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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
MTEF	medium-term expenditure frameworks
SB	state budget
SF	state funds
PB	public budgets
LFS	Labour Force Survey

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
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, Macroeconomic Forecast of the Ministry of Finance

Data concerning general government in the national accounts methodology up to 2009: Czech Statistical Office, Eurostat

Other data: Ministry of Finance

Closing date for data sources: domestic – 1 October 2010,
foreign – 22 October 2010

Fiscal Outlook is prepared every six months in the Ministry of Finance's Financial Policy 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

Following several years of apparent improvement, the Czech Republic's public finances took an unfavourable turn during 2009. It has become apparent that their temporary improvement had been caused primarily by the economy's cyclical development and that the reforms implemented in 2006 were far from sufficient for ensuring the sustainability of public budgets in the medium term. In the long-term, demographic development and the resulting unfavourable impacts, especially on the pension and health care systems, also are among the phenomena posing threats to the Czech Republic's public finances.

As true of other developed countries, the Czech Republic cannot avoid a phase of fiscal consolidation. The events of the first half of 2010 demonstrated that financial markets will penalise excessive indebtedness of states themselves, or that the risk premium demanded may cause government debt to increase with fatal consequences for public finances. The government's emphasis on stabilising public budgets thus was proven to be correct and necessary. This can be illustrated by the decrease in the average interest rate for newly issued bonds and treasury bills, which reflects the positive view as to the Czech Republic's degree of risk. Although the measures adopted on the EU level may have a partial stabilising effect, they will at the same time increase moral hazard and thus cannot be relied upon. This is due to potential problems with their actual effectiveness and the fact that the situation in the Czech Republic is, in an international comparison, relatively good and the country probably would not need aid until long after relief funds already had been exhausted.

This Fiscal Outlook presents the plans of the current government. It stems, therefore, in its revenue and expenditure parameters from the approved measures for consolidating public budgets, the state budget proposal for 2011 based thereon, and the expenditure frameworks approved by the government. It also reflects the current Macroeconomic Forecast of the Ministry of Finance from October 2010. It should be stated that a certain portion of the proposed measures for consolidating public budgets have not yet been approved by the Chamber of Deputies. We expect this to happen, however, by the end of the year.

The Fiscal Outlook also touches on the current proposal for pension reform. Considering the expected further discussions and the need to gain wider support, however, the impacts on public finances resulting therefrom are not taken into account in other parts of the Fiscal Outlook.

The featured topic of this issue is public-private partnership projects. It is, in this current time of seeking savings, a highly relevant topic which should familiarise the broader public with the current situation and outline the potential risks and disadvantages of this school of thought which is otherwise popular in the media.

1.1 Macroeconomic development

The recovery of the global economy continues to be burdened by many uncertainties. The main sources of risks are linked to the condition of public budgets and the situation in the banking sector in certain countries. In the Czech Republic, economic activity began to revive as from the 3rd quarter of 2009. An increase of 2.2% in real GDP is expected for 2010, and the contributions of the main expenditure items to growth should at the same time be balanced. We expect that the slowdown of some foreign economies and fiscal consolidation measures could slightly reduce growth dynamics in 2011. Economic growth should accelerate once again in subsequent years.

We estimate an average inflation rate of around 1.5% in 2010, and in the following year we allow for acceleration of consumer price growth to 2.2%. The rise in prices should gradually approach the value targeted by CNB.

The consequences of lower economic activity are still reflected in the labour market. Following the considerable rise in the unemployment rate (LFS), a peak of ca 7.4% should be reached in 2010. The unemployment rate should then start to decrease slightly to 6.5% in 2013. The volume of wages and salaries should increase this year by 0.5%, and that growth could accelerate in the coming years, reaching as much as 5.5% in 2013.

The deficit in the current account of the payment balance as a proportion of GDP should remain sustainable over the forecast horizon.

Table 1-1: Main macroeconomic indicators

		2009	2010	2011	2012	2013	2010	2011	2012
			Forecast	Forecast	Outlook	Outlook	Fiscal Outlook - October '09		
Gross domestic product	(bn CZK, curr.p.)	3 628	3 689	3 812	4 017	4 239	3 623	3 812	4 015
	(growth in %, const.p.)	-4.1	2.2	2.0	3.2	3.8	0.3	2.8	3.3
Private consumption	(growth in %, const.p.)	-0.2	1.5	1.5	2.9	3.5	-1.3	2.3	2.5
Government consumption	(growth in %, const.p.)	4.2	0.2	-4.5	-0.8	-1.1	-1.0	-0.6	-0.2
Gross fixed capital formation	(growth in %, const.p.)	-9.2	-3.0	1.3	3.6	5.6	-3.9	2.5	3.6
Contr. of net exports to GDP growth	(p.p., const.p.)	-0.6	0.7	1.5	0.9	1.0	1.4	0.6	1.0
GDP deflator	(growth in %)	2.6	-0.5	1.3	2.1	1.6	0.2	2.3	2.0
Inflation	(in %)	1.0	1.5	2.2	2.3	2.0	1.4	1.8	2.0
Employment (LFS)	(growth in %)	-1.4	-1.2	0.8	0.6	0.7	-1.9	0.0	0.5
Unemployment rate (reg.)	(average in %)	6.6	7.4	7.2	7.0	6.5	8.4	8.2	7.6
Wages and salaries	(growth in %, curr.p.)	-0.1	0.5	3.4	5.4	5.5	-1.1	4.5	5.3
Current account to GDP ratio	(in %)	-1.0	-1.4	-1.1	-1.5	-2.0	0.4	0.9	0.9
Assumptions									
Exchange rate CZK/EUR		26.4	25.3	24.2	23.5	22.8	24.9	24.1	23.3
Long-term interest rates	(% p.a.)	4.7	3.8	3.9	3.8	3.8	4.3	4.3	4.3
Crude oil Brent	(USD/barrel)	61.9	77.9	84.0	87.3	82.3	78.8	92.5	92.8
GDP in Eurozone (EA-12)	(growth in %, const.p.)	-4.1	1.6	1.5	2.0	2.3	0.9	1.7	2.1

1.2 Fiscal policy objectives

The priority of fiscal policy for the coming months will be fiscal consolidation and improvement in the structural parameters of public finances. The new government has accepted and slightly tightened the fiscal consolidation objectives that the Czech Republic has undertaken in the Convergence Programme from January 2010 and which ensure fulfilment of the Maastricht deficit criterion of 3% of GDP in 2013. **The new government thus has adopted a consolidation strategy that is slightly more rigorous than the one allowed for by the previous government. The fiscal objective is to achieve a general government deficit of at most 2.9% of GDP in 2013. In its policy statement, the government also set a target of balanced public budgets in 2016, providing that economic growth continues.**

Although the year 2016 is beyond the usual horizon for which fiscal policy in the Czech Republic has been prepared so far, the current government during its mandate will, *ceteris paribus*, prepare the outlook up to that year. This constitutes a very positive step to extend the fiscal policy planning horizon, although such a longer-term target is not yet supported by the set-up of expenditure frameworks. On the other hand, it is extremely difficult to reliably predict the development and detailed condition of the economy for more than six years. A more freely defined fiscal objective is therefore quite useful and will facilitate adequate and operative response to situations that will occur in future.

The government's fiscal objective for 2010 is to maintain the general government deficit at 5.3% of GDP. The Ministry of Finance currently expects a deficit of 5.1% of GDP for this year. However, since this improvement has been achieved by accounting recognition of premiums from bonds issued, which will not occur again in

the following years to a similar extent, it is not a sustainable structural influence, and, as a precaution, we do not allow for freeing up of hitherto committed expenditures this year.

An excessive deficit procedure was initiated with the Czech Republic on 2 December 2009. The Council of the European Union (hereinafter referred to as the “Council”) recommended that the Czech Republic rigorously implement the approved budget for 2010 and reduce the general government deficit by credible and sustainable means to beneath 3% of GDP by 2013. To achieve this objective, or, for that matter, one that is even tighter, the government adopted a proposal for consolidation measures for 2011–2013 and a proposal for medium-term expenditure frameworks and submitted a draft budget for 2011 to the Chamber of Deputies. Unlike the measures for 2010, emphasis is given to the expenditure side of public budgets.

The fiscal objectives for 2011–2013 should aim to achieve the medium-term budgetary target set for the Czech Republic within the EU fiscal rules. The Czech Republic is obliged to achieve this medium-term budgetary target, corresponding to a structural deficit of 1.0% of GDP, by credible and sustainable means as soon as possible. **Based on the proposed set-up of the fiscal policy and expenditure frameworks and the currently estimated input variables for its calculation, however, this objective will not be fulfilled by the end of the intended period.** Taking into account the government’s longer-term objectives, the medium-term objective would probably be achieved around 2016.

As this publication shows, the planned consolidation should ensure stabilisation of debt as a proportion of GDP by around 2013 at ca 43% of GDP. This fact, together with the failure to achieve the medium-term objective in the outlook period, indicates that the adopted consolidation strategy is not overly ambitious.

Macroeconomic development continues to present a risk in formulating the Czech Republic’s fiscal policy. The Czech Republic is a small, open economy that may be strongly impacted by unfavourable shocks from outside the country. As stated in the Macroeconomic Forecast from October 2009, these risks are oriented in a slightly downward direction. They relate mainly to the consequences of fiscal consolidation in EU countries and the condition of the banking sector in certain countries. Any unfavourable development would of course have a negative impact on deficit amounts or on the volume of measures necessary to achieve the same.

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

	2009 <i>Preliminary</i>	2010 <i>Forecast</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>	2013 <i>Outlook</i>
General government balance	-5.8	-5.1	-4.6	-3.5	-2.9
Cyclical component	-1.0	-1.0	-1.1	-0.9	-0.7
One-off and other temporary measures	0.3	0.0	-0.3	-0.2	0.0
Structural balance	-5.1	-4.1	-3.2	-2.4	-2.3
Change in structural balance	-1.6	1.0	0.9	0.8	0.1

2 Development of public finance

2.1 Public budgets – cash flows, GFS 2001

Public budgets in 2010

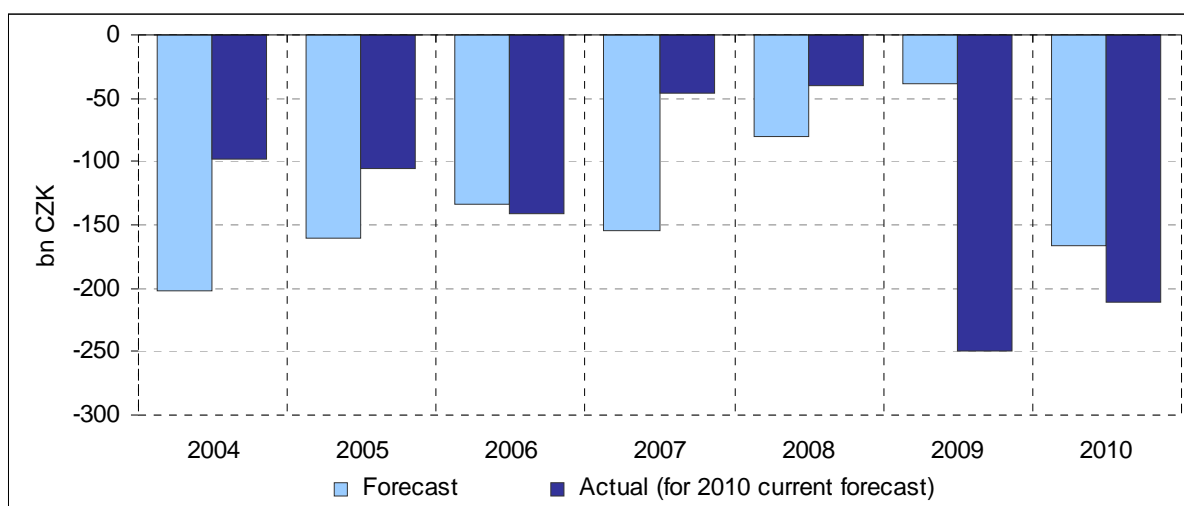
In this publication, the public budgets data are presented in a new statistical standard entitled **Government Finance Statistics Manual 2001** (hereinafter “GFS 2001”). Fundamental differences between the new and heretofore existing methodology are contained in the text box on methodology.

For the reasons set out below, the data on public budgets are not fully comparable in some revenue and expenditure items with the budget documentation for 2010. In comparing the budgeted and actual revenues and expenditures (and thus also the balances) for 2010, the text nevertheless focuses on comparison of items and indicators with methodologically similar content. The data are, however, methodologically fully consistent in time, and the entire set of numbers presented herein is under the GFS 2001 methodology.

The **balance of public budgets** (an equivalent of the formerly reported balance without net loans under the GFS 1986 methodology) can be expected to reach CZK -210.3 bn in 2010, or -5.7% expressed as a proportion of GDP. Compared to the Czech Republic State Budget Act for 2010, the deficit will be CZK 43.7 bn higher.

The following graph shows a comparison of the expected and actually achieved results in public budgets balances during 2004 to 2009 as well as the expected deficit for 2010.

Graph 2-1: Anticipated and actual balances of public budgets



Although we expect the public budgets deficit to decline significantly year on year (by CZK 38.7 bn), it will nevertheless remain high both in absolute terms and relative to GDP. One positive feature in the development of public budgets is especially the improvement in the development of revenues, which rose year on year by 0.9 p.p. as a proportion of GDP following last year's decline. Expenditures, on the other hand, essentially did not change in a year-on-year comparison (drop by 0.3 p.p.). The rise in revenues, therefore, is the main reason for the year-on-year improvement in the public budgets deficit.

The unfavourable development in tax revenues in 2009 was a pivotal factor in the implementation of measures adopted to strengthen the revenues side valid as from 2010. The property tax rate, both VAT rates (by 1 p.p.)

as well as excise tax rates on fuels, alcohol, beer and tobacco products all increased. A year-on-year increase in total tax revenues, or the tax burden, thus is no surprise.

Total tax revenues of public budgets are developing considerably more poorly than expected in the approved budget for 2010, however, and are CZK 48.8 bn lower compared to the budget documentation. The lower collections concern especially corporate income tax (CZK 9.6 bn) and social insurance contributions (CZK 16.1 bn), the amounts of which continue to be influenced by the economic recession and certain administrative measures, as well as excise taxes (by CZK 6.6 bn).

In 2010, public budgets expenditures as a proportion of GDP decreased by 0.3 p.p. compared to the previous year to 44.7% of GDP.

In comparison with the budget documentation for 2010, public budgets expenditures can be expected to be CZK 1.8 bn lower. This primarily reflects the savings measures within the state budget. Nevertheless, other entities, especially municipal governments and health insurance companies, on the other hand, will overrun expenditure estimates.

In the budget documentation for 2010, the **state budget deficit** was expected to be CZK 164.1 bn. According to current estimates, however, it will reach CZK 167.9 bn, which is CZK 3.8 bn more than the original expectation. The updated estimate of revenues is CZK 14.5 bn lower than budgeted, while expenditures also are lower (by CZK 10.7 bn). In connection with the unsatisfactory development in public budgets, expenditures were twice locked during the year. In February, the total volume reached CZK 5.6 bn. In July, expenditures of CZK 12 bn were tied up and select entitlements were reduced at the same time from the legally defined base from the non-consumption expenditures of government organisational units by 50%, i.e. by ca CZK 4 bn. In a year-on-year comparison, the expected state budget balance improved by CZK 66.1 bn and thus is the main factor behind the improvement in the overall balance of public budgets.

Due to a decline in the public budgets deficit, the year-on-year debt growth dynamics also will slow. The volume of **loans and government bonds** will reach CZK 1,422.8 bn, i.e. 38.6% of GDP. In comparison with 2009, it will grow by 4.0 p.p. as a proportion of GDP and in absolute terms by CZK 168.8 bn. Even if the debt growth dynamics of public budgets will slow year on year by 3.6 p.p. to 13.5%, it has been high already for several years. This is the result not only of the crisis but also of expenditure trends already established in the past. The year-on-year growth in the state debt is slightly higher than for the total debt of public budgets and is expected to be 14.4%. The importance of state debt in total public indebtedness also will increase slightly, reaching 92.7%. Debt service costs are a constant burden on the expenditures side of public budgets. In 2010, however, they will decrease year on year by CZK 5.5 bn, especially as a result of the timing of an issue of bonds which was launched under advantageous conditions with a lower coupon interest rate than originally expected.

Public budgets in 2011

The process of fiscal consolidation will continue in 2011. The goal is to balance public budgets by 2016 at the latest.

Fulfilment of these targets was a primary determining factor in drafting the budget for 2011. The proposed savings measures will lead to a significant year-on-year decrease in the state budget deficit and the outcomes of all other components of the public budgets will improve with the exception of the State Environmental Fund and the generally negligible State Fund for the Support and Development of Czech Cinematography.

Year on year, we can expect a decrease in the **balance of public budgets** by CZK 68.1 bn to CZK 142.3 bn (3.7% of GDP).

Revenues will increase by 5.7% (CZK 82.3 bn) year on year, while expenditures will rise by only 0.9 p.p. (CZK 14.3 bn). This will result in an appreciable drop in the public budgets deficit. The expected development in the deficit and debt of public budgets is significantly influenced by the fact that the Czech economy is only

gradually recovering from the economic recession and that no one-off extraordinary revenues at such level as in previous years are any longer available for covering expenditures. This would lead *ceteris paribus* (in the case of an autonomous scenario) to further deepening of untenable expenditure trends established in the past. This development, however, is not acceptable with regard to the long-term sustainability of public finances, and thus a series of measures on the revenues and particularly the expenditures side were effected in order to meet the newly established targets. The most important changes on the revenues side with respect to impact on state budget results include the following:

- Social security and the contribution to national employment policy: The 0.9 p.p. reduction in the sickness insurance rate paid by the employer will be cancelled. The mandatory employee tax payment will be 31.5%, of which 28% as before goes to the pension insurance contribution, 2.3% to the sickness insurance contribution and 1.2% to the contribution to the national employment policy.
- Preservation of the ceiling for the annual assessment base: The maximum ceiling for the assessment base for insurance was temporarily increased for 2010 to six times the average monthly wage (72 times the annual) and this will apply for 2011 as well.
- Corporate income tax: The 50% tax credit for firms employing handicapped persons will be cancelled.
- Personal income tax: Introduction of 50% taxation on support paid for a building savings programme by means of a withholding tax, taxation on pensioners with an income over three times the average wage, taxation on the housing allowance for servicemen and women, taxation on early-retirement contributions of members of the armed forces and security corps in a service relationship and taxation on compensation to legislators and government officials, and cancellation of the tax exemption on interest earned from deposits in a building savings scheme.

The tax burden on the revenues side thus will rise slightly and the structure of tax revenues of public budgets will continue to change.

Savings measures on the expenditures side concern primarily the following areas:

- Sweeping budget cuts: Reduction of common expenditures on the operation of ministries and other state offices and reduction of investment expenditures.
- Reduction in the volume of funds for state employees' salaries by 10%, except for teachers and other educators. Teachers' wages will actually be increased by 3.5%.
- Reduction of costs associated with servicing state debt due to a decrease in interest rates.
- Reduction of expenditures on transportation infrastructure, which as a final result should lead to sterner negotiations with suppliers of construction work.
- Balancing of direct payments: The Accession Agreement allows for the balancing of direct payments from national sources by as much as 20% to 100% of the EU-15 level for 2011. Considering the lower wage costs in primary agricultural production, the lower rental rates for farmland and the state's significantly restricted budgetary possibilities, it has been proposed to not provide balancing of direct payments from national sources in 2011.
- Government welfare benefits: The maternity benefit shall apply only to the first child and its payment will be conditioned on total household income being less than 2.4 times the minimum subsistence level. An adjustment of the conditions for drawing a parental contribution is proposed for a period of 4 years. The social benefit paid in addition to the child benefit for the lowest-income families (less than 2 times the minimum subsistence level) will be cancelled. It is expected that the net savings

effect will be partially compensated by the shift to a system of benefits for poverty relief assistance, as a part of which there will be a means test in relation to income and partially to property.

- A proposal has been made to adjust the contribution to care for the disabled such that the contribution in the first tier of dependence on the assistance of another person would be reduced from the current CZK 2,000 to CZK 800 monthly. The savings from this measure are estimated to be over CZK 1.5 bn. The amounts of the other contributions under dependence levels II to IV should remain unchanged.

As compared with the expected financial results for 2010, the aforementioned measures will result in a reduction of the **state budget deficit** by approximately CZK 31.3 bn to CZK 136.6 bn. Revenues will increase rather sharply year on year (by CZK 40.3 bn) due especially to social contributions, growth in the volume of monies drawn from EU funds, and tax revenues. State budget outlays will rise year on year by only CZK 8.9 bn.

Due to year-on-year improvement in results for the great majority of the other components of public budgets, the public finance results will experience more positive development trends. Owing to the drop in the balance of public budgets, debt growth dynamics will slow to 9.5% while the expected volume of **loans and government bonds** will increase by CZK 135.8 bn to CZK 1,558.6 bn. This debt will increase as a proportion of GDP by 2.3 p.p. as compared with 2010 to 40.9% of GDP. The weight of the state debt in the total public debt will again increase slightly and reach 93.3%. Its year-on-year dynamics as compared with 2010, however, will slow by 4.2 p.p. to 10.2%.

No major changes are anticipated in the proportions of the individual segments of public budgets in the total indebtedness. After the state debt, municipal governments have the greatest weight in the total debt of public budgets. Their debt in 2011 as compared to the previous year will show negligible growth. The debt of extra-budgetary funds can be expected to stagnate. The State Agricultural Intervention Fund and State Environmental Fund are showing the same levels of indebtedness as in 2010. The exhaustion of extra-budgetary funds' own resources to finance their deficits presents another potential risk for a rise in the debt of public budgets. Health insurance companies are showing negligible debt.

Box 1: Methodology

The data is reported on the basis of a cash flow methodology that is reflected in grouping of revenue and expenditure operations and necessary methodological adjustments. The government statistics are structured as a sum of individual items of public budgets where the consolidation of revenues and expenditures is further applied in order to exclude mutual flows among individual branches of the government sector. Public budgets record revenue and expenditure operations related to the state budget including the National Fund and since 2006 the resources from privatisation (the former National Property Fund, abolished by Act No. 178/2005 Coll.), extra-budgetary funds (state funds and the Land Fund of the Czech Republic), public health insurance and local government units (municipalities, regions, voluntary associations of municipalities, and regional councils of cohesion regions).

Transition from the GFS 1986 methodology to GFS 2001

The International Monetary Fund (hereinafter referred to as the "IMF") prepared a new methodology for reporting government finance statistics, which is defined in the publication Government Finance Statistics Manual 2001 (hereinafter referred to as "GFS 2001"). Based on this manual, both public budgets transactions (revenues, expenditures and financing) carried out on a cash basis and those from stock variables regarding debt that were reported in compliance with the GFS 1986 methodology are monitored, as well as operations associated with the origin, extinguishment or conversion of accounts receivable and payable and with other economic flows, such as gains and losses from holding assets and liabilities. In addition to the flow operations, a balance sheet is also compiled. The institutional definition of the sector under the GFS 1986 methodology had derived from a functional concept for defining the government sector, while GFS 2001 includes institutions in the government sector on the basis of an institutional concept. The institutional coverage is thus defined in

accordance with the methodology of the European System of National and Regional Accounts (hereinafter referred to as "ESA 95"). Since 2003, and at the recommendation of the IMF, the Ministry of Finance commenced gradual implementation of government financial statistics for public budgets using the new GFS 2001 methodology. During 2001 to 2004, and based on the IMF recommendation as to the implementation process, the data from the GFS 1986 format were transformed according to established adjustments to the statement of sources and uses of cash, statement of government operations, and other related statements from GFS 2001 without any changes in the institutional definition. Since 2005, these statements have been processed on the basis of primary data. In view of the fact that the institutional coverage of GFS 1986 and 2001 in the current phase of implementation is consistent, the Ministry of Finance is changing over to publishing the data in a new format. The aim is to achieve consistent institutional coverage under the GFS 2001 methodology with the definition of the government institutions sector in the ESA 95 methodology. In coming years, extension of the institutional coverage of public budgets to additional subjects (such as selected centrally and locally managed semi-budgetary organisations, public universities and the Railway Infrastructure Administration) is anticipated.

Basic differences between GFS 2001 and GFS 1986

Items in the categories of revenues and expenditures have undergone partial changes. Among the main changes are the following:

- Total capital revenues and capital expenditures are not reported separately. Operations relating to purchase and sale of non-financial assets have been excluded from the revenues and expenditures. In this connection, the category of cash flows from investments into non-financial assets is newly monitored. Another part of capital expenditures related to revenue and expenditure from subsidies and transfers was included into operating revenues and expenditures. Nevertheless, outside the GFS 2001 methodology framework, tables in this material also contain total values for revenues and expenditures including sales and acquisition of non-financial assets.
- Payments of social contributions made from public budgets for their employees that were consolidated under the GFS 1986 methodology remain components of the revenues and expenditures from relevant categories.
- In tax revenues, the value added tax is decreased by tax payments of the EC's own sources into the EU budget in relation to VAT.
- The category of net loans (i.e. loans provided minus their repayments including purchase of shares and ownership interests minus their sale) is not part of expenditures in the GFS 2001 methodology, i.e. these operations do not affect the public budgets deficit but are part of the accounts receivable recorded within financing.
- Outlays in implementing high-risk guarantees whose return is uncertain are included in the expenditures as capital transfers. Under the GFS 1986 methodology, these had been classified as loans. Their potential payments are part of public budgets revenues (not repayments of previously granted loans as under GFS 1986).

In the GFS 2001 methodology, the following balance categories are defined in the given phase of implementation:

- **Net cash deficit/surplus** is a balance involving cash flows from operating activities and net acquisition of non-financial assets. Due to its character, it can be compared to the GFS 1986 deficit net of net loans.

This balance can be further analysed by means of the following indicators:

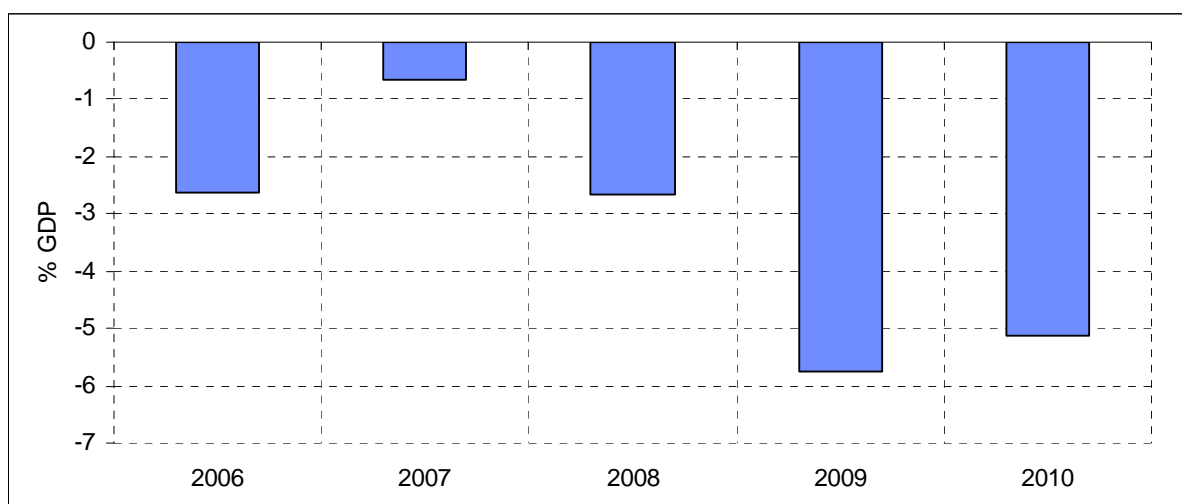
- **Net cash inflow from operating activities**, which represents the difference between revenues and expenditures from operating activities. Compared to the previously reported current balance deficit, this balance includes capital revenue and expenditure from subsidies and transfers.
- **Net cash outflow from investments in NFAs**, which represents the value of newly acquired non-financial assets decreased by the revenues from the sale of non-financial assets.

2.2 Government sector – national accounts (ESA 95)

Revenues, expenditures and balance in 2009

In 2009, the general government balance reached CZK -210.3 bn which was -5.8% of GDP. Compared to the Czech Statistical Office's preliminary data from April, this thus represents a slight improvement of 0.1 p.p.

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



Compared to 2008, the general government sector **revenues** decreased by about 1.8% and thus came to CZK 1,456.3 bn, which represents 40.1% of GDP. In relative terms, there was stagnation on the revenues side of the budget with reference to the previous year because nominal GDP decreased by roughly the same extent.

The absolute decline on the revenues side of the general government sector is due especially to the economic crisis, which had already manifested itself at the end of 2008 but struck with full force only during 2009. The total tax revenues including social insurance, which over the long term comprise 90% of total revenues, decreased by about 4.5%.

The crisis evidenced itself especially on the revenues side in the corporate income tax, which dropped by more than 14% compared to 2008. The legislative changes in relation to this tax which further decreased its collection were, of course, also reflected in this dramatic drop. At this point, this should represent a relatively accurate estimate of this tax revenue as the current data, unlike the data from April, also includes data from the tax returns for 2009, which legal entities are obliged to submit by the end of June.

Social contributions dropped by a rather sharp 6.6%, which, similarly to the corporate income tax, reflects a concurrence of two circumstances: a decrease in the assessment bases and the effect of anti-crisis measures taken in 2009.

Due to the decline in wages and salaries in the economy, the personal income tax recorded a decrease in revenues compared to the previous year by nearly 3.7%. Considering the minimal legislative changes to this tax, the decrease was thus not as deep as for social contributions, even though the assessment base is very similar.

VAT decreased only slightly by up to 0.5%. Excise taxes, on the other hand, recorded an increase in 2009 of nearly 9%, especially due to the effect of a 2007 increase in excise taxes on tobacco products.

Very strong growth on the revenues side was recorded, too, for investment grants from abroad (mostly from the EU), which were almost double compared to the previous year and thus signalled very solid development for projects co-financed by EU funds. One can assume that the bulk of the money was subsequently directed to government investments (gross fixed capital formation).

General government expenditures grew by 5.2% compared to 2008 and thus certainly do not reflect the negative tendencies on the revenues side and represent a risk for the stability and healthy development of the general government sector. General government expenditures grew as a proportion of GDP by a significant 3 p.p. compared to 2008.

General government expenditures on final consumption achieved a relatively high growth rate of more than 6%. Especially reflected here was substantial growth in individual consumption (by 7.5%), owing to the health insurance companies' increasing costs for health care. By contrast, the dynamics of collective consumption remain approximately the same as in the previous year and thus do not deviate significantly.

Social benefits increased against the previous year by 6.6%. This reflects the impacts of the economic crisis on the labour market. Unemployment increased gradually during the year, and therefore so did pressures on the expenditures side of the state budget.

General government outlays for interest fully reflect a very negative and unsustainable development, and compared to 2008 they recorded a dramatic 20% increase. A very negative phenomenon thus occurred whereby expenditures for financing the debt may gradually edge out other spending priorities of the general government. For the future, therefore, the development of interest rates, the fluctuation of which can have a significant impact on the balance given such levels of debt financing, is particularly important.

An offset to growth in the dynamics on the general government expenditures side was seen in relation to units of the assigned carbon dioxide allowances. Their sale in the examined year amounted to ca CZK 13 bn (which will be displayed as a negative expenditure), only a minimal amount of which was spent, and thus almost this entire amount improved the deficit in 2009. Growth in expenditures can be expected as a result of this operation, and with that a worsening of the deficit in future years.

Grants on production also increased significantly (by almost 20%) relative to the previous period. This can be due to higher drawing of EU funds by non-governmental organisations, which are provided with higher grants by the government sector to ensure national funding. In this case, therefore, this growth can be evaluated rather positively since it has considerable potential for multiplier effect.

A decline in growth dynamics occurred in government investments, where gross fixed capital formation increased by 4.1% compared to 2008. This growth primarily reflects the utilisation of EU sources, which to a certain extent replaced slumping investments from domestic sources. If EU sources were excluded, there would most likely be stagnation or even moderate decrease in investments. On the other hand, capital transfers decreased in 2009.

As traditionally, the greatest share in the resulting 2009 balance was attributable to the central government institutions subsector, mainly represented by the state budget. Other subsectors did no better, however, because health insurance companies as well as local budgets worsened substantially year on year (by more than CZK 33 bn in total).

Revenues, expenditures and balance in 2010

For 2010, a slight increase in the general government deficit was notified at the beginning of the year. The deficit value is just short of CZK 218 bn and represents 5.9% of GDP. **After processing the new**

information and re-evaluating economic development, the general government balance in 2010 is expected to be CZK 189.8 bn, or 5.1% of GDP.

In 2010, meanwhile, a gradual return to moderate economic growth is expected and the revenues side of the general government is likely to return to growth trends. This year, an increase in revenues by 2.9% to CZK 1,498 bn is expected. In relative terms, this represents modest continual increase on the general government revenues side to 40.6% of GDP.

The growth in tax revenues by 3.1% in this year also will be influenced by rather significant legislative adjustments as a result of adopting a package to stabilise the situation in general government. These changes will affect almost all major taxes.

The most striking changes occurred in excise taxes. Nevertheless, these are expected to show growth of only 3.7%. Compared with the original estimates, therefore, a considerable adjustment downward has occurred due primarily to the significantly lower consumption of fuels, which offsets the effect of the increased excise tax on mineral fuels to a significant extent.

Revenues from the corporate income tax are expected to rise slightly. Considering the very sharp drop in the past two years, and the thus even lower tax base, such low growth cannot be seen as optimistic and reflects only very slow recovery of the corporate sector. On the other hand, this also reflects the decrease in the tax rate by 1 p.p. while the tax deduction for losses suffered in previous years by the corporate sector may also have a certain impact.

Revenues from the personal income tax are expected to be approximately 3.7% higher this year than they were in the previous year. This is due primarily to gradual recovery of the economy as well as to the fact that the stabilisation package for this year did not much affect this tax. Social security contributions are progressing similarly, as they are expected to show a year-on-year return of over 2%. We can expect a return to more marked growth in revenues from these taxes, therefore, only when we begin to see sustainable and strong growth, giving companies enough confidence so they are able to begin recruiting new staff and potentially raising the salaries of current employees.

Another tax the collection of which will increase is the VAT, reflecting in particular the measures associated with the rise in the basic and reduced rates by 1 p.p. Considering the relatively low growth in household consumption, however, the revenues are only expected to be only 4.6% higher against the previous year. If legislative changes regarding this tax are not adopted, stagnation at last year's value will very likely occur.

Other tax revenues also will increase very significantly, but, as measured in absolute amounts, there not so significant as are the amounts of the aforementioned taxes. Here, the effect is associated in particular with a change in property taxes, where there was a doubling of the rate applied to the majority of buildings and land.

A slight increase can be expected in revenues from investment grants, as the drawing of EU sources in this year will probably increase further year on year. This growth, therefore, represents an exceptionally good development, as the comparative base of 2009 was itself already very high. Due to the methodology for calculating the government deficit, this development of course has no significant impact on the general government deficit because the expenditures side of the general government also is higher by this same amount. The net impact on the deficit is thus represented only by an increase in co-financing from Czech sources. In terms of the economy, though, it is a very positive and growth-promoting stimulus.

Table 2-1: General government revenue

		2005	2006	2007	2008	2009	2010
General government revenue	<i>(in % GDP)</i>	41.4	41.1	41.8	40.2	40.1	40.6
-tax revenue	<i>(in % GDP)</i>	20.7	20.1	20.6	19.0	18.8	19.2
-social contributions	<i>(in % GDP)</i>	16.2	16.3	16.3	16.2	15.4	15.5
-sales	<i>(in % GDP)</i>	2.7	2.5	2.7	2.8	2.9	2.8
-other revenues	<i>(in % GDP)</i>	1.9	2.2	2.2	2.2	3.1	3.2

Table 2-2: General government tax revenue

		2005	2006	2007	2008	2009	2010
Tax revenue and social contributions	<i>(in % GDP)</i>	36.8	36.4	36.9	35.2	34.2	34.7
-individual income tax	<i>(in % GDP)</i>	4.6	4.2	4.3	3.7	3.6	3.7
-corporate income tax	<i>(in % GDP)</i>	4.5	4.8	5.0	4.2	3.6	3.6
-VAT	<i>(in % GDP)</i>	7.1	6.5	6.4	6.9	7.0	7.2
-excise taxes	<i>(in % GDP)</i>	3.7	3.8	4.0	3.4	3.8	3.9
-social contributions	<i>(in % GDP)</i>	16.2	16.3	16.3	16.2	15.4	15.5
-other taxes and contributions	<i>(in % GDP)</i>	0.9	0.8	0.8	0.8	0.7	0.8

The expected dynamics on the **expenditures side of the general government** decreased substantially against the previous year, and therefore the expenditures are expected to be only 1.3% higher than in the previous year. Significant limitations on the revenues side have begun to be reflected in expenditures. In relative terms, compared to the previous year, this is essentially stagnation, as GDP and outlays will rise at a very similar pace.

Following several periods of relatively high growth, there has been a decline in the dynamics of general government expenditures on final consumption to 0.9%. This development is mainly caused by expected stagnation in government's collective consumption. Government consumption is valued at the general government's own costs and two thirds of the subsequent cost allocation is then apportioned to collective final consumption, which will thus reflect the economising steps in general government, such as the expected decrease in the volume of wages. Individual consumption will rise by 1.3% compared to the previous year.

Sale of emission allowances in the amount of CZK 5.9 bn is also expected in 2010, which represents revenues of the State Environmental Fund. The drawing of money from sale of the emission allowances, both from 2010 and the undrawn portions from 2009, remains burdened by considerable uncertainty.

The expected development of social transfers must be evaluated very positively. Relative to 2009, these transfers should increase by only 2.7%, which is a growth substantially below average compared with the past several years. The dominant factor here is clear savings in the area of social benefits for 2010.

A very interesting and relatively positive development for the Czech Republic is occurring in relation to outlays for interest paid by the general government due to its position as a debtor. These interest outlays are expected to drop by more than 6% in 2010, due especially to the significant decrease in yields on government bonds which will be below the 2009 level by approximately 1 p.p. The record growth from last year due to the increase in risk premiums, which in turn markedly raised the comparative base of 2010, also will have a certain impact. It should be pointed out that such positive development on bond markets must be taken as a bonus that can just as quickly disappear.

Owing primarily to the record inflow of EU funds, which go to a great extent into government investments, gross fixed capital formation can be expected to grow by more than 7%.

Table 2-3: General government expenditure

		2005	2006	2007	2008	2009	2010
General government expenditure	<i>(in % GDP)</i>	45.0	43.7	42.5	42.9	45.9	45.7
-government consumption	<i>(in % GDP)</i>	22.1	21.3	20.3	20.4	22.0	21.9
-social benefits other than social transfers	<i>(in % GDP)</i>	12.6	12.6	12.8	12.8	13.8	14.0
-gross fixed capital formation	<i>(in % GDP)</i>	4.9	5.0	4.7	4.9	5.2	5.5
-other expenditure	<i>(in % GDP)</i>	5.4	4.8	4.7	4.8	4.8	4.3

The overall balance in 2010 should reach CZK 189.8 bn, which is 5.1% of GDP. As compared to the notified balance in April, this figure represents a relatively significant improvement (by 0.7 p.p.) driven primarily by revaluation of interest outlays for the state debt as well as to costs-saving steps which led to a decline in grants and investment transfers.

Table 2-4: General government balance

		2005	2006	2007	2008	2009	2010
General government balance	<i>(in % GDP)</i>	-3.6	-2.6	-0.7	-2.7	-5.8	-5.1
Central government balance	<i>(in % GDP)</i>	-3.5	-2.6	-1.6	-2.7	-4.9	-4.4
Local government balance	<i>(in % GDP)</i>	-0.1	-0.4	0.5	-0.2	-0.6	-0.5
Social security funds balance	<i>(in % GDP)</i>	0.0	0.4	0.5	0.3	-0.3	-0.2
Primary balance	<i>(in % GDP)</i>	-2.4	-1.5	0.5	-1.6	-4.5	-3.9

General government debt

The general government debt in 2009 reached approximately CZK 1,282 bn, which represents 35.4% of GDP. Compared to 2008, the debt reflected in large measure the development of the general government balance and grew by more than 16%.

Table 2-5: General government debt

		2005	2006	2007	2008	2009	2010
General government debt	<i>(in % GDP)</i>	29.7	29.4	29.0	30.0	35.3	39.3
Central government debt	<i>(in % GDP)</i>	27.2	26.9	26.6	27.5	32.7	36.8
Local government debt	<i>(in % GDP)</i>	2.7	2.7	2.5	2.5	2.7	2.6
Social security funds debt	<i>(in % GDP)</i>	0.0	0.0	0.0	0.0	0.0	0.0

It is assumed that at the end of 2010 the general government debt will be about CZK 1,451 bn, which represents a sharp increase to 39.3% of GDP and thus comes very close to the psychologically significant barrier of 40%, which will very likely be surpassed already at the start of next year. As compared with the previous estimate, the debt thus will rise significantly this year due especially to changes in the debt financing strategy, as debt reserves in the state budget will rise, rather than be drawn, due to the continuing uncertainty on financial markets.

Table 2-6: Stock-flow adjustment

		2005	2006	2007	2008	2009	2010
Gross debt	<i>(in % GDP)</i>	29.7	29.4	29.0	30.0	35.3	39.3
Change in gross debt	<i>(p.p.)</i>	-0.4	-0.2	-0.5	1.0	5.4	4.0
Decomposition of change in gross debt							
Nominal GDP growth	<i>(p.p.)</i>	-1.7	-2.2	-2.6	-1.2	0.6	-0.5
General government net lending (+) /net borrowing (-)	<i>(p.p.)</i>	3.6	2.6	0.7	2.7	5.8	5.1
Other factors	<i>(p.p.)</i>	-2.3	-0.7	1.5	-0.5	-1.0	-0.6
- <i>Difference between cash and accrual</i>	<i>(p.p.)</i>	-0.8	0.4	0.0	-1.9	0.6	-0.4
- <i>Net accumulation of financial assets</i>	<i>(p.p.)</i>	-1.2	-0.9	1.5	1.3	-1.4	-0.2
<i>of which: privatisation proceeds</i>	<i>(p.p.)</i>	3.5	0.0	0.3	0.6	0.0	0.0
- <i>Revaluation and other factors</i>	<i>(p.p.)</i>	-0.4	-0.2	-0.1	0.1	-0.1	0.0

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

2.3 International comparison

Eurostat has raised another reservation concerning the data on Greek government statistics, and a procedure for improving the quality of source data was subsequently initiated (in cooperation with the local statistical office and court of auditors). Eurostat will publish the fiscal data for Greece most likely in mid-November 2010. For this reason, international comparison tables in the annex contain no data for Greece and no such data is incorporated in figures for the EU-27 or the euro zone. The following text also does not refer to Greece quantitatively as one of the traditional fiscal transgressors.

General government balance

In 2009, the general government balance of the EU-27 countries reached a very unfavourable value of -6.6% of GDP. As a result of the financial and economic crisis, its worsening situation was substantially deepened compared to the previous year, specifically by 4.4 p.p. With its deficit at 5.8% of GDP, the Czech Republic finds itself under the EU-27 average.

At 14.4% of GDP, Ireland recorded the poorest general government balance in 2009. The United Kingdom (11.4% of GDP), Spain (11.1% of GDP) and Latvia (10.2% of GDP) also had deficits in double figures. In 2010, all EU-27 countries expect general government deficits simultaneously, as was the case for 2009, when this happened for the first time. Moreover, the deficits of Scandinavian countries that have traditionally been in surplus may, perhaps surprisingly, continue to rise. An exception is Norway, which is not an EU member. It is experiencing incredible surpluses over the long term, particularly thanks to its oil wealth. The highest deficits should be repeatedly recorded in the island countries – 10.1% of GDP in the United Kingdom and an unbelievable 32.0% of GDP in Ireland. This deficit in Ireland, at nearly one third of annual GDP, seems nevertheless to be the result of methodology adjustments, as the Irish have included into the central government performance promissory notes totalling nearly EUR 31 bn, the beneficiaries of which are financial institutions. Even after removing this item, however, Ireland would still have the highest deficit (12.4% of GDP).

Due to enduring economic problems, a record 24 EU countries, including the Czech Republic, expect deficits in 2010 that will be worse than the 3% Maastricht criteria (in the case of Greece, this is assumed to be true). The exceptions are Sweden, Estonia and now Luxembourg (see Table 5-30 in the annex). In the case of Bulgaria, which had previously shown fiscal discipline, the estimate of its deficit worsened as compared to the spring period from 2.0% to 3.8% of GDP. It can be assumed that this fact may be connected with signs less than a year old of improper (albeit not intentionally so) recording of central government statistics.

General government debt

General government debt approximately reflects the development of budget deficits in the given countries over the long term. The general government debt in the EU-27 countries reached 72.9% of GDP in 2009, which is a full 12 p.p. more than in 2008.

As measured by its general government debt, the Czech Republic is still doing relatively well. Nevertheless, a quite distinct acceleration of its growth dynamics in recent years is alarming. In 2009, the debt exceeded the long-term sustainable upper limit of 30% and reached 35.3% of GDP. In 2010, it is expected to continue growing to 39.1% of GDP. While this remains well within the Maastricht convergence criteria, it is notable that even the Greek debt was once at such a level as is the Czech Republic's today.

The most indebted EU-27 countries traditionally include Italy (118.5% of GDP), which would not be able to cover all its general government debt even with its entire annual economic output (a similar situation is assumed for Greece). Belgium (98.6% of GDP) is doing only slightly better, while Ireland caught up with the former at record speed (even without including the aforementioned promissory notes, its debt would be around 80–85% of GDP). This quartet is followed by Portugal, France and, among the newly joined EU countries, Hungary. The positive development in Sweden's debt is notable. The situation is relatively worsening in other EU countries, and in still economically depressed Latvia (where the debt's volume over the last three years more than quadrupled, and as a proportion of declining GDP increased nearly five-fold) the debt soared to a record level in a medium-term horizon. Estonia can boast of having the lowest government debt relative to GDP over the long-term, as well as of being the only one with that figure in single digits (see Table 5-30 in the annex).

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

		Balance					Debt				
		2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
EU 27 ¹⁾	<i>(in % GDP)</i>	-1.4	-0.8	-2.2	-6.6	-4.5	60.7	58.0	60.9	72.9	71.3
Czech Republic	<i>(in % GDP)</i>	-2.6	-0.7	-2.7	-5.8	-5.1	29.4	29.0	30.0	35.3	39.1
Slovakia	<i>(in % GDP)</i>	-3.2	-1.8	-2.1	-7.9	-7.8	30.5	29.6	27.8	35.4	42.5
Poland	<i>(in % GDP)</i>	-3.6	-1.9	-3.7	-7.2	-7.9	47.7	45.0	47.1	50.9	55.4
Hungary	<i>(in % GDP)</i>	-9.3	-5.0	-3.7	-4.4	-3.8	65.7	66.1	72.3	78.4	79.8
Germany	<i>(in % GDP)</i>	-1.6	0.3	0.1	-3.0	-4.0	67.6	64.9	66.3	73.4	75.4
France	<i>(in % GDP)</i>	-2.3	-2.7	-3.3	-7.5	-7.7	63.7	63.8	67.5	78.1	82.9
United Kingdom	<i>(in % GDP)</i>	-2.7	-2.7	-5.0	-11.4	-10.1	43.4	44.5	52.1	68.2	78.9
Italy	<i>(in % GDP)</i>	-3.4	-1.5	-2.7	-5.3	-5.0	106.6	103.6	106.3	116.0	118.5

1) excluding Greece, the figures are derived from Eurostat absolute data

3 Medium-term fiscal outlook

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

The obligatory character of medium-term expenditure frameworks and fiscal objectives stems from budgetary rules (Act No. 218/2000 Coll.). The budgetary rules specify that the Ministry of Finance shall submit to the government a proposal for a medium-term expenditure framework. In accordance with budgetary rules, a medium-term expenditure framework is prepared for the two years following the draft budget, i.e. in 2010 for 2012 and 2013.

An excessive deficit procedure was initiated with the Czech Republic on 2 December 2009. The Council of the European Union (hereinafter referred to as the “Council”) recommended that the Czech Republic reduce the ratio of the general government deficit to GDP, by credible and sustainable means, below the 3% reference value by 2013. The government, therefore, has prepared a consolidation strategy in compliance with the requirements of the excessive deficit procedure to the year 2013. Compared to data from the Convergence Programme of the Czech Republic from January 2010, the government has slightly tightened fiscal objectives for the years of the outlook and at the same time has specified the objective of achieving balanced general government finances in 2016, conditioned upon there being economic growth in the concerned period 2013–2016. **The government strategy currently targets reduction of the general government deficit to 4.6% of GDP in 2011, 3.5% of GDP in 2012 and 2.9% of GDP in 2013.**

To ensure these fiscal targets, the government establishes and the Parliament approves expenditure frameworks for the state budget and state funds. Fulfilment of such established expenditure frameworks should, under certain preconditions (macroeconomic forecast, tax projection, assumption as to financial results of health insurance companies, privatisation funds and local budgets), lead to achieving the established fiscal objectives. The approach to deriving expenditure frameworks from the target in the ESA 95 methodology to expenditure limits for the state budget and state funds, and including related assumptions of the financial results of other items in public budgets, is demonstrated in Table 3-1.

The newly proposed medium-term expenditure frameworks of the state budget and state funds on an unconsolidated basis are CZK 1,281.6 bn for 2011, CZK 1,142.3 bn for 2012 and CZK 1,166.6 bn for 2013.¹

¹ The expenditure framework for 2011 includes funds from the EU. This is not the case in 2012 and 2013, because these funds are not budgeted for the concerned years. This causes a year-on-year reduction of these frameworks in 2011 and 2012 (see note to Table 3-1).

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

		2009	2010	2011	2012	2013
		<i>Prelim.</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>	<i>Outlook</i>
Target for government sector (ESA 95)	(bn CZK) [1]	-210.3	-189.8	-174.4	-141.5	-123.3
	(% of GDP) [2]	-5.8	-5.1	-4.6	-3.5	-2.9
Difference ESA 95 - Fiscal targeting	(bn CZK) [3]	-20.9	12.5	10.5	0.0	0.0
Target for public budgets (national fiscal targeting)	(bn CZK) [4=1-3]	-231.2	-177.4	-163.9	-141.5	-123.3
	(% of GDP) [5]	-6.4	-4.8	-4.3	-3.5	-2.9
Public budgets other than SB and SF	(% of GDP) [6]	-1.0	-0.8	-0.5	-0.6	-0.6
Target for state budget and state funds	(% of GDP) [7=5-6]	-5.3	-4.0	-3.8	-3.0	-2.3
	(bn CZK) [8]	-193.4	-148.4	-143.9	-119.4	-97.9
State budget	(bn CZK) [8a]	-199.5	-145.9	-132.7	-108.1	-97.1
State funds	(bn CZK) [8b]	6.0	-2.6	-11.2	-11.3	-0.8
Revenue forecast of SB and SF	(bn CZK) [9]	1041.9	1112.8	1137.7	1022.9	1068.6
State budget	(bn CZK) [9a]	914.3	987.0	1040.3	970.6	1016.4
State funds	(bn CZK) [9b]	127.6	125.8	97.4	52.3	52.2
New expenditure frameworks	(bn CZK) [10=9-8]	1235.3	1261.2	1281.6	1142.3	1166.6
State budget	(bn CZK) [10a]	1113.7	1132.9	1173.0	1078.7	1113.5
State funds	(bn CZK) [10b]	121.6	128.4	108.6	63.6	53.1

Notes: Reduction in the levels of revenues and expenditures from 2012 (without the influence on the expected balance) results from the fact that in the outlook after the 2011 state budget there are not included expected revenues from EU funds and the expenditure financed thereby.

The balance of public budgets outside the state budget and state funds between 2011 and 2013 will be affected, according to our assumptions, by two factors. We expect gradual improvement of deficits for local budgets and health insurance companies following the significant worsening of financial results in 2009. In 2011, an improvement in the financial results of privatisation funds is budgeted. In subsequent years, however, we expect to see worsening of financial results in relation to expenditures for settling obligations connected with cleaning up old environmental damages.

Another factor influencing the planned general government balance is the estimate of the difference between the fiscal targeting deficit and the deficit under the ESA 95 methodology. In a period of growth, it is typical that accrued tax revenues "lead" cash revenues.² The deficit under the ESA methodology, therefore, tends to be lower than the cash deficit. In times of economic decline, this logically tends to be the opposite.

In 2009, however, this difference improved the balance under the ESA 95 methodology. That is because government counter-crisis measures were focused on, among other things, helping entrepreneurs by means of cancelling advance payments on income tax. This concerned, 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, according to current estimates, 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 2010, on the other hand, we expect that payment of income tax adjustment, which on an accrual basis, however, falls to 2009, will cause cash tax revenues to exceed accrued revenues. Moreover, in 2011 we due to safety reasons also assume worsening of the balance because of accrualisation. The balance of the general government sector (in the ESA95 accrual methodology) will therefore be worse. In the following period of 2012–2013, accrued tax revenue should once again lead cash revenues. Nevertheless, due to lack of

² See, for example, Hrdlička, Z., Ištvánfyová, J., Vítek, L.: Systémy účetnictví a evidence daňových příjmů vládních institucí ("The System of Accounting for Government Tax Revenues"). Politická ekonomie, vol. 58, 2010, no. 2, pp. 253–270.

information on the future development of cash flows related to the drawing of European funds, which could have a counter effect in the given period, we accept the assumption of zero accrual difference for the stated period.

Evaluation of compliance with the expenditure frameworks

The amounts of the medium-term expenditure framework for the years 2011 and 2012 approved by a resolution of the Chamber of Deputies of the Czech Republic in 2009 should be in accordance with the Act on Budgetary Rules used in preparing the state budget proposal for 2011 and updating the medium-term expenditure framework for 2012. These amounts may be adjusted only in accordance with the provisions of the budgetary rules for changes resulting from significantly different development of consumer prices, changes in the estimate of expenditures financed from EU funds, impacts of changes in tax assignment, and in cases of emergency situations. **In 2009, however, the Chamber of Deputies did not discuss the amounts of the medium-term expenditure framework for 2011 and 2012, and, therefore, in accordance with the Act on Budgetary Rules, the last approved expenditure framework amounts shall apply (i.e. those from 2008).** These of course do not contain the expenditure framework for 2012, however, and therefore only the expenditure frameworks for 2011 can be compared.

In December 2008, the Chamber of Deputies approved the amounts of the medium-term expenditure framework for 2010 and 2011 in Resolution No. 966/2008. For the state budget and state funds, those totalled to CZK 1,171.1 bn for 2011 on an unconsolidated basis. Under the budgetary rules, only exhaustively specified items can be adjusted within the range of the approved expenditure frameworks. Neither adjustments in respect of the budget tax allocation changes nor any other authorised adjustments are involved for 2011. After taking into account the changes in subsidy relations between the state budget and state funds (consolidation), the original expenditure framework after adjustments should reach CZK 1,345.5 bn in 2011 (see Table 3-2).

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

		2011	2012
Frameworks approved in 2008 - unconsolidated	[1]	1171.1	X
Consolidation (planned in 2008)	[2]	14.5	X
Frameworks approved in 2008 - consolidated	[3=1-2]	1156.6	X
Adjustments according to the budgetary rules	[4=5+6+7]	118	0
- change in tax assignment	[5]	0	0
- change in expenditure financed from EU funds	[6]	118	0
- unforeseen major influences	[7]	0	0
Frameworks approved in 2008 adjusted - consolidated	[8=3+4]	1274.6	X
Consolidation (planned in 2009)	[9]	70.9	X
Frameworks approved in 2008 adjusted - unconsolidated	[10=8+9]	1345.5	X

Table 3-3 shows that **the newly proposed expenditure frameworks are CZK 64 bn lower in 2011 than the framework approved for the stated year in 2008.** We would arrive at nearly the same tightening, i.e. over CZK 60 bn, if we compared the proposed expenditure framework for 2012 from 2009 with the currently proposed expenditure framework.

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

		2011	2012
Frameworks approved in 2008 adjusted	[1]	1345.5	X
New expenditure frameworks	[2]	1281.6	1142.3
Tightening (-) / breach (+) of expenditure frameworks	[3=2-1]	-64.0	0.0

3.2 General government medium-term outlook

General government balance

The general government deficits in 2011–2013 are predetermined by the approved expenditure frameworks of the state budget and state funds, which cover approximately two thirds of total general government expenditures, and by forecasts of revenues for the given period.

The government's effort to decrease the deficit by reducing expenditure frameworks can be evaluated positively. Here, we see significant progress as compared to the consolidation measures for 2010, in which predominant attention was dedicated to the revenues side of public budgets. The literature³ regards consolidation strategies based on expenditure reduction as more convenient, because, assuming they are appropriately proposed, they have a more positive impact on long-term economic growth and thus bring additional tax revenues over a longer period.

The government has declared its intention to initiate in the coming years conceptual structural reforms, which, in contrast to across-the-board cuts, will focus especially on improving the efficiency of state expenditures. These reforms are expected to be prepared during 2011. None of the intended reforms, therefore, are included in this outlook, although it is obvious that the mentioned reforms may considerably influence the development or structure of public budgets in later years of this outlook.

Box 2 presents consolidation measures for 2011. Except for a one-off tax on a contribution to a building savings scheme, the other measures are included in the other years of the outlook as well. In 2012, the one-off tax on a contribution to a building savings scheme will be replaced by a direct reduction of the contribution and the generated savings will be even higher than the return from the one-off tax. As from 2012, a new lottery tax will be included. This tax will become state budget revenue and its return is estimated as CZK 5.5 bn.

The summary of consolidation measures does not include the so-called flood tax (reduction in the discount for personal income tax by CZK 100 a month) as its revenues are used to cover extraordinary expenditures related to floods and thus actually represent additional expenditures, thereby having no effect on the total balance of public budgets. This tax, therefore, is not a measure for reducing public budgets deficits.

As stated above, in relation to planned conceptual reform steps, considerable changes compared to the plans as currently presented (e.g. VAT increase, social security decrease and the like) cannot be excluded in subsequent years.

³ (ECO/CPE/GEN(2010)3: Organisation for Economic Co-operation and Development, Economics Department, Economic Policy Committee: Policy Considerations in the Current Economic Situation, p. 12.

Box 2 – Measures to reduce general government deficits in the ESA 95 methodology, related to the medium-term outlook from 2009

Revenue measures	Change in balance
Value added tax - parametric changes	0.2
Corporate income tax - removed 50% tax allowance related to employment of disabled employees	0.2
Personal income tax - technical modifications <i>of which 50% withholding tax on building savings</i>	6.6 4.5
Social security contributions <i>of which retaining 2010 ceiling of SSC assess. base</i> <i>retaining 2010 SSC rate</i>	12.9 3.1 9.8
Total	19.9
Expenditure measures	Change in balance
Reduction in public sector wages (excl. teachers)	13.3
Social expenditures	12.6
Reduction in non-mandatory current and capital expenditures	13.3
Expenditures of general treasury	11.1
Expenditures of other budget chapters	10.9
Increase in R&D support	-0.6
Increase of wages in education	-2.1
Total	58.5

The Czech Republic has a chance, as a result of the decrease in the carbon dioxide emission volume compared to the base year (1990), to sell a certain volume of its so-called allocated emission allowances units to other states. The total potential revenue from this sale is estimated to be ca CZK 21 bn. These funds should be fully used to finance environmental projects. Therefore, the cumulative impact on the general government deficits during the period of sale and implementation of the expenditures programme will be zero. Since the revenues and expenditures will not be time-harmonised, however, general government balances may be affected in individual years.

We may state that the general government deficit was therefore improved⁴ by CZK 13 bn in 2009 and in 2010 by ca CZK 2 bn. On the other hand, we expect a negative impact on the balance of CZK 9 bn for 2011 and CZK 6 bn in 2012.

⁴ This fact is also one of the reasons why between 2009 and 2010 the general government balance did not improve so substantially as was expected. Another reason is that the impact of the discount in social security premium paid by employers was lower than originally estimated and had a lower stimulating effect in 2009 as well as lower consolidation impact in 2010. This in turn resulted in a lower-than-expected improvement in the balance year-on-year. The lower year-on-year balance improvement was also affected by the economic results for other components of the general government, particularly local budgets, that were worse than expected. This may relate to the election cycle. Lower forecasts of tax revenues for 2010 is another reason why the year-on-year change in the balance is lower than expected.

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

		2009	2010 <i>Forecast</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>	2013 <i>Outlook</i>
General government balance	<i>(% of GDP)</i>	-5.8	-5.1	-4.6	-3.5	-2.9
Central government	<i>(% of GDP)</i>	-4.9	-4.4	-4.0	-3.4	-2.8
Local governments	<i>(% of GDP)</i>	-0.6	-0.5	-0.3	-0.1	0.0
Social security funds	<i>(% of GDP)</i>	-0.3	-0.2	-0.2	-0.1	-0.1
Total revenue	<i>(% of GDP)</i>	40.1	40.6	40.6	40.1	39.3
	<i>(growth in %)</i>	-1.8	2.9	3.4	4.0	3.5
Total expenditure	<i>(% of GDP)</i>	45.9	45.7	45.2	43.6	42.2
	<i>(growth in %)</i>	5.2	1.3	2.1	1.7	2.1

Table 3-4 more closely specifies the deficits for individual components of the government sector. For social security funds, we in fact expect balanced financial results, while in the case of local government institutions we expect to see a gradual overcoming of the shock from the drop in revenues or, as the case may be, a correction in expenditures related to the pre-election period.

General government revenues

The growth dynamics for revenues in 2010–2013 are based especially on discretionary consolidation measures that increase general government revenues. While the measures for 2010 are being carried out in an environment of very weak economic growth and low inflation, we anticipate that actual economic growth will accelerate during 2011–2013 and that the average inflation rate will increase slightly. This will also affect the nominal growth rate of total revenues. The estimated amount of tax revenues in the years of the outlook also takes into account the current Macroeconomic Forecast of the Ministry of Finance.

Generally, it can be said that in 2010–2012 the income growth rate is gradually and modestly increasing but will return to the 2011 level in 2013. This is caused by a moderate increase of tax burden planned in 2011–2012 (see Box 2 and the commentary to it), while the current outlook does not include such measures for 2013. Another reason for the higher growth rate for revenues in 2011 and 2012 is the planned gradual increase in roadway tolls.

Personal income tax dynamics in 2011 and 2012 are affected by the 50% one-off tax on the state contribution to building savings schemes. This causes a sharp rise in tax revenues in 2011, while in 2012, when the one-off tax is no longer taken into account, the growth in tax revenues is essentially zero. We also assume that, on an accrual basis, this one-off tax will fall within 2011, as that is when the economic situation occurs whereby the contribution, upon which the tax is based, is added.⁵

The total dynamics of current income taxes in 2012 are also affected by the aforementioned lottery tax. Its specific parameters are presently not known. It is therefore possible that in future it will be reported in a different item.

⁵ Such reporting is consistent with existing practice. It is, however, possible that a net sum of the state contribution to building savings schemes would be reported, i.e. expenditure would be lower and this one-off tax would not increase revenues. Moreover, recording of this fact already in 2010 is being considered and the concerned decrease of the contribution in 2012 would be recorded on an accrual basis as early as from 2011, and thus not only at the time of its payment.

The current outlook does not take into account the possible VAT increase or reduction of social insurance contributions. These potential changes have not yet been detailed and are, in particular, not included in the state budget proposal for 2011 or the medium-term outlook for 2012 and 2013.

We expect a slight decline in property income in 2011 and 2012 related to a drop in the volume of financial assets of the Czech Republic that were used to slow debt growth and the development of dividend revenues. However, this development is expected to reverse in 2012 and stabilise thereafter.

In contrast to the rapid growth recorded in the past, other revenues in the years of the outlook are for the most part showing stagnation, which results from the expected culmination of the drawing of EU funds. A certain drop in these revenues is already planned at the end of the period, as some fund allocations may already have been completely used up owing to quite successful drawing. There is, at present, increased uncertainty about the coming years as there is not yet more detailed information about the next EU budgetary period. On the other hand, there is greater risk of European resources being redirected to solving current problems in geographically different EU areas.

The overall tax burden should stagnate in 2010–2012, and in 2013 the less-than-proportional response in total taxes growth to nominal product growth should prevail. Based on current data, the tax burden will hover around 35% of GDP, falling to 34.5% of GDP in 2013.

Table 3-5: General government revenue

		2009	2010 <i>Forecast</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>	2013 <i>Outlook</i>
Total revenue	<i>(bn CZK)</i>	1456.3	1498.0	1548.9	1610.6	1666.3
	<i>(growth in %)</i>	-1.8	2.9	3.4	4.0	3.5
Tax revenue	<i>(bn CZK)</i>	681.0	707.9	736.4	764.1	787.5
	<i>(growth in %)</i>	-2.7	4.0	4.0	3.8	3.1
Taxes on production and imports	<i>(bn CZK)</i>	413.6	433.5	440.7	454.6	466.9
	<i>(growth in %)</i>	2.0	4.8	1.7	3.2	2.7
<i>of which: Value added tax</i>	<i>(bn CZK)</i>	254.0	265.7	269.7	280.1	290.7
	<i>(growth in %)</i>	-0.3	4.6	1.5	3.9	3.8
<i>Excise taxes</i>	<i>(bn CZK)</i>	137.3	142.3	144.7	147.3	148.3
	<i>(growth in %)</i>	8.8	3.7	1.6	1.8	0.7
Current taxes on income, wealth, etc.	<i>(bn CZK)</i>	267.2	274.2	295.4	309.2	320.3
	<i>(growth in %)</i>	-9.1	2.6	7.8	4.6	3.6
<i>of which: Personal income tax</i>	<i>(bn CZK)</i>	131.4	136.3	154.3	154.4	158.0
	<i>(growth in %)</i>	-3.7	3.7	13.2	0.1	2.3
<i>Corporate income tax</i>	<i>(bn CZK)</i>	131.7	132.9	136.1	144.0	151.5
	<i>(growth in %)</i>	-14.1	0.9	2.4	5.8	5.2
Capital taxes	<i>(bn CZK)</i>	0.3	0.3	0.3	0.3	0.3
	<i>(growth in %)</i>	2.7	0.8	4.8	2.1	0.0
Social contributions	<i>(bn CZK)</i>	559.7	571.3	595.6	626.7	661.2
	<i>(growth in %)</i>	-6.6	2.1	4.3	5.2	5.5
Property income	<i>(bn CZK)</i>	31.0	29.3	28.2	29.2	29.2
	<i>(growth in %)</i>	1.9	-5.5	-3.6	3.5	0.0
Other	<i>(bn CZK)</i>	184.7	189.5	188.7	190.5	188.4
	<i>(growth in %)</i>	19.6	2.6	-0.4	0.9	-1.1
Tax burden	<i>(% of GDP)</i>	34.5	35.0	35.2	34.9	34.5

Note: Compared to the national accounts data, the given tax quota includes both the share of VAT transferred towards EU as its own income and customs revenue collected by the Czech Customs Service. Thus it provides probably the best description of the tax burden in the Czech Republic. Regardless, it is not a perfect indicator of such burden since customs which burdens goods from third countries that are sold in the Czech Republic may have been collected in another EU-member state. Theoretically, however, it might be possible that the stated tax quota is overrated due to a preference of the Czech Republic as a country where customs are collected also from goods subsequently exported to other EU-member states.

General government expenditures

In the expenditures area, we anticipate the government's costs-savings policy to continue and the tightened expenditure limits to be upheld. Even so, following the more substantial moderation in the growth rate of total expenditures in 2010, we expect expenditures to increase slightly during 2011–2013 by about 2% per year despite the austerity measures. Considering the inflation forecast for this period, this actually means stagnation in actual expenditures.

We expect that the government's austerity measures will be evident particularly in collective consumption expenditures, which should decline considerably year on year during 2011–2013. Savings in this area should focus mainly on current budgetary chapter expenditures. Nevertheless, there is the question, particularly for 2013, as to whether state institutions will continue to have the possibility to reduce their current expenditures. It is likely that increasing the efficiency of expenditures will not be sufficient to ensure such reduction but that the scope of agendas and activities carried out by the state will need to be scaled back.

We expect to see a drop in the volume of compensation of employees in 2010 and 2011 and a slight increase in subsequent years. We were led to this assumption by the development of this item in 2010. The decrease in the volume of wages paid from the state budget should reach ca CZK 10 bn. According to current data for the whole general government sector, however, the volume of compensation of employees is decreasing by only CZK 2 bn. This means that other components of the general government that are not under the direct control of the Government of the Czech Republic, unlike the state budget, have increased the volume of compensation of employees, i.e. that only central government authorities and authorities under their direct control are economising on wages.

We therefore expect to see in the following year a reduction in such compensation below that given in the state budget, even though we are anticipating a definite exhaustion of internal reserves. The overall decline is thus more likely to mirror the development in the state budget. The volume of compensation of employees in the state budget will stagnate in subsequent years. In the outlook, we are proceeding under the assumption of a moderate increase for the entire government sector. Considering anticipated inflation, however, the volume of compensation actually declines in all years.

We expect to see a slightly lower growth rate for in-kind social benefits than that for revenues of social security funds. This is consistent with the assumption that the financial results of these funds will improve slightly and approximately even out over time.

Additional consolidation measures will be reflected instead in a slowdown in expenditure growth rates. In the case of pension payments, for example, in addition to the approved valorisation it is necessary also to expect a certain increase in their volume in respect of the increasing number of pensioners and the higher pensions of new pensioners. Owing to consolidation measures, the growth rate of social transfers other than those in kind will thus decline in 2011 but will rise again in the following years.

As compared with the notifications and expectations from spring, the outlook for interest expenditures, i.e. the costs of financing the government debt, has changed considerably. We even expect to see a drop in these expenditures in 2010 as compared to the previous year. This is caused both by a decrease in the interest rates at which the Czech Republic currently takes out loans and by the accounting for emission premiums received. It thus constitutes primarily an accounting operation and not a real long-term sustainable development. For 2011, therefore, we anticipate dramatic growth in interest expenditures. The expected sum corresponds to the planned amount of debt and the relatively conservative expectation for the average interest rate on the general government debt. The same approach has been applied for the following years as well.

Subsidies in 2011–2012 will stagnate in nominal terms and decline in real terms. We expect a moderate recovery in 2013.

The development of gross fixed capital formation reflects the delay in the reaction of such expenditures to the immediate decisions of the government.⁶ These expenditures increased considerably in 2010, owing especially to co-financing from the EU. We expect to see only moderation of the growth rate in 2011 and nominal stagnation not until 2012. In 2013, however, we expect modest recovery once again.

The “Other” item is affected by the time discrepancy between revenues from allocated emission allowance units (here they are recorded according to the ESA 95 methodology as a negative value) and related expenditures. While in 2009 and 2010 this item improved, for 2011 and 2012 the situation is exactly the opposite as expenditures exceed revenues and thus the item will worsen as a result.

Another factor behind the development of this item and its rapid increase from 2011 is the fact that in the outlook it was assumed that primarily current expenditures of budget chapters that are included in government consumption would be restricted. If, however, the chapters preferred to restrict, for example, the current transfers in their expenditure limits, the growth of this item would be considerably lower. For the years of the outlook, there will exist here a mutual cohesion with government consumption. If the drop in government consumption is lower, then, assuming current expenditure limits are valid, the increase of such other expenditures will be appropriately lower.

⁶ The literature usually states that mandatory expenditures restrict the government’s discretionary power and are difficult to change in time. Theoretically, a government thus is able to influence only non-mandatory expenditures. Nevertheless, a government having a comfortable parliamentary majority may be more successful in practice in changing mandatory expenditures, particularly social expenditures, than, for example, in cancelling tax exemptions, for which particular lobbying interests exist, or in non-mandatory expenditures, including capital expenditures. Non-mandatory expenditures are often stipulated by contract, and that for several years in advance. Restricting these expenditures, therefore, is a matter of business negotiations, in which case failure brings with it the threat of arbitrations, compensations, damages or lost profit. A government thus does not have much ability operatively to restrict such expenditures. Mandatory expenditures, on the other hand, can be restricted month to month, even if approval of the Chamber of Deputies is required (we must, however, take into account the level of social rights guaranteed by the constitution). The rigidity of capital expenditures is determined by technological conditions as well. It is not necessarily possible or effective to suspend a given investment day to day.

Table 3-6: General government expenditure

		2009	2010	2011	2012	2013
			Forecast	Outlook	Outlook	Outlook
Total expenditure	(bn CZK)	1665.4	1686.6	1722.0	1750.8	1788.4
	(growth in %)	5.2	1.3	2.1	1.7	2.1
Final consumption expenditure	(bn CZK)	799.0	806.1	777.9	781.8	770.1
	(growth in %)	6.1	0.9	-3.5	0.5	-1.5
Collective consumption	(bn CZK)	390.9	392.6	355.1	341.0	312.5
	(growth in %)	4.7	0.4	-9.6	-4.0	-8.4
Individual consumption	(bn CZK)	408.1	413.5	422.8	440.8	457.6
	(growth in %)	7.5	1.3	2.2	4.3	3.8
Social benefits in kind	(bn CZK)	219.0	213.8	220.8	230.5	240.9
	(growth in %)	10.3	-2.4	3.3	4.4	4.5
Transfers of individual non-market goods and services	(bn CZK)	189.0	199.7	202.0	210.3	216.7
	(growth in %)	4.4	5.6	1.2	4.1	3.0
Social transfers other than in kind	(bn CZK)	502.3	516.1	525.8	542.4	570.8
	(growth in %)	6.6	2.7	1.9	3.2	5.2
Interest	(bn CZK)	47.4	44.2	68.6	74.1	79.9
	(growth in %)	20.0	-6.6	55.2	8.0	7.8
Subsidies	(bn CZK)	76.3	74.7	75.1	76.7	79.9
	(growth in %)	19.7	-2.0	0.6	2.1	4.2
Gross fixed capital formation	(bn CZK)	190.0	204.4	209.3	209.3	216.0
	(growth in %)	4.1	7.6	2.4	0.0	3.2
Other	(bn CZK)	50.4	41.0	65.4	66.5	71.7
	(growth in %)	-30.6	-18.7	59.4	1.8	7.8
<i>Compensation of employees</i>	(bn CZK)	293.7	292.0	285.1	286.5	287.9
	(growth in %)	5.0	-0.6	-2.4	0.5	0.5
<i>Total social transfers</i>	(bn CZK)	721.4	729.9	746.5	772.9	811.7
	(growth in %)	7.7	1.2	2.3	3.5	5.0

General government debt

In 2008, the government debt again reached the level of 30% of GDP. For the years 2008–2011, we expect government debt to increase as a proportion of GDP by ca 12 p.p. The situation in the following years will nevertheless worsen at a significantly slower tempo, and the government debt as a proportion of GDP is expected to be 43.3% in 2013. Assuming continuing consolidation towards achieving balanced public budgets in 2016, the relative level of debt should culminate in 2013–2014.

During 2007 and 2008, there was a significant accumulation of financial assets, namely currency and deposits, which slowed the decrease in the general government debt as a proportion of GDP. In 2009, a portion of these reserves was used to finance the government deficit, and thus the debt did not grow at such rate. In 2010, however, the favourable situation for the Czech Republic on financial markets facilitated the creation of a reserve under advantageous conditions. We expect to see its dilution in the coming years.

The current outlook encompasses no privatisation projects. In case of their realisation and the use of privatisation revenues to finance government expenditures, the increase in government debt as a proportion of GDP will slow further.

The difference between the deficit 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 in valuation: The debt is valued at its nominal amount while the deficit balance is based on market prices. The level of foreign debt may be influenced also by differences in exchange rates.

Table 3-7: Gross consolidated government debt

		2008	2009	2010 <i>Forecast</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>	2013 <i>Outlook</i>
General government	<i>(bn CZK)</i>	1104.9	1282.3	1450.9	1603.2	1722.8	1836.1
Central government	<i>(bn CZK)</i>	1016.1	1186.6	1357.9	1510.0	1627.6	1740.7
Local government	<i>(bn CZK)</i>	91.9	98.2	95.1	95.3	97.4	97.6
Social security funds	<i>(bn CZK)</i>	0.1	0.0	0.1	0.1	0.0	0.0
Government debt to GDP ratio	<i>(% of GDP)</i>	30.0	35.3	39.3	42.1	42.9	43.3
Contribution to change in debt							
Change in debt	<i>(p.p.)</i>	1.0	5.4	4.0	2.7	0.8	0.4
Primary balance	<i>(p.p.)</i>	1.7	4.5	3.9	2.8	1.7	1.0
Interest	<i>(p.p.)</i>	1.1	1.3	1.2	1.8	1.8	1.9
Nominal GDP growth	<i>(p.p.)</i>	-1.2	0.5	-0.6	-1.3	-2.1	-2.2
Stock-flow adjustment	<i>(p.p.)</i>	-0.5	-0.9	-0.6	-0.6	-0.5	-0.2
Difference between cash and accruals	<i>(p.p.)</i>	-1.9	0.6	-0.4	-0.3	-0.2	-0.2
Net acquisition of financial assets	<i>(p.p.)</i>	1.3	-1.4	-0.2	-0.3	-0.3	0.0
	<i>(bn CZK)</i>	48.4	-51.8	-6.2	-12.0	-12.0	0.0
<i>of which: currency and deposits</i>	<i>(bn CZK)</i>	74.6	-51.0	-4.2	-10.0	-10.0	0.0
<i>equity and other shares (privatization)</i>	<i>(bn CZK)</i>	-23.2	-7.5	0.0	0.0	0.0	0.0
<i>other assets and non-debt liabilities</i>	<i>(bn CZK)</i>	-3.0	6.6	-2.0	-2.0	-2.0	0.0
Revaluation effects and other	<i>(p.p.)</i>	0.1	-0.1	0.0	0.0	0.0	0.0

Cyclical development

Current estimates of potential GDP and macroeconomic forecasts indicate gradual recovery of the Czech economy from the recession that hit in 2009. In that same year, in addition to real GDP's falling overall, GDP also dropped below its potential level and thus the positive output gaps reversed into negative values. These unfavourable macroeconomic conditions resulted in the nominal deficit's increasing in 2009. The item "One-off and other temporary measures" takes into account during 2009–2012 the one-off revenues from sales of allocated emission units and related one-off expenditures.

Fiscal effort, defined as the year-on-year change in the structural balance, also should increase along with the economic recovery. Fiscal effort should be the highest in 2010, while developments in 2011 and 2012 suggest

stagnation in fiscal effort. Under the given assumptions, the total general government balance should improve in 2013, in essence, only in connection with the economy's cyclical development.

The fiscal objectives for 2011–2013 should aim to achieve the medium-term budgetary target set for the Czech Republic within the EU fiscal rules. The Czech Republic is obliged to achieve this medium-term budgetary target, corresponding to a structural deficit of 1.0% of GDP, by credible and sustainable means as soon as possible. **Given the present set-up of the fiscal policy, this objective will not be fulfilled within the period covered in the outlook. The structural deficit is expected to be 4.1% of GDP in 2010 with subsequent gradual decrease to 2.3% of GDP in 2013. Taking into account the longer-term objectives of the government, the medium-term objective is not likely to be achieved until around 2016.**

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

	2009	2010 <i>Forecast</i>	2011 <i>Outlook</i>	2012 <i>Outlook</i>	2013 <i>Outlook</i>
Real GDP growth <i>(in %)</i>	-4.1	2.2	2.0	3.2	3.8
Potential GDP growth <i>(in %)</i>	2.6	1.9	2.3	2.8	2.8
Output gap	-3.7	-3.5	-3.8	-3.5	-2.5
General government balance	-5.8	-5.1	-4.6	-3.5	-2.9
Cyclical budgetary component	-1.0	-1.0	-1.1	-0.9	-0.7
Cyclically adjusted balance	-4.8	-4.2	-3.5	-2.6	-2.3
One-off and other temporary measures	0.3	0.0	-0.3	-0.2	0.0
Structural balance	-5.1	-4.1	-3.2	-2.4	-2.3
Interest	1.3	1.2	1.8	1.8	1.9
Structural primary balance	-3.8	-2.9	-1.4	-0.5	-0.4
Change in structural balance	-1.6	1.0	0.9	0.8	0.1

3.3 Long-term sustainability of public finances

With regard to the long-term development of public finances, one fundamental change occurred during the past period. The change concerned a finding of the Constitutional Court from 16 April 2010 whereby the reduction limits for calculating the assessment base for pensions were cancelled. The existing applicable legislation shall still apply in the meantime until 30 September 2011, and we cannot anticipate the resolution at the political level. For this reason, it can be said that the analyses described in previous issues of the Fiscal Outlook of the Czech Republic remain valid. The most up-to-date analysis is presently that at the European level.

The Economic Policy Committee and the European Commission in May 2009 published the 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008–2060).⁷ The report is issued every three years and surveys the impact of long-term macroeconomic and demographic development on public expenditures. The findings of the 2009 Ageing Report were summarised in the issue 2009 we addressed long-term sustainability in a separate chapter.

Following the Ageing Report, the European Commission issued in autumn 2009 the Sustainability Report 2009.⁸ There is virtually no perfect way to define fiscal sustainability. The European Commission uses several indicators, of which the greatest emphasis is placed on the so-called sustainability indicators S1 and S2. S1

⁷ 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008–2060).

⁸ Sustainability Report 2009.

permanent fiscal consolidation expresses as a percentage of GDP the necessity to permanently increase taxes (from the given year) or reduce expenditures in order to achieve a government debt of 60% of GDP at the end of the projection period. S2 permanent fiscal consolidation expresses the level of fiscal effort necessary to meet the intertemporal budgetary constraint on the government, i.e. to achieve equality of discounted revenues and expenditures for an indefinite period of time. It must be stressed that special attention is devoted to the development of costs resulting from the population's ageing that play a key role in calculating these indicators together with the initial condition of public budgets. If the S1 and S2 indicators are positive, this indicates that the country must make some fiscal effort to achieve fiscal sustainability; fiscal sustainability is ensured if the values of these indicators are negative.

EU countries are divided into three risk groups according to fiscal sustainability based on the calculated values of the sustainability indicators, on the one hand, and the evaluation of other factors, on the other. Other factors in this context include primarily qualitative factors as to the uncertainty of future development. One example is the amount of debt, which despite its being factored directly into the sustainability indicators can still influence the risk of a given country's capability to respond to some possibly temporary shock in interest rates or the revenue rate. Along with this factor, we also must take into account the fact that above a certain level of indebtedness the risk premium as well as the associated costs of servicing the debt will increase. Other factors include political and social risks in pension systems such as pension adequacy, among others.

Countries with a low risk rate in connection with fiscal sustainability are Bulgaria, Denmark, Estonia, Finland and Sweden. Countries in the medium-risk category are Belgium, Germany, France, Italy, Luxembourg, Hungary, Austria, Poland and Portugal. A high risk rate is attributed to the Czech Republic, Ireland, Spain, Greece, Cyprus, Latvia, Lithuania, Malta, the Netherlands, Romania, Slovenia, Slovakia and Great Britain.

Even this division, however, is somewhat relative. Low-risk countries have excellent initial conditions as they managed to consolidate their public budgets before the crisis and, with the exception of Finland, resolved the problem of rising costs due to the ageing population. It is expected, however, that the social systems (pension and health care) in Bulgaria and Estonia will require greater outlays in connection with ongoing convergence. Likewise, there are also differences between the countries in the medium-risk zone. Italy and Hungary do not face problems with ageing or with initial budgetary conditions but do have high levels of public debt. France, Poland and Portugal, on the other hand, have problems particularly with budget consolidation in the medium-term horizon but relatively low costs from population ageing. In contrast, Belgium, Germany and Austria have relatively strong budgetary positions but high costs connected with ageing populations. Luxembourg has very low public indebtedness; however, its costs connected with the ageing of the population are the highest throughout the EU. In countries with high risk, the problem in most cases is high costs from an ageing population (except for Latvia) but generally there is no significant problem with the level of public indebtedness (except for Greece). In most of these countries, however, the initial budgetary position is not very favourable.

For the Czech Republic, the S1 sustainability indicator is at 5.3% of GDP and the S2 indicator is at 7.4% of GDP. The S1 indicator is just below the EU-27 average, which is 5.4% of GDP, while in terms of the S2 indicator the Czech Republic is above the EU-27 average, which is 6.5% of GDP. The reason is, of course, the country's relatively low rate of public indebtedness, which, however, factors only into the S1 calculation but not into the S2 calculation.⁹ In the case of the Czech Republic, the initial budgetary position contributes the same amount to S2 as do the costs from ageing, i.e. both contribute 3.7% of GDP. The S2 indicator worsened by ca 2 p.p. as compared to 2006, with the S2 indicator for the Czech Republic being 5.5% of GDP in that year. The decline was

⁹ For the calculation method, see the aforementioned Sustainability Report 2009.

caused mainly by deterioration of the initial budgetary position (3.2 p.p.) and extension of the projection horizon into 2060 (0.7 p.p.). The costs connected with the ageing population, on the other hand, recorded an improvement by 1.9 p.p. due to the reforms in the health care and pension systems. The path to reducing the risks of long-term sustainability of public finances thus lies both in the area of fiscal consolidation in the medium-term horizon as well as in reforms of other social systems.

3.4 Proposals of the Expert Advisory Group on Pension Reform

The box presented below outlines the main conclusions and proposals of the Expert Advisory Group on Pension Reform in the Czech Republic, the so-called “second Bezděk commission”. For the time being, the fiscal impacts resulting from implementing this reform are not taken into account in other sections of the Fiscal Outlook as there is a lack of general consensus and further discussion is expected.

Box 3 Proposed pension reform

The Expert Advisory Group (the so-called EAG) was established in January 2010 on the basis of a joint initiative of the Minister of Finance and the Minister of Labour and Social Affairs. The group aimed to (i) update the projections of the existing pension system and (ii) make a proposal for its possible reform. In terms of methodology, EAG continued the approach of the so-called Bezděk commission from 2004–2005; in its operations, it relied on support from the professional administration of the Czech Ministry of Finance and Ministry of Labour and Social Affairs.

EAG’s operations were transparent and all underlying documents and outputs were continuously publicised on the internet. At the start of June, EAG published its Final Report including a proposal for specific adjustments to the pension system. The recommendations were motivated by the effort to ensure appropriate pensions from the pension system while respecting the principles of (i) diversification, (ii) higher equivalence, (iii) better distribution of the inter-generation burden and (iv) ensuring fiscal sustainability.

EAG unanimously proposed a number of recommendations concerning the first “pay-as-you-go” pillar (PAYG). The most important of these include the following:

- To unify the age limit of men and women (regardless the number of children raised) by 2035 and to continue to increase the retirement age thereafter at a rate of 2 months per year.
- To cancel the government’s ability to valorise pensions over the minimum stipulated by law and gradually – by 2025 at the latest – to switch over to price valorisation.
- To introduce sharing of assessment bases between spouses.
- To introduce the concept of a “fictitious” income (40–80% of the average wage) for assessing alternative periods of insurance.
- To continue the gradual extension of the reference period in PAYG until valuation of the lifelong income of the insured person is obtained.
- To lower the premium ceiling to three times the average wage.
- To regularly update the definition of disability (according to advances in medicine). Not to award a disability benefit if entitlement to early retirement pension already was awarded. To change disability benefit to retirement pension once the age limit is reached. To improve the quality of medical consultation service.

- After launching the reform, to cancel newly awarded lifetime widow's/widower's pensions.
- To reduce the premium rate from 28% to 23%, to be compensated by increasing other taxes (e.g. unification of VAT rates to 19%).¹⁰
- To resolve the unrestricted combination of a pension and work income indirectly through the personal income tax.
- To implement a plan of a single collection point.¹¹
- To increase overall support to families with children through taxes and availability of family-related services.

In the area of the pension-savings pillar, it is unanimously recommended to add a capital pillar to pillar I, which will fulfil the objectives of diversification and higher equivalence of the overall pension system. Two variants were submitted for discussion:

Variant 1 (majority, 8 votes)

- To finance the pillar using 3 p.p. from the 23% contribution rate.
- To require savings for persons under 40 years of age at the launch of the reform (their future PAYG pension will be reduced proportionately).
- The Czech Social Security Administration will carry out the collection of premiums and operational administration of the pillar.
- Reformed pension funds, investment companies and the like (according to the participant's choice) provide for investment asset management.
- Saved funds must be paid as lifelong annuity.
- To reform pillar III (supplementary pension insurance) in accordance with the bill from 2009. Majority support (7 votes) to uphold direct state support as well.

Variant 2 (1 vote)

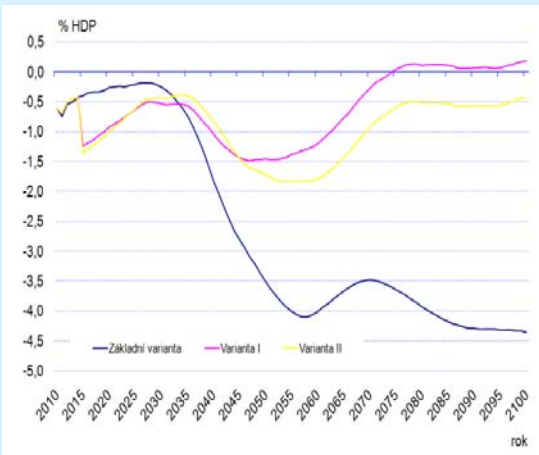
- Rate for PAYG remains unchanged (23%).
- Reformed pension funds operate pillar II.
- Participation in pillar II remains voluntary; it becomes obligatory, however, upon entering the pillar.
- The participant's minimum contribution is 3% of his or her salary; state support is also 3% of salary (application of a ceiling as for the PAYG pillar).
- Saved funds must be paid as lifelong annuity (except for employee plans of employees in high-risk and physically demanding professions).

The following graphs present the basic impact of both reform variants and their comparison with the basic variant, i.e. preservation of the legislation relevant for the pension system valid as at 1 January 2010.

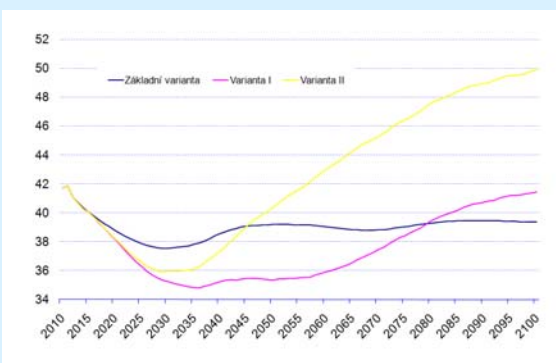
Pension system balance (% of GDP)

¹⁰ The premium rate decrease was a unanimous proposal of EAG. Compensation through unification of VAT rates was recommended by a majority (6 votes). Three members favoured not stating a specific tax source for covering the premium decrease.

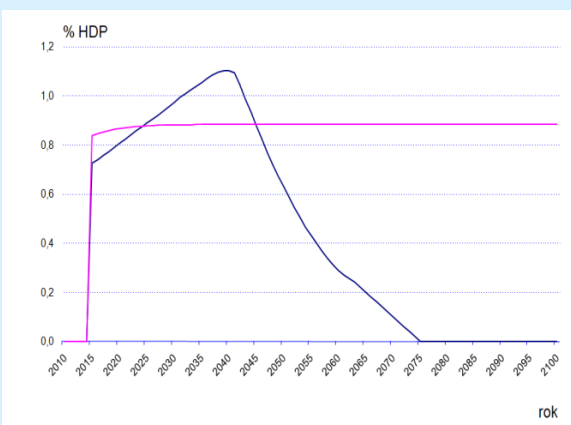
¹¹ Supported by 8 EAG members.



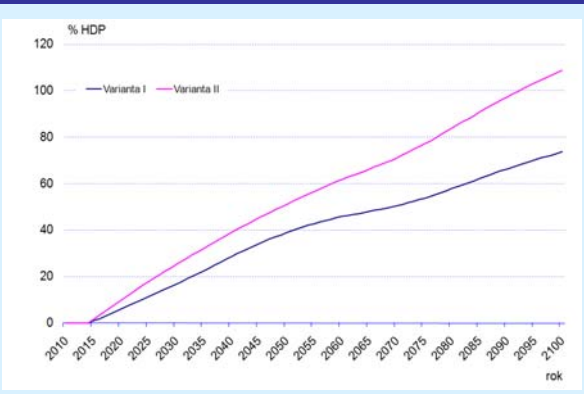
Overall compensation ratio of all pillars (% of average wage)



Transformation costs (% of GDP)



Assets accumulated in pillars II and III (% GDP)



Note to the aforementioned graphs: The transformation costs of the pension reform are fully included in the graph "Pension system balance". In other words, the pension system balance records all transformation costs arising from the pension reform.

4 Topic: Selected principles of public–private partnership and its impacts on general government operations¹²

Given the environment of fiscal consolidation, more and more voices are calling for wider application of public–private partnership (hereinafter just PPP). PPP represents a mental shift in that it can be seen as the separation of an asset from the service it provides, whereas traditional provision of public services is based on the need to obtain an asset from which these are derived. Current government policies focus more on deliveries of public services than on provision of assets. The use of this instrument is currently being discussed, particularly as regards building transport infrastructure (e.g. for the D3 and D11 motorways, R35 expressway, repairs to the D1 motorway, and others). The current government also has adopted the use of PPP in its policy statement.

Implementation of fiscal consolidation and reduction of governmental budgetary restrictions open up greater room for using fiscal tricks and finding alternative paths to financing the government’s investment plans. The group of such measures sometimes also includes PPP, which, on the one hand, undoubtedly represents a modern instrument of investment decision making and long-term financing but, on the other hand, when managed inadequately it is a source of potential risks threatening the long-term sustainability of the system of public finances. This article aims to discuss frequently asked questions related to PPP and endeavours to find unbiased answers, founded on economic theory, to some of them. As space is limited, the paper completely excludes questions related to legal issues regarding the given topic (e.g. barriers to broader implementation of PPP arising from existing legislation in the Czech Republic, issues of public support, etc.).

Consideration as to the meaningfulness of debt financing should be based on an assessment of the future benefits of a realised outlay, which should be confronted with other budget outlays in a regular budget process. Expenditures on transportation infrastructure often tend to be regarded as outlays with undeniable growth potential. Existing theories of the growth of transportation infrastructure investments acknowledge a short-term (or possibly medium-term) positive multiplier effect of outlays and subsequent growth in economic output. From this perspective, the amount of capital determines the amount of product produced. From a supply side perspective on the economy, investments into transportation infrastructure can lead to an increase in the economy’s capital endowment (capital reserves) and growth in the production volume. The amount of product determines the amount of savings and investments, and thus the amount of capital which is accumulated. Considering declining returns on capital, however, we can expect a weakening effect from infrastructure investments on economic growth. Economic growth is thus zero in the long term, regardless of the level of savings.¹³ It applies, however that the level of savings determines the level of GDP in the long term, i.e. a country with higher savings rate will attain a higher GDP. Analysis of the dependency of economic growth on infrastructure endowment leads to the conclusion that there is a connection between economic growth and the aforementioned infrastructure. The existence of a short-term causal relationship between infrastructure and economic growth can be proven, and this dependency most likely works in both directions (i.e. investments give rise to greater aggregate demand, which in turn gives rise to additional need for infrastructure investments). From a long-term perspective, however, only one-sided causality has been observed, as growth in investments depends on economic growth, and not the other way round.

¹² Should you have any comments about the given topic of the Fiscal Outlook of the Czech Republic, please send them to the email address: Lubomir.chaloupka@mfcz.cz.

¹³ Capital per worker as well as GDP per worker are constant in the long term. Due to decreasing returns on capital, the economy would have to save an ever greater proportion of GDP and use it for financing capital accumulation.

Transportation infrastructure, therefore, most likely does not condition economic development in the long term, but economic growth does support the development of the transportation infrastructure. PPP transportation projects thus represent only short-term growth stimuli which should be used in accordance with the development of long-term trends and the needs of the economy.

In connection with classic growth models, the so-called steady state (investments equal amortisation) tends to be mentioned and the role of consumption – the so-called golden rule (the amount of capital given by the level of savings that yields the highest level of consumption in a steady state) – tends to be emphasised. If the economy has such amount of capital that is greater than the aforementioned golden rule, then an increase in the level of savings is accompanied by a decrease in consumption (current and future). As is true for the majority of OECD countries, however, the Czech Republic at present is probably far from the level of capital reserves corresponding to the golden rule.

Looking at PPP from a macroeconomic point of view, it is also good to remember that PPP, although financed by the private sector, is essentially the same as government debt given its economic impacts. Financing government expenditures by increasing debt is likely to increase the welfare of the current generation at the expense of future generations. Increasing the debt generally decreases accumulation of capital and, in turn, future productivity. Considering the individual asset, however, this may be somewhat open to debate in connection with PPP. In current economic theory, there is a prevailing opinion that governments should avoid negative influence on investment as well as direct support of a certain kind of investment, as doing so distorts the efficient allocation of resources. Instead, governments should try to maintain low taxes and minimise general government deficits. In its investment activities, a government should be limited to the provision of public goods, whose production by the private sector is ineffective.

If we consider carefully the impact of a public contract on the government's fiscal policy, its debt financing can lead to the occurrence of excessive debt and violation of requirements defined by the Stability and Growth Pact. On the other hand, we must take into account the creation of the asset whose acquisition was financed through debt. Evaluation of how the net assets of the government have been affected is therefore crucial. In acquiring an asset financed by government debt, the net worth need not be affected. In this regard, it is crucial whether the present value of future primary surpluses exceeds the value of government debt repayments. Governments generally do not carry out an evaluation of this kind and in making a decision take into account only a short-term horizon and evaluate only whether the project is achievable given the current state of government revenues and outlays, assuming their level will be the same in future. The present values of expected future primary surpluses and the existing government debt, therefore, are not evaluated. When the government sector records an asset in relation to an acquired performance and a liability arising from financing its off-balance acquisition through PPP, no impact on the government's net worth¹⁴ can occur and the impacts of government policy cannot adequately be taken into account. The government, therefore, often regards PPP mistakenly as an instrument for shifting its budgetary limitations. In this regard, it is suitable, for example, to use the concept of a fiscal space defining the sources that governments can use for the required purposes without threatening the sustainability of public finances. PPPs can expand such fiscal space if they are connected with a positive impact on the value of the government's net worth. The only effective instrument for achieving this status is transparent consideration of the long-term fiscal consequences of all liabilities of the general government as a part of fiscal planning. In this regard, setting fiscal objectives so that they reflect the net present value of future fiscal impact of all significant liabilities of the general government could be helpful.

¹⁴ Net worth is understood here as the difference between the present values of the government's expected revenues and expected outlays.

Publishing of so-called long-term fiscal scenarios reflecting potential impacts of PPP is also considered beneficial. Considering the aforementioned, it should be stated that in using the public sector comparator concept, unlike the current practice of classic public contracts, for example, PPPs reflect the costs for operation and maintenance of the asset. This prevents the formation of so-called hidden debt in the given infrastructure. It also applies, however, that if the long-term needs of the general government are incorrectly defined, PPPs generate additional mandatory expenditures. In the absence of institutional assumptions for managing contingent liabilities, it is possible to prevent excessive escalation of PPP by means of a limit on this kind of liability in the form of a ratio to the total volume of expenditures, revenues or GDP.

4.1 Risks

A microeconomic perspective on PPP is closely connected to risk theory. The basic assumption of successful PPP implementation is that the private partner (hereinafter just the concessionary) will be able to achieve such revenues as will cover both operational and investment expenditures as well as outlays related to providing long-term financing.¹⁵ The entire concept is based on the assumption that the concessionary is better able to manage risks associated with the project. In other words, due to the pressure of creditors (banks) and investors (shareholders), there is a strong motivation for eliminating potential delays in construction and deliveries and exceeding planned expenditures. If owing to this factor and the potential use of an innovative solution the concessionary can generate savings, as compared to the alternative of classic public contracts, on such scale as will cover higher financing costs and its profit margin and still remain more preferable for the party inviting tender, then this can be a meaningful route to go down. PPP can be essentially viewed as a certain intermediate stage for decreasing the influence of the general government within the economy. The point is that in certain areas the provision of goods by the private sector can be empirically proven to be more efficient, more economical and more effective. If a purely market-based approach to meeting certain needs is chosen for other than reasons of economy, then the ability for optimum definition of the concessionary's performance and its subsequent monitoring proves to be crucial on the part of the party inviting tender. This may present a problem, and especially in a long-term horizon and in the absence of concepts and strategies of individual general government policies (supported across the entire political spectrum). If the party inviting tender is not able optimally to evaluate and reflect in the payment mechanism the quality of the performance provided by the concessionary (which is closely connected with the aforementioned ability to define and measure the required performance), then we can assume with high probability that only a kind of fictive value for money¹⁶ (savings) will be obtained and the concessionary will endeavour to achieve it at the expense of the quality of the delivered performance. PPP should therefore be used mainly in areas with a relatively stable performance character. It is thus not very convenient for areas requiring changes according to changing conditions. Rather paradoxically, the ability of a concessionary's innovative approach is often mentioned as one of the determinants for achieving value for money.

Due to the financial motive with which a concessionary enters a contractual relationship, one may often observe in the provision of goods required by the party inviting tender financed in the form of payments from end users an effort to create barriers to entering the industry, deforming market structures and leading to economic inefficiency. From the perspective of the general government, the treatment of the consequences of potential termination of a contractual relationship is also important. The entire concept of PPP is closely connected to allocation of risks, the analysis of which represents the key determinant of an appropriate

¹⁵ Revenues from long-term government bonds are currently around 4% according to the swap curve. In so-called PPP, investment is usually connected with weighted average costs of capital (WACC), which often exceed 10%.

¹⁶ Availability of PPP projects is evaluated by means of so-called value for money. Achieving value for money is an indicator of a project's viability. Higher value for money is perceived in PPP particularly due to lower life cycle costs, better risk allocation, faster implementation, increased quality of services and opportunities to generate additional revenues.

investment decision. In the risk analysis, we can see both the strengths and weaknesses of the given concept. The possibility of optimum risk allocation itself, which is considered the main generator of value for money by PPP supporters, is often disputed. The issue in this regard remains the size of potential savings and the ability of the general government to analyse, evaluate and manage risks. In this respect, there are two views of PPP. On the one hand, we can regard it as a potential base for transformation of the existing system of public contracts, which is strongly criticised. Furthermore, PPP offers sophisticated procedures of investment decision making verified by international practice that would bring a qualitative change in the general government management, if suitably implemented and applied, based on risk management and decision making in the context of a long time horizon and thus having the possibility to take into account the sustainability of general government operations. On the other hand, without establishment of a relevant institutional background (particularly given the current non-transparency of public tenders and the inadequate contractual arrangement of risk allocation), PPP clearly represents a significant source of risks generating potential liabilities for the general government. If the government sector is not duly prepared for evaluating the risks that arise from PPP-type contractual relations, it will remain the weaker contractual party when confronted by the banking sector and concessionaries. What's more, the possibility is opened in this connection for corruption or the creation of a political machine,¹⁷ which are supported especially by the high complexity of the legal and economic relationships arising within PPP projects.

In general, risks can be viewed as resulting from delays or extra costs arising in comparison with the situation envisaged in making the investment decision. As ensues from British practice in this area, the government is usually less able to control the aforementioned risks when providing goods than is the private sector. On the contrary, for example, IMF studies show that the advantageousness of PPP is very often questionable and scarcely ever is it evaluated retrospectively. Nevertheless, we can argue that since the majority of PPPs have heretofore not yet been concluded, this precludes even the possibility for empirical verification of their usefulness.

4.2 Contractual parties

From the perspective of the party inviting tender (public sector), the main objective of PPP is to secure economical, efficient and effective use of public funds. Simply stated, the government endeavours to use private partner financing to provide public infrastructure and services and to achieve value for money. In doing so, it monitors in particular the expected cash flows (chiefly outlays) connected with payments ensuing from the concluded agreement. The risk analysis from the viewpoint of the party inviting tender focuses on evaluating the quality of the contractual arrangements between the party inviting tender and individual concessionaries. The decision of the party inviting tender commits public budgets to payments extending significantly beyond the time horizon of a single election period, which limits the opportunity for implementing discretionary policy and fulfilment of future governments' political objectives. The party inviting tender is often in the position of a monopoly provider and supplier of public goods for which it cannot impose restrictions on their supply. This, however, significantly limits the operation of the market mechanism, since the government contractually guarantees the amount of demand in the long term.

Investors view the risks of a project mainly in the context of evaluating the potential impact on the return on invested capital. If the project is evaluated as high-risk, they also require high return on the invested capital. The private partner assumes that its return on the project decreases with higher risk and thus requires a higher risk premium, which will enable the partner to obtain the minimum required expected return. In making its

¹⁷ Representatives of the party inviting tender usually lack direct motivation in the form of direct link between the project's results and their remuneration, which can create the possibility for corruption.

decision, it thus asks the question whether the cash flow generated by a given project is able to cover operational costs and costs of debt financing and to provide the required return on the invested capital.

The difference between senior creditors (banks in particular) and investors (shareholders) is that the former cannot presume to receive any potential extraordinary revenue generated by the project but only the risk of negative development ensuing from the debtor's inability to repay liabilities from the loan contract. Senior creditors therefore focus their attention on the possibility to cover repayments for the provided loan from cash flow generated by the project within the period of the contractual relationship. As the banking sector regards the government as an entity bearing a relatively low credit risk, it often prevents transmission of certain risks to concessionaries (e.g. by requiring guarantees and other financial instruments on the part of the government).

Should we take the aforementioned facts into account from the perspective of general government, we must bear in mind that achieving value for money requires an unbiased risk allocation between the public and private sectors. If that is not the case, then there is still a threat for escalation of a latent conflict between the need of the public sector to demonstrate the achievement of value for money, robustness of cash flow generated by the project as required by senior creditors, and ensuring returns on the capital invested by the concessionary.

It generally applies that on any market, including the capital market, there cannot in principle be a contractual state that would be financially favourable for all parties. A contract can be concluded in the best case as financially neutral for all contractual parties. For successful conclusion of a contractual relationship, it is often necessary to establish a certain imperfect market environment, which guarantees above-standard returns for the concessionary and which are collected from end users. Achieving a "financially neutral" solution is also prevented by the fact that a limited number of applicants participate in the selection procedures for the possibility of special assignment by the party inviting tender or by other obstacles, which further eliminate the possibility of achieving an advantageous solution for the general government. In this case, there should be a certain benchmark, the so-called sector comparator, which shows the ceiling above which implementation by means of PPP should be virtually excluded.

4.3 PPP within government financial statistics (ESA 95)

From the perspective of the government sector, attention is given not only to the achieved value for money and increasing public goods, but also to the impact on its fiscal results as reported in compliance with the methodology for government financial statistics, namely the European System of Accounts (ESA 95).¹⁸ Adjustment in the calculation of indicators is based on the ESA 95 Manual of the European Systems of Accounts and also on the ESA 95 Manual of Government Deficit and Debt. The latter manual focuses in detail on the adjustment of certain specific operations and their reflection in the monitored indicators. The impact of PPP on government deficit and debt is covered mainly in Chapter 4 of this manual relating to deficit and debt, as well as in the Eurostat Decision 18/2004.

In connection with statistical recording of PPP, it is worthy of note that its arrangement within the ESA 95 methodology by its nature stands out from the usual logic for reporting of operations conducted by the

¹⁸ The ESA 95 methodology represents a base for the calculation of two so-called Maastricht convergence indicators, which are regularly notified to the European Commission and serve for monitoring the fiscal discipline of member countries of the Economic and Monetary Union (EMU) as well as candidate countries within regularly submitted convergence and stabilisation programmes.

government. In recording PPP, we can, according to ESA, see a deformation of efficient risk allocation between individual contractual parties and which the methodology seeks consistently to avoid in other cases by only recording steps taken by the government. In the case of PPP, however, the effort to meet the ESA 95 criteria for so-called off-balance sheet recognition of the value within a project of the created assets can lead to risk allocation that can be labelled as a so-called sub-optimal solution.

The motivation of general government to use PPP should not be based on the offered possibility for spreading of cash flow, and this fact itself should not affect the resulting investment decision. Nevertheless, the enticement to avoid an immediate increase of the general government debt through further issuance of bonds may be too great. The opportunity for PPP should therefore be seen only as a variant that enables achieving a higher rate of efficiency in fulfilling the objectives of government policies. Liabilities arising from PPP projects should, therefore, always be classified as debt liabilities of the general government in order to eliminate possible moral hazard.

According to current practice, the decisive factor for PPP classification in the international accounts is recording of the related underlying asset. The issue of recording an asset as being on the government's or private partner's balance sheet is seen in the national accounts as analogous to the difference between financial and operational leasing.¹⁹ This difference is founded on whether the lessor or lessee bears most risks and benefits associated with the asset and where the economic principle of these measures is preferred to their legal nature.²⁰ Recording of a financial lease leads to an outlay in the initial phase of the project that has an impact on the government deficit and recognition of debt, while recording of an operating lease only implies later general government outlays and thus the impact of lease payments distributed over time (payments depending on the availability or demand) on the government deficit without an immediate effect on the debt. In decision making about the nature of leasing, the ESA 95 methodology is further based on the comparison as to the length of the contractual relationship and the expected lifetime of the assets.

¹⁹ If the length of an asset's use under the contract covers the major part of its economic life, this is an indication of financial leasing. The lessor then cannot lease the subject of the contract to another lessee or use it otherwise after the contract is terminated. Similarly, the fact that the government directly pays for maintenance of assets and bears the risk of fluctuation in these costs indicates leasing financial in nature. A similar signal occurs when the government promises payment of the private partner's debt in the event of early termination of the contract. By contrast, leasing is seen as operational if the lessor (concessionary) retains a significant and ongoing influence on the way in which the contract is performed, it makes key decisions in the context of the project (during construction of the asset; providing its operation and maintenance) that influence provision of the required service. It is, however, always necessary to analyse whether the general government entered the contractual relationship under normal market conditions.

²⁰ Two basic principles of ESA 95 are worthy of note in connection with PPP, which are as follow:

- The principle of economic ownership – In most cases, legal and economic ownership coincide. If that is not the case, then it is necessary to reflect the nature of the operation in the national accounts and record the ownership of the asset in the balance sheet of the unit that is other than its legal owner. The economic owner of the asset is the one who exercises control over it and is exposed to the benefits and costs associated with its ownership, similarly as in the case of full legal ownership.
- The principle of supremacy of content over form – recognition of the operation in national accounts should reflect economic reality (de facto) and not just legal or administration criteria (de jure). While legal regulation of the unit or transaction is relevant for analysing the accounting view, the basic principle of ESA 95 is the supremacy of economic reality over the legal form. In a case of need for interpretation of apparently conflicting provisions of ESA 95 and the Manual on Government Deficit and Debt, the national accounts give preference to the content over the form, thereby preventing the member states from achieving the intended accounting results by means of specific legal arrangements for the given operation.

4.4 Basic criteria for decision on recording PPP

The decision as to recording an asset as being on the government's or a private partner's balance sheet is based on analysis of the economic ownership of the assets, i.e. which of the contractual parties bears the majority of risks and benefits associated with the given partnership. The key aspect of this analysis is a decision as to which of the contractual parties bears the majority share in all risks associated with the PPP and that are related to the asset involved in the contractual relationship or related to the service provided by the private partner. The subsequent impact on the government deficit and debt is derived from the classification of the contractually arranged asset. For analysing whether the risks associated with an asset have or have not been transferred, Eurostat has selected three groups of risks that are important for PPP: construction risk, availability risk and demand risk. There is a rule for the decision about transfer of risks and benefits that is used in practice, according to which the **asset is recorded as being on the government's balance sheet, should this balance sheet bear the construction risk, as well as availability risk and demand risk.**

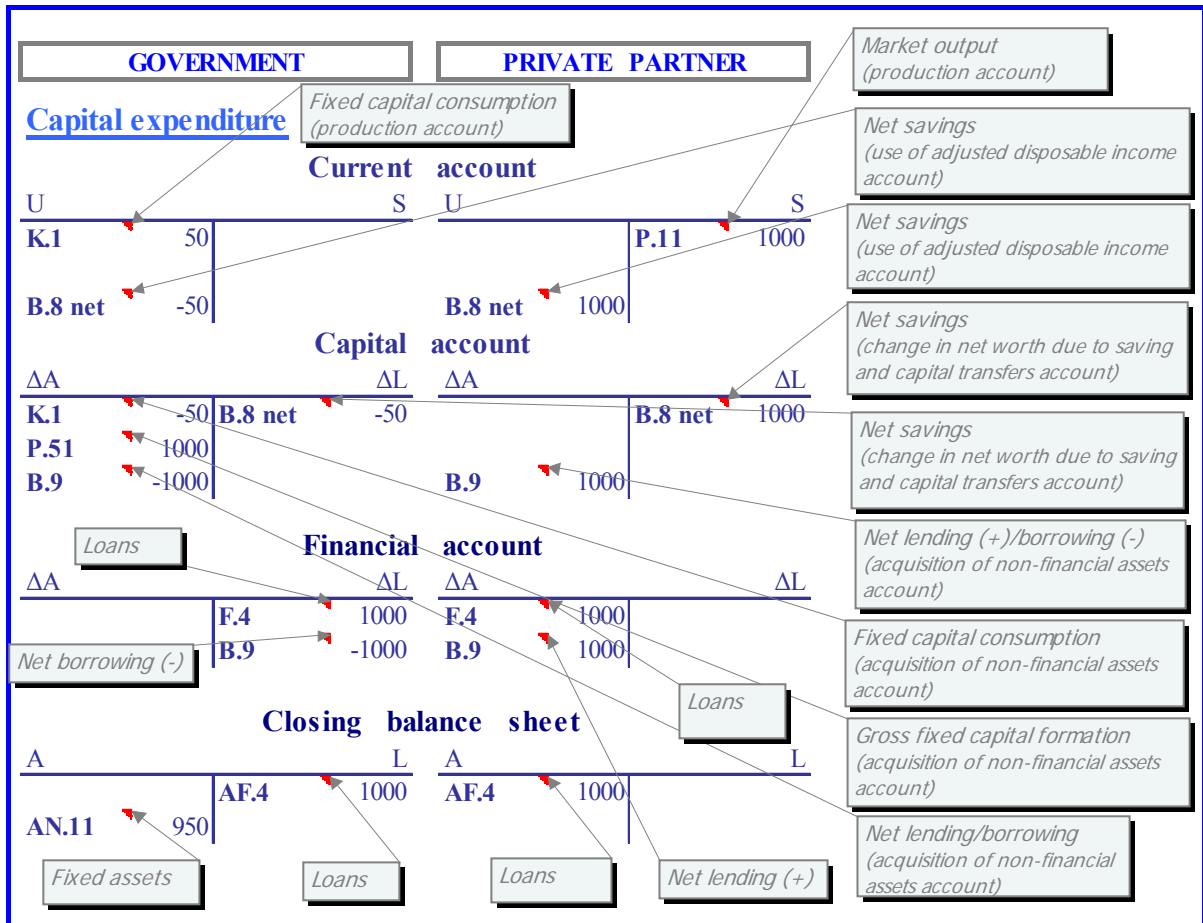
The rule established by Eurostat is problematic, inasmuch as the private sector typically bears most of the construction risk and availability risk and therefore it is very probably that the majority of the assets will be classified as being on the government's balance sheet even if the government bears most of the demand risk, which is, for example in Great Britain considered crucial, together with the residual value risk. The construction risk, which is emphasised by Eurostat, is characteristic mainly for the initial phase of the contractual relationship, while the availability risk and demand risk mainly manifest themselves in the operational phase of the asset's life cycle.

When including the asset onto the government's balance sheet, the related initial capital outlay is recorded as the government gross fixed capital formation (P.51) in the account for acquisition of non-financial assets, which brings a negative impact on the government operating balance (government net lending/borrowing). Against the creation of government fixed capital, the creation of a government debt liability is also recorded, in the form of an "imputed loan" (AF.4) from a private partner, which is classified as a part of the "Maastricht Debt" concept. Regular payments made by the government to the private partner affect the government operations balance only in the amount related to the purchase of services (P.2) and payments of "imputed interest" (D.41). Payments of the imputed loan are not included in the government outlays (as financial operations do not affect the government's net worth). If the assets are considered as the government's in compliance with the ESA 95 rules, then the capital outlay is recorded at the beginning, and never at the end, of the period during which the construction or renovation is carried out.

1. Recording PPP when including an asset on the government's balance sheet:

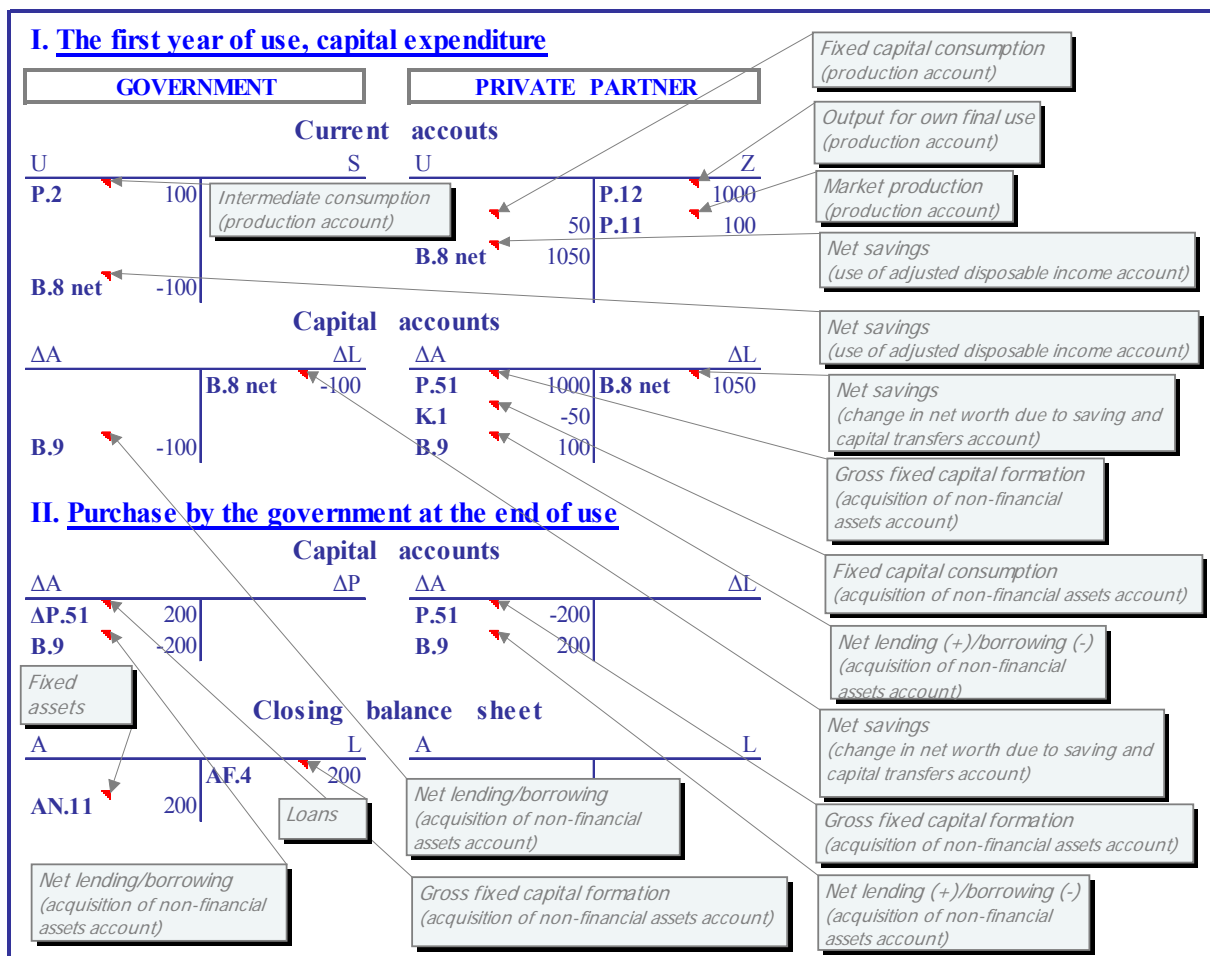
- The private partner builds an asset in the value of CZK 1,000, which increases the government's net loans (through creation of gross fixed capital). Depreciation in the first year is CZK 50 (depreciated by the government).
- During use of the asset the government makes regular payments to the private corporation for availability in the amount of CZK 100 (the same as in the second scheme)²¹.
- We assume that payments of the liability and interest are charged from the second year.

²¹ For the sake of greater clarity, this record was excluded in the first scheme.



2. Recording PPP when including an asset on the government's balance sheet:

- The private partner builds an asset in the value of CZK 1,000 (creation of gross fixed capital). Depreciation in the first year is CZK 50 (depreciated by the private partner).
- After the period for use lapses, the infrastructure is purchased by the government (for CZK 200).



If the asset is not recorded as being on the government's balance sheet, then the government balance is gradually affected by payments for services (P.21) reflecting in inter-consumption. If payments for services are not financed by debt, then the government debt is not affected in this variant.

4.5 Supplementary criteria for recording PPP according to ESA 95

The main source of information for statistics on risk allocation is the concession contract. In some cases, other facts related to a partnership must be examined in addition to direct information. Their importance increases in a period of economic recession or stagnation, when, depending on the economic conditions and the state of capital markets, there may be significant differences between the proposal and the resulting implementation of PPP. In a period of recession, we can assume less willingness of private creditors to finance PPP projects. Governments, however, are interested in continuing and in some cases even expanding their investment programmes and are therefore seeking new solutions to attract private partners and secure resources for their financing. Increasingly, they are thus considering new incentives to the financial sector to support its entry into PPP financing. This, however, changes the traditional role of the government as a party inviting tenders to its more active participation in assuming risks related to PPP projects. For example, governments begin to finance the majority of capital outlays, to provide more extensive guarantees to creditors than was previously customary, and to introduce more generous contractual conditions relating to termination of the concessionaries' activities. These and other factors in reality prevent the transfer of risks and benefits to operators, and thus greater attention must be paid to certain supporting criteria. Among the main supporting criteria is the method of project **financing**, for which the government usually tries to avoid immediate capital outlay and related loans through PPP. The entry of the government into project financing can be explained by the fact that the private partner cannot acquire capital at the same interest rate as the government, which increases project costs. The government enters the project with the objective of stimulating the interest of the private sector in the project and decreasing its overall financing costs (contributes to effective conclusion of a contract). On the other hand, if the government pays the greater part of the capital outlays at the beginning or

during the construction phase, this fact can be seen as an expression of non-confidence on the part of market entities in the project's financial feasibility. From this we can conclude that the project is feasible only if the general government bears most of the related risks, which would lead to classification of the asset within ESA 95 methodology on the government's balance sheet. The risk of financing is often seen as an integral part of the construction risk, because given a lack of sources the asset cannot be built at all, or not in the corresponding parameters. In the period before the financial crisis, it was assumed that if governments enter into PPPs, then they do so by financing capital outlays connected with construction/renovation of assets through investment grants. Due to wide availability of project financing during this period, no significant loans were expected on the part of the government. It is becoming clear, however, that governments enter into PPP project financing more substantially if private capital is not available. In this regard, we speak of so-called soft and hard mini-perms. The first case does not represent any substantial risk for the government sector. Concessionaries are allowed to use lower-cost sources of financing within refinancing, which they can obtain after a certain period thanks to a favourable project history. In the second variant, refinancing actually occurs, and in case of an unfavourable project history and lack of interest from financial institutions the government must enter into the project and is forced to take over the risks of the project with the relevant impacts on its operations.

Before the government actually enters into financing the projects, **guarantees** are used. These cover the whole or part of the debt liability of the private partner. If the government provides these with the aim to support concessionaries in an effort to acquire sources of financing on the market at lower costs or to improve its loan rating, guarantees are not a reason for requalification of the asset. The provision of a government guarantee, therefore, cannot be automatically interpreted as a criterion for reaching a decision about the scope as to a transfer of risks. Nevertheless, it is good to remember that their existence can actually prevent a transfer of risks. Under ESA 95, guarantees are regarded as contingent liabilities recognised in the off-balance sheet. The government loan payment guarantee would be a reason for reclassification of an asset if part or all of the debt service was transferred to the government by a contract or law and the private partner was clearly unable to bear the debt service costs. A transfer of risks to the general government also indicates a guarantee for a certain level of return to the invested capital, regardless of the private partner's performance or the level of demand on the part of the end consumers. The issue of the effect of guarantees on recording of the PPP asset can be summarised in the following way. While the presence of the government guarantees is not itself a condition for recording the asset as being on the balance sheet of the party inviting the tender, if they cover a clear majority of the project's investment costs, then this fact implies that they are recorded on the balance sheet of the party inviting the tender and we can assume an insufficient transfer of construction risk and risks of availability and demand.

Termination clauses also often imply the taking over of an asset and part or all of the debt by the party inviting the tender. The impacts on the government deficit and debt are based particularly on the difficult marketability of the PPP asset on the market. Termination clauses on the part of the party inviting the tender are not at first glance very controversial, but they can be used by the party inviting the tender as an instrument for protecting the interests of concessionaries and may be proposed too generously in an effort to protect the good reputation of the party inviting tender. In some cases, the remuneration may be transferred to the operator in insufficient amount at the initiative of the party inviting the tender, particularly in relation to demand. Complications are mainly caused by termination clauses at the initiative of the party inviting the tender. In this case, the party inviting the tender takes over the asset as well as part or all of the debt reduced by some kind of fine. Such clauses function as guarantees ensuring payment to the operator and investors of a certain portion of their costs. If the termination clause envisages a refund based on capital (or operational) costs instead of the value of the asset, we can assume that the construction risk (risk of availability/demand) is not transferred.

Contract provisions concerning **final asset allocation** also deserve attention. If an asset remains in the ownership of the private partner after the project ends, and it still has a significant economic value, then the asset should be classified as being on the private partner's balance sheet. In this case, the private partner bears the risk associated with a change in demand for the asset and its wear and tear. The opposite manner of recording occurs if, according to the contract, the general government has an opportunity to purchase the asset at a price other than the usual market price, i.e. if the pre-set price is clearly higher than the asset's market value at a given time. On the contrary, if the price for which the government is supposed to purchase the asset is lower than its market value (or it is zero), it is necessary to consider whether or not the government

has already paid for the right to take over the asset guaranteed by the contract by means of regular payments the total amount of which is very close to the asset's value.

The fact that the party inviting the tender provides in any form a clear majority of financing of the project's capital costs or provides guarantees covering a majority of the project's capital costs signals an insufficient transfer of risk to the private partner. The insufficient transfer of risk and remunerations is such a state where the termination clauses are based on costs incurred by the operator or in the case of an initiative of the party inviting tender reducing the transfer of remunerations. If the party inviting the tender is itself in fact exposed to most of the capital expenses through financing, guarantees or termination clauses, this can be evaluated as a sign of insufficient transfer of the construction risk and the risk of availability/demand, because the impacts of the performance of risks would be transferred back to the government through insufficient payment of financing and implementation of guarantees or payments upon termination of the contract that do not reflect the value of the asset at the time of terminating the contract.

5 Annex of tables

5.1 Public budgets in the GFS 2001 methodology

Table 5-1: Consolidated general government – revenue in CZK bn

		2004	2005	2006	2007	2008	2009
Total revenue	<i>bill. CZK</i>	1 087.8	1 188.4	1 247.3	1 389.9	1 476.5	1 382.4
Revenue from operating activities	<i>bill. CZK</i>	1 077.2	1 176.1	1 233.2	1 377.1	1 460.9	1 355.2
Taxes	<i>bill. CZK</i>	572.2	625.7	637.8	716.0	742.8	660.4
Taxes on income, profits, and capital gains	<i>bill. CZK</i>	253.1	287.3	278.6	317.9	330.9	254.7
Payable by individuals	<i>bill. CZK</i>	133.3	142.4	136.8	151.5	143.3	127.5
Payable by corporations and other enterprises	<i>bill. CZK</i>	119.8	144.8	141.8	166.4	187.6	127.1
Taxes on property	<i>bill. CZK</i>	15.3	13.1	13.5	15.5	15.5	14.4
Taxes on goods and services	<i>bill. CZK</i>	299.4	325.3	345.7	382.5	396.3	391.1
Value added tax ¹⁾	<i>bill. CZK</i>	179.2	202.4	213.2	229.5	249.2	248.1
Excises	<i>bill. CZK</i>	95.8	110.6	119.5	138.9	133.0	131.1
Social contributions	<i>bill. CZK</i>	416.7	445.6	473.3	522.0	548.2	509.7
Social security contributions	<i>bill. CZK</i>	416.7	430.8	457.5	504.6	529.9	495.9
Employee contributions	<i>bill. CZK</i>	102.0	146.7	112.7	123.3	130.1	113.6
Employer contributions	<i>bill. CZK</i>	285.8	255.0	316.2	345.9	364.9	338.5
Self-employed or nonemployed contributions	<i>bill. CZK</i>	25.7	27.0	27.4	33.0	32.8	39.2
Other social contributions	<i>bill. CZK</i>	0.0	14.7	15.8	17.4	18.3	13.8
Grants	<i>bill. CZK</i>	24.8	31.6	35.9	47.4	60.5	79.6
From international organizations	<i>bill. CZK</i>	24.8	31.6	35.9	47.4	60.4	79.4
Current	<i>bill. CZK</i>	18.3	24.3	20.3	23.2	26.8	33.3
Capital	<i>bill. CZK</i>	6.5	7.3	15.6	24.2	33.6	46.2
Other revenue	<i>bill. CZK</i>	63.6	73.2	86.2	91.7	109.5	105.5
Property income	<i>bill. CZK</i>	27.2	17.6	22.3	23.3	34.2	33.5
Interest	<i>bill. CZK</i>	0.0	4.6	5.6	6.7	9.8	6.8
Dividends	<i>bill. CZK</i>	0.0	6.5	10.1	9.6	16.1	18.8
Sales of goods and services	<i>bill. CZK</i>	24.3	32.4	36.7	40.8	43.3	42.9
Sales of market establishments	<i>bill. CZK</i>	0.0	16.7	20.4	18.9	19.2	19.5
Administrative fees	<i>bill. CZK</i>	24.3	15.3	15.9	21.4	23.5	22.8
Fines, penalties, and forfeits	<i>bill. CZK</i>	3.8	4.3	4.7	5.1	3.5	5.5
Voluntary transfers other than grants	<i>bill. CZK</i>	1.5	13.3	12.0	13.1	11.9	15.0
Miscellaneous and unidentified revenue	<i>bill. CZK</i>	6.8	5.6	10.4	9.4	16.6	8.6
Sales of nonfinancial assets	<i>bill. CZK</i>	10.6	12.4	14.0	12.8	15.5	27.2
Fixed assets	<i>bill. CZK</i>	6.9	7.9	8.8	7.3	9.6	9.5
Nonproduced assets	<i>bill. CZK</i>	3.7	4.5	5.3	5.5	6.0	17.7

1) VAT (item 1141) is in a consistence with the GFS 2001 methodology reduced by the EU budget levies (see methodical box) and by this value it is therefore reduced compared to VAT data in other parts of the State Final Accounts.

Table 5-2: Consolidated general government – revenue in % of GDP

		2004	2005	2006	2007	2008	2009
Total revenue	<i>in % GDP</i>	38.6	39.8	38.7	39.3	40.0	38.1
Revenue from operating activities	<i>in % GDP</i>	38.3	39.4	38.3	39.0	39.6	37.4
Taxes	<i>in % GDP</i>	20.3	21.0	19.8	20.3	20.1	18.2
Taxes on income, profits, and capital gains	<i>in % GDP</i>	9.0	9.6	8.6	9.0	9.0	7.0
Payable by individuals	<i>in % GDP</i>	4.7	4.8	4.2	4.3	3.9	3.5
Payable by corporations and other enterprises	<i>in % GDP</i>	4.3	4.9	4.4	4.7	5.1	3.5
Taxes on property	<i>in % GDP</i>	0.5	0.4	0.4	0.4	0.4	0.4
Taxes on goods and services	<i>in % GDP</i>	10.6	10.9	10.7	10.8	10.7	10.8
Value added tax ¹⁾	<i>in % GDP</i>	6.4	6.8	6.6	6.5	6.8	6.8
Excises	<i>in % GDP</i>	3.4	3.7	3.7	3.9	3.6	3.6
Social contributions	<i>in % GDP</i>	14.8	14.9	14.7	14.8	14.9	14.0
Social security contributions	<i>in % GDP</i>	14.8	14.4	14.2	14.3	14.4	13.7
Employee contributions	<i>in % GDP</i>	3.6	4.9	3.5	3.5	3.5	3.1
Employer contributions	<i>in % GDP</i>	10.2	8.5	9.8	9.8	9.9	9.3
Self-employed or nonemployed contributions	<i>in % GDP</i>	0.9	0.9	0.8	0.9	0.9	1.1
Other social contributions	<i>in % GDP</i>	-	0.5	0.5	0.5	0.5	0.4
Grants	<i>in % GDP</i>	0.9	1.1	1.1	1.3	1.6	2.2
From international organizations	<i>in % GDP</i>	0.9	1.1	1.1	1.3	1.6	2.2
Current	<i>in % GDP</i>	0.6	0.8	0.6	0.7	0.7	0.9
Capital	<i>in % GDP</i>	0.2	0.2	0.5	0.7	0.9	1.3
Other revenue	<i>in % GDP</i>	2.3	2.5	2.7	2.6	3.0	2.9
Property income	<i>in % GDP</i>	1.0	0.6	0.7	0.7	0.9	0.9
Interest	<i>in % GDP</i>	-	0.2	0.2	0.2	0.3	0.2
Dividends	<i>in % GDP</i>	-	0.2	0.3	0.3	0.4	0.5
Sales of goods and services	<i>in % GDP</i>	0.9	1.1	1.1	1.2	1.2	1.2
Sales of market establishments	<i>in % GDP</i>	-	0.6	0.6	0.5	0.5	0.5
Administrative fees	<i>in % GDP</i>	0.9	0.5	0.5	0.6	0.6	0.6
Fines, penalties, and forfeits	<i>in % GDP</i>	0.1	0.1	0.1	0.1	0.1	0.2
Voluntary transfers other than grants	<i>in % GDP</i>	0.1	0.4	0.4	0.4	0.3	0.4
Miscellaneous and unidentified revenue	<i>in % GDP</i>	0.2	0.2	0.3	0.3	0.4	0.2
Sales of nonfinancial assets	<i>in % GDP</i>	0.4	0.4	0.4	0.4	0.4	0.7
Fixed assets	<i>in % GDP</i>	0.2	0.3	0.3	0.2	0.3	0.3
Nonproduced assets	<i>in % GDP</i>	0.1	0.2	0.2	0.2	0.2	0.5

1) VAT (item 1141) is in a consistence with the GFS 2001 methodology reduced by the EU budget levies (see methodical box) and by this value it is therefore reduced compared to VAT data in other parts of the State Final Accounts.

Table 5-3: Consolidated general government – expenditure in CZK bn

		2004	2005	2006	2007	2008	2009
Total expense	<i>bill. CZK</i>	1 185.6	1 293.9	1 389.1	1 435.8	1 517.3	1 631.4
Expense for operating activities	<i>bill. CZK</i>	1 101.1	1 212.4	1 290.1	1 345.9	1 421.1	1 513.1
Compensation of employees	<i>bill. CZK</i>	112.2	120.7	127.7	136.2	141.4	146.6
Wages and salaries	<i>bill. CZK</i>	83.8	90.5	96.2	102.5	106.5	111.3
Social contributions	<i>bill. CZK</i>	28.4	30.2	31.5	33.8	34.9	35.3
Actual social contributions	<i>bill. CZK</i>	28.4	30.2	31.5	33.8	34.9	35.2
Use of goods and services	<i>bill. CZK</i>	118.1	114.1	125.6	124.8	133.4	148.1
Interest	<i>bill. CZK</i>	30.5	25.4	33.8	37.1	44.7	49.6
Subsidies	<i>bill. CZK</i>	237.9	234.8	253.8	266.0	272.6	301.9
To public corporations	<i>bill. CZK</i>	0.0	166.1	180.0	186.8	206.5	205.6
To private enterprises	<i>bill. CZK</i>	0.0	68.7	73.7	79.2	66.2	96.3
Grants	<i>bill. CZK</i>	15.4	24.5	24.3	26.7	29.0	30.3
To international organizations	<i>bill. CZK</i>	15.4	24.4	24.3	26.7	29.0	30.3
Current	<i>bill. CZK</i>	15.4	24.4	24.3	26.6	29.0	30.3
Social benefits	<i>bill. CZK</i>	478.9	502.8	543.6	587.6	618.0	663.8
Social security benefits	<i>bill. CZK</i>	14.3	502.8	543.6	587.6	618.0	663.6
Other expense	<i>bill. CZK</i>	108.2	190.3	181.4	167.5	181.9	172.9
Miscellaneous other expense	<i>bill. CZK</i>	108.2	190.3	181.4	167.5	181.8	172.9
Current	<i>bill. CZK</i>	14.0	24.3	28.8	24.9	30.9	31.5
Capital	<i>bill. CZK</i>	94.2	166.0	152.6	142.6	150.9	141.3
Purchases of nonfinancial assets	<i>bill. CZK</i>	84.4	81.5	99.0	89.9	96.2	118.3
Fixed assets	<i>bill. CZK</i>	79.8	78.5	95.9	87.4	93.4	115.8
Nonproduced assets	<i>bill. CZK</i>	4.7	2.9	3.0	2.4	2.8	2.5

Table 5-4: Consolidated general government – expenditure in % of GDP

		2004	2005	2006	2007	2008	2009
Total expense	<i>in % GDP</i>	42.1	43.4	43.1	40.6	41.1	45.0
Expense for operating activities	<i>in % GDP</i>	39.1	40.6	40.0	38.1	38.5	41.7
Compensation of employees	<i>in % GDP</i>	4.0	4.0	4.0	3.9	3.8	4.0
Wages and salaries	<i>in % GDP</i>	3.0	3.0	3.0	2.9	2.9	3.1
Social contributions	<i>in % GDP</i>	1.0	1.0	1.0	1.0	0.9	1.0
Actual social contributions	<i>in % GDP</i>	1.0	1.0	1.0	1.0	0.9	1.0
Use of goods and services	<i>in % GDP</i>	4.2	3.8	3.9	3.5	3.6	4.1
Interest	<i>in % GDP</i>	1.1	0.9	1.0	1.1	1.2	1.4
Subsidies	<i>in % GDP</i>	8.5	7.9	7.9	7.5	7.4	8.3
To public corporations	<i>in % GDP</i>	-	5.6	5.6	5.3	5.6	5.7
To private enterprises	<i>in % GDP</i>	.	2.3	2.3	2.2	1.8	2.7
Grants	<i>in % GDP</i>	0.5	0.8	0.8	0.8	0.8	0.8
To international organizations	<i>in % GDP</i>	0.5	0.8	0.8	0.8	0.8	0.8
Current	<i>in % GDP</i>	0.5	0.8	0.8	0.8	0.8	0.8
Social benefits	<i>in % GDP</i>	17.0	16.8	16.9	16.6	16.8	18.3
Social security benefits	<i>in % GDP</i>	0.5	16.8	16.9	16.6	16.8	18.3
Other expense	<i>in % GDP</i>	3.8	6.4	5.6	4.7	4.9	4.8
Miscellaneous other expense	<i>in % GDP</i>	3.8	6.4	5.6	4.7	4.9	4.8
Current	<i>in % GDP</i>	0.5	0.8	0.9	0.7	0.8	0.9
Capital	<i>in % GDP</i>	3.3	5.6	4.7	4.0	4.1	3.9
Purchases of nonfinancial assets	<i>in % GDP</i>	3.0	2.7	3.1	2.5	2.6	3.3
Fixed assets	<i>in % GDP</i>	2.8	2.6	3.0	2.5	2.5	3.2
Nonproduced assets	<i>in % GDP</i>	0.2	0.1	0.1	0.1	0.1	0.1

Table 5-5: Consolidated general government – balances in CZK bn

		2004	2005	2006	2007	2008	2009
CASH DEFICIT/SURPLUS	<i>bill. CZK</i>	-97.7	-105.5	-141.8	-45.9	-40.8	-249.0
Fiscal targeting CASH DEFICIT/SURPLUS¹⁾	<i>bill. CZK</i>	-76.2	-57.8	-102.0	-40.1	-38.6	-231.2
Deficit / surplus of operating balance ²⁾	<i>bill. CZK</i>	-23.9	-36.4	-56.9	31.2	39.8	-157.9
Deficit / surplus of primary balance	<i>bill. CZK</i>	-67.2	-80.1	-108.1	-8.8	3.9	-199.5

Table 5-6: Consolidated general government – balances in % of GDP

		2004	2005	2006	2007	2008	2009
CASH DEFICIT/SURPLUS	<i>in % GDP</i>	-3.5	-3.5	-4.4	-1.3	-1.1	-6.9
Fiscal targeting CASH DEFICIT/SURPLUS¹⁾	<i>in % GDP</i>	-2.7	-1.9	-3.2	-1.1	-1.0	-6.4
Deficit / surplus of operating balance ²⁾	<i>in % GDP</i>	-0.8	-1.2	-1.8	0.9	1.1	-4.4
Deficit / surplus of primary balance	<i>in % GDP</i>	-2.4	-2.7	-3.4	-0.2	0.1	-5.5

Table 5-7: General government balance structure in CZK bn

		2004	2005	2006	2007	2008	2009
State budget ¹⁾	<i>bill. CZK</i>	-57.0	-56.6	-137.9	-62.9	-78.1	-221.5
Extrabudgetary funds total	<i>bill. CZK</i>	-33.2	-48.9	-2.3	-11.1	10.5	3.6
Social security funds	<i>bill. CZK</i>	0.2	0.5	2.8	17.2	10.8	-6.4
Local governments	<i>bill. CZK</i>	-7.8	7.3	-4.5	10.9	16.1	-24.7
CASH DEFICIT/SURPLUS	<i>bill. CZK</i>	-97.7	-97.7	-141.8	-45.9	-40.8	-249.0

1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2005-07 incl. Czech Consolidation Agency loss remuneration from state bonds

Table 5-8: Fiscal targeting balance structure in CZK bn

		2004	2005	2006	2007	2008	2009
State budget ¹⁾	<i>bill. CZK</i>	-35.5	-8.8	-98.1	-57.1	-75.8	-203.6
Extrabudgetary funds total	<i>bill. CZK</i>	-33.2	-48.9	-2.3	-11.1	10.5	3.6
Social security funds	<i>bill. CZK</i>	0.2	0.5	2.8	17.2	10.8	-6.4
Local governments	<i>bill. CZK</i>	-7.8	7.3	-4.5	10.9	16.1	-24.7
Fiscal targeting CASH DEFICIT/SURPLUS	<i>bill. CZK</i>	-76.2	-49.9	-102.0	-40.1	-38.6	-231.2

1) incl. National Fund and ex-National Property Fund's transactions and net impact of elimination of transfers from/to reserve funds, in 2005-07 incl. Czech Consolidation Agency loss remuneration from state bonds

Table 5-9: Consolidated general government – sources and use in CZK bn

		2004	2005	2006	2007	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash receipts from operating activities	<i>bill. CZK</i>	1 077.2	1 176.1	1 233.2	1 377.1	1 460.9	1 355.2
Taxes	<i>bill. CZK</i>	572.2	625.7	637.8	716.0	742.8	660.4
Social contributions	<i>bill. CZK</i>	416.7	445.6	473.3	522.0	548.2	509.7
Grants	<i>bill. CZK</i>	24.8	31.6	35.9	47.4	60.5	79.6
Other receipts	<i>bill. CZK</i>	63.6	73.2	86.2	91.7	109.5	105.5
Cash payments for operating activities	<i>bill. CZK</i>	1 101.1	1 212.4	1 290.1	1 345.9	1 421.1	1 513.1
Compensation of employees	<i>bill. CZK</i>	112.2	120.7	127.7	136.2	141.4	146.6
Purchases of goods and services	<i>bill. CZK</i>	118.1	114.1	125.6	124.8	133.4	148.1
Interest	<i>bill. CZK</i>	30.5	25.4	33.8	37.1	44.7	49.6
Subsidies	<i>bill. CZK</i>	237.9	234.8	253.8	266.0	272.6	301.9
Grants	<i>bill. CZK</i>	15.4	24.5	24.3	26.7	29.0	30.3
Social benefits	<i>bill. CZK</i>	478.9	502.8	543.6	587.6	618.0	663.8
Other payments	<i>bill. CZK</i>	108.2	190.3	181.4	167.5	181.9	172.9
Net cash inflow from operating activities	<i>bill. CZK</i>	-23.9	-36.4	-56.9	31.2	39.8	-157.9
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:							
Purchases of nonfinancial assets	<i>bill. CZK</i>	84.4	81.5	99.0	89.9	96.2	118.3
Fixed assets	<i>bill. CZK</i>	79.8	78.5	95.9	87.4	93.4	115.8
Strategic stocks	<i>bill. CZK</i>	0.0	0.0	0.0	0.0	0.0	0.0
Valuables	<i>bill. CZK</i>	0.0	0.0	0.1	0.0	0.1	0.1
Nonproduced assets	<i>bill. CZK</i>	4.7	2.9	3.0	2.4	2.8	2.5
Sales of nonfinancial assets	<i>bill. CZK</i>	10.6	12.4	14.0	12.8	15.5	27.2
Fixed assets	<i>bill. CZK</i>	6.9	7.9	8.8	7.3	9.6	9.5
Strategic stocks	<i>bill. CZK</i>	0.0	0.0	0.0	0.0	0.0	0.0
Valuables	<i>bill. CZK</i>	0.0	0.0	0.0	0.0	0.0	0.0
Nonproduced assets	<i>bill. CZK</i>	3.7	4.5	5.3	5.5	6.0	17.7
Net cash outflow: investments in nonfinancial assets	<i>bill. CZK</i>	73.8	69.1	85.0	77.1	80.7	91.1
Cash surplus / deficit	<i>bill. CZK</i>	-97.7	-105.5	-141.8	-45.9	-40.8	-249.0
CASH FLOWS FROM FINANCING ACTIVITIES:							
Net acquisition of financial assets other than cash	<i>bill. CZK</i>	-8.9	-101.5	-11.2	6.2	-27.5	76.4
Domestic	<i>bill. CZK</i>	-0.7	0.9	-10.1	5.9	-28.4	76.9
Foreign	<i>bill. CZK</i>	-8.2	-102.3	-1.0	0.3	0.9	-0.5
Monetary gold and SDRs	<i>bill. CZK</i>	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	<i>bill. CZK</i>	106.6	102.5	116.6	95.1	86.0	182.0
Domestic	<i>bill. CZK</i>	19.1	35.3	80.3	66.1	54.5	118.8
Foreign	<i>bill. CZK</i>	87.5	67.2	36.3	29.0	31.5	63.2
Net cash inflow from financing activities	<i>bill. CZK</i>	115.5	204.0	127.8	88.9	113.4	105.6
Net change in the stock of cash	<i>bill. CZK</i>	17.7	98.4	-14.1	43.0	72.6	-143.4

Table 5-10: Consolidated general government – debt in CZK bn

		2004	2005	2006	2007	2008	2009
Consolidated general government debt	<i>bill. CZK</i>	659.4	762.1	877.7	973.1	1 070.8	1 254.0
State debt (consolidated)	<i>bill. CZK</i>	585.8	684.2	794.1	882.3	979.6	1 155.9
Extrabudgetary funds	<i>bill. CZK</i>	1.2	2.4	0.6	3.8	0.7	1.1
Social security funds	<i>bill. CZK</i>	0.2	0.2	0.2	0.0	0.1	0.0
Local governments	<i>bill. CZK</i>	77.8	82.2	88.9	90.8	94.7	100.0

Table 5-11: Consolidated general government – debt in % of GDP

		2004	2005	2006	2007	2008	2009
Consolidated general government debt	<i>in % GDP</i>	23.4	25.5	27.2	27.5	29.0	34.6
State debt (consolidated)	<i>in % GDP</i>	20.8	22.9	24.6	25.0	26.6	31.9
Extrabudgetary funds	<i>in % GDP</i>	0.0	0.1	0.0	0.1	0.0	0.0
Social security funds	<i>in % GDP</i>	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	<i>in % GDP</i>	2.8	2.8	2.8	2.6	2.6	2.8

5.2 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.

Revenues

Table 5-12: General government revenue

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total revenue	<i>bn CZK</i>	802.3	833.9	911.4	974.4	1049.4	1187.7	1235.7	1325.2	1479.3	1483.8	1456.3
	<i>prev. year=100</i>	105.3	103.9	109.3	106.9	107.7	113.2	104.0	107.2	111.6	100.3	98.2
Current taxes on income, wealth, etc.	<i>bn CZK</i>	176.1	181.4	206.8	223.8	247.4	269.8	273.4	295.2	333.9	293.9	267.2
	<i>prev. year=100</i>	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	113.1	88.0	90.9
Social contributions ¹⁾	<i>bn CZK</i>	292.7	312.0	335.0	367.4	388.9	452.8	482.1	524.8	576.7	599.2	559.7
	<i>prev. year=100</i>	103.9	106.6	107.4	109.7	105.8	116.4	106.5	108.8	109.9	103.9	93.4
Taxes on production and imports ²⁾	<i>bn CZK</i>	240.3	247.9	258.0	266.7	285.4	325.3	342.3	352.4	394.4	405.6	413.6
	<i>prev. year=100</i>	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.9	111.9	102.9	102.0
Capital taxes ³⁾	<i>bn CZK</i>	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.3	0.3
	<i>prev. year=100</i>	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	57.6	55.2	102.7
Property income	<i>bn CZK</i>	12.8	18.3	26.2	29.8	24.5	23.2	21.2	25.6	27.2	30.4	31.0
	<i>prev. year=100</i>	81.2	143.4	142.8	113.9	82.3	94.5	91.6	120.5	106.6	111.7	101.9
Interest	<i>bn CZK</i>	9.9	15.0	15.4	22.0	17.2	14.2	12.6	12.6	14.7	11.1	8.7
	<i>prev. year=100</i>	76.1	151.0	102.5	143.1	78.1	82.5	88.5	100.0	116.8	75.6	78.8
Other property income	<i>bn CZK</i>	2.8	3.3	10.8	7.8	7.3	9.0	8.7	13.0	12.6	19.4	22.3
	<i>prev. year=100</i>	106.6	116.7	325.2	72.4	93.9	122.7	96.4	150.2	96.7	153.9	115.0
Sales ⁴⁾	<i>bn CZK</i>	56.4	58.3	63.0	66.4	75.4	77.8	79.9	81.9	95.3	102.8	104.3
	<i>prev. year=100</i>	96.9	103.5	108.0	105.5	113.4	103.3	102.6	102.5	116.4	107.8	101.5
Other current transfers and subsidies	<i>bn CZK</i>	22.1	12.4	15.8	16.5	21.3	28.3	26.0	25.3	23.3	21.5	27.3
	<i>prev. year=100</i>	113.5	56.2	126.8	104.2	129.7	132.5	92.0	97.1	92.2	92.4	126.7
Investment grants	<i>bn CZK</i>	0.0	0.1	0.5	0.9	2.8	3.1	4.7	13.9	14.6	27.2	50.2
	<i>prev. year=100</i>	145.5	225.0	754.2	171.8	301.5	110.1	151.6	296.6	105.0	186.1	184.7
Other capital transfers	<i>bn CZK</i>	1.4	2.9	5.5	2.1	2.8	6.8	5.3	5.4	13.4	2.9	2.9
	<i>prev. year=100</i>	92.5	206.2	186.2	37.8	134.8	243.3	78.2	102.3	247.1	22.0	97.2

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 5-13: General government revenue in % of GDP

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total revenue	(in % GDP)	38.6	38.1	38.7	39.5	40.7	42.2	41.4	41.1	41.8	40.2	40.1
Current taxes on income, wealth, etc.	(in % GDP)	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.4	8.0	7.4
Social contributions	(in % GDP)	14.1	14.2	14.2	14.9	15.1	16.1	16.2	16.3	16.3	16.2	15.4
Taxes on production and imports	(in % GDP)	11.5	11.3	11.0	10.8	11.1	11.6	11.5	10.9	11.2	11.0	11.4
Capital taxes	(in % GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	(in % GDP)	0.6	0.8	1.1	1.2	1.0	0.8	0.7	0.8	0.8	0.8	0.9
Interest	(in % GDP)	0.5	0.7	0.7	0.9	0.7	0.5	0.4	0.4	0.4	0.3	0.2
Other property income	(in % GDP)	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6
Sales	(in % GDP)	2.7	2.7	2.7	2.7	2.9	2.8	2.7	2.5	2.7	2.8	2.9
Other current transfers and subsidies	(in % GDP)	1.1	0.6	0.7	0.7	0.8	1.0	0.9	0.8	0.7	0.6	0.8
Investment grants	(in % GDP)	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.4	0.7	1.4
Other capital transfers	(in % GDP)	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.4	0.1	0.1

Table 5-14: General government tax revenue and social contributions

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Taxes and social contributions	bn CZK	709.6	741.8	800.5	858.7	922.6	1048.6	1098.6	1173.2	1305.4	1298.9	1240.7
	prev. year=100	106.4	104.6	107.9	107.3	107.4	113.7	104.8	106.8	111.3	99.5	95.5
Current taxes on income, wealth, etc.	bn CZK	176.1	181.4	206.8	223.8	247.4	269.8	273.4	295.2	333.9	293.9	267.2
	prev. year=100	106.3	103.1	114.0	108.3	110.5	109.1	101.3	108.0	113.1	88.0	90.9
Tax on individual or household income incl. holding gains	bn CZK	93.0	99.7	106.2	114.9	125.5	135.0	136.4	136.6	153.4	136.5	131.4
	prev. year=100	98.9	107.2	106.5	108.2	109.3	107.6	101.0	100.2	112.3	89.0	96.3
Taxes on the income or profits of corporations incl. holding gains	bn CZK	79.5	76.2	96.3	105.7	117.8	131.7	133.5	154.8	176.5	153.3	131.7
	prev. year=100	117.8	95.9	126.4	109.8	111.4	111.9	101.3	116.0	114.0	86.8	85.9
Lewy on lottery revenue	bn CZK	-	-	-	-	0.5	0.6	0.6	0.7	0.8	0.9	1.0
	prev. year=100	X	X	X	X	X	117.4	112.5	110.3	113.1	111.5	114.7
Other current taxes	bn CZK	3.6	5.6	4.3	3.2	3.6	2.5	2.9	3.1	3.2	3.2	3.0
	prev. year=100	87.0	153.6	77.6	74.0	112.8	69.1	117.4	105.0	104.8	100.2	92.2
Social contributions	bn CZK	292.7	312.0	335.0	367.4	388.9	452.8	482.1	524.8	576.7	599.2	559.7
	prev. year=100	103.9	106.6	107.4	109.7	105.8	116.4	106.5	108.8	109.9	103.9	93.4
Actual social contributions ¹⁾	bn CZK	292.5	311.5	334.8	367.2	388.6	452.4	481.7	524.4	576.4	598.9	558.8
	prev. year=100	103.9	106.5	107.5	109.7	105.8	116.4	106.5	108.9	109.9	103.9	93.3
Employers' actual social contributions	bn CZK	204.6	216.9	233.2	255.9	270.7	289.8	308.7	332.4	363.8	380.1	350.0
	prev. year=100	103.8	106.0	107.5	109.7	105.8	107.0	106.5	107.7	109.4	104.5	92.1
Employees' social contributions	bn CZK	73.0	77.3	82.7	89.6	94.9	101.3	108.3	116.6	127.7	133.2	112.2
	prev. year=100	104.0	105.9	107.0	108.4	105.9	106.8	106.9	107.6	109.5	104.4	84.2
Social contributions by self- and non-employed persons ¹⁾	bn CZK	14.9	17.3	18.9	21.7	23.0	61.3	64.8	75.4	85.0	85.5	96.6
	prev. year=100	104.3	115.9	109.1	114.9	106.1	266.0	105.6	116.5	112.6	100.7	113.0
Imputed social contributions	bn CZK	0.2	0.4	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.8
	prev. year=100	124.7	209.4	57.9	102.4	117.5	136.6	98.5	102.0	73.8	95.3	290.5
Taxes on production and imports	bn CZK	240.3	247.9	258.0	266.7	285.4	325.3	342.3	352.4	394.4	405.6	413.6
	prev. year=100	109.8	103.2	104.1	103.4	107.0	114.0	105.2	102.9	111.9	102.9	102.0
Taxes on products ²⁾	bn CZK	227.0	234.2	244.9	253.6	271.7	313.1	330.4	338.9	380.2	391.6	399.7
	prev. year=100	109.8	103.1	104.6	103.5	107.2	115.2	105.5	102.6	112.2	103.0	102.1
VAT	bn CZK	136.5	141.3	149.3	155.1	164.3	202.1	210.6	208.8	226.8	254.8	254.0
	prev. year=100	112.8	103.5	105.6	103.9	105.9	123.0	104.2	99.2	108.6	112.3	99.7
Excises	bn CZK	71.4	71.4	76.8	79.5	87.5	99.2	110.5	120.9	142.5	126.1	137.3
	prev. year=100	110.9	100.0	107.6	103.6	110.0	113.4	111.4	109.4	117.9	88.5	108.8
Other taxes on products ³⁾	bn CZK	19.2	21.5	18.9	18.9	20.0	11.8	9.2	9.2	10.9	10.7	8.4
	prev. year=100	89.8	111.9	88.0	100.2	105.8	59.1	78.2	99.7	118.1	98.6	78.7
Other taxes on production ⁴⁾	bn CZK	13.2	13.7	13.1	13.1	13.7	12.3	12.0	13.5	14.2	14.0	13.9
	prev. year=100	109.1	103.8	95.1	100.6	104.2	89.6	97.7	112.8	105.2	98.9	98.9
Capital taxes	bn CZK	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.3	0.3
	prev. year=100	96.7	109.7	117.0	108.9	115.6	71.9	118.5	109.2	57.6	55.2	102.7

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 5-15: General government tax revenue and social contributions in % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Taxes and social contributions <i>in % GDP</i>	34.1	33.9	34.0	34.8	35.8	37.3	36.8	36.4	36.9	35.2	34.2
Current taxes on income, wealth, etc. <i>in % GDP</i>	8.5	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.4	8.0	7.4
Tax on individual or household income incl. holding gains <i>in % GDP</i>	4.5	4.6	4.5	4.7	4.9	4.8	4.6	4.2	4.3	3.7	3.6
Taxes on the income or profits of corporations incl. holding gains <i>in % GDP</i>	3.8	3.5	4.1	4.3	4.6	4.7	4.5	4.8	5.0	4.2	3.6
Levy on lottery revenue <i>in % GDP</i>	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current taxes <i>in % GDP</i>	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions <i>in % GDP</i>	14.1	14.2	14.2	14.9	15.1	16.1	16.2	16.3	16.3	16.2	15.4
Actual social contributions <i>in % GDP</i>	14.1	14.2	14.2	14.9	15.1	16.1	16.1	16.3	16.3	16.2	15.4
Employers' actual social contributions <i>in % GDP</i>	9.8	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.3	10.3	9.6
Employees' social contributions <i>in % GDP</i>	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6	3.6	3.1
Social contributions by self- and non-employed persons <i>in % GDP</i>	0.7	0.8	0.8	0.9	0.9	2.2	2.2	2.3	2.4	2.3	2.7
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>	11.5	11.3	11.0	10.8	11.1	11.6	11.5	10.9	11.2	11.0	11.4
Taxes on products <i>in % GDP</i>	10.9	10.7	10.4	10.3	10.5	11.1	11.1	10.5	10.8	10.6	11.0
VAT <i>in % GDP</i>	6.6	6.5	6.3	6.3	6.4	7.2	7.1	6.5	6.4	6.9	7.0
Excise taxes <i>in % GDP</i>	3.4	3.3	3.3	3.2	3.4	3.5	3.7	3.8	4.0	3.4	3.8
Other taxes on products <i>in % GDP</i>	0.9	1.0	0.8	0.8	0.8	0.4	0.3	0.3	0.3	0.3	0.2
Other taxes on production <i>in % GDP</i>	0.6	0.6	0.6	0.5	0.5	0.4	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 5-16: Central government revenue

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total revenue	581.7	605.3	675.1	702.2	750.0	832.3	842.1	898.5	1006.0	1002.6	965.4
<i>bn CZK</i>											
<i>prev. year=100</i>	106.3	104.1	111.5	104.0	106.8	111.0	101.2	106.7	112.0	99.7	96.3
Current taxes on income, wealth, etc.	93.8	98.5	154.1	160.1	176.9	193.2	181.7	197.1	223.8	194.8	176.4
<i>bn CZK</i>											
<i>prev. year=100</i>	102.8	105.0	156.4	103.9	110.5	109.2	94.1	108.5	113.5	87.0	90.6
Social contributions¹⁾	208.9	221.8	241.1	262.9	277.2	300.1	318.7	342.6	376.3	392.4	351.7
<i>bn CZK</i>											
<i>prev. year=100</i>	103.7	106.2	108.7	109.0	105.5	108.3	106.2	107.5	109.8	104.3	89.6
Taxes on production and imports	234.9	242.0	221.5	224.2	240.3	270.4	272.3	282.6	318.9	319.7	327.5
<i>bn CZK</i>											
<i>prev. year=100</i>	110.0	103.0	91.5	101.2	107.2	112.5	100.7	103.8	112.8	100.2	102.5
Capital taxes	0.5	0.6	0.7	0.7	0.9	0.6	0.7	0.8	0.5	0.3	0.3
<i>bn CZK</i>											
<i>prev. year=100</i>	96.9	109.7	117.0	108.9	115.0	71.3	118.8	110.0	57.4	54.3	100.8
Property income	7.9	13.5	22.0	22.6	17.4	15.0	14.5	18.4	19.5	21.6	23.4
<i>bn CZK</i>											
<i>prev. year=100</i>	73.2	171.3	163.0	102.9	77.2	86.1	96.4	126.8	106.4	110.6	108.4
Sales	17.6	18.1	21.2	22.2	25.7	27.6	28.3	29.4	37.1	39.3	38.1
<i>bn CZK</i>											
<i>prev. year=100</i>	121.1	102.8	117.2	104.6	115.5	107.5	102.8	103.8	126.1	105.9	97.0
Other revenue	18.1	10.9	14.6	9.5	11.6	25.4	25.9	27.6	30.0	34.7	48.0
<i>bn CZK</i>											
<i>prev. year=100</i>	120.2	60.1	134.2	65.2	122.0	218.9	101.9	106.4	108.7	115.7	138.6

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

Table 5-17: Local government revenue

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Total revenue	<i>bn CZK</i>	192.1	200.1	228.3	260.0	328.7	349.3	351.6	375.5	410.5	429.2	
	<i>prev. year=100</i>	94.6	104.2	114.1	113.9	126.4	106.3	100.6	106.8	109.3	100.1	104.4
Current taxes on income, wealth, etc.	<i>bn CZK</i>	82.2	82.9	52.7	63.8	70.5	76.6	91.7	98.1	110.1	99.1	90.7
	<i>prev. year=100</i>	110.6	100.9	63.5	121.1	110.5	108.8	119.6	107.0	112.3	90.0	91.6
Social contributions	<i>bn CZK</i>	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.4
	<i>prev. year=100</i>	100.0	62.7	190.5	60.0	104.2	120.0	121.7	161.6	56.8	20.9	2528.6
Taxes on production and imports	<i>bn CZK</i>	5.3	5.9	36.5	42.5	45.1	55.0	70.0	69.8	75.5	86.0	86.1
	<i>prev. year=100</i>	100.0	110.1	620.0	116.3	106.2	121.8	127.4	99.6	108.2	113.9	100.1
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>	0.0	X	X	X	X	180.0	100.0	44.4	100.0	150.0	183.3
Property income	<i>bn CZK</i>	4.7	4.5	3.7	6.9	6.8	8.0	6.5	7.0	7.1	7.5	6.6
	<i>prev. year=100</i>	102.8	95.9	82.0	187.2	99.7	116.6	82.2	107.2	101.4	105.7	87.9
Sales	<i>bn CZK</i>	38.7	40.1	41.3	44.1	49.6	50.1	51.4	52.3	58.1	63.4	66.1
	<i>prev. year=100</i>	88.9	103.8	103.0	106.6	112.5	101.0	102.6	101.8	111.1	109.1	104.3
Other revenue	<i>bn CZK</i>	61.1	66.7	94.0	102.8	156.6	159.6	131.9	148.2	159.7	155.1	179.3
	<i>prev. year=100</i>	81.2	109.1	141.0	109.4	152.3	101.9	82.6	112.4	107.7	97.1	115.6

Table 5-18: Social security funds revenue

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Total revenue	<i>bn CZK</i>	112.5	119.4	127.4	138.4	149.1	159.1	169.6	184.8	203.5	210.8	211.1
	<i>prev. year=100</i>	107.3	106.1	106.7	108.6	107.8	106.7	106.6	109.0	110.1	103.6	100.2
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>	83.8	90.1	93.9	104.5	111.7	152.6	163.4	182.1	200.3	206.8	207.6
	<i>prev. year=100</i>	104.5	107.6	104.2	111.3	106.8	136.7	107.1	111.4	110.0	103.2	100.4
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>	0.3	0.4	0.6	0.4	0.3	0.3	0.3	0.3	0.7	1.4	1.0
	<i>prev. year=100</i>	54.9	147.9	128.2	74.9	73.7	95.1	106.5	94.5	225.3	210.8	75.3
Sales	<i>bn CZK</i>	0.1	0.1	0.4	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1
	<i>prev. year=100</i>	58.9	100.0	609.1	34.8	75.7	145.3	103.2	95.0	92.1	85.6	97.5
Other revenue	<i>bn CZK</i>	28.4	28.7	32.5	33.3	37.1	6.0	5.8	2.3	2.4	2.5	2.3
	<i>prev. year=100</i>	117.9	101.2	113.2	102.3	111.3	16.2	95.9	40.2	103.2	103.5	94.4

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

Expenditures

Tabulka 5-19: General government expenditure

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>bn CZK</i>	879.6	915.4	1043.3	1141.2	1219.5	1270.5	1342.3	1409.6	1502.4	1582.3	1665.4
	<i>prev. year=100</i>	102.1	104.1	114.0	109.4	106.9	104.2	105.7	105.0	106.6	105.3	105.2
Final consumption expenditure	<i>bn CZK</i>	440.6	460.9	496.7	549.5	603.2	621.6	658.5	687.0	717.0	752.8	799.0
	<i>prev. year=100</i>	110.2	104.6	107.8	110.6	109.8	103.1	105.9	104.3	104.4	105.0	106.1
Collective consumption ¹⁾	<i>bn CZK</i>	217.3	232.1	241.7	271.2	305.6	296.5	329.7	342.2	353.8	373.2	390.9
	<i>prev. year=100</i>	116.0	106.8	104.2	112.2	112.7	97.0	111.2	103.8	103.4	105.5	104.7
Individual consumption	<i>bn CZK</i>	223.3	228.9	254.9	278.3	297.6	325.1	328.8	344.8	363.2	379.6	408.1
	<i>prev. year=100</i>	105.2	102.5	111.4	109.2	106.9	109.2	101.1	104.9	105.3	104.5	107.5
Social transfers in kind ²⁾	<i>bn CZK</i>	111.1	115.4	127.5	142.1	150.2	160.7	167.4	173.5	187.1	198.6	219.0
	<i>prev. year=100</i>	106.0	103.9	110.4	111.5	105.7	107.0	104.2	103.7	107.8	106.1	110.3
Transfers of individual non-market goods or services ³⁾	<i>bn CZK</i>	112.2	113.5	127.5	136.2	147.3	164.3	161.4	171.3	176.1	181.0	189.0
	<i>prev. year=100</i>	104.3	101.1	112.3	106.9	108.2	111.5	98.2	106.2	102.8	102.8	104.4
Social benefits other than social transfers in kind ⁴⁾	<i>bn CZK</i>	243.8	263.9	280.5	305.1	315.6	361.9	376.4	405.1	453.7	471.2	502.3
	<i>prev. year=100</i>	108.0	108.3	106.3	108.8	103.4	114.7	104.0	107.6	112.0	103.8	106.6
Interest	<i>bn CZK</i>	21.2	18.4	23.8	30.5	29.3	32.6	34.4	35.5	39.8	39.5	47.4
	<i>prev. year=100</i>	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	112.2	99.0	120.0
Subsidies	<i>bn CZK</i>	61.1	61.0	65.4	56.6	68.2	59.0	54.7	61.4	62.5	63.7	76.3
	<i>prev. year=100</i>	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8	102.0	119.7
Gross fixed capital formation	<i>bn CZK</i>	67.7	79.1	83.4	95.2	117.2	136.4	146.5	161.5	165.9	182.5	190.0
	<i>prev. year=100</i>	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	102.7	110.0	104.1
Other expenditures	<i>bn CZK</i>	45.2	32.1	93.5	104.3	86.0	59.0	71.8	59.2	63.4	72.6	50.4
	<i>prev. year=100</i>	63.2	71.0	291.1	111.5	82.4	68.6	121.7	82.4	107.3	114.5	69.4

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

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

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

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

Table 5-20: General government expenditure in % of GDP

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>(in % GDP)</i>	42.3	41.8	44.4	46.3	47.3	45.1	45.0	43.7	42.5	42.9	45.9
Final consumption expenditure	<i>(in % GDP)</i>	21.2	21.1	21.1	22.3	23.4	22.1	22.1	21.3	20.3	20.4	22.0
Collective consumption	<i>(in % GDP)</i>	10.4	10.6	10.3	11.0	11.9	10.5	11.0	10.6	10.0	10.1	10.8
Individual consumption	<i>(in % GDP)</i>	10.7	10.5	10.8	11.3	11.5	11.5	11.0	10.7	10.3	10.3	11.2
Social transfers in kind	<i>(in % GDP)</i>	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.4	5.3	5.4	6.0
Transfers of individual non-market goods or services	<i>(in % GDP)</i>	5.4	5.2	5.4	5.5	5.7	5.8	5.4	5.3	5.0	4.9	5.2
Social benefits other than social transfers in kind	<i>(in % GDP)</i>	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6	12.8	12.8	13.8
Interest	<i>(in % GDP)</i>	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1	1.3
Subsidies	<i>(in % GDP)</i>	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8	1.7	2.1
Gross fixed capital formation	<i>(in % GDP)</i>	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7	4.9	5.2
Other expenditures	<i>(in % GDP)</i>	2.2	1.5	4.0	4.2	3.3	2.1	2.4	1.8	1.8	2.0	1.4

Table 5-21: General government expenditure

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>bn CZK</i>	879.6	915.4	1043.3	1141.2	1219.5	1270.5	1342.3	1409.6	1502.4	1582.3	1665.4
	<i>prev. year=100</i>	102.1	104.1	114.0	109.4	106.9	104.2	105.7	105.0	106.6	105.3	105.2
Compensation of employees	<i>bn CZK</i>	151.4	154.7	172.9	191.6	214.2	222.1	237.9	252.4	268.6	279.6	293.7
	<i>prev. year=100</i>	112.1	102.2	111.8	110.8	111.8	103.7	107.1	106.1	106.4	104.1	105.0
Intermediate consumption	<i>bn CZK</i>	132.7	144.0	152.9	173.6	196.0	193.5	205.9	211.7	217.5	229.2	237.7
	<i>prev. year=100</i>	115.3	108.5	106.2	113.5	112.9	98.7	106.4	102.8	102.8	105.3	103.7
Social benefits other than social transfers in kind ¹⁾	<i>bn CZK</i>	243.8	263.9	280.5	305.1	315.6	361.9	376.4	405.1	453.7	471.2	502.3
	<i>prev. year=100</i>	108.0	108.3	106.3	108.8	103.4	114.7	104.0	107.6	112.0	103.8	106.6
Social benefits in kind	<i>bn CZK</i>	111.1	115.4	127.5	142.1	150.2	160.7	167.4	173.5	187.1	198.6	219.0
	<i>prev. year=100</i>	106.0	103.9	110.4	111.5	105.7	107.0	104.2	103.7	107.8	106.1	110.3
Property income	<i>bn CZK</i>	21.2	18.4	23.9	30.6	29.3	32.6	34.4	35.6	39.9	39.6	47.5
	<i>prev. year=100</i>	91.6	86.8	129.3	128.2	95.9	111.2	105.6	103.3	112.2	99.1	120.0
Interest	<i>bn CZK</i>	21.2	18.4	23.8	30.5	29.3	32.6	34.4	35.5	39.8	39.5	47.4
	<i>prev. year=100</i>	91.6	86.7	129.5	128.2	95.9	111.2	105.6	103.3	112.2	99.0	120.0
Other property income	<i>bn CZK</i>	0.0	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>	118.2	200.0	80.8	150.0	74.6	112.8	96.2	141.2	109.7	126.6	111.0
Subsidies	<i>bn CZK</i>	61.1	61.0	65.4	56.6	68.2	59.0	54.7	61.4	62.5	63.7	76.3
	<i>prev. year=100</i>	105.5	99.8	107.3	86.5	120.6	86.5	92.8	112.2	101.8	102.0	119.7
Gross fixed capital formation	<i>bn CZK</i>	67.7	79.1	83.4	95.2	117.2	136.4	146.5	161.5	165.9	182.5	190.0
	<i>prev. year=100</i>	80.8	116.9	105.4	114.2	123.1	116.4	107.4	110.2	102.7	110.0	104.1
Capital transfers ²⁾	<i>bn CZK</i>	77.7	57.6	124.3	120.2	98.4	72.4	76.4	59.2	59.4	95.9	82.3
	<i>prev. year=100</i>	83.7	74.2	215.7	96.7	81.8	73.7	105.5	77.4	100.3	161.6	85.8
Investment grants ³⁾	<i>bn CZK</i>	22.4	25.9	27.5	36.9	35.2	35.2	33.9	36.7	35.3	34.8	32.6
	<i>prev. year=100</i>	117.8	115.6	105.8	134.5	95.2	100.1	96.3	108.4	96.1	98.5	93.7
Other capital transfers	<i>bn CZK</i>	55.2	31.7	96.8	83.3	63.2	37.2	42.5	22.5	24.1	61.2	49.8
	<i>prev. year=100</i>	74.8	57.4	305.7	86.0	75.9	58.9	114.3	52.8	107.2	254.2	81.3
Other expenditure	<i>bn CZK</i>	13.0	21.3	12.5	26.3	30.3	31.8	42.5	49.3	47.8	22.0	16.5
	<i>prev. year=100</i>	55.1	164.3	58.9	209.5	115.4	104.8	133.8	116.1	97.0	46.0	75.1

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 5-22: General government expenditure in % of GDP

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>(in % GDP)</i>	42.3	41.8	44.4	46.3	47.3	45.1	45.0	43.7	42.5	42.9	45.9
Compensation of employees	<i>(in % GDP)</i>	7.3	7.1	7.4	7.8	8.3	7.9	8.0	7.8	7.6	7.6	8.1
Intermediate consumption	<i>(in % GDP)</i>	6.4	6.6	6.5	7.0	7.6	6.9	6.9	6.6	6.2	6.2	6.6
Social benefits other than social transfers in kind	<i>(in % GDP)</i>	11.7	12.1	11.9	12.4	12.2	12.9	12.6	12.6	12.8	12.8	13.8
Social benefits in kind	<i>(in % GDP)</i>	5.3	5.3	5.4	5.8	5.8	5.7	5.6	5.4	5.3	5.4	6.0
Property income	<i>(in % GDP)</i>	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1	1.3
Interest	<i>(in % GDP)</i>	1.0	0.8	1.0	1.2	1.1	1.2	1.2	1.1	1.1	1.1	1.3
Other property income	<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
Subsidies	<i>(in % GDP)</i>	2.9	2.8	2.8	2.3	2.6	2.1	1.8	1.9	1.8	1.7	2.1
Gross fixed capital formation	<i>(in % GDP)</i>	3.3	3.6	3.5	3.9	4.5	4.8	4.9	5.0	4.7	4.9	5.2
Capital transfers	<i>(in % GDP)</i>	3.7	2.6	5.3	4.9	3.8	2.6	2.6	1.8	1.7	2.6	2.3
Investment grants	<i>(in % GDP)</i>	1.1	1.2	1.2	1.5	1.4	1.3	1.1	1.1	1.0	0.9	0.9
Other capital transfers	<i>(in % GDP)</i>	2.7	1.4	4.1	3.4	2.5	1.3	1.4	0.7	0.7	1.7	1.4
Other expenditure	<i>(in % GDP)</i>	0.6	1.0	0.5	1.1	1.2	1.1	1.4	1.5	1.4	0.6	0.5

Table 5-23: Central government expenditure

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>bn CZK</i>	660.5	681.5	796.6	853.1	904.3	907.7	946.9	982.1	1062.1	1102.0	1142.0
	<i>prev. year=100</i>	101.2	103.2	116.9	107.1	106.0	100.4	104.3	103.7	108.1	103.8	103.6
Compensation of employees	<i>bn CZK</i>	106.0	107.2	106.4	117.0	108.8	110.8	120.9	128.2	136.8	142.6	149.7
	<i>prev. year=100</i>	111.8	101.1	99.3	109.9	93.0	101.9	109.1	106.1	106.7	104.2	105.0
Intermediate consumption	<i>bn CZK</i>	65.3	74.8	74.2	86.7	96.9	93.5	104.4	100.9	106.7	108.3	111.9
	<i>prev. year=100</i>	121.3	114.4	99.3	116.8	111.8	96.5	111.7	96.6	105.7	101.5	103.3
Social benefits other than social transfers in kind ¹⁾	<i>bn CZK</i>	236.2	254.6	271.5	294.9	303.8	350.0	364.7	393.1	435.3	450.6	480.7
	<i>prev. year=100</i>	107.1	107.8	106.6	108.6	103.0	115.2	104.2	107.8	110.7	103.5	106.7
Social benefits in kind	<i>bn CZK</i>	1.8	1.9	3.1	3.3	2.2	1.9	0.9	3.2	2.4	2.0	2.7
	<i>prev. year=100</i>	110.0	105.3	164.8	107.1	67.2	84.0	50.5	336.5	76.1	81.8	136.6
Interest	<i>bn CZK</i>	18.6	16.7	21.9	28.5	26.9	29.6	32.3	33.2	37.2	36.4	45.0
	<i>prev. year=100</i>	90.9	89.7	131.3	130.5	94.4	109.9	109.0	102.9	112.1	97.8	123.6
Subsidies	<i>bn CZK</i>	45.6	43.7	48.8	38.3	38.9	32.7	25.4	30.2	31.3	31.2	38.2
	<i>prev. year=100</i>	103.7	95.9	111.5	78.6	101.5	84.0	77.7	118.9	103.7	99.6	122.4
Gross fixed capital formation	<i>bn CZK</i>	31.7	36.8	34.5	33.7	46.9	62.0	76.9	80.6	86.9	96.3	89.5
	<i>prev. year=100</i>	120.2	116.4	93.7	97.6	139.1	132.2	124.1	104.9	107.7	110.9	92.9
Capital transfers	<i>bn CZK</i>	79.7	64.8	130.0	129.3	109.0	86.5	86.7	68.0	68.2	100.6	89.8
	<i>prev. year=100</i>	66.7	81.4	200.7	99.5	84.3	79.3	100.2	78.4	100.3	147.5	89.3
Other expenditure	<i>bn CZK</i>	75.7	81.0	106.2	121.4	170.8	140.7	134.7	144.6	157.2	134.1	134.5
	<i>prev. year=100</i>	105.3	107.1	131.0	114.3	140.7	82.4	95.7	107.3	108.7	85.3	100.3

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

Table 5-24: Local government expenditure

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>bn CZK</i>	191.2	209.3	238.4	271.7	342.8	354.0	353.1	388.1	393.7	420.2	451.0
	<i>prev. year=100</i>	97.4	109.5	113.9	114.0	126.1	103.3	99.8	109.9	101.4	106.7	107.3
Compensation of employees	<i>bn CZK</i>	43.4	45.5	64.2	72.1	102.8	108.6	114.2	121.1	128.5	133.4	139.9
	<i>prev. year=100</i>	113.0	104.7	141.3	112.2	142.6	105.7	105.1	106.1	106.1	103.8	104.9
Intermediate consumption	<i>bn CZK</i>	66.2	68.1	77.3	85.5	97.3	98.1	99.5	109.1	108.9	118.5	123.0
	<i>prev. year=100</i>	110.4	102.9	113.5	110.6	113.9	100.8	101.4	109.7	99.8	108.8	103.7
Social benefits other than social transfers in kind	<i>bn CZK</i>	7.5	9.3	9.0	10.2	11.8	11.9	11.7	12.0	18.4	20.6	21.6
	<i>prev. year=100</i>	146.9	124.2	96.6	113.4	115.6	100.6	98.6	102.5	153.6	111.9	105.0
Social benefits in kind	<i>bn CZK</i>	1.8	2.0	1.2	1.4	2.4	2.5	2.6	2.8	3.3	3.0	3.0
	<i>prev. year=100</i>	114.3	109.1	61.1	115.6	169.9	104.5	102.4	108.9	119.0	88.7	100.2
Interest	<i>bn CZK</i>	2.6	1.7	1.9	2.0	2.4	3.0	2.2	2.4	2.7	3.1	2.4
	<i>prev. year=100</i>	99.4	67.6	110.3	104.5	118.9	126.8	72.9	108.1	111.2	117.6	77.0
Subsidies	<i>bn CZK</i>	15.5	17.2	16.6	18.2	29.3	26.3	29.3	31.2	31.2	32.5	38.1
	<i>prev. year=100</i>	111.4	111.3	96.6	109.6	160.7	89.8	111.6	106.3	99.9	104.4	117.1
Gross fixed capital formation	<i>bn CZK</i>	35.2	41.6	48.3	60.7	69.7	73.8	68.9	80.4	78.6	85.5	99.5
	<i>prev. year=100</i>	62.3	118.0	116.2	125.6	114.9	105.9	93.3	116.8	97.7	108.8	116.4
Capital transfers	<i>bn CZK</i>	14.9	13.3	14.2	11.9	16.4	20.3	13.6	15.0	14.2	13.2	11.4
	<i>prev. year=100</i>	176.0	89.4	106.7	83.4	138.2	123.7	67.1	109.9	94.9	92.7	86.9
Other expenditure	<i>bn CZK</i>	4.0	10.5	5.5	9.8	10.7	9.5	11.2	14.2	8.0	10.4	12.1
	<i>prev. year=100</i>	41.6	262.3	52.3	178.5	108.9	88.7	117.4	126.8	56.2	130.9	115.9

Table 5-25: Social security fund expenditure

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total expenditure	<i>bn CZK</i>	112.0	115.5	127.7	142.6	150.8	161.7	169.8	173.0	187.4	200.8	221.8
	<i>prev. year=100</i>	105.7	103.1	110.6	111.6	105.8	107.2	105.0	101.9	108.3	107.1	110.5
Compensation of employees	<i>bn CZK</i>	2.0	2.1	2.3	2.5	2.7	2.7	2.9	3.0	3.2	3.6	4.0
	<i>prev. year=100</i>	111.0	101.9	109.5	111.1	105.4	102.7	105.7	105.3	106.5	112.0	109.6
Intermediate consumption	<i>bn CZK</i>	1.2	1.1	1.4	1.5	1.9	1.9	2.0	1.6	1.9	2.3	2.9
	<i>prev. year=100</i>	92.9	94.8	127.3	105.3	123.4	102.1	105.9	81.4	116.0	122.2	125.4
Social benefits other than social transfers in kind	<i>bn CZK</i>	0.0	-	-	-	-	-	0.0	0.0	-	0.0	0.0
	<i>prev. year=100</i>	X	0.0	X	X	X	X	X	200.0	0.0	X	700.0
Social benefits in kind	<i>bn CZK</i>	107.5	111.5	123.2	137.4	145.6	156.3	163.9	167.5	181.4	193.7	213.4
	<i>prev. year=100</i>	105.8	103.8	110.4	111.6	106.0	107.4	104.8	102.2	108.3	106.8	110.2
Interest	<i>bn CZK</i>	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<i>prev. year=100</i>	42.2	23.1	77.8	50.0	85.7	100.0	16.7	300.0	66.7	50.0	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>	0.8	0.7	0.6	0.9	0.6	0.7	0.8	0.5	0.5	0.8	1.1
	<i>prev. year=100</i>	85.8	84.0	84.0	154.6	69.5	111.1	119.1	58.3	99.6	164.4	148.4
Capital transfers	<i>bn CZK</i>	0.1	0.0	-	0.0	0.0	0.1	-	-	-	-	-
	<i>prev. year=100</i>	X	6.6	0.0	X	81.4	174.3	0.0	X	X	X	X
Other expenditure	<i>bn CZK</i>	0.3	0.1	0.3	0.2	0.1	0.0	0.3	0.4	0.4	0.4	0.4
	<i>prev. year=100</i>	108.4	31.5	332.1	82.2	29.4	64.6	671.4	127.7	123.9	84.5	107.7

Balance

Tabulka 5-26: General government net lending/net borrowing by subsectors

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government net lending (+)/net borrowing (-) <i>bn CZK</i>	-77.3	-81.5	-131.8	-166.8	-170.6	-83.3	-106.7	-84.9	-23.9	-100.3	-210.3
Central government net lending (+) /net borrowing (-) <i>bn CZK</i>	-78.7	-76.2	-121.4	-150.9	-154.8	-76.0	-105.0	-84.0	-56.8	-101.2	-177.8
Local government net lending (+) /net borrowing (-) <i>bn CZK</i>	0.9	-9.2	-10.1	-11.7	-14.1	-4.6	-1.6	-12.7	16.8	-9.2	-21.8
Social security funds net lending (+) /net borrowing (-) <i>bn CZK</i>	0.5	3.9	-0.3	-4.2	-1.7	-2.7	-0.2	11.8	16.1	10.0	-10.7

Tabulka 5-27: General government net lending/net borrowing by subsectors in % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government net lending (+)/net borrowing (-) <i>(in % GDP)</i>	-3.7	-3.7	-5.6	-6.8	-6.6	-3.0	-3.6	-2.6	-0.7	-2.7	-5.8
Central government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	-3.8	-3.5	-5.2	-6.1	-6.0	-2.7	-3.5	-2.6	-1.6	-2.7	-4.9
Local government net lending (+) /net borrowing (-) <i>(in % GDP)</i>	0.0	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.4	0.5	-0.2	-0.6
Social security funds net lending (+) /net borrowing (-) <i>(in % GDP)</i>	0.0	0.2	0.0	-0.2	-0.1	-0.1	0.0	0.4	0.5	0.3	-0.3

Debt

Table 5-28: General government debt by subsectors and instruments

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government debt by instruments	<i>bn CZK</i>	340.5	405.4	584.7	695.0	768.3	847.8	885.4	948.3	1023.8	1104.9	1282.3
	<i>prev. year=100</i>	113.6	119.1	144.2	118.9	110.5	110.4	104.4	107.1	108.0	107.9	116.1
Currency and deposits	<i>bn CZK</i>	-	-	7.2	24.4	4.0	2.8	0.6	0.0	-	-	-
	<i>prev. year=100</i>	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0	X	X
Securities other than shares	<i>bn CZK</i>	232.1	275.6	354.8	427.4	528.4	633.8	698.2	788.6	871.0	951.3	1108.8
	<i>prev. year=100</i>	118.2	118.7	128.7	120.5	123.6	119.9	110.2	112.9	110.5	109.2	116.6
Loans	<i>bn CZK</i>	108.4	129.8	222.8	243.2	235.9	211.1	186.6	159.7	152.8	153.6	173.5
	<i>prev. year=100</i>	104.8	119.7	171.7	109.2	97.0	89.5	88.4	85.6	95.7	100.6	112.9
Central government debt	<i>bn CZK</i>	314.6	378.3	553.0	653.2	718.8	783.1	812.8	867.0	939.1	1016.1	1186.6
	<i>prev. year=100</i>	115.8	120.2	146.2	118.1	110.0	108.9	103.8	106.7	108.3	108.2	116.8
Currency and deposits	<i>bn CZK</i>	-	-	7.2	24.4	4.0	2.8	0.6	0.0	-	-	-
	<i>prev. year=100</i>	X	X	X	340.9	16.2	71.4	21.7	3.7	0.0	X	X
Securities other than shares	<i>bn CZK</i>	222.4	267.9	347.8	415.4	517.4	611.5	674.8	765.9	848.3	928.9	1093.7
	<i>prev. year=100</i>	120.2	120.5	129.8	119.4	124.6	118.2	110.3	113.5	110.7	109.5	117.7
Loans	<i>bn CZK</i>	92.2	110.4	198.0	213.4	197.5	168.7	137.4	101.1	90.8	87.2	92.9
	<i>prev. year=100</i>	106.4	119.7	179.4	107.8	92.5	85.4	81.5	73.5	89.9	96.0	106.5
Local government debt	<i>bn CZK</i>	34.5	35.8	40.3	50.0	59.0	72.0	79.1	86.6	88.4	91.9	98.2
	<i>prev. year=100</i>	95.7	103.9	112.7	124.0	118.0	122.1	109.8	109.5	102.1	103.9	106.9
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	<i>bn CZK</i>	10.1	8.2	7.1	12.3	11.9	22.6	24.0	23.1	23.3	23.3	16.2
	<i>prev. year=100</i>	83.9	81.5	86.8	172.4	96.6	190.7	105.8	96.5	100.6	100.0	69.6
Loans	<i>bn CZK</i>	24.4	27.6	33.2	37.7	47.1	49.4	55.1	63.5	65.2	68.6	82.0
	<i>prev. year=100</i>	101.6	113.1	120.4	113.6	125.0	104.8	111.6	115.2	102.6	105.3	119.5
Social security funds debt	<i>bn CZK</i>	1.2	0.7	0.5	0.4	0.3	0.2	0.3	0.2	0.1	0.1	0.0
	<i>prev. year=100</i>	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	30.9	155.9	41.3
Currency and deposits	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Securities other than shares	<i>bn CZK</i>	-	-	-	-	-	-	-	-	-	-	-
	<i>prev. year=100</i>	X	X	X	X	X	X	X	X	X	X	X
Loans	<i>bn CZK</i>	1.2	0.7	0.5	0.4	0.3	0.2	0.3	0.2	0.1	0.1	0.0
	<i>prev. year=100</i>	67.8	61.9	64.9	84.6	79.5	74.5	117.5	69.5	30.9	155.9	41.3

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 5-29: General government debt by subsectors and instruments in % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government debt based on instruments <i>(in % GDP)</i>	16.4	18.5	24.9	28.2	29.8	30.1	29.7	29.4	29.0	30.0	35.3
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>	11.2	12.6	15.1	17.3	20.5	22.5	23.4	24.5	24.6	25.8	30.6
Loans <i>(in % GDP)</i>	5.2	5.9	9.5	9.9	9.2	7.5	6.3	5.0	4.3	4.2	4.8
Central government debt <i>(in % GDP)</i>	15.1	17.3	23.5	26.5	27.9	27.8	27.2	26.9	26.6	27.5	32.7
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>	10.7	12.2	14.8	16.9	20.1	21.7	22.6	23.8	24.0	25.2	30.1
Loans <i>(in % GDP)</i>	4.4	5.0	8.4	8.7	7.7	6.0	4.6	3.1	2.6	2.4	2.6
Local government debt <i>(in % GDP)</i>	1.7	1.6	1.7	2.0	2.3	2.6	2.7	2.7	2.5	2.5	2.7
Currency and deposits <i>(in % GDP)</i>	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares, exclusive of financial derivatives <i>(in % GDP)</i>	0.5	0.4	0.3	0.5	0.5	0.8	0.8	0.7	0.7	0.6	0.4
Loans <i>(in % GDP)</i>	1.2	1.3	1.4	1.5	1.8	1.8	1.8	2.0	1.8	1.9	2.3
Social security funds debt <i>(in % GDP)</i>	0.1	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

International comparison

Table 5-30: General government balance and debt of EU countries

		Balance					Debt				
		2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
EU 27 ¹⁾	<i>(in % GDP)</i>	-1.4	-0.8	-2.2	-6.6	-4.5	60.7	58.0	60.9	72.9	71.3
EA ²⁾	<i>(in % GDP)</i>	-1.3	-0.5	-1.8	-6.0	-6.3	67.6	65.2	68.7	77.9	82.4
Belgium	<i>(in % GDP)</i>	0.2	-0.3	-1.3	-6.0	-4.8	88.1	84.2	89.6	96.2	98.6
Bulgaria	<i>(in % GDP)</i>	1.9	1.1	1.7	-4.7	-3.8	21.6	17.2	13.7	14.7	16.1
Czech Republic	<i>(in % GDP)</i>	-2.6	-0.7	-2.7	-5.8	-5.1	29.4	29.0	30.0	35.3	39.1
Denmark	<i>(in % GDP)</i>	5.2	4.8	3.4	-2.7	-4.5	32.1	27.4	34.2	41.4	42.6
Estonia	<i>(in % GDP)</i>	2.4	2.5	-2.8	-1.7	-1.3	4.4	3.7	4.6	7.2	8.0
Finland	<i>(in % GDP)</i>	4.0	5.2	4.2	-2.5	-3.3	39.7	35.2	34.1	43.8	49.1
France	<i>(in % GDP)</i>	-2.3	-2.7	-3.3	-7.5	-7.7	63.7	63.8	67.5	78.1	82.9
Ireland	<i>(in % GDP)</i>	2.9	0.0	-7.3	-14.4	-32.0	24.8	25.0	44.3	65.5	98.6
Italy	<i>(in % GDP)</i>	-3.4	-1.5	-2.7	-5.3	-5.0	106.6	103.6	106.3	116.0	118.5
Cyprus	<i>(in % GDP)</i>	-1.2	3.4	0.9	-6.0	-5.9	64.6	58.3	48.3	58.0	61.9
Lithuania	<i>(in % GDP)</i>	-0.4	-1.0	-3.3	-9.2	-8.1	18.0	16.9	15.6	29.5	37.8
Latvia	<i>(in % GDP)</i>	-0.5	-0.3	-4.2	-10.2	-8.5	10.7	9.0	19.7	36.7	44.1
Luxemburg	<i>(in % GDP)</i>	1.4	3.7	3.0	-0.7	-2.2	6.7	6.7	13.6	14.5	19.2
Hungary	<i>(in % GDP)</i>	-9.3	-5.0	-3.7	-4.4	-3.8	65.7	66.1	72.3	78.4	79.8
Malta	<i>(in % GDP)</i>	-2.7	-2.3	-4.8	-3.8	-3.9	63.4	61.7	63.1	68.6	69.0
Germany	<i>(in % GDP)</i>	-1.6	0.3	0.1	-3.0	-4.0	67.6	64.9	66.3	73.4	75.4
Netherlands	<i>(in % GDP)</i>	0.5	0.2	0.6	-5.4	-5.8	47.4	45.3	58.2	60.8	64.4
Poland	<i>(in % GDP)</i>	-3.6	-1.9	-3.7	-7.2	-7.9	47.7	45.0	47.1	50.9	55.4
Portugal	<i>(in % GDP)</i>	-4.1	-2.8	-2.9	-9.3	-7.3	63.9	62.7	65.3	76.1	83.3
Austria	<i>(in % GDP)</i>	-1.5	-0.4	-0.5	-3.5	-4.5	62.1	59.3	62.5	67.5	70.2
Romania	<i>(in % GDP)</i>	-2.2	-2.6	-5.7	-8.6	-7.2	12.4	12.6	13.4	23.9	30.4
Greece	<i>(in % GDP)</i>	.	.	.	.	.	.	.	.	.	.
Slovakia	<i>(in % GDP)</i>	-3.2	-1.8	-2.1	-7.9	-7.8	30.5	29.6	27.8	35.4	42.5
Slovenia	<i>(in % GDP)</i>	-1.3	0.0	-1.8	-5.8	-5.6	26.7	23.4	22.5	35.4	37.9
Spain	<i>(in % GDP)</i>	2.0	1.9	-4.2	-11.1	-9.3	39.6	36.1	39.8	53.2	62.8
Sweden	<i>(in % GDP)</i>	2.3	3.6	2.2	-0.9	-0.9	45.0	40.0	38.2	41.9	39.1
United Kingdom ³⁾	<i>(in % GDP)</i>	-2.7	-2.7	-5.0	-11.4	-10.1	43.4	44.5	52.1	68.2	78.9

1) excluding Greece, the figures are derived from Eurostat absolute data

2) excluding Greece, the figures are derived from Eurostat absolute data

3) data for financial year (1 April 2010 to 31 March 2011)

Table 5-31: Transactions of general government of EU countries in 2009

Country	Transactions (in % GDP)	Revenue	Expenditure	Compensation of employees	Cash social benefits	Consumption ¹⁾	Investments ²⁾	Interest expenditure
EU 27 ³⁾	(in % GDP)	44.1	50.7	11.2	17.0	22.5	2.9	2.6
EA ⁴⁾	(in % GDP)	44.7	50.7	10.8	17.6	22.2	2.7	2.8
Belgium	(in % GDP)	48.1	54.2	12.8	17.3	24.7	1.9	3.7
Bulgaria	(in % GDP)	36.9	40.7	9.7	12.5	16.2	4.8	0.8
Czech Republic	(in % GDP)	40.2	45.9	8.1	13.9	22.0	5.2	1.3
Denmark	(in % GDP)	55.7	58.5	19.4	16.8	29.9	2.0	2.1
Estonia	(in % GDP)	43.4	45.2	12.8	14.0	22.0	5.1	0.3
Finland	(in % GDP)	53.4	56.1	14.9	18.3	25.2	2.8	1.4
France	(in % GDP)	48.4	56.0	13.3	19.0	24.6	3.3	2.4
Ireland	(in % GDP)	34.1	48.4	12.1	15.3	19.4	4.5	2.1
Italy	(in % GDP)	46.6	51.9	11.3	19.2	21.6	2.4	4.6
Cyprus	(in % GDP)	39.8	45.8	15.6	13.1	19.9	4.1	2.5
Lithuania	(in % GDP)	34.5	43.6	12.9	15.2	21.9	3.9	1.2
Latvia	(in % GDP)	34.0	42.9	11.9	12.3	18.4	3.9	1.6
Luxemburg	(in % GDP)	41.6	42.4	7.9	15.5	16.7	3.6	0.5
Hungary	(in % GDP)	45.8	49.8	11.2	16.1	22.0	2.7	4.7
Malta	(in % GDP)	40.1	43.9	14.5	13.3	21.6	2.2	3.2
Germany	(in % GDP)	44.5	47.5	7.4	18.5	19.7	1.6	2.6
Netherlands	(in % GDP)	46.0	51.4	10.0	11.5	28.4	3.9	2.2
Poland	(in % GDP)	37.2	44.4	10.2	14.7	18.4	5.2	2.5
Portugal	(in % GDP)	38.8	48.2	12.3	16.6	21.3	2.4	2.8
Austria	(in % GDP)	48.8	52.3	9.9	19.7	19.9	1.1	2.7
Romania	(in % GDP)	32.1	40.4	10.6	12.9	17.6	5.4	1.5
Greece	(in % GDP)	.	.	.	.	.	.	.
Slovakia	(in % GDP)	33.6	41.5	7.8	13.7	20.0	2.3	1.4
Slovenia	(in % GDP)	43.2	49.0	12.4	16.6	20.3	4.6	1.4
Spain	(in % GDP)	34.7	45.8	11.9	14.5	21.1	4.4	1.8
Sweden	(in % GDP)	53.7	54.9	15.2	16.3	27.8	3.6	1.2
United Kingdom ⁵⁾	(in % GDP)	40.4	51.6	12.1	15.1	23.5	2.7	1.9

1) Collective and individual consumption of general government.

2) Gross fixed capital formation.

3) excluding Greece, the figures are derived from Eurostat absolute data

4) excluding Greece, the figures are derived from Eurostat absolute data

5) data for financial year (1 April 2010 to 31 March 2011)

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