

State Budget

- **State budget deficit improved given mild growth of receipts and stagnation of expenditure**

State finances improved year-on-year, even though the result was below the approved budget. The effort to shrink the deficit lowered the budget deficit to 142.8 bn crowns. It was by 13.7 bn crowns better than in 2010. The outcome resulted from the higher receipts (year-on-year by 12.8 bn crowns) and stagnation of expenditure (-1.3 bn crowns). However, higher budget receipts in 2011 were only one half of receipt addition in 2010 and realised expenditure cuts were already milder. At the same time in the half of the year the total receipts were below the level of the same period of the previous year and the expenditure fall was then deeper than the fall of receipts.

Yearly state financial result was in 2011 the third worst in the history. Nevertheless, in relation to the weak growth of nominal GDP the budget deficit improved to 3.7 % from 4.1 % in 2010.

- **Anticipations of tax receipts were more optimistic than the reality....**

Total budget receipts grew by 1.2 % (+12.4 bn crowns). Unfortunately, their anticipated level was not reached – approved budget calculated their year-on-year growth by more than 55 bn crowns, the adjusted budget from the end of September even by 70 bn crowns. In the end the budget receipts increased, also by the impact of recession in the second half of the year, only by 12.4 bn crowns.

Receipts from taxes were 20 bn crowns less than expected, in that on VAT by 3 bn crowns less. Collection of consumption tax was nearly in accordance with the budget anticipations. On the contrary enterprises paid on income tax less than anticipated, which was however lower than the expected income in 2010. Income taxes from physical persons were also by 11 bn crowns behind the budget anticipations.

- **...but still the total tax receipts higher than in 2010**

In spite of notably more optimistic anticipations of the budget were the tax receipts overall higher than in 2010 with the exception of corporate tax. Aggregate tax receipts excluding social security insurance increased year-on-year by 3 %. The largest increase out of the so called big taxes experienced the consumption tax receipts (+6.4 %) also thanks to taxed solar energy (5.9 bn crowns against anticipated 4.2 bn crowns). VAT grew by 2.2 %, income taxes from physical persons by 3.6 %. Corporate tax fell by 4.6 % (-4 bn crowns), which the tax administrator ascribes to the writing-off the losses from the period of economic crisis.

- **Other than tax receipts lower year-on-year by more than one tenth**

Fall affected non-tax and capital receipts of state finances, to the large extent especially the received transfers. From EU and National fund the CR received by 7 bn crowns less than in 2010. Nearly all items of this group of receipts apart from received sanction and court charges experienced marked slump and the total year-on-year fall arrived at 10.2 %.

- **Growth of current expenditure compensated by the fall of capital expenditure**

Aggregate budget expenditure was year-on-year lower by 0.1 % given the growth of current expenditure by 1 % and the fall of capital expenditure by 8.3 %. State paid out by 22 bn crowns more year-on-year on retirement pensions (+6.3 %). All other current expenditure excluding payments to EU budget and state contribution to superannuation were lowered compared to 2010 - by one quarter the unemployment doses, by one third the expenditure on the active policy of employment, item of state social support in total by 5 bn crowns (-11.7 %). In total the current budget expenditure was higher by 9.9 bn crowns, on the contrary the capital expenditure lower by 11.2 bn crowns.

The state saved the most on the wages of its employees (-8.1 bn, in the half of the year -3.7 bn crowns year-on-year), on non-investment transfers to state funds (-7.2 bn, in the half of the year -4.7 bn year-on-year), on unemployment doses (-3 bn, in the half of the year -1.5 bn crowns). The state spent on remaining items of current expenditure affected by cuts by 6.7 bn crowns less compared to 2010.

- **Further worsening of the retirement pension account**

Retirement pension account deficit as the difference between received money in the form of social insurance meant for pensions on one side – which after slowdown in the second half of the year increased annually by 3.1 % -, and paid out pensions on the second side (+6.3 %), further worsened and exceeded 42 bn crowns. In the first half of the year it amounted to near 25 bn crowns.

- **Superannuation slightly weakened, building savings with a one quarter fall**

Forms of saving supported by state recorded in 2011 the loss of dynamics. Interest in superannuation based on the addition of new contracts decreased already for the third year in a row (-7.8 % in 2011), which did not show in the amount of paid state contribution (5.6 bn against 5.5 bn crowns in 2010). State contributed to members on average 105 crowns monthly. In the last three years people saved monthly less than in 2008.

The volume of state support of building savings has shrunk in the last six years by one third (from 16.1 bn in 2005 to 10.7 bn crowns in 2011). It can be contributed partly to the legislative retreat of the state from the size of this support and tightening of the conditions for its acquirement, but also to a lower interest in the building saving resulting from this procedure by clients. In 2011 the building saving impacted also the receipt side of the budget, where in the receipts from income taxes of physical persons did not show the anticipated 5.5 bn crowns, which the state plan to gain by placing a 50% tax on its contribution and which was cancelled by the Constitutional court.

- **Gross state debt increased to 1499.4 bn crowns, costs for its servicing to 55.6 bn crowns**

Costs to service the state debt of the CR grew in gross terms to 55.6 bn crowns (against 48.7 bn in 2010), in net terms then to 45.1 bn crowns. In that the volume of interest on internal debt amounted to 44.3 bn crowns, foreign issues of bonds then 10.1 bn crowns. Issue of bonds of CR are in the auctions demanded in higher volumes compared to the supply, which shows a relatively favourable assessment of riskiness of Czech republic on the part of investors (exception was the failed November auction).

Gross state debt reached one and a half trillion crowns. It grew to 1499.4 bn crowns from 1,344.1 bn in 2010 and 1178.2 bn in 2009. It is for the major part (83 %) located in medium- and long-term bonds. After including state financial assets the net debt portfolio of CR amounted by the end of 2011 to 1378 bn crowns.

- **Higher payments to EU budget, after sanctions then lower received payments; for 2004-2011 period CR received 176 bn crowns net**

Financial relation to EU had a significant impact on the state budget deficit in 2011. The CR had to after the revision of national accounting and reported higher level of GDP additionally pay out 5 bn crowns. On the contrary for obscurity in drawing EU suspended paying out money from its budget, which had been however from national sources prepaid.

Positive net balance of the CR thus in 2011 markedly worsened. It fell to 30.7 bn crowns from 47.9 bn in 2010 and 42.3 bn crowns in 2009. In 2011 the CR paid to EU budget 41.7 bn crowns and gained 72.5 bn crowns. The received amount was mostly created by the structural actions (structural funds 42.5 bn, cohesion fund 1 bn) and funds for agriculture (26.5 bn crowns with the largest share of direct payments, i.e. 16.1 bn and funds for development of countryside in the amount of 9.8 bn crowns).

In the period 2004-2011 the CR paid to the EU budget over one quarter trillion of crowns (261.3 bn crowns) and received 437.5 bn crowns. By its accession to union the Czech Republic has so far gained 176.1 bn crowns net.

Sources of data: CZSO, MF CR, CNB, Eurostat, CZSO calculations.

Latest information from the CZSO, CNB and MLSA sources given in this report are dated the 9th of March 2012.