from 66.2% to 70.2%. The highest growth rate of employment is, of course, among the cohorts of older workers, i.e. 55–64, where the EU increase is 15.1 p.p. and in the Czech Republic it is even 18.5 p.p. The number of people employed is expected to grow by 4% per year to 2020 and subsequently to decrease by a similar dynamic, so that by 2060 the decrease in the EU is estimated to be around 19.4 million people employed as compared with the year 2007. To calculate the work input, an assumption as to the development of changes in the hours worked per worker will be used. Across the EU, the total number of hours worked is decreasing throughout the projection by 8.2%, but there are considerable differences between the member states. Growth in the number of hours worked is expected in Belgium, Ireland, France, Spain, Cyprus, Luxembourg, Sweden and Great Britain, while a decrease of 20% or more is seen in Bulgaria, the Czech Republic, Germany, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia. In the remaining EU countries and Norway a decline in the total hours worked is expected, but by less than 20%.

The GDP projection uses a standard Cobb-Douglas production function, because this approach allows for illuminating the main components of labour productivity growth, not least as a standard part of the economic mainstream, although this approach has been discredited on theoretical grounds in the past. For total factor productivity (TFP), there is an assumption for convergence to its historical average growth rate of 1.1%, which is also close to the TFP growth in the U.S. Labour productivity growth in the long term will reach 1.7%, since labour productivity corresponds in the long term to the share of TFP and labour inputs (the latter was set at 0.65). Nevertheless, the speed of convergence in the member states will vary according to their levels of income per capita, as the countries with lower economic levels will have a higher potential to show a catching-up effect. For example, the Czech Republic, together with Spain, Malta, Cyprus, Slovenia and Greece, is part of the group of the most prosperous followers that are supposed to complete convergence to the TFP growth value at 1.75% by 2020 and subsequently will gradually converge to the value of 1.1% by 2050. It should be noted that TFP is here taken as an exogenous variable (i.e. it does not take into account aspects such as ageing). Regarding capital formation, a so-called investment rule was initially used, which means that capital investment will grow according to a proportion of investment in GDP. Because such a rule would, however, be too optimistic for a longer horizon, and particularly for the new member states, it was used only for the period up to 2010. In the next period (up to 2030) the countries go through a so-called transit rule, whereby they linearly come to a point of neutral technical progress (i.e. the capital grows at the same rate as effective labour input). This so-called capital rule holds then from 2030 onwards. Although all EU countries will slow their potential growth in the future because of the demographic development, there will be significant differences between countries. In the first half of the projection horizon, there will be a dominant influence of productivity growth, reflecting the different starting positions of the EU countries at the beginning of the projection. In the second half, however, the dominant factor becomes the labour input, either due to demographic projections or to convergence of the pace of labour productivity growth.

## Interest Rate

The real long-term interest rate was set at 3%, and with estimated long-term inflation of 2%.

## 4.3 Outputs from the long-term projections

### Pension expenditures

The specificity of pension schemes across different countries is so great that the member states use their individual retirement models operating in their own countries. A uniform model for all countries, as works in cases of other types of long-term outlays, cannot be used in a way that is meaningful and without its construction using a necessary extent of certain details. To ensure high quality and maximise comparability of the results within the EU, however, a model was set up using common assumptions (described above) and a process for critical review of models and their outputs was set up with the participation of the member states and representatives of the European Commission. The Czech Republic acts as a reviewer for Cyprus in these proceedings, and its reviewer is Bulgaria.

The core of the pension projections are public pension expenditures. Projections are built on these basic quantities:

- Gross pension costs (i.e. including pension taxes);
- Number of pensioners/pensions (which differ due to overlapping of retirees with several pensions);
- Number of pension insurance payers;
- Payments to the pension insurance; and
- Assets accumulated in the pension system.

The member states can design other variables on a voluntary basis:

- Employment and private mandatory pension expenditures (so-called second pillar);
- Individual and total replacement ratio (individual replacement ratio means the ratio of the first and final salaries, while the total replacement ratio means the ratio of the average pensions and average salaries);
- Pension taxes and net pension expenditures; and
- Private pension outlays (the so-called third pillar).

The Czech Republic, in addition to the mandatory data, provides information on replacement ratios and to a lesser degree also on private pension outlays based on the data of the Association of Pension Funds (APF). There is a problem related to private pension expenditures in the Czech Republic, however, because these are not used primarily as pension investments but rather as a advantageous form of savings, which is selected by a significant part of the contributors as a total sum rather than as a regular old age payment (annuity). A similar situation exists when reporting pension taxes. While it is true that formally pensions in the Czech Republic are subject to income tax, the non-taxable portion of the pension is so high that the tax applies only to a tiny proportion of pensioners. Therefore, the revenue from such taxes can be considered negligible and we do not quantify it. Pension taxes are the most important items in the Netherlands and in Denmark, mainly due to the relatively high revenue from pensions taxation from the funded pillar.

Gross public pension expenditures in the EU and Norway are shown in Table 4.1. Pension taxes in countries where such information is reported (i.e. pension taxes are established and are important in their systems) are shown in Table 4.2.

**Table 4-1: Gross public pension expenditures**

| % GDP          | 2000 | 2007 | 2020 | 2030 | 2040 | 2050 | 2060 |
|----------------|------|------|------|------|------|------|------|
| Belgium        | 10.0 | 10.0 | 11.8 | 13.9 | 14.6 | 14.7 | 14.7 |
| Bulgaria       | 9.4  | 8.3  | 8.4  | 8.6  | 9.5  | 10.8 | 11.3 |
| Czech Republic | 8.6  | 7.8  | 6.9  | 7.1  | 8.4  | 10.2 | 11.0 |
| Denmark        | 8.9  | 9.1  | 10.6 | 10.6 | 10.4 | 9.6  | 9.2  |
| Germany        | 10.8 | 10.4 | 10.5 | 11.5 | 12.1 | 12.3 | 12.8 |
| Estonia        |      | 5.6  | 5.9  | 5.6  | 5.4  | 5.3  | 4.9  |
| Cyprus         |      | 6.3  | 8.9  | 10.8 | 12.8 | 15.5 | 17.7 |
| Greece         | 10.8 | 11.7 | 13.2 | 17.1 | 21.4 | 24.0 | 24.1 |
| Spain          | 9.1  | 8.4  | 9.5  | 10.8 | 13.2 | 15.5 | 15.1 |
| France         | 12.3 | 13.3 | 13.9 | 14.5 | 14.7 | 14.5 | 14.3 |
| Ireland        |      | 5.2  | 6.4  | 7.5  | 8.7  | 10.5 | 11.0 |
| Italy          | 13.5 | 14.0 | 14.1 | 14.8 | 15.6 | 14.7 | 13.6 |
| Luxemburg      | 9.1  | 8.7  | 9.9  | 14.2 | 18.4 | 22.1 | 23.9 |
| Latvia         | 8.3  | 5.4  | 5.2  | 5.9  | 6.1  | 5.8  | 5.1  |
| Lithuania      | 7.8  | 6.8  | 6.8  | 8.0  | 8.6  | 9.7  | 10.5 |
| Hungary        | 8.1  | 10.9 | 10.9 | 10.9 | 12.0 | 12.9 | 13.5 |
| Malta          | 6.4  | 7.2  | 9.3  | 9.3  | 10.5 | 12.0 | 13.4 |
| Netherlands    | 7.3  | 6.6  | 7.8  | 9.3  | 10.3 | 10.3 | 10.5 |
| Austria        | 13.0 | 12.8 | 13.0 | 13.8 | 13.9 | 14.0 | 13.6 |
| Poland         | 13.2 | 11.6 | 9.6  | 9.1  | 8.6  | 8.3  | 7.8  |
| Portugal       | 8.7  | 11.4 | 12.4 | 12.6 | 12.5 | 13.3 | 13.4 |
| Romania        |      | 6.6  | 9.4  | 11.0 | 12.1 | 13.7 | 14.5 |
| Slovenia       | 10.9 | 9.9  | 11.1 | 13.3 | 16.2 | 18.3 | 18.7 |
| Slovakia       |      | 6.7  | 6.5  | 7.4  | 8.3  | 9.2  | 9.3  |
| Sweden         | 9.3  | 9.5  | 9.4  | 9.5  | 9.4  | 9.0  | 9.4  |
| Finland        | 10.1 | 10.0 | 12.6 | 13.9 | 13.6 | 13.3 | 13.4 |
| United Kingdom |      | 6.6  | 7.0  | 7.8  | 8.4  | 8.7  | 10.2 |
| Norway         | 6.2  | 8.9  | 11.5 | 12.7 | 13.4 | 13.3 | 13.6 |

**Table 4-2: Tax income from public pensions**

| % GDP       | 2000 | 2007 | 2020 | 2030 | 2040 | 2050 | 2060 |
|-------------|------|------|------|------|------|------|------|
| Belgium     |      | 1.3  | 1.5  | 1.9  | 2.0  | 2.0  | 2.0  |
| Denmark     | 2.4  | 2.4  | 2.8  | 2.7  | 2.6  | 2.4  | 2.3  |
| Germany     | 1.3  | 1.7  | 1.7  | 2.0  | 2.2  | 2.3  | 2.4  |
| Spain       | 0.4  | 0.4  | 0.4  | 0.5  | 0.6  | 0.7  | 0.7  |
| France      |      | 1.1  | 1.2  | 1.2  | 1.2  | 1.2  | 1.2  |
| Italy       | 2.1  | 2.1  | 2.1  | 2.1  | 2.1  | 2.1  | 2.1  |
| Luxemburg   | 1.0  | 1.0  | 1.2  | 1.7  | 2.2  | 2.7  | 2.9  |
| Hungary     |      |      | 0.3  | 0.4  | 0.6  | 0.7  | 0.7  |
| Netherlands | 0.6  | 0.6  | 0.8  | 1.0  | 1.2  | 1.2  | 1.2  |
| Austria     | 2.4  | 2.0  | 2.0  | 1.9  | 1.6  | 1.5  | 1.3  |
| Poland      | 1.5  | 1.4  | 1.2  | 1.1  | 1.1  | 1.0  | 1.0  |
| Portugal    | 0.6  | 0.8  | 0.9  | 0.9  | 0.9  | 1.0  | 1.0  |
| Sweden      | 2.3  | 2.6  | 2.6  | 2.6  | 2.5  | 2.4  | 2.5  |
| Finland     | 1.8  | 1.8  | 2.3  | 2.5  | 2.5  | 2.4  | 2.4  |

## Health care

The above assumptions are likewise used for the health care projections, along with data provided by the member states, Eurostat and OECD. Using just additional national data can be a source of some inconsistency, since some of these are available only in some countries due to differences of methodology. Expenditures on health care depend on a number of supply and demand factors. On the demand side, health status is the primary focus, but we can find no causality with age. Age is only one of the factors that affect health. On the supply side, on the other hand, there are many economic, institutional and social factors. Expenditures on health care are mainly determined by:

- The population's health status,
- Economic growth and development,
- Technological progress,
- Organisation and financing of the health care system, and
- Human and capital resources.

It is extremely difficult to consider responsibly how these factors will operate in the future. For this reason, in relation to expenditures on health care there are several scenarios that provide an overview of possible developments:

### 1. Pure demographic scenario

A pure demographic scenario aims to isolate only the effect of the ageing of the population as a factor affecting expenditures on health care. It is assumed that per capita expenditures on health care for the entire age profile will be constant throughout the period as in the starting year 2007.

### 2. Expected high age scenario

An expected high age scenario examines the budgetary implications of alternative demographic scenarios with a higher expected survival rate, which is the only difference from a purely demographic scenario.

### 3. Constant health scenario

A purely demographic scenario can serve as a pessimistic view, as it maintains constant health in relation to the age profile. That essentially means that prolonging the age will lead to the same prolongation of the period in poor health. On the contrary, a constant health scenario assumes that the prolongation of life expectancy coincides with prolonging the term of life in good health.

### 4. Scenario of costs associated with death

A scenario of costs associated with death is linked to the expenditures on health care and the number of the remaining years of life. Empirical evidence shows that a substantial proportion of an individual's expenditures on health care is concentrated in the last years of life. On the basis of data, profiles are constructed of expenditures associated with the death and with unit costs divided between those who die in a given year and those who survive. These profiles are then applied to the two groups of the population according to mortality rates.

### 5. Income elasticity scenario

The income elasticity of demand for health care is a major factor affecting total expenditures on health care. Elasticity greater than 1 would mean that health care is a luxury good. A difference in the case of

this scenario compared with a purely demographic scenario is that the income elasticity was arbitrarily set at 1.1 at the beginning of the projection and gradually converges to unit elasticity in 2060.

#### 6. Labour intensity scenario

This scenario is the same as a pure demographic but in addition there is an assumption that expenditures on health care develop according to labour productivity (GDP per worker). This reflects the argument that health care is a sector with a high proportion of labour input, where the salaries make up a considerable proportion of the costs. An additional assumption is necessary that salaries develop uniformly throughout the entire economy in accordance with labour productivity.

#### 7. EU-12 expenditures convergence scenario

This scenario is by nature different from the previous ones. It models the real convergence of costs in the EU-15 to the costs in EU-12 post facto to the normal development given according to the development of national income per capita.

Practically speaking, the pure demographic scenario is chosen as the base scenario and the remaining scenarios are used more for sensitivity analysis. For information, Table 4.3 provides a comparison of expenditures on health care in the purely demographic scenario for 2007 and 2060 and the differences in percentage points.



**Table 4-3: Health care expenditure**

| <b>% GDP</b>   | <b>2007</b> | <b>2060</b> | <b>2060-2007</b> |
|----------------|-------------|-------------|------------------|
| Belgium        | 7.6         | 9.1         | 1.5              |
| Bulgaria       | 4.7         | 5.4         | 0.7              |
| Czech Republic | 6.2         | 8.5         | 2.3              |
| Denmark        | 5.9         | 7.1         | 1.2              |
| Germany        | 7.4         | 9.4         | 2.0              |
| Estonia        | 4.9         | 6.2         | 1.2              |
| Cyprus         | 2.7         | 3.6         | 0.9              |
| Greece         | 5.0         | 6.4         | 1.5              |
| Spain          | 5.5         | 7.3         | 1.8              |
| France         | 8.1         | 9.5         | 1.4              |
| Ireland        | 5.8         | 7.8         | 2.0              |
| Italy          | 5.9         | 7.1         | 1.2              |
| Luxembourg     | 5.8         | 7.1         | 1.3              |
| Latvia         | 3.5         | 4.1         | 0.7              |
| Lithuania      | 4.5         | 5.7         | 1.2              |
| Hungary        | 5.8         | 7.5         | 1.7              |
| Malta          | 4.7         | 8.5         | 3.8              |
| Netherlands    | 4.8         | 6.0         | 1.1              |
| Austria        | 6.5         | 8.2         | 1.7              |
| Poland         | 4.0         | 5.4         | 1.3              |
| Portugal       | 7.2         | 9.4         | 2.2              |
| Romania        | 3.5         | 4.9         | 1.4              |
| Slovenia       | 6.6         | 8.6         | 1.9              |
| Slovakia       | 5.0         | 7.3         | 2.3              |
| Sweden         | 7.2         | 8.1         | 0.9              |
| Finland        | 5.5         | 6.9         | 1.4              |
| United Kingdom | 7.5         | 9.7         | 2.2              |
| Norway         | 5.6         | 6.0         | 0.4              |

### Long-term care

For projecting expenditures on long-term care, a macro-simulation model is used. Based on population projections, dependency ratios by age and gender from the starting year of those requiring some form of long-term care or support and of independent people to the total population are determined.<sup>3</sup> The dependent population is further subdivided into recipients of informal care (care from own resources, family, friends, neighbours, etc.), recipients of formal care at home (care services delivered to the household), and recipients of formal care in relevant institutions (both are associated with public costs, even if those costs are different). Based on data from the member states on the costs per person using

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<sup>3</sup> To distinguish them from those receiving pensions for invalidity, such people from the dependent population will be hereafter referred to as infirm.

formal long-term care, the total costs of formal long-term care are then calculated. The contributions to care are added to these costs and the result is the total public costs of long-term care.

As with the medical care expenditures, the projections are built for the same reasons using several scenarios:

1. Pure demographic scenario

The proportion of older infirm people in the population using this kind of long-term care remains constant throughout the period of the projections and is applied to the changes in the total population. The proportion of the infirm within the total population evolves according to the population projection. As with health care, this scenario implies that the prolonged periods of life expectancy mean also the same period of longer infirmity. It is undoubtedly a pessimistic scenario, assuming that better medical care will prolong the period of infirmity. With the currently dominating lack of formal care provision, and taking into account the sector's high labour intensity, the expenditures per unit for long-term care will evolve rather more in accordance with the supply than demand (i.e. in accordance with salaries and labour productivity).

2. Expected high age scenario

The expected high age scenario examines in addition to medical expenditures budgetary implications of alternative demographic scenarios with a higher expected survival rate. This is the only difference from the pure demographic scenario.

3. Constant infirmity scenario

This scenario is analogous to the constant health scenario for health expenditures, i.e. infirmity in the age profile is amended according to the prolonging of life expectancy, so that infirmity is gradually decreasing in each of today's age cohorts.

4. Demand scenario

In this scenario, the costs are developing rather more according to the demand than supply, i.e. they do not develop primarily according to salaries, but with regard to the economic level and the amount of earnings. When the country is at a higher economic level, the government releases more resources to provide formal long-term care.

5. Decline from informal to formal care scenario

This scenario assumes that during the first 10 years, in each year 1% of people benefiting from informal care move into formal care, so the total of 10.5% of people is moving.<sup>4</sup> Under this scenario, there are further distinguished three alternatives: (a) all newcomers to formal care move solely within institutional formal care; (b) all newcomers into formal care move solely to home formal care; (c) one half moves into the institutional and half into home formal care.

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<sup>4</sup> In other words, from "household provided" care to care provided by professionals whether in the infirm person's home or in a specialised institution.

## 6. Family structure scenario

This scenario envisages that in line with developments in society (due to changes in the social, demographic and educational areas) the supply of informal long-term care will diminish. This hypothesis uses empirical information as to the share of informal care provided by partners, children and other people; the expected change in family structures based on demographic development (the coming together of the average ages of men and women); and changes in the labour market (higher extent of female activity, changes in working hours, etc.). This decrease in informal care is envisaged to be fully offset by increasing public expenditures on formal care.

## 7. Convergence scenario

This scenario assumes a situation of real convergence to a determined “optimal” level of long-term care in the EU member states, where the exchange of experience about the best ways for its delivery and increasing public expenditures on this care will lead to inclusion into the formal care even of those groups of the population that are not provided this care today, while excluding the average of the three most advanced EU countries.

As with health care, the pure demographic scenario is the base case for long-term care and the remaining scenarios are sensitivity scenarios. Again, we provide in Table 4.4 information on the long-term care expenditures in pure demographic scenarios for 2007 and 2060 and the difference between those years in percentage points.

**Table 4-4: Long-term care expenditure**

| <b>% GDP</b>   | <b>2007</b> | <b>2060</b> | <b>2060-2007</b> |
|----------------|-------------|-------------|------------------|
| Belgium        | 1.5         | 3.0         | 1.6              |
| Bulgaria       | 0.2         | 0.4         | 0.2              |
| Czech Republic | 0.2         | 0.7         | 0.5              |
| Denmark        | 1.7         | 3.5         | 1.7              |
| Germany        | 0.9         | 2.5         | 1.5              |
| Estonia        | 0.1         | 0.1         | 0.1              |
| Cyprus         | 0.0         | 0.0         | 0.0              |
| Greece         | 1.4         | 3.8         | 2.4              |
| Spain          | 0.5         | 1.5         | 0.9              |
| France         | 1.4         | 2.3         | 0.9              |
| Ireland        | 0.8         | 2.3         | 1.4              |
| Italy          | 1.7         | 3.1         | 1.4              |
| Luxembourg     | 1.4         | 3.6         | 2.2              |
| Latvia         | 0.4         | 0.9         | 0.5              |
| Lithuania      | 0.5         | 1.1         | 0.6              |
| Hungary        | 0.3         | 0.6         | 0.4              |
| Malta          | 1.0         | 2.8         | 1.9              |
| Netherlands    | 3.4         | 8.5         | 5.2              |
| Austria        | 1.3         | 2.6         | 1.3              |
| Poland         | 0.4         | 1.1         | 0.7              |
| Portugal       | 0.1         | 0.2         | 0.1              |
| Romania        | 0.0         | 0.1         | 0.0              |
| Slovenia       | 1.1         | 2.9         | 1.8              |
| Slovakia       | 0.2         | 0.6         | 0.4              |
| Sweden         | 3.5         | 6.0         | 2.6              |
| Finland        | 1.8         | 4.5         | 2.7              |
| United Kingdom | 0.8         | 1.4         | 0.5              |
| Norway         | 2.2         | 5.1         | 2.9              |

## Education

The overall level of expenditures on education in the EU ranges between 3% and 8.4% of GDP, and it may further increase if only with respect to the objectives set under the Lisbon strategy. The methodology, which is set out with respect to the availability of data, has two steps. The first step is to decompose the key variables for the public expenditures projections on education in the starting year (2006). This concerns outlays per student and the number of students. This decomposition takes into account the different baseline variables that affect the number of students and outlays per student (e.g. salaries, number of teachers and non-instructional workers, the regular and capital expenditures, etc.). The second step requires assumptions as to development of the variables.

The main purpose of these projections is to assess the impact of demographic developments on public expenditures for education and subsequently the burden on the budgets in EU member states that these expenses represent up to 2060. In addition to demographic developments, also examined is the impact of developments in the labour market by the inclusion of behavioural aspects and the development of the economy. In addition to the base scenario, several alternatives are examined as to the number of

enrolments, unit costs, ratio of students to teachers, etc. The scenarios are to be carried out for each educational level separately, and their subsequent aggregation will reveal the total public expenditures on education. The base scenario expenditures on education in 2007 and 2060 as well as changes between those years are shown in Table 4.5 in percentage points.

**Table 4-5: Education expenditure**

| <b>% GDP</b>   | <b>2007</b> | <b>2060</b> | <b>2060-2007</b> |
|----------------|-------------|-------------|------------------|
| Belgium        | 5.5         | 5.5         | 0.0              |
| Bulgaria       | 3.3         | 3.0         | -0.2             |
| Czech Republic | 3.5         | 3.2         | -0.3             |
| Denmark        | 7.1         | 7.2         | 0.2              |
| Germany        | 3.9         | 3.5         | -0.4             |
| Estonia        | 3.7         | 3.5         | -0.2             |
| Cyprus         | 6.1         | 5.0         | -1.2             |
| Greece         | 3.7         | 3.7         | 0.0              |
| Spain          | 3.5         | 3.6         | 0.1              |
| France         | 4.7         | 4.6         | 0.0              |
| Ireland        | 4.5         | 4.2         | -0.3             |
| Italy          | 4.1         | 3.8         | -0.3             |
| Luxemburg      | 3.8         | 3.3         | -0.5             |
| Latvia         | 3.7         | 3.3         | -0.3             |
| Lithuania      | 4.0         | 3.1         | -0.9             |
| Hungary        | 4.4         | 4.0         | -0.4             |
| Malta          | 5.0         | 4.0         | -1.0             |
| Netherlands    | 4.6         | 4.4         | -0.2             |
| Austria        | 4.8         | 4.3         | -0.5             |
| Poland         | 4.4         | 3.2         | -1.2             |
| Portugal       | 4.6         | 4.3         | -0.3             |
| Romania        | 2.8         | 2.3         | -0.5             |
| Slovenia       | 5.1         | 5.6         | 0.4              |
| Slovakia       | 3.1         | 2.3         | -0.8             |
| Sweden         | 6.0         | 5.8         | -0.3             |
| Finland        | 5.7         | 5.4         | -0.3             |
| United Kingdom | 3.8         | 3.8         | -0.1             |
| Norway         | 7.9         | 8.1         | 0.1              |

## Unemployment

The projection is based on the average unemployment benefits per capita (i.e. the share of amounts paid for assistance and the number of inhabitants), but, due to the potential distortion from phases of the business cycle, an average of several years is used. So the calculated “average” unemployment assistance is applied to the projection of unemployed people (see above). Such a methodology is strictly based on a scenario of zero policy changes in the given area and also constant share of payrolls in the overall income. Unlike the former assumption, however, the latter one is realistic in the long term. Developments in the costs of unemployment are shown in Table 4.6.

**Table 4-6: Unemployment benefits expenditure**

| % GDP          | 2007 | 2020 | 2040 | 2060 |
|----------------|------|------|------|------|
| Belgium        | 1.9  | 1.5  | 1.5  | 1.5  |
| Bulgaria       | 0.1  | 0.1  | 0.1  | 0.1  |
| Czech Republic | 0.1  | 0.1  | 0.1  | 0.1  |
| Denmark        | 1.0  | 0.8  | 0.8  | 0.8  |
| Germany        | 0.9  | 0.6  | 0.6  | 0.6  |
| Estonia        | 0.1  | 0.0  | 0.0  | 0.0  |
| Cyprus         | 0.3  | 0.3  | 0.2  | 0.2  |
| Greece         | 0.3  | 0.2  | 0.2  | 0.2  |
| Spain          | 1.3  | 0.9  | 0.9  | 0.9  |
| France         | 1.2  | 0.9  | 0.9  | 0.9  |
| Ireland        | 0.8  | 0.9  | 0.8  | 0.8  |
| Italy          | 0.4  | 0.3  | 0.3  | 0.3  |
| Luxembourg     | 0.4  | 0.4  | 0.4  | 0.4  |
| Latvia         | 0.2  | 0.2  | 0.2  | 0.2  |
| Lithuania      | 0.1  | 0.0  | 0.0  | 0.0  |
| Hungary        | 0.3  | 0.2  | 0.2  | 0.2  |
| Malta          | 0.4  | 0.3  | 0.3  | 0.3  |
| Netherlands    | 1.1  | 1.0  | 1.0  | 1.0  |
| Austria        | 0.7  | 0.6  | 0.6  | 0.6  |
| Poland         | 0.1  | 0.1  | 0.1  | 0.1  |
| Portugal       | 1.2  | 0.9  | 0.8  | 0.8  |
| Romania        | 0.2  | 0.2  | 0.2  | 0.2  |
| Slovenia       | 0.2  | 0.2  | 0.2  | 0.2  |
| Slovakia       | 0.1  | 0.1  | 0.1  | 0.1  |
| Sweden         | 0.9  | 0.9  | 0.9  | 0.9  |
| Finland        | 1.2  | 1.0  | 1.0  | 1.0  |
| United Kingdom | 0.2  | 0.2  | 0.2  | 0.2  |
| Norway         | 0.2  | 0.4  | 0.4  | 0.4  |

## Conclusion

Although at first glance, it may seem that the Czech Republic is not in a serious position with regard to the demands from long-term expenditures on public finances (adding the data for 2060 in the tables above, the expenditures relating to ageing will be 23.5% of GDP, which is below the EU average), in fact the opposite is true. Long-term expenditures as a proportion of GDP strongly correlate with the economic level of a given country. In other words, long-term public expenditures grow faster than does GDP (so-called Wagner's Law). In addition, the ageing of the population itself is not the only factor acting on the growth of public expenditures. For these very reasons, the amount of projected expenditures for the Czech Republic in the base scenarios is somewhat optimistic. A very useful example for comparison in this connection concerns Denmark. It has only a slightly higher level of long-term expenditures than does the Czech Republic (around 5 p.p.), but the total pension expenditures are about twice those from public funds (stated in Table 4.1). Denmark can therefore be considered unquestionably the European leader in reforming long-term public expenditures.

## 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 revenues**

|   |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          |
|---|-----------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total revenue</b>                          | <i>bn CZK</i>         | <b>761.7</b> | <b>802.3</b> | <b>833.9</b> | <b>911.4</b> | <b>974.4</b> | <b>1049.4</b> | <b>1187.7</b> | <b>1235.7</b> | <b>1325.2</b> | <b>1481.1</b> | <b>1507.8</b> |
|   | <i>prev. year=100</i> | 106.7        | 105.3        | 103.9        | 109.3        | 106.9        | 107.7         | 113.2         | 104.0         | 107.2         | 111.8         | 101.8         |
| Current taxes on income, wealth, etc.         | <i>bn CZK</i>         | <b>165.6</b> | <b>176.1</b> | <b>181.4</b> | <b>206.8</b> | <b>223.8</b> | <b>247.4</b>  | <b>269.8</b>  | <b>273.4</b>  | <b>295.2</b>  | <b>333.9</b>  | <b>316.7</b>  |
|   | <i>prev. year=100</i> | 103.4        | 106.3        | 103.1        | 114.0        | 108.3        | 110.5         | 109.1         | 101.3         | 108.0         | 113.1         | 94.9          |
| Social contributions <sup>1)</sup>            | <i>bn CZK</i>         | <b>281.7</b> | <b>292.7</b> | <b>312.0</b> | <b>335.0</b> | <b>367.4</b> | <b>388.9</b>  | <b>452.8</b>  | <b>482.1</b>  | <b>524.8</b>  | <b>576.7</b>  | <b>599.2</b>  |
|   | <i>prev. year=100</i> | 106.4        | 103.9        | 106.6        | 107.4        | 109.7        | 105.8         | 116.4         | 106.5         | 108.8         | 109.9         | 103.9         |
| Taxes on production and imports <sup>2)</sup> | <i>bn CZK</i>         | <b>218.9</b> | <b>240.3</b> | <b>247.9</b> | <b>258.0</b> | <b>266.7</b> | <b>285.4</b>  | <b>325.3</b>  | <b>342.3</b>  | <b>352.4</b>  | <b>394.4</b>  | <b>405.6</b>  |
|   | <i>prev. year=100</i> | 104.8        | 109.8        | 103.2        | 104.1        | 103.4        | 107.0         | 114.0         | 105.2         | 102.9         | 111.9         | 102.9         |
| Capital taxes <sup>3)</sup>                   | <i>bn CZK</i>         | <b>0.6</b>   | <b>0.5</b>   | <b>0.6</b>   | <b>0.7</b>   | <b>0.7</b>   | <b>0.9</b>    | <b>0.6</b>    | <b>0.7</b>    | <b>0.8</b>    | <b>0.5</b>    | <b>0.4</b>    |
|   | <i>prev. year=100</i> | 96.5         | 96.7         | 109.7        | 117.0        | 108.9        | 115.6         | 71.9          | 118.5         | 109.2         | 57.6          | 87.5          |
| Property income                               | <i>bn CZK</i>         | <b>15.7</b>  | <b>12.8</b>  | <b>18.3</b>  | <b>26.2</b>  | <b>29.8</b>  | <b>24.5</b>   | <b>23.2</b>   | <b>21.2</b>   | <b>25.6</b>   | <b>29.1</b>   | <b>31.4</b>   |
|   | <i>prev. year=100</i> | 100.8        | 81.2         | 143.4        | 142.8        | 113.9        | 82.3          | 94.5          | 91.6          | 120.5         | 114.0         | 107.8         |
| Interest                                      | <i>bn CZK</i>         | <b>13.1</b>  | <b>9.9</b>   | <b>15.0</b>  | <b>15.4</b>  | <b>22.0</b>  | <b>17.2</b>   | <b>14.2</b>   | <b>12.6</b>   | <b>12.6</b>   | <b>16.5</b>   | <b>12.0</b>   |
|   | <i>prev. year=100</i> | 106.1        | 76.1         | 151.0        | 102.5        | 143.1        | 78.1          | 82.5          | 88.5          | 100.0         | 131.8         | 72.7          |
| Other property income                         | <i>bn CZK</i>         | <b>2.7</b>   | <b>2.8</b>   | <b>3.3</b>   | <b>10.8</b>  | <b>7.8</b>   | <b>7.3</b>    | <b>9.0</b>    | <b>8.7</b>    | <b>13.0</b>   | <b>12.6</b>   | <b>19.4</b>   |
|   | <i>prev. year=100</i> | 81.0         | 106.6        | 116.7        | 325.2        | 72.4         | 93.9          | 122.7         | 96.4          | 150.2         | 96.7          | 153.9         |
| Sales <sup>4)</sup>                           | <i>bn CZK</i>         | <b>58.2</b>  | <b>56.4</b>  | <b>58.3</b>  | <b>63.0</b>  | <b>66.4</b>  | <b>75.4</b>   | <b>77.8</b>   | <b>79.9</b>   | <b>81.9</b>   | <b>95.3</b>   | <b>102.8</b>  |
|   | <i>prev. year=100</i> | 123.2        | 96.9         | 103.5        | 108.0        | 105.5        | 113.4         | 103.3         | 102.6         | 102.5         | 116.4         | 107.9         |
| Other current transfers and subsidies         | <i>bn CZK</i>         | <b>19.5</b>  | <b>22.1</b>  | <b>12.4</b>  | <b>15.8</b>  | <b>16.5</b>  | <b>21.3</b>   | <b>28.3</b>   | <b>26.0</b>   | <b>25.3</b>   | <b>23.3</b>   | <b>21.5</b>   |
|   | <i>prev. year=100</i> | 122.6        | 113.5        | 56.2         | 126.8        | 104.2        | 129.7         | 132.5         | 92.0          | 97.1          | 92.2          | 92.4          |
| Investment grants                             | <i>bn CZK</i>         | <b>0.0</b>   | <b>0.0</b>   | <b>0.1</b>   | <b>0.5</b>   | <b>0.9</b>   | <b>2.8</b>    | <b>3.1</b>    | <b>4.7</b>    | <b>13.9</b>   | <b>14.6</b>   | <b>27.2</b>   |
|   | <i>prev. year=100</i> | 314.3        | 145.5        | 225.0        | 754.2        | 171.8        | 301.5         | 110.1         | 151.6         | 296.6         | 105.0         | 186.1         |
| Other capital transfers                       | <i>bn CZK</i>         | <b>1.5</b>   | <b>1.4</b>   | <b>2.9</b>   | <b>5.5</b>   | <b>2.1</b>   | <b>2.8</b>    | <b>6.8</b>    | <b>5.3</b>    | <b>5.4</b>    | <b>13.4</b>   | <b>2.9</b>    |
|   | <i>prev. year=100</i> | 227.0        | 92.5         | 206.2        | 186.2        | 37.8         | 134.8         | 243.3         | 78.2          | 102.3         | 247.1         | 22.0          |

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 revenues (% GDP)**

|  | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| <b>Total revenue</b> (in % GDP)                  | 38.2 | 38.6 | 38.1 | 38.7 | 39.5 | 40.7 | 42.2 | 41.4 | 41.1 | 41.9 | 40.9 |
| Current taxes on income, wealth, etc. (in % GDP) | 8.3  | 8.5  | 8.3  | 8.8  | 9.1  | 9.6  | 9.6  | 9.2  | 9.2  | 9.4  | 8.6  |
| Social contributions (in % GDP)                  | 14.1 | 14.1 | 14.2 | 14.2 | 14.9 | 15.1 | 16.1 | 16.2 | 16.3 | 16.3 | 16.2 |
| Taxes on production and imports (in % GDP)       | 11.0 | 11.5 | 11.3 | 11.0 | 10.8 | 11.1 | 11.6 | 11.5 | 10.9 | 11.2 | 11.0 |
| 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)                       | 0.8  | 0.6  | 0.8  | 1.1  | 1.2  | 1.0  | 0.8  | 0.7  | 0.8  | 0.8  | 0.9  |
| Interest (in % GDP)                              | 0.7  | 0.5  | 0.7  | 0.7  | 0.9  | 0.7  | 0.5  | 0.4  | 0.4  | 0.5  | 0.3  |
| Other property income (in % GDP)                 | 0.1  | 0.1  | 0.2  | 0.5  | 0.3  | 0.3  | 0.3  | 0.3  | 0.4  | 0.4  | 0.5  |
| Sales (in % GDP)                                 | 2.9  | 2.7  | 2.7  | 2.7  | 2.7  | 2.9  | 2.8  | 2.7  | 2.5  | 2.7  | 2.8  |
| Other current transfers and subsidies (in % GDP) | 1.0  | 1.1  | 0.6  | 0.7  | 0.7  | 0.8  | 1.0  | 0.9  | 0.8  | 0.7  | 0.6  |
| Investment grants (in % GDP)                     | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.1  | 0.1  | 0.2  | 0.4  | 0.4  | 0.7  |
| Other capital transfers (in % GDP)               | 0.1  | 0.1  | 0.1  | 0.2  | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.4  | 0.1  |

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

|   | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004   | 2005   | 2006   | 2007   | 2008   |
|---|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| <b>Taxes and social contributions</b> bn CZK                                | 666.7 | 709.6 | 741.8 | 800.5 | 858.7 | 922.6 | 1048.6 | 1098.6 | 1173.2 | 1305.4 | 1321.9 |
| prev. year=100  | 105.1 | 106.4 | 104.6 | 107.9 | 107.3 | 107.4 | 113.7  | 104.8  | 106.8  | 111.3  | 101.3  |
| <b>Current taxes on income, wealth, etc.</b> bn CZK                         | 165.6 | 176.1 | 181.4 | 206.8 | 223.8 | 247.4 | 269.8  | 273.4  | 295.2  | 333.9  | 316.7  |
| prev. year=100  | 103.4 | 106.3 | 103.1 | 114.0 | 108.3 | 110.5 | 109.1  | 101.3  | 108.0  | 113.1  | 94.9   |
| Tax on individual or household income incl. holding gains bn CZK            | 94.0  | 93.0  | 99.7  | 106.2 | 114.9 | 125.5 | 135.0  | 136.4  | 136.6  | 153.4  | 148.8  |
| prev. year=100  | 107.6 | 98.9  | 107.2 | 106.5 | 108.2 | 109.3 | 107.6  | 101.0  | 100.2  | 112.3  | 97.0   |
| Taxes on the income or profits of corporations incl. holding gains bn CZK   | 67.5  | 79.5  | 76.2  | 96.3  | 105.7 | 117.8 | 131.7  | 133.5  | 154.8  | 176.5  | 163.8  |
| prev. year=100  | 97.3  | 117.8 | 95.9  | 126.4 | 109.8 | 111.4 | 111.9  | 101.3  | 116.0  | 114.0  | 92.8   |
| Levy on lottery revenue bn CZK  | -     | -     | -     | -     | -     | 0.5   | 0.6    | 0.6    | 0.7    | 0.8    | 0.9    |
| prev. year=100  | X     | X     | X     | X     | X     | X     | 117.4  | 112.5  | 110.3  | 113.1  | 111.5  |
| Other current taxes bn CZK  | 4.2   | 3.6   | 5.6   | 4.3   | 3.2   | 3.6   | 2.5    | 2.9    | 3.1    | 3.2    | 3.2    |
| prev. year=100  | 122.2 | 87.0  | 153.6 | 77.6  | 74.0  | 112.8 | 69.1   | 117.4  | 105.0  | 104.8  | 100.2  |
| <b>Social contributions</b> bn CZK  | 281.7 | 292.7 | 312.0 | 335.0 | 367.4 | 388.9 | 452.8  | 482.1  | 524.8  | 576.7  | 599.2  |
| prev. year=100  | 106.4 | 103.9 | 106.6 | 107.4 | 109.7 | 105.8 | 116.4  | 106.5  | 108.8  | 109.9  | 103.9  |
| Actual social contributions <sup>1)</sup> bn CZK                            | 281.5 | 292.5 | 311.5 | 334.8 | 367.2 | 388.6 | 452.4  | 481.7  | 524.4  | 576.4  | 598.9  |
| prev. year=100  | 106.4 | 103.9 | 106.5 | 107.5 | 109.7 | 105.8 | 116.4  | 106.5  | 108.9  | 109.9  | 103.9  |
| Employers' actual social contributions bn CZK                               | 197.0 | 204.6 | 216.9 | 233.2 | 255.9 | 270.7 | 289.8  | 308.7  | 332.4  | 363.8  | 380.1  |
| prev. year=100  | 106.5 | 103.8 | 106.0 | 107.5 | 109.7 | 105.8 | 107.0  | 106.5  | 107.7  | 109.4  | 104.5  |
| Employees' social contributions bn CZK                                      | 70.2  | 73.0  | 77.3  | 82.7  | 89.6  | 94.9  | 101.3  | 108.3  | 116.6  | 127.7  | 133.2  |
| prev. year=100  | 106.4 | 104.0 | 105.9 | 107.0 | 108.4 | 105.9 | 106.8  | 106.9  | 107.6  | 109.5  | 104.4  |
| Social contributions by self- and non-employed persons <sup>1)</sup> bn CZK | 14.3  | 14.9  | 17.3  | 18.9  | 21.7  | 23.0  | 61.3   | 64.8   | 75.4   | 85.0   | 85.5   |
| prev. year=100  | 104.4 | 104.3 | 115.9 | 109.1 | 114.9 | 106.1 | 266.0  | 105.6  | 116.5  | 112.6  | 100.7  |
| Imputed social contributions bn CZK   | 0.2   | 0.2   | 0.4   | 0.2   | 0.3   | 0.3   | 0.4    | 0.4    | 0.4    | 0.3    | 0.3    |
| prev. year=100  | 197.6 | 124.7 | 209.4 | 57.9  | 102.4 | 117.5 | 136.6  | 98.5   | 102.0  | 73.8   | 100.0  |
| <b>Taxes on production and imports</b> bn CZK                               | 218.9 | 240.3 | 247.9 | 258.0 | 266.7 | 285.4 | 325.3  | 342.3  | 352.4  | 394.4  | 405.6  |
| prev. year=100  | 104.8 | 109.8 | 103.2 | 104.1 | 103.4 | 107.0 | 114.0  | 105.2  | 102.9  | 111.9  | 102.9  |
| Taxes on products <sup>2)</sup> bn CZK                                      | 206.8 | 227.0 | 234.2 | 244.9 | 253.6 | 271.7 | 313.1  | 330.4  | 338.9  | 380.2  | 391.6  |
| prev. year=100  | 105.0 | 109.8 | 103.1 | 104.6 | 103.5 | 107.2 | 115.2  | 105.5  | 102.6  | 112.2  | 103.0  |
| VAT bn CZK  | 121.1 | 136.5 | 141.3 | 149.3 | 155.1 | 164.3 | 202.1  | 210.6  | 208.8  | 226.8  | 254.8  |
| prev. year=100  | 105.8 | 112.8 | 103.5 | 105.6 | 103.9 | 105.9 | 123.0  | 104.2  | 99.2   | 108.6  | 112.3  |
| Excises bn CZK  | 64.4  | 71.4  | 71.4  | 76.8  | 79.5  | 87.5  | 99.2   | 110.5  | 120.9  | 142.5  | 126.1  |
| prev. year=100  | 105.7 | 110.9 | 100.0 | 107.6 | 103.6 | 110.0 | 113.4  | 111.4  | 109.4  | 117.9  | 88.5   |
| Other taxes on products <sup>3)</sup> bn CZK                                | 21.3  | 19.2  | 21.5  | 18.9  | 18.9  | 20.0  | 11.8   | 9.2    | 9.2    | 10.9   | 10.7   |
| prev. year=100  | 98.8  | 89.8  | 111.9 | 88.0  | 100.2 | 105.8 | 59.1   | 78.2   | 99.7   | 118.1  | 98.6   |
| Other taxes on production <sup>4)</sup> bn CZK                              | 12.1  | 13.2  | 13.7  | 13.1  | 13.1  | 13.7  | 12.3   | 12.0   | 13.5   | 14.2   | 14.0   |
| prev. year=100  | 102.7 | 109.1 | 103.8 | 95.1  | 100.6 | 104.2 | 89.6   | 97.7   | 112.8  | 105.2  | 98.9   |
| <b>Capital taxes</b> bn CZK   | 0.6   | 0.5   | 0.6   | 0.7   | 0.7   | 0.9   | 0.6    | 0.7    | 0.8    | 0.5    | 0.4    |
| prev. year=100  | 96.5  | 96.7  | 109.7 | 117.0 | 108.9 | 115.6 | 71.9   | 118.5  | 109.2  | 57.6   | 87.5   |

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, independently 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**

|  |                 | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008        |
|--|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Taxes and social contributions</b>                              | <i>in % GDP</i> | <b>33.4</b> | <b>34.1</b> | <b>33.9</b> | <b>34.0</b> | <b>34.8</b> | <b>35.8</b> | <b>37.3</b> | <b>36.8</b> | <b>36.4</b> | <b>36.9</b> | <b>35.8</b> |
| <b>Current taxes on income, wealth, etc.</b>                       | <i>in % GDP</i> | <b>8.3</b>  | <b>8.5</b>  | <b>8.3</b>  | <b>8.8</b>  | <b>9.1</b>  | <b>9.6</b>  | <b>9.6</b>  | <b>9.2</b>  | <b>9.2</b>  | <b>9.4</b>  | <b>8.6</b>  |
| Tax on individual or household income incl. holding gains          | <i>in % GDP</i> | 4.7         | 4.5         | 4.6         | 4.5         | 4.7         | 4.9         | 4.8         | 4.6         | 4.2         | 4.3         | 4.0         |
| Taxes on the income or profits of corporations incl. holding gains | <i>in % GDP</i> | 3.4         | 3.8         | 3.5         | 4.1         | 4.3         | 4.6         | 4.7         | 4.5         | 4.8         | 5.0         | 4.4         |
| Lewy on lottery revenue  | <i>in % GDP</i> | -           | -           | -           | -           | -           | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other current taxes  | <i>in % GDP</i> | 0.2         | 0.2         | 0.3         | 0.2         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| <b>Social contributions</b>  | <i>in % GDP</i> | <b>14.1</b> | <b>14.1</b> | <b>14.2</b> | <b>14.2</b> | <b>14.9</b> | <b>15.1</b> | <b>16.1</b> | <b>16.2</b> | <b>16.3</b> | <b>16.3</b> | <b>16.2</b> |
| Actual social contributions  | <i>in % GDP</i> | 14.1        | 14.1        | 14.2        | 14.2        | 14.9        | 15.1        | 16.1        | 16.1        | 16.3        | 16.3        | 16.2        |
| Employers' actual social contributions                             | <i>in % GDP</i> | 9.9         | 9.8         | 9.9         | 9.9         | 10.4        | 10.5        | 10.3        | 10.3        | 10.3        | 10.3        | 10.3        |
| Employees' social contributions                                    | <i>in % GDP</i> | 3.5         | 3.5         | 3.5         | 3.5         | 3.6         | 3.7         | 3.6         | 3.6         | 3.6         | 3.6         | 3.6         |
| Social contributions by self- and non-employed persons             | <i>in % GDP</i> | 0.7         | 0.7         | 0.8         | 0.8         | 0.9         | 0.9         | 2.2         | 2.2         | 2.3         | 2.4         | 2.3         |
| Imputed social contributions                                       | <i>in % GDP</i> | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Taxes on production and imports</b>                             | <i>in % GDP</i> | <b>11.0</b> | <b>11.5</b> | <b>11.3</b> | <b>11.0</b> | <b>10.8</b> | <b>11.1</b> | <b>11.6</b> | <b>11.5</b> | <b>10.9</b> | <b>11.2</b> | <b>11.0</b> |
| Taxes on products  | <i>in % GDP</i> | 10.4        | 10.9        | 10.7        | 10.4        | 10.3        | 10.5        | 11.1        | 11.1        | 10.5        | 10.8        | 10.6        |
| VAT  | <i>in % GDP</i> | 6.1         | 6.6         | 6.5         | 6.3         | 6.3         | 6.4         | 7.2         | 7.1         | 6.5         | 6.4         | 6.9         |
| Excise taxes   | <i>in % GDP</i> | 3.2         | 3.4         | 3.3         | 3.3         | 3.2         | 3.4         | 3.5         | 3.7         | 3.8         | 4.0         | 3.4         |
| Other taxes on products  | <i>in % GDP</i> | 1.1         | 0.9         | 1.0         | 0.8         | 0.8         | 0.8         | 0.4         | 0.3         | 0.3         | 0.3         | 0.3         |
| Other taxes on production  | <i>in % GDP</i> | 0.6         | 0.6         | 0.6         | 0.6         | 0.5         | 0.5         | 0.4         | 0.4         | 0.4         | 0.4         | 0.4         |
| <b>Capital taxes</b>   | <i>in % GDP</i> | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |

**Table 5-5: Central government revenue**

|  |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007          | 2008          |
|--|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Total revenue</b>                         | <i>bn CZK</i>         | <b>547.2</b> | <b>581.7</b> | <b>605.3</b> | <b>675.1</b> | <b>702.2</b> | <b>750.0</b> | <b>832.3</b> | <b>842.1</b> | <b>898.5</b> | <b>1007.2</b> | <b>1016.8</b> |
|  | <i>prev. year=100</i> | 105.3        | 106.3        | 104.1        | 111.5        | 104.0        | 106.8        | 111.0        | 101.2        | 106.7        | 112.1         | 101.0         |
| <b>Current taxes on income, wealth, etc.</b> | <i>bn CZK</i>         | <b>91.3</b>  | <b>93.8</b>  | <b>98.5</b>  | <b>154.1</b> | <b>160.1</b> | <b>176.9</b> | <b>193.2</b> | <b>181.7</b> | <b>197.1</b> | <b>223.8</b>  | <b>208.4</b>  |
|  | <i>prev. year=100</i> | 103.0        | 102.8        | 105.0        | 156.4        | 103.9        | 110.5        | 109.2        | 94.1         | 108.5        | 113.5         | 93.1          |
| <b>Social contributions<sup>1)</sup></b>     | <i>bn CZK</i>         | <b>201.5</b> | <b>208.9</b> | <b>221.8</b> | <b>241.1</b> | <b>262.9</b> | <b>277.2</b> | <b>300.1</b> | <b>318.7</b> | <b>342.6</b> | <b>376.3</b>  | <b>392.3</b>  |
|  | <i>prev. year=100</i> | 106.4        | 103.7        | 106.2        | 108.7        | 109.0        | 105.5        | 108.3        | 106.2        | 107.5        | 109.8         | 104.2         |
| <b>Taxes on production and imports</b>       | <i>bn CZK</i>         | <b>213.5</b> | <b>234.9</b> | <b>242.0</b> | <b>221.5</b> | <b>224.2</b> | <b>240.3</b> | <b>270.4</b> | <b>272.3</b> | <b>282.6</b> | <b>318.9</b>  | <b>319.7</b>  |
|  | <i>prev. year=100</i> | 104.8        | 110.0        | 103.0        | 91.5         | 101.2        | 107.2        | 112.5        | 100.7        | 103.8        | 112.8         | 100.2         |
| <b>Capital taxes</b>                         | <i>bn CZK</i>         | <b>0.6</b>   | <b>0.5</b>   | <b>0.6</b>   | <b>0.7</b>   | <b>0.7</b>   | <b>0.9</b>   | <b>0.6</b>   | <b>0.7</b>   | <b>0.8</b>   | <b>0.5</b>    | <b>0.4</b>    |
|  | <i>prev. year=100</i> | 96.3         | 96.9         | 109.7        | 117.0        | 108.9        | 115.0        | 71.3         | 118.8        | 110.0        | 57.4          | 87.0          |
| <b>Property income</b>                       | <i>bn CZK</i>         | <b>10.7</b>  | <b>7.9</b>   | <b>13.5</b>  | <b>22.0</b>  | <b>22.6</b>  | <b>17.4</b>  | <b>15.0</b>  | <b>14.5</b>  | <b>18.4</b>  | <b>20.7</b>   | <b>22.1</b>   |
|  | <i>prev. year=100</i> | 92.1         | 73.2         | 171.3        | 163.0        | 102.9        | 77.2         | 86.1         | 96.4         | 126.8        | 112.6         | 106.8         |
| <b>Sales</b>                                 | <i>bn CZK</i>         | <b>14.6</b>  | <b>17.6</b>  | <b>18.1</b>  | <b>21.2</b>  | <b>22.2</b>  | <b>25.7</b>  | <b>27.6</b>  | <b>28.3</b>  | <b>29.4</b>  | <b>37.1</b>   | <b>39.3</b>   |
|  | <i>prev. year=100</i> | 99.5         | 121.1        | 102.8        | 117.2        | 104.6        | 115.5        | 107.5        | 102.8        | 103.8        | 126.1         | 106.1         |
| <b>Other revenue</b>                         | <i>bn CZK</i>         | <b>15.1</b>  | <b>18.1</b>  | <b>10.9</b>  | <b>14.6</b>  | <b>9.5</b>   | <b>11.6</b>  | <b>25.4</b>  | <b>25.9</b>  | <b>27.6</b>  | <b>30.0</b>   | <b>34.7</b>   |
|  | <i>prev. year=100</i> | 137.3        | 120.2        | 60.1         | 134.2        | 65.2         | 122.0        | 218.9        | 101.9        | 106.4        | 108.7         | 115.7         |

- 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 revenues**

|                                       |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         |
|---------------------------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total revenue</b>                  | <i>bn CZK</i>         | <b>203.0</b> | <b>192.1</b> | <b>200.1</b> | <b>228.3</b> | <b>260.0</b> | <b>328.7</b> | <b>349.3</b> | <b>351.6</b> | <b>375.5</b> | <b>411.1</b> | <b>420.8</b> |
|                                       | <i>prev. year=100</i> | 122.2        | 94.6         | 104.2        | 114.1        | 113.9        | 126.4        | 106.3        | 100.6        | 106.8        | 109.5        | 102.3        |
| Current taxes on income, wealth, etc. | <i>bn CZK</i>         | <b>74.4</b>  | <b>82.2</b>  | <b>82.9</b>  | <b>52.7</b>  | <b>63.8</b>  | <b>70.5</b>  | <b>76.6</b>  | <b>91.7</b>  | <b>98.1</b>  | <b>110.1</b> | <b>108.3</b> |
|                                       | <i>prev. year=100</i> | 104.0        | 110.6        | 100.9        | 63.5         | 121.1        | 110.5        | 108.8        | 119.6        | 107.0        | 112.3        | 98.4         |
| Social contributions                  | <i>bn CZK</i>         | <b>0.1</b>   | <b>0.1</b>   | <b>0.0</b>   | <b>0.1</b>   | <b>0.0</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.1</b>   |
|                                       | <i>prev. year=100</i> | 197.1        | 100.0        | 62.7         | 190.5        | 60.0         | 104.2        | 120.0        | 121.7        | 161.6        | 56.8         | 100.0        |
| Taxes on production and imports       | <i>bn CZK</i>         | <b>5.3</b>   | <b>5.3</b>   | <b>5.9</b>   | <b>36.5</b>  | <b>42.5</b>  | <b>45.1</b>  | <b>55.0</b>  | <b>70.0</b>  | <b>69.8</b>  | <b>75.5</b>  | <b>86.0</b>  |
|                                       | <i>prev. year=100</i> | 105.9        | 100.0        | 110.1        | 620.0        | 116.3        | 106.2        | 121.8        | 127.4        | 99.6         | 108.2        | 113.9        |
| Capital taxes                         | <i>bn CZK</i>         | <b>0.0</b>   | -            | -            | -            | -            | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   |
|                                       | <i>prev. year=100</i> | X            | 0.0          | X            | X            | X            | X            | 180.0        | 100.0        | 44.4         | 100.0        | 150.0        |
| Property income                       | <i>bn CZK</i>         | <b>4.5</b>   | <b>4.7</b>   | <b>4.5</b>   | <b>3.7</b>   | <b>6.9</b>   | <b>6.8</b>   | <b>8.0</b>   | <b>6.5</b>   | <b>7.0</b>   | <b>7.8</b>   | <b>7.9</b>   |
|                                       | <i>prev. year=100</i> | 125.9        | 102.8        | 95.9         | 82.0         | 187.2        | 99.7         | 116.6        | 82.2         | 107.2        | 110.7        | 102.1        |
| Sales                                 | <i>bn CZK</i>         | <b>43.5</b>  | <b>38.7</b>  | <b>40.1</b>  | <b>41.3</b>  | <b>44.1</b>  | <b>49.6</b>  | <b>50.1</b>  | <b>51.4</b>  | <b>52.3</b>  | <b>58.1</b>  | <b>63.4</b>  |
|                                       | <i>prev. year=100</i> | 134.0        | 88.9         | 103.8        | 103.0        | 106.6        | 112.5        | 101.0        | 102.6        | 101.8        | 111.1        | 109.2        |
| Other revenue                         | <i>bn CZK</i>         | <b>75.2</b>  | <b>61.1</b>  | <b>66.7</b>  | <b>94.0</b>  | <b>102.8</b> | <b>156.6</b> | <b>159.6</b> | <b>131.9</b> | <b>148.2</b> | <b>159.7</b> | <b>155.1</b> |
|                                       | <i>prev. year=100</i> | 140.7        | 81.2         | 109.1        | 141.0        | 109.4        | 152.3        | 101.9        | 82.6         | 112.4        | 107.7        | 97.1         |

**Table 5-7: Social security funds revenue**

|                                       |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         |
|---------------------------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total revenue</b>                  | <i>bn CZK</i>         | <b>104.9</b> | <b>112.5</b> | <b>119.4</b> | <b>127.4</b> | <b>138.4</b> | <b>149.1</b> | <b>159.1</b> | <b>169.6</b> | <b>184.8</b> | <b>203.6</b> | <b>210.9</b> |
|                                       | <i>prev. year=100</i> | 110.3        | 107.3        | 106.1        | 106.7        | 108.6        | 107.8        | 106.7        | 106.6        | 109.0        | 110.2        | 103.6        |
| Current taxes on income, wealth, etc. | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
|                                       | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            |
| Social contributions <sup>1)</sup>    | <i>bn CZK</i>         | <b>80.1</b>  | <b>83.8</b>  | <b>90.1</b>  | <b>93.9</b>  | <b>104.5</b> | <b>111.7</b> | <b>152.6</b> | <b>163.4</b> | <b>182.1</b> | <b>200.3</b> | <b>206.8</b> |
|                                       | <i>prev. year=100</i> | 106.3        | 104.5        | 107.6        | 104.2        | 111.3        | 106.8        | 136.7        | 107.1        | 111.4        | 110.0        | 103.2        |
| Taxes on production and imports       | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
|                                       | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            |
| Capital taxes                         | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
|                                       | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            |
| Property income                       | <i>bn CZK</i>         | <b>0.5</b>   | <b>0.3</b>   | <b>0.4</b>   | <b>0.6</b>   | <b>0.4</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.8</b>   | <b>1.5</b>   |
|                                       | <i>prev. year=100</i> | 147.8        | 54.9         | 147.9        | 128.2        | 74.9         | 73.7         | 95.1         | 106.5        | 94.5         | 259.7        | 192.9        |
| Sales                                 | <i>bn CZK</i>         | <b>0.1</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.4</b>   | <b>0.1</b>   | <b>0.1</b>   | <b>0.2</b>   | <b>0.2</b>   | <b>0.2</b>   | <b>0.1</b>   | <b>0.1</b>   |
|                                       | <i>prev. year=100</i> | 108.7        | 58.9         | 100.0        | 609.1        | 34.8         | 75.7         | 145.3        | 103.2        | 95.0         | 92.1         | 85.6         |
| Other revenue                         | <i>bn CZK</i>         | <b>24.1</b>  | <b>28.4</b>  | <b>28.7</b>  | <b>32.5</b>  | <b>33.3</b>  | <b>37.1</b>  | <b>6.0</b>   | <b>5.8</b>   | <b>2.3</b>   | <b>2.4</b>   | <b>2.5</b>   |
|                                       | <i>prev. year=100</i> | 125.4        | 117.9        | 101.2        | 113.2        | 102.3        | 111.3        | 16.2         | 95.9         | 40.2         | 103.2        | 103.5        |

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**

|  |                       | 1998         | 1999         | 2000         | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          |
|--|-----------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total expenditure</b>   | <i>bn CZK</i>         | <b>861.7</b> | <b>879.6</b> | <b>915.4</b> | <b>1043.3</b> | <b>1141.2</b> | <b>1219.5</b> | <b>1270.5</b> | <b>1342.3</b> | <b>1409.6</b> | <b>1504.3</b> | <b>1583.4</b> |
|  | <i>prev. year=100</i> | 110.1        | 102.1        | 104.1        | 114.0         | 109.4         | 106.9         | 104.2         | 105.7         | 105.0         | 106.7         | 105.3         |
| Final consumption expenditure                                      | <i>bn CZK</i>         | <b>399.7</b> | <b>440.6</b> | <b>460.9</b> | <b>496.7</b>  | <b>549.5</b>  | <b>603.2</b>  | <b>621.6</b>  | <b>658.5</b>  | <b>687.0</b>  | <b>718.2</b>  | <b>753.2</b>  |
|  | <i>prev. year=100</i> | 105.4        | 110.2        | 104.6        | 107.8         | 110.6         | 109.8         | 103.1         | 105.9         | 104.3         | 104.5         | 104.9         |
| Collective consumption <sup>1)</sup>                               | <i>bn CZK</i>         | <b>187.4</b> | <b>217.3</b> | <b>232.1</b> | <b>241.7</b>  | <b>271.2</b>  | <b>305.6</b>  | <b>296.5</b>  | <b>329.7</b>  | <b>342.2</b>  | <b>355.0</b>  | <b>373.6</b>  |
|  | <i>prev. year=100</i> | 103.3        | 116.0        | 106.8        | 104.2         | 112.2         | 112.7         | 97.0          | 111.2         | 103.8         | 103.8         | 105.2         |
| Individual consumption   | <i>bn CZK</i>         | <b>212.3</b> | <b>223.3</b> | <b>228.9</b> | <b>254.9</b>  | <b>278.3</b>  | <b>297.6</b>  | <b>325.1</b>  | <b>328.8</b>  | <b>344.8</b>  | <b>363.2</b>  | <b>379.6</b>  |
|  | <i>prev. year=100</i> | 107.3        | 105.2        | 102.5        | 111.4         | 109.2         | 106.9         | 109.2         | 101.1         | 104.9         | 105.3         | 104.5         |
| Social transfers in kind <sup>2)</sup>                             | <i>bn CZK</i>         | <b>104.8</b> | <b>111.1</b> | <b>115.4</b> | <b>127.5</b>  | <b>142.1</b>  | <b>150.2</b>  | <b>160.7</b>  | <b>167.4</b>  | <b>173.5</b>  | <b>187.1</b>  | <b>198.6</b>  |
|  | <i>prev. year=100</i> | 110.1        | 106.0        | 103.9        | 110.4         | 111.5         | 105.7         | 107.0         | 104.2         | 103.7         | 107.8         | 106.1         |
| Transfers of individual non-market goods or services <sup>3)</sup> | <i>bn CZK</i>         | <b>107.6</b> | <b>112.2</b> | <b>113.5</b> | <b>127.5</b>  | <b>136.2</b>  | <b>147.3</b>  | <b>164.3</b>  | <b>161.4</b>  | <b>171.3</b>  | <b>176.1</b>  | <b>181.0</b>  |
|  | <i>prev. year=100</i> | 104.7        | 104.3        | 101.1        | 112.3         | 106.9         | 108.2         | 111.5         | 98.2          | 106.2         | 102.8         | 102.8         |
| Social benefits other than social transfers in kind <sup>4)</sup>  | <i>bn CZK</i>         | <b>225.6</b> | <b>243.8</b> | <b>263.9</b> | <b>280.5</b>  | <b>305.1</b>  | <b>315.6</b>  | <b>361.9</b>  | <b>376.4</b>  | <b>405.1</b>  | <b>453.7</b>  | <b>471.2</b>  |
|  | <i>prev. year=100</i> | 108.4        | 108.0        | 108.3        | 106.3         | 108.8         | 103.4         | 114.7         | 104.0         | 107.6         | 112.0         | 103.8         |
| Interest   | <i>bn CZK</i>         | <b>23.2</b>  | <b>21.2</b>  | <b>18.4</b>  | <b>23.8</b>   | <b>30.5</b>   | <b>29.3</b>   | <b>32.6</b>   | <b>34.4</b>   | <b>35.5</b>   | <b>40.2</b>   | <b>39.7</b>   |
|  | <i>prev. year=100</i> | 114.1        | 91.6         | 86.7         | 129.5         | 128.2         | 95.9          | 111.2         | 105.6         | 103.3         | 113.3         | 98.5          |
| Subsidies  | <i>bn CZK</i>         | <b>57.9</b>  | <b>61.1</b>  | <b>61.0</b>  | <b>65.4</b>   | <b>56.6</b>   | <b>68.2</b>   | <b>59.0</b>   | <b>54.7</b>   | <b>61.4</b>   | <b>62.5</b>   | <b>63.7</b>   |
|  | <i>prev. year=100</i> | 117.5        | 105.5        | 99.8         | 107.3         | 86.5          | 120.6         | 86.5          | 92.8          | 112.2         | 101.8         | 102.0         |
| Gross fixed capital formation                                      | <i>bn CZK</i>         | <b>83.8</b>  | <b>67.7</b>  | <b>79.1</b>  | <b>83.4</b>   | <b>95.2</b>   | <b>117.2</b>  | <b>136.4</b>  | <b>146.5</b>  | <b>161.5</b>  | <b>166.3</b>  | <b>183.1</b>  |
|  | <i>prev. year=100</i> | 108.4        | 80.8         | 116.9        | 105.4         | 114.2         | 123.1         | 116.4         | 107.4         | 110.2         | 103.0         | 110.1         |
| Other expenditures   | <i>bn CZK</i>         | <b>71.6</b>  | <b>45.2</b>  | <b>32.1</b>  | <b>93.5</b>   | <b>104.3</b>  | <b>86.0</b>   | <b>59.0</b>   | <b>71.8</b>   | <b>59.2</b>   | <b>63.4</b>   | <b>72.5</b>   |
|  | <i>prev. year=100</i> | 148.5        | 63.2         | 71.0         | 291.1         | 111.5         | 82.4          | 68.6          | 121.7         | 82.4          | 107.1         | 114.4         |

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**

|  |                   | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|-------------------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Total expenditure</b>                             | <i>(in % GDP)</i> | 43.2 | 42.3 | 41.8 | 44.4 | 46.3 | 47.3 | 45.1 | 45.0 | 43.7 | 42.5 | 42.9 |
| Final consumption expenditure                        | <i>(in % GDP)</i> | 20.0 | 21.2 | 21.1 | 21.1 | 22.3 | 23.4 | 22.1 | 22.1 | 21.3 | 20.3 | 20.4 |
| Collective consumption                               | <i>(in % GDP)</i> | 9.4  | 10.4 | 10.6 | 10.3 | 11.0 | 11.9 | 10.5 | 11.0 | 10.6 | 10.0 | 10.1 |
| Individual consumption                               | <i>(in % GDP)</i> | 10.6 | 10.7 | 10.5 | 10.8 | 11.3 | 11.5 | 11.5 | 11.0 | 10.7 | 10.3 | 10.3 |
| Social transfers in kind                             | <i>(in % GDP)</i> | 5.2  | 5.3  | 5.3  | 5.4  | 5.8  | 5.8  | 5.7  | 5.6  | 5.4  | 5.3  | 5.4  |
| Transfers of individual non-market goods or services | <i>(in % GDP)</i> | 5.4  | 5.4  | 5.2  | 5.4  | 5.5  | 5.7  | 5.8  | 5.4  | 5.3  | 5.0  | 4.9  |
| Social benefits other than social transfers in kind  | <i>(in % GDP)</i> | 11.3 | 11.7 | 12.1 | 11.9 | 12.4 | 12.2 | 12.9 | 12.6 | 12.6 | 12.8 | 12.8 |
| Interest   | <i>(in % GDP)</i> | 1.2  | 1.0  | 0.8  | 1.0  | 1.2  | 1.1  | 1.2  | 1.2  | 1.1  | 1.1  | 1.1  |
| Subsidies  | <i>(in % GDP)</i> | 2.9  | 2.9  | 2.8  | 2.8  | 2.3  | 2.6  | 2.1  | 1.8  | 1.9  | 1.8  | 1.7  |
| Gross fixed capital formation                        | <i>(in % GDP)</i> | 4.2  | 3.3  | 3.6  | 3.5  | 3.9  | 4.5  | 4.8  | 4.9  | 5.0  | 4.7  | 5.0  |
| Other expenditures                                   | <i>(in % GDP)</i> | 3.6  | 2.2  | 1.5  | 4.0  | 4.2  | 3.3  | 2.1  | 2.4  | 1.8  | 1.8  | 2.0  |

**Table 5-10: General government expenditure**

|   |                       | 1998         | 1999         | 2000         | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          |
|---|-----------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total expenditure</b>  | <i>bn CZK</i>         | <b>861.7</b> | <b>879.6</b> | <b>915.4</b> | <b>1043.3</b> | <b>1141.2</b> | <b>1219.5</b> | <b>1270.5</b> | <b>1342.3</b> | <b>1409.6</b> | <b>1504.3</b> | <b>1583.4</b> |
|   | <i>prev. year=100</i> | 110.1        | 102.1        | 104.1        | 114.0         | 109.4         | 106.9         | 104.2         | 105.7         | 105.0         | 106.7         | 105.3         |
| Compensation of employees   | <i>bn CZK</i>         | <b>135.0</b> | <b>151.4</b> | <b>154.7</b> | <b>172.9</b>  | <b>191.6</b>  | <b>214.2</b>  | <b>222.1</b>  | <b>237.9</b>  | <b>252.4</b>  | <b>268.6</b>  | <b>280.0</b>  |
|   | <i>prev. year=100</i> | 100.9        | 112.1        | 102.2        | 111.8         | 110.8         | 111.8         | 103.7         | 107.1         | 106.1         | 106.4         | 104.2         |
| Intermediate consumption  | <i>bn CZK</i>         | <b>115.1</b> | <b>132.7</b> | <b>144.0</b> | <b>152.9</b>  | <b>173.6</b>  | <b>196.0</b>  | <b>193.5</b>  | <b>205.9</b>  | <b>211.7</b>  | <b>218.6</b>  | <b>229.1</b>  |
|   | <i>prev. year=100</i> | 101.8        | 115.3        | 108.5        | 106.2         | 113.5         | 112.9         | 98.7          | 106.4         | 102.8         | 103.3         | 104.8         |
| Social benefits other than social transfers in kind <sup>1)</sup> | <i>bn CZK</i>         | <b>225.6</b> | <b>243.8</b> | <b>263.9</b> | <b>280.5</b>  | <b>305.1</b>  | <b>315.6</b>  | <b>361.9</b>  | <b>376.4</b>  | <b>405.1</b>  | <b>453.7</b>  | <b>471.2</b>  |
|   | <i>prev. year=100</i> | 108.4        | 108.0        | 108.3        | 106.3         | 108.8         | 103.4         | 114.7         | 104.0         | 107.6         | 112.0         | 103.8         |
| Social benefits in kind   | <i>bn CZK</i>         | <b>104.8</b> | <b>111.1</b> | <b>115.4</b> | <b>127.5</b>  | <b>142.1</b>  | <b>150.2</b>  | <b>160.7</b>  | <b>167.4</b>  | <b>173.5</b>  | <b>187.1</b>  | <b>198.6</b>  |
|   | <i>prev. year=100</i> | 110.1        | 106.0        | 103.9        | 110.4         | 111.5         | 105.7         | 107.0         | 104.2         | 103.7         | 107.8         | 106.1         |
| Property income   | <i>bn CZK</i>         | <b>23.2</b>  | <b>21.2</b>  | <b>18.4</b>  | <b>23.9</b>   | <b>30.6</b>   | <b>29.3</b>   | <b>32.6</b>   | <b>34.4</b>   | <b>35.6</b>   | <b>40.3</b>   | <b>39.8</b>   |
|   | <i>prev. year=100</i> | 114.1        | 91.6         | 86.8         | 129.3         | 128.2         | 95.9          | 111.2         | 105.6         | 103.3         | 113.3         | 98.6          |
| Interest  | <i>bn CZK</i>         | <b>23.2</b>  | <b>21.2</b>  | <b>18.4</b>  | <b>23.8</b>   | <b>30.5</b>   | <b>29.3</b>   | <b>32.6</b>   | <b>34.4</b>   | <b>35.5</b>   | <b>40.2</b>   | <b>39.7</b>   |
|   | <i>prev. year=100</i> | 114.1        | 91.6         | 86.7         | 129.5         | 128.2         | 95.9          | 111.2         | 105.6         | 103.3         | 113.3         | 98.5          |
| Other property income   | <i>bn CZK</i>         | <b>0.0</b>   | <b>0.0</b>   | <b>0.1</b>   | <b>0.0</b>    | <b>0.1</b>    | <b>0.0</b>    | <b>0.1</b>    | <b>0.1</b>    | <b>0.1</b>    | <b>0.1</b>    | <b>0.1</b>    |
|   | <i>prev. year=100</i> | 183.3        | 118.2        | 200.0        | 80.8          | 150.0         | 74.6          | 112.8         | 96.2          | 141.2         | 109.7         | 126.6         |
| Subsidies   | <i>bn CZK</i>         | <b>57.9</b>  | <b>61.1</b>  | <b>61.0</b>  | <b>65.4</b>   | <b>56.6</b>   | <b>68.2</b>   | <b>59.0</b>   | <b>54.7</b>   | <b>61.4</b>   | <b>62.5</b>   | <b>63.7</b>   |
|   | <i>prev. year=100</i> | 117.5        | 105.5        | 99.8         | 107.3         | 86.5          | 120.6         | 86.5          | 92.8          | 112.2         | 101.8         | 102.0         |
| Gross fixed capital formation                                     | <i>bn CZK</i>         | <b>83.8</b>  | <b>67.7</b>  | <b>79.1</b>  | <b>83.4</b>   | <b>95.2</b>   | <b>117.2</b>  | <b>136.4</b>  | <b>146.5</b>  | <b>161.5</b>  | <b>166.3</b>  | <b>183.1</b>  |
|   | <i>prev. year=100</i> | 108.4        | 80.8         | 116.9        | 105.4         | 114.2         | 123.1         | 116.4         | 107.4         | 110.2         | 103.0         | 110.1         |
| Capital transfers <sup>2)</sup>                                   | <i>bn CZK</i>         | <b>92.8</b>  | <b>77.7</b>  | <b>57.6</b>  | <b>124.3</b>  | <b>120.2</b>  | <b>98.4</b>   | <b>72.4</b>   | <b>76.4</b>   | <b>59.2</b>   | <b>59.4</b>   | <b>92.9</b>   |
|   | <i>prev. year=100</i> | 128.2        | 83.7         | 74.2         | 215.7         | 96.7          | 81.8          | 73.7          | 105.5         | 77.4          | 100.3         | 156.5         |
| Investment grants <sup>3)</sup>                                   | <i>bn CZK</i>         | <b>19.1</b>  | <b>22.4</b>  | <b>25.9</b>  | <b>27.5</b>   | <b>36.9</b>   | <b>35.2</b>   | <b>35.2</b>   | <b>33.9</b>   | <b>36.7</b>   | <b>35.3</b>   | <b>34.8</b>   |
|   | <i>prev. year=100</i> | 102.1        | 117.8        | 115.6        | 105.8         | 134.5         | 95.2          | 100.1         | 96.3          | 108.4         | 96.1          | 98.5          |
| Other capital transfers   | <i>bn CZK</i>         | <b>73.8</b>  | <b>55.2</b>  | <b>31.7</b>  | <b>96.8</b>   | <b>83.3</b>   | <b>63.2</b>   | <b>37.2</b>   | <b>42.5</b>   | <b>22.5</b>   | <b>24.1</b>   | <b>58.2</b>   |
|   | <i>prev. year=100</i> | 137.3        | 74.8         | 57.4         | 305.7         | 86.0          | 75.9          | 58.9          | 114.3         | 52.8          | 107.2         | 241.6         |
| Other expenditure   | <i>bn CZK</i>         | <b>23.5</b>  | <b>13.0</b>  | <b>21.3</b>  | <b>12.5</b>   | <b>26.3</b>   | <b>30.3</b>   | <b>31.8</b>   | <b>42.5</b>   | <b>49.3</b>   | <b>47.8</b>   | <b>25.0</b>   |
|   | <i>prev. year=100</i> | 181.5        | 55.1         | 164.3        | 58.9          | 209.5         | 115.4         | 104.8         | 133.8         | 116.1         | 97.0          | 52.3          |

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**

|   |            | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|------------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Total expenditure</b>                            | (in % GDP) | 43.2 | 42.3 | 41.8 | 44.4 | 46.3 | 47.3 | 45.1 | 45.0 | 43.7 | 42.5 | 42.9 |
| Compensation of employees                           | (in % GDP) | 6.8  | 7.3  | 7.1  | 7.4  | 7.8  | 8.3  | 7.9  | 8.0  | 7.8  | 7.6  | 7.6  |
| Intermediate consumption                            | (in % GDP) | 5.8  | 6.4  | 6.6  | 6.5  | 7.0  | 7.6  | 6.9  | 6.9  | 6.6  | 6.2  | 6.2  |
| Social benefits other than social transfers in kind | (in % GDP) | 11.3 | 11.7 | 12.1 | 11.9 | 12.4 | 12.2 | 12.9 | 12.6 | 12.6 | 12.8 | 12.8 |
| Social benefits in kind                             | (in % GDP) | 5.2  | 5.3  | 5.3  | 5.4  | 5.8  | 5.8  | 5.7  | 5.6  | 5.4  | 5.3  | 5.4  |
| Property income                                     | (in % GDP) | 1.2  | 1.0  | 0.8  | 1.0  | 1.2  | 1.1  | 1.2  | 1.2  | 1.1  | 1.1  | 1.1  |
| Interest  | (in % GDP) | 1.2  | 1.0  | 0.8  | 1.0  | 1.2  | 1.1  | 1.2  | 1.2  | 1.1  | 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) | 2.9  | 2.9  | 2.8  | 2.8  | 2.3  | 2.6  | 2.1  | 1.8  | 1.9  | 1.8  | 1.7  |
| Gross fixed capital formation                       | (in % GDP) | 4.2  | 3.3  | 3.6  | 3.5  | 3.9  | 4.5  | 4.8  | 4.9  | 5.0  | 4.7  | 5.0  |
| Capital transfers                                   | (in % GDP) | 4.7  | 3.7  | 2.6  | 5.3  | 4.9  | 3.8  | 2.6  | 2.6  | 1.8  | 1.7  | 2.5  |
| Investment grants                                   | (in % GDP) | 1.0  | 1.1  | 1.2  | 1.2  | 1.5  | 1.4  | 1.3  | 1.1  | 1.1  | 1.0  | 0.9  |
| Other capital transfers                             | (in % GDP) | 3.7  | 2.7  | 1.4  | 4.1  | 3.4  | 2.5  | 1.3  | 1.4  | 0.7  | 0.7  | 1.6  |
| Other expenditure                                   | (in % GDP) | 1.2  | 0.6  | 1.0  | 0.5  | 1.1  | 1.2  | 1.1  | 1.4  | 1.5  | 1.4  | 0.7  |

**Table 5-12: Central government expenditure**

|   |                | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007          | 2008          |
|---|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Total expenditure</b>  | bn CZK         | <b>652.9</b> | <b>660.5</b> | <b>681.5</b> | <b>796.6</b> | <b>853.1</b> | <b>904.3</b> | <b>907.7</b> | <b>946.9</b> | <b>982.1</b> | <b>1063.2</b> | <b>1102.5</b> |
|   | prev. year=100 | 113.6        | 101.2        | 103.2        | 116.9        | 107.1        | 106.0        | 100.4        | 104.3        | 103.7        | 108.3         | 103.7         |
| Compensation of employees   | bn CZK         | <b>94.8</b>  | <b>106.0</b> | <b>107.2</b> | <b>106.4</b> | <b>117.0</b> | <b>108.8</b> | <b>110.8</b> | <b>120.9</b> | <b>128.2</b> | <b>136.8</b>  | <b>142.7</b>  |
|   | prev. year=100 | 99.4         | 111.8        | 101.1        | 99.3         | 109.9        | 93.0         | 101.9        | 109.1        | 106.1        | 106.7         | 104.3         |
| Intermediate consumption  | bn CZK         | <b>53.9</b>  | <b>65.3</b>  | <b>74.8</b>  | <b>74.2</b>  | <b>86.7</b>  | <b>96.9</b>  | <b>93.5</b>  | <b>104.4</b> | <b>100.9</b> | <b>107.4</b>  | <b>108.3</b>  |
|   | prev. year=100 | 92.7         | 121.3        | 114.4        | 99.3         | 116.8        | 111.8        | 96.5         | 111.7        | 96.6         | 106.4         | 100.8         |
| Social benefits other than social transfers in kind <sup>1)</sup> | bn CZK         | <b>220.5</b> | <b>236.2</b> | <b>254.6</b> | <b>271.5</b> | <b>294.9</b> | <b>303.8</b> | <b>350.0</b> | <b>364.7</b> | <b>393.1</b> | <b>435.3</b>  | <b>450.6</b>  |
|   | prev. year=100 | 107.9        | 107.1        | 107.8        | 106.6        | 108.6        | 103.0        | 115.2        | 104.2        | 107.8        | 110.7         | 103.5         |
| Social benefits in kind   | bn CZK         | <b>1.6</b>   | <b>1.8</b>   | <b>1.9</b>   | <b>3.1</b>   | <b>3.3</b>   | <b>2.2</b>   | <b>1.9</b>   | <b>0.9</b>   | <b>3.2</b>   | <b>2.4</b>    | <b>2.0</b>    |
|   | prev. year=100 | 116.4        | 110.0        | 105.3        | 164.8        | 107.1        | 67.2         | 84.0         | 50.5         | 336.5        | 76.1          | 81.8          |
| Interest  | bn CZK         | <b>20.4</b>  | <b>18.6</b>  | <b>16.7</b>  | <b>21.9</b>  | <b>28.5</b>  | <b>26.9</b>  | <b>29.6</b>  | <b>32.3</b>  | <b>33.2</b>  | <b>37.5</b>   | <b>36.5</b>   |
|   | prev. year=100 | 110.0        | 90.9         | 89.7         | 131.3        | 130.5        | 94.4         | 109.9        | 109.0        | 102.9        | 112.8         | 97.4          |
| Subsidies   | bn CZK         | <b>44.0</b>  | <b>45.6</b>  | <b>43.7</b>  | <b>48.8</b>  | <b>38.3</b>  | <b>38.9</b>  | <b>32.7</b>  | <b>25.4</b>  | <b>30.2</b>  | <b>31.3</b>   | <b>31.2</b>   |
|   | prev. year=100 | 120.2        | 103.7        | 95.9         | 111.5        | 78.6         | 101.5        | 84.0         | 77.7         | 118.9        | 103.7         | 99.6          |
| Gross fixed capital formation                                     | bn CZK         | <b>26.3</b>  | <b>31.7</b>  | <b>36.8</b>  | <b>34.5</b>  | <b>33.7</b>  | <b>46.9</b>  | <b>62.0</b>  | <b>76.9</b>  | <b>80.6</b>  | <b>87.1</b>   | <b>96.7</b>   |
|   | prev. year=100 | 106.8        | 120.2        | 116.4        | 93.7         | 97.6         | 139.1        | 132.2        | 124.1        | 104.9        | 108.0         | 111.0         |
| Capital transfers   | bn CZK         | <b>119.4</b> | <b>79.7</b>  | <b>64.8</b>  | <b>130.0</b> | <b>129.3</b> | <b>109.0</b> | <b>86.5</b>  | <b>86.7</b>  | <b>68.0</b>  | <b>68.2</b>   | <b>97.5</b>   |
|   | prev. year=100 | 140.1        | 66.7         | 81.4         | 200.7        | 99.5         | 84.3         | 79.3         | 100.2        | 78.4         | 100.3         | 143.0         |
| Other expenditure   | bn CZK         | <b>71.9</b>  | <b>75.7</b>  | <b>81.0</b>  | <b>106.2</b> | <b>121.4</b> | <b>170.8</b> | <b>140.7</b> | <b>134.7</b> | <b>144.6</b> | <b>157.2</b>  | <b>137.1</b>  |
|   | prev. year=100 | 142.4        | 105.3        | 107.1        | 131.0        | 114.3        | 140.7        | 82.4         | 95.7         | 107.3        | 108.7         | 87.2          |

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**

|   |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         |
|---|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total expenditure</b>                            | <i>bn CZK</i>         | <b>196.2</b> | <b>191.2</b> | <b>209.3</b> | <b>238.4</b> | <b>271.7</b> | <b>342.8</b> | <b>354.0</b> | <b>353.1</b> | <b>388.1</b> | <b>394.4</b> | <b>420.7</b> |
|   | <i>prev. year=100</i> | 109.9        | 97.4         | 109.5        | 113.9        | 114.0        | 126.1        | 103.3        | 99.8         | 109.9        | 101.6        | 106.7        |
| Compensation of employees                           | <i>bn CZK</i>         | <b>38.4</b>  | <b>43.4</b>  | <b>45.5</b>  | <b>64.2</b>  | <b>72.1</b>  | <b>102.8</b> | <b>108.6</b> | <b>114.2</b> | <b>121.1</b> | <b>128.5</b> | <b>133.7</b> |
|   | <i>prev. year=100</i> | 104.5        | 113.0        | 104.7        | 141.3        | 112.2        | 142.6        | 105.7        | 105.1        | 106.1        | 106.1        | 104.0        |
| Intermediate consumption                            | <i>bn CZK</i>         | <b>60.0</b>  | <b>66.2</b>  | <b>68.1</b>  | <b>77.3</b>  | <b>85.5</b>  | <b>97.3</b>  | <b>98.1</b>  | <b>99.5</b>  | <b>109.1</b> | <b>109.2</b> | <b>118.4</b> |
|   | <i>prev. year=100</i> | 111.5        | 110.4        | 102.9        | 113.5        | 110.6        | 113.9        | 100.8        | 101.4        | 109.7        | 100.1        | 108.5        |
| Social benefits other than social transfers in kind | <i>bn CZK</i>         | <b>5.1</b>   | <b>7.5</b>   | <b>9.3</b>   | <b>9.0</b>   | <b>10.2</b>  | <b>11.8</b>  | <b>11.9</b>  | <b>11.7</b>  | <b>12.0</b>  | <b>18.4</b>  | <b>20.6</b>  |
|   | <i>prev. year=100</i> | 135.0        | 146.9        | 124.2        | 96.6         | 113.4        | 115.6        | 100.6        | 98.6         | 102.5        | 153.6        | 112.1        |
| Social benefits in kind                             | <i>bn CZK</i>         | <b>1.6</b>   | <b>1.8</b>   | <b>2.0</b>   | <b>1.2</b>   | <b>1.4</b>   | <b>2.4</b>   | <b>2.5</b>   | <b>2.6</b>   | <b>2.8</b>   | <b>3.3</b>   | <b>3.0</b>   |
|   | <i>prev. year=100</i> | 111.1        | 114.3        | 109.1        | 61.1         | 115.6        | 169.9        | 104.5        | 102.4        | 108.9        | 119.0        | 88.7         |
| Interest  | <i>bn CZK</i>         | <b>2.6</b>   | <b>2.6</b>   | <b>1.7</b>   | <b>1.9</b>   | <b>2.0</b>   | <b>2.4</b>   | <b>3.0</b>   | <b>2.2</b>   | <b>2.4</b>   | <b>2.9</b>   | <b>3.2</b>   |
|   | <i>prev. year=100</i> | 160.6        | 99.4         | 67.6         | 110.3        | 104.5        | 118.9        | 126.8        | 72.9         | 108.1        | 119.4        | 113.4        |
| Subsidies   | <i>bn CZK</i>         | <b>13.9</b>  | <b>15.5</b>  | <b>17.2</b>  | <b>16.6</b>  | <b>18.2</b>  | <b>29.3</b>  | <b>26.3</b>  | <b>29.3</b>  | <b>31.2</b>  | <b>31.2</b>  | <b>32.5</b>  |
|   | <i>prev. year=100</i> | 109.7        | 111.4        | 111.3        | 96.6         | 109.6        | 160.7        | 89.8         | 111.6        | 106.3        | 99.9         | 104.4        |
| Gross fixed capital formation                       | <i>bn CZK</i>         | <b>56.5</b>  | <b>35.2</b>  | <b>41.6</b>  | <b>48.3</b>  | <b>60.7</b>  | <b>69.7</b>  | <b>73.8</b>  | <b>68.9</b>  | <b>80.4</b>  | <b>78.8</b>  | <b>85.6</b>  |
|   | <i>prev. year=100</i> | 108.8        | 62.3         | 118.0        | 116.2        | 125.6        | 114.9        | 105.9        | 93.3         | 116.8        | 98.0         | 108.7        |
| Capital transfers                                   | <i>bn CZK</i>         | <b>8.5</b>   | <b>14.9</b>  | <b>13.3</b>  | <b>14.2</b>  | <b>11.9</b>  | <b>16.4</b>  | <b>20.3</b>  | <b>13.6</b>  | <b>15.0</b>  | <b>14.2</b>  | <b>13.2</b>  |
|   | <i>prev. year=100</i> | 73.9         | 176.0        | 89.4         | 106.7        | 83.4         | 138.2        | 123.7        | 67.1         | 109.9        | 94.9         | 92.7         |
| Other expenditure                                   | <i>bn CZK</i>         | <b>9.7</b>   | <b>4.0</b>   | <b>10.5</b>  | <b>5.5</b>   | <b>9.8</b>   | <b>10.7</b>  | <b>9.5</b>   | <b>11.2</b>  | <b>14.2</b>  | <b>8.0</b>   | <b>10.4</b>  |
|   | <i>prev. year=100</i> | 186.7        | 41.6         | 262.3        | 52.3         | 178.5        | 108.9        | 88.7         | 117.4        | 126.8        | 56.2         | 130.9        |

**Table 5-14: Social security fund expenditure**

|   |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         |
|---|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total expenditure</b>                            | <i>bn CZK</i>         | <b>106.0</b> | <b>112.0</b> | <b>115.5</b> | <b>127.7</b> | <b>142.6</b> | <b>150.8</b> | <b>161.7</b> | <b>169.8</b> | <b>173.0</b> | <b>187.5</b> | <b>200.8</b> |
|   | <i>prev. year=100</i> | 110.2        | 105.7        | 103.1        | 110.6        | 111.6        | 105.8        | 107.2        | 105.0        | 101.9        | 108.4        | 107.1        |
| Compensation of employees                           | <i>bn CZK</i>         | <b>1.8</b>   | <b>2.0</b>   | <b>2.1</b>   | <b>2.3</b>   | <b>2.5</b>   | <b>2.7</b>   | <b>2.7</b>   | <b>2.9</b>   | <b>3.0</b>   | <b>3.2</b>   | <b>3.6</b>   |
|   | <i>prev. year=100</i> | 104.1        | 111.0        | 101.9        | 109.5        | 111.1        | 105.4        | 102.7        | 105.7        | 105.3        | 106.5        | 112.1        |
| Intermediate consumption                            | <i>bn CZK</i>         | <b>1.3</b>   | <b>1.2</b>   | <b>1.1</b>   | <b>1.4</b>   | <b>1.5</b>   | <b>1.9</b>   | <b>1.9</b>   | <b>2.0</b>   | <b>1.6</b>   | <b>2.0</b>   | <b>2.4</b>   |
|   | <i>prev. year=100</i> | 105.5        | 92.9         | 94.8         | 127.3        | 105.3        | 123.4        | 102.1        | 105.9        | 81.4         | 122.2        | 119.8        |
| Social benefits other than social transfers in kind | <i>bn CZK</i>         | -            | <b>0.0</b>   | -            | -            | -            | -            | -            | <b>0.0</b>   | <b>0.0</b>   | -            | -            |
|   | <i>prev. year=100</i> | X            | X            | 0.0          | X            | X            | X            | X            | X            | 200.0        | 0.0          | X            |
| Social benefits in kind                             | <i>bn CZK</i>         | <b>101.5</b> | <b>107.5</b> | <b>111.5</b> | <b>123.2</b> | <b>137.4</b> | <b>145.6</b> | <b>156.3</b> | <b>163.9</b> | <b>167.5</b> | <b>181.4</b> | <b>193.7</b> |
|   | <i>prev. year=100</i> | 109.9        | 105.8        | 103.8        | 110.4        | 111.6        | 106.0        | 107.4        | 104.8        | 102.2        | 108.3        | 106.8        |
| Interest  | <i>bn CZK</i>         | <b>0.2</b>   | <b>0.1</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   |
|   | <i>prev. year=100</i> | 168.2        | 42.2         | 23.1         | 77.8         | 50.0         | 85.7         | 100.0        | 16.7         | 300.0        | 66.7         | 100.0        |
| Subsidies   | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            | X            |
| Gross fixed capital formation                       | <i>bn CZK</i>         | <b>0.9</b>   | <b>0.8</b>   | <b>0.7</b>   | <b>0.6</b>   | <b>0.9</b>   | <b>0.6</b>   | <b>0.7</b>   | <b>0.8</b>   | <b>0.5</b>   | <b>0.5</b>   | <b>0.8</b>   |
|   | <i>prev. year=100</i> | 129.4        | 85.8         | 84.0         | 84.0         | 154.6        | 69.5         | 111.1        | 119.1        | 58.3         | 99.6         | 164.4        |
| Capital transfers                                   | <i>bn CZK</i>         | -            | <b>0.1</b>   | <b>0.0</b>   | -            | <b>0.0</b>   | <b>0.0</b>   | <b>0.1</b>   | -            | -            | -            | -            |
|   | <i>prev. year=100</i> | X            | X            | 6.6          | 0.0          | X            | 81.4         | 174.3        | 0.0          | X            | X            | X            |
| Other expenditure                                   | <i>bn CZK</i>         | <b>0.2</b>   | <b>0.3</b>   | <b>0.1</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.1</b>   | <b>0.0</b>   | <b>0.3</b>   | <b>0.4</b>   | <b>0.4</b>   | <b>0.4</b>   |
|   | <i>prev. year=100</i> | 455.8        | 108.4        | 31.5         | 332.1        | 82.2         | 29.4         | 64.6         | 671.4        | 127.7        | 123.9        | 84.5         |



## 5.3 Balance

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

|   | 1998          | 1999         | 2000         | 2001          | 2002          | 2003          | 2004         | 2005          | 2006         | 2007         | 2008         |
|---|---------------|--------------|--------------|---------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|
| <b>General government net lending (+)/net borrowing (-)</b> <i>bn CZK</i> | <b>-100.1</b> | <b>-77.3</b> | <b>-81.5</b> | <b>-131.8</b> | <b>-166.8</b> | <b>-170.6</b> | <b>-83.3</b> | <b>-106.7</b> | <b>-84.9</b> | <b>-23.9</b> | <b>-77.4</b> |
| Central government net lending (+)<br>/net borrowing (-) <i>bn CZK</i>    | -105.7        | -78.7        | -76.2        | -121.4        | -150.9        | -154.8        | -76.0        | -105.0        | -84.0        | -56.8        | -87.5        |
| Local government net lending (+)<br>/net borrowing (-) <i>bn CZK</i>      | 6.8           | 0.9          | -9.2         | -10.1         | -11.7         | -14.1         | -4.6         | -1.6          | -12.7        | 16.8         | 0.1          |
| Social security funds net lending (+)<br>/net borrowing (-) <i>bn CZK</i> | -1.1          | 0.5          | 3.9          | -0.3          | -4.2          | -1.7          | -2.7         | -0.2          | 11.8         | 16.1         | 10.0         |

**Table 5-16: General government net lending/net borrowing by subsectors**

|   | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>General government net lending (+)/net borrowing (-)</b> <i>(in % GDP)</i> | <b>-5.0</b> | <b>-3.7</b> | <b>-3.7</b> | <b>-5.6</b> | <b>-6.8</b> | <b>-6.6</b> | <b>-3.0</b> | <b>-3.6</b> | <b>-2.6</b> | <b>-0.7</b> | <b>-2.1</b> |
| Central government net lending (+)<br>/net borrowing (-) <i>(in % GDP)</i>    | -5.3        | -3.8        | -3.5        | -5.2        | -6.1        | -6.0        | -2.7        | -3.5        | -2.6        | -1.6        | -2.4        |
| Local government net lending (+)<br>/net borrowing (-) <i>(in % GDP)</i>      | 0.3         | 0.0         | -0.4        | -0.4        | -0.5        | -0.5        | -0.2        | -0.1        | -0.4        | 0.5         | 0.0         |
| Social security funds net lending (+)<br>/net borrowing (-) <i>(in % GDP)</i> | -0.1        | 0.0         | 0.2         | 0.0         | -0.2        | -0.1        | -0.1        | 0.0         | 0.4         | 0.5         | 0.3         |

## 5.4 Debt

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

|   |                       | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007          | 2008          |
|---|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>General government debt by instruments</b> | <i>bn CZK</i>         | <b>299.8</b> | <b>340.5</b> | <b>405.4</b> | <b>584.7</b> | <b>695.0</b> | <b>768.3</b> | <b>847.8</b> | <b>885.4</b> | <b>948.3</b> | <b>1023.8</b> | <b>1104.9</b> |
|   | <i>prev. year=100</i> | 126.7        | 113.6        | 119.1        | 144.2        | 118.9        | 110.5        | 110.4        | 104.4        | 107.1        | 108.0         | 107.9         |
| Currency and deposits                         | <i>bn CZK</i>         | -            | -            | -            | <b>7.2</b>   | <b>24.4</b>  | <b>4.0</b>   | <b>2.8</b>   | <b>0.6</b>   | <b>0.0</b>   | -             | -             |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | 340.9        | 16.2         | 71.4         | 21.7         | 3.7          | 0.0           | X             |
| Securities other than shares                  | <i>bn CZK</i>         | <b>196.4</b> | <b>232.1</b> | <b>275.6</b> | <b>354.8</b> | <b>427.4</b> | <b>528.4</b> | <b>633.8</b> | <b>698.2</b> | <b>788.6</b> | <b>871.0</b>  | <b>951.3</b>  |
|   | <i>prev. year=100</i> | 122.5        | 118.2        | 118.7        | 128.7        | 120.5        | 123.6        | 119.9        | 110.2        | 112.9        | 110.5         | 109.2         |
| Loans   | <i>bn CZK</i>         | <b>103.4</b> | <b>108.4</b> | <b>129.8</b> | <b>222.8</b> | <b>243.2</b> | <b>235.9</b> | <b>211.1</b> | <b>186.6</b> | <b>159.7</b> | <b>152.8</b>  | <b>153.6</b>  |
|   | <i>prev. year=100</i> | 135.3        | 104.8        | 119.7        | 171.7        | 109.2        | 97.0         | 89.5         | 88.4         | 85.6         | 95.7          | 100.6         |
| <b>Central government debt</b>                | <i>bn CZK</i>         | <b>271.7</b> | <b>314.6</b> | <b>378.3</b> | <b>553.0</b> | <b>653.2</b> | <b>718.8</b> | <b>783.1</b> | <b>812.8</b> | <b>867.0</b> | <b>939.1</b>  | <b>1016.1</b> |
|   | <i>prev. year=100</i> | 128.7        | 115.8        | 120.2        | 146.2        | 118.1        | 110.0        | 108.9        | 103.8        | 106.7        | 108.3         | 108.2         |
| Currency and deposits                         | <i>bn CZK</i>         | -            | -            | -            | <b>7.2</b>   | <b>24.4</b>  | <b>4.0</b>   | <b>2.8</b>   | <b>0.6</b>   | <b>0.0</b>   | -             | -             |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | 340.9        | 16.2         | 71.4         | 21.7         | 3.7          | 0.0           | X             |
| Securities other than shares                  | <i>bn CZK</i>         | <b>185.0</b> | <b>222.4</b> | <b>267.9</b> | <b>347.8</b> | <b>415.4</b> | <b>517.4</b> | <b>611.5</b> | <b>674.8</b> | <b>765.9</b> | <b>848.3</b>  | <b>928.9</b>  |
|   | <i>prev. year=100</i> | 126.9        | 120.2        | 120.5        | 129.8        | 119.4        | 124.6        | 118.2        | 110.3        | 113.5        | 110.7         | 109.5         |
| Loans   | <i>bn CZK</i>         | <b>86.7</b>  | <b>92.2</b>  | <b>110.4</b> | <b>198.0</b> | <b>213.4</b> | <b>197.5</b> | <b>168.7</b> | <b>137.4</b> | <b>101.1</b> | <b>90.8</b>   | <b>87.2</b>   |
|   | <i>prev. year=100</i> | 132.5        | 106.4        | 119.7        | 179.4        | 107.8        | 92.5         | 85.4         | 81.5         | 73.5         | 89.9          | 96.0          |
| <b>Local government debt</b>                  | <i>bn CZK</i>         | <b>36.0</b>  | <b>34.5</b>  | <b>35.8</b>  | <b>40.3</b>  | <b>50.0</b>  | <b>59.0</b>  | <b>72.0</b>  | <b>79.1</b>  | <b>86.6</b>  | <b>88.4</b>   | <b>91.9</b>   |
|   | <i>prev. year=100</i> | 112.7        | 95.7         | 103.9        | 112.7        | 124.0        | 118.0        | 122.1        | 109.8        | 109.5        | 102.1         | 103.9         |
| Currency and deposits                         | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -             | -             |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X             | X             |
| Securities other than shares                  | <i>bn CZK</i>         | <b>12.0</b>  | <b>10.1</b>  | <b>8.2</b>   | <b>7.1</b>   | <b>12.3</b>  | <b>11.9</b>  | <b>22.6</b>  | <b>24.0</b>  | <b>23.1</b>  | <b>23.3</b>   | <b>23.3</b>   |
|   | <i>prev. year=100</i> | 81.9         | 83.9         | 81.5         | 86.8         | 172.4        | 96.6         | 190.7        | 105.8        | 96.5         | 100.6         | 100.0         |
| Loans   | <i>bn CZK</i>         | <b>24.0</b>  | <b>24.4</b>  | <b>27.6</b>  | <b>33.2</b>  | <b>37.7</b>  | <b>47.1</b>  | <b>49.4</b>  | <b>55.1</b>  | <b>63.5</b>  | <b>65.2</b>   | <b>68.6</b>   |
|   | <i>prev. year=100</i> | 138.9        | 101.6        | 113.1        | 120.4        | 113.6        | 125.0        | 104.8        | 111.6        | 115.2        | 102.6         | 105.3         |
| <b>Social security funds debt</b>             | <i>bn CZK</i>         | <b>1.7</b>   | <b>1.2</b>   | <b>0.7</b>   | <b>0.5</b>   | <b>0.4</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.1</b>    | <b>0.1</b>    |
|   | <i>prev. year=100</i> | 71.8         | 67.8         | 61.9         | 64.9         | 84.6         | 79.5         | 74.5         | 117.5        | 69.5         | 30.9          | 155.9         |
| Currency and deposits                         | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -             | -             |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X             | X             |
| Securities other than shares                  | <i>bn CZK</i>         | -            | -            | -            | -            | -            | -            | -            | -            | -            | -             | -             |
|   | <i>prev. year=100</i> | X            | X            | X            | X            | X            | X            | X            | X            | X            | X             | X             |
| Loans   | <i>bn CZK</i>         | <b>1.7</b>   | <b>1.2</b>   | <b>0.7</b>   | <b>0.5</b>   | <b>0.4</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.1</b>    | <b>0.1</b>    |
|   | <i>prev. year=100</i> | 71.8         | 67.8         | 61.9         | 64.9         | 84.6         | 79.5         | 74.5         | 117.5        | 69.5         | 30.9          | 155.9         |

*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**

|  | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| <b>General government debt based on instruments</b> <i>(in % GDP)</i>              | 15.0 | 16.4 | 18.5 | 24.9 | 28.2 | 29.8 | 30.1 | 29.7 | 29.4 | 29.0 | 30.0 |
| Currency and deposits <i>(in % GDP)</i>  | -    | -    | -    | 0.3  | 1.0  | 0.2  | 0.1  | 0.0  | 0.0  | -    | -    |
| Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i> | 9.8  | 11.2 | 12.6 | 15.1 | 17.3 | 20.5 | 22.5 | 23.4 | 24.5 | 24.6 | 25.8 |
| Loans <i>(in % GDP)</i>  | 5.2  | 5.2  | 5.9  | 9.5  | 9.9  | 9.2  | 7.5  | 6.3  | 5.0  | 4.3  | 4.2  |
| <b>Central government debt</b> <i>(in % GDP)</i>                                   | 13.6 | 15.1 | 17.3 | 23.5 | 26.5 | 27.9 | 27.8 | 27.2 | 26.9 | 26.6 | 27.5 |
| Currency and deposits <i>(in % GDP)</i>  | -    | -    | -    | 0.3  | 1.0  | 0.2  | 0.1  | 0.0  | 0.0  | -    | -    |
| Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i> | 9.3  | 10.7 | 12.2 | 14.8 | 16.9 | 20.1 | 21.7 | 22.6 | 23.8 | 24.0 | 25.2 |
| Loans <i>(in % GDP)</i>  | 4.3  | 4.4  | 5.0  | 8.4  | 8.7  | 7.7  | 6.0  | 4.6  | 3.1  | 2.6  | 2.4  |
| <b>Local government debt</b> <i>(in % GDP)</i>                                     | 1.8  | 1.7  | 1.6  | 1.7  | 2.0  | 2.3  | 2.6  | 2.7  | 2.7  | 2.5  | 2.5  |
| Currency and deposits <i>(in % GDP)</i>  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i> | 0.6  | 0.5  | 0.4  | 0.3  | 0.5  | 0.5  | 0.8  | 0.8  | 0.7  | 0.7  | 0.6  |
| Loans <i>(in % GDP)</i>  | 1.2  | 1.2  | 1.3  | 1.4  | 1.5  | 1.8  | 1.8  | 1.8  | 2.0  | 1.8  | 1.9  |
| <b>Social security funds debt</b> <i>(in % GDP)</i>                                | 0.1  | 0.1  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| Currency and deposits <i>(in % GDP)</i>  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i> | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Loans <i>(in % GDP)</i>  | 0.1  | 0.1  | 0.0  | 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  |       |       |       |       |
|----------------|-------------|---------|------|------|------|-------|-------|-------|-------|-------|-------|
|                |             | 2005    | 2006 | 2007 | 2008 | 2009  | 2005  | 2006  | 2007  | 2008  | 2009  |
| EU 27          | ( in % GDP) | -2.4    | -1.4 | -0.8 | -2.3 | .     | 62.7  | 61.3  | 58.7  | 61.5  | .     |
| EA             | ( in % GDP) | -2.5    | -1.3 | -0.6 | -2.0 | .     | 70.4  | 68.6  | 66.2  | 69.6  | .     |
| Belgium        | ( in % GDP) | -2.7    | 0.3  | -0.2 | -1.2 | -5.9  | 92.1  | 88.1  | 84.2  | 89.8  | 97.6  |
| Bulgaria       | ( in % GDP) | 1.9     | 3.0  | 0.1  | 1.8  | -0.5  | 29.2  | 22.7  | 18.2  | 14.1  | 15.8  |
| Czech Republic | ( in % GDP) | -3.6    | -2.6 | -0.7 | -2.1 | -6.6  | 29.7  | 29.4  | 29.0  | 30.0  | 35.6  |
| Denmark        | ( in % GDP) | 5.2     | 5.2  | 4.5  | 3.4  | .     | 37.1  | 31.3  | 26.8  | 33.5  | .     |
| Estonia        | ( in % GDP) | 1.6     | 2.3  | 2.6  | -2.7 | -2.8  | 4.6   | 4.5   | 3.8   | 4.6   | 7.8   |
| Finland        | ( in % GDP) | 2.8     | 4.0  | 5.2  | 4.5  | -2.7  | 41.8  | 39.3  | 35.2  | 34.1  | 41.4  |
| France         | ( in % GDP) | -2.9    | -2.3 | -2.7 | -3.4 | -8.2  | 66.4  | 63.7  | 63.8  | 67.4  | 77.1  |
| Ireland        | ( in % GDP) | 1.7     | 3.0  | 0.3  | -7.2 | -12.0 | 27.6  | 25.0  | 25.1  | 44.1  | 64.3  |
| Italy          | ( in % GDP) | -4.3    | -3.3 | -1.5 | -2.7 | -5.3  | 105.8 | 106.5 | 103.5 | 105.8 | 115.1 |
| Cyprus         | ( in % GDP) | -2.4    | -1.2 | 3.4  | 0.9  | -2.9  | 69.1  | 64.6  | 58.3  | 48.4  | 53.8  |
| Lithuania      | ( in % GDP) | -0.5    | -0.4 | -1.0 | -3.2 | -9.5  | 18.4  | 18.0  | 16.9  | 15.6  | 29.1  |
| Latvia         | ( in % GDP) | -0.4    | -0.5 | -0.3 | -4.1 | -10.0 | 12.4  | 10.7  | 9.0   | 19.5  | 41.5  |
| Luxemburg      | ( in % GDP) | 0.0     | 1.3  | 3.7  | 2.5  | -2.2  | 6.1   | 6.6   | 6.6   | 13.5  | 14.8  |
| Hungary        | ( in % GDP) | -7.9    | -9.3 | -5.0 | -3.8 | -3.9  | 61.8  | 65.6  | 65.9  | 72.9  | 78.4  |
| Malta          | ( in % GDP) | -2.9    | -2.6 | -2.2 | -4.7 | -3.8  | 70.2  | 63.6  | 62.0  | 63.8  | 67.0  |
| Germany        | ( in % GDP) | -3.3    | -1.6 | 0.2  | 0.0  | -3.7  | 68.0  | 67.6  | 65.0  | 65.9  | 74.2  |
| Netherlands    | ( in % GDP) | -0.3    | 0.5  | 0.2  | 0.7  | -4.8  | 51.8  | 47.4  | 45.5  | 58.2  | 59.7  |
| Poland         | ( in % GDP) | -4.1    | -3.6 | -1.9 | -3.6 | -6.3  | 47.1  | 47.7  | 45.0  | 47.2  | 51.2  |
| Portugal       | ( in % GDP) | -6.1    | -3.9 | -2.6 | -2.7 | -5.9  | 63.6  | 64.7  | 63.6  | 66.3  | 74.5  |
| Austria        | ( in % GDP) | -1.6    | -1.6 | -0.6 | -0.4 | -3.9  | 63.9  | 62.2  | 59.5  | 62.6  | 68.2  |
| Romania        | ( in % GDP) | -1.2    | -2.2 | -2.5 | -5.5 | -7.9  | 15.8  | 12.4  | 12.6  | 13.6  | 20.1  |
| Greece         | ( in % GDP) | -5.2    | -2.9 | -3.7 | -7.7 | -12.5 | 100.0 | 97.1  | 95.6  | 99.2  | 112.9 |
| Slovakia       | ( in % GDP) | -2.8    | -3.5 | -1.9 | -2.3 | -6.3  | 34.2  | 30.5  | 29.3  | 27.7  | 36.4  |
| Slovenia       | ( in % GDP) | -1.4    | -1.3 | 0.0  | -1.8 | -5.9  | 27.0  | 26.7  | 23.3  | 22.5  | 34.2  |
| Spain          | ( in % GDP) | 1.0     | 2.0  | 1.9  | -4.1 | -9.5  | 43.0  | 39.6  | 36.1  | 39.7  | 53.4  |
| Sweden         | ( in % GDP) | 2.3     | 2.5  | 3.8  | 2.5  | -2.2  | 51.0  | 45.9  | 40.5  | 38.0  | 42.8  |
| United Kingdom | ( in % GDP) | -3.4    | -2.7 | -2.7 | -5.0 | -12.6 | 42.2  | 43.2  | 44.2  | 52.0  | 71.9  |

**Table 5-20: Transactions of general government of EU countries in 2006**

| Country        | Transactions | Revenue | Expenditure | Compensation of employees | Cash social benefits | Consumption <sup>1)</sup> | Investments <sup>2)</sup> | Interest expenditure |
|----------------|--------------|---------|-------------|---------------------------|----------------------|---------------------------|---------------------------|----------------------|
| EU 27          | (in % GDP)   | 44.6    | 46.8        | 10.5                      | 15.4                 | 20.8                      | 2.7                       | 2.7                  |
| EA             | (in % GDP)   | 44.9    | 46.9        | 10.2                      | 16.1                 | 20.5                      | 2.5                       | 3.0                  |
| Belgium        | (in % GDP)   | 48.8    | 50.0        | 12.1                      | 15.9                 | 23.2                      | 1.7                       | 3.8                  |
| Bulgaria       | (in % GDP)   | 39.1    | 37.3        | 9.0                       | 10.5                 | 16.3                      | 5.7                       | 0.8                  |
| Czech Republic | (in % GDP)   | 40.9    | 42.9        | 7.6                       | 12.8                 | 20.4                      | 5.0                       | 1.1                  |
| Denmark        | (in % GDP)   | 55.3    | 51.9        | 17.2                      | 14.9                 | 26.7                      | 1.8                       | 1.4                  |
| Estonia        | (in % GDP)   | 37.1    | 39.9        | 11.4                      | 10.6                 | 19.4                      | 5.3                       | 0.2                  |
| Finland        | (in % GDP)   | 53.4    | 49.0        | 13.4                      | 15.4                 | 22.3                      | 2.6                       | 1.5                  |
| France         | (in % GDP)   | 49.3    | 52.7        | 12.7                      | 17.5                 | 23.2                      | 3.2                       | 2.8                  |
| Ireland        | (in % GDP)   | 34.9    | 42.0        | 11.1                      | 12.3                 | 17.7                      | 5.3                       | 1.0                  |
| Italy          | (in % GDP)   | 46.0    | 48.7        | 10.9                      | 17.7                 | 20.2                      | 2.2                       | 5.1                  |
| Cyprus         | (in % GDP)   | 43.5    | 42.6        | 14.1                      | 11.9                 | 17.9                      | 3.0                       | 2.8                  |
| Lithuania      | (in % GDP)   | 34.2    | 37.4        | 10.8                      | 11.0                 | 19.3                      | 5.0                       | 0.6                  |
| Latvia         | (in % GDP)   | 34.6    | 38.8        | 12.0                      | 8.0                  | 19.7                      | 4.8                       | 0.8                  |
| Luxemburg      | (in % GDP)   | 40.2    | 37.7        | 7.1                       | 13.4                 | 15.2                      | 3.6                       | 0.3                  |
| Hungary        | (in % GDP)   | 45.5    | 49.2        | 11.5                      | 15.9                 | 21.6                      | 2.8                       | 4.1                  |
| Malta          | (in % GDP)   | 40.3    | 45.0        | 14.6                      | 12.8                 | 21.4                      | 2.5                       | 3.3                  |
| Germany        | (in % GDP)   | 43.7    | 43.7        | 6.9                       | 16.9                 | 18.1                      | 1.5                       | 2.7                  |
| Netherlands    | (in % GDP)   | 46.6    | 45.9        | 9.1                       | 10.4                 | 25.5                      | 3.5                       | 2.1                  |
| Poland         | (in % GDP)   | 39.6    | 43.3        | 10.0                      | 14.1                 | 18.6                      | 4.6                       | 2.2                  |
| Portugal       | (in % GDP)   | 43.2    | 46.0        | 12.9                      | 15.6                 | 20.7                      | 2.2                       | 3.0                  |
| Austria        | (in % GDP)   | 48.4    | 48.9        | 9.2                       | 18.1                 | 18.8                      | 1.1                       | 2.6                  |
| Romania        | (in % GDP)   | 32.8    | 38.4        | 10.2                      | 10.6                 | 17.3                      | 5.6                       | 0.8                  |
| Greece         | (in % GDP)   | 40.6    | 48.3        | 11.5                      | 19.1                 | 16.9                      | 2.9                       | 4.6                  |
| Slovakia       | (in % GDP)   | 32.5    | 34.8        | 6.6                       | 11.3                 | 17.4                      | 2.0                       | 1.2                  |
| Slovenia       | (in % GDP)   | 42.4    | 44.2        | 11.1                      | 14.7                 | 18.1                      | 4.3                       | 1.1                  |
| Spain          | (in % GDP)   | 37.0    | 41.1        | 10.8                      | 12.4                 | 19.4                      | 3.8                       | 1.6                  |
| Sweden         | (in % GDP)   | 55.6    | 53.1        | 14.9                      | 15.1                 | 26.4                      | 3.3                       | 1.7                  |
| United Kingdom | (in % GDP)   | 42.4    | 47.3        | 11.0                      | 13.1                 | 21.6                      | 2.3                       | 2.3                  |

1) Collective and individual consumption of general government.

2) Gross fixed capital formation.