8. State Budget

In the half of the year the lowest deficit for the last five years...

...mostly due to the effect off growing non-tax revenues, partially also thanks to the legislative amendments of indirect taxes

Higher tax revenues were caused mainly by better collection of VAT as a result of January increase in both rates, however partially also by the slowdown of rate of fall of private consumption

The effect of increasing the rate for tobacco products gradually subsided during the first half of year 2013

The decrease of dynamics of physical person income tax collection halted in H1, adverse situation on the contrary lasts for corporate taxes

Compared to planned budget year-on-year better fulfilment only for VAT, consumer tax on tobacco products and property taxes State budget (according to cash fulfilment) finished at the end of first half of 2013 with the lowest deficit since the beginning of the deep economic recession (-31.5 bn crowns). The development of the last three years confirmed the trend towards a gradual consolidation of public finances. In the last three years (mostly due to the indirect effect of legislative amendments in the tax area) the balance of state budget was always in the second quarter worse compared to the first three months of the year (in 2013: +14 bn crowns vs. -45 bn crowns).

Better result of the deficit year-on-year given a mild growth of expenditures (year-on-year +0.9 %) was ensured by a markedly higher dynamics of state budget revenues (+9 %), both in tax, but especially in non-tax area (mainly drawing of European funds). While the drawing of total expenditures occurred (apart from investment) according to the budget anticipations, revenues exceeded in H1 the approved budget anticipations by more than 4 p.p. compared to last year. Year-on-year fall of nominal GDP in the first half of 2013 notably heighten the improvement of state finances balance to -1.7 % GDP (from -3.8 % in H1 2012).

Year-on-year growth of aggregate revenues was assisted not only by higher tax revenues (+5 bn crowns), but also the non-tax and capital revenues (+40 bn crowns). In addition, state budget revenues could have been by more than 3 bn crowns higher, if there were no changes in the budget determination of taxes, which from the beginning of this year strengthened the preference of regional and municipal budgets. More favourable balance in the tax area was positively impacted by the recovery of collection of taxes significant by volume across the state - mostly VAT (+18 bn crowns) and partially also by the income taxes of physical persons from employment (+3 bn crowns). In both cases, the effect of administrative measures had a large impact - for VAT (January increase of both rates by one p.p.), for physical persons (increase of tax by roughly 2 % for highest income group, but also the mild growth of employment). On the contrary, the effect of increasing the rate for tobacco products, which similarly to last year created their pre-stocking, from the point of view of state budget subsided during the first half of year 2013 (in Q1 year-on-year +5.5 bn crowns, for the whole half year +1.5 bn crowns), its role probably also plays the lowering of tobacco product consumption in the long-term. Collection of consumption tax most significant by weight (on mineral oils) year-on-year weakened by 7 %, due to the effect of weaker retail sales of fuels at the beginning of the year. Collection of this tax should support the lowering of tax returns for so called green diesel. Influence of in the past dynamically growing collections from photovoltaic power plants during 2013 markedly weakened (the state gained below 2 bn crowns for the whole half year).

Weakening of dynamics of the physical person income tax collection, typical for the whole year 2012, halted in year 2013, with the statewide collection strengthening year-on-year by 3.0 % and 3.8 % resp. (in Q1 and Q2 resp.). The growth of collection consists of administrative influences (introduction of so called solidarity surcharge of 7 % on income exceeding the fourfold of average wage, increase of the withholding tax from 15 % to 35 % for foreign tax residents) partially also the situation on the labour market (growth of number of employees). On the contrary, the collection of corporate taxes, not influenced by major administrative impacts, in the first half year year-on-year decreased by 2.6 % (nearly 2 bn crowns). In the last two years the year-on-year dynamics of tax collection from companies was in the second half of the year always markedly better year-on-year compared to first half years. Statewide collection of corporate taxes or. physical person income taxes, ended slightly below the level of half year of 2006, compared to boom it was lower by 30 % and 5.5 % resp. In relation to the approved budget, the state finances achieved for the first half of 2013 year-on-year higher percentage fulfilment for indirect taxes significant by volume, lower fulfilment continued for taxes on legal as well as physical person income (despite higher year-on-year collection) and for majority of other more significant tax revenues (apart from property taxes). Year-onyear nearly by two thirds higher non-tax revenues were affected mostly by the revenues from the EU budget (+33 bn crowns). Payments to the EU budget (23 bn crowns) remained in H1 2013 on the contrary nearly at the level of preceding year.



4 2013

Continuing of long-term fall of investment, their size in H1 at the level of expenditures on state debt Mild year-on-year growth of state budget expenditures (+ 5 bn crowns) ensured in H1 2013 current expenditures (+2 %), while investment year-on-year decreased already for the third time in a row (against the level of half of year 2010 they were lower by more than one third) and shared in the total state expenditures by 6.2 %. Year-on-year lower were especially the transport buildings investments. Expenditures on pensions, most significant by volume, stopped (regardless an anticipated growth in the planned budget) after more than five years its year-on-year growth (-1.6 %), the size of all social benefits stagnated and participated on the total state expenditures by 40.9 % (one year earlier by 41.2 %).

Year-on-year stagnation of aggregate size of social benefit expenditures; opposite to the previous years the expenditures on pensions fell and on the contrary, the funds on state social support and other social benefits increased

The decrease of other types of social benefits, typical for previous two years, ceased at the beginning of this year. The effect of more strict requirements for allocation of these benefits became exhausted and on the contrary, the dissatisfying situation on the labour market showed more (continuing growth of unemployment, fall of real income of majority of population). State social benefits increased year-on-year by 3 %, funds on unemployment benefits were in H1 2013 higher by one tenth as were the other social benefits (including among other benefits in poverty, benefits for persons with disabilities, contribution on care and sickness benefits). Expenditures on state debt also grow in the long-term (year-on-year + 6 %), in H1 2013 their size was at the level of all capital expenditures of the state budget.

Year-on-year lower pension account deficit due to the decrease of the pensioners and mild revival of the social insurance collection in Q2 2013

The pension account balance given the year-on-year comparable fall of revenues (social insurance on pensions) and expenditures (paid out pension benefits) in H1 2013 (-21 bn crowns) after more then five years did not deepen. In Q2 2013 the falling dynamics of insurance collection lasting for ten quarters in a row stopped, still these revenues were for the whole half year year-on-year weaker by 1.6 %. The size of paid out insurance affected after a long time mildly falling number of pension recipients (at the end of June 2013 year-on-year by 0.2 %), as well as long-time growing share of recipients with a permanently reduced pension.

Chart 21 State wide collection of tax revenues and state budget balance development

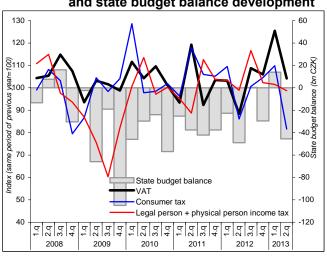
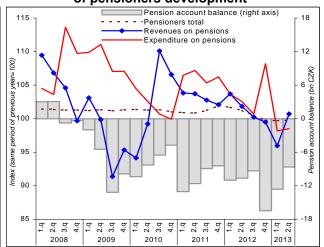


Chart 22 Pension account balance and number of pensioners development



Source: MF CR

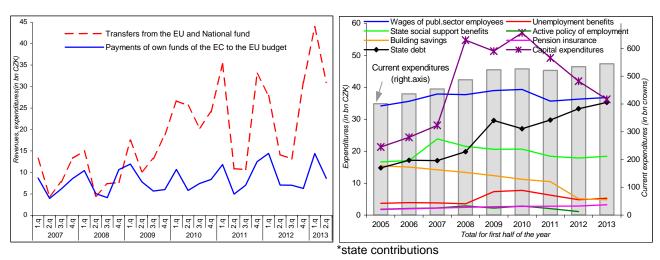
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Chart 23 Revenues and expenditures of the CR relative to the EU

Chart 24 Selected types of state budget expenditures in H1 of 2005-2013



2013



Source: MF CR

Source of data in the whole analysis: CZSO, MF CR, CNB, Eurostat, CZSO calculations. Latest information from the CZSO and CNB given in this report are dated the 6th September 2013.



6