

Ministry of Finance
Department for Financial Policies

Fiscal Outlook

Czech Republic

May 2009

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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
p.p.	percentage point
prev. year	previous year
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; the term “general government” is used as a synonym.
forecast	autonomous forecast of the financial 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 2008: Czech Statistical Office, Eurostat

Other data: Ministry of Finance

Closing date for data sources: 9 June 2009

Fiscal Outlook is prepared every six months in the Ministry of Finance's Financial Policies Department. It generally is published in May and October and is also accessible on the Ministry of Finance's web site (www.mfcr.cz).

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

The financial crisis bypassed the Czech Republic in 2008. With its small and open economy, the country nevertheless was affected at the end of the year by the global drop in demand, which was unprecedented in the post-war period, and by the resulting decline in economic output. Quarter-on-quarter decline in output is also predicted through all of 2009. Such development, of course, has corresponding impacts on public finances. On the one hand, tax revenues have decreased; on the other, social benefits to the population, and particularly to those affected by the adverse economic development, have risen. At the same time, the government is trying through various discretionary measures to mitigate, at least in part, the impacts of the crisis.

The fiscal outlook is based on the Macroeconomic Forecast of the Ministry of Finance from April 2009, and its assumptions therefore involve the same risks as do those in the forecast. It almost could go without saying that fiscal policy planning is made considerably more difficult and uncertain by the fact that the Czech Republic is now in a period characterised by the non-existence of a firm parliamentary majority and by pre-election campaigns. **The present fiscal outlook takes into account only those measures that were approved by the Czech government and then submitted to the Czech Parliament. An overview of these measures is presented in Chapter 2, Box 1.**

The government declared the objective to hold the state budget deficit for 2010 within the level of CZK 166 bn, and this objective is based on the same set of measures included in this Fiscal Outlook. This means that measures additionally approved by the Parliament should be compensated by the government through cuts in other areas in the state budget proposal for 2010 so that these additional measures change only the structure of revenues or expenditures of the public budgets. Nevertheless, in the case that there is not a will to maintain the aforementioned state budget deficit, a clear definition of the intended measures also allows a relatively simple calculation of changes in the general government deficit.

Furthermore, the impacts of the sale of emission allowances on the general government deficit are not included in the fiscal outlook for this year or for the several following years. While this operation has not yet been taken into account by the Czech Statistical Office, it is primarily a one-off operation whose overall impacts on the deficit are fully offset over time. In the current situation, it seems more appropriate not to complicate the discussion on setting fiscal policy with the impacts of this one-off operation on the general government deficit, even though it is obvious that this operation will mean a moderate improvement of the general government deficit in 2009 and, on the other hand, its moderate worsening for several subsequent years.

The featured topic of this issue is the concept of tax accrual and the methods for its calculation in the Czech Republic. This Fiscal Outlook summarises the main features of accrual and cash accounting, the possible methods for calculating tax accruals (including a discussion on their characteristics), and a description of the calculation method used in the Czech Republic.

1.1 Macroeconomic development

In the last quarter of 2008, the external conditions changed drastically and the fall-off in foreign demand was reflected in the development of domestic macroeconomic indicators. In a time of ongoing economic crisis, the macroeconomic outlook on a four-year horizon (i.e. until 2012) is burdened by

extraordinarily high uncertainty. Given the current state of information, it is very difficult to forecast the depth, duration, extent and consequent impacts of this adverse situation on the Czech economy.

The projection provides a significantly worse picture of the future in comparison to the previous projection. The outlook presented is based on a forecast for the concentration of crisis-related phenomena through 2009 and their subsequent abatement associated with the gradual moderate recovery in economic performance. It also includes the macroeconomic effects of the proposed counter-crisis measures.

Since the fourth quarter of 2008, the Czech economy clearly has undergone a period of economic recession characterised by quarter-on-quarter drops in seasonally adjusted gross domestic product. The greatest decline is anticipated for the first quarter of 2009. In the following quarters, the declines should be dampened by measures gradually implemented in the Czech Republic as well as by growth recovery among our trading partners. According to the central projection, the economy should start growing again in early 2010, but a negative production gap should persist throughout the outlook's horizon with above-average unemployment, below-average production capacities utilisation, but also with low inflation pressures.

From the spending perspective, moderate growth in household consumption (supported by disinflation and a reduced rate for social security insurance) as well as in government consumption should be preserved through the entire period. Despite increased infrastructure investments and accelerated depreciation, gross fixed capital formation will most probably record a deep slump in 2009. In the following years, an improved drawing from European funds could become evident and, with a gradually improving economic situation, production investments in the private sector could begin to pick up speed.

The year 2009 is one of significant disinflation. The regime of inflation targeting with a reduction in the inflation target to 2% by 2010, a strengthening exchange rate of the Czech crown, and the absence of both cost (with the exception of moderately growing oil prices in Czech crowns) and demand pressures should ensure that low-inflation development will continue into the following years.

The extensive drop in employment is likely to be reflected in an unprecedentedly low growth rate for wages and salaries in 2009 and 2010. This will negatively affect the collection of both social security insurance contributions and personal income tax. In the coming years, the payroll dynamics should gradually increase in accordance with the growth rate of nominal GDP.

There is a risk that the economic growth may be even worse than is projected in this outlook.

Table 1-1: Main macroeconomic indicators

	2008	2009	2010	2011	2012	2009	2010	2011
		Forecast	Forecast	Outlook	Outlook	Fiscal Outlook - October '08		
Gross domestic product (bn CZK, curr.p.)	3 706	3 692	3 747	3 923	4 127	4 016	4 314	4 648
(growth in %, const.p.)	3.2	-2.3	0.8	2.4	3.0	3.7	4.4	5.2
Private consumption (growth in %, const.p.)	2.8	0.9	0.9	2.0	2.5	3.9	4.2	4.2
Government consumption (growth in %, const.p.)	0.9	1.8	1.2	0.8	0.0	0.5	0.0	0.0
Gross fixed capital formation (growth in %, const.p.)	3.1	-4.9	-0.2	2.5	3.0	4.5	6.2	7.0
Contr. of net exports to GDP growth (p.p., const.p.)	2.1	-1.6	0.5	0.6	1.0	0.4	0.9	1.5
GDP deflator (growth in %)	1.7	1.9	0.7	2.2	2.2	2.1	2.9	2.4
Inflation (in %)	6.3	1.1	0.9	2.2	2.0	2.9	3.0	2.5
Employment (LFS) (growth in %)	1.6	-1.0	-1.6	-0.4	0.4	0.7	0.3	0.3
Unemployment rate (reg.) (average in %)	4.4	6.1	7.5	8.3	8.0	-	-	-
Wages and salaries (growth in %, curr.p.)	8.4	2.7	2.3	4.7	5.2	-	-	-
Current account to GDP ratio (in %)	-3.1	-2.9	-2.6	-2.3	-1.2	-2.3	-1.1	0.1
Assumptions								
Exchange rate CZK/EUR	24.9	26.9	25.0	23.9	23.2	-	-	-
Long-term interest rates (% p.a.)	4.6	4.3	4.5	4.5	4.5	-	-	-
Crude oil Brent (USD/barrel)	97.7	53.0	65.5	79.0	85.8	-	-	-
GDP in Eurozone (EA-12) (growth in %, const.p.)	0.8	-3.3	-0.5	0.9	1.8	-	-	-

1.2 Fiscal policy objectives

Due to the economic recession, a substantial change was made in the fiscal target. It now consists in maintaining the state budget deficit at most in the amount of CZK 166 bn in 2010, 164 bn in 2011 and 158 bn in the year 2012. This is also reflected in the planned considerable reduction of medium-term expenditure frameworks in 2010 and 2011 and their stance for 2012. A fiscal policy so defined means that the general government deficit will worsen to 5.1% of GDP for 2010 and subsequently improve moderately to 4.3% of GDP in 2012.

Such setting of the fiscal target results in an interesting situation in which new counter-crisis measures are in a way sterilised by restrictions in other expenditures or by an increase in the tax burden. This is not usual in a pre-election period. The support to the automotive industry through the so-called automobile “scrapping” programme thus may be offset to a certain extent by postponing renewal of the government’s car fleet or by limiting investments into IT infrastructure.

On the basis of the favourable economic result in 2007, the procedure concerning excessive deficit was concluded with the Czech Republic in June 2008. It is obvious that under the current fiscal policy stance the Czech Republic will return to this procedure during 2009. Furthermore, the decrease in the structural government deficit to 1% of GDP by 2012, which the Czech government set out to achieve within the EU fiscal rules, will not be achieved under the valid methodology for calculating the structural balance. Hence, the question remains open as to whether the proposed rate of fiscal consolidation will be, with respect to high level of deficits, regarded as sufficient.

The calculation of the balance’s cyclical component is currently the subject of extensive discussions, as the current methodology shows a certain tendency to underestimate the cyclical component of the deficit. In the growth phase, this tendency was evidenced by an overestimated improvement of the fiscal position, whereas the worsening of this position (i.e. the deepening of the structural deficit) now is being overestimated. A description of the methodology for calculating the cyclical component of the deficit and the debatable areas are presented in Chapter 3, Box 2.

Issues relating to calculating the cyclical component of the deficit are also evident in the case of the Czech Republic, as the worsening of the structural deficit in 2009 by the calculated 1.6 percentage points is greater than would correspond to the impact of those discretionary measures that will take effect in 2009. The impact of additional counter-crisis measures can be estimated at ca 1 percentage point in 2009 and corresponds to the second part of the measures¹ presented in Box 1. Nevertheless, it is necessary to be aware that due to the transfer of a portion of the accrual income from the excise tax on tobacco products from 2008 to 2007, which was not considered previously, the latest increase in rates of this tax will be reflected in revenues no sooner than in 2009. The total impact of all discretionary measures in 2009 should thus be even less than 1 percentage point.

With the gradual expiration of time-limited counter-crisis measures, the structural balance gradually will improve in the coming years of the medium-term outlook. Nevertheless, as results from the aforementioned, the extent of these changes is influenced even by the calculation methodology itself. The extent of consolidation also will be monitored by the European Commission, and it is possible that it will have to be increased.

The inflow of monies from EU funds remains a substantial expansive factor. The funds, in principle, have no immediate influence on the general government balance (except in relation to co-financing) because they represent at the same time both the government's expenditure and revenue, but they also represent additional extensive demand-creating sources.

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

	2008 <i>Preliminary</i>	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
General government balance	-1.5	-4.5	-5.1	-4.8	-4.2
Cyclical component	0.5	-1.0	-1.5	-1.5	-1.6
One-off and other temporary measures	-0.1	-0.1	-0.1	-0.1	0.0
Structural balance	-1.9	-3.5	-3.5	-3.2	-2.6
Change in structural balance	-0.8	-1.6	0.0	0.3	0.6

¹ This topic is also dealt with in the latest addendum to the Convergence Programme: Fiscal Policy Response to the Deteriorating Economic Outlook – Stimulus Measures.
http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/conv_program.html

2 Development of public finance

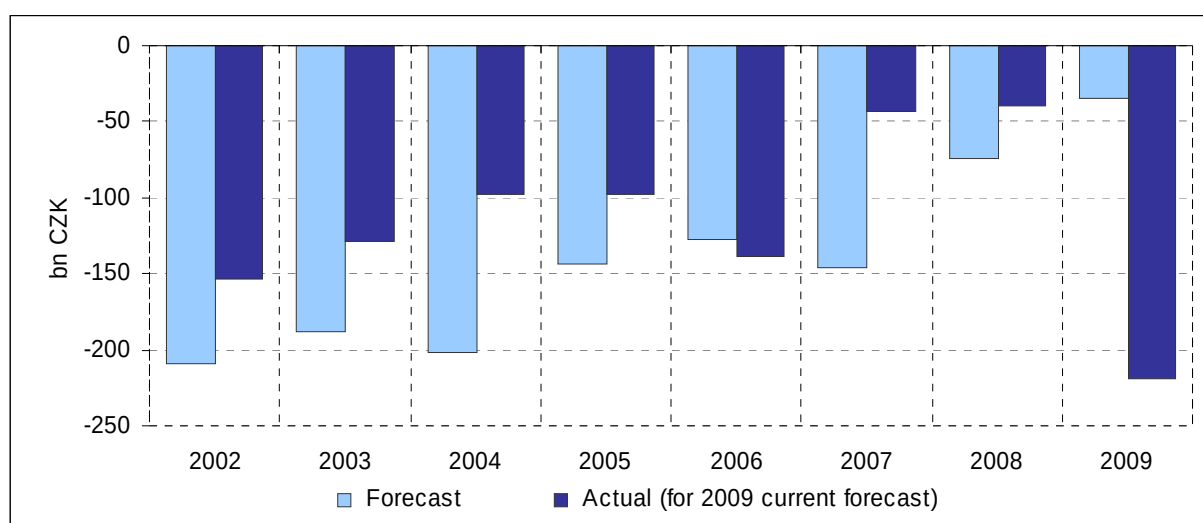
2.1 Public budgets – cash flows

Public budgets in 2008

The **balance of public budgets net of financial operations**² totalled CZK -39.1 bn in 2008, and expressed as a proportion of GDP it was -1.1%. Compared to the expectations in the draft Czech Republic State Budget Act documentation for 2008, the deficit was lower by CZK 35.0 bn. The **balance for fiscal targeting** was even CZK 58.0 bn better in comparison to the original assumptions and came to CZK -36.8 bn. It reached -1.0% of GDP, which is 2.9 percentage points less than originally planned.

As in past years (with the exception of 2006), the total public budget deficit developed better than originally predicted. The following graph shows a comparison of those results anticipated and actually achieved in public budgets balances during 2002 to 2008, as well as the change in the expected deficit for 2009.

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



Despite the fact that the total anticipated revenues were not fully achieved, the balance improved in comparison to the budget documentation, and especially thanks to the savings in expenditures.

² Financial operations mean in particular loans provided and their repayments as well as revenues from privatisation. The cash flow balance of public budgets net of these items better depicts the financial situation for public budgets, because these financial operations represent only the change in the structure of financial assets.

The development of tax revenues can essentially be assessed positively, despite the fact that the total tax revenues were CZK 2.2 bn lower in comparison to the budget documentation. This is due to the fact that at the close of the year the first consequences of the economic crisis, related to the slowing economic growth and decreasing domestic demand, began to become evident. An increase in the VAT rate was more than offset by an acceleration in completing construction works and the population's advance stockpiling of medicaments at the end of 2007, in which year these activities were taxed. As a result, these revenues were CZK 17.4 bn lower. The stockpiling of tax stamp labels for tobacco products at a lower tax rate in the second half of 2007 played a significant role in the non-fulfilment of tax revenues from excise taxes (by CZK 9.5 bn). By contrast, revenues from personal income taxes exceeded expectations by CZK 8.9 bn and revenues from corporate income taxes by CZK 13.4 bn. The decrease in the corporate income tax rates was outweighed by the positive economic results achieved by these taxpayers in previous years. An even more considerable positive deviation occurred in non-tax revenues: they exceeded the original assumptions by CZK 33.5 bn, due especially to the greater tax collection relating to revenues from business activities, property income and collection of other revenues. These revenues (dividends, returns of transfers from past years, and the like) are very difficult to predict.

Total **expenditure** savings were CZK 37.8 bn, and these were projected in the current spending (savings of CZK 25.6 bn) as well as capital expenditures (savings of CZK 12.2 bn). On the current expenditures side, subsidies to non-financial institutions in particular were lower (by CZK 31.0 bn). Transfers to non-profit organisations and the population, on the other hand, were exceeded (by CZK 6.0 bn). Capital spending funds for acquisition of investments were overdrawn by CZK 5.6 bn, while capital transfers to non-financial enterprises were significantly less (by CZK 18.0 bn). The amount of unspent funds may include claims for drawing these funds in the coming years, and, therefore, the undrawn funds need to be regarded as deferred expenditures rather than public budget savings.

The **state budget deficit**, which is presented here (in contrast to commonly publicised data) net of financial operations (CZK 1.7 bn) and the reserve and state guarantee funds impact³ (CZK 60.4 bn), reached CZK 78.7 bn and thus was CZK 13.1 bn worse in comparison to the budget documentation for 2008.

The **state budget revenues** were lower by CZK 41.9 bn in comparison to the budget documentation. Subsidies from the National Fund and direct subsidies from the EU (in the amount of ca CZK 41.6 bn) in particular recorded a significant shortfall. This is related to the non-drawing of expenditures for EU programmes. Tax revenues remained underfulfilled by CZK 10.1 bn. The main reason for that was a lower collection of indirect taxes.

Actual **state budget outlays** were CZK 28.9 bn lower than the original projection. In particular, subsidies to business entities were not realised in current expenditures (savings of CZK 10.2 bn). Capital expenditures were also lower (by CZK 18.7 bn). This, too, is mainly due to the non-drawing of subsidies by business entities. The lower realisation of outlays to EU programmes is especially reflected in both cases. In comparison to the draft Czech Republic State Budget Act documentation,

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

the financial results worsened primarily in the state budget. State funds, health insurance companies and local government budgets recorded considerably better results.

Public budgets had insufficient funds available and so the development described resulted in the **debt's** growing by CZK 97.6 bn. As at 31 December 2008, the debt was CZK 1,070.8 bn (compared to the projected CZK 1,088.4 bn), which is 28.9% of GDP. The main reason for the rising public debt – as in past years – was above all the state budget deficit. The debt was growing faster than the total deficit in public budgets because government securities were being issued also for funds that, in the end, were not used and were transferred in previous years to reserve funds. Such ineffective practice from past years is being partially eliminated for the coming years through a change in the budgetary rules. Accordingly, unspent funds will not accumulate in reserve funds, but individual organisational units of the state will only be entitled to their possible drawing in the future.

Public budgets in 2009

In 2009, we can expect considerable worsening in the development of public budget cash flows compared to the assumptions approved in the budget documentation for 2009. This will reflect consequences of the considerable worsening of economic growth associated with the economic crisis, which negatively influence especially the revenue side but also the expenditure side, and, furthermore, the approved counter-crisis measures (see Box 1).

The predicted total **deficit, net of financial operations**, will be roughly CZK 219.3 bn and is expected to be CZK 184.2 bn higher than planned. Compared to the original expectations, its proportion in GDP will increase markedly by 5.0 percentage points and will be 5.9%. Compared to the budget documentation, public budgets revenues will be lower by CZK 230.6 bn, while expenditures will be higher by CZK 16.4 bn. The **deficit selected for fiscal targeting** should be CZK 132.9 bn higher than planned and reach CZK 173.1 bn. As a proportion of GDP, it will be 3.7 percentage points higher than the originally established fiscal target for 2009 (1.0% of GDP) and will reach 4.7% of GDP (for more information see Chapter 3.1).

The **state budget**, in particular, has a vital influence in re-evaluating the cash flow estimate, and its deficit, net of financial operations, will be higher year on year by CZK 68.4 bn. Compared to the originally approved budget, the state budget deficit will be higher by CZK 113.2 bn and is expected to be approximately CZK 147.2 bn. Considerably **lower** (by CZK 133.5 bn) expected **revenues** will be reflected here. In particular, the development of tax collections will be noticeably worse (including social and health insurance contributions) – decreasing by CZK 128.1 bn. Compared to the original expectation, all tax revenue items will develop more poorly. The greatest re-evaluation concerns the collection of social insurance contributions (less by CZK 39.8 bn). Anticipated revenues from direct taxes also will be appreciably lower (by CZK 50.5 bn). Expected revenues from indirect taxes will be CZK 33.0 bn lower, as VAT collection will decrease further (by CZK 20.4 bn) and revenues from excise taxes are expected to decrease by CZK 12.3 bn.

According to the current estimations, other public budget subjects, too, will achieve worse results than originally predicted. In particular, the outcomes are expected to be significantly worse in local governments (by CZK 31.4 bn), state funds (by CZK 7.6 bn) and the public health insurance sector (by CZK 7.9 bn).

The bulk of the public budget deficit is to be financed by **loans and government bonds**. Their volume will reach CZK 1,188.9 bn, which is 32.2% of GDP. This is CZK 85.6 bn more than originally expected. No major changes are anticipated in the proportions of the individual subjects in the public

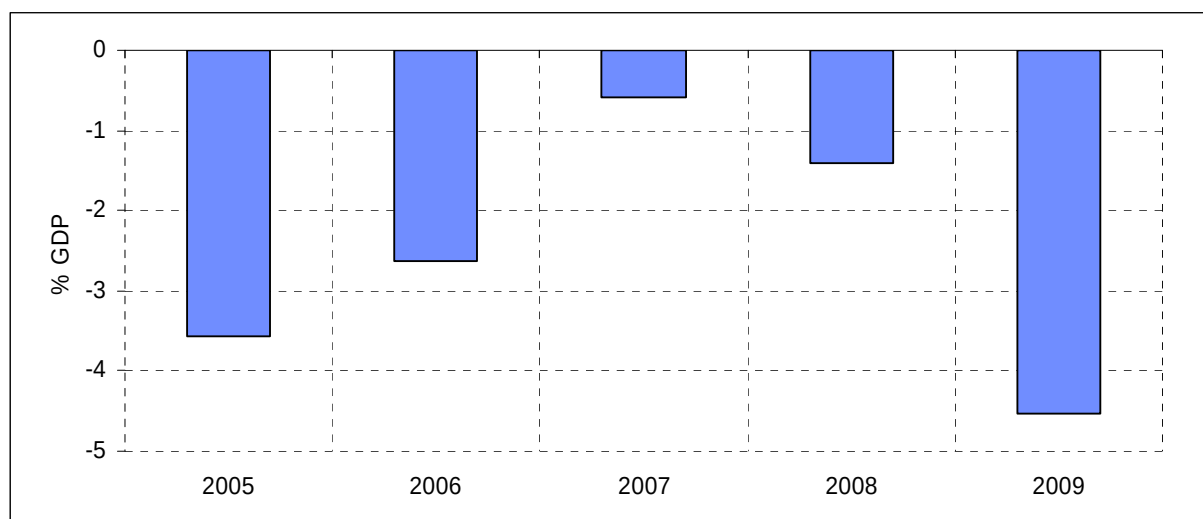
budget indebtedness. The state debt (91.9%) will continue to have the greatest weight in the debt of public budgets, followed by the debt of municipal governments and state funds, which already have used up their own financial resources and therefore are financing their negative balances using debt instruments.

2.2 General government – national accounts (ESA 95)

In 2008, the general government balance reached CZK -54 bn, which was -1.5% of GDP. Compared to the Ministry of Finance's October 2008 estimates, the deficit was higher by nearly CZK 7 bn.

In 2009, the general government deficit is expected to deepen considerably to as much as CZK 167 bn, or 4.5% of GDP. After a relatively long time, the limit of 3%, relevant for fulfilling the Maastricht convergence criteria, will once again be exceeded.

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



Revenues, expenditures and balance in 2008

General government revenues increased by only 2.3% in comparison to 2007 and thus reached CZK 1,517.5 bn, which is 40.9% of GDP. The decreasing trend as to general government revenues' proportion in GDP thus continued. At the same time, due to the decreasing proportion of tax revenues in GDP, households and companies continued to have a greater share in annual earnings.

A group of reform measures adopted in 2007 especially contributed to the relatively moderate growth in the general government revenues side. The PIT and CIT rates were adjusted, which resulted in a year-on-year decrease in the revenues from those taxes. Furthermore, upper limits for social insurance contributions were introduced which, in contrast to previous years, slowed the dynamics of their growth. This decrease in taxes was subsequently compensated on the revenues side by an increase in the reduced VAT rate and by introducing energy taxes.

General government revenues were affected also by the currently ongoing economic crisis, which was partially evident already at the close of 2008. In the last quarter of 2008, the year-on-year economic growth rate slowed significantly. This was reflected in lower growth of general government tax revenues. The influence of the crisis could be seen in VAT revenues in particular, as consumption progressively slowed at the end of the year due to pessimistic expectations. Considerably lower

revenues were also recorded in CIT as, due to the expected crisis, tax payments are likely to be substantially lower than planned following tax declaration submissions. These amounts were obvious in 2008 as a result of the accrual of taxes.

The aforementioned factors caused the significant slowdown of the year-on-year growth rate of tax revenues to 2.2%.

General government expenditures grew by 4.3% to CZK 1,569.6 bn compared to 2007. This represents 42.4% of GDP. Here, as for general government revenues, the trend (though more long-term in nature) for expenditures to represent a decreasing proportion of GDP is obvious.

On the expenditures side, as on the revenues side, the set of reform measures approved in 2007 was reflected to a substantial extent, particularly by the more considerable slowdown in the growth rate of social transfers and, in contrast, the accelerating growth in government investments. Such gradual rearranging of spending priorities into more productive areas should, in the long term, increase the Czech Republic's international competitiveness and, as a whole, be reflected in a faster rise in the living standard.

The ongoing economic crisis has not yet had any major impacts on the expenditures side of the budget in 2008.

In 2008, the emission allowances also were included for the first time in the balance sheet of the general government (State Environmental Fund) in the total amount of CZK 218.6 bn. These allowances were allocated to the Czech Republic for 5 years. Including the emission allowances into the balance sheet, however, influences neither the general government deficit nor the debt but only comprises another change in the volume of assets.

The subsequent drawing of emission allowances free of charge by domestic households and companies represents a capital transfer in the general government expenditures and, in addition to that, a decrease in the same amount is recorded in the net acquisition of the non-produced non-financial assets item on the expenditure side. This operation has no influence on the general government balance. In a case of selling emission allowances to other states, the expenditure item – net acquisition of non-produced non-financial assets – will decrease and, should the money obtained not be spent, the general government balance will improve. In 2008, the domestic entities used emission allowances in the total amount of CZK 36.3 bn. In the case of savings on emissions, therefore, the unused portion may be sold to finance selected expenditure priorities.

Compared to what awaits us, the **general government balance** in 2008 ended in a relatively optimistic deficit of CZK 54 bn that represents 1.5% of GDP. This was influenced mainly by the central government balance which ended in a deficit of CZK 80.4 bn. The two other subsectors (local governments and social security funds) reached in total a surplus of CZK 28.2 bn. Outcomes for all subsectors worsened in comparison to 2007.

In view of the current turbulent development, it is very probable that the data for 2008 will be further adjusted by the Czech Statistical Office (currently it is preliminary actual data) and, therefore, further changes may be made. The stated outcomes, for example, do not include a decrease in revenues from VAT by some CZK 6 bn that will very likely be seen. This and other known facts, especially the results of the statistical findings relating to gross fixed capital formation and the change in inventory, will hence be included in the notification of the general government deficit and debt in October 2009.

Revenues, expenditures and balance in 2009

In 2009, due to the unfavourable economic situation, the total **general government revenues** are expected to decrease by 2.9% to CZK 1,473.6 bn, which represents 39.9% of GDP.

The decrease of the total revenues will be caused especially by revenues from taxes and social security contributions, which will fall by 4.9% versus 2008.

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

With the exception of excise taxes, the revenues from all important taxes and social contributions are likely to decrease in 2009. The decrease will be most significant in CIT revenues which will be lower by 17.6% in comparison with 2008. The reduction in collection of other taxes will hover around 5% as against 2008. This is given especially because corporate taxes tend to have a highly cyclical character, and so companies' profits fluctuate much more than do wages or consumption.

By contrast, excise taxes will record a more considerable growth by 12%. This nevertheless is only a shifted influence from 2008, when the excise tax on tobacco products had risen and merchants had begun to stockpile products already in 2007. According to the Czech Statistical Office, the revenues from the excise tax in relation to the stockpiling belong to 2007, and the following year's figure is hence less by a corresponding amount. The growth in 2009, therefore, ensues only from the low basis in 2008 and is only a delayed effect of the legislation.

A rather considerable growth (by 22.8%) is also expected in other non-tax revenues, especially due to a greater inflow of investment subsidies. The investment subsidies situation concerns especially accrual subsidies from the EU, which are also reflected on the expenditures side (especially in gross fixed capital formation), however, and hence do not affect the deficit (with the exception of national financing).

Table 2-1: Structure of general government revenue

	2004	2005	2006	2007	2008	2009
General government revenue <i>(in % GDP)</i>	42.2	41.4	41.2	42.0	40.9	39.9
-tax revenue <i>(in % GDP)</i>	21.2	20.7	20.2	20.6	19.8	18.9
-social contributions <i>(in % GDP)</i>	16.1	16.2	16.3	16.3	16.2	15.5
-sales <i>(in % GDP)</i>	2.8	2.7	2.5	2.7	2.8	2.9
-other revenues <i>(in % GDP)</i>	2.2	1.9	2.2	2.4	2.2	2.7

Table 2-2: Structure of general government tax revenue

	2004	2005	2006	2007	2008	2009
Tax revenue and social contributions <i>(in % GDP)</i>	37.3	36.8	36.5	36.9	36.0	34.3
-individual income tax <i>(in % GDP)</i>	4.8	4.6	4.2	4.3	3.9	3.7
-corporate income tax <i>(in % GDP)</i>	4.7	4.5	4.8	5.0	4.7	3.9
-VAT <i>(in % GDP)</i>	7.2	7.1	6.5	6.4	7.0	6.6
-excise taxes <i>(in % GDP)</i>	3.5	3.7	3.8	4.0	3.4	3.8
-social contributions <i>(in % GDP)</i>	16.1	16.2	16.3	16.3	16.2	15.5
-other taxes and contributions <i>(in % GDP)</i>	1.0	0.9	0.8	0.8	0.8	0.8

In contrast to the revenues, the **general government expenditures** will retain their dynamics and are estimated to grow by 4.6% in 2009. They will rise to 44.5% of GDP, especially due to the expected decrease in the economy's real output and relatively low anticipated inflation, thus interrupting the favourable decreasing trend that had begun in recent years.

Government consumption⁴ will grow by 4.3% in comparison to 2008, which represents only a very moderate decrease in its dynamics relative to the previous period. Due to the economic problems, the final consumption rate should slow even more. Spending priorities should be directed especially to government investments or into investment subsidies of the general government that have potential to accelerate growth in the living standard over the long term.

As a consequence of the higher unemployment growth caused by reduction in the number of job openings during a period of economic decline, social transfers (especially to the population) will also increase by 6.1% in comparison to 2008. As compared with previous years (except for 2008), and notwithstanding the crisis development, this is relatively sensible growth. Nevertheless, there is a strong risk for the future as 2009 is very likely to be a year of parliamentary elections. Before the last parliamentary elections in 2006, for example, very generous laws were adopted that pushed the growth rate of social transfers up to more than 11%. Moreover, the ongoing crisis may strengthen the motivation of political parties to stimulate consumption (which may be reflected in short-term GDP growth), thus burying such a simple and logical fact as that long-term growth can be achieved only through people's being frugal and growth in their savings.

Another risk item for the general government's future development is in interest outlays, which are estimated to grow by 21.3% as compared to the previous year. This development results mainly from relatively high debt growth in 2008 (of approximately CZK 85 bn) and an uncertain development in the current year. Due to the numerous stimulation packages underway in other countries, a question arises concerning the capacity for absorbing government bonds. The risk premium could therefore rise in this market segment, and that would lead to additional growth in the costs of servicing the debt.

As one of the ways to combat the crisis, government investments will probably accelerate in 2009 (formation of gross fixed capital) and will rise by 8.2% in comparison to 2008. An important influence also comes from expenditures co-financed using the European funds, which are projected into the deficit only in the amount of the national financing component.

The only spending item that will decrease (by 24.5%) is that of other expenditures. This is especially due to a decline of investment subsidies spending by the general government and going to the other entities outside the sector. These subsidies compete to a certain extent with the subsidies from the EU, and, in the case of financing from the European funds, these entities then request much less in subsidies from the general government.

As in 2008, the consumption of emission allowances (without an influence on the deficit) is also considered in the approximate amount of CZK 35 bn this year. Inasmuch as the Czech Republic has only 175 million emission allowances available per year, 30 million allowances were saved already in 2008. In 2009, it is very probable (due to the economic crisis, among other reasons) that the final consumption of allowances will also be lower than the allocation for the given year. If this year's consumption is 140 million emission allowances, then the Czech Republic has approximately 65 million allowances that can be offered for sale. At the current price of CZK 250 per allowance, this

⁴ In 2008, the consumption is divided into individual and collective according to the Ministry of Finance estimates (the Czech Statistical Office does not have these data available yet). Therefore, it might be misleading to follow these items individually and the risk of error in the forecast also increases significantly.

represents a possible funding source in the approximate amount of CZK 16 bn (the exact sum depends upon how prices for allowances and exchange rates will develop).

Table 2-3: Structure of general government expenditure

		2004	2005	2006	2007	2008	2009
General government expenditure	(in % GDP)	45.1	45.0	43.8	42.6	42.4	44.5
-government consumption	(in % GDP)	22.1	22.1	21.3	20.3	20.3	21.2
-social benefits other than social transfers	(in % GDP)	12.9	12.6	12.7	12.9	12.7	13.5
-gross fixed capital formation	(in % GDP)	4.8	4.9	5.0	4.7	4.8	5.3
-other expenditure	(in % GDP)	5.3	5.4	4.9	4.7	4.5	4.4

The **general government balance** will reach approximately CZK 167 bn in 2009, which is 4.5% of GDP. This is significantly worse compared to the previous year. All subsectors will likely face such development, but the central government institutions are likely to be most affected due to a drop in income from tax revenues and growth in outlays especially for transfers to the population and for government investments.

After the good results of the previous two years, the local government subsector will also fall into deficit and will end with a balance of CZK -22.6 bn. As in the central government's case, the dominant role is played especially by tax revenues (which the two sectors share to a certain extent).

The financial results of the social security funds (health insurance companies in the Czech Republic) will be more or less balanced. Nevertheless, this means a substantial worsening compared to the previous years. The main factor here is a shortfall in the health insurance contributions that this subsector collects. In 2009, however, this shortfall is anticipated to be compensated to a certain extent by an increase in insurance payments paid by the state for its insurees and by additional savings on the health insurance companies' operating expenditures.

The total general government deficit was influenced significantly by measures introduced to combat the economic crisis. Those measures already adopted and realised represent CZK 75.3 bn in the total general government deficit for 2009. The deficit balance is further deepened by CZK 2.1 bn due to measures not yet approved but which are very likely to be approved this year. These measures represent almost one-half (CZK 77.4 bn) in the total deficit of CZK 167 bn.

Outlays for the state's environmental obligations represent a great risk this year. A project is currently being prepared under which the state obligations from environmental guarantees should be transferred against consideration to a private company that would ensure their settlement. Should such contract be signed this year, the general government deficit would increase by the entire amount.

Table 2-4: General government balance

		2004	2005	2006	2007	2008	2009
General government balance	(in % GDP)	-3.0	-3.6	-2.6	-0.6	-1.5	-4.5
Central government balance	(in % GDP)	-2.7	-3.5	-2.6	-1.6	-2.2	-3.9
Local government balance	(in % GDP)	-0.2	-0.1	-0.4	0.6	0.5	-0.6
Social security funds balance	(in % GDP)	-0.1	0.0	0.4	0.5	0.3	0.0
Primary balance	(in % GDP)	-1.8	-2.4	-1.5	0.5	-0.3	-3.2

Box 1: Overview of government measures in the National Counter-Crisis Plan and their impacts on the general government budgets in 2009 (annual basis)

Measures	R&E of the General Gov.		
	Rev.	Exp.	(R-E)
I. Realised and approved measures			
1. Integration of resources from reserve funds		-1.5	1.5
2. Increase in guarantees to small and medium-sized enterprises	-0.5		-0.5
3. Support of agriculture entrepreneurs		2.3	-2.3
4. Increase in the Program of Countryside Development		0.3	-0.3
5. Investments in R&D above the framework approved by the state budget		0.3	-0.3
6. Increase in investments into traffic infrastructure		7.2	-7.2
7. Increase in public sector wages	0.4	2.7	-2.3
8. Increase in expenditures on direct payments - co- financing		1.0	-1.0
9. Decrease in the social security contribution paid by employees by 1. p. p.	-18.4		-18.4
10. Decrease in the rate of the CIT	-6.0		-6.0
11. Increase in the base capital of the Czech Export Bank			0.0
12. Increase in the insurance coverage of the Export Guarantee and Insurance Corporation (EGAP)			0.0
13. Change of the law on the insurance of a state-supported export			0.0
14. Fiscal impuls of a support of R&D		1.9	-1.9
15. Decrease in advance payments on income taxes			0.0
16. Broadening of the VAT deduction on personal vehicles	-2.4		-2.4
17. Abolition of advances for taxpayers with less than 5 employees		1.0	-1.0
18. Reductions for employers on SSC and the contribution for the state employment policy	-18.0		-18.0
19. Faster depreciation in the 1st and 2nd depreciation group	-9.4		-9.4
20. Subsidy programme of an energy buildings' demandingness reduction		0.0	0.0
21. Boost of the subsidy programme "PANEL"		0.6	-0.6
22. Expenditure increase in the provision of transport services		2.0	-2.0
23. Decrease of VAT on selected services	-6.4		-6.4
Total			-78.5
II. Measures so far not approved or not realised			
1. Guarantee and a support of small and medium-sized enterprises' credits		2.1	-2.1
Total			-2.1

Impacts of the stated measures are calculated under ESA 95 methodology. For this reason, they may differ from actual claims on public financing. To increase CEB's share capital, for example, CZK 2 bn is requested but in ESA 95 this is a financial operation having no impact on the balance, because one financial asset (cash decreases) is just exchanged for another (the state's stock in CEB increases). Similarly, sources from reserve funds to cover the state budget outlays will represent revenue for the state budget but this is not recognisable under ESA 95. Moreover, postponing advance payments represents a drop in cash tax receipts but not a change in the size of accrued taxes. In the case of reducing the VAT rate on selected services, a yearly impact is given. Only half of this amount is included for the reported deficit, however, as this change is assumed to be effective from mid-year.

In connection with the government's National Counter-Crisis Plan, the positive impact of limiting individual chapters' operational costs is not shown as these sources will be used to cover increased claims for mandatory social expenditures.

It is probable that due to the parliamentary parties' agreement and election cycle further counter-crisis or pre-election measures will be adopted that will further deepen the stated deficit. In the present situation, the Ministry of Finance is not able to estimate which of various proposed measures will be eventually approved, when they will be implemented, and what will be their fiscal impacts. Whatever the extent of measures adopted, their financing may be far from easy in future years. Both the bond market's absorption capacity and the country's potential to collect taxes will be hit by the ongoing crisis.

General government debt

In 2008, the general government debt reached CZK 1,106 bn, representing 29.8% of GDP. Compared to 2007, the absolute debt grew by some CZK 85 bn. Such growth rate significantly outpaces that of the general government deficit (CZK 54 bn), which is the main factor determining the debt in the long term. In the case of such differences, typically it occurs that bonds are issued in amounts greater than necessary to cover budgetary needs, and this inefficiently increases costs to the state budget.

Table 2-5: Debt

		2004	2005	2006	2007	2008	2009
General government debt	(in % GDP)	30.4	29.8	29.6	28.9	29.8	33.8
Central government debt	(in % GDP)	28.1	27.3	27.1	26.5	27.4	31.4
Local government debt	(in % GDP)	2.6	2.7	2.7	2.5	2.5	2.6
Social security funds debt	(in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0

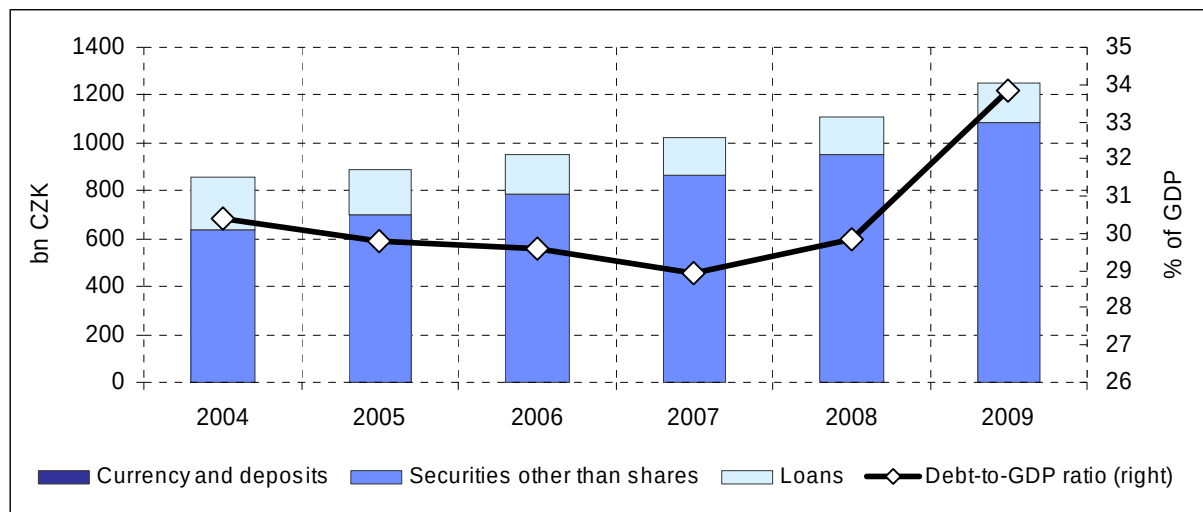
At the end of 2009, the general government debt is expected to be CZK 1,250 bn and represent 33.8% of GDP. In contrast to the previous year, growth in the debt is less than the estimated general government deficit and thus spending is expected to be financed using reserves from previous years.

Table 2-6: Stock-flow adjustment

		2004	2005	2006	2007	2008	2009
Gross debt	(in % GDP)	30.4	29.8	29.6	28.9	29.8	33.8
Change in gross debt	(p.p.)	0.3	-0.6	-0.2	-0.7	0.9	4.0
Decomposition of change in gross debt							
Nominal GDP growth	(p.p.)	-2.5	-1.7	-2.1	-2.6	-1.3	0.1
General government net lending (+) /net borrowing (-)	(p.p.)	2.9	3.6	2.6	0.6	1.4	4.5
Other factors	(p.p.)	-0.1	-2.5	-0.7	1.4	0.8	-0.6
- Difference between cash and accrual	(p.p.)	-0.7	-0.8	0.4	0.0	-0.8	-0.1
- Net accumulation of financial assets	(p.p.)	0.6	-1.2	-0.9	1.5	1.5	-0.5
of which: privatisation proceeds	(p.p.)	0.6	3.6	0.1	0.4	0.7	2.1
- Revaluation and other factors	(p.p.)	0.0	-0.5	-0.2	-0.1	0.2	0.0

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

Graph 2-3: Debt by instruments



2.3 International comparison

General government balance

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

At -7.1% of GDP, Ireland had, perhaps surprisingly, the poorest general government balance in 2008. Ireland expects the deficit to further deepen to 10.7% in 2009, which is the most unfavourable expected value of all the EU-27 countries for the past several years. As many as 12 countries, including the Czech Republic, expect deficits worse than 3% of GDP in 2009 due to the economic problems (see Table 5-19) although, as at the end of April 2009, the current data are not known for Austria and France. With the exceptions of Romania, Greece and the United Kingdom, these all are worse in comparison to the previous year.

Among the new member states, Bulgaria has been very disciplined in the fiscal area in recent years, regularly recording a surplus. So, too, has been Cyprus. The public finances situation in the previously successful Baltic states somewhat worsened. The Scandinavian countries have achieved the highest surpluses, although all of them, after having surpluses for several years, now expect deficits. Consolidation of public budgets is seen especially in Greece, where, despite the current minor fluctuations due to the crisis, the deficit has been cut quite successfully over the long term. A similar situation seems to be in Hungary.

General government debt

General government debt should approximately reflect the development of budget deficits in the given countries over the long term. The general government debt in the EU-27 countries reached 61.5% of GDP in 2008, which is 2.8 percentage points more than in 2007.

In the Czech Republic, there is a relatively good situation with respect of the general government debt. Over the long term, the debt has hovered around 30% of GDP (in 2008 it was 29.8%). In the past few

years it has been even below the 30% mark, and the Czech Republic still could easily meet the Maastricht debt convergence criterion. In 2009, however, it is expected to worsen moderately.

Three countries – Italy, Belgium and Greece – still rank among the EU-27 countries with the highest indebtedness. Italy has remained the only EU-27 country whose public debt, which was 105.8% of GDP in 2008, even exceeds its overall yearly output. The positive debt developments in Bulgaria and Romania are clearly worthy of note. A relatively sharp worsening occurred in Ireland and Luxembourg in 2008, closely followed by the Netherlands. As traditionally, Estonia has the lowest proportion of general government debt to GDP (see Table 5-19).

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

		Balance					Debt				
		2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
EU27	(in % GDP)	-2.4	-1.4	-0.8	-2.3	.	62.7	61.3	58.7	61.5	.
Czech Republic	(in % GDP)	-3.6	-2.6	-0.6	-1.5	-4.5	29.8	29.6	28.9	29.8	33.8
Slovakia	(in % GDP)	-2.8	-3.5	-1.9	-2.2	-2.1	34.2	30.4	29.4	27.6	30.4
Poland	(in % GDP)	-4.3	-3.9	-1.9	-3.9	-4.6	47.1	47.7	44.9	47.1	51.0
Hungary	(in % GDP)	-7.8	-9.2	-4.9	-3.4	-2.9	61.7	65.6	65.8	73.0	78.7
Germany	(in % GDP)	-3.3	-1.5	-0.2	-0.1	-2.9	67.8	67.6	65.1	65.9	69.7
France	(in % GDP)	-2.9	-2.3	-2.7	-3.4	.	66.4	63.7	63.8	68.0	.
United Kingdom	(in % GDP)	-3.4	-2.7	-2.7	-5.5	-5.4	42.3	43.4	44.2	52.0	52.9
Italy	(in % GDP)	-4.3	-3.3	-1.5	-2.7	-3.7	105.8	106.5	103.5	105.8	110.5

3 Medium-term fiscal outlook

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

The balance of public budgets under the fiscal targeting methodology in 2008 was CZK -36.8 billion, or -1.0% of GDP. This result is 0.2 percentage points better than was expected in the previous Fiscal Outlook. For 2009, however, this deficit is currently estimated at 4.7% of GDP. Compared to the last outlook, we thus expect a worsening of 3.0 percentage points. This worsening is understandably due to the significant drop in tax revenues and the growth in social benefits and interest payments.

The fiscal outlook for 2010 to 2012 is not based on full utilisation of the approved expenditure frameworks. Fulfilment of the originally approved frameworks would involve deficits of public budgets under the fiscal targeting methodology in amounts exceeding CZK 230 billion, with a peak in 2011 when the deficit would reach approximately CZK 270 billion (i.e. almost 7% of GDP). Such a deficit amount could threaten the stability of public finances, and so it was deemed necessary to reduce the expenditure frameworks for 2010 and 2011 and to adequately adjust the expenditure framework for 2012. The state budget deficits, which in the medium-term horizon should not exceed CZK 166 billion in 2010 with further slight decrease, were accepted as the basis. Individual targets for public budgets under the fiscal targeting methodology are then also derived from this value. In relative terms, the fiscal targets in all years come in with a decreasing tendency under 5% of GDP.

The reduction in the expenditure frameworks may raise the question as to why no space for full operation of automatic stabilisers is allowed, as it would be by keeping expenditures at the originally planned value. We believe that an argument exists for reducing these frameworks, based on the incomplete setting of our national fiscal rules. The calculation of the frameworks is conducted such that the target deficit is established first, then the revenues are estimated, and the sum of these two items determines the expenditure limits. Revenue estimations, however, are calculated based on the macroeconomic outlook and the real performance of revenues at the time of preparing these frameworks, and these estimations of future revenues thereby in themselves contain a certain cyclical component as well. Thus, the expenditure frameworks set in 2008 also implicitly encompass the estimated revenues from the period at the peak of the economic cycle.⁵

For this reason, the expenditure frameworks should correspond to the revenues derived from the forecast for potential growth. It is now evident that such revenues would be lower than the revenues originally under consideration. In defence of the current fiscal rules, however, it must be pointed out that the estimate of revenues corresponding to the expected development of potential GDP hints at a range of practical difficulties. Information on the actual performance of revenues cannot be used in such estimation, as it is cyclically influenced. Moreover, all the problems connected with the estimate of potential growth are reflected here. The significant reduction in the estimate of the potential GDP growth rate, of which we are now witnesses, may testify to this. This means that although revenues

⁵ The reader should take into consideration the period when the expenditure frameworks were established, the current informational delays and the revisions of the Czech Statistical Office.

were set in 2008 according to the development of the potential product, today they should be higher than would correspond to the current opinion as to the development of that potential.

For public budgets other than the state budget and state funds, we expect a gradual worsening of finances culminating in 2011. For 2008, we still expect a surplus for these components, but they should subsequently record deficits. A deficit in the approximate amount of 0.3% of GDP will be caused especially by the necessity to settle obligations connected with cleaning up old environmental damages. For local budgets and health insurance companies, we anticipate roughly the same deficit financing.

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

		2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
Target for government sector ¹⁾	<i>(bn CZK) [1]</i>	-54.0	-167.0	-190.7	-191.5	-175.2
(ESA 95)	<i>(% of GDP) [2]</i>	-1.5	-4.5	-5.1	-4.9	-4.2
Difference ESA 95 - Fiscal targeting	<i>(bn CZK) [3]</i>	-17.2	6.0	-3.9	-2.0	0.1
Target for public budgets	<i>(bn CZK) [4=1-3]</i>	-36.8	-173.1	-186.7	-189.5	-175.3
(national fiscal targeting)	<i>(% of GDP) [5]</i>	-1.0	-4.7	-5.0	-4.8	-4.2
Public budgets other than SB and SF	<i>(% of GDP) [6]</i>	0.9	-0.6	-0.6	-0.7	-0.5
Target for state budget and state funds	<i>(% of GDP) [7=5-6]</i>	-1.9	-4.1	-4.4	-4.1	-3.7
	<i>(bn CZK) [8]</i>	-70.8	-151.2	-165.3	-162.1	-155.2
State budget	<i>(bn CZK) [8a]</i>	-48.1	-137.9	-163.6	-161.8	-154.7
State funds	<i>(bn CZK) [8b]</i>	-22.7	-13.3	-1.7	-0.3	-0.5
Revenue forecast of SB and SF	<i>(bn CZK) [9]</i>	1085.2	1083.1	952.7	1004.5	1047.5
State budget	<i>(bn CZK) [9a]</i>	990.8	971.2	913.1	964.1	1007.4
State funds	<i>(bn CZK) [9b]</i>	94.4	111.9	39.6	40.4	40.1
New expenditure frameworks	<i>(bn CZK) [10=9-8]</i>	1156.0	1234.2	1117.9	1165.9	1204.0
State budget	<i>(bn CZK) [10a]</i>	1038.9	1109.1	1076.7	1125.9	1163.4
State funds	<i>(bn CZK) [10b]</i>	117.2	125.2	41.2	40.0	40.6

Notes:

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.

Within the range of adjustments allowed by the budgetary rules, the original expenditure frameworks for 2010 and 2011 were increased slightly and only on account of the consolidation between the state budget and state funds.

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

		2010	2011
Frameworks approved in 2008 - unconsolidated	[1]	1126.5	1171.1
Consolidation (planned in 2008)	[2]	14.2	14.5
Frameworks approved in 2008 - consolidated	[3=1-2]	1112.3	1156.6
Adjustments according to the budgetary rules	[4=5+6+7]	0	0
- change in tax assignment	[5]	0	0
- change in expenditure financed from EU funds	[6]	0	0
- unforeseen major influences	[7]	0	0
Frameworks approved in 2008 adjusted - consolidated	[8=3+4]	1112.3	1156.6
Consolidation (planned in May 2009)	[9]	14.3	14.8
Frameworks approved in 2008 adjusted - unconsolidated	[10=8+9]	1126.6	1171.4

As was stated above, a reduction of expenditure limits by CZK 8.7 billion was proposed for 2010, and by CZK 5.4 billion for 2011. For 2012, the proposed spending limit is CZK 1,204 billion.

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

		2010	2011
Frameworks approved in 2008 adjusted	[1]	1126.6	1171.4
New expenditure frameworks	[2]	1117.9	1165.9
Tightening (-) / breach (+) of expenditure frameworks	[3=2-1]	-8.7	-5.4

3.2 General government medium-term outlook

General government balance

The general government balance in 2008 is estimated at -1.5% of GDP, which is 0.9 percentage points worse than in 2007. The shift in the part of excise tax income from tobacco products from 2008 to 2007, on the one hand, and the impacts of the economic problems of the second half of 2008, on the other, contribute to this worsening of the balance.

As a result of the economic recession, in 2009 we expect the general government balance to worsen to as much as -4.5% of GDP. At the same time, just as in the case of the fiscal targeting methodology, the impacts of the counter-crisis measures introduced in Box 1 are taken into account. It can be expected more often than not that any other measures approved for 2009 will not be compensated by other

savings and thus will increase the deficit. At the same time, however, the sale of emission allowances may be positively reflected this year. Depending on the amount that will be spent⁶ from this revenue this year, improvement in the balance may be as much as approximately 0.4 percentage points.

The outlook for 2010 to 2012 is predetermined by the approved expenditure limits of the state budget and state funds, which cover ca two thirds of total government expenditures and the fulfilment of which the outlook anticipates. Government effort to reduce the deficit by tightening expenditure frameworks undoubtedly can be seen as positive. By virtue of engaging unused revenues from the sale of emission allowances, however, it is possible to expect a worsening of deficits in 2010 to 2012 by approximately 0.1 percentage points as compared to the data given in Table 3-1.

Another factor influencing the general government balance is the estimate of the difference between the fiscal targeting deficit and the deficit under the ESA 95 methodology. In a growth period, it is typical that accrued tax revenues “lead” cash revenues. The deficit under the ESA methodology, therefore, tends to be lower than the cash deficit. In the case of the Czech Republic, the years 2006 and 2007 can attest to this. In times of economic decline, this logically tends to be the opposite. At the same time, for the period 2009–2011 we previously had anticipated that, in the case of the Czech Republic, this differential would be negative with a gradual abatement – due not to economic decline but to reform of public finances that brings with it a significant reduction especially of CIT.

For 2009, however, this difference, perhaps surprisingly, appears in the positive. That is why government counter-crisis measures are focused also on helping entrepreneurs by means of cancelling advance payments on income tax. This concerns, on the one hand, the automatic remission of tax advances for taxpayers with fewer than five employees, but especially the helpful remission of advances for other taxpayers. This effect thus predominated and the expected accrued revenues in 2009 are higher than the expected cash revenues, with a corresponding impact on the difference between the monitored balances. In later years, however, we expect the return to a negative difference between these balances and a gradual disappearance of the difference in 2012.

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

		2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
General government balance	(% of GDP)	-1.5	-4.5	-5.1	-4.9	-4.2
Central government	(% of GDP)	-2.2	-3.9	-4.8	-4.5	-4.0
Local governments	(% of GDP)	0.5	-0.6	-0.2	-0.2	0.0
Social security funds	(% of GDP)	0.3	0.0	-0.1	-0.2	-0.3
Total revenue	(% of GDP)	40.9	39.9	40.0	39.7	40.1
	(growth in %)	2.3	-2.9	1.6	4.1	6.1
Total expenditure	(% of GDP)	42.4	44.5	45.1	44.6	44.3
	(growth in %)	4.3	4.6	2.9	3.7	4.5

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

⁶ The greater the amount spent this year, the lower the improvement in the balance will be.

General government revenues

The development dynamics for general government revenues correspond to the current economic situation and macroeconomic forecast. In 2012, the revenue side will be affected by the expected expiration of the social insurance credit. In the case of VAT, we expect a downward revision of revenues for 2008. The decrease in income in 2009 thus will not be so significant and will reflect the expected shift of certain services to a reduced tax rate and introduction of an entitlement to a deduction on personal automobiles.

Table 3-5: General government revenue

		2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
Total revenue	(bn CZK)	1517.5	1473.6	1498.0	1559.1	1654.1
	(growth in %)	2.3	-2.9	1.6	4.1	6.1
Tax revenue	(bn CZK)	734.1	697.2	716.1	740.7	772.9
	(growth in %)	0.9	-5.0	2.7	3.4	4.3
Taxes on production and imports	(bn CZK)	412.6	413.2	425.3	437.5	450.7
	(growth in %)	4.6	0.1	2.9	2.9	3.0
of which: Value added tax	(bn CZK)	260.6	245.2	250.1	260.2	271.7
	(growth in %)	14.9	-5.9	2.0	4.0	4.4
Excise taxes	(bn CZK)	126.7	141.8	148.9	150.6	151.7
	(growth in %)	-11.1	12.0	5.0	1.1	0.8
Current taxes on income, wealth, etc.	(bn CZK)	321.1	283.6	290.4	302.8	321.7
	(growth in %)	-3.5	-11.7	2.4	4.3	6.3
of which: Personal income tax	(bn CZK)	143.3	136.3	139.1	146.2	158.3
	(growth in %)	-5.9	-4.9	2.1	5.1	8.3
Corporate income tax	(bn CZK)	173.8	143.2	146.8	152.0	158.7
	(growth in %)	-1.5	-17.6	2.5	3.5	4.4
Capital taxes	(bn CZK)	0.4	0.4	0.4	0.4	0.4
	(growth in %)	-12.5	1.7	-2.4	0.0	0.0
Social contributions	(bn CZK)	599.3	570.6	560.0	584.6	632.0
	(growth in %)	3.9	-4.8	-1.9	4.4	8.1
Property income	(bn CZK)	31.0	30.9	32.6	33.1	36.3
	(growth in %)	6.6	-0.3	5.5	1.5	9.6
Other	(bn CZK)	153.0	174.9	189.2	200.6	212.9
	(growth in %)	1.9	14.3	8.1	6.0	6.2
Tax burden	(% of GDP)	36.0	34.3	34.1	33.8	34.0

The latest increase in the tax rate for tobacco products will finally be reflected in excise taxes in 2009. Property income also will record intense growth (i.e. interest received and dividend income from state-owned enterprises). In this case, the growth relates to a large volume of dividends paid. The expected increased inflow of EU funds (included in the item “Other”) will contribute to growth in revenues.

The tax quota will stabilise at a level around 34% of GDP.

General government expenditures

We anticipate a continuation in the government’s very economical consumption behaviour, which will be enforced by the need to uphold tightened expenditure limits.

A downward correction was made in the item “Gross fixed capital formation”. Despite the increasing drawing of European monies, we expect slower growth of gross fixed capital formation in 2010.

Social transfers, on the other hand, have been increased compared to the last outlook. In the case of compensation to employees, we are reflecting in 2010 a planned stabilisation in the volume of wages in the government sector. For 2011 and 2012, however, we take into account the expected “thawing” of the wage base for institutional officials, judges, public prosecutors, and certain other employees and functionaries.

The volume of interest payments logically will grow, but that nevertheless will be partially impeded by the diminishment of privatisation proceeds.

Table 3-6: General government expenditure

		2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
Total expenditure	(bn CZK)	1569.6	1641.1	1689.1	1751.1	1829.8
	(growth in %)	4.3	4.6	2.9	3.7	4.5
Final consumption expenditure	(bn CZK)	751.0	783.4	801.4	823.8	847.6
	(growth in %)	4.6	4.3	2.3	2.8	2.9
Collective consumption	(bn CZK)	368.2	389.3	394.0	405.9	415.0
	(growth in %)	3.7	5.7	1.2	3.0	2.2
Individual consumption	(bn CZK)	382.8	394.0	407.3	417.9	432.5
	(growth in %)	5.4	2.9	3.4	2.6	3.5
Social benefits in kind	(bn CZK)	198.4	208.7	213.2	219.7	227.4
	(growth in %)	6.0	5.2	2.2	3.1	3.5
Transfers of individual non-market goods and services	(bn CZK)	184.4	185.3	194.1	198.2	205.2
	(growth in %)	4.7	0.5	4.8	2.1	3.5
Social transfers other than in kind	(bn CZK)	471.3	499.8	525.5	550.5	593.9
	(growth in %)	3.9	6.1	5.1	4.7	7.9
Interest	(bn CZK)	39.8	48.2	60.4	70.2	76.9
	(growth in %)	-1.2	21.3	25.3	16.2	9.5
Subsidies	(bn CZK)	63.7	67.0	63.6	64.2	65.2
	(growth in %)	2.0	5.1	-5.0	0.9	1.5
Gross fixed capital formation	(bn CZK)	179.4	194.1	202.6	211.9	218.1
	(growth in %)	7.9	8.2	4.4	4.6	2.9
Other	(bn CZK)	64.4	48.7	35.5	30.4	28.1
	(growth in %)	1.6	-24.5	-27.0	-14.3	-7.6
<i>Compensation of employees</i>	(bn CZK)	280.9	288.1	288.1	290.4	292.8
	(growth in %)	4.6	2.6	0.0	0.8	0.8
Total social transfers	(bn CZK)	669.7	708.5	738.7	770.2	821.3
	(growth in %)	4.5	5.8	4.3	4.3	6.6

General government debt

In contrast to the last outlook, in the years 2008–2012 we now expect government debt as a proportion of GDP to be significantly higher and that it will have nearly exceeded 30% of GDP already in 2008. In the indicated time frame, we anticipate that debt as a proportion of GDP will increase by 11.4 percentage points.

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

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

In 2007 and evidently also in 2008, financial assets, specifically currency and deposits, accumulated significantly. That slowed the decline of the debt share. On the liabilities side, the increased holding of deposits is reflected especially in bond issues. In 2009, the state enterprise Správa Letiště Praha, s.p. (Prague Airport) is expected to be privatised. We anticipate that currency and deposits from this privatisation as well as previously accumulated financial assets will be used to finance government expenditures in 2009–2012. This will contribute to slower increase in debt.

The outlook encompasses no privatisation events not yet approved. In case of their realisation and the use of privatisation revenues to finance government expenditures, the drop in government debt as a proportion of GDP will quicken.

Table 3-7: Gross consolidated government debt

		2007	2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
General government	<i>(bn CZK)</i>	1020.7	1105.8	1249.5	1405.3	1560.8	1701.4
Central government	<i>(bn CZK)</i>	936.0	1016.4	1157.5	1307.5	1456.2	1596.8
Local government	<i>(bn CZK)</i>	88.4	92.5	96.4	102.2	109.0	109.0
Social security funds	<i>(bn CZK)</i>	0.1	0.1	0.1	0.1	0.1	0.1
Government debt to GDP ratio	<i>(% of GDP)</i>	28.9	29.8	33.8	37.5	39.8	41.2
Contribution to change in debt							
Change in debt	<i>(p.p.)</i>	-0.7	0.9	4.0	3.7	2.3	1.4
Primary balance	<i>(p.p.)</i>	-0.5	0.4	3.2	3.5	3.1	2.4
Interest	<i>(p.p.)</i>	1.1	1.1	1.3	1.6	1.8	1.9
Nominal GDP growth	<i>(p.p.)</i>	-2.6	-1.4	0.1	-0.5	-1.7	-2.0
Stock-flow adjustment	<i>(p.p.)</i>	1.4	0.8	-0.6	-0.9	-0.9	-0.8
Difference between cash and accruals	<i>(p.p.)</i>	0.0	-0.8	-0.1	-0.1	-0.1	-0.1
Net acquisition of financial assets	<i>(p.p.)</i>	1.5	1.5	-0.5	-0.8	-0.8	-0.7
	<i>(bn CZK)</i>	51.8	55.1	-19.3	-31.0	-32.0	-30.0
<i>of which: currency and deposits</i>	<i>(bn CZK)</i>	76.2	75.7	55.3	-31.0	-32.0	-30.0
<i>equity and other shares (privatization)</i>	<i>(bn CZK)</i>	-18.5	-22.0	-74.6	0.0	0.0	0.0
<i>other assets and non-debt liabilities</i>	<i>(bn CZK)</i>	-5.9	1.4	0.0	0.0	0.0	0.0
Revaluation effects and other	<i>(p.p.)</i>	-0.1	0.2	0.0	0.0	0.0	0.0

Cyclical development

According to the current estimates of GDP potential and the macroeconomic forecast, the Czech economy is in a cooling phase, having reached the peak of its economic cycle in 2007. In the outlook, we anticipate a slowing of the GDP growth rate to below its potential level, whereby the positive output gap will reverse into negative values in 2009. These unfavourable macroeconomic conditions will result in the nominal deficit's anticipated increase as a proportion of GDP in 2009.

Fiscal effort, defined as the year-on-year change in the structural balance, achieved positive values in 2007. Evidently, however, these results are not to be repeated in 2008 and 2009. An increase in fiscal effort thus may not be expected until 2011.

As follows from the discussion in Box 2, it is necessary at this time to approach assessment of the calculated structural balance with great caution. It is evident, however, that the medium-term budgetary objective, to which the Czech Republic is bound by the EU, will not be met in 2012 so long as fiscal policy is established in this way.

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

	2008	2009 <i>Forecast</i>	2010 <i>Outlook</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>
Real GDP growth <i>(in %)</i>	3.2	-2.3	0.8	2.4	3.0
Potential GDP growth <i>(in %)</i>	4.0	3.3	2.6	2.9	3.2
Output gap	1.8	-3.6	-5.3	-5.8	-6.0
General government balance	-1.5	-4.5	-5.1	-4.8	-4.2
Cyclical budgetary component	0.5	-1.0	-1.5	-1.5	-1.6
Cyclically adjusted balance	-2.0	-3.5	-3.6	-3.3	-2.6
One-off and other temporary measures	-0.1	-0.1	-0.1	-0.1	0.0
Structural balance	-1.9	-3.5	-3.5	-3.2	-2.6
Interest	1.1	1.3	1.6	1.8	1.9
Structural primary balance	-0.8	-2.2	-1.9	-1.4	-0.7
Change in structural balance	-0.8	-1.6	0.0	0.3	0.6

Box 2: Decomposition of the balance

To better understand the economic situation and conduct of proper fiscal policy, it is expedient to divide the balance of public budgets into several components. The Ministry of Finance divides the balance into three basic components – cyclical, one-off and structural. The total balance without the cyclical component is known as the cyclically adjusted balance. If we then subtract the impact of one-off items from the cyclically adjusted balance, we obtain the structural balance.⁷

Each balance component under the aforementioned classification has its own economic significance. The cyclical component reflects the impact of the economic cycle: in times of prosperity, when the actual GDP exceeds its potential value, budgets show a cyclical surplus; when actual GDP drops below potential GDP, on the other hand, a cyclical budgetary deficit occurs. One-off measures

⁷ For other purposes, we can calculate the primary balance (without one-off measures or interest payments) as well as the structural primary balance (without one-off measures, interest payments or the cyclical component) from the total balance.

include those budgetary items that respond to payments of certain one-off expenditures or gains from one-off revenue, and these do not have a repetitious character. The earmarking of specific one-off items is to a certain extent subjective. In the monitored period, one-off expenditures were greater than one-off revenues, and thus the structural balance achieved better values than did the only cyclically adjusted balance. The structural balance then reflects the impact of the long-term setting of fiscal policy without the effects of the economic cycle or one-off events.

In estimating the cyclical component, we use the methodology developed by OECD.⁸ The following revenues were identified as items sensitive to the cyclical development of GDP: CIT, PIT, social security and health insurance contributions, VAT, excise taxes, and the no longer existing customs duties. We consider unemployment benefits to be the only cyclically sensitive expenditure item. The elasticity of these items should be assessed with respect to the cyclical component of GDP. The estimation of these items' elasticity takes place in two steps – estimation of the elasticity of taxes with regard to the macroeconomic base and estimation of the elasticity of this base with regard to GDP using regression. The results of the estimation are in the table.

Table 3-9: Tax elasticities

Cyclically dependent item	Up to 2007	Since 2008
VAT	1.0	
Excises	1.0	
CIT	1.4	
PIT	1.2	1.0
Social security contributions	0.8	
Import duties (in the past)	1.0	
Unemployment benefits	-3.3	

Elasticity of the personal income tax changed in 2008 in connection with the introduction of a flat tax.

To estimate potential GDP, we use the Cobb-Douglas production function⁹. The difference between actual and potential GDP is the output gap, which is used to calculate the cyclical balance component.

We calculate the cyclical component of the stated items as the product of the output gap, the elasticity of individual items and the share of these items in GDP.

The advantages of using this method lie primarily in its transparency and intuitiveness. Unfortunately, this method also has certain limitations – in addition to inaccuracies in estimates of the output gap in real time, there also exists a risk of changes in tax elasticities, whether in connection with amendments in legislation or in response to sudden changes in the economic situation. The impact of discretionary measures on changes in tax elasticities is a subject of interest for the Economic Policy Committee. Findings from an analysis conducted at the Ministry of Finance confirmed the connection between discretionary measures and changes in tax elasticities for indirect taxes, particularly VAT.

⁸ For a more detailed explanation of this method see Macroeconomic Forecast 07/2003.

⁹ Another approach to estimating total productivity of production factors is to use such statistical methods as the Hodrick-Prescott filter. The Economic Policy Committee currently advises using the Kalman filter.

Constant elasticities in the long term would result in an approximately constant share of taxes in GDP. Fluctuations in tax collection, therefore, cannot be reliably explained under the assumption of constant elasticities. In countries with progressive taxation, these changes tend to be explained by, among other things, a shift of entities into other tax brackets, which falls into the sphere of built-in fiscal stabilisers. The lag of adopted measures behind the actual economic situation is also significant. Examples from EU countries indicate that during intense economic slowdown tax elasticities first increase strongly (before the crisis starts) and then fall sharply (during the crisis). In the next period, the elasticity values generally stabilise at pre-crisis levels. An analysis underway at the Ministry of Finance confirms the increase of elasticities in connection with the start of an economic crisis. The future decrease of elasticity, however, depends on the accuracy of estimates for 2010 and 2011.

3.3 Long-term sustainability of public finances

With regard to the long-term development of public finances, no fundamental changes occurred during the past period. It can be said, therefore, that the analyses described in the last issue of the Fiscal Outlook remain in effect. The most current analysis is presently that at the European level.

The Economic Policy Committee and European Commission in May 2009 published the 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008–2060). The report is issued every three years and surveys the impact of long-term macroeconomic and demographic development on public expenditures.

As the report spans a long-term horizon, the economic crisis thus does not have such a large impact on long-term trends, although it undoubtedly impairs the initial position for public budgets in all EU countries.

The main findings of the 2009 Ageing Report are summarised in the following points:

- A substantial decline in the working-age population (with the working-age population increasing in only seven EU countries: Belgium, Ireland, France, Cyprus, Luxembourg, Sweden and the UK) and a slowing trend in net immigration through the entire horizon of the projections, which under otherwise constant conditions will lead to a reduction in the labour supply, are expected. Immigration, moreover, will be concentrated primarily in Italy (in total, 12 million people through 2060), Spain (11.6 million), Germany (8.2 million) and the UK (7.8 million). Understandably, this has a negative impact on potential growth. The average potential GDP growth rate is estimated at 2.4% for 2007–2020 and subsequently will drop as far as 1.3% in the period 2041–2060.
- The demographic projection for the EU-27 shows a slight population increase in 2060 compared to 2008. Nevertheless, the population increase involves only about half of the EU countries (Belgium, Denmark, Ireland, Spain, France, Cyprus, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the UK), while the other half will face a population decrease (Bulgaria, Czech Republic, Germany, Estonia, Greece, Italy, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovenia and Slovakia). Throughout the projection horizon, the population structure, too, will change, and that toward an older population.
- The impact of the ageing population on public budgets will become markedly evident already in the following decade, as under unchanged conditions long-term expenditures connected with the ageing population will have increased by 2060 by 4.7 percentage points of GDP in the EU-27 states. Pension expenditures comprise the largest share in this increase, followed by health care expenditures and long-term care expenditures. An increase of 2.4 percentage points of GDP is

expected for public pension expenditures from 2007 to 2060 throughout the EU-27. Nevertheless, this development is not uniform and varies considerably among EU countries according to their demographic profiles, specific characteristics in their pension systems, and the status of reforms effected or in preparation. If health care were to develop pursuant to future growth in national income, then public expenditures on health care would increase within the entire EU-27 for the entire projection period 2007–2060 by 1.5 percentage points of GDP. The growth for public expenditures on long-term care is slightly less, increasing by 1.1 percentage points of GDP.

With regard to the impacts of long-term expenditures on public budgets, EU countries can be divided into three categories:

- Countries with a substantial increase in long-term public expenditures. This category includes a total of nine EU countries (Luxembourg, Greece, Slovenia, Cyprus, Malta, Romania, the Netherlands, Spain and Ireland) plus Norway with expected spending increases of 7 percentage points of GDP and higher.
- For the second group of countries – Belgium, Finland, Czech Republic, Lithuania, Slovakia, UK, Germany and Hungary – long-term expenditures will grow by between 4 and 7 percentage points of GDP.
- Lastly, countries with only slight growth in long-term public expenditures (by 4 percentage points of GDP or less) include Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia and Poland. For the majority of these countries, their expenditures will increase more in the areas of health and long-term care than for pension outlays.

Pension reforms, which a number of EU countries have introduced in recent years, had a positive impact on long-term expenditures. Such countries include the Czech Republic, Hungary, Denmark and Portugal. Nevertheless, in certain countries the extent of reforms continues to be inadequate and it is necessary in these countries to continue with reforms so that they are able to deal with the EU population's growing proportion of older persons. Currently, implementation of other measures, such as support for employment of older persons, can be very desirable as a complement to already effected reforms.

The long-term projections make it possible to follow the timing and extent of economic changes throughout the 2007–2060 horizon under the so-called no-policy scenario, i.e. a scenario with rigid conditions in the area of policy setting. Thus, they are very important for finding suitable (qualitatively as well as quantitatively) measures in a timely manner that will bring positive changes in the area of potential growth and the impact on public budgets.

4 Topic: The concept of tax accrual and the methods for its calculation in the Czech Republic

4.1 Accrual versus cash system

Like systems for financial accounting, government accounting distinguishes between two basic systems: an accrual system and a cash system. Naturally, both systems have their advantages and disadvantages. This is one of the main reasons why, unlike financial accounting, in which an accounting unit uses only one system¹⁰, developed country governments usually use both accounting systems. In practice, however, there are varying requirements for the outputs from these systems and, therefore, even several variants of each of the systems are used. As a result, they are often similar to, or even overlap with, one another. The Czech Republic is no exception in this regard.

As this chapter aims to present the calculation of tax revenue accruals according to the ESA 95 methodology in the Czech Republic, it is appropriate first to mention the methods used in the country and to briefly introduce the basic accounting systems stated above.

If we consider methods of recording tax revenues, we will encounter accrual accounting recognition in the ESA 95 methodology, which is the methodology used by the EU member states. Different requirements for their corresponding abilities to provide relevant information gave rise to the OECD accrual methodology¹¹. The differences between the two accrual methodologies consist in a slightly different definition of the term “tax” and in a different system of classifying individual tax revenues¹².

The cash system is represented by the national methodology for compiling a state budget and the fiscal targeting methodology. The former may be called a purely cash methodology, while the latter was implemented in order to bring the national methodology closer to the ESA 95 methodology and so that the fiscal targeting established under the ESA 95 methodology could be transposed and subsequently fulfilled in the national methodology.

To complete the picture, it is necessary to mention two International Monetary Fund (IMF) methodologies – GFS 1986 and GFS 2001 – where the former is again a cash methodology while the latter is closer to ESA 95 and contains both cash and accrual elements.

It is obvious from the aforementioned listing that methodologies based on the accrual concept have prevailed over time. Nevertheless, we cannot rule out that this perhaps merely reflects an international “fashion” wave. Indeed, during the times of the so-called planned economy the Czechoslovak Socialist Republic used a system similar to the accrual concept while the International Monetary Fund (IMF) as well as OECD used the cash concept. After the change of the economic system, IMF

¹⁰ In financial accounting, for example, the cash flow statement is a statement as to the actual movements of funds and is derived from the accrual accounting to restate those movements on a cash basis.

¹¹ However, OECD assumed the accrual principle no sooner than in 2002.

¹² The differences as to how each methodology understands the term “tax” are described, for example, in the methodology appendix to the OECD’s Revenue Statistics publication.

recommended that the Czechoslovak Federative Republic should begin using the cash concept which, in the IMF's opinion, better suited the transition economies and which was used by the IMF itself. Nevertheless, the effort of the Czech Republic to join the EU was associated with an obligation to use an accrual system for government accounting. At that time, international institutions also began tending toward the accrual concept.

Cash system

In a cash accounting system, tax revenues received and expenditures deducted from government accounts are recognised at the time when the respective movement on the account occurred. Therefore, there is no direct time connection with the reason for the origin of that movement on the account (i.e. an economic reason).

Cash recognition of a transaction is undoubtedly an older system. It is hence no surprise that states which are characterised by a certain extent of inertia use this system even today when accrual accounting is typically used. Nevertheless, this inertia is definitively not the most important reason for retaining the system.

An unequivocal advantage of the cash approach is that it permits relatively simple monitoring of transactions, as essentially supporting documents are immediately available and subsequently so, too, are accounting outputs. This immediate availability also makes the cash accounting more advantageous for financial planning. If a financial outlook is being prepared for a period of $t+3$, the cash accounting provides information on the actual situation at time t . On the other hand, due to the time delay, at time t accrual accounting provides information only about the actual situation at time $t-1$. The projection period for the cash approach is thus one year shorter, which is certainly a significant advantage.

Nevertheless, governments prefer this accounting system not only because it is simple and well-established, but also for reasons of the prevailing deficit financing wherein the required output of an accounting system is the amount of a cash deficit that needs to be financed in the respective accounting year.

On the other hand, in the cash system, revenues and expenditures are not assigned to the period in which the reason for their origin occurred. This limits the ability of the cash balance to provide appropriate information in evaluating the impacts of the government's economic policy. The government otherwise uses data from the system of national accounts, which are, however, maintained in the accrual methodology.

Accrual system

Accrual accounting recognises a cash flow in the period in which a certain economic value originated, changed or ceased to exist. The accrual principle enables comparison of economically corresponding quantities in a selected period, thus providing more accurate, complete and meaningful information that can be used in formulating the governmental economic policy. A year-on-year change in tax revenues corresponds to the year-on-year change in the tax base and/or tax rates because the accrual

principle removes the problem as to the time delay in tax collection or refund. This feature, then, allows for more precise planning and execution of the state's tax and fiscal policy. At the same time, compared to the cash principle, the possibilities for creative accounting¹³ are limited, although the accrual principle is by no means wholly resistant to such approaches.

The disadvantages of the accrual principle, which also considerably reduce the aforementioned advantages, include a greater complexity of record keeping, greater requirements for data sources, and, most especially, considerable time delay between the end of the period under review and the possibility to obtain definitive data. In the Czech Republic, this delay is ca 14 months, i.e. definitive data for 2007 were known only at the beginning of 2009. As already mentioned, this delay extends the forecast horizon. The forecast in the accrual methodology is thus burdened by a greater error, and especially so towards the end of the forecast horizon.

In certain cases, it is difficult or even impossible to use the accrual reporting. An example used in the literature¹⁴ regards the tax on capital gains. If an asset that is intended for sale to realise a profit is held for several tax periods, then it may not be technically possible to determine its selling price at the end of these periods so that the proportionate parts of the gain realised in each period can be allocated to the respective period.

Problems are caused, too, by the possibility to apply a tax loss in a period different than that in which it occurred. The loss incurred should belong to the period in which it occurred and, therefore, it should not reduce the tax revenues in future or previous years. On an accrual basis, its transfer should not be possible. In practice, however, the accrued revenue is reduced by a loss incurred in a different tax period and is applied at the given time because the tax is never collected in the amount corresponding to the law and no information is available as to which part of the applied aggregate loss in the given tax period relates to which years.

Furthermore, we will point out that in some cases, due to there being significantly insufficient source data, it is necessary to use expert estimates, which may however be open to room for manipulation.

4.2 The ESA 95 accrual system

In the EU, the reporting of the general government on an accrual basis is governed by Council Regulation No. 2223/96 and its appendix – The European system of accounts – ESA 95. On the basis of Regulation No. 2516/2000 of the European Parliament and Council, it is possible to use two basic methods for calculating the accrual tax revenues – a method based on data from tax declarations and tax assessments or a time-adjusted cash method.

¹³ An example is payment of retirement pensions at the end of a year from the operating funds of the state-owned Czech Post, because the funds for the pensions to be paid are sent to Czech Post no sooner than in the following budgetary period. Nevertheless, the accrual amount of the deficit in the given case is not affected.

¹⁴ Final Recommendations on the Treatment of Taxes on Holding Gains in the SNA, François Lequiller, OECD, 2003.

Method based on tax declarations

A method based on tax declarations uses data stated in tax forms concerning the tax obligations of all entities paying the given tax. The amount thus determined must nevertheless be adjusted by a part of the tax obligations included in tax declarations but which will never be paid. Under the ESA 95 methodology, the state may choose whether it wants to reduce the tax revenues by the respective amount or whether it wishes to leave the tax revenues unchanged and to record the respective amount of uncollected tax in the national accounts as a capital transfer (i.e. as an increase of total government expenditures).

An unequivocal advantage of this method is the clear relationship between the structure of the tax and its revenue. On the other hand, the main problem of this method is to make a reliable and, especially, verifiable determination as to the uncollected part of the tax, or to establish a specific coefficient for the uncollected tax. If we stated that accrual accounting, in contrast to cash accounting, places higher demands as to the amount of supporting information required, then the requirement for information sources reaches its extreme when using the method based on tax declarations. Although the calculation of coefficients is primarily based on data from the past, the natural principle of prudence and Eurostat's requirements for verifiability of coefficients used represent a great obstacle to using this method. The coefficient estimate for year t reflects not only the payment discipline of tax subjects in year t but also the number and efficiency of inspections by financial authorities in the period for assessing tax or retroactively assessing tax¹⁵ as well as the outcomes from court disputes that can last many years and are highly uncertain due to changing legislation.

At the same time, it is not possible with sufficient certainty to rule out intentional and purposeful manipulation with estimates for the coefficients and hence with the estimates of tax revenues. This fact may itself lead to accusations of manipulation against those institutions which participate in determining the coefficient even though no manipulation in fact occurred and any revisions only result from the effort to reflect the reality as accurately as possible. Therefore, the last revision should be made after the end of all court disputes relating to the tax period in question.

As states the Ministry of Finance of the Slovak Republic¹⁶: “this method has demanding requirements as to the availability and quality of data from tax declarations... (and) demanding time requirements for preparing the data and estimates of the coefficients”. Twelve institutions participated in the process of determining the coefficients in Slovakia, and it is stated that despite maximum efforts being made, it was not possible to fully eliminate risks leading to incorrect results and necessary revisions. For the aforementioned reasons, Slovakia stopped using this method. Likewise Malta, originally using the method based on tax declarations, although not entirely corresponding to the requirements of ESA 95, started using the time-adjusted cash method.

Knowing the aforementioned, it might be somewhat surprising that the tax declarations method is recommended to countries with high tax arrears, especially when we realise that there undoubtedly will be pressure for reducing the amount of arrears in these countries and that will result in instability

¹⁵ Due to a recent finding of the Constitutional Court, the possibility of random checks has been questioned. See I.ÚS 1835/2007.

¹⁶ Recognising taxes and social contributions according to the ESA 95 methodology: Adoption of the time-adjusted cash fulfilment method, Ministry of Finance of the Slovak Republic, 2007.

of the coefficient for uncollected tax over time or in an effort to reduce its amount. Although the principle of prudence might be realised in this way, nevertheless, the principle of the accounting's presenting a true picture can scarcely be satisfied.

Time-adjusted cash method

The time-adjusted cash method consists in shifting the cash changes recorded on the accounts into the period to which such changes belong on the basis of their economic character. The length of the time shift ensues from the applicable legislation and practical experience relating to the time lag between the movements of cash on the governmental accounts and the economic reality the existence of which gives rise to a certain tax obligation. In the case of a tax system based on advance payments, the tax overpayments or underpayments usually move to the relevant year. For other taxes, a netting of payments at the turn of the year is carried out.

In the case of efforts to manipulate with the amount of tax revenues in one year, this method automatically reduces tax revenues reported in the following year. At the same time, this reflects the reality that the amount of cash and accrued tax revenues should be equal over a long period.

Another undisputable advantage of this method lies in the fact that data from the past are not affected by expert estimates, which is not entirely true for the tax declarations method with its coefficients of uncollected tax and where the final value of the coefficient can be ascertained only after all court disputes have ended (and even thereafter voluntary fulfilments¹⁷ or unsuccessful distraintment, for example, cannot be entirely ruled out).

To use this method, it is necessary to have available information on credit and debit movements on accounts. Information as to the resulting balance is insufficient. Furthermore, in certain cases, information as to the character of the recorded payments is needed so that it would be possible to calculate separately the sum of the advance payments and the amount for final settlement of tax obligations. It is obvious that the requirements for data sources are much less stringent than in the case of the tax declarations method. Because the two methods are regarded as equivalent, the amounts of recorded tax revenues in both methods must be equal in the long term. From the efficiency viewpoint, the time-adjusted cash method can definitely be regarded as more suitable.

The aforementioned reasons led the Ministry of Finance and the Czech Statistical Office, which is the guarantor of recording accrued taxes, to use the time-adjusted cash method. Data from the tax declarations are used only as a supporting source of information that should help explain certain recorded phenomena.

Information as to movements on the government's accounts maintained by the Czech National Bank is available on a daily basis from the cash receipts. The Automated Tax and Information System (ADIS)¹⁸ allows for distinguishing between the individual movements on accounts and hence to

¹⁷ While legally such a case may concern an unjust enrichment, if fulfilment were truly made on a voluntary basis then there would be no reason to file a lawsuit for return of the value.

¹⁸ With regard to the extent of implementing electronic data transfer from tax subjects to the tax administration and the possibilities for similar foreign systems, one can also encounter opinions that the system is semi-automatic.

calculate the volumes of various types of payments¹⁹. It also provides supporting information from tax declarations. The data from the system of the General Directorate of Customs and the Kolín Customs Office are also used as supporting information. In cases where legally a single domestic tax is distributed to several items in the ESA 95 system²⁰, the Czech Statistical Office uses its analytical and information apparatus.

In the Czech Republic, therefore, the time-adjusted cash method is generally used. Nevertheless, in the cases of several minor taxes (or in the local terminology taxes and fees²¹), due to difficulties in determining the average time shift, demanding processing needs, or insignificant justification for applying the accrual principle, a convention has been approved and used which treats cash as equal to time-adjusted cash.

4.3 Methods for calculating tax accruals in the Czech Republic

Value added tax

Value added tax is a general tax on consumption. It is expected to be borne²² by households and entrepreneurs who are not payers of this tax to the state. It is paid to the state by VAT payers as the difference between the amount of tax paid for inputs and that collected for outputs. The VAT taxpayer has an obligation to submit a tax declaration within 25 days from the end of a tax period (which is one month or one quarter, depending on the volume of turnover) and to pay the reported tax within the same period. In the case that the taxpayer is entitled to obtain a refund for overpayment, then the corresponding amount is returned within one month from the tax payment date²³.

The total tax collection consists of three parts:

1. the tax obligation itself that is collected by the tax administration,
2. overpayment and tax refunds that are paid out by the tax administration, and
3. a part of the customs debt collected by customs bodies (which amount has been basically insignificant since the Czech Republic's joining the EU).

As already stated, the tax obligation is payable on the 25th day after the end of the tax period. As a result, the tax obligation originating in December and in the 4th quarter of the preceding year is collected on 25 January of the current year. Due to the existence of forgotten and tardy payments, inter-bank settlement, and a possible statutory deferral of the tax payment to the first working day after

¹⁹ On the basis of matching the payments and assessments.

²⁰ For example, excise taxes are divided among items D.212 (Tax on import and import levies other than VAT) and D.214 (Taxes on products free of VAT and import levies).

²¹ Domestic legal terminology that distinguishes taxes and fees does not correspond to the definition of tax according to the ESA 95 methodology. Among others things, this complicates comparisons of cash tax revenues of public budgets according to the national methodology and accrued tax revenues of the general government because the extents of the revenues included differ.

²² This means the amount of the tax itself; indirect administrative costs are of course borne by the payers.

²³ This means the last day of the period for submitting a tax declaration.

the 25th day of the month, the convention of deferral of cash by one month has been adopted. The tax obligation paid in January of the current year is thus deducted from the total tax obligation of the current year while the January obligation of the following year is added to the tax obligation of the current year.

In the case of overpayments, there is a two-month deferral, as is obvious from the aforementioned. To obtain the accrual amount of deductions for a current year, therefore, it is necessary to reduce the actual deductions of the current year by the deductions paid in January and February of the current year and to add the deductions made in January and February of the following year.

VAT as a part of customs debt is payable within 10 calendar days after import of the goods. The time deferral here is 10 days. The total VAT on the customs debt in the current year is reduced by the tax paid during the first 10 working days in January of the current year and increased by the tax paid for the first 10 working days of the following year. From 2005, however, this category includes only so-called non-traded imports and imports missed by the customs supervision.

The resulting amount of the accrued VAT revenue is then given by a simple sum of its components.

Box 3: Differences between the cash and accrual amounts of VAT

Before the Czech Republic's joining the EU, VAT on imports was payable as part of the customs duty, i.e. it was settled almost immediately after the goods crossed the borders. The payer could claim a deduction of the input tax on the imported goods no sooner than in the tax declaration. Therefore, there was a time lag between the payment of the tax and the possibility to request its deduction in the tax declaration and hence reduction of the tax obligation.

Since 1 May 2004, a new method of taxation was introduced for goods acquired from another EU member state. The acquisition of goods within the EU was recorded directly in tax declarations as an output tax and in the same amount as an input tax. This means that since accession to the EU no tax has been effectively paid due to acquisition of goods within the EU. On the one hand, the VAT payers thus improved their cash flows; on the other hand, the cash flow of the state worsened. The drop in collection can be seen in Table 4-1.

Table 4-1: Monthly collection of VAT (bn. CZK)

	2003	2004	Index 04/03 (%)
January	13.2	16.7	126.4
February	5.7	8.1	142.3
March	14.2	19.4	136.2
April	17.1	22.5	131.8
May	10.6	4.2	39.4
June	13.2	4.5	34.0
July	18.8	21.1	112.0
August	7.5	11.5	153.6
September	13.2	16.1	121.5
October	23.2	26.9	116.3
November	10.6	14.6	137.6
December	17.6	18.8	107.0
Total	164.9	184.3	111.8

In the first few days of May 2004, VAT was still paid on imports made before the end of April. During May and June, when the new regime of tax collection was already effective, tax paid in acquiring goods within the EU was zero. Tax on goods acquired in the EU and sold to those non-VAT payers during May was paid to the state budget no sooner than in the period of submitting the tax declaration, which is the end of June or July. As can be derived from the length of the sharp drop in collection, the interval between the acquisition of goods and its delivery to non-payers was more than one month. At the same time, deductions of input tax on imports made before accession to the EU were projected into the tax collection after accession to the EU.

Table 4-2 shows that the accrual method responding to the change in the law removes the drop recorded in the tax collection and those tax revenues are assigned to the period to which they actually belong.

Table 4-2: Comparison of quarterly cash and accrual income from VAT (bn. CZK)

		2003	2004	Index 04/03 (%)
Cash	I. Q	33.1	44.2	133.3
	II. Q	40.8	31.1	76.3
	III. Q	39.5	48.7	123.0
	IV. Q	51.4	60.4	117.5
	Total	164.9	184.3	111.8
Accrual	I. Q	39.0	45.1	115.6
	II. Q	41.3	51.8	125.4
	III. Q	40.7	54.7	134.4
	IV. Q	43.2	53.1	122.9
	Total	164.3	204.7	124.6

Customs duty

Customs duty is a selective excise tax imposed by the EU on its goods imports. Therefore, from 1 May 2004, the newly assessed duty is not a tax revenue of the Czech Republic but it is a part of the EU's own traditional sources. Nevertheless, tax collection for the EU is provided by domestic authorities. For this reason, 75% of the assessed duty is paid to the EU while the remaining part belongs to the Czech Republic to cover costs associated with its collection. Hence, it is not a tax revenue but a payment for service²⁴.

The duty is a part of the assessed customs obligation. The calculation of accrued duty is therefore similar to that of VAT which was assessed as a part of the customs obligation. There is one essential difference, however, given by the method of payment to the EU and its administration. On the respective account at CNB, there is a positive balance at the end of the year once the payments are made to the EU. The respective account is zeroed out at 1 January, however, and the balance of the previous year is transferred to it again in the beginning of the following year. The account balance

²⁴ To provide complete information, we should add that the customs authorities may also provide customs administrative assistance to other member states. In such case, there is an agreement for sharing the relevant part of the duty that is designated to cover costs incurred by member states in relation to the collection.

must then be reduced by this amount during the whole year inasmuch as the aforementioned payment does not concern the collection of tax but only the transfer of the balance from the previous year.

Excise taxes

These include selective excise taxes on certain products. As the excise tax on tobacco products has a specific regime of its own, let us first deal with the other excise taxes. The procedure described below will be applied to each excise tax separately.

Within EU territory, the selected products usually move between tax warehouses under excise-duty suspension arrangements. The obligation to declare and pay tax arises especially upon releasing of the selected products for free taxable circulation or, in the case of import²⁵, upon the day of origin of the customs duty, unless the imported selected products were included into the excise-duty suspension arrangements. Thus there exist two regimes. In the case of there being a customs obligation, the accrued revenues are calculated similarly to those for VAT which is a part of the customs debt. In the latter case, the taxpayer, who became obliged to declare and pay the tax by releasing the selected product for free circulation, is obliged to submit the tax declaration within 25 days after the end of the tax period, which is one calendar month. The tax is payable within 40 days after the end of the tax period.

Once again in this case for practical reasons, to calculate the accrued revenue a delay of 2 months is used. The accrued amount of tax equals the tax collection in the current year less the collection for the first two months of the current year and increased by the collection for the first two months of the following year.

Excise taxes are not only being paid but also repaid. There are several regimes for tax repayment which allow a certain extent of freedom as to when to request the reimbursement of tax. It is basically impossible to determine from the available data the period to which an aggregate repayment relates. Therefore, the tax repayments are anticipated to be delayed similarly to the tax payment, or in calculating the accrued amount of tax the net amount of collection is used. This presumption may be considered sensible because from the time of submitting the tax declaration, it provides a period of ca 1 month for repayment of the paid tax (i.e. the same as in the case of VAT). We only add that in comparison to the claims for deduction of VAT, the amount of excise tax reimbursements is absolutely minimal.

The total accrued revenue from each tax can be then calculated as a sum of the accrued value of this tax from the customs proceeding and the accrual value of the tax from the tax declaration.

In the case of excise tax on tobacco products, the absolutely dominant part of revenues is comprised of tax on cigarettes and tobacco products paid through tobacco tax stamps. These stamp labels are payable within 60 days from their purchase. The revenues from unlabeled tobacco products are insignificant. The total collection of tax on tobacco is hence adjusted by the January and February collections.

²⁵ That means from third countries.

Energy tax

This includes excise taxes on energy products. Taxpayers for whom there arises an obligation to declare and pay tax are obliged to submit a tax declaration and to pay the tax within 25 days after the end of the tax period in which this tax obligation originated. A 1-month period is hence used for calculating the accrual. Due to the possibility of tax reimbursement, the calculation uses the net amount of collections in the respective month.

Corporate income tax

Corporate income tax is a general income tax which applies to legal entities. Revenue from the corporate income tax is divided into two parts – CIT from declarations and withholding tax.

The withholding tax is payable by the end of the month following after the month in which it was supposed to be withheld. The annual cash revenue is therefore adjusted by the January collection.

CIT from declarations is paid in advance. This means that the tax is paid during the tax period in several advance payments derived from the last known tax obligation, and these advance payments are reconciled in the following tax period on the basis of the submitted declaration.

Paid advances are included in the tax revenues of the current year. The reconciliation consisting of overpayments returned and underpayments made and recorded in the current year is transferred to the tax revenues of the previous year and the advance payments paid in the current year are increased by the reconciliation from of the following year.

Personal income tax

This is a general income tax imposed on individuals. From the viewpoint of keeping records of tax revenues, it is divided into three parts – tax from employment, tax on the declaration and withholding tax.

The withholding tax and tax on the declaration do not in principle differ from the components of the corporate income tax. The accruals procedure is therefore similar.

Tax from employment is paid by an employer as an advance payment for tax on the incomes of its employees, and the employer is obliged to pay the aggregate of the advance payments withheld by the 20th day of the calendar month in which the salary is paid. At the same time, an employee is entitled to request that his or her last employer in a respective tax period provide an annual²⁶ settlement of the advance tax payments whereby an employee can attain any tax benefit to which he or she is entitled. This means that the annual settlement results in repayment of the overpaid amount of tax. If an employee does not utilise his or her right to settle the advance payments, the advances withheld are considered to be the tax withholding.

²⁶ Meaning for the calendar year.

Tax paid in January of the current year hence pertains to the salary for December of the previous year. Therefore, the annual collection of tax is adjusted by January collections (i.e. collection for January of the current year is deducted and collections for January of the following year are added). Then an adjustment by the amount for settlement of the advances is made. This means that from the tax collections already adjusted is deducted the amount paid for settlement²⁷ in the current year and it is increased by the amount of that settlement paid in the following year.

Road tax

The road tax is a property tax paid for motor vehicles used for business or other independent for-profit activities. The taxation period is a calendar year. The tax is paid in four advance payments during the calendar year, with the first payment made on 15 April of the given year. The tax declaration must be submitted by 31 January of the following year, and any back taxes should be settled by that time as well. Any possible overpayment will be returned within 30 days. For this reason, the collection for the current year is adjusted for accrual purposes by the collections for January and February.

Property transfer taxes

The real estate transfer tax is paid on the basis of a tax declaration submitted by the taxpayer within 3 months from the time that the right of ownership was entered into the land registry, a contract on the effected transfer of ownership of non-registered real estate took effect, or some other resolution acquired legal validity. For this reason, a shift of 3 months is used.

Inheritance and gift taxes are assessed by the tax administrator on the basis of a submitted tax declaration. These taxes are due within 30 days after the assessment. Based on practical experience with the delay between the decisive event (e.g. receiving the inheritance) and the time of settling the tax, a displacement of one year is used.

Real estate tax

This property tax is paid in four instalments during the current year. For this reason, the accrual income matches the cash income. No time adjustment is needed for the collection.

Based on the information from tax declarations, the Ministry of Finance allocates the total revenue to the section recorded as D.29A tax on property or the use of lands and structures by companies in production and D.59A current tax on capital.

²⁷ As results from the previous paragraph, from the state's point of view settlement is always negative as it involves the return of an overpaid amount. Mathematically, therefore, the amount of tax overpayments paid in the current year is added to the adjusted collections for the current year and the amount of overpayments in the following year is subsequently deducted.

Other taxes and fees²⁸

In these cases, the convention that cash income matches accrual income is adopted. Payments generally are made at the time the given economic activity occurred, although in some cases that time cannot be reliably determined. It is possible, therefore, to omit the accrual.

²⁸ If they are considered to be taxes under the ESA 95 methodology.

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

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue	bn CZK	761.7	802.3	833.9	911.4	974.4	1049.4	1187.7	1235.7	1325.2	1483.5	1517.5
	prev. year=100	106.7	105.3	103.9	109.3	106.9	107.7	113.2	104.0	107.2	111.9	102.3
Current taxes on income, wealth, etc.	bn CZK	165.6	176.1	181.4	206.8	223.8	247.4	269.8	273.4	295.2	332.7	321.1
	prev. year=100	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	112.7	96.5
Social contributions ¹⁾	bn CZK	281.7	292.7	312.0	335.0	367.4	388.9	452.8	482.1	524.8	576.7	599.3
	prev. year=100	106.4	103.9	106.6	107.4	109.7	105.8	116.4	106.5	108.8	109.9	103.9
Taxes on production and imports ²⁾	bn CZK	218.9	240.3	247.9	258.0	266.7	285.4	325.3	342.3	352.4	394.4	412.6
	prev. year=100	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.9	111.9	104.6
Capital taxes ³⁾	bn CZK	0.6	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.4
	prev. year=100	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	57.6	87.5
Property income	bn CZK	15.7	12.8	18.3	26.2	29.8	24.5	23.2	21.2	25.6	29.1	31.0
	prev. year=100	100.8	81.2	143.4	142.8	113.9	82.3	94.5	91.6	120.5	113.9	106.6
Interest	bn CZK	13.1	9.9	15.0	15.4	22.0	17.2	14.2	12.6	12.6	16.5	11.6
	prev. year=100	106.1	76.1	151.0	102.5	143.1	78.1	82.5	88.5	100.0	131.8	70.3
Other property income	bn CZK	2.7	2.8	3.3	10.8	7.8	7.3	9.0	8.7	13.0	12.6	19.4
	prev. year=100	81.0	106.6	116.7	325.2	72.4	93.9	122.7	96.4	150.2	96.7	154.3
Sales ⁴⁾	bn CZK	58.2	56.4	58.3	63.0	66.4	75.4	77.8	79.9	81.9	95.3	102.9
	prev. year=100	123.2	96.9	103.5	108.0	105.5	113.4	103.3	102.6	102.5	116.4	108.0
Other current transfers and subsidies	bn CZK	19.5	22.1	12.4	15.8	16.5	21.3	28.3	26.0	25.3	23.3	22.5
	prev. year=100	122.6	113.5	56.2	126.8	104.2	129.7	132.5	92.0	97.1	92.3	96.3
Investment grants	bn CZK	0.0	0.0	0.1	0.5	0.9	2.8	3.1	4.7	13.9	18.1	26.2
	prev. year=100	314.3	145.5	225.0	754.2	171.8	301.5	110.1	151.6	296.6	130.2	144.5
Other capital transfers	bn CZK	1.5	1.4	2.9	5.5	2.1	2.8	6.8	5.3	5.4	13.4	1.5
	prev. year=100	227.0	92.5	206.2	186.2	37.8	134.8	243.3	78.2	102.3	247.1	10.8

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

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

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

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

Table 5-2: General government revenue

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue (in % GDP)	38.2	38.6	38.1	38.7	39.5	40.7	42.2	41.4	41.2	42.0	40.9
Current taxes on income, wealth, etc. (in % GDP)	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.4	8.7
Social contributions (in % GDP)	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.2	16.3	16.3	16.2
Taxes on production and imports (in % GDP)	11.0	11.5	11.3	11.0	10.8	11.1	11.6	11.5	11.0	11.2	11.1
Capital taxes (in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income (in % GDP)	0.8	0.6	0.8	1.1	1.2	1.0	0.8	0.7	0.8	0.8	0.8
Interest (in % GDP)	0.7	0.5	0.7	0.7	0.9	0.7	0.5	0.4	0.4	0.5	0.3
Other property income (in % GDP)	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.5
Sales (in % GDP)	2.9	2.7	2.7	2.7	2.7	2.9	2.8	2.7	2.5	2.7	2.8
Other current transfers and subsidies (in % GDP)	1.0	1.1	0.6	0.7	0.7	0.8	1.0	0.9	0.8	0.7	0.6
Investment grants (in % GDP)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.5	0.7
Other capital transfers (in % GDP)	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.4	0.0

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Taxes and social contributions bn CZK	666.7	709.6	741.8	800.5	858.7	922.6	1048.6	1098.6	1173.2	1304.2	1333.5
prev. year=100	105.1	106.4	104.6	107.9	107.3	107.4	113.7	104.8	106.8	111.2	102.2
Current taxes on income, wealth, etc. bn CZK	165.6	176.1	181.4	206.8	223.8	247.4	269.8	273.4	295.2	332.7	321.1
prev. year=100	103.4	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	112.7	96.5
Tax on individual or household income incl. holding gains bn CZK	94.0	93.0	99.7	106.2	114.9	125.5	135.0	136.4	136.6	152.3	143.3
prev. year=100	107.6	98.9	107.2	106.5	108.2	109.3	107.6	101.0	100.2	111.5	94.1
Taxes on the income or profits of corporations incl. holding gains bn CZK	67.5	79.5	76.2	96.3	105.7	117.8	131.7	133.5	154.8	176.4	173.8
prev. year=100	97.3	117.8	95.9	126.4	109.8	111.4	111.9	101.3	116.0	114.0	98.5
Levy on lottery revenue bn CZK	-	-	-	-	-	0.5	0.6	0.6	0.7	0.8	0.9
prev. year=100	X	X	X	X	X	X	117.4	112.5	110.3	113.1	111.5
Other current taxes bn CZK	4.2	3.6	5.6	4.3	3.2	3.6	2.5	2.9	3.1	3.2	3.2
prev. year=100	122.2	87.0	153.6	77.6	74.0	112.8	69.1	117.4	105.0	104.8	100.3
Social contributions bn CZK	281.7	292.7	312.0	335.0	367.4	388.9	452.8	482.1	524.8	576.7	599.3
prev. year=100	106.4	103.9	106.6	107.4	109.7	105.8	116.4	106.5	108.8	109.9	103.9
Actual social contributions ¹⁾ bn CZK	281.5	292.5	311.5	334.8	367.2	388.6	452.4	481.7	524.4	576.4	599.0
prev. year=100	106.4	103.9	106.5	107.5	109.7	105.8	116.4	106.5	108.9	109.9	103.9
Employers' actual social contributions bn CZK	197.0	204.6	216.9	233.2	255.9	270.7	289.8	308.7	332.4	363.8	380.2
prev. year=100	106.5	103.8	106.0	107.5	109.7	105.8	107.0	106.5	107.7	109.4	104.5
Employees' social contributions bn CZK	70.2	73.0	77.3	82.7	89.6	94.9	101.3	108.3	116.6	127.7	133.3
prev. year=100	106.4	104.0	105.9	107.0	108.4	105.9	106.8	106.9	107.6	109.5	104.4
Social contributions by self- and non-employed persons ¹⁾ bn CZK	14.3	14.9	17.3	18.9	21.7	23.0	61.3	64.8	75.4	85.0	85.6
prev. year=100	104.4	104.3	115.9	109.1	114.9	106.1	266.0	105.6	116.5	112.6	100.7
Imputed social contributions bn CZK	0.2	0.2	0.4	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.3
prev. year=100	197.6	124.7	209.4	57.9	102.4	117.5	136.6	98.5	102.0	73.8	101.3
Taxes on production and imports bn CZK	218.9	240.3	247.9	258.0	266.7	285.4	325.3	342.3	352.4	394.4	412.6
prev. year=100	104.8	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.9	111.9	104.6
Taxes on products ²⁾ bn CZK	206.8	227.0	234.2	244.9	253.6	271.7	313.1	330.4	338.9	380.2	398.3
prev. year=100	105.0	109.8	103.1	104.6	103.5	107.2	115.2	105.5	102.6	112.2	104.8
VAT bn CZK	121.1	136.5	141.3	149.3	155.1	164.3	202.1	210.6	208.8	226.8	260.6
prev. year=100	105.8	112.8	103.5	105.6	103.9	105.9	123.0	104.2	99.2	108.6	114.9
Excises bn CZK	64.4	71.4	71.4	76.8	79.5	87.5	99.2	110.5	120.9	142.5	126.7
prev. year=100	105.7	110.9	100.0	107.6	103.6	110.0	113.4	111.4	109.4	117.9	88.9
Other taxes on products ³⁾ bn CZK	21.3	19.2	21.5	18.9	18.9	20.0	11.8	9.2	9.2	10.9	11.0
prev. year=100	98.8	89.8	111.9	88.0	100.2	105.8	59.1	78.2	99.7	118.1	101.4
Other taxes on production ⁴⁾ bn CZK	12.1	13.2	13.7	13.1	13.1	13.7	12.3	12.0	13.5	14.2	14.3
prev. year=100	102.7	109.1	103.8	95.1	100.6	104.2	89.6	97.7	112.8	105.2	100.8
Capital taxes bn CZK	0.6	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.4
prev. year=100	96.5	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	57.6	87.5

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

2) Taxes that are payable per unit of some good or service produced or transacted.

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

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

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Taxes and social contributions	<i>in % GDP</i>	33.4	34.1	33.9	34.0	34.8	35.8	37.3	36.8	36.5	36.9	36.0
Current taxes on income, wealth, etc.	<i>in % GDP</i>	8.3	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.4	8.7
Tax on individual or household income incl. holding gains	<i>in % GDP</i>	4.7	4.5	4.6	4.5	4.7	4.9	4.8	4.6	4.2	4.3	3.9
Taxes on the income or profits of corporations incl. holding gains	<i>in % GDP</i>	3.4	3.8	3.5	4.1	4.3	4.6	4.7	4.5	4.8	5.0	4.7
Lewy on lottery revenue	<i>in % GDP</i>	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Other current taxes	<i>in % GDP</i>	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	<i>in % GDP</i>	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.2	16.3	16.3	16.2
Actual social contributions	<i>in % GDP</i>	14.1	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.3	16.3	16.2
Employers' actual social contributions	<i>in % GDP</i>	9.9	9.8	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.3	10.3
Employees' social contributions	<i>in % GDP</i>	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6	3.6
Social contributions by self- and non-employed persons	<i>in % GDP</i>	0.7	0.7	0.8	0.8	0.9	0.9	2.2	2.2	2.3	2.4	2.3
Imputed social contributions	<i>in % GDP</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and imports	<i>in % GDP</i>	11.0	11.5	11.3	11.0	10.8	11.1	11.6	11.5	11.0	11.2	11.1
Taxes on products	<i>in % GDP</i>	10.4	10.9	10.7	10.4	10.3	10.5	11.1	11.1	10.5	10.8	10.7
VAT	<i>in % GDP</i>	6.1	6.6	6.5	6.3	6.3	6.4	7.2	7.1	6.5	6.4	7.0
Excise taxes	<i>in % GDP</i>	3.2	3.4	3.3	3.3	3.2	3.4	3.5	3.7	3.8	4.0	3.4
Other taxes on products	<i>in % GDP</i>	1.1	0.9	1.0	0.8	0.8	0.8	0.4	0.3	0.3	0.3	0.3
Other taxes on production	<i>in % GDP</i>	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Capital taxes	<i>in % GDP</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 5-5: Central government revenue

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue	<i>bn CZK</i>	547.2	581.7	605.3	675.1	702.2	750.0	832.3	842.1	898.5	1005.8	1024.0
	<i>prev. year=100</i>	105.3	106.3	104.1	111.5	104.0	106.8	111.0	101.2	106.7	112.0	101.8
Current taxes on income, wealth, etc.	<i>bn CZK</i>	91.3	93.8	98.5	154.1	160.1	176.9	193.2	181.7	197.1	223.2	212.5
	<i>prev. year=100</i>	103.0	102.8	105.0	156.4	103.9	110.5	109.2	94.1	108.5	113.3	95.2
Social contributions¹⁾	<i>bn CZK</i>	201.5	208.9	221.8	241.1	262.9	277.2	300.1	318.7	342.6	376.3	392.4
	<i>prev. year=100</i>	106.4	103.7	106.2	108.7	109.0	105.5	108.3	106.2	107.5	109.8	104.3
Taxes on production and imports	<i>bn CZK</i>	213.5	234.9	242.0	221.5	224.2	240.3	270.4	272.3	282.6	318.9	324.8
	<i>prev. year=100</i>	104.8	110.0	103.0	91.5	101.2	107.2	112.5	100.7	103.8	112.8	101.9
Capital taxes	<i>bn CZK</i>	0.6	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.4
	<i>prev. year=100</i>	96.3	96.9	109.7	117.0	108.9	115.0	71.3	118.8	110.0	57.4	87.0
Property income	<i>bn CZK</i>	10.7	7.9	13.5	22.0	22.6	17.4	15.0	14.5	18.4	20.7	21.0
	<i>prev. year=100</i>	92.1	73.2	171.3	163.0	102.9	77.2	86.1	96.4	126.8	112.6	101.6
Sales	<i>bn CZK</i>	14.6	17.6	18.1	21.2	22.2	25.7	27.6	28.3	29.4	37.1	39.7
	<i>prev. year=100</i>	99.5	121.1	102.8	117.2	104.6	115.5	107.5	102.8	103.8	126.1	107.0
Other revenue	<i>bn CZK</i>	15.1	18.1	10.9	14.6	9.5	11.6	25.4	25.9	27.6	29.2	33.2
	<i>prev. year=100</i>	137.3	120.2	60.1	134.2	65.2	122.0	218.9	101.9	106.4	105.9	113.7

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

Table 5-6: Local government revenue

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue	<i>bn CZK</i>	203.0	192.1	200.1	228.3	260.0	328.7	349.3	351.6	375.5	414.8	417.9
	<i>prev.year=100</i>	122.2	94.6	104.2	114.1	113.9	126.4	106.3	100.6	106.8	110.5	100.7
Current taxes on income, wealth, etc.	<i>bn CZK</i>	74.4	82.2	82.9	52.7	63.8	70.5	76.6	91.7	98.1	109.4	108.7
	<i>prev.year=100</i>	104.0	110.6	100.9	63.5	121.1	110.5	108.8	119.6	107.0	111.6	99.3
Social contributions	<i>bn CZK</i>	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
	<i>prev.year=100</i>	197.1	100.0	62.7	190.5	60.0	104.2	120.0	121.7	161.6	56.8	137.3
Taxes on production and imports	<i>bn CZK</i>	5.3	5.3	5.9	36.5	42.5	45.1	55.0	70.0	69.8	75.5	87.8
	<i>prev.year=100</i>	105.9	100.0	110.1	620.0	116.3	106.2	121.8	127.4	99.6	108.2	116.2
Capital taxes	<i>bn CZK</i>	0.0	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
	<i>prev.year=100</i>	X	0.0	X	X	X	X	180.0	100.0	44.4	100.0	150.0
Property income	<i>bn CZK</i>	4.5	4.7	4.5	3.7	6.9	6.8	8.0	6.5	7.0	7.8	8.6
	<i>prev.year=100</i>	125.9	102.8	95.9	82.0	187.2	99.7	116.6	82.2	107.2	110.7	110.7
Sales	<i>bn CZK</i>	43.5	38.7	40.1	41.3	44.1	49.6	50.1	51.4	52.3	58.1	63.1
	<i>prev.year=100</i>	134.0	88.9	103.8	103.0	106.6	112.5	101.0	102.6	101.8	111.1	108.6
Other revenue	<i>bn CZK</i>	75.2	61.1	66.7	94.0	102.8	156.6	159.6	131.9	148.2	164.0	149.7
	<i>prev.year=100</i>	140.7	81.2	109.1	141.0	109.4	152.3	101.9	82.6	112.4	110.7	91.3

Table 5-7: Social security funds revenue

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue	<i>bn CZK</i>	104.9	112.5	119.4	127.4	138.4	149.1	159.1	169.6	184.8	203.6	211.2
	<i>prev.year=100</i>	110.3	107.3	106.1	106.7	108.6	107.8	106.7	106.6	109.0	110.2	103.7
Current taxes on income, wealth, etc.	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Social contributions ¹⁾	<i>bn CZK</i>	80.1	83.8	90.1	93.9	104.5	111.7	152.6	163.4	182.1	200.3	206.8
	<i>prev.year=100</i>	106.3	104.5	107.6	104.2	111.3	106.8	136.7	107.1	111.4	110.0	103.2
Taxes on production and imports	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Capital taxes	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev.year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Property income	<i>bn CZK</i>	0.5	0.3	0.4	0.6	0.4	0.3	0.3	0.3	0.3	0.8	1.5
	<i>prev.year=100</i>	147.8	54.9	147.9	128.2	74.9	73.7	95.1	106.5	94.5	259.7	200.7
Sales	<i>bn CZK</i>	0.1	0.1	0.1	0.4	0.1	0.1	0.2	0.2	0.2	0.1	0.1
	<i>prev.year=100</i>	108.7	58.9	100.0	609.1	34.8	75.7	145.3	103.2	95.0	92.1	85.6
Other revenue	<i>bn CZK</i>	24.1	28.4	28.7	32.5	33.3	37.1	6.0	5.8	2.3	2.4	2.7
	<i>prev.year=100</i>	125.4	117.9	101.2	113.2	102.3	111.3	16.2	95.9	40.2	103.2	114.1

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

5.2 Expenditures

Table 5-8: General government expenditure

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	<i>bn CZK</i>	861.7	879.6	915.4	1046.5	1141.2	1219.5	1270.5	1342.3	1409.6	1504.4	1569.6
	<i>prev. year=100</i>	110.1	102.1	104.1	114.3	109.1	106.9	104.2	105.7	105.0	106.7	104.3
Final consumption expenditure	<i>bn CZK</i>	399.7	440.6	460.9	496.7	549.5	603.2	621.6	658.5	684.7	718.2	751.0
	<i>prev. year=100</i>	105.4	110.2	104.6	107.8	110.6	109.8	103.1	105.9	104.0	104.9	104.6
Collective consumption ¹⁾	<i>bn CZK</i>	187.4	217.3	232.1	241.7	271.2	305.6	296.5	329.7	342.2	355.0	368.2
	<i>prev. year=100</i>	103.3	116.0	106.8	104.2	112.2	112.7	97.0	111.2	103.8	103.8	103.7
Individual consumption	<i>bn CZK</i>	212.3	223.3	228.9	254.9	278.3	297.6	325.1	328.8	342.5	363.2	382.8
	<i>prev. year=100</i>	107.3	105.2	102.5	111.4	109.2	106.9	109.2	101.1	104.2	106.0	105.4
Social transfers in kind ²⁾	<i>bn CZK</i>	104.8	111.1	115.4	127.5	142.1	150.2	160.7	167.4	171.2	187.1	198.4
	<i>prev. year=100</i>	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	109.3	106.0
Transfers of individual non-market goods or services ³⁾	<i>bn CZK</i>	107.6	112.2	113.5	127.5	136.2	147.3	164.3	161.4	171.3	176.1	184.4
	<i>prev. year=100</i>	104.7	104.3	101.1	112.3	106.9	108.2	111.5	98.2	106.2	102.8	104.7
Social benefits other than social transfers in kind ⁴⁾	<i>bn CZK</i>	225.6	243.8	263.9	280.5	305.1	315.6	361.9	376.4	407.4	453.7	471.3
	<i>prev. year=100</i>	108.4	108.0	108.3	106.3	108.8	103.4	114.7	104.0	108.2	111.4	103.9
Interest	<i>bn CZK</i>	23.2	21.2	18.4	23.8	30.5	29.3	32.6	34.4	35.5	40.2	39.8
	<i>prev. year=100</i>	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.3	98.8
Subsidies	<i>bn CZK</i>	57.9	61.1	61.0	65.4	56.6	68.2	59.0	54.7	61.4	62.5	63.7
	<i>prev. year=100</i>	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8	102.0
Gross fixed capital formation	<i>bn CZK</i>	83.8	67.7	79.1	83.4	95.2	117.2	136.4	146.5	161.5	166.3	179.4
	<i>prev. year=100</i>	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	103.0	107.9
Other expenditures	<i>bn CZK</i>	71.6	45.2	32.1	96.7	104.3	86.0	59.0	71.8	59.2	63.4	64.4
	<i>prev. year=100</i>	148.5	63.2	71.0	301.0	107.8	82.4	68.6	121.7	82.4	107.2	101.6

1) Value of all services provided to all members of society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development.

2) Social benefits in kind are social transfers in kind intended to relieve households of financial burden of social risks or needs, i.e. payments from insurance enterprises to health care institutions for services provided to households.

3) Goods or services provided to individual households free or at prices which are not economically significant by non-market producers (education, health service, housing, culture, sport, etc.).

4) From 2004 onwards including transfers (social contributions) paid by state for so-called state social insurance policy holders.

Table 5-9: General government expenditure

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	<i>(in % GDP)</i>	43.2	42.3	41.8	44.5	46.3	47.3	45.1	45.0	43.8	42.6	42.4
Final consumption expenditure	<i>(in % GDP)</i>	20.0	21.2	21.1	21.1	22.3	23.4	22.1	22.1	21.3	20.3	20.3
Collective consumption	<i>(in % GDP)</i>	9.4	10.4	10.6	10.3	11.0	11.9	10.5	11.0	10.6	10.1	9.9
Individual consumption	<i>(in % GDP)</i>	10.6	10.7	10.5	10.8	11.3	11.5	11.5	11.0	10.7	10.3	10.3
Social transfers in kind	<i>(in % GDP)</i>	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.3	5.4
Transfers of individual non-market goods or services	<i>(in % GDP)</i>	5.4	5.4	5.2	5.4	5.5	5.7	5.8	5.4	5.3	5.0	5.0
Social benefits other than social transfers in kind	<i>(in % GDP)</i>	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.7	12.9	12.7
Interest	<i>(in % GDP)</i>	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1
Subsidies	<i>(in % GDP)</i>	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8	1.7
Gross fixed capital formation	<i>(in % GDP)</i>	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7	4.8
Other expenditures	<i>(in % GDP)</i>	3.6	2.2	1.5	4.1	4.2	3.3	2.1	2.4	1.8	1.8	1.7

Table 5-10: General government expenditure

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	bn CZK	861.7	879.6	915.4	1046.5	1141.2	1219.5	1270.5	1342.3	1409.6	1504.4	1569.6
	prev. year=100	110.1	102.1	104.1	114.3	109.1	106.9	104.2	105.7	105.0	106.7	104.3
Compensation of employees	bn CZK	135.0	151.4	154.7	172.9	191.6	214.2	222.1	237.9	252.4	268.6	280.9
	prev. year=100	100.9	112.1	102.2	111.8	110.8	111.8	103.7	107.1	106.1	106.4	104.6
Intermediate consumption	bn CZK	115.1	132.7	144.0	152.9	173.6	196.0	193.5	205.9	211.7	218.6	225.0
	prev. year=100	101.8	115.3	108.5	106.2	113.5	112.9	98.7	106.4	102.8	103.3	102.9
Social benefits other than social transfers in kind ¹⁾	bn CZK	225.6	243.8	263.9	280.5	305.1	315.6	361.9	376.4	407.4	453.7	471.3
	prev. year=100	108.4	108.0	108.3	106.3	108.8	103.4	114.7	104.0	108.2	111.4	103.9
Social benefits in kind	bn CZK	104.8	111.1	115.4	127.5	142.1	150.2	160.7	167.4	171.2	187.1	198.4
	prev. year=100	110.1	106.0	103.9	110.4	111.5	105.7	107.0	104.2	102.3	109.3	106.0
Property income	bn CZK	23.2	21.2	18.4	23.9	30.6	29.3	32.6	34.4	35.6	40.3	39.9
	prev. year=100	114.1	91.6	86.8	129.3	128.2	95.9	111.2	105.6	103.3	113.3	98.8
Interest	bn CZK	23.2	21.2	18.4	23.8	30.5	29.3	32.6	34.4	35.5	40.2	39.8
	prev. year=100	114.1	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	113.3	98.8
Other property income	bn CZK	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
	prev. year=100	183.3	118.2	200.0	80.8	150.0	74.6	112.8	96.2	141.2	109.7	130.4
Subsidies	bn CZK	57.9	61.1	61.0	65.4	56.6	68.2	59.0	54.7	61.4	62.5	63.7
	prev. year=100	117.5	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8	102.0
Gross fixed capital formation	bn CZK	83.8	67.7	79.1	83.4	95.2	117.2	136.4	146.5	161.5	166.3	179.4
	prev. year=100	108.4	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	103.0	107.9
Capital transfers ²⁾	bn CZK	92.8	77.7	57.6	127.5	120.2	98.4	72.4	76.4	59.2	59.4	87.7
	prev. year=100	128.2	83.7	74.2	221.3	94.3	81.8	73.7	105.5	77.4	100.4	147.7
Investment grants ³⁾	bn CZK	19.1	22.4	25.9	27.5	36.9	35.2	35.2	33.9	36.7	35.3	34.4
	prev. year=100	102.1	117.8	115.6	105.8	134.5	95.2	100.1	96.3	108.4	96.1	97.5
Other capital transfers	bn CZK	73.8	55.2	31.7	100.0	83.3	63.2	37.2	42.5	22.5	24.1	53.3
	prev. year=100	137.3	74.8	57.4	315.8	83.2	75.9	58.9	114.3	52.8	107.4	221.2
Other expenditure	bn CZK	23.5	13.0	21.3	12.5	26.3	30.3	31.8	42.5	49.3	47.8	23.3
	prev. year=100	181.5	55.1	164.3	58.9	209.5	115.4	104.8	133.8	116.1	97.0	48.8

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

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

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

Table 5-11: General government expenditure

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure (in % GDP)	43.2	42.3	41.8	44.5	46.3	47.3	45.1	45.0	43.8	42.6	42.4
Compensation of employees (in % GDP)	6.8	7.3	7.1	7.4	7.8	8.3	7.9	8.0	7.8	7.6	7.6
Intermediate consumption (in % GDP)	5.8	6.4	6.6	6.5	7.0	7.6	6.9	6.9	6.6	6.2	6.1
Social benefits other than social transfers in kind (in % GDP)	11.3	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.7	12.9	12.7
Social benefits in kind (in % GDP)	5.2	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.3	5.3	5.4
Property income (in % GDP)	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1
Interest (in % GDP)	1.2	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1
Other property income (in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies (in % GDP)	2.9	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8	1.7
Gross fixed capital formation (in % GDP)	4.2	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7	4.8
Capital transfers (in % GDP)	4.7	3.7	2.6	5.4	4.9	3.8	2.6	2.6	1.8	1.7	2.4
Investment grants (in % GDP)	1.0	1.1	1.2	1.2	1.5	1.4	1.3	1.1	1.1	1.0	0.9
Other capital transfers (in % GDP)	3.7	2.7	1.4	4.3	3.4	2.5	1.3	1.4	0.7	0.7	1.4
Other expenditure (in % GDP)	1.2	0.6	1.0	0.5	1.1	1.2	1.1	1.4	1.5	1.4	0.6

Table 5-12: Central government expenditure

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure bn CZK	652.9	660.5	681.5	799.8	853.1	904.3	907.7	946.9	982.1	1063.3	1104.3
prev. year=100	113.6	101.2	103.2	117.4	106.7	106.0	100.4	104.3	103.7	108.3	103.9
Compensation of employees bn CZK	94.8	106.0	107.2	106.4	117.0	108.8	110.8	120.9	128.2	136.8	143.6
prev. year=100	99.4	111.8	101.1	99.3	109.9	93.0	101.9	109.1	106.1	106.7	104.9
Intermediate consumption bn CZK	53.9	65.3	74.8	74.2	86.7	96.9	93.5	104.4	100.9	107.4	106.3
prev. year=100	92.7	121.3	114.4	99.3	116.8	111.8	96.5	111.7	96.6	106.4	99.0
Social benefits other than social transfers in kind¹⁾ bn CZK	220.5	236.2	254.6	271.5	294.9	303.8	350.0	364.7	395.4	435.3	450.6
prev. year=100	107.9	107.1	107.8	106.6	108.6	103.0	115.2	104.2	108.4	110.1	103.5
Social benefits in kind bn CZK	1.6	1.8	1.9	3.1	3.3	2.2	1.9	0.9	0.9	2.4	2.0
prev. year=100	116.4	110.0	105.3	164.8	107.1	67.2	84.0	50.5	92.4	277.2	81.8
Interest bn CZK	20.4	18.6	16.7	21.9	28.5	26.9	29.6	32.3	33.2	37.5	36.5
prev. year=100	110.0	90.9	89.7	131.3	130.5	94.4	109.9	109.0	102.9	112.8	97.5
Subsidies bn CZK	44.0	45.6	43.7	48.8	38.3	38.9	32.7	25.4	30.2	31.3	31.2
prev. year=100	120.2	103.7	95.9	111.5	78.6	101.5	84.0	77.7	118.9	103.7	99.6
Gross fixed capital formation bn CZK	26.3	31.7	36.8	34.5	33.7	46.9	62.0	76.9	80.6	87.1	108.7
prev. year=100	106.8	120.2	116.4	93.7	97.6	139.1	132.2	124.1	104.9	108.0	124.8
Capital transfers bn CZK	119.4	79.7	64.8	133.2	129.3	109.0	86.5	86.7	68.0	68.2	88.8
prev. year=100	140.1	66.7	81.4	205.6	97.1	84.3	79.3	100.2	78.4	100.4	130.2
Other expenditure bn CZK	71.9	75.7	81.0	106.2	121.4	170.8	140.7	134.7	144.6	157.2	136.7
prev. year=100	142.4	105.3	107.1	131.0	114.3	140.7	82.4	95.7	107.3	108.7	86.9

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

Table 5-13: Local government expenditure

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	<i>bn CZK</i>	196.2	191.2	209.3	238.4	271.7	342.8	354.0	353.1	388.1	394.4	400.0
	<i>prev. year=100</i>	109.9	97.4	109.5	113.9	114.0	126.1	103.3	99.8	109.9	101.6	101.4
Compensation of employees	<i>bn CZK</i>	38.4	43.4	45.5	64.2	72.1	102.8	108.6	114.2	121.1	128.5	133.6
	<i>prev. year=100</i>	104.5	113.0	104.7	141.3	112.2	142.6	105.7	105.1	106.1	106.1	104.0
Intermediate consumption	<i>bn CZK</i>	60.0	66.2	68.1	77.3	85.5	97.3	98.1	99.5	109.1	109.2	116.3
	<i>prev. year=100</i>	111.5	110.4	102.9	113.5	110.6	113.9	100.8	101.4	109.7	100.1	106.5
Social benefits other than social transfers in kind	<i>bn CZK</i>	5.1	7.5	9.3	9.0	10.2	11.8	11.9	11.7	12.0	18.4	20.7
	<i>prev. year=100</i>	135.0	146.9	124.2	96.6	113.4	115.6	100.6	98.6	102.5	153.6	112.3
Social benefits in kind	<i>bn CZK</i>	1.6	1.8	2.0	1.2	1.4	2.4	2.5	2.6	2.8	3.3	3.0
	<i>prev. year=100</i>	111.1	114.3	109.1	61.1	115.6	169.9	104.5	102.4	108.9	119.0	88.7
Interest	<i>bn CZK</i>	2.6	2.6	1.7	1.9	2.0	2.4	3.0	2.2	2.4	2.9	3.3
	<i>prev. year=100</i>	160.6	99.4	67.6	110.3	104.5	118.9	126.8	72.9	108.1	119.4	116.5
Subsidies	<i>bn CZK</i>	13.9	15.5	17.2	16.6	18.2	29.3	26.3	29.3	31.2	31.2	32.6
	<i>prev. year=100</i>	109.7	111.4	111.3	96.6	109.6	160.7	89.8	111.6	106.3	99.9	104.5
Gross fixed capital formation	<i>bn CZK</i>	56.5	35.2	41.6	48.3	60.7	69.7	73.8	68.9	80.4	78.8	69.9
	<i>prev. year=100</i>	108.8	62.3	118.0	116.2	125.6	114.9	105.9	93.3	116.8	98.0	88.8
Capital transfers	<i>bn CZK</i>	8.5	14.9	13.3	14.2	11.9	16.4	20.3	13.6	15.0	14.2	11.8
	<i>prev. year=100</i>	73.9	176.0	89.4	106.7	83.4	138.2	123.7	67.1	109.9	94.9	82.8
Other expenditure	<i>bn CZK</i>	9.7	4.0	10.5	5.5	9.8	10.7	9.5	11.2	14.2	8.0	8.9
	<i>prev. year=100</i>	186.7	41.6	262.3	52.3	178.5	108.9	88.7	117.4	126.8	56.2	111.7

Table 5-14: Social security fund expenditure

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenditure	<i>bn CZK</i>	106.0	112.0	115.5	127.7	142.6	150.8	161.7	169.8	173.0	187.5	200.8
	<i>prev. year=100</i>	110.2	105.7	103.1	110.6	111.6	105.8	107.2	105.0	101.9	108.4	107.1
Compensation of employees	<i>bn CZK</i>	1.8	2.0	2.1	2.3	2.5	2.7	2.7	2.9	3.0	3.2	3.6
	<i>prev. year=100</i>	104.1	111.0	101.9	109.5	111.1	105.4	102.7	105.7	105.3	106.5	111.9
Intermediate consumption	<i>bn CZK</i>	1.3	1.2	1.1	1.4	1.5	1.9	1.9	2.0	1.6	2.0	2.5
	<i>prev. year=100</i>	105.5	92.9	94.8	127.3	105.3	123.4	102.1	105.9	81.4	122.2	124.0
Social benefits other than social transfers in kind	<i>bn CZK</i>	-	0.0	-	-	-	-	-	0.0	0.0	-	-
	<i>prev. year=100</i>	X	X	0.0	X	X	X	X	X	200.0	0.0	X
Social benefits in kind	<i>bn CZK</i>	101.5	107.5	111.5	123.2	137.4	145.6	156.3	163.9	167.5	181.4	193.5
	<i>prev. year=100</i>	109.9	105.8	103.8	110.4	111.6	106.0	107.4	104.8	102.2	108.3	106.7
Interest	<i>bn CZK</i>	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<i>prev. year=100</i>	168.2	42.2	23.1	77.8	50.0	85.7	100.0	16.7	300.0	66.7	100.0
Subsidies	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Gross fixed capital formation	<i>bn CZK</i>	0.9	0.8	0.7	0.6	0.9	0.6	0.7	0.8	0.5	0.5	0.7
	<i>prev. year=100</i>	129.4	85.8	84.0	84.0	154.6	69.5	111.1	119.1	58.3	99.6	157.5
Capital transfers	<i>bn CZK</i>	-	0.1	0.0	-	0.0	0.0	0.1	-	-	-	-
	<i>prev. year=100</i>	X	X	6.6	0.0	X	81.4	174.3	0.0	X	X	X
Other expenditure	<i>bn CZK</i>	0.2	0.3	0.1	0.3	0.2	0.1	0.0	0.3	0.4	0.4	0.5
	<i>prev. year=100</i>	455.8	108.4	31.5	332.1	82.2	29.4	64.6	671.4	127.7	123.9	117.0

5.3 Balance

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government net lending (+)/net borrowing (-) <i>bn CZK</i>	-100.1	-77.3	-81.5	-135.0	-166.8	-170.6	-83.3	-106.7	-84.9	-21.5	-54.0
Central government net lending (+) /net borrowing (-) <i>bn CZK</i>	-105.7	-78.7	-76.2	-124.6	-150.9	-154.8	-76.0	-105.0	-84.0	-58.1	-82.2
Local government net lending (+) /net borrowing (-) <i>bn CZK</i>	6.8	0.9	-9.2	-10.1	-11.7	-14.1	-4.6	-1.6	-12.7	20.5	17.9
Social security funds net lending (+) /net borrowing (-) <i>bn CZK</i>	-1.1	0.5	3.9	-0.3	-4.2	-1.7	-2.7	-0.2	11.8	16.1	10.3

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government net lending (+)/net borrowing (-) <i>(in % GDP)</i>	-5.0	-3.7	-3.7	-5.7	-6.8	-6.6	-3.0	-3.6	-2.6	-0.6	-1.5
Central government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	-5.3	-3.8	-3.5	-5.3	-6.1	-6.0	-2.7	-3.5	-2.6	-1.6	-2.2
Local government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	0.3	0.0	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.4	0.6	0.5
Social security funds net lending (+) /net borrowing (-) <i>(in % GDP)</i>	-0.1	0.0	0.2	0.0	-0.2	-0.1	-0.1	0.0	0.4	0.5	0.3

5.4 Debt

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

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government debt by instruments	bn CZK	299.8	340.5	405.4	591.5	702.3	775.0	855.1	888.6	951.5	1020.7	1105.8
	prev. year=100	126.7	113.6	119.1	145.9	118.7	110.3	110.3	103.9	107.1	107.3	108.3
Currency and deposits	bn CZK	-	-	-	7.2	24.4	4.0	2.8	0.6	0.0	-	-
	prev. year=100	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0	X
Securities other than shares	bn CZK	196.4	232.1	275.6	354.8	427.4	528.4	633.8	698.2	788.6	865.7	951.3
	prev. year=100	122.5	118.2	118.7	128.7	120.5	123.6	119.9	110.2	112.9	109.8	109.9
Loans	bn CZK	103.4	108.4	129.8	229.5	250.5	242.6	218.5	189.8	162.9	154.9	154.5
	prev. year=100	135.3	104.8	119.7	176.9	109.2	96.8	90.0	86.9	85.8	95.1	99.7
Central government debt	bn CZK	271.7	314.6	378.3	559.8	660.6	725.6	790.4	816.0	870.2	936.0	1016.4
	prev. year=100	128.7	115.8	120.2	148.0	118.0	109.8	108.9	103.2	106.6	107.6	108.6
Currency and deposits	bn CZK	-	-	-	7.2	24.4	4.0	2.8	0.6	0.0	-	-
	prev. year=100	X	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0	X
Securities other than shares	bn CZK	185.0	222.4	267.9	347.8	415.4	517.4	611.5	674.8	765.9	843.0	928.9
	prev. year=100	126.9	120.2	120.5	129.8	119.4	124.6	118.2	110.3	113.5	110.1	110.2
Loans	bn CZK	86.7	92.2	110.4	204.8	220.8	204.2	176.0	140.6	104.3	93.0	87.5
	prev. year=100	132.5	106.4	119.7	185.5	107.8	92.5	86.2	79.9	74.1	89.2	94.1
Local government debt	bn CZK	36.0	34.5	35.8	40.3	50.0	59.0	72.0	79.1	86.6	88.4	92.5
	prev. year=100	112.7	95.7	103.9	112.7	124.0	118.0	122.1	109.8	109.5	102.1	104.5
Currency and deposits	bn CZK	-	-	-	-	-	-	-	-	-	-	-
	prev. year=100	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	bn CZK	12.0	10.1	8.2	7.1	12.3	11.9	22.6	24.0	23.1	23.3	23.3
	prev. year=100	81.9	83.9	81.5	86.8	172.4	96.6	190.7	105.8	96.5	100.6	100.1
Loans	bn CZK	24.0	24.4	27.6	33.2	37.7	47.1	49.4	55.1	63.5	65.2	69.2
	prev. year=100	138.9	101.6	113.1	120.4	113.6	125.0	104.8	111.6	115.2	102.6	106.1
Social security funds debt	bn CZK	1.7	1.2	0.7	0.5	0.4	0.3	0.2	0.3	0.2	0.1	0.1
	prev. year=100	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	30.9	155.9
Currency and deposits	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	1.7	1.2	0.7	0.5	0.4	0.3	0.2	0.3	0.2	0.1	0.1
	prev. year=100	71.8	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	30.9	155.9

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

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government debt based on instruments <i>(in % GDP)</i>	15.0	16.4	18.5	25.1	28.5	30.1	30.4	29.8	29.6	28.9	29.8
Currency and deposits <i>(in % GDP)</i>	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-	-
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	9.8	11.2	12.6	15.1	17.3	20.5	22.5	23.4	24.5	24.5	25.7
Loans <i>(in % GDP)</i>	5.2	5.2	5.9	9.8	10.2	9.4	7.8	6.4	5.1	4.4	4.2
Central government debt <i>(in % GDP)</i>	13.6	15.1	17.3	23.8	26.8	28.2	28.1	27.3	27.1	26.5	27.4
Currency and deposits <i>(in % GDP)</i>	-	-	-	0.3	1.0	0.2	0.1	0.0	0.0	-	-
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	9.3	10.7	12.2	14.8	16.9	20.1	21.7	22.6	23.8	23.9	25.1
Loans <i>(in % GDP)</i>	4.3	4.4	5.0	8.7	9.0	7.9	6.3	4.7	3.2	2.6	2.4
Local government debt <i>(in % GDP)</i>	1.8	1.7	1.6	1.7	2.0	2.3	2.6	2.7	2.7	2.5	2.5
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	0.6	0.5	0.4	0.3	0.5	0.5	0.8	0.8	0.7	0.7	0.6
Loans <i>(in % GDP)</i>	1.2	1.2	1.3	1.4	1.5	1.8	1.8	1.8	2.0	1.8	1.9
Social security funds debt <i>(in % GDP)</i>	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Loans <i>(in % GDP)</i>	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

5.5 International comparison

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

		Balance					Debt				
		2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
EU 27	(in % GDP)	-2.4	-1.4	-0.8	-2.3	.	62.7	61.3	58.7	61.5	.
EA	(in % GDP)	-2.5	-1.2	-0.6	-1.9	.	70.4	68.6	66.2	69.6	.
Belgium	(in % GDP)	-2.7	0.3	-0.2	-1.2	-3.4	92.2	87.9	84.0	89.6	93.0
Bulgaria	(in % GDP)	1.9	3.0	0.1	1.5	1.5	29.2	22.7	18.2	14.1	16.8
Czech Republic	(in % GDP)	-3.6	-2.6	-0.6	-1.5	-4.5	29.8	29.6	28.9	29.8	33.8
Denmark	(in % GDP)	5.2	5.2	4.5	3.6	-0.1	37.1	31.3	26.8	33.3	30.4
Estonia	(in % GDP)	1.5	2.9	2.7	-3.0	-2.9	4.5	4.3	3.5	4.8	7.8
Finland	(in % GDP)	2.8	4.0	5.2	4.2	-1.9	41.4	39.2	35.1	33.4	40.0
France	(in % GDP)	-2.9	-2.3	-2.7	-3.4	.	66.4	63.7	63.8	68.0	.
Ireland	(in % GDP)	1.7	3.0	0.2	-7.1	-10.7	27.5	24.9	25.0	43.2	59.1
Italy	(in % GDP)	-4.3	-3.3	-1.5	-2.7	-3.7	105.8	106.5	103.5	105.8	110.5
Cyprus	(in % GDP)	-2.4	-1.2	3.4	0.9	-0.8	69.1	64.6	59.4	49.1	46.8
Lithuania	(in % GDP)	-0.5	-0.4	-1.0	-3.2	-2.9	18.4	18.0	17.0	15.6	22.2
Latvia	(in % GDP)	-0.4	-0.5	-0.4	-4.0	-8.5	12.4	10.7	9.0	19.5	35.4
Luxemburg	(in % GDP)	0.0	1.4	3.6	2.6	-1.7	6.1	6.7	6.9	14.7	14.5
Hungary	(in % GDP)	-7.8	-9.2	-4.9	-3.4	-2.9	61.7	65.6	65.8	73.0	78.7
Malta	(in % GDP)	-2.9	-2.6	-2.2	-4.7	-1.5	69.8	63.7	62.1	64.1	63.5
Germany	(in % GDP)	-3.3	-1.5	-0.2	-0.1	-2.9	67.8	67.6	65.1	65.9	69.7
Netherlands	(in % GDP)	-0.3	0.6	0.3	1.0	-3.3	51.8	47.4	45.6	58.2	57.1
Poland	(in % GDP)	-4.3	-3.9	-1.9	-3.9	-4.6	47.1	47.7	44.9	47.1	51.0
Portugal	(in % GDP)	-6.1	-3.9	-2.6	-2.6	-3.9	63.6	64.7	63.5	66.4	70.2
Austria	(in % GDP)	-1.6	-1.6	-0.5	-0.4	.	63.7	62.0	59.4	62.5	.
Romania	(in % GDP)	-1.2	-2.2	-2.5	-5.4	-5.1	15.8	12.4	12.7	13.6	17.9
Greece	(in % GDP)	-5.1	-2.8	-3.6	-5.0	-3.7	98.8	95.9	94.8	97.6	99.6
Slovakia	(in % GDP)	-2.8	-3.5	-1.9	-2.2	-2.1	34.2	30.4	29.4	27.6	30.4
Slovenia	(in % GDP)	-1.4	-1.3	0.5	-0.9	-3.7	27.0	26.7	23.4	22.8	28.8
Spain	(in % GDP)	1.0	2.0	2.2	-3.8	-5.8	43.0	39.6	36.2	39.5	47.4
Sweden	(in % GDP)	2.3	2.5	3.8	2.5	-2.7	51.0	45.9	40.5	38.0	43.4
United Kingdom	(in % GDP)	-3.4	-2.7	-2.7	-5.5	-5.4	42.3	43.4	44.2	52.0	52.9

Table 5-20: Transactions of general government of EU countries in 2008

Country	Transactions	Revenue	Expenditure	Compensation of employees	Cash social benefits	Consumption ¹⁾	Investments ²⁾	Interest expenditure
EU 27	(in % GDP)	44.5	46.8	10.5	15.4	20.7	2.7	2.7
EA	(in % GDP)	.	.	.	.	.	.	.
Belgium	(in % GDP)	48.6	49.9	12.0	15.9	23.1	1.6	3.8
Bulgaria	(in % GDP)	39.0	37.4	9.0	10.5	16.3	5.6	0.8
Czech Republic	(in % GDP)	40.9	42.4	7.6	12.7	20.3	4.8	1.1
Denmark	(in % GDP)	55.4	51.7	17.1	14.9	26.5	1.8	1.4
Estonia	(in % GDP)	37.9	40.9	11.5	10.8	19.5	5.6	0.2
Finland	(in % GDP)	52.5	48.4	13.2	15.2	22.1	2.5	1.5
France	(in % GDP)	49.3	52.7	12.7	17.6	23.0	3.2	2.8
Ireland	(in % GDP)	33.8	41.0	10.3	11.5	17.4	5.4	1.1
Italy	(in % GDP)	46.0	48.7	10.9	17.7	20.2	2.2	5.1
Cyprus	(in % GDP)	44.9	44.0	14.3	12.5	18.1	3.0	2.9
Lithuania	(in % GDP)	34.0	37.2	10.8	11.0	19.1	4.9	0.6
Latvia	(in % GDP)	35.5	39.5	12.0	8.3	20.0	4.9	0.9
Luxemburg	(in % GDP)	43.3	40.7	7.9	14.4	16.4	3.9	0.3
Hungary	(in % GDP)	46.5	49.8	11.6	15.9	21.5	2.8	4.2
Malta	(in % GDP)	40.6	45.3	13.9	13.5	20.8	2.7	3.3
Germany	(in % GDP)	43.8	43.9	6.9	16.9	18.1	1.5	2.8
Netherlands	(in % GDP)	46.4	45.5	9.2	10.3	25.1	3.3	2.2
Poland	(in % GDP)	39.2	43.1	9.8	14.1	18.5	4.6	2.2
Portugal	(in % GDP)	43.2	45.9	12.9	15.6	20.7	2.1	3.0
Austria	(in % GDP)	48.2	48.7	9.1	18.1	18.6	1.0	2.6
Romania	(in % GDP)	33.1	38.5	10.2	10.6	17.3	5.4	0.8
Greece	(in % GDP)	39.9	44.9	11.2	18.4	16.5	2.9	4.4
Slovakia	(in % GDP)	32.7	34.9	6.6	11.3	16.4	1.8	1.2
Slovenia	(in % GDP)	42.7	43.6	10.8	14.7	17.9	4.2	1.2
Spain	(in % GDP)	36.6	40.5	10.7	12.3	19.1	3.8	1.6
Sweden	(in % GDP)	55.7	53.1	14.9	15.1	26.4	3.3	1.7
United Kingdom	(in % GDP)	42.3	47.7	11.1	13.2	21.7	2.3	2.3

1) Collective and individual consumption of general government.

2) Gross fixed capital formation.