

## State budget

- **A return to a quarterly deficit due to the fast growth of expenditures**

The expenditures of the state budget in the 1st quarter of 2008 grew sharply. Year on year, they were 22.9% higher, with double growth in comparison to the growth of income (+11.6%). As a result, the state budget once again experienced a deficit of 13.4 billion CZK, in comparison to the 11.3 billion CZK surplus in the 1st quarter of 2007. The last time that the state budget had a deficit in a comparable period was in 2004.

The expansion of the expenditure side was caused mainly by capital expenditures (representing a mere one eighth of the budget expenditures), with its three fold increase (+21.8 billion CZK, of this 20,8 billion CZK was a transfer into the transportation infrastructure fund). The second largest year on year growth (+18.5 billion CZK) was by non-investment transfers to local budgets. But the key components of regular expenditures were successfully held in check - there were year on year declines in state employee wages, the state's payments into social security and health insurance as well as state welfare. The payout of pensions increased by 4.5%. The deficit of the state budget, on the basis of cash fulfillment, was 1.5% of nominal GDP.
- **A significantly higher growth of both income and spending, strong dynamic of income tax from legal entities**

The double digit dynamics of income and especially expenditures contrasts with their year on year growth in the same period of 2007 (+2.6%, resp. +4.8%). Whereas due to its new structure, the growth of spending does not indicate a new risk, lower economic growth may be a risk in the future for the income side - in the first quarter, the volume of company income taxes increased by 17.7% and total tax income was higher by 7.3%. Income from VAT grew only by 3.4% (by 4.3% in the same period in 2007), which does not correspond to the significant growth of consumer inflation in the first three months of 2008.
- **The ČR state debt has decreased**

As a result of the lower issue of state treasury bills in comparison to their repayments, there was a decrease of the internal debt by 34.4 billion CZK (-4.2%) to 740 billion CZK in the first quarter. Also the external state debt decreased to 120.1 billion CZK after the repayment of the debt to the European Investment Bank.

Data sources: ČSÚ (Czech Statistical Office), MF ČR (Czech Republic Ministry of Finance), ČNB (Czech National Bank), MPSV (Ministry of Labor and Social Affairs), ČSÚ calculations.

The last information from ČSÚ and ČNB sources mentioned in this report are from June 11, 2008. The report is based on monthly statistical data from sectoral statistics and from quarterly estimates of the GDP.