Ministry of Finance
Department for Financial Policies

Fiscal Outlook

Czech Republic

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List of abbreviations used:

curr. p., const. p. .... current prices, constant prices
VAT.. value added tax
PIT... personal income tax
CIT .... corporate income tax
ESA 95 .... European System of National and Regional Accounts 1995
SB... state budget
SF .... state funds
PB... public budgets

Selected terms:

public budgets .... selected general government institutions whose operations are monitored on the cash flow principle, they represent the predominant part of the general government sector

general government sector......... general government institutions according to the definition of national accounts, their operations are monitored on the accrual principle under the ESA 95 methodology

forecast .... autonomous forecast of the economic results of a current year, macroeconomic forecast

outlook...................................... a medium-term forecast that is based on the fiscal targets of the government, the state budget proposal, its medium-term outlook and approved medium-term expenditure frameworks

projection.................................. a long-term forecast that is based on the projection of expected trends resulting from the assumptions adopted regarding macroeconomic development and the demographic scenario

Data sources:

Macroeconomic development: Czech Statistical Office, Czech National Bank, Ministry of Labour and Social Affairs, forecast of the Ministry of Finance

Data concerning general government in the national accounts methodology up to 2007: Czech Statistical Office, Eurostat

Other data: Ministry of Finance

Closing date for data sources: 1 October 2008

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More detailed data on the macroeconomic development can be found in the publication Macroeconomic Forecast of the Czech Republic, which is published every quarter, usually in the second half of the first month of each quarter.

1 Introduction

In recent years, public finance in the Czech Republic has achieved an important shift *en route* to sustainability. The government sector deficit, which at the beginning of this decade was at a level that threatened healthy economic development, fell in 2007 to 1.0% of GDP. Inasmuch as this result was reached at the peak of the economic cycle, the amount of the deficit is still relatively high. Fiscal discipline, however, has already ceased to have the most critical place in the development of the Czech economy.

To achieve long-term health in public finances, it remains no less necessary to carry out important reforms to the pension and health care systems. The earlier these reforms are carried out, the lower will be the eventual costs incurred. In no case, however, is it possible to eliminate these costs altogether. Reforming the pension system does not mean that the problem of long-term sustainability will be eliminated. It will always concern only the allocation of costs between individual generations, and, in some cases, between public finances and private institutions and individuals.

The fiscal outlook presented here is exceptional in that, as opposed to common practice, it is not completely based on the state budget proposal and its medium-term outlook. In contrast to the proposed state budget, the fiscal outlook was updated based on the October macroeconomic forecast of the Ministry of Finance, which attempts to take into account the latest developments in the world economy and events in the world's financial system.

Needless to say, for this reason the outlook carries substantial risks as the economy could go in either of two directions. In the case that world financial problems would deepen, then the Czech economy – and consequently public finances – may worsen. In case that the problems will begin to be resolved successfully and the Czech economy will remain relatively insulated, the economic results could also improve noticeably over those implied in this outlook.

The featured topic of this issue is the area regarding the influx of EU funds and their anticipated fiscal impacts. In the new 2007 – 2013 programming perspective, the Czech Republic has the possibility to draw an enormous amount of resources from the EU budget, which, in peak years, is close to CZK 100 billion. The use of these funds for financing investments and other projects can have a significant positive structural impact. At the same time, however, it creates large demands for co-financing these projects from national sources and brings with it additional sources stimulating aggregate demand.

1.1 Macroeconomic development

A large range of possible future developments in exogenous parameters distinctly increases the level of uncertainty in the fiscal outlook's macroeconomic scenario. Although it is conceived to be both realistic and conservative, endeavouring to balance both possible positive and negative deviations in economic development, with the current state of knowledge it is not possible to estimate either the depth of the problems in the global economy or the duration, extent, and subsequent impacts of the crisis situation on the Czech economy.

Throughout 2005 to 2007, the Czech economy experienced a period of high dynamics in gross domestic product, with year-on-year growth at over 6%. From the beginning of 2008, however, the Czech economy has been going through an expected deceleration in growth.

The rate of growth in potential GDP, driven in particular by a higher contribution from aggregate productivity of production factors, remains nevertheless at a level exceeding 5%. After reaching a peak in the second half of 2007, the positive output gap began to close. We estimate its current level at around 1.4% of potential GDP. We look for a relatively rapid closing of the positive output gap to occur already in 2009.

External risks have significantly increased for 2008, and especially for 2009. A fundamental question is going to be how the situation among foreign owners of Czech banks and non-financial institutions will affect their subsidiaries in the Czech Republic. Impacts on the financial sector in the Czech Republic could be limited to a fall in the prices of some financial assets and need not strongly influence macroeconomic development. In the case of manufacturing enterprises, investment activity may be dampened. For 2009, therefore, we expect growth in GDP to be at a level of just 3.7%. After overcoming the consequences of the global crisis, real growth in GDP should accelerate to a rate of 5.2% by 2011.

While the main source of economic growth in 2006 and 2007 was domestic demand driven by households' final consumption spending and gross capital formation, from the beginning of 2008 the main factor was foreign trade – coming at a time of a marked deterioration in the terms of trade. After a temporarily slump, caused by a decline in export markets, it is expected that there again will be an increase in the contribution from foreign trade at the expense of domestic demand. The willingness of foreign investors to make new investments and to reinvest profits from their businesses in the Czech Republic will essentially depend on the situations in their home countries. Gross fixed capital formation will be supported by infrastructure investments co-financed by European funds.

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

In 2008, private consumption growth is slowing dramatically. At the turn of 2007 into 2008, there was a one-time increase in the general price level that caused a slowing in the growth of real private earnings. Private consumption is being curtailed, including due to payments on mortgage loans. With the exception of 2009, domestic outlays should grow disproportionately less in comparison to GDP development.

After temporarily declining in 2008 and 2009, growth in terms of trade should move to positive values in 2010, which will maintain growth in the implicit GDP deflator at between 2 and 3%. The rate of nominal GDP growth will accelerate from 6.9% in 2008 to a level of around 7.7% by 2011.

The inflation targeting regime and the Czech crown's strengthening exchange rate will ensure low-inflationary development in the coming years. After a one-time jump up in prices at the turn of 2007 and 2008, which can be explained by growth in world prices of oil and other raw materials, accompanied by an increase in indirect taxation, the outlook is for inflation to drop to near the tolerance range of the CNB's inflation target – and even in consideration of its announced decrease from 3.0% to 2.0% after 2010. This development should not be reversed even by the expected rise in regulated prices.

As a consequence of continuing economic growth, the unemployment rate declined sharply. In the coming years, we anticipate that it will gradually rise. On the other hand, the rate of economic activity should increase. This will manifest itself in the labour market, which should gradually reflect the structural changes targeting stronger motivation to work. These are conditioned upon changes in the Act on Stabilising the Public Budgets, modifications in the payments to those living below the poverty line, and adjustments in unemployment benefits. Demand for labour, limited availability of qualified workers, and a higher rate of inflation in 2008 could be reflected in temporarily stronger wage growth. This growth, however, could be damped down by lower wages for labour coming from abroad.

The external economic imbalance, expressed by the current account balance as a proportion of GDP, is remaining within sustainable limits. An influx of direct foreign investment is the reason for the negative income balance in the form of a high outflow in repatriated and reinvested earnings. The negative income balance is otherwise exceeded by the overall positive balance in international trade of goods and services, which, by contrast, indicates a solid performance in foreign trade. In coming years, and despite the turbulence on world markets, the current account deficit should decline as a proportion of GDP.

Table 1-1: Main macroeconomic indicators

		2007	2008	2009	2010	2011	2008	2009	2010
			Forecast	*Forecast*	*Outlook*	*Outlook*	*Fiscal Outlook - May '08*		
Gross domestic product	*(bn CZK, curr.p.)*	3 530	3 796	4 016	4 314	4 648	*3 821*	*4 110*	*4 421*
	(growth in %, const.p.)	6.6	4.4	3.7	4.4	5.2	*5.0*	*5.1*	*5.3*
Private consumption	*(growth in %, const.p.)*	5.9	3.3	3.9	4.2	4.2	*4.2*	*4.6*	*4.2*
Government consumption	*(growth in %, const.p.)*	0.5	1.1	0.5	0.0	0.0	*-0.4*	*-0.3*	*-0.5*
Gross fixed capital formation	*(growth in %, const.p.)*	5.8	5.1	4.5	6.2	7.0	*9.0*	*7.8*	*7.2*
Contr. of net exports to GDP growth	*(p.p., const.p.)*	1.1	2.2	0.4	0.9	1.5	*-0.1*	*1.0*	*1.5*
GDP deflator	*(growth in %)*	3.6	2.4	2.1	2.9	2.4	*3.1*	*2.3*	*2.2*
Inflation	*(in %)*	2.8	6.4	2.9	3.0	2.5	*3.8*	*2.2*	*2.0*
Employment (LFS)	*(growth in %)*	1.9	1.7	0.7	0.3	0.3	*1.1*	*0.5*	*0.2*
Unemployment rate (reg.)	*(average in %)*	5.3	4.4	4.4	4.6	4.7	*5.9*	*5.6*	*5.5*
Wages and salaries	*(growth in %, curr.p.)*	9.0	9.5	8.3	7.5	7.5	*7.4*	*7.1*	*7.0*
Current account to GDP ratio	*(in %)*	-1.8	-2.5	-2.3	-1.1	0.1	*-2.5*	*-1.7*	*-1.0*

1.2 Fiscal policy objectives

The main fiscal policy objective continues to be to reduce the general government deficit. Within the framework of EU fiscal rules, the Czech Republic has undertaken to reduce the structural deficit to 1% of GDP by no later than 2012. The fiscal target for the general government balance in 2011, aimed at fulfilling this pledge, was set at -1.2% of GDP.

On the basis of the favourable result in 2007, when the general government balance reached -1.0% of GDP, in June 2008 the excessive deficit procedure was abrogated with the Czech Republic. The Council of the European Union assessed that the Czech Republic had succeeded by credible and sustainable means to reduce the general government deficit below the limit of 3% of GDP.

Contrary to original plans, fiscal development in 2008 is influenced mainly by the decision for an extraordinary indexation of pensions and the slowing in economic growth that was stronger than originally expected. We expect that the balance will hover around -1.2% of GDP in 2008, i.e. some 1.7 percentage points better than the original fiscal objective. Compared to 2007, however, the deficit will most likely deepen slightly, as the effect of the less favourable economic development and faster growth of social expenditures will slightly outweigh the savings from the package of stabilisation measures.

The medium-term fiscal outlook is founded on the assumption of adherence to the approved expenditure frameworks, which should ensure that a general government balance of -1.6% of GDP in 2009 and -1.5% of GDP in 2010 is achieved. We are leaving deficit estimates at approximately the same level as in the previous fiscal outlook. The negative effect of the expected worsening in economic development is roughly compensated by the revised and improved initial basis of previous years. The government deficit, however, probably will increase more year on year in 2009. At the same time, the government has declared its determination, if faced with deeper economic cooling and lower collection of tax revenues, subsequently to reduce operational outlays so that the planned deficits are not exceeded.

According to the latest data, the macroeconomic impact from fiscal policy was quite different from the original expectations. Expectations of accelerated social expenditures were indeed confirmed in 2007, but this was more than compensated by expenditure savings, particularly in the area of investments, related to other enormous transfers of unspent funds into reserves. Thus, rather than the expected fiscal expansion, there was a significant drop in the government deficit.

From 2008 to 2010, we expect only small changes in the structural balance, and thus a limited discretionary impact of fiscal policy on the economy. Worsening of the balance in 2009 will be largely of a cyclical nature and can be attributed to the functioning of automatic fiscal stabilisers.

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

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

	2007 *Preliminary*	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
General government balance	-1.0	-1.2	-1.6	-1.5	-1.2
Cyclical component	0.6	0.3	0.0	-0.1	0.0
One-off and other temporary measures	-0.3	-0.1	0.0	0.0	0.0
Structural balance	-1.3	-1.5	-1.5	-1.4	-1.1
Change in structural balance	1.4	-0.2	-0.1	0.2	0.2

Due to rather extensive legislative changes influencing general government finances, the impact of which could not be evaluated sufficiently thus far, and to the risks associated with the development of the world economy, the fiscal outlook is encumbered by an increased level of uncertainty.

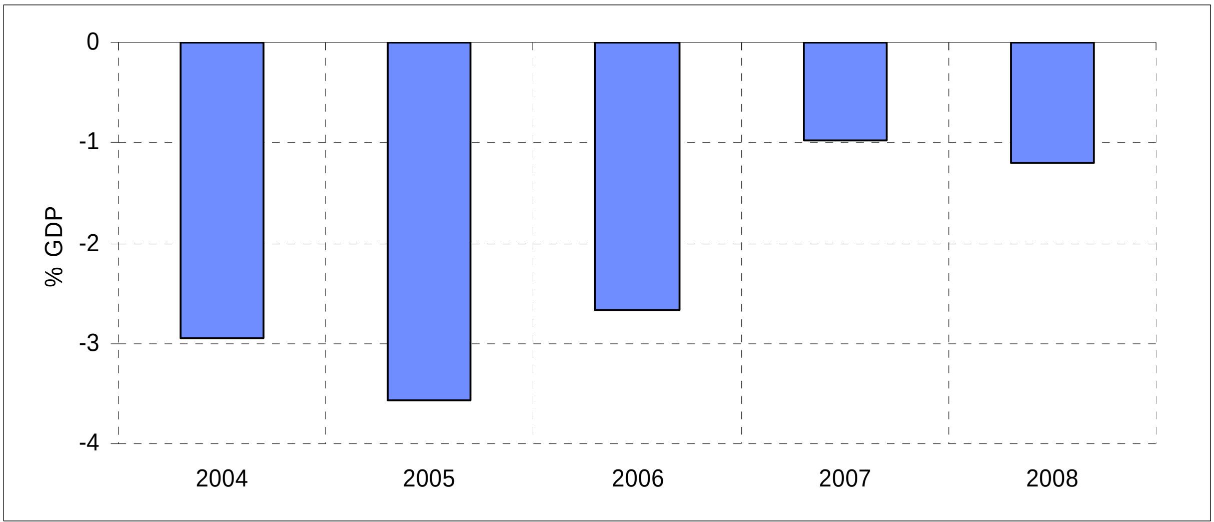
2 Development of public finance

2.1 General government – national accounts (ESA 95)

In 2007, the general government balance reached CZK -34.9 bn, which represents -1.0% of GDP. Compared to the initial April estimate of the Czech Statistical Office, the deficit is thus lower by CZK 21.2 bn. The central and local government subsectors improved, while the social security funds subsector (health insurance companies, in particular) achieved slightly poorer results.

In 2008, we expect a general government balance of CZK -47.3 bn, or -1.2% of GDP. This development bears witness to the successful initiation of the fiscal consolidation process, as for several consecutive years the general government deficit has not exceeded the limit of 3% of GDP given by the Maastricht convergence criteria.

Graph 2-1: General government net lending / net borrowing



Revenues, expenditures and balance in 2007

General government revenues are CZK 18.5 bn higher in comparison to the May figures, and that is primarily thanks to the increase in accrual tax revenues (taxes and social contributions) by about CZK 5 bn (of which excise taxes account for ca CZK 4 bn). Moreover, the amount of capital transfers grew by CZK 13.5 bn. This item includes in particular investment subsidies from the EU (which increased by CZK 5.2 bn compared to May), as well as free transfers of non-financial assets from other sectors of the national economy (which increased by CZK 8.4 bn in comparison with May figures). Both transactions, of course, should be reflected on the expenditures side, as well, and especially on gross fixed capital formation. Thus, they cannot be considered in explaining the difference compared to the May outlook.

Local government revenues showed the greatest increase (by CZK 12.5 bn), and that is especially due to the increase of capital transfers by CZK 15.2 bn. The main contributor in this case is transfers of non-financial assets (e.g. transfer of hospital assets to the regions), both from other government subsectors (CZK 6.9 bn) and from subjects outside the government sector (CZK 7.7 bn). Transfers from other subsectors in this item consolidate at the overall sector level and are thus excluded.

Institutions in the central government subsector also show considerably greater revenues compared to the May figures and are higher by CZK 11.9 bn. Making the capital transfers estimate more precise again had the most significant influence. In this case, investment subsidies from foreign subjects (primarily the EU) were the major contributor. As with transfers of non-financial assets, investment subsidies, as has already been stated, are reflected in the same amount on the expenditures side and thus should not influence the deficit. A second basic factor improving the revenue side is increased tax revenues (by ca CZK 5 bn), which is evident for central government institutions, as they receive the majority of taxes.

Revenues for social security funds (especially health insurance companies) are almost identical to the May numbers. The reason for the slight decrease in their surplus must be found on the expenditures side.

Compared to 2006, and in looking at the development of previous years, general government revenues in 2007 increased at an above-average rate (11.0%). This was especially due to the high increase of tax revenues (taxes and social contributions), which increased by 10.1% compared to 2006. Individual income tax recorded considerable growth, as the effect of a legislative amendment in this area has subsided and, after the stagnation of 2006, it has grown by 11.9%. Other taxes also achieved very decent results, and, in most cases, their growth was around 10.0%. The peaking of the economic cycle in 2007 especially contributed to this development, as tax bases increased at a relatively substantial rate. Due to the aforementioned effects of extraordinary transfers of non-financial assets, capital transfers of course also increased significantly.

General government expenditures in 2007 were CZK 2.7 bn lower than indicated in the preliminary May data. The correction of the gross capital formation estimate by CZK -9.5 bn (and that due to both the impact of lower government investments and of a change in the stock of inventories) had the most distinct effect. On the other hand, intermediate consumption, other current transfers and in-kind social benefits reached higher levels than the original estimates. If, of course, we net out the higher capital transfers and gross fixed capital formation (CZK 13.5 bn) not impacting the balance from the revenue and expenditure sides, the effect of the lower expenditures on the change in the deficit estimate increases to CZK 16.2 bn.

If we look at the expenditure side of individual subsectors, the central government subsector was the only one to record a decrease in the expenditures estimate (by CZK 2.8 bn). Here, the dominant effect came from a revision of gross capital formation by CZK -15.2 bn (due to the effects of both a reduction of government investments by CZK 11.0 bn and a change in the stock of inventories by CZK 4.2 bn). This decline, however, was offset for the most part by growth in intermediate consumption, other current transfers, and capital transfers (the majority of which went to the local government subsector).

By contrast, local government expenditures are CZK 4.7 bn higher. This is due mainly to the increase in gross fixed capital formation (by CZK 5.7 bn), which is only slightly offset by the moderate decrease of other expenditure items. The increase of gross fixed capital formation is caused primarily by the transfer of non-financial assets, which, as has already been stated, appear in capital transfers on both the expenditure and revenue sides.

Social security funds (particularly health insurance companies) showed only a very slight increase in expenditures (by CZK 1.3 bn), and that was due to the impact from an increase of social transfers in kind by the same amount (which represents an increase in payments from insurance companies to health care institutions for provision of health care to the individuals).

Compared to 2006, expenditures in 2007 increased by 6.7%, to which the dominant contributor was the rapid growth of social benefits (by 11.4%). In contrast, government investments grew at a very moderate rate, as gross fixed capital formation increased by only 2.7% compared to 2006.

General government finances ended 2007 with a deficit of CZK 34.9 bn, which exceeded the forecast from October 2007. This result is CZK 21.2 bn more favourable than that shown in the preliminary data from May 2008. If we net out capital transfer in the amount of CZK 13.5 bn from the revenue and expenditure sides (which neither the forecast nor the initial estimate took into account and which has an identical impact on both sides), the improvement of the result compared to the latest data can be explained in particular by a CZK 16.2 bn reduction in the volume of expenditures realised. This reduction is due primarily to a decrease of the government investments estimate owing to the correction of the accrual of gross capital formation and inventories based on the results of statistical examinations that were not available in May. In contrast, the revenue side estimate was increased by CZK 5 bn, especially due to correction in the accrual of tax revenues estimate (mainly in excise taxes).

Thus, the main reason for the good results in 2007 is the very rapid growth of tax revenues, achieved thanks to the peaking of the economic cycle and dynamic growth of the tax bases. On the expenditure side, a slowing was seen, especially in the area of fixed investments. The ever greater volume of funds for investment in the state budget is tied to the pre-financing and national financing of projects co-financed by EU funds. The delay in the realisation of these projects was reflected in the very low rate of fixed capital formation in 2007. The need for pre-financing of projects also edges out the execution of certain other expenditures to a considerable extent.

Revenues, expenditures and balance in 2008

In 2008, the growth rate of general government revenues can be expected to slow down to 5.9%, which therefore should reach about CZK 1,556.3 bn (41.0% of GDP). The share of general government revenues (particularly from taxes) in GDP thus would drop 0.6 percentage points compared to 2007.

Table 2-1: Structure of general government revenue

		2003	2004	2005	2006	2007	2008
General government revenue	*(in % GDP)*	40.7	42.2	41.4	41.2	41.6	41.0
-tax revenue	*(in % GDP)*	20.7	21.2	20.7	20.1	20.2	19.5
-social contributions	*(in % GDP)*	15.1	16.1	16.2	16.3	16.3	16.2
-sales	*(in % GDP)*	2.9	2.8	2.7	2.5	2.7	2.6
-other revenues	*(in % GDP)*	2.0	2.2	1.9	2.2	2.4	2.7

Two basic factors will be reflected in the 2008 revenues. These include the expected slowing in the economic performance of the national economy and thereby lower growth in the tax bases against the previous year, on the one hand. On the other hand, there is the impact of a package of measures for stabilising the public budgets adopted in 2007.

The growth rate of taxes and social contributions will decelerate to 4.9%. The fastest growth can be expected in the value added tax, which reflects a legislative amendment that increased the reduced rate from 5% to 9%.

Conversely, a reduction will occur compared to 2007, particularly in the personal income tax (by 6.4%), in which in addition to the slowing of economic growth in 2008 will also be reflected introduction of the flat tax rate of 15% for super-gross wage and adjustments in tax allowances.

The corporate income tax will also see a reduction, as a 2.1% decrease is expected in revenue from this tax as compared to 2007. Legislative changes adopted in 2007 (e.g. the rate reduction in 2008 to 21%), as well as the slowing of economic growth, affect the revenues from this tax. One risk is the possible stronger impact of the financial crisis (particularly by reducing profits of financial institutions due to creation of reserves and receivables' write-off).

Growth in social contributions is expected to be 6.5%. This is lower than the expected growth of its tax basis, mainly thanks to the introduction of a maximum tax assessment basis for social and health insurance payment in the amount of four times the average wage.

Excise taxes will increase compared to 2007 by 8.6%. The effect of the increase in excise taxes on tobacco products, as well as the introduction of environmental taxes (in particular, energy taxes), will be particularly evident. A question is how much the lower economic growth in 2008 will be evident in these taxes, as it mostly includes commodities with very low price and income elasticity.

Table 2-2: Structure of general government tax revenue

		2003	2004	2005	2006	2007	2008
Tax revenue and social contributions	*(in % GDP)*	35.8	37.3	36.8	36.5	36.6	35.7
-individual income tax	*(in % GDP)*	4.9	4.8	4.6	4.2	4.3	3.8
-corporate income tax	*(in % GDP)*	4.6	4.7	4.5	4.8	4.8	4.4
-VAT	*(in % GDP)*	6.4	7.2	7.1	6.5	6.4	6.7
-excise taxes	*(in % GDP)*	3.4	3.5	3.7	3.7	3.8	3.8
-social contributions	*(in % GDP)*	15.1	16.1	16.2	16.3	16.3	16.2
-other taxes and contributions	*(in % GDP)*	1.5	1.0	0.9	0.8	0.8	0.8

Expressed as a ratio to GDP, tax revenues will decline in 2008 approximately to the 2003 level. Direct taxes will record the largest decreases, whereas modest growth as a proportion of GDP is expected for VAT. This represents an unmistakable shift toward indirect taxation.

Non-tax revenue items, and particularly property income (by about 25%), also are recording relatively significant growth, and that is especially due to the expected high-level growth of dividend revenues. Capital transfers, too, are maintaining a decent dynamics thanks to growth in investment subsidies. These, however, generally have also their individual impact on expenditure items, and thus do not excessively influence the outcome of general government finances in the final result.

General government expenditures will increase at a rate of about 6.5% in 2008 and should therefore reach a value of around CZK 1,601.8 bn, which represents 42.2% of GDP.

Table 2-3: Structure of general government expenditure

		2003	2004	2005	2006	2007	2008
General government expenditure	*(in % GDP)*	47.3	45.1	45.0	43.8	42.6	42.2
-government consumption	*(in % GDP)*	23.4	22.1	22.1	21.3	20.4	19.8
-social benefits other than social transfers	*(in % GDP)*	12.2	12.9	12.6	12.7	12.9	12.4
-gross fixed capital formation	*(in % GDP)*	4.5	4.8	4.9	5.0	4.7	4.8
-other expenditure	*(in % GDP)*	7.1	5.3	5.4	4.9	4.7	5.0

The decreasing trend of general government expenditures as a share of GDP that began in previous years will continue also in 2008. In 2007, a series of social laws with a rather large impact on mandatory general government expenditures in the form of social benefits was approved. This year, this unfavourable expenditure structure is being amended. On the other hand, a whole series of investment projects was postponed, whereby the growth of government investments was low. This led to a relative increase of social benefits at their expense.

Due to a package of reform measures approved in 2007, there is being cut an entire set of mandatory expenditures that have slowed the growth of monetary social benefits in 2008 to 4.1% (and it is reducing them as a proportion of GDP to 12.4%). In contrast, lower transfers into reserve funds, or realised savings of budgeted expenditures (creation of so-called “claims”), are expected. Therefore, it can also be expected that certain general government investment projects will begin to be implemented and gross fixed capital formation should increase by 11.0% in 2008.

Growth of government consumption in 2008 does not show surprising values and is maintaining the dynamic of 2007 (4.9%). In its structure, however, there has been a decline in growth of collective consumption to 3.1%, which bears witness to the government effort to implement savings measures on the expenditures side concerning the majority of general government entities. In contrast, individual government consumption (i.e. expenses paid by the government and consumed by individuals) has modestly accelerated to 6.6% due to, for example, greater pressure for an increase of payments from health insurance companies to health care institutions.

Interest expenditures, which should increase by 14.6%, also are maintaining a very rapid pace in 2008. In this case, the main reason is higher interest rates in the economy and relatively rapid growth of general government debt, which is not in accordance with the sector’s favourable economic results.

Compared to 2007, the general government deficit is expected to increase by CZK 12.4 bn. The general government balance will reach -1.2% of GDP. As the development of the primary balance shows, the general government deficit in 2008 will be approximately at the level of interest outlays. In case of zero indebtedness, then general government finances are very likely to be well balanced.

Table 2-4: General government balance

		2003	2004	2005	2006	2007	2008
General government balance	*(in % GDP)*	-6.6	-2.9	-3.6	-2.7	-1.0	-1.2
Central government balance	*(in % GDP)*	-6.0	-2.7	-3.5	-2.6	-1.9	-1.5
Local government balance	*(in % GDP)*	-0.5	-0.2	-0.1	-0.4	0.5	0.0
Social security funds balance	*(in % GDP)*	-0.1	-0.1	0.0	0.4	0.5	0.3
Primary balance	*(in % GDP)*	-5.5	-1.8	-2.4	-1.6	0.2	0.0

Finances are particularly worsening during 2008 in the local government subsector where the expected worsening of direct taxes will be reflected.

Social security funds will still have a surplus, but it will moderately decrease. This is primarily due to the effect of introducing the maximum assessment basis for social and health insurance contributions levied on behalf of the employee, as well as the increased pressure from health care providers to boost payments for health care.

In contrast, the central government subsector will record an improvement by nearly CZK 11 bn. In this subsector, finances of state funds and the National Fund will slightly worsen, which will be more or less offset by a slight improvement in the state budget balance. The performance of the former National Property Fund is significantly improving, especially due to an increase in returns from financial assets (dividends). The performance of other entities in this subsector will not change significantly compared to the last year.

General government debt

In 2007, the general government debt reached CZK 1,020.7 bn, which represents 28.9% of GDP. Compared to 2006, it grew by 7.3%. Considering that debt growth should substantially correspond to the deficits in individual years, and in light of the favourable deficit development in 2007, its dynamism is startling.

Table 2-5: Debt

		2003	2004	2005	2006	2007	2008
General government debt	*(in % GDP)*	30.1	30.4	29.8	29.6	28.9	28.8
Central government debt	*(in % GDP)*	28.2	28.1	27.3	27.1	26.5	26.5
Local government debt	*(in % GDP)*	2.3	2.6	2.7	2.7	2.5	2.3
Social security funds debt	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0

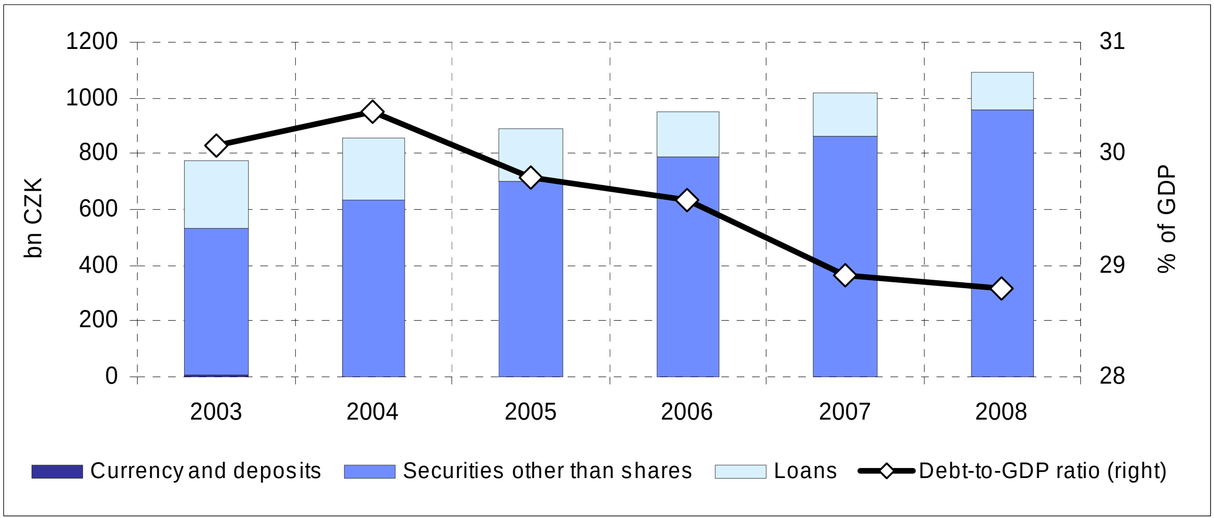
Compared to 2006, the debt decreased as a proportion of GDP by 0.7 percentage points. If we look at the structure of this change, the dominant influence is the rapid growth in GDP, which contributes most to the relative stabilisation of debt's share in GDP. In contrast, the 2007 deficit and the net accumulation of financial assets both cause debt growth, contributing 1.0 percentage point and 1.5 percentage points, respectively. This mainly concerns the transfer of a large portion of funds to reserve funds (to the accounts of general government entities), which are subsequently uneconomically covered by an increase of general government liabilities (in particular bond issues).

In 2008, only a slight decline in the share of debt is expected, and that by 0.1 percentage points to 28.8% of GDP. The growth of debt as a proportion of GDP in 2008 is significantly inhibited by the dynamics of GDP. In connection with higher privatisation revenues, funds in the accounts of general government entities continue to be excessively accumulated. The general government debt thus will again increase more than is necessary.

Table 2-6: Stock-flow adjustment

		2003	2004	2005	2006	2007	2008
Gross debt	*(in % GDP)*	30.1	30.4	29.8	29.6	28.9	28.8
Change in gross debt	*(p.p.)*	1.6	0.3	-0.6	-0.2	-0.7	-0.1
Decomposition of change in gross debt							
Nominal GDP growth	*(p.p.)*	-1.2	-2.5	-1.7	-2.1	-2.6	-2.0
General government net lending (+) /net borrowing (-)	*(p.p.)*	6.6	2.9	3.6	2.7	1.0	1.2
Other factors	*(p.p.)*	-3.8	-0.1	-2.5	-0.7	1.0	0.7
- Difference between cash and accrual	*(p.p.)*	-0.4	-0.7	-0.8	0.3	-0.4	-0.2
- Net accumulation of financial assets	*(p.p.)*	-3.6	0.6	-1.2	-0.9	1.5	1.0
of which: privatisation proceeds	*(p.p.)*	1.0	0.6	3.6	0.1	0.4	0.7
- Revaluation and other factors	*(p.p.)*	0.2	0.0	-0.5	-0.2	-0.1	-0.2

Graph 2-2: Debt by instruments



2.2 International comparison

General government balance

In 2007, the general government balance of the EU27 countries was -0.9% of GDP. Developments over the past several years point to a meaningful and systematic improvement. The Czech Republic, with its balance of -1.0% of GDP, is presently slightly worse than the EU27 average.

At the balance of -5.0% of GDP, Hungary had the poorest development in its general government balance in 2007. Hungary expects the balance to improve to -3.8% in 2008, which is its most favourable expected value of the last four years. In contrast to the spring estimates, more countries expect government deficits larger than -2.0% of GDP in 2008, namely France, Greece, Italy, Lithuania, Poland, Portugal, Romania and Slovakia. Data to the end of October 2008 are not available for Malta and the United Kingdom at the present time. With the exception of Portugal and Greece, these are all worse in comparison to the previous year.

Among the new member states, the Baltic countries and Cyprus have been very successful in the fiscal area in recent years, although Estonia, after several years, expects a deficit and in Lithuania and Latvia the balance will be relatively worse. The Nordic countries have achieved the highest surpluses, and, perhaps surprisingly, Bulgaria has as well. Marked consolidation of public budgets is seen in Greece, where there has been a quite successful and long-term cut in the deficit. While Greece had a balance of -7.5% of GDP in 2004, it is expected to be -2.3% this year.

General government debt

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

In the Czech Republic, there is a relatively good situation with respect of the general government debt. Over the long term, the debt has hovered around 30% of GDP (specifically, 28.9% in 2007). It has even been below this mark in past years, and the Czech Republic could still easily meet the Maastricht debt convergence criterion.

Three countries – Italy, Belgium and Greece – still rank among those EU27 countries with the highest indebtedness. Unlike Italy, however, Greece and Belgium have begun to consolidate their public finances and to significantly decrease their debts as proportions of GDP. Italy is also the only EU27 country whose public debt, which stood at 104.1% of GDP in 2007, even exceeds its total yearly output. Clearly worthy of note is the debt development in Bulgaria and Slovakia and, among the former EU15 countries, Spain and the Nordic countries, where it is possible to observe a very significant decline in their indebtedness (see Table 5-19).

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

		Balance					Debt				
		2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
EU27	(in % GDP)	-2.9	-2.4	-1.4	-0.9	.	62.2	62.7	61.3	58.7	.
Czech Republic	(in % GDP)	-3.0	-3.6	-2.7	-1.0	-1.2	30.4	29.8	29.6	28.9	28.8
Slovakia	(in % GDP)	-2.3	-2.8	-3.5	-1.9	-2.2	41.4	34.2	30.4	29.4	29.0
Poland	(in % GDP)	-5.7	-4.3	-3.8	-2.0	-2.5	45.7	47.1	47.7	44.9	44.1
Hungary	(in % GDP)	-6.4	-7.8	-9.3	-5.0	-3.8	59.4	61.7	65.6	65.8	65.6
Germany	(in % GDP)	-3.8	-3.3	-1.5	-0.2	0.0	65.6	67.8	67.6	65.1	64.7
France	(in % GDP)	-3.6	-2.9	-2.4	-2.7	-2.7	64.9	66.4	63.6	63.9	65.3
United Kingdom	(in % GDP)	-3.4	-3.4	-2.7	-2.8	.	40.6	42.3	43.4	44.2	.
Italy	(in % GDP)	-3.5	-4.3	-3.4	-1.6	-2.5	103.8	105.9	106.9	104.1	103.7

3 Medium-term fiscal outlook

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

The state budget is the most important instrument for carrying out fiscal policy. The objectives of fiscal policy are normally regarded as (i) redistribution of resources as an economic expression of social solidarity between the rich and poor, the healthy and the sick, and individuals in their productive years with people in retirement, (ii) provision of public goods that cannot be ensured through market mechanisms, and (iii) producing macroeconomic stabilising effects on the economy.

In recent years, the results of state budgets have shown marked deviations from those originally planned. That is not only on the revenues side, where there is customarily a certain imprecision in the estimates of what will be collected, but especially on the spending side, which the government should have under its control. To a considerable extent, therefore, the impacts of the state budget do not correspond to the fiscal policy aims. The main reason for this was the introduction of the possibility to carry forward an unlimited amount of unspent budgetary funds to the following years starting from 2004. This was motivated by an effort to prevent waste of public funds at the end of the year. These transfers reached such an extent, however, that they have a substantial influence not only on the macroeconomic impact of fiscal policy but also on the structure of public expenditures. We believe that, in order to regain the effectiveness of fiscal policy, it would be appropriate to reassess and adjust the rules regarding transfer of unspent funds such that the state budget will have the intended effects. Transfers into reserve funds have hitherto visually improved the economic results, but at the same time this has created a risk that outlays will be higher than budgeted in succeeding years.

The balance of public budgets under the fiscal targeting methodology in 2007 improved to -1.0% of GDP, which is about 2.9 percentage points better in comparison to the approved proposal. Favourable results, then, will also be reflected to a certain extent in balances for the following years. It cannot be expected, however, that the result will to the same extent be again better than the approved budget. The majority of unspent funds have the nature of deferred consumption and can, on the contrary, burden public finance balances in coming years. The volume of funds accumulated in reserve funds has increased by CZK 27.8 bn and these had reached CZK 96.9 bn (2.7% of GDP) as of the end of 2007. Of this, more than one-half comprise funds designated for pre-financing projects co-financed from EU funds, which will be refunded by EU money and that will not have an impact on the balance. The remaining approximately CZK 40 bn consists of national funds, which, if included into expenditures, would deepen the deficit in the forthcoming period.

Compared to the previous outlook, we are somewhat reducing our public budget balance estimate for 2008 under the fiscal targeting methodology. The main reason for this is lower revenues from the collection of value added tax, which will deepen the state budget deficit. By contrast, better results ought to be achieved within local budgets and by health insurers. As a result, the public budget balance should amount to around -1.2% of GDP.

The fiscal outlook for 2009 and 2010 is based on from the assumption that the approved expenditure frameworks will be upheld. In contrast to the previous outlook, and contrary to the state budget proposal, the data presented in Table 3-1 have been updated on the basis of October's macroeconomic forecast from the Ministry of Finance. Lower tax revenues due to an expected economic cooling would, in the case of exhausting expenditure limits, lead to higher deficits both in the state budget and in public budgets generally. It should be emphasised that in the Czech Republic the binding fiscal rule is for adherence to expenditure limits and not to the planned deficits. This mechanism should permit automatic deepening of the balance in periods of economic cooling and improving of the balance in periods of cyclical rise, thereby providing macroeconomic stabilising effects.

In a situation when the Czech Republic still fails to meet some of the requirements of the EU fiscal rules[1], and Czech public finances remain unsustainable in the long-term under unchanged policies, the government has declared its determination to continue in the first place to cut the budget deficit. In a case of under-fulfilling budget revenues, therefore, it has been decided to cut back operating expenses in a corresponding manner and thereby to achieve the budget deficit presented in the proposed state budget.

As in the previous outlook, we believe that the public budgets, other than the state budget and those of the state funds, will gradually worsen. We again expect a surplus for these units in 2008, but they should subsequently operate with small deficits. For local budgets and health insurance companies, we adopt an assumption of nearly balanced operations. A deficit in an approximate amount of 0.3% of GDP will be caused in particular by the necessity to settle obligations connected with clean-up of old environmental damages.

Table 3-1: Updated medium-term outlook of the public budgets (fiscal targeting)

			2007	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
Target for public budgets (national fiscal targeting)	*(bn CZK)*	*[4=1-3]*	**-34.9**	**-43.9**	**-67.4**	**-74.0**	**-60.8**
	(% of GDP)	*[5]*	**-1.0**	**-1.2**	**-1.7**	**-1.7**	**-1.3**
Public budgets other than SB and SF	*(% of GDP)*	*[6]*	0.8	0.5	-0.2	-0.3	-0.3
Target for state budget and state funds	*(% of GDP)*	*[7=5-6]*	-1.8	-1.7	-1.5	-1.4	-1.0
	(bn CZK)	*[8]*	-62.9	-64.1	-63.8	-60.1	-46.1
State budget	*(bn CZK)*	*[8a]*	-31.5	-35.3	-57.9	-58.2	-46.2
State funds	*(bn CZK)*	*[8b]*	-31.5	-28.8	-5.9	-2.0	0.1
Revenue forecast of SB and SF	*(bn CZK)*	*[9]*	1028.8	1137.2	1178.1	1066.4	1125.0
State budget	*(bn CZK)*	*[9a]*	961.7	1032.0	1087.5	1025.7	1083.3
State funds	*(bn CZK)*	*[9b]*	67.2	105.2	90.5	40.8	41.7
New expenditure frameworks	*(bn CZK)*	*[10=9-8]*	1091.8	1201.3	**1241.9**	**1126.5**	**1171.1**
State budget	*(bn CZK)*	*[10a]*	993.1	1067.3	1145.5	1083.8	1129.5
State funds	*(bn CZK)*	*[10b]*	98.7	134.0	96.4	42.7	41.5

Notes:

1) This outlook is based on the forecast of tax revenues revised on the basis of October's macroeconomic forecast and the presumed compliance with approved expenditure frameworks. Hence, the revenue outlook differs from the state budget proposal, and in expenditures possible additional budgetary cuts are not yet taken into account.

2) Reduction in the levels of revenues and expenditures from 2010 (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.

[1] The Czech Republic, for the present, has not achieved its medium-term structural balance target in the amount of -1.0% of GDP, and it is bordering rather on the so-called minimum benchmark that provides for a safety margin from the 3.0% limit. It is judged as one of the least successful in the area of long-term sustainability of public finances. For more information on the EU's fiscal rules, see the fiscal outlook for April 2007.

The expenditure framework for 2009 was increased to account for expected outlays financed from EU funds and for a changes in the subsidies' relationships between the state budget and state funds (consolidation). The new expenditure framework for 2011, which should ensure the attainment of an established fiscal target of -1.2% of GDP, was fixed at the level of CZK 1,171.1bn.

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

		2009	2010
Frameworks approved in 2007 - unconsolidated	[1]	**1100.9**	**1137.5**
Consolidation (planned in 2007)	[2]	23.2	23.7
Frameworks approved in 2007 - consolidated	[3=1-2]	1077.7	1113.8
Adjustments according to the budgetary rules	[4=5+6+7]	97.3	-
- change in tax assignment	[5]	-	-
- change in expenditure financed from EU funds	[6]	97.3	-
- unforeseen major influences	[7]	-	-
Frameworks approved in 2007 adjusted - consolidated	[8=3+4]	1175.0	1113.8
Consolidation (planned in May 2008)	[9]	66.9	14.2
Frameworks approved in 2007 adjusted - unconsolidated	[10=8+9]	**1241.9**	**1128.0**

Approved expenditure limits for 2009 and 2010 were maintained in the state budget proposal and in its medium-term outlook. In 2010, they were even reduced slightly further. To observe the spending limits, it was necessary to compensate the faster growth in social outlays, and particularly in old-age pensions, due to inflation in 2008 that was higher than expected with savings in the area of non-entitlement expenditures.

The spending limit for 2010 is still not attainable autonomously, inasmuch as the planned savings from payment of contributions toward health insurance made by the state for state employees, in the range of CZK 6.5 bn, has not been legislatively approved.

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

		2009	2010
Frameworks approved in 2007 adjusted	[1]	1241.9	1128.0
New expenditure frameworks	[2]	1241.9	1126.5
Tightening (-) / breach (+) of expenditure frameworks	[3=2-1]	**0.0**	**-1.5**

3.2 General government medium-term outlook

General government balance

Since 2004, the general government balance has regularly achieved better results than were originally planned. Despite unfavourable expectations, the year 2007 became record-breaking in this respect as the general government balance reached -1.0% of GDP. That is 2.9 percentage points better in comparison to the original plans. The common denominator for the more favourable development in recent years is, on the one hand, revenues that are higher than expected due to the cyclical as well as – to a certain extent – structural increase in tax revenues, and, on the other hand, temporary expenditure savings in the form of transfer of unspent budgetary resources into reserve funds.

According to the latest preliminary data, the result for the year 2007 was better by 0.6 percentage points than suggested by the first estimate of the Czech Statistical Office in April. Although due to the adjustments of social legislation at the turn of the years 2005 and 2006 the expected dynamic growth of social expenditures was confirmed, it was more than compensated by savings in other expenditures – and especially those of an investment nature. The investment expenditures are increasingly tied to the pre-financing and national financing of projects co-financed from the EU funds. As the projects were being put into operation slowly, this led to a considerable slowdown in investment activity and to an adverse shift in the structure of government expenditures from investments to social expenditures.

The development in 2008 is, on the one hand, influenced positively by the set of austerity measures intended to stabilise public finances and adopted in 2007 and, on the other hand, negatively by the slowdown in economic growth, which is most likely to be more considerable than anticipated. A persisting risk consists in using the greater amount of reserves in expenditures, or realisation of savings to a lesser extent as compared to the previous years, which would mean pressure on increasing the government deficit. We expect that these contradictory factors will result in a moderate worsening of the nominal general government balance to -1.2% of GDP.

The outlook for 2009 and 2010 is predetermined by the approved expenditure limits of the state budget and state funds that cover approximately two-thirds of the total government expenditures and which are anticipated by the outlook to be maintained. To sustain the expenditure limits, it was necessary to compensate especially for the higher statutory increase of pensions with savings in other areas. We are holding the general government balance estimate for 2009 at -1.6% of GDP, but that means a greater year-on-year worsening of the government balance than was stated in the previous outlook. This would be caused mainly by a rather pronounced expected slowdown in economic growth and in the dynamics of tax revenues, as well as by gradual use of accumulated reserves for expenditures (or by not achieving the same extent of savings as in the past years). The situation will probably be worsened also by the general government balance, which is not subject to expenditure limits and is, therefore, not under direct control of the government. As regards the local governments and health insurance companies, it is not possible to expect that surpluses similar to those in 2007 will be generated over a longer time horizon.

Based on the current outlook for tax revenues, achieving the fiscal target established for 2011 should be ensured by maintaining the respective expenditure limit for this year.

In the current fiscal outlook, we intentionally do not present the usually stated relation between the medium-term outlook for the state budget in the fiscal targeting methodology and the general government outlook in the ESA 95 methodology. The reason for this is that, exceptionally, the general government outlook presented was not derived from the state budget proposal. It is based on October's macroeconomic forecast, which needed more updating than is usual in the context of the tumultuous developments in the world economy and financial markets. The outlook is thus burdened with an exceptionally high level of uncertainty.

The outlook's positive feature remains to be fulfilment of the obligatory fiscal rule for maintaining the approved expenditure limits. Any increase in the deficit in this situation due to the economy's swifter cooling should be attributed to the effects of automatic fiscal stabilisers that should ensure the fiscal policy's anti-cyclical impacts.

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

		2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
General government balance	(% of GDP)	**-1.0**	**-1.2**	**-1.6**	**-1.5**	**-1.2**
Central government	(% of GDP)	**-2.0**	**-1.6**	**-1.7**	**-1.5**	**-1.2**
Local governments	(% of GDP)	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**
Social security funds	(% of GDP)	**0.5**	**0.3**	**0.1**	**0.0**	**0.0**
Total revenue	(% of GDP)	**41.6**	**41.0**	**40.6**	**39.6**	**39.0**
	(growth in %)	11.0	5.9	4.7	4.9	6.2
Total expenditure	(% of GDP)	**42.6**	**42.2**	**42.1**	**41.1**	**40.2**
	(growth in %)	6.7	6.5	5.6	4.8	5.3

The development until 2011 should be characterised by a continuous decline in both revenues as well as expenditures as proportions of GDP due to the autonomous reduction in the tax quota, active reduction of the tax burden, and expenditure savings measures. The general government balance should hover safely above -3% of GDP and should head towards achieving the medium-term target of -1.0% of GDP in 2012.

General government revenues

In 2008, the dynamics of development in general government revenues should be slower compared to the last fiscal outlook. The main change is the revised estimate of the development of tax revenues, which are anticipated to grow year on year by 3.7% (instead of 8.0%). VAT will grow substantially less due to, among other things, greater slowdown in final consumption spending. The estimated year-on-year growth of VAT is 11.9% (as compared to 23.6%). Furthermore, the estimated development of the personal income tax items has also been revised downwards to -6.4% (against -0.6%), while the corporate income tax should change by -2.1% (as compared to -0.6%). In the future, we count on a considerably stronger dynamics of PIT revenues, while for CIT revenues, the rate of which will be gradually decreasing in connection with the approved legislation to 19% in 2010, the dynamics of their development will be damped down.

Table 3-5: General government revenue

		2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
Total revenue	(bn CZK)	**1470.3**	**1556.3**	**1628.9**	**1707.9**	**1813.0**
	(growth in %)	11.0	5.9	4.7	4.9	6.2
Tax revenue	(bn CZK)	**714.2**	**740.3**	**780.5**	**815.9**	**865.0**
	(growth in %)	10.3	3.7	5.4	4.5	6.0
Taxes on production and imports	(bn CZK)	**385.4**	**425.1**	**445.8**	**465.0**	**483.7**
	(growth in %)	9.7	10.3	4.9	4.3	4.0
of which: Value added tax	(bn CZK)	***226.8***	***253.7***	***269.2***	***285.3***	***301.3***
	(growth in %)	*8.6*	*11.9*	*6.1*	*6.0*	*5.6*
Excise taxes	(bn CZK)	***133.5***	***145.0***	***148.9***	***151.0***	***152.6***
	(growth in %)	*11.4*	*8.6*	*2.7*	*1.4*	*1.1*
Current taxes on income, wealth, etc.	(bn CZK)	**328.0**	**314.8**	**334.3**	**350.5**	**380.8**
	(growth in %)	11.1	-4.0	6.2	4.9	8.7
of which: Personal income tax	(bn CZK)	***152.9***	***143.1***	***157.4***	***169.1***	***181.6***
	(growth in %)	*11.9*	*-6.4*	*10.0*	*7.4*	*7.4*
Corporate income tax	(bn CZK)	***171.1***	***167.5***	***172.3***	***176.8***	***194.5***
	(growth in %)	*10.5*	*-2.1*	*2.9*	*2.6*	*10.0*
Capital taxes	(bn CZK)	**0.8**	**0.4**	**0.4**	**0.4**	**0.4**
	(growth in %)	2.0	-50.9	0.0	0.0	0.0
Social contributions	(bn CZK)	**576.7**	**614.2**	**630.2**	**658.5**	**701.3**
	(growth in %)	9.9	6.5	2.6	4.5	6.5
Property income	(bn CZK)	**29.1**	**36.5**	**31.5**	**29.0**	**25.5**
	(growth in %)	13.9	25.2	-13.7	-7.8	-12.1
Other	(bn CZK)	**150.3**	**165.3**	**186.7**	**204.4**	**221.2**
	(growth in %)	18.8	10.0	12.9	9.5	8.2
Tax burden	(% of GDP)	**36.6**	**35.7**	**35.1**	**34.2**	**33.7**

On the other hand, the estimated general government revenues from excise taxes have been revised upwards (from 3.6% to 8.6%). Moreover, the property income item, consisting of interest income and dividend revenues from enterprises owned by the state, will mark rapid growth. This relates to a large volume of dividend payments. The anticipated beginning of the EU funds inflow (included in the others item) will also have effects increasing the revenues.

The declining trend in the compound tax quota will remain unchanged, although it will be somewhat slower as compared to the previous outlook. We expect it to go down by 2.0 percentage points of GDP between 2008 and 2011.

General government expenditures

The development of general government expenditures will approximately follow the expectations of the previous outlook. We anticipate that the government's consumption behaviour will continue to be very thrifty, as necessitated by the need to maintain the expenditure limits.

A moderate downward adjustment was made to the gross fixed capital formation item, although it should maintain its growth of around 10% in the outlook's individual years on the condition that the EU funds will be drawn more vigorously.

As compared to the previous outlook, the social transfers remain basically unchanged, and so do the assumptions for the dynamics of expenditures on compensation of employees.

We anticipate approximately a stable volume of interest outlays. The need to issue bonds should be decreased by the planned privatisation revenues and, at the same time, we anticipate a gradual decline in interest rates.

Table 3-6: General government expenditure

		2007	2008 Forecast	2009 Outlook	2010 Outlook	2011 Outlook
Total expenditure	*(bn CZK)*	**1504.5**	**1601.8**	**1691.2**	**1772.3**	**1866.6**
	(growth in %)	6.7	6.5	5.6	4.8	5.3
Final consumption expenditure	*(bn CZK)*	**718.5**	**753.5**	**777.2**	**800.7**	**825.1**
	(growth in %)	4.9	4.9	3.1	3.0	3.0
Collective consumption	*(bn CZK)*	**355.3**	**366.4**	**365.6**	**370.4**	**376.5**
	(growth in %)	3.8	3.1	-0.2	1.3	1.6
Individual consumption	*(bn CZK)*	**363.2**	**387.1**	**411.5**	**430.3**	**448.6**
	(growth in %)	6.0	6.6	6.3	4.6	4.2
Social benefits in kind	*(bn CZK)*	**187.1**	**202.2**	**218.4**	**231.5**	**244.2**
	(growth in %)	9.3	8.1	8.0	6.0	5.5
Transfers of individual non-market goods and services	*(bn CZK)*	**176.1**	**184.9**	**193.2**	**198.8**	**204.4**
	(growth in %)	2.8	5.0	4.5	2.9	2.8
Social transfers other than in kind	*(bn CZK)*	**453.7**	**472.5**	**498.5**	**521.9**	**548.1**
	(growth in %)	11.4	4.1	5.5	4.7	5.0
Interest	*(bn CZK)*	**40.2**	**46.1**	**48.5**	**48.6**	**48.7**
	(growth in %)	13.3	14.6	5.1	0.3	0.1
Subsidies	*(bn CZK)*	**62.5**	**68.0**	**72.1**	**74.3**	**78.7**
	(growth in %)	1.8	8.9	6.0	3.0	6.0
Gross fixed capital formation	*(bn CZK)*	**165.9**	**184.1**	**207.0**	**227.7**	**250.5**
	(growth in %)	2.7	11.0	12.5	10.0	10.0
Other	*(bn CZK)*	**63.6**	**77.5**	**88.0**	**99.1**	**115.5**
	(growth in %)	7.5	21.9	13.5	12.6	16.6
Compensation of employees	*(bn CZK)*	**268.6**	**276.7**	**284.7**	**299.0**	**313.9**
	(growth in %)	6.4	3.0	2.9	5.0	5.0
Total social transfers	*(bn CZK)*	**640.8**	**674.7**	**716.9**	**753.3**	**792.3**
	(growth in %)	10.8	5.3	6.2	5.1	5.2

General government debt

Compared to the previous outlook, we anticipate government debt-to-GDP ratio to be moderately higher in 2007 – 2009. This worsening is caused by a decrease in the forecasted GDP growth rate. In absolute figures, we have reduced our estimated development of debt. The anticipated government debt in proportion to GDP will go down steadily throughout the forecast's horizon and hence we expect lower proportional values for 2010 and 2011 than were predicted in the previous outlook.

The breakdown of the individual factors affecting the debt to GDP ratio indicates that the amount of government deficit has fallen below the level stabilising the proportion of debt. Despite the anticipated slowdown of economic growth, the negative contribution of the nominal GDP growth is greater than the positive contribution of the government deficit. In the outlook, therefore, we expect that the debt to GDP ratio will decrease by approximately 3.4 percentage points by 2011.

The difference between the balance (a flow variable) and the change in debt (a stock variable) is expressed by factors affecting the level of debt (a so-called stock-flow adjustment). The most important factor influencing the level of government debt is usually the government balance – in the case of deficits, the debt usually accumulates, and in the case of surpluses, the debt decreases. The difference between the amount of surpluses and deficits and the change in the level of debt is caused by the following:

- Difference in accounting concepts: The debt is a cash concept and a cause of growing indebtedness is insufficient funds, while under the ESA 95 methodology the balance is reported on the accrual principle.
- Difference in included items: The government balance is a balance sheet item reflecting all financial assets and liabilities, while the debt is defined as a summary of only certain liabilities (specifically, currency and deposits, bonds, and loans received), and therefore a change in assets and non-debt liabilities affects the balance without influencing the debt.
- Difference in valuations: The debt is valued at its nominal value, while the balance is based on valuations at market prices. The level of the foreign debt may be influenced by differences in exchange rates.

In 2007 and probably also in 2008, financial assets, specifically currency and deposits, accumulated significantly. That put the brakes on the decline in the proportion of the debt. On the liabilities' side, the increased holding of deposits is reflected especially by bond issues. In 2009, privatisation of the company Správa Letiště Praha, s.p. (Prague Airport) is anticipated. Currency and deposits from the privatisation will be used to finance government expenditures in 2009 – 2011, being reflected as a negative contribution to change in debt.

The outlook does not include any privatisation projects not yet approved. Should they be realised and if the associated privatisation revenues would be used to finance government expenditures, this will result in accelerating the decline of the government debt to GDP ratio.

Table 3-7: Gross consolidated government debt

		2006	2007	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
General government	*(bn CZK)*	**951.5**	**1020.7**	**1093.3**	**1118.9**	**1157.3**	**1187.0**
Central government	*(bn CZK)*	870.2	936.0	1006.7	1031.3	1069.9	1099.8
Local government	*(bn CZK)*	86.6	88.4	87.1	88.2	87.0	86.6
Social security funds	*(bn CZK)*	0.2	0.1	0.0	0.0	0.9	1.2
Government debt to GDP ratio	*(% of GDP)*	**29.6**	**28.9**	**28.8**	**27.9**	**26.8**	**25.5**
Contribution to change in debt							
Change in debt	*(p.p.)*	**-0.2**	**-0.7**	**-0.1**	**-0.9**	**-1.0**	**-1.3**
Primary balance	*(p.p.)*	**1.6**	**-0.2**	**0.0**	**0.4**	**0.4**	**0.1**
Interest	*(p.p.)*	**1.1**	**1.1**	**1.2**	**1.2**	**1.1**	**1.0**
Nominal GDP growth	*(p.p.)*	**-2.1**	**-2.6**	**-2.0**	**-1.6**	**-1.9**	**-1.9**
Stock-flow adjustment	*(p.p.)*	**-0.7**	**1.0**	**0.7**	**-1.0**	**-0.6**	**-0.6**
Difference between cash and accruals	*(p.p.)*	0.3	-0.4	-0.2	-0.1	-0.1	0.0
Net acquisition of financial assets	*(p.p.)*	-0.9	1.5	1.0	-0.9	-0.6	-0.6
	(bn CZK)	*-28.2*	*51.8*	*39.4*	*-34.6*	*-25.2*	*-25.7*
of which: currency and deposits	*(bn CZK)*	*-17.4*	*76.2*	*64.7*	*41.6*	*-25.2*	*-25.7*
equity and other shares (privatization)	*(bn CZK)*	*-1.7*	*-18.5*	*-25.3*	*-76.2*	*0.0*	*0.0*
other assets and non-debt liabilities	*(bn CZK)*	*-9.0*	*-5.9*	*0.0*	*0.0*	*0.0*	*0.0*
Revaluation effects and other	*(p.p.)*	-0.2	-0.1	-0.2	0.0	0.0	0.0

Cyclical development

Based on the updated estimates of the potential product and macroeconomic forecast, the Czech economy finds itself in a phase of economic slowdown, while the economic cycle reached its peak in 2007. In the outlook, we anticipate that the GDP growth rate will slow below its potential, as a result of which the output gap will switch from positive figures over to negative in 2010. In 2011, the negative output gap should close and therefore real GDP will come closer to its potential. As a consequence of these adverse macroeconomic conditions, the nominal deficit is anticipated to rise as a proportion of GDP in 2009.

The fiscal efforts, defined as year-on-year change of the structural balance, achieved favourable values in 2007, but these are unlikely to be reached again in 2008 and 2009. Therefore, the fiscal efforts can be expected to rise as late as in 2010.

According to our estimates, the structural balance in 2008 and 2009 should hover around -1.5% of GDP which is slightly above the level of the so-called minimum budgetary balance (minimum benchmark),[2] which should ensure that in a case of economic recession the value of the balance will not fall below -3% of GDP.

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

		2007	2008 *Forecast*	2009 *Outlook*	2010 *Outlook*	2011 *Outlook*
Real GDP growth	*(in %)*	6.6	4.4	3.7	4.4	5.2
Potential GDP growth	*(in %)*	5.1	5.2	5.0	4.8	4.8
Output gap		2.0	1.2	-0.1	-0.5	-0.1
General government balance		**-1.0**	**-1.2**	**-1.6**	**-1.5**	**-1.2**
Cyclical budgetary component		0.6	0.3	0.0	-0.1	0.0
Cyclically adjusted balance		**-1.6**	**-1.6**	**-1.6**	**-1.4**	**-1.2**
One-off and other temporary measures		-0.3	-0.1	0.0	0.0	0.0
Structural balance		**-1.3**	**-1.5**	**-1.5**	**-1.4**	**-1.1**
Interest		1.1	1.2	1.2	1.1	1.0
Structural primary balance		**-0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.1**
Change in structural balance		**1.4**	**-0.2**	**-0.1**	**0.2**	**0.2**

3.3 Long-term sustainability of public finances

The analysis of the long-term development of public finances focuses on estimating the fiscal impacts of population development. Expenditures sensitive to age structure are thus at the centre of interest – outlays for pensions, health and long-term care, education and unemployment benefits.

Demographic projections point towards a trend of gradual ageing of the population, which should affect the Czech Republic more dynamically than some other European countries. Previously published analyses, either in the Czech Republic or under the heading of the European Commission, carry both extensive warnings that public finances are threatened from a long-term perspective as well

[2] For more information, see the fiscal outlook for the Czech Republic from April 2007 and a permanent methodical Annex for the fiscal outlook that are available at the Ministry of Finance's website (www.mfcr.cz).

as recommendations on implementing reforms, especially of the health care and pension systems. Initial reform measures were aproved recently that should mitigate this unfavourable expected trend.

Health care system

In the area of health care, regulation fees were established as from 1 January 2008 for visits to a doctor, filling prescriptions, stays in health care institutions, and visits to the emergency. Currently, it is estimated that the annual revenue for public budgets will be CZK 5–6 bn. The actual amount of savings will be adjusted by the increase in expenditures of health insurance companies due to the reimbursement of regulation fees paid by patients in excess of the CZK 5,000 annual limit. Conversely, as from 1 September 2008, the Act No. 270/2008 Coll. ensures that, among other things, care for newborns (from birth through release from the maternity institution) is exempted from regulation fees. This partial adjustment, however, concerns a small section of the population and will have a negligible effect on public health insurance.

Pensions

The reform has also affected the pension system, with its first phase consisting predominantly in parametric adjustments of the current pay-as-you-go system. The main measures adopted can be identified as follows:

- Further increase of the statutory retirement age for policyholders born after 1968 will be 65 years of age for men and for women who have raised no more than one child. For women born after 1968 that have raised 2, 3, or 4 or more children, the retirement age will be 64, 63, and 62 years of age, respectively. In accordance with the extension of the retirement age, the age limit for entitlement to a “permanent” widow/widower’s pension also is increased in the final phase to 61 years of age, and the age limit for entitlement to retirement pension for a shorter term of insurance is increased in the final phase to 70 years of age. Another measure is the gradual extension of the required insurance period for entitlement to retirement pension from 25 to 35 years (including compensatory insurance periods), respectively 30 years (i.e. only the period during which the insurance was paid). Nevertheless, the possibility of entitlement to retirement pension even upon achieving a shorter insurance period remains, but such required shorter insurance period has been also extended from 15 to 20 years. Compensatory insurance periods, with several exceptions, will be assessed 80% of the pension entitlement. The non-contributory period for the duration of studies is now cancelled.
- Amendment of disability pensions with the introduction of a three-tiered disability structure depending on the percentage reduction in working capacity of the policy holder. The first tier relates to a reduction in working capacity by at least 35% and at most 49%. The second tier concerns a reduction of at least 50% and at most 69% in working capacity, while the third tier covers a reduction of 70% or greater. For each full year of insurance, the percentage disability pension assessment will amount to 0.5% of the calculation base for disability pensions granted within the first disability tier, 0.75% of the calculation base for the second disability tier, and 1.5% of the calculation base for the third disability tier
- Automatic administrative reclassification of disability pensioners in the highest disability tier aged 65 or older as retirement pensioners, with effect from 2010.

Impacts of the above measures on the trend in public finances can be shown by means of a projection of the pension system. The Ministry’s medium-term prediction (throughout 2011), the European

Commissions' newly updated long-term macroeconomic framework, and the population projection from Eurostat (EUROPOP2008) serve as input assumptions.

Table 3-9: Macroeconomic assumptions (in %)

	2007	2010	2020	2030	2040	2050	2060
Real GDP growth	4.1	3.8	2.9	1.8	1.7	1.7	1.7
Labour productivity growth	6.6	4.4	2.5	1.4	0.9	0.7	1.1
Participation rate males (aged 15–64)	78.3	78.7	81.0	78.8	78.5	79.0	78.9
Participation rate females (aged 15–64)	61.6	63.3	66.7	66.0	66.0	67.8	68.1
Total participation rate (aged 15–64)	70.0	71.0	73.9	72.5	72.3	73.5	73.5
Unemployment rate	5.3	4.6	4.5	4.5	4.5	4.5	4.5
Share of people aged 65+ over total population	14.4	15.4	20.2	22.9	26.3	30.9	33.4

Development of public expenditures

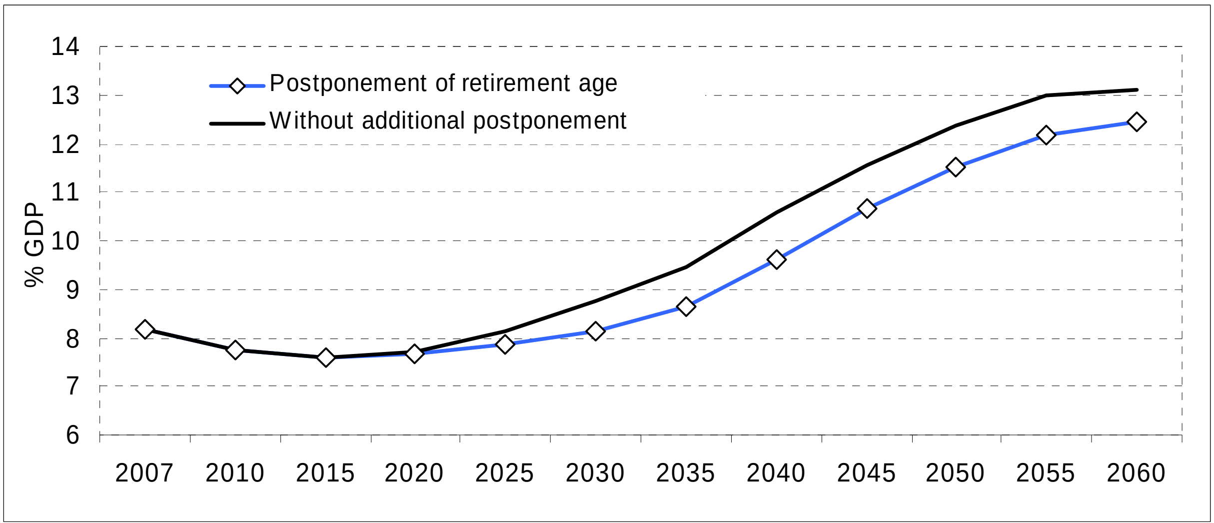
The results of the analysis indicate a gradual increase in public outlays, with expenditures on the mentioned pensions and the health care system having the largest share. Health care system expenditures (including both health and long-term care) will grow by 3.1 percentage points of GDP in the projection horizon. Pension expenditures are expected to increase from the current roughly 8% to 12.4% of GDP.

Table 3-10: Long-term sustainability of public finances (in % of GDP)

	2007	2010	2020	2030	2040	2050	2060
Total expenditure	42.4	41.1	40.1	41.8	44.6	49.5	54.5
of which: age-related expenditure	19.2	18.7	18.8	20.1	21.9	24.8	26.5
Pension expenditures	8.2	7.7	7.7	8.1	9.6	11.5	12.4
Health care	6.3	6.3	6.7	7.3	7.8	8.5	8.9
Long-term care	0.2	0.3	0.3	0.4	0.5	0.5	0.7
Education expenditures	3.6	3.4	3.1	3.3	3.1	3.1	3.4
Other age-related expenditures	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Interest expenditures	1.1	1.1	0.8	1.2	2.1	4.2	7.5
Total revenue	41.4	39.6	39.0	39.0	39.0	39.0	39.0
of which: property income	0.8	0.7	0.5	0.5	0.5	0.5	0.5
of which: pension contributions	8.6	8.6	8.6	8.6	8.6	8.6	8.6

The continuing increase in the age limit to the age of 65 for men and some women is positively reflected in the expenditures. In the absence of this measure, the expenditure growth would be faster.

Graph 3-1: Pension expenditures with and without additional postponement of retirement age



Effects of other mentioned measures are not that clearly evident. While the introduction of three-tiered disability structure with graded benefits reduces expenditures as a share of GDP at the end of the projection period by ca 0.2 percentage points, the administrative reclassification of disabled pensioners into retirees is expenditure neutral.

The overall impact is reflected in the long-term development of the primary deficit and debt, with the assumption that policies remain unchanged. The accumulation of debt in the next several years is only gradual. This can be attributed to the current low deficits and for the time being very low expenditure demandingness of the pension system. Pension system revenues are covering current expenditures, and, moreover, assets are being accumulated in the system. This will allow the pension system to remain in positive figures for a certain period. Upon reaching the peak of the demographic changes after 2030, deficits and debt accumulation will deepen.

Sustainability analysis

The analysis of sustainability examines the extent to which the impacts of long-term trends are relevant in relation to the ability to finance future increasing demands for expenditures. The following sustainability indicators provide a quantification of the extent of fiscal imbalance:

- The S1 indicator shows, as a percentage of GDP, the need to decrease expenditures' share in GDP or to increase revenues' share in GDP from the respective year in order to ensure maintaining the debt below the limit of 60% of GDP until the end of the projection horizon (2060).
- The S2 indicator expresses, as a percentage of GDP, the need to permanently decrease expenditures or increase taxes in order to keep the general government solvent in an indefinite time horizon (i.e. so that the debt would not grow ad infinitum).

Table 3-11 Long-term requirements for public finances (in % of GDP)

		2011	2012	2013
Revenues	[1]	39.0	39.0	39.0
Primary expenditures	[2]	39.1	39.1	39.1
Primary balance	[3=1-2]	-0.1	-0.1	-0.1
Sustainability gap S1	[4]	2.5	2.6	2.7
Required primary balance	[5=3+4]	2.4	2.5	2.6
Required total balance	[6]	1.4	1.8	1.9
Sustainability gap S2	[7]	6.0	6.1	6.2

Given the mentioned amount of revenues and expenditures, the required consolidation establishes a sustainable primary balance (from 2011) of some 2.4% of GDP and a total balance of 1.4% of GDP.

A certain improvement in estimated development is evident from the results, and that is particularly due to the positive measures in the pension system. Nevertheless, considering the future demographic trend, public expenditures will face certain pressures. Thus, with regard to long-term sustainability, the changes adopted are a first step toward improvement.

4 Topic: Fiscal impacts of the EU funds inflows

4.1 Introduction

Since joining the European Union, the Czech Republic has obtained much greater access to possibilities for drawing from the EU funds, namely from the structural funds, Cohesion Fund, as well as funds designated for agriculture. The structural funds from which the Czech Republic draws subsidies in the new 2007 – 2013 perspective (programming period) include:

- *European Regional Development Fund (ERDF)* – focuses mainly on investment projects.
- *European Social Fund (ESF)* – orientated to non-investment projects in the human resources area.
- *Cohesion Fund* [3] – provides financial aid for investment projects in less developed countries, not regions.

Funds for supporting agriculture and fishing are:

- *European Agricultural Fund for Rural Development (EAFRD)* – support for agricultural production and its modernisation, development and utilisation of forests, etc.
- *European Fisheries Fund (EFF)* – changes in the fisheries sector, modernisation of fleet, development of fish breeding, etc.
- The *European Agricultural Guarantee Fund (EAGF)* is used for direct payments and market measures.
- The support from the structural funds and the Cohesion Fund to the member states differs depending on their relative development as measured by GDP per capita and has the following objectives:

Objective 1 – Convergence: this objective includes regions with GDP per capita less than 75% of the EU average, remote areas, and all member states with GNI per capita less than 90% of the EU average.

Objective 2 – Regional competitiveness and employment: regions that do not fall under Objective 1 are eligible for support (in the Czech Republic, this includes only Prague).

Objective 3 – European Territorial Co-operation: strengthening of cross-border cooperation, cooperation at the level of transnational regions, and exchange of experience between regions.

Note: This analysis focuses neither on examining the preparedness of the Czech Republic to draw the funds, nor on assessing the absorption capability of the Czech economy. It aims to quantify the fiscal and certain other impacts from the inflow of funds under the given presumptions concerning possible progress in drawing. The assumptions that are further used should be regarded primarily as technical.

[3] Officially, the Cohesion Fund is not a structural fund.

4.2 Allocations from the structural funds and the Cohesion Fund

For the purpose of drawing the money from structural funds, operational programmes (OPs) are created at the national level. An OP is the fundamental strategic document of a financial and technical nature for a specific thematic area or a particular cohesion region. An OP details objectives and priorities that should be achieved in the given area within the current programming period. For the programming period 2007 – 2013 in the Czech Republic, 15 OPs are provided under Objective 1 (8 thematic and 7 regional), 2 OPs for Prague (i.e. under Objective 2), and, finally, 9 OPs under Objective 3.

In the 2007 – 2013 programming period, a total EUR 26.69 bn is allocated from the structural funds and the Cohesion Fund for the Czech Republic.

Table 4-1: Allocation from the structural funds in 2007–2013 (EUR bn)

	2007	2008	2009	2010	2011	2012	2013	Total
Allocation	3.1	3.7	3.6	3.8	4.0	4.1	4.3	26.7

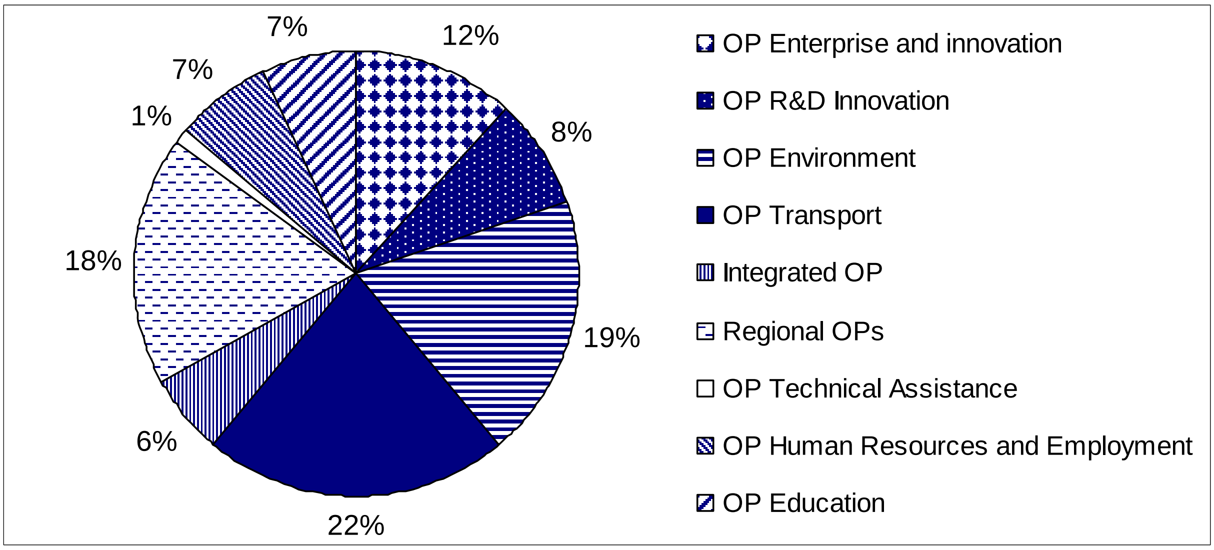
The greatest portion (almost 97%) of the allocated funds falls under Objective 1 – Convergence. The following table shows the proportions of allocated resources by their objectives.

Table 4-2: Allocations 2007 – 2013 by target areas (EUR bn)

Total allocation	26.7
of which	
Convergation	25.9
Competitiveness	0.4
Territorial co-operation	0.4

Under Objective 1 – Convergence, the greatest shares belong to OP Transport (22.25%) and OP Environment (19%). The following graph depicts the overall situation for Objective 1.

Graph 4-1: Shares of operational programmes in total allocation



4.3 Principle of payments from the structural funds

The structural funds may constitute at maximum 85% of the value of an amount approved for financing from these funds. The remaining at least 15% must be supplied by the respective member state from its national sources – private or public.[4]

In principle, financing from the structural funds is carried out on the basis of pre-financing from the state budget. Simply put, upon its request for payment, the final beneficiary (FB) of these funds receives the money from the managing authority (regional council, ministry according to the OP), which has the money reserved in its state budget chapter. After paying the respective amount, the state budget will receive reimbursement from the National Fund (NF).

The National Fund is one of the Ministry of Finance's departments and functions as an intermediary between the EU and the state budget, i.e., it methodically manages the cash flows of these instruments and funds, performs the function of a payment authority for structural funds and the Cohesion Fund, administers accounts, keeps records of the funds for the National Fund and fulfils reporting obligations in relation to the EU authorities and national authorities, and takes responsibility for certifying expenditures from the structural funds and Cohesion Fund.

The respective allocation for the current year, however, is not an amount that must be spent in the given year. The *n+2* rule applies to drawing generally, and the *n+3* rule applies to drawing in 2007 – 2010 (where *n* means the year of allocation). In effect, it means that funds allocated for the current year may be drawn not only in that year, but also in the two or three immediately following years. From the assumptions on the course of drawing, then, the estimates as to their impacts on the public budgets can be derived.

As results from the aforementioned, we can outline three flows of finances from the EU's structural funds and the Cohesion Fund[5] (it hence concerns funds covered by the EU finances, not the national sources):

- Pre-financing from the state budget for the final beneficiaries (i.e., a part of total payments relating to the funds covered from EU): flow SB → FB
- Flow of funds from the EU budget to the National Fund: flow EU → NF
- Reimbursement by the National Fund of expended funds for pre-financing from the state budget: flow NF → SB

The Czech Republic is unlikely to be able to draw 100% of the total allocated funds. Therefore, we assume the following technical assumptions as to the extent of drawing from the structural funds (SF) and the Cohesion Fund (CF). We would like to emphasise that these assumptions are used as technical starting points for calculating the impacts of the EU funds inflows. They are not the Ministry of

[4] Nevertheless, every member state must decide in advance whether the 85% will apply to the total expenditures for the project (in which case the remaining national finances may come from public as well as private sources), or from public sources (in which case 15% must originate from the public sources). The Czech Republic has opted for the latter variant.

[5] The mechanism of payments in agriculture is described later in the text.

Finance's estimates of the actual extent of drawing, because it is in fact impossible to make such an estimate at the moment.

- The Czech Republic will draw 85% of the funds allocated for the 2007 – 2013 perspective.
- The projected flows from the previous 2004 – 2006 perspective will be drawn in the amount of 95%.

Table 4-3: Projected payments from SF and CF in 2007 – 2013 (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Flow from EU to NF	537.3	826.3	2300.0	1948.0	2659.1	3132.4	3545.4	3309.7	3311.7	-	1116.8
Flow from NF to SB	-	463.4	1671.4	2518.8	2894.8	3329.2	3699.6	3581.4	3306.1	105.1	1116.8
Flow from SB to FB	-	529.8	2242.2	2657.1	3013.6	3487.0	3841.5	3487.0	3251.3	177.3	-

Table 4-4: Projected payments from SF and CF in 2004 – 2006 (EUR mil)

	2007	2008	2009	2010	2011
Flow from EU to NF	635.9	673.5	117.6	126.3	16.9
Flow from NF to SB	730.1	689.3	46.3	16.9	-
Flow from SB to FB	730.1	689.3	46.3	16.9	-

As the purpose of funds from the EU is to complement the national sources, the aforementioned flows to the final beneficiaries are not complete. They must be supplemented by a part of total payments that is supplied from the national sources.

In the 2004 – 2006 perspective, the proportion of the European money in relation to the funds from the national sources was 75:25. For the new perspective, a much more advantageous proportion of 85:15 has been negotiated. These proportions concern the structural funds and the Cohesion Fund.

The following table shows funds in CZK from the national sources.

Table 4-5: National financing (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Period 04-06	7.5	6.8	0.4	0.1	-	-	-	-	-	-	-
Period 07-13	-	2.5	10.3	11.9	13.1	14.6	16.1	14.6	13.6	0.7	-
Total	7.5	9.3	10.7	12.0	13.1	14.6	16.1	14.6	13.6	0.7	-

By summing the national and European sources, we will come to the total volume of cash flows relating to the structural funds and the Cohesion fund.

Table 4-6: Total flow from SF and CF towards final beneficiaries (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues of FB	27.8	41.7	70.5	79.8	87.0	97.5	107.5	97.5	91.0	5.0	-

4.4 Common Agricultural Policy

The Common Agricultural Policy (CAP) is an activity directed to regulating the agricultural products market in the EU. CAP expenditures represent approximately 40% of the EU budget outlays. In the Czech Republic's case, they comprise the second most substantial item in the revenues from the EU, i.e., approximately 30–40%.[6] The CAP expenditures and the revenues within the structural actions (structural funds and the Cohesion Fund) constitute ca 95% of total revenues from the EU.

Regarding the payments in agriculture, funds are coming to the Czech Republic through four "channels":

- Direct payments
- Market measures
- Rural development
- Fishery

The largest portion of payments for agriculture in the Czech Republic consists of direct payment (ca 50–60%) and rural development (ca 30–40%).

Payments within rural development and fishery are subject to the national financing system. For direct payments, so-called national additional payments are used that are based on a principle different from that for the national financing. The national additional payments concern the approved addition to the percentage portion of direct payments within EU15 set forth in the agreement on the Czech Republic's accession to the European Union. The amount of funds released for direct payments from the EU budget is gradually increasing each year up to 2013, when 100% of the payments within the EU15 will be reached. In that year, the amount of the national additional payments will be zero. However, co-financing of the market measures is not obligatory, and this concerns an ad hoc decision (for example, support for the quality of beekeeping products or support for milk in schools).

Another difference relative to those funds coming from the structural funds and the Cohesion Fund is the mechanism through which the funds flow from the EU to the final beneficiary. A majority of these funds is coming from the EU directly to the state budget (to the Ministry of Agriculture's chapter) and then to the final beneficiary.[7] Only the financing for the Operational Program Rural Development and Multi-functional Agriculture (OPRDMA) and financing from the European Fisheries Fund (EFF) go through the National Fund.

In the 2004 – 2006 programming period, the CAP area was financed through the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG). The EAGGF includes guidance and guarantee sections. The OP Rural Development and Multi-functional Agriculture (OPRDMA) was financed through the EAGGF guidance section, while the guarantee section financed the Horizontal Rural Development Plan (HRDP), direct

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[6] In 2007, these comprised the second most substantial item. As our level of direct payments will gradually even out with those from the EU, however, these expenditures will constitute the most important item by the end of the period.

[7] The payment agency for funds in the Ministry of Agriculture's chapter is the State Agricultural Intervention Fund.

payments, and market measures. The OPRDMA also provided financing for measures supporting fishery from FIFG.

For the 2007 – 2013 programming period, the EAGGF fund has been transformed into two funds – the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The financing instruments in relation to CAP in this programming period are the following:

- EAGF – finances market measures and direct payments,
- EAFRD – realised through the Programme for Rural Development,
- EFF – realised through the OP Fisheries.

For the 2007 – 2013 perspective, a total of EUR 2.8 bn was allocated to the Czech Republic within the EFF and EAFRD.

Table 4-7: Allocations within EFF and EAFRD (EUR mil)

	2007	2008	2009	2010	2011	2012	2013
EAFRD	396.6	392.6	388.0	400.9	406.6	412.7	418.0
EFF	3.4	3.5	3.7	3.9	4.0	4.2	4.4

The payments in both perspectives are shown in the following tables and are based upon the following assumptions:

- HRDP 2004 – 2006, Rural Development 2007 – 2013, and EFF drawn by 100%.
- Financing from the national sources for Rural Development is 20% in the 2004 – 2006 perspective and 22% in the 2007 – 2013 perspective, and this is 25% for EFF.
- Direct payments according to Council Regulations Nos. 1156/2006 and 1782/2003.
- The SB expenditure on direct payments (EU portion) in year *n* is also the SB revenue from EU in year *n+1*.
- Market measures are growing by 2% annually in nominal value (as is their financing from the national sources).
- Financing of market measures in the SB expenditure methodology in year *n* is also an SB revenue in year *n*.
- RDMA on the basis of the payments already received, no other payment is expected for the rest of the year, and in 2009 a final payment is anticipated in the amount of EUR 5,353,061.22.

Table 4-8: Projected HRDP payments within the 2004–2006 perspective (EUR mil)

	2007	2008	2009
Flow from EU to SB	304.4	10.9	27.2
Flow from SB to FB	79.0	-	-

Table 4-9: Projected RDMA payments within the 2004–2006 perspective (EUR mil)

	2007	2008	2009
Flow from EU to NF	55.8	34.9	5.4
Flow from NF to SB	56.4	45.5	5.4
Flow from SB to FB	56.4	45.5	-

Table 4-10: Projected HRDP payments within the 2007–2013 perspective (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Flow from EU to SB	197.1	316.5	432.5	392.0	398.2	406.1	532.2	-	-	140.8	-
Flow from SB to FB	238.0	394.2	389.9	395.8	404.4	410.3	415.8	167.2	-	-	-

Table 4-11: Projected EFF payments (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Flow from EU to NF	-	1.5	2.9	2.7	3.7	3.7	3.9	3.7	3.5	0.2	1.4
Flow from NF to SB	-	0.6	2.5	2.9	3.5	4.3	5.0	4.3	4.1	-	-
Flow from SB to FB	-	0.6	2.5	2.9	3.5	4.3	5.0	4.3	4.1	-	-

Table 4-12: Projected direct payments (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014
Flow from EU to SB	324.1	407.4	499.5	588.7	674.3	760.0	845.6	931.3
Flow from SB to FB	407.4	499.5	588.7	674.3	760.0	845.6	931.3	-

Table 4-13: Projected payments within market provision (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014
Flow from EU to SB	64.4	64.8	66.1	67.4	67.4	68.8	70.1	71.5
Flow from SB to FB	64.4	64.8	66.1	67.4	67.4	68.8	70.1	71.5

Total payments from the EU within agriculture in the individual years are the following.

Table 4-14: Projected payments from EU towards agriculture (EUR mil)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agricultural payments from EU	23.5	26.7	27.3	28.9	30.3	31.6	33.8	5.8	0.1	-	-

Similarly as for the structural actions, to calculate the total flows to the final beneficiaries, national sources must be added to the funds coming from the EU.

Table 4-15: National CAP financing (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EAFRD	1.9	3.0	2.9	2.8	2.8	2.8	2.8	1.1	-	-	-
EFF	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RDMA	0.4	0.3	-	-	-	-	-	-	-	-	-
EAGGFg	0.5	-	-	-	-	-	-	-	-	-	-
Market measures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-	-
Direct payments	7.0	7.1	4.0	6.6	4.4	2.2	-	-	-	-	-
National financing in agriculture	9.9	10.4	7.0	9.6	7.3	5.0	2.9	1.2	0.0	0.0	0.0

Table 4-16: Total flow towards final beneficiaries in agriculture (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total agricultural payments to FB	33.4	37.1	34.3	38.5	37.6	36.6	36.7	6.9	0.1	0.0	0.0

4.5 Impacts of the EU funds inflows to the public budgets

We will examine the assessment of impacts of revenues and expenditures of the “European money” on the public budgets from the perspective of the cash flow methodology as well as the ESA 95 accrual methodology. In general, public national sources necessary for national financing represent a burden for public finances in both methodologies.

Within the presented analysis of public finances' impacts it is necessary to keep in mind that it has been founded on the assumption of a strict adherence to the principle of additionality, i.e. the "European" resources supplement national resources, as opposed to replacing them.[8] Such assumption was adopted due to the fact that investment ventures are always planned with respect to financial securing of the individual projects. When the level of public expenditures is given, then additional resources from EU should not represent decrease in national expenditures that were already budgeted for (they would otherwise be redirected somewhere else). However, in the case that "European" resources should replace the Czech national ones (and despite the additionality principle to a certain extent this will nevertheless probably happen), the corresponding impact on public finances would be smaller.

The cash flow methodology is based on the cash flows executed, i.e., transactions are recorded upon the realisation of the respective cash flow. Therefore, it is possible that the revenue is realised in a different period than the actual outlay and the impact on the financial results may be different in comparison to the accrual methodology. This is especially important for the mechanism of pre-financing from the state budget. The time discrepancy between the funds being received and paid out is precisely the reason why it will be useful to implement the so-called fund cash balance that records the cash balance in the respective account (state budget, National Fund) for every current year of the financial perspective. The impact on the public budgets is thus given by the national public sources intended for national financing and the fund cash balance.

The accrual methodology is based on recording the economic values at the time of their origin, i.e., upon the origin of the accounts receivable and payable without regard to the time of realising the cash flow that is associated with them. For this methodology, no problem occurs regarding the time discrepancy between when the funds are received and paid out. In this methodology, the impact on the public sector's finances is hence determined only by national public sources designated for national financing.

Table 4-17: Fund cash balance of the state budget and the National Fund (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
National fund	12.3	9.0	18.3	-11.7	-5.4	-4.7	-3.7	-6.5	0.1	-2.5	0.0
State budget	2.8	-6.0	-15.3	-5.8	-5.2	-5.9	-2.6	20.4	1.3	1.6	26.6
Public finances	15.1	3.0	3.0	-17.5	-10.5	-10.6	-6.3	13.9	1.4	-0.9	26.6

Table 4-18: National financing (CZK bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
National financing	17.5	19.7	17.7	21.6	20.3	19.7	19.0	15.8	13.7	0.7	0.0

Table 4-19: Total impact in the cash flow methodology

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Impact on balance	*bn. CZK*	-2.4	-16.7	-14.7	-39.0	-30.9	-30.3	-25.4	-1.8	-12.2	-1.6	26.6
	% GDP	-0.1	-0.4	-0.4	-0.9	-0.6	-0.6	-0.5	0.0	-0.2	0.0	0.3

[8] However, this relates only to payments from EU funds. The principle of additionality with respect to national financing and redirection of expenditures within ESC will be treated in the text later on.

Table 4-20: Total impact in accrual methodology of ESA 95

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Impact on balance	bn. CZK	-17.5	-19.7	-17.7	-21.6	-20.3	-19.7	-19.0	-15.8	-13.7	-0.7	0.0
	% GDP	-0.5	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2	0.0	0.0

In the cash flow methodology, the greatest negative influence on the public budgets' balance in 2010 totals -0.87% of GDP. In the accrual methodology, the impact on the balance is relatively stable, hovering around -0.5% of GDP in 2007 – 2013 and gradually decreasing by the end of the period under review.

At the same time, however, the Czech Republic is obliged to maintain the minimum level of expenditures on Economic and Social Cohesion (ESC), which, for the coming period, amounts to CZK 81 bn in 2006 prices. This concerns the so-called principle of additionality according to which the financing from the EU funds should be supplementary to and should not replace the national expenditures on ESC. As the outlays for the national financing are considered to be expenditures on ESC and, therefore, can be regarded as expenditures on additionality, it is possible and desirable to redirect a part of the existing expenditures on ESC to the national financing. In the case that the national financing is paid within the obligatory funds expended on ESC, the national financing need not mean an additional burden for public budgets.

In the case of redirecting a part of existing outlays on ESC to the national financing, the impact on the cash balance as well as accrual balance may be expressed by an interval depending on the extent of such redirecting. The impact will be minimal if 100% of the funds for national financing are settled for the sake of other expenditures on ESC, and it will be maximal if all funds for national financing will be in addition to the expenditures on ESC. The particular shares in GDP are shown in the following tables.

Table 4-21: Minimal and maximal impact in the cash flow methodology

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Maximální dopad	% HDP	-0.1	-0.4	-0.4	-0.9	-0.6	-0.6	-0.5	0.0	-0.2	0.0	0.3
Minimální dopad	% HDP	0.4	0.1	0.1	-0.4	-0.2	-0.2	-0.1	0.2	0.0	0.0	0.3

Graph 4-2: Minimal and maximal impact in the cash flow methodology (% GDP)

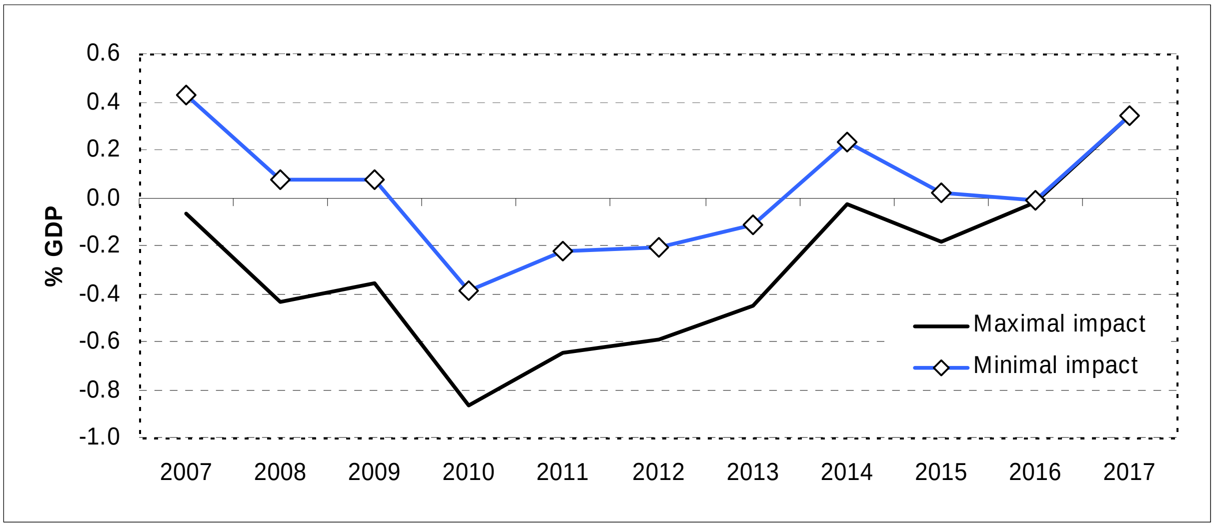
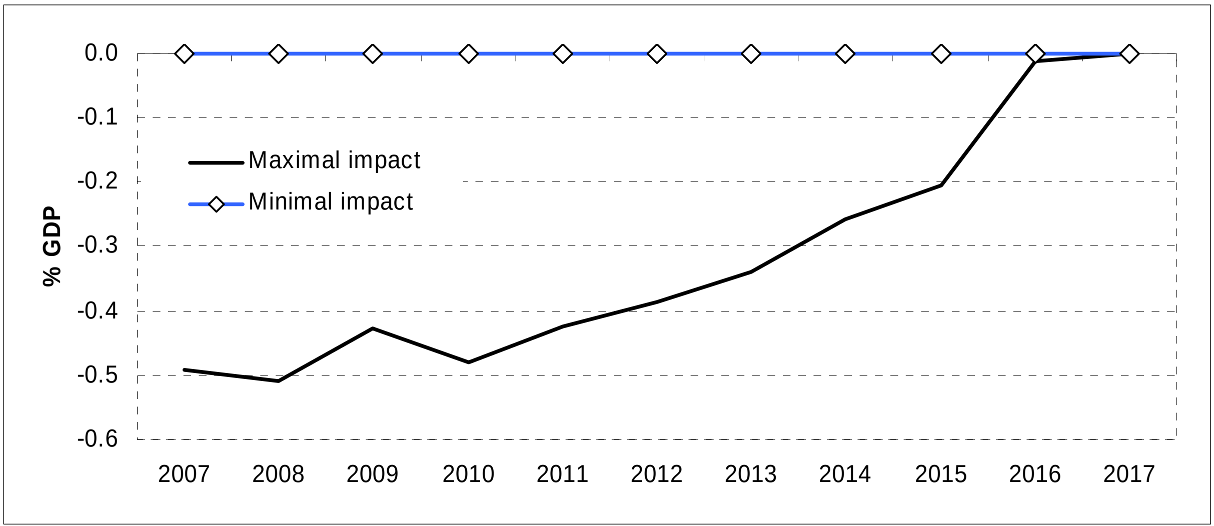


Table 4-22: Minimal and maximal impact in the accrual methodology of ESA95

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Maximal impact	% GDP	-0.5	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2	0.0	0.0
Minimal impact	% GDP	-	-	-	-	-	-	-	-	-	-	-

Graph 4-3: Minimal and maximal impact in the accrual methodology of ESA95 (% GDP)



In the case of full redirecting, the cash impacts are reduced to the impact of the fund balance. Theoretically, the impacts under the ESA 95 methodology may be zero.

4.6 Impact of the EU funds inflows on governmental investment expenditures

The sum of all cash flows from the EU budget can provide us information about the cash flow that is projected onto the balance of payments of the Czech Republic.

Table 4-23: Total inflow of monetary resources from EU funds to CR

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Flows from EU funds to CZ	bn. CZK	58.8	62.0	90.1	79.2	93.7	103.9	118.8	102.6	78.8	3.4	26.6
	% GDP	1.7	1.6	2.2	1.8	2.0	2.0	2.1	1.7	1.2	0.0	0.3

As already mentioned, however, these sums do not correspond with the inflow of funds to the real economy for two reasons. First, cash flows from the EU to the Czech Republic usually differ from cash flows to the final beneficiaries in the current years. Second, in addition to the "purely European" funds, final beneficiaries will also receive national sources through the national financing. The following table shows the total cash flow to the final beneficiaries.

Table 4-24: Total flow towards final beneficiaries

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
European funds	bn.CZK	43.7	59.0	87.1	96.6	104.3	114.5	125.2	88.7	77.4	4.2	-
	% GDP	1.2	1.5	2.1	2.2	2.2	2.2	2.2	1.4	1.2	0.1	-
National funds	bn.CZK	17.5	19.7	17.7	21.6	20.3	19.7	19.0	15.8	13.7	0.7	0.0
	% GDP	0.5	0.5	0.4	0.5	0.4	0.4	0.3	0.3	0.2	0.0	0.0
Total funds	bn.CZK	61.2	78.7	104.8	118.2	124.6	134.2	144.2	104.5	91.1	5.0	0.0
	% GDP	1.7	2.0	2.5	2.6	2.6	2.6	2.6	1.7	1.4	0.1	0.0

It is not correct, however, to consider the total cash flow to the final beneficiaries determined in this way as an additional "injection" of sources that will come into the economy from the EU funds. Everything depends on to what extent, or if at all, it will be possible to redirect the national sources from other areas within the expenditures on ESC. The additional sources for the economy can thus be quantified as the amount between the total funds stated in Table 4-24 (national sources for financing the EU projects are additional to ESC) and the European funds stated in Table 4-24 (100% of the national sources for financing the EU projects are redirected from other expenditures on ESC).

To quantify the additional government investments by virtue of the cash flows from the EU funds, certain assumptions must be made. These must concern first the proportion of the final beneficiaries from the general government in relation to the final beneficiaries from the economy's other sectors and, secondly, the ratio between the investment and non-investment outlays. The following assumptions have been made:

- For structural actions, the proportion of final beneficiaries from the general government in relation to the other sectors is 85:15.
- In agriculture, we estimate 5% of final beneficiaries from the general government.
- For structural actions, investment expenditures constitute 85% of total sources.
- For Rural Development, the proportion of the investment sources in relation to the non-investment sources is 50:50.
- For EFF, the proportion of the investment sources in relation to the non-investment sources is 60:40.

Based on these assumptions, we can indicate the development of the government investments by virtue of the cash flows from the EU funds to the national economy.

Table 4-25: Investments in the government sector

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public investments	*bn. CZK*	20.4	30.5	51.2	57.9	63.2	70.8	78.0	70.6	65.7	3.6	0.0
	% GDP	0.6	0.8	1.2	1.3	1.3	1.4	1.4	1.2	1.0	0.0	0.0

As we anticipate that the general government is a final beneficiary only for structural actions, then the remaining investment – 15% of investment expenditures for structural actions and investment expenditures in agriculture – fall under the other sectors.

Table 4-26: Investments outside the government sector

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SF,CF	*bn CZK*	3.5	5.3	9.0	10.2	11.1	12.4	13.7	12.4	11.6	0.6	-
Agriculture	*bn CZK*	6.3	7.1	6.2	6.2	6.1	6.0	6.1	2.5	0.1	0.0	0.0
Total	*bn CZK*	9.8	12.4	15.2	16.3	17.2	18.5	19.8	14.9	11.7	0.6	0.0
	% GDP	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.0	0.0

Table 4-27: Total investment expenditures

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total investments	*bn. CZK*	30.2	42.9	66.5	74.3	80.4	89.2	97.8	85.5	77.4	4.2	0.0
	% GDP	0.8	1.1	1.6	1.7	1.7	1.8	1.7	1.4	1.2	0.1	0.0

Therefore, the investment outlays by virtue of the EU funds reach their maximum in 2012 and 2013, when they amount to around 1.75% of GDP. As regards the public investments, their maximum amount is 1.4% of GDP in 2013.

Net position

To complete the picture, we quantify the real (2004 – 2007) and estimated (2008 – 2013) net position of the Czech Republic in relation to the EU budget and EES budget (EU plus Norway and Switzerland), i.e., the balance of revenues from the EU or EES and payments to the EU or EES.

Within the payments from the EU budget, this concerns payments within structural actions (structural funds, Cohesion Fund), agriculture, internal measures and pre-accession instruments (ISPA, Sapard and Phare funds) and compensations. Moreover, the Czech Republic receives additional revenues from the EES funds (Norway, Switzerland).

As regards the payments made by the Czech Republic, in addition to the EU budget, the Czech Republic makes payments to the European Investment Bank and contributions to the Research Fund for Coal and Steel and the European Development Fund.

The development of the net position is shown in the following table.

Table 4-28: Net position of CR towards EU resp. EEA (EUR mil)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues from EU budget	800.4	1041.2	1319.9	1763.6	3077.4	3391.1	3671.6	4158.4	4984.6	6012.4
Payments to EU budget	554.2	959.5	1070.5	1157.1	1447.2	1608.7	1614.1	1613.4	1695.0	1721.7
Net balance relating to EU budget	246.2	81.7	249.4	606.5	1630.2	1782.3	2057.6	2544.9	3289.6	4290.7
Other revenues (EEA/Norway, Switzerland)	-	-	3.3	2.8	18.0	43.2	29.3	12.1	10.5	19.6
Other payments (EIB, RFCS, 10.EDF)	27.7	27.7	33.7	63.5	67.5	41.7	-	15.5	20.1	20.4
Total revenues	800.4	1041.2	1323.2	1766.4	3095.4	3434.3	3700.9	4170.4	4995.1	6032.0
Total payments	581.9	987.2	1104.2	1220.5	1514.7	1650.5	1614.1	1629.0	1715.1	1742.1
Net balance relating to EEA incl. Switzerland	218.5	54.0	219.0	545.9	1580.7	1783.8	2086.8	2541.5	3280.0	4290.0

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

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

5.1 Revenues

Table 5-1: General government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**713.6**	**761.7**	**802.3**	**833.9**	**911.4**	**974.4**	**1049.4**	**1187.7**	**1235.7**	**1324.2**	**1470.3**
	prev.year=100	108.0	106.7	105.3	103.9	109.3	106.9	107.7	.	104.0	107.2	111.0
Current taxes on income, wealth, etc.	*bn CZK*	**160.1**	**165.6**	**176.1**	**181.4**	**206.8**	**223.8**	**247.4**	**269.8**	**273.4**	**295.2**	**328.0**
	prev.year=100	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	111.1
Social contributions[1)]	*bn CZK*	**264.8**	**281.7**	**292.7**	**312.0**	**335.0**	**367.4**	**388.9**	**452.8**	**482.1**	**524.8**	**576.7**
	prev.year=100	110.4	106.4	103.9	106.6	107.4	109.7	105.8	.	106.5	108.8	109.9
Taxes on production and imports[2)]	*bn CZK*	**208.8**	**218.9**	**240.3**	**247.9**	**258.0**	**266.7**	**285.4**	**325.3**	**342.3**	**351.4**	**385.4**
	prev.year=100	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.7	109.7
Capital taxes[3)]	*bn CZK*	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	102.0
Property income	*bn CZK*	**15.6**	**15.7**	**12.8**	**18.3**	**26.2**	**29.8**	**24.5**	**23.2**	**21.2**	**25.6**	**29.1**
	prev.year=100	113.0	100.8	81.2	143.4	142.8	113.9	82.3	94.5	91.6	120.5	113.9
Interest	*bn CZK*	**12.3**	**13.1**	**9.9**	**15.0**	**15.4**	**22.0**	**17.2**	**14.2**	**12.6**	**12.6**	**16.5**
	prev.year=100	109.4	106.1	76.1	151.0	102.5	143.1	78.1	82.5	88.5	100.0	131.8
Other property income	*bn CZK*	**3.3**	**2.7**	**2.8**	**3.3**	**10.8**	**7.8**	**7.3**	**9.0**	**8.7**	**13.0**	**12.6**
	prev.year=100	128.9	81.0	106.6	116.7	325.2	72.4	93.9	122.7	96.4	150.2	96.7
Sales[4)]	*bn CZK*	**47.2**	**58.2**	**56.4**	**58.3**	**63.0**	**66.4**	**75.4**	**77.8**	**79.9**	**81.9**	**95.4**
	prev.year=100	100.2	123.2	96.9	103.5	108.0	105.5	113.4	103.3	102.6	102.5	116.5
Other current transfers and subsidies	*bn CZK*	**15.9**	**19.5**	**22.1**	**12.4**	**15.8**	**16.5**	**21.3**	**28.3**	**26.0**	**25.3**	**23.3**
	prev.year=100	124.9	122.6	113.5	56.2	126.8	104.2	129.7	132.5	92.0	97.1	92.3
Investment grants	*bn CZK*	**0.0**	**0.0**	**0.0**	**0.1**	**0.5**	**0.9**	**2.8**	**3.1**	**4.7**	**13.9**	**18.1**
	prev.year=100	X	314.3	145.5	225.0	754.2	171.8	301.5	110.1	151.6	296.6	130.2
Other capital transfers	*bn CZK*	**0.7**	**1.5**	**1.4**	**2.9**	**5.5**	**2.1**	**2.8**	**6.8**	**5.3**	**5.4**	**13.4**
	prev.year=100	24.4	227.0	92.5	206.2	186.2	37.8	134.8	243.3	78.2	102.3	247.1

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 (e.g. VAT, excises).

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

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

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*(in % GDP)*	39.4	38.2	38.6	38.1	38.7	39.5	40.7	42.2	41.4	41.2	41.6
Current taxes on income, wealth, etc.	*(in % GDP)*	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.3
Social contributions	*(in % GDP)*	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.2	16.3	16.3
Taxes on production and imports	*(in % GDP)*	11.5	11.0	11.5	11.3	11.0	10.8	11.1	11.6	11.5	10.9	10.9
Capital taxes	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	*(in % GDP)*	0.9	0.8	0.6	0.8	1.1	1.2	1.0	0.8	0.7	0.8	0.8
Interest	*(in % GDP)*	0.7	0.7	0.5	0.7	0.7	0.9	0.7	0.5	0.4	0.4	0.5
Other property income	*(in % GDP)*	0.2	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.4
Sales	*(in % GDP)*	2.6	2.9	2.7	2.7	2.7	2.7	2.9	2.8	2.7	2.5	2.7
Other current transfers and subsidies	*(in % GDP)*	0.9	1.0	1.1	0.6	0.7	0.7	0.8	1.0	0.9	0.8	0.7
Investment grants	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.5
Other capital transfers	*(in % GDP)*	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.4

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Taxes and social contributions	*bn CZK*	**634.2**	**666.7**	**709.6**	**741.8**	**800.5**	**858.7**	**922.6**	**1048.6**	**1098.6**	**1172.2**	**1290.9**
	prev.year=100	108.5	105.1	106.4	104.6	107.9	107.3	107.4	.	104.8	106.7	110.1
Current taxes on income, wealth, etc.	*bn CZK*	**160.1**	**165.6**	**176.1**	**181.4**	**206.8**	**223.8**	**247.4**	**269.8**	**273.4**	**295.2**	**328.0**
	prev.year=100	114.0	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	111.1
Tax on individual or household income incl. holding gains	*bn CZK*	**87.4**	**94.0**	**93.0**	**99.7**	**106.2**	**114.9**	**125.5**	**135.0**	**136.4**	**136.6**	**152.9**
	prev.year=100	108.9	107.6	98.9	107.2	106.5	108.2	109.3	107.6	101.0	100.2	111.9
Taxes on the income or profits of corporations incl. holding gains	*bn CZK*	**69.4**	**67.5**	**79.5**	**76.2**	**96.3**	**105.7**	**117.8**	**131.7**	**133.5**	**154.8**	**171.1**
	prev.year=100	122.7	97.3	117.8	95.9	126.4	109.8	111.4	111.9	101.3	116.0	110.5
Levy on lottery revenue	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**0.5**	**0.6**	**0.6**	**0.7**	**0.8**
	prev.year=100	X	X	X	X	X	X	X	117.4	112.5	110.3	113.1
Other current taxes	*bn CZK*	**3.4**	**4.2**	**3.6**	**5.6**	**4.3**	**3.2**	**3.6**	**2.5**	**2.9**	**3.1**	**3.2**
	prev.year=100	91.0	122.2	87.0	153.6	77.6	74.0	112.8	69.1	117.4	105.0	104.4
Social contributions	*bn CZK*	**264.8**	**281.7**	**292.7**	**312.0**	**335.0**	**367.4**	**388.9**	**452.8**	**482.1**	**524.8**	**576.7**
	prev.year=100	110.4	106.4	103.9	106.6	107.4	109.7	105.8	.	106.5	108.8	109.9
Actual social contributions[1)]	*bn CZK*	**264.7**	**281.5**	**292.5**	**311.5**	**334.8**	**367.2**	**388.6**	**452.4**	**481.7**	**524.4**	**576.4**
	prev.year=100	110.4	106.4	103.9	106.5	107.5	109.7	105.8	.	106.5	108.9	109.9
Employers' actual social contributions	*bn CZK*	**185.0**	**197.0**	**204.6**	**216.9**	**233.2**	**255.9**	**270.7**	**289.8**	**308.7**	**332.4**	**363.8**
	prev.year=100	110.4	106.5	103.8	106.0	107.5	109.7	105.8	107.0	106.5	107.7	109.4
Employees' social contributions	*bn CZK*	**65.9**	**70.2**	**73.0**	**77.3**	**82.7**	**89.6**	**94.9**	**101.3**	**108.3**	**116.6**	**127.7**
	prev.year=100	110.0	106.4	104.0	105.9	107.0	108.4	105.9	106.8	106.9	107.6	109.5
Social contributions by self- and non-employed persons[1)]	*bn CZK*	**13.7**	**14.3**	**14.9**	**17.3**	**18.9**	**21.7**	**23.0**	**61.3**	**64.8**	**75.4**	**85.0**
	prev.year=100	112.5	104.4	104.3	115.9	109.1	114.9	106.1	.	105.6	116.5	112.6
Imputed social contributions	*bn CZK*	**0.1**	**0.2**	**0.2**	**0.4**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**	**0.3**
	prev.year=100	95.3	197.6	124.7	209.4	57.9	102.4	117.5	136.6	98.5	102.0	73.8
Taxes on production and imports	*bn CZK*	**208.8**	**218.9**	**240.3**	**247.9**	**258.0**	**266.7**	**285.4**	**325.3**	**342.3**	**351.4**	**385.4**
	prev.year=100	102.5	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.7	109.7
Taxes on products[2)]	*bn CZK*	**197.0**	**206.8**	**227.0**	**234.2**	**244.9**	**253.6**	**271.7**	**313.1**	**330.4**	**339.0**	**371.2**
	prev.year=100	103.5	105.0	109.8	103.1	104.6	103.5	107.2	115.2	105.5	102.6	109.5
VAT	*bn CZK*	**114.5**	**121.1**	**136.5**	**141.3**	**149.3**	**155.1**	**164.3**	**202.1**	**210.6**	**208.8**	**226.8**
	prev.year=100	106.4	105.8	112.8	103.5	105.6	103.9	105.9	123.0	104.2	99.2	108.6
Excises	*bn CZK*	**60.9**	**64.4**	**71.4**	**71.4**	**76.8**	**79.5**	**87.5**	**99.2**	**110.5**	**119.9**	**133.5**
	prev.year=100	104.9	105.7	110.9	100.0	107.6	103.6	110.0	113.4	111.4	108.5	111.4
Other taxes on products[3)]	*bn CZK*	**21.6**	**21.3**	**19.2**	**21.5**	**18.9**	**18.9**	**20.0**	**11.8**	**9.2**	**10.3**	**10.9**
	prev.year=100	87.2	98.8	89.8	111.9	88.0	100.2	105.8	59.1	78.2	111.1	106.0
Other taxes on production[4)]	*bn CZK*	**11.8**	**12.1**	**13.2**	**13.7**	**13.1**	**13.1**	**13.7**	**12.3**	**12.0**	**12.4**	**14.2**
	prev.year=100	89.2	102.7	109.1	103.8	95.1	100.6	104.2	89.6	97.7	104.0	114.2
Capital taxes	*bn CZK*	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	102.0

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

3) This item contains, for example, customs duty, taxes from financial and capital transactions, payments from entertainment, lottery taxes and other.
4) All taxes that enterprises incur as a result of engaging in production, independent of the quantity or value of the goods and services produced or sold (real estate tax, road tax, etc.).

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Taxes and social contributions	*in % GDP*	**35.0**	**33.4**	**34.1**	**33.9**	**34.0**	**34.8**	**35.8**	**37.3**	**36.8**	**36.5**	**36.6**
Current taxes on income, wealth, etc.	*in % GDP*	8.8	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.3
Tax on individual or household income incl. holding gains	*in % GDP*	4.8	4.7	4.5	4.6	4.5	4.7	4.9	4.8	4.6	4.2	4.3
Taxes on the income or profits of corporations incl. holding gains	*in % GDP*	3.8	3.4	3.8	3.5	4.1	4.3	4.6	4.7	4.5	4.8	4.8
Levy on lottery revenue	*in % GDP*	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
Other current taxes	*in % GDP*	0.2	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	*in % GDP*	**14.6**	**14.1**	**14.1**	**14.2**	**14.2**	**14.9**	**15.1**	**16.1**	**16.2**	**16.3**	**16.3**
Actual social contributions	*in % GDP*	14.6	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.3	16.3
Employers' actual social contributions	*in % GDP*	10.2	9.9	9.8	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.3
Employees' social contributions	*in % GDP*	3.6	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6
Social contributions by self- and non-employed persons	*in % GDP*	0.8	0.7	0.7	0.8	0.8	0.9	0.9	2.2	2.2	2.3	2.4
Imputed social contributions	*in % GDP*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	*in % GDP*	**11.5**	**11.0**	**11.5**	**11.3**	**11.0**	**10.8**	**11.1**	**11.6**	**11.5**	**10.9**	**10.9**
Taxes on products	*in % GDP*	10.9	10.4	10.9	10.7	10.4	10.3	10.5	11.1	11.1	10.5	10.5
VAT	*in % GDP*	6.3	6.1	6.6	6.5	6.3	6.3	6.4	7.2	7.1	6.5	6.4
Excise taxes	*in % GDP*	3.4	3.2	3.4	3.3	3.3	3.2	3.4	3.5	3.7	3.7	3.8
Other taxes on products	*in % GDP*	1.2	1.1	0.9	1.0	0.8	0.8	0.8	0.4	0.3	0.3	0.3
Other taxes on production	*in % GDP*	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Capital taxes	*in % GDP*	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Table 5-5: Central government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**519.5**	**547.2**	**581.7**	**605.3**	**675.1**	**702.2**	**750.0**	**832.3**	**842.1**	**897.5**	**993.9**
	prev.year=100	106.8	105.3	106.3	104.1	111.5	104.0	106.8	.	101.2	106.6	110.7
Current taxes on income, wealth, etc.	*bn CZK*	**88.6**	**91.3**	**93.8**	**98.5**	**154.1**	**160.1**	**176.9**	**193.2**	**181.7**	**197.1**	**219.9**
	prev.year=100	115.0	103.0	102.8	105.0	156.4	103.9	110.5	109.2	94.1	108.5	111.6
Social contributions[1)]	*bn CZK*	**189.3**	**201.5**	**208.9**	**221.8**	**241.1**	**262.9**	**277.2**	**300.1**	**318.7**	**342.6**	**376.3**
	prev.year=100	110.9	106.4	103.7	106.2	108.7	109.0	105.5	.	106.2	107.5	109.8
Taxes on production and imports	*bn CZK*	**203.7**	**213.5**	**234.9**	**242.0**	**221.5**	**224.2**	**240.3**	**270.4**	**272.3**	**281.6**	**309.9**
	prev.year=100	102.5	104.8	110.0	103.0	91.5	101.2	107.2	112.5	100.7	103.4	110.0
Capital taxes	*bn CZK*	**0.6**	**0.6**	**0.5**	**0.6**	**0.7**	**0.7**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**
	prev.year=100	123.0	96.3	96.9	109.7	117.0	108.9	115.0	71.3	118.8	110.0	102.0
Property income	*bn CZK*	**11.7**	**10.7**	**7.9**	**13.5**	**22.0**	**22.6**	**17.4**	**15.0**	**14.5**	**18.4**	**20.7**
	prev.year=100	108.8	92.1	73.2	171.3	163.0	102.9	77.2	86.1	96.4	126.8	112.6
Sales	*bn CZK*	**14.6**	**14.6**	**17.6**	**18.1**	**21.2**	**22.2**	**25.7**	**27.6**	**28.3**	**29.4**	**37.1**
	prev.year=100	83.9	99.5	121.1	102.8	117.2	104.6	115.5	107.5	102.8	103.8	126.1
Other revenue	*bn CZK*	**11.0**	**15.1**	**18.1**	**10.9**	**14.6**	**9.5**	**11.6**	**25.4**	**25.9**	**27.6**	**29.2**
	prev.year=100	97.4	137.3	120.2	60.1	134.2	65.2	122.0	218.9	101.9	106.4	105.9

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

Table 5-6: Local government revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**166.1**	**203.0**	**192.1**	**200.1**	**228.3**	**260.0**	**328.7**	**349.3**	**351.6**	**375.5**	**412.8**
	prev.year=100	67.8	122.2	94.6	104.2	114.1	113.9	126.4	106.3	100.6	106.8	109.9
Current taxes on income, wealth, etc.	*bn CZK*	**71.5**	**74.4**	**82.2**	**82.9**	**52.7**	**63.8**	**70.5**	**76.6**	**91.7**	**98.1**	**108.1**
	prev.year=100	112.8	104.0	110.6	100.9	63.5	121.1	110.5	108.8	119.6	107.0	110.2
Social contributions	*bn CZK*	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
	prev.year=100	73.9	197.1	100.0	62.7	190.5	60.0	104.2	120.0	121.7	161.6	56.8
Taxes on production and imports	*bn CZK*	**5.0**	**5.3**	**5.3**	**5.9**	**36.5**	**42.5**	**45.1**	**55.0**	**70.0**	**69.8**	**75.5**
	prev.year=100	102.5	105.9	100.0	110.1	620.0	116.3	106.2	121.8	127.4	99.6	108.2
Capital taxes	*bn CZK*	**-**	**0.0**	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	prev.year=100	X	X	0.0	X	X	X	X	180.0	100.0	44.4	100.0
Property income	*bn CZK*	**3.6**	**4.5**	**4.7**	**4.5**	**3.7**	**6.9**	**6.8**	**8.0**	**6.5**	**7.0**	**7.8**
	prev.year=100	126.7	125.9	102.8	95.9	82.0	187.2	99.7	116.6	82.2	107.2	110.7
Sales	*bn CZK*	**32.4**	**43.5**	**38.7**	**40.1**	**41.3**	**44.1**	**49.6**	**50.1**	**51.4**	**52.3**	**58.1**
	prev.year=100	109.5	134.0	88.9	103.8	103.0	106.6	112.5	101.0	102.6	101.8	111.2
Other revenue	*bn CZK*	**53.5**	**75.2**	**61.1**	**66.7**	**94.0**	**102.8**	**156.6**	**159.6**	**131.9**	**148.2**	**163.2**
	prev.year=100	37.1	140.7	81.2	109.1	141.0	109.4	152.3	101.9	82.6	112.4	110.1

Table 5-7: Social security funds revenue

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenue	*bn CZK*	**95.1**	**104.9**	**112.5**	**119.4**	**127.4**	**138.4**	**149.1**	**159.1**	**169.6**	**184.8**	**203.6**
	prev.year=100	110.8	110.3	107.3	106.1	106.7	108.6	107.8	.	106.6	109.0	110.2
Current taxes on income, wealth, etc	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Social contributions [1)]	*bn CZK*	**75.4**	**80.1**	**83.8**	**90.1**	**93.9**	**104.5**	**111.7**	**152.6**	**163.4**	**182.1**	**200.3**
	prev.year=100	109.2	106.3	104.5	107.6	104.2	111.3	106.8	.	107.1	111.4	110.0
Taxes on production and imports	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Capital taxes	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Property income	*bn CZK*	**0.4**	**0.5**	**0.3**	**0.4**	**0.6**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.8**
	prev.year=100	135.8	147.8	54.9	147.9	128.2	74.9	73.7	95.1	106.5	94.5	259.7
Sales	*bn CZK*	**0.1**	**0.1**	**0.1**	**0.1**	**0.4**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.1**
	prev.year=100	245.2	108.7	58.9	100.0	609.1	34.8	75.7	145.3	103.2	95.0	95.4
Other revenue	*bn CZK*	**19.2**	**24.1**	**28.4**	**28.7**	**32.5**	**33.3**	**37.1**	**6.0**	**5.8**	**2.3**	**2.4**
	prev.year=100	116.7	125.4	117.9	101.2	113.2	102.3	111.3	16.2	95.9	40.2	103.2

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

5.2 Expenditures

Table 5-8: General government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**782.5**	**861.7**	**879.6**	**915.4**	**1046.5**	**1141.2**	**1219.5**	**1270.5**	**1342.3**	**1409.6**	**1504.5**
	prev.year=100	109.2	110.1	102.1	104.1	114.3	109.1	106.9	.	105.7	105.0	106.7
Final consumption expenditure	*bn CZK*	**379.3**	**399.7**	**440.6**	**460.9**	**496.7**	**549.5**	**603.2**	**621.6**	**658.5**	**684.7**	**718.5**
	prev.year=100	111.4	105.4	110.2	104.6	107.8	110.6	109.8	103.1	105.9	104.0	104.9
Collective consumption[1)]	*bn CZK*	**181.4**	**187.4**	**217.3**	**232.1**	**241.7**	**271.2**	**305.6**	**296.5**	**329.7**	**342.2**	**355.3**
	prev.year=100	115.5	103.3	116.0	106.8	104.2	112.2	112.7	97.0	111.2	103.8	103.8
Individual consumption	*bn CZK*	**198.0**	**212.3**	**223.3**	**228.9**	**254.9**	**278.3**	**297.6**	**325.1**	**328.8**	**342.5**	**363.2**
	prev.year=100	107.9	107.3	105.2	102.5	111.4	109.2	106.9	109.2	101.1	104.2	106.0
Social transfers in kind[2)]	*bn CZK*	**95.2**	**104.8**	**111.1**	**115.4**	**127.5**	**142.1**	**150.2**	**160.7**	**167.4**	**171.2**	**187.1**
	prev.year=100	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	109.3
Transfers of individual non-market goods or services[3)]	*bn CZK*	**102.8**	**107.6**	**112.2**	**113.5**	**127.5**	**136.2**	**147.3**	**164.3**	**161.4**	**171.3**	**176.1**
	prev.year=100	108.1	104.7	104.3	101.1	112.3	106.9	108.2	111.5	98.2	106.2	102.8
Social benefits other than social transfers in kind[4)]	*bn CZK*	**208.1**	**225.6**	**243.8**	**263.9**	**280.5**	**305.1**	**315.6**	**361.9**	**376.4**	**407.4**	**453.7**
	prev.year=100	113.5	108.4	108.0	108.3	106.3	108.8	103.4	.	104.0	108.2	111.4
Interest	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.8**	**30.5**	**29.3**	**32.6**	**34.4**	**35.5**	**40.2**
	prev.year=100	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.3
Subsidies	*bn CZK*	**49.3**	**57.9**	**61.1**	**61.0**	**65.4**	**56.6**	**68.2**	**59.0**	**54.7**	**61.4**	**62.5**
	prev.year=100	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8
Gross fixed capital formation	*bn CZK*	**77.3**	**83.8**	**67.7**	**79.1**	**83.4**	**95.2**	**117.2**	**136.4**	**146.5**	**161.5**	**165.9**
	prev.year=100	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	102.7
Other expenditures	*bn CZK*	**48.2**	**71.6**	**45.2**	**32.1**	**96.7**	**104.3**	**86.0**	**59.0**	**71.8**	**59.2**	**63.6**
	prev.year=100	87.2	148.5	63.2	71.0	301.0	107.8	82.4	68.6	121.7	82.4	107.5

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

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*(in % GDP)*	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	45.0	43.8	42.6
Final consumption expenditure	*(in % GDP)*	20.9	20.0	21.2	21.1	21.1	22.3	23.4	22.1	22.1	21.3	20.4
Collective consumption	*(in % GDP)*	10.0	9.4	10.4	10.6	10.3	11.0	11.9	10.5	11.0	10.6	10.1
Individual consumption	*(in % GDP)*	10.9	10.6	10.7	10.5	10.8	11.3	11.5	11.5	11.0	10.7	10.3
Social transfers in kind	*(in % GDP)*	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.3
Transfers of individual non-market goods or services	*(in % GDP)*	5.7	5.4	5.4	5.2	5.4	5.5	5.7	5.8	5.4	5.3	5.0
Social benefits other than social transfers in kind	*(in % GDP)*	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.7	12.9
Interest	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Subsidies	*(in % GDP)*	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8
Gross fixed capital formation	*(in % GDP)*	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7
Other expenditures	*(in % GDP)*	2.7	3.6	2.2	1.5	4.1	4.2	3.3	2.1	2.4	1.8	1.8

Table 5-10: General government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**782.5**	**861.7**	**879.6**	**915.4**	**1046.5**	**1141.2**	**1219.5**	**1270.5**	**1342.3**	**1409.6**	**1504.5**
	prev.year=100	109.2	110.1	102.1	104.1	114.3	109.1	106.9	.	105.7	105.0	106.7
Compensation of employees	*bn CZK*	**133.9**	**135.0**	**151.4**	**154.7**	**172.9**	**191.6**	**214.2**	**222.1**	**237.9**	**252.4**	**268.6**
	prev.year=100	105.6	100.9	112.1	102.2	111.8	110.8	111.8	103.7	107.1	106.1	106.4
Intermediate consumption	*bn CZK*	**113.1**	**115.1**	**132.7**	**144.0**	**152.9**	**173.6**	**196.0**	**193.5**	**205.9**	**211.7**	**219.2**
	prev.year=100	118.1	101.8	115.3	108.5	106.2	113.5	112.9	98.7	106.4	102.8	103.5
Social benefits other than social transfers in kind[1)]	*bn CZK*	**208.1**	**225.6**	**243.8**	**263.9**	**280.5**	**305.1**	**315.6**	**361.9**	**376.4**	**407.4**	**453.7**
	prev.year=100	113.5	108.4	108.0	108.3	106.3	108.8	103.4	.	104.0	108.2	111.4
Social benefits in kind	*bn CZK*	**95.2**	**104.8**	**111.1**	**115.4**	**127.5**	**142.1**	**150.2**	**160.7**	**167.4**	**171.2**	**187.1**
	prev.year=100	107.7	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	109.3
Property income	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.9**	**30.6**	**29.3**	**32.6**	**34.4**	**35.6**	**40.3**
	prev.year=100	99.8	114.1	91.6	86.8	129.3	128.2	95.9	111.2	105.6	103.3	113.3
Interest	*bn CZK*	**20.3**	**23.2**	**21.2**	**18.4**	**23.8**	**30.5**	**29.3**	**32.6**	**34.4**	**35.5**	**40.2**
	prev.year=100	99.7	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.3
Other property income	*bn CZK*	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**
	prev.year=100	X	183.3	118.2	200.0	80.8	150.0	74.6	112.8	96.2	141.2	109.7
Subsidies	*bn CZK*	**49.3**	**57.9**	**61.1**	**61.0**	**65.4**	**56.6**	**68.2**	**59.0**	**54.7**	**61.4**	**62.5**
	prev.year=100	121.5	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8
Gross fixed capital formation	*bn CZK*	**77.3**	**83.8**	**67.7**	**79.1**	**83.4**	**95.2**	**117.2**	**136.4**	**146.5**	**161.5**	**165.9**
	prev.year=100	100.8	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	102.7
Capital transfers[2)]	*bn CZK*	**72.4**	**92.8**	**77.7**	**57.6**	**127.5**	**120.2**	**98.4**	**72.4**	**76.4**	**59.2**	**59.4**
	prev.year=100	144.6	128.2	83.7	74.2	221.3	94.3	81.8	73.7	105.5	77.4	100.4
Investment grants[3)]	*bn CZK*	**18.7**	**19.1**	**22.4**	**25.9**	**27.5**	**36.9**	**35.2**	**35.2**	**33.9**	**36.7**	**35.3**
	prev.year=100	98.7	102.1	117.8	115.6	105.8	134.5	95.2	100.1	96.3	108.4	96.1
Other capital transfers	*bn CZK*	**53.8**	**73.8**	**55.2**	**31.7**	**100.0**	**83.3**	**63.2**	**37.2**	**42.5**	**22.5**	**24.1**
	prev.year=100	172.5	137.3	74.8	57.4	315.8	83.2	75.9	58.9	114.3	52.8	107.4
Other expenditure	*bn CZK*	**13.0**	**23.5**	**13.0**	**21.3**	**12.5**	**26.3**	**30.3**	**31.8**	**42.5**	**49.3**	**47.8**
	prev.year=100	37.3	181.5	55.1	164.3	58.9	209.5	115.4	104.8	133.8	116.1	96.9

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

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

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

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*(in % GDP)*	43.2	43.2	42.3	41.8	44.5	46.3	47.3	45.1	45.0	43.8	42.6
Compensation of employees	*(in % GDP)*	7.4	6.8	7.3	7.1	7.4	7.8	8.3	7.9	8.0	7.8	7.6
Intermediate consumption	*(in % GDP)*	6.2	5.8	6.4	6.6	6.5	7.0	7.6	6.9	6.9	6.6	6.2
Social benefits other than social transfers in kind	*(in % GDP)*	11.5	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.7	12.9
Social benefits in kind	*(in % GDP)*	5.3	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.3
Property income	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Interest	*(in % GDP)*	1.1	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1
Other property income	*(in % GDP)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	*(in % GDP)*	2.7	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8
Gross fixed capital formation	*(in % GDP)*	4.3	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7
Capital transfers	*(in % GDP)*	4.0	4.7	3.7	2.6	5.4	4.9	3.8	2.6	2.6	1.8	1.7
Investment grants	*(in % GDP)*	1.0	1.0	1.1	1.2	1.2	1.5	1.4	1.3	1.1	1.1	1.0
Other capital transfers	*(in % GDP)*	3.0	3.7	2.7	1.4	4.3	3.4	2.5	1.3	1.4	0.7	0.7
Other expenditure	*(in % GDP)*	0.7	1.2	0.6	1.0	0.5	1.1	1.2	1.1	1.4	1.5	1.4

Table 5-12: Central government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**574.7**	**652.9**	**660.5**	**681.5**	**799.8**	**853.1**	**904.3**	**907.7**	**946.9**	**982.1**	**1062.5**
	prev.year=100	99.4	113.6	101.2	103.2	117.4	106.7	106.0	.	104.3	103.7	108.2
Compensation of employees	*bn CZK*	**95.4**	**94.8**	**106.0**	**107.2**	**106.4**	**117.0**	**108.8**	**110.8**	**120.9**	**128.2**	**136.8**
	prev.year=100	103.4	99.4	111.8	101.1	99.3	109.9	93.0	101.9	109.1	106.1	106.7
Intermediate consumption	*bn CZK*	**58.1**	**53.9**	**65.3**	**74.8**	**74.2**	**86.7**	**96.9**	**93.5**	**104.4**	**100.9**	**107.6**
	prev.year=100	126.7	92.7	121.3	114.4	99.3	116.8	111.8	96.5	111.7	96.6	106.7
Social benefits other than social transfers in kind[1)]	*bn CZK*	**204.3**	**220.5**	**236.2**	**254.6**	**271.5**	**294.9**	**303.8**	**350.0**	**364.7**	**395.4**	**435.3**
	prev.year=100	133.2	107.9	107.1	107.8	106.6	108.6	103.0	.	104.2	108.4	110.1
Social benefits in kind	*bn CZK*	**1.4**	**1.6**	**1.8**	**1.9**	**3.1**	**3.3**	**2.2**	**1.9**	**0.9**	**0.9**	**2.4**
	prev.year=100	108.8	116.4	110.0	105.3	164.8	107.1	67.2	84.0	50.5	92.4	277.2
Interest	*bn CZK*	**18.6**	**20.4**	**18.6**	**16.7**	**21.9**	**28.5**	**26.9**	**29.6**	**32.3**	**33.2**	**37.5**
	prev.year=100	100.9	110.0	90.9	89.7	131.3	130.5	94.4	109.9	109.0	102.9	112.8
Subsidies	*bn CZK*	**36.6**	**44.0**	**45.6**	**43.7**	**48.8**	**38.3**	**38.9**	**32.7**	**25.4**	**30.2**	**31.3**
	prev.year=100	109.6	120.2	103.7	95.9	111.5	78.6	101.5	84.0	77.7	118.9	103.7
Gross fixed capital formation	*bn CZK*	**24.7**	**26.3**	**31.7**	**36.8**	**34.5**	**33.7**	**46.9**	**62.0**	**76.9**	**80.6**	**86.9**
	prev.year=100	136.9	106.8	120.2	116.4	93.7	97.6	139.1	132.2	124.1	104.9	107.7
Capital transfers	*bn CZK*	**85.3**	**119.4**	**79.7**	**64.8**	**133.2**	**129.3**	**109.0**	**86.5**	**86.7**	**68.0**	**68.1**
	prev.year=100	71.2	140.1	66.7	81.4	205.6	97.1	84.3	79.3	100.2	78.4	100.2
Other expenditure	*bn CZK*	**50.5**	**71.9**	**75.7**	**81.0**	**106.2**	**121.4**	**170.8**	**140.7**	**134.7**	**144.6**	**156.5**
	prev.year=100	52.8	142.4	105.3	107.1	131.0	114.3	140.7	82.4	95.7	107.3	108.3

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

Table 5-13: Local government expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**178.6**	**196.2**	**191.2**	**209.3**	**238.4**	**271.7**	**342.8**	**354.0**	**353.1**	**388.1**	**394.4**
	prev.year=100	87.2	109.9	97.4	109.5	113.9	114.0	126.1	103.3	99.8	109.9	101.6
Compensation of employees	*bn CZK*	**36.7**	**38.4**	**43.4**	**45.5**	**64.2**	**72.1**	**102.8**	**108.6**	**114.2**	**121.1**	**128.5**
	prev.year=100	111.9	104.5	113.0	104.7	141.3	112.2	142.6	105.7	105.1	106.1	106.1
Intermediate consumption	*bn CZK*	**53.8**	**60.0**	**66.2**	**68.1**	**77.3**	**85.5**	**97.3**	**98.1**	**99.5**	**109.1**	**109.5**
	prev.year=100	111.3	111.5	110.4	102.9	113.5	110.6	113.9	100.8	101.4	109.7	100.4
Social benefits other than social transfers in kind	*bn CZK*	**3.8**	**5.1**	**7.5**	**9.3**	**9.0**	**10.2**	**11.8**	**11.9**	**11.7**	**12.0**	**18.4**
	prev.year=100	12.6	135.0	146.9	124.2	96.6	113.4	115.6	100.6	98.6	102.5	153.6
Social benefits in kind	*bn CZK*	**1.4**	**1.6**	**1.8**	**2.0**	**1.2**	**1.4**	**2.4**	**2.5**	**2.6**	**2.8**	**3.3**
	prev.year=100	145.4	111.1	114.3	109.1	61.1	115.6	169.9	104.5	102.4	108.9	119.0
Interest	*bn CZK*	**1.6**	**2.6**	**2.6**	**1.7**	**1.9**	**2.0**	**2.4**	**3.0**	**2.2**	**2.4**	**2.9**
	prev.year=100	85.3	160.6	99.4	67.6	110.3	104.5	118.9	126.8	72.9	108.1	119.4
Subsidies	*bn CZK*	**12.7**	**13.9**	**15.5**	**17.2**	**16.6**	**18.2**	**29.3**	**26.3**	**29.3**	**31.2**	**31.2**
	prev.year=100	176.8	109.7	111.4	111.3	96.6	109.6	160.7	89.8	111.6	106.3	99.9
Gross fixed capital formation	*bn CZK*	**51.9**	**56.5**	**35.2**	**41.6**	**48.3**	**60.7**	**69.7**	**73.8**	**68.9**	**80.4**	**78.6**
	prev.year=100	89.3	108.8	62.3	118.0	116.2	125.6	114.9	105.9	93.3	116.8	97.7
Capital transfers	*bn CZK*	**11.5**	**8.5**	**14.9**	**13.3**	**14.2**	**11.9**	**16.4**	**20.3**	**13.6**	**15.0**	**14.2**
	prev.year=100	93.6	73.9	176.0	89.4	106.7	83.4	138.2	123.7	67.1	109.9	94.9
Other expenditure	*bn CZK*	**5.2**	**9.7**	**4.0**	**10.5**	**5.5**	**9.8**	**10.7**	**9.5**	**11.2**	**14.2**	**7.9**
	prev.year=100	39.0	186.7	41.6	262.3	52.3	178.5	108.9	88.7	117.4	126.8	56.0

Table 5-14: Social security fund expenditure

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure	*bn CZK*	**96.2**	**106.0**	**112.0**	**115.5**	**127.7**	**142.6**	**150.8**	**161.7**	**169.8**	**173.0**	**187.5**
	prev.year=100	106.6	110.2	105.7	103.1	110.6	111.6	105.8	107.2	105.0	101.9	108.4
Compensation of employees	*bn CZK*	**1.8**	**1.8**	**2.0**	**2.1**	**2.3**	**2.5**	**2.7**	**2.7**	**2.9**	**3.0**	**3.2**
	prev.year=100	108.8	104.1	111.0	101.9	109.5	111.1	105.4	102.7	105.7	105.3	106.5
Intermediate consumption	*bn CZK*	**1.2**	**1.3**	**1.2**	**1.1**	**1.4**	**1.5**	**1.9**	**1.9**	**2.0**	**1.6**	**2.0**
	prev.year=100	76.1	105.5	92.9	94.8	127.3	105.3	123.4	102.1	105.9	81.4	122.6
Social benefits other than social transfers in kind	*bn CZK*	**-**	**-**	**0.0**	**-**	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**-**
	prev.year=100	X	X	X	0.0	X	X	X	X	X	200.0	0.0
Social benefits in kind	*bn CZK*	**92.4**	**101.5**	**107.5**	**111.5**	**123.2**	**137.4**	**145.6**	**156.3**	**163.9**	**167.5**	**181.4**
	prev.year=100	107.3	109.9	105.8	103.8	110.4	111.6	106.0	107.4	104.8	102.2	108.3
Interest	*bn CZK*	**0.1**	**0.2**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	prev.year=100	215.7	168.2	42.2	23.1	77.8	50.0	85.7	100.0	16.7	300.0	66.7
Subsidies	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Gross fixed capital formation	*bn CZK*	**0.7**	**0.9**	**0.8**	**0.7**	**0.6**	**0.9**	**0.6**	**0.7**	**0.8**	**0.5**	**0.5**
	prev.year=100	140.7	129.4	85.8	84.0	84.0	154.6	69.5	111.1	119.1	58.3	99.6
Capital transfers	*bn CZK*	**-**	**-**	**0.1**	**0.0**	**-**	**0.0**	**0.0**	**0.1**	**-**	**-**	**-**
	prev.year=100	X	X	X	6.6	0.0	X	81.4	174.3	0.0	X	X
Other expenditure	*bn CZK*	**0.1**	**0.2**	**0.3**	**0.1**	**0.3**	**0.2**	**0.1**	**0.0**	**0.3**	**0.4**	**0.4**
	prev.year=100	13.7	455.8	108.4	31.5	332.1	82.2	29.4	64.6	671.4	127.7	123.9

5.3 Balance

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government net lending (+)/net borrowing (-)	*bn CZK*	**-68.8**	**-100.1**	**-77.3**	**-81.5**	**-135.0**	**-166.8**	**-170.0**	**-82.7**	**-106.6**	**-85.5**	**-34.2**
Central government net lending (+) /net borrowing (-)	*bn CZK*	**-55.2**	**-105.7**	**-78.7**	**-76.2**	**-124.6**	**-150.9**	**-154.3**	**-75.4**	**-104.8**	**-84.6**	**-68.6**
Local government net lending (+) /net borrowing (-)	*bn CZK*	**-12.5**	**6.8**	**0.9**	**-9.2**	**-10.1**	**-11.7**	**-14.1**	**-4.6**	**-1.6**	**-12.7**	**18.3**
Social security funds net lending (+) /net borrowing (-)	*bn CZK*	**-1.2**	**-1.1**	**0.5**	**3.9**	**-0.3**	**-4.2**	**-1.7**	**-2.7**	**-0.2**	**11.8**	**16.1**

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government net lending (+)/net borrowing (-)	*(in % GDP)*	-3.8	-5.0	-3.7	-3.7	-5.7	-6.8	-6.6	-2.9	-3.6	-2.7	-1.0
Central government net lending (+) /net borrowing (-)	*(in % GDP)*	-3.0	-5.3	-3.8	-3.5	-5.3	-6.1	-6.0	-2.7	-3.5	-2.6	-1.9
Local government net lending (+) /net borrowing (-)	*(in % GDP)*	-0.7	0.3	0.0	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.4	0.5
Social security funds net lending (+) /net borrowing (-)	*(in % GDP)*	-0.1	-0.1	0.0	0.2	0.0	-0.2	-0.1	-0.1	0.0	0.4	0.5

5.4 Debt

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government debt by instruments	*bn CZK*	**236.7**	**299.8**	**340.5**	**405.4**	**591.5**	**702.3**	**775.0**	**855.1**	**888.6**	**951.5**	**1020.7**
	prev.year=100	112.8	126.7	113.6	119.1	145.9	118.7	110.3	110.3	103.9	107.1	107.3
Currency and deposits	*bn CZK*	**-**	**-**	**-**	**-**	**7.2**	**24.4**	**4.0**	**2.8**	**0.6**	**0.0**	**-**
	prev.year=100	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0
Securities other than shares	*bn CZK*	**160.3**	**196.4**	**232.1**	**275.6**	**354.8**	**427.4**	**528.4**	**633.8**	**698.2**	**788.6**	**865.7**
	prev.year=100	108.6	122.5	118.2	118.7	128.7	120.5	123.6	119.9	110.2	112.9	109.8
Loans	*bn CZK*	**76.4**	**103.4**	**108.4**	**129.8**	**229.5**	**250.5**	**242.6**	**218.5**	**189.8**	**162.9**	**154.9**
	prev.year=100	122.8	135.3	104.8	119.7	176.9	109.2	96.8	90.0	86.9	85.8	95.1
Central government debt	*bn CZK*	**211.2**	**271.7**	**314.6**	**378.3**	**559.8**	**660.6**	**725.6**	**790.4**	**816.0**	**870.2**	**936.0**
	prev.year=100	112.7	128.7	115.8	120.2	148.0	118.0	109.8	108.9	103.2	106.6	107.6
Currency and deposits	*bn CZK*	**-**	**-**	**-**	**-**	**7.2**	**24.4**	**4.0**	**2.8**	**0.6**	**0.0**	**-**
	prev.year=100	X	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0
Securities other than shares	*bn CZK*	**145.7**	**185.0**	**222.4**	**267.9**	**347.8**	**415.4**	**517.4**	**611.5**	**674.8**	**765.9**	**843.0**
	prev.year=100	107.2	126.9	120.2	120.5	129.8	119.4	124.6	118.2	110.3	113.5	110.1
Loans	*bn CZK*	**65.4**	**86.7**	**92.2**	**110.4**	**204.8**	**220.8**	**204.2**	**176.0**	**140.6**	**104.3**	**93.0**
	prev.year=100	126.9	132.5	106.4	119.7	185.5	107.8	92.5	86.2	79.9	74.1	89.2
Local government debt	*bn CZK*	**31.9**	**36.0**	**34.5**	**35.8**	**40.3**	**50.0**	**59.0**	**72.0**	**79.1**	**86.6**	**88.4**
	prev.year=100	117.3	112.7	95.7	103.9	112.7	124.0	118.0	122.1	109.8	109.5	102.1
Currency and deposits	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	*bn CZK*	**14.7**	**12.0**	**10.1**	**8.2**	**7.1**	**12.3**	**11.9**	**22.6**	**24.0**	**23.1**	**23.3**
	prev.year=100	124.1	81.9	83.9	81.5	86.8	172.4	96.6	190.7	105.8	96.5	100.6
Loans	*bn CZK*	**17.3**	**24.0**	**24.4**	**27.6**	**33.2**	**37.7**	**47.1**	**49.4**	**55.1**	**63.5**	**65.2**
	prev.year=100	112.1	138.9	101.6	113.1	120.4	113.6	125.0	104.8	111.6	115.2	102.6
Social security funds debt	*bn CZK*	**2.4**	**1.7**	**1.2**	**0.7**	**0.5**	**0.4**	**0.3**	**0.2**	**0.3**	**0.2**	**0.1**
	prev.year=100	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	31.9
Currency and deposits	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	*bn CZK*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	prev.year=100	X	X	X	X	X	X	X	X	X	X	X
Loans	*bn CZK*	**2.4**	**1.7**	**1.2**	**0.7**	**0.5**	**0.4**	**0.3**	**0.2**	**0.3**	**0.2**	**0.1**
	prev.year=100	127.7	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	31.9

Note: Government debt consists of the 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. The government debt is consolidated, i.e., debt held by other entities within the general government subsector or sector is excluded.

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government debt based on instruments	*(in % GDP)*	13.1	15.0	16.4	18.5	25.1	28.5	30.1	30.4	29.8	29.6	28.9
Currency and deposits	*(in % GDP)*	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	8.9	9.8	11.2	12.6	15.1	17.3	20.5	22.5	23.4	24.5	24.5
Loans	*(in % GDP)*	4.2	5.2	5.2	5.9	9.8	10.2	9.4	7.8	6.4	5.1	4.4
Central government debt	*(in % GDP)*	11.7	13.6	15.1	17.3	23.8	26.8	28.2	28.1	27.3	27.1	26.5
Currency and deposits	*(in % GDP)*	-	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	8.0	9.3	10.7	12.2	14.8	16.9	20.1	21.7	22.6	23.8	23.9
Loans	*(in % GDP)*	3.6	4.3	4.4	5.0	8.7	9.0	7.9	6.3	4.7	3.2	2.6
Local government debt	*(in % GDP)*	1.8	1.8	1.7	1.6	1.7	2.0	2.3	2.6	2.7	2.7	2.5
Currency and deposits	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	0.8	0.6	0.5	0.4	0.3	0.5	0.5	0.8	0.8	0.7	0.7
Loans	*(in % GDP)*	1.0	1.2	1.2	1.3	1.4	1.5	1.8	1.8	1.8	2.0	1.8
Social security funds debt	*(in % GDP)*	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives	*(in % GDP)*	-	-	-	-	-	-	-	-	-	-	-
Loans	*(in % GDP)*	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

5.5 International comparison

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

		Balance					Debt				
		2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
EU 27	*(in % GDP)*	-2.9	-2.4	-1.4	-0.9	.	62.2	62.7	61.3	58.7	.
EA	*(in % GDP)*	-2.9	-2.5	-1.3	-0.6	.	69.7	70.3	68.6	66.6	.
Belgium	*(in % GDP)*	-0.2	-2.6	0.3	-0.3	0.0	94.3	92.1	87.8	83.9	80.6
Bulgaria	*(in % GDP)*	1.6	1.9	3.0	0.1	3.0	37.9	29.2	22.7	18.2	15.4
Czech Republic	*(in % GDP)*	-3.0	-3.6	-2.7	-1.0	-1.2	30.4	29.8	29.6	28.9	28.8
Denmark	*(in % GDP)*	2.0	5.2	5.1	4.9	3.5	43.8	36.4	30.5	26.2	20.6
Estonia	*(in % GDP)*	1.7	1.5	2.9	2.7	-1.2	5.0	4.5	4.3	3.5	3.5
Finland	*(in % GDP)*	2.4	2.9	4.1	5.3	5.0	44.1	41.3	39.2	35.1	31.9
France	*(in % GDP)*	-3.6	-2.9	-2.4	-2.7	-2.7	64.9	66.4	63.6	63.9	65.3
Ireland	*(in % GDP)*	1.4	1.7	3.0	0.2	-5.5	29.4	27.3	24.7	24.8	36.0
Italy	*(in % GDP)*	-3.5	-4.3	-3.4	-1.6	-2.5	103.8	105.9	106.9	104.1	103.7
Cyprus	*(in % GDP)*	-4.1	-2.4	-1.2	3.5	1.0	70.2	69.1	64.6	59.5	47.9
Lithuania	*(in % GDP)*	-1.5	-0.5	-0.4	-1.2	-2.3	19.4	18.4	18.0	17.0	16.0
Latvia	*(in % GDP)*	-1.0	-0.4	-0.2	0.1	-0.6	14.9	12.4	10.7	9.5	12.1
Luxemburg	*(in % GDP)*	-1.2	-0.1	1.3	3.2	2.3	6.3	6.1	6.6	7.0	10.0
Hungary	*(in % GDP)*	-6.4	-7.8	-9.3	-5.0	-3.8	59.4	61.7	65.6	65.8	65.6
Malta	*(in % GDP)*	-4.7	-2.8	-2.3	-1.8	.	72.1	69.9	63.8	62.2	.
Germany	*(in % GDP)*	-3.8	-3.3	-1.5	-0.2	0.0	65.6	67.8	67.6	65.1	64.7
Netherlands	*(in % GDP)*	-1.7	-0.3	0.6	0.3	1.2	52.4	51.8	47.4	45.7	43.0
Poland	*(in % GDP)*	-5.7	-4.3	-3.8	-2.0	-2.5	45.7	47.1	47.7	44.9	44.1
Portugal	*(in % GDP)*	-3.4	-6.1	-3.9	-2.6	-2.2	58.3	63.6	64.7	63.6	63.5
Austria	*(in % GDP)*	-4.4	-1.5	-1.5	-0.4	-0.7	64.8	63.7	62.0	59.5	58.0
Romania	*(in % GDP)*	-1.2	-1.2	-2.2	-2.6	-2.8	18.8	15.8	12.4	12.9	11.9
Greece	*(in % GDP)*	-7.5	-5.1	-2.8	-3.5	-2.3	98.6	98.8	95.9	94.8	91.8
Slovakia	*(in % GDP)*	-2.3	-2.8	-3.5	-1.9	-2.2	41.4	34.2	30.4	29.4	29.0
Slovenia	*(in % GDP)*	-2.2	-1.4	-1.2	0.5	0.0	27.2	27.0	26.7	23.4	21.6
Spain	*(in % GDP)*	-0.3	1.0	2.0	2.2	-1.5	46.2	43.0	39.6	36.2	36.8
Sweden	*(in % GDP)*	0.8	2.4	2.3	3.6	2.8	51.2	50.9	45.9	40.4	35.5
United Kingdom	*(in % GDP)*	-3.4	-3.4	-2.7	-2.8	.	40.6	42.3	43.4	44.2	.

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

Country \ Transactions		Revenue	Expenditure	Compensation of employees	Cash social benefits	Consumption [1]	Investments [2]	Interest expenditure
EU 27	*(in % GDP)*	44.9	45.7	10.4	15.1	20.4	2.6	2.7
EA	*(in % GDP)*	45.7	46.3	10.1	15.9	20.1	2.6	3.0
Belgium	*(in % GDP)*	48.1	48.4	11.7	15.4	22.2	1.6	3.9
Bulgaria	*(in % GDP)*	41.6	41.5	9.0	10.9	16.2	4.8	1.0
Czech Republic	*(in % GDP)*	41.6	42.6	7.6	12.9	20.4	4.7	1.1
Denmark	*(in % GDP)*	55.2	50.7	16.8	14.9	25.9	1.7	1.6
Estonia	*(in % GDP)*	38.2	35.5	10.0	9.0	17.2	5.4	0.2
Finland	*(in % GDP)*	52.6	47.3	12.9	15.1	21.2	2.6	1.4
France	*(in % GDP)*	49.7	52.4	12.9	17.4	23.1	3.3	2.7
Ireland	*(in % GDP)*	35.7	35.4	9.3	9.8	15.9	4.1	1.0
Italy	*(in % GDP)*	46.6	48.2	10.7	17.3	19.8	2.4	5.0
Cyprus	*(in % GDP)*	46.5	43.0	14.5	11.6	17.8	3.0	3.1
Lithuania	*(in % GDP)*	33.9	35.2	10.0	9.2	18.2	5.2	0.7
Latvia	*(in % GDP)*	37.7	37.7	11.5	7.6	18.1	5.7	0.5
Luxemburg	*(in % GDP)*	41.0	37.8	7.3	13.1	15.4	3.7	0.3
Hungary	*(in % GDP)*	44.9	49.8	11.5	15.2	21.1	3.6	4.0
Malta	*(in % GDP)*	40.6	42.4	13.0	12.3	19.1	4.0	3.4
Germany	*(in % GDP)*	43.9	43.8	6.9	17.3	18.0	1.5	2.8
Netherlands	*(in % GDP)*	45.6	45.3	9.2	10.4	25.1	3.3	2.2
Poland	*(in % GDP)*	40.0	42.0	9.6	14.2	18.0	4.1	2.4
Portugal	*(in % GDP)*	43.2	45.8	12.9	15.2	20.3	2.3	2.9
Austria	*(in % GDP)*	47.9	48.4	9.1	17.9	18.2	1.0	2.9
Romania	*(in % GDP)*	34.7	37.3	9.5	9.5	16.5	5.7	0.8
Greece	*(in % GDP)*	40.0	43.7	11.0	17.2	16.7	3.0	4.4
Slovakia	*(in % GDP)*	32.7	34.6	6.8	11.6	17.5	1.9	1.4
Slovenia	*(in % GDP)*	42.9	42.4	10.6	14.4	17.7	3.7	1.3
Spain	*(in % GDP)*	41.0	38.8	10.2	11.6	18.3	3.8	1.6
Sweden	*(in % GDP)*	56.2	52.7	15.1	15.3	25.9	3.1	1.8
United Kingdom	*(in % GDP)*	41.7	44.4	10.9	12.7	21.1	1.8	2.2

1) Collective and individual consumption of general government.
2) Gross fixed capital formation.