

State Budget

- *Planned size of state budget deficit achieved thanks to the binding of expenditures; renewal of inflows from EU and improved tax revenues in the second half of year also helped***

State finances finished in 2012 with a deficit in the amount of 101 bn crowns. The deficit was against the anticipated approved budget by 4 bn crowns lower and confirmed the trend towards gradual reduction of the deficit commenced in 2010. The size of last year's deficit was in comparison to the record year 2009 by nearly one half lower, in the twenty year history of independent CR however it was the fifth deepest deficit. The state managed the finances worse in the first half of the last year (deficit - 72 bn crowns). In the remaining part of the year it was possible to tame the finances by the binding of expenditure and renewal of payments for some operational programs from the side of the EU. Year-on-year improved of total balance of the last year given the real stagnation of total expenditure (year-on-year by -0.3 %) ensured the higher revenues of the state budget (+3.8 %), both in tax and non-tax area. Despite year-on-year growth the last year's revenues did not fulfil the budget anticipations by nearly 40 bn crowns and keeping the planned deficit had to be achieved by almost later added saving of current expenditures in the amount of nearly 45 bn crowns. Weak growth of nominal GDP in 2012 highlighted the improvement of state budget deficit to 2.6 % of GDP from 3.7 % in 2011.
- *Non-filled anticipations regarding the indirect tax revenues connected mostly to the decrease of private consumption***

Contributions to year-on-year growth of total revenues came more or less in a balanced manner from higher tax revenues (+22 bn crowns) as well as non-tax and capital revenues (+16.7 bn crowns). The more favourable balance in tax area was positively affected by the improvement of revenues from taxes significant by volume – mostly VAT and taxes on legal person income in the second half of the year. Budget anticipations were thus after all fulfilled for majority of taxes apart from the excise taxes (-2.7 bn crowns) and VAT, with missing nearly 22 bn crowns. Lower revenues for VAT was linked to the longer-term decline of private consumption, which was last year reflected mostly for goods and services in the basic tax rate.
- *Yearly revenues of consumption taxes were helped by the end of the year by the pre-stocking of cigarette sellers***

Even the year-on-year nearly one tenth higher receipts from electricity manufactured in photovoltaic plant were not enough to improve the revenues from consumption taxes, since for the key items the revenues somewhat decreased (tax on mineral oils by 2.5 %) or stagnated for the most part of the year (tax on tobacco products). High prices of fuels in combination with the slowing down of foreign trade growth were reflected in the lower transportation performance. In case of tobacco products, the increase in rate valid from January, did not lead for the most part of the year to a higher revenues also due to the long-term fall of the cigarette consumption. Yearly revenues of this tax (+4.5 %) thus saved the last quarter, with a marked effect of the pre-stocking of producers related to this year's change of the tax rate.
- *Revenues growth of corporate tax due to low base of 2011; worsening of personal income tax reflects the troubles of labour market***

Among the direct taxes the revenues from corporate tax achieved good results (+8.4 %), however it was affected by a very low comparative basis of 2011. Last year's revenues from corporate tax thus stayed nearly one third below the level of the same period of 2008, for personal income tax the revenues were lower by 5 %. Revenues from personal income tax showed last year markedly more modest year-on-year growth (+2.2 %). Revoked tax exemption for the interest revenues on deposits in building savings had a positive impact on budget. On the contrary, the higher discount on tax for families with children had opposite effect. Revenues from personal income tax worsened from year-on-year increase by 6.4 % in Q1 to drop of 0.1 % in the last quarter compared to the same period in 2011.

- Improvement of drawing of European funds at the end of year**

Growth of budget revenues outside the sphere of taxes (+13.6 %) was influenced mainly by the revenues from the EU budget, which were for the most part of the year suppressed as a result of stopped payments of some operational programs¹. State received also by nearly one third more on court fees, also lottery payments were higher.

- Nearly 42 % of state expenditures were directed to the social payments; their year-on-year growth by 10 bn crowns went in full to retirees**

Total budget expenditures were year-on-year lower by 0.3 % and given the real stagnation of current expenditures, the capital expenditures (-5 %) put a more intensive mark on the overall results. Current expenditures were most burdened by pensions (+3.8 %). However, other types of social payments brought savings due to the more strict conditions for their allocation: sickness benefits (2.1 bn crowns) as well as the unemployment benefits (1.6 bn crowns). The number of registered job applicants was in 2012 on average by 1.5 % higher year-on-year. Also expenditures on the active policy of employment fell to a two third level of the previous year.

Worsened economic situation lead only to the mitigation of long-term decrease of expenditures on state social support benefits (year-on-year by -1.5 %). More than 50% year-on-year decline of the state contribution to building savings saved this year nearly 5.5 bn crowns to the state, against the year 2005 the contributions were at their one third level. On the contrary, the state contributions to pension insurance grow in the long-term, even though with a slowing pace. For this year their amount (5.7 bn crowns) for the first time in history exceeded the amount of contributions to building savings and reflects the long term change in the state policy in preferring various forms of savings, but also the behaviours of consumers themselves (legislative changes in the pension insurance aided at the end of the year again enliven the interest in this product for small savers). To all social payments were directed last year 41.7 % of state budget expenditures, year-on-year (after the adjustment from the methodical influence) by nearly 10 bn crowns more. This increase went however in full in the benefit of expenditures on pensions (+14 bn crowns), which cut already 79.5 % of all social payment expenditures (last year by 1.5 p.p. less).

- Gross expenditure on state debt two times higher than in 2006 and formed one half of investment expenditures**

On the wages of its employees the state spent year-on-year by one percent more, due to the marked reduction in the previous year it was an amount comparable to the period six years ago. Non-investment transfers to semi-budgetary organisations, less important in volume, as well as to state funds also rose mildly. Expenditures on state debt also rose (to 57 bn crowns) – year-on-year by 2.5 %, in six years even two times and their size corresponded in year 2012 already to nearly one half of resources the state exerts on all capital expenditures. Outflows to EU budget (39 bn crowns) decreased by 4 % following the previous years of growth.

- Weakening of revenues from social insurance at the end of the year significantly worsened the pension account deficit to 52 bn crowns**

Balance of pension account, expressed as the difference in budget revenues in the form of social insurance to pensions (year-on-year +1.3 %) and paid out pension payments (+3.8 %) deepened year-on-year nearly by 10 bn crowns. Its size achieved nearly one half of overall balance of state budget and was the deepest in the whole last decade. Marked worsening occurred in the last past year's quarter (for the first three quarters the balance was year-on year worse „only“ by 1.8 bn crowns) by the decrease of receipts (-0.5 %) with the concurrent growth of expenditures (+8 %). Lower revenues from social insurance also reflect the worsened situation on the labour market. The size of paid out pensions was affected by their valorisation (increase in the percentage rate of a pension by 1.6 % from January 2012), partially also the long term mildly growing number of pensioners.

¹ Especially the renewal of certification for expenditures of the Operational Program Environment and Transportation and subsequent reimbursement lead in the last quarter of 2012 to a marked strenghtening of state receipts from the EU budget (+31 bn CZK). Nearly 36% of this year's receipts from the EU fell into the last three months of the year.

- **The decrease of capital expenditures ceased after the removal of troubles with operational programs**

The capital expenditures continued even last year in their long-term decline. They decreased year-on-year by 5 %, in two years by one eighth. Transfers to State fund of transport infrastructure (in the amount of 28.7 bn crowns) lowered year-on-year by one sixth. The most investment was drawn on the pre-financing of programs financed together with the EU. The slump of investment expenditures grew stronger in summer months, on the contrary following the renewal of some operation programs, in October and November the funds in the amount of 27.5 bn crowns were freed and drawing of the capital expenditures thus got from the beginning of the year nearly to the last year's level.

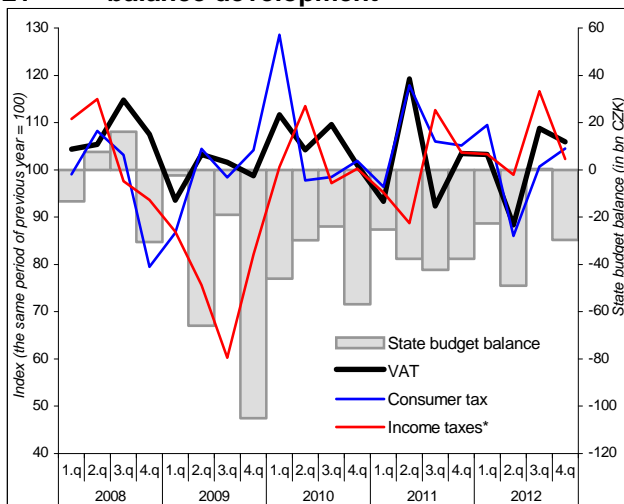
- **Net positive position of the CR towards the EU last year on the historical maximum, since the accession to EU it arrived at one quarter of trillion crowns**

Net positive position of the CR towards the EU despite the issues with drawing in 2012 significantly improved to record 73.8 bn crowns (out of last year's 30.8 bn). The received amount (113.7 bn crowns) in 2012 was constituted in 2012 especially by the structural actions (Structural funds 44.3 bn and Cohesion fund 37 bn) as well as funds for agriculture (29.7 bn crowns with the highest share of direct payments, i.e. 18.7 bn and money on the rural development in the amount of 10.5 bn crowns). In comparison to the preceding years the Cohesion fund increased significantly its share in the total allocation. For years 2004-2012 the CR paid into the EU budget 301.2 bn crowns and received 551.2 bn crowns. Since the accession to the Union the CR thus so far gained in net a quarter of trillion crowns.

- **State budget deficits in the CR belong lately to the more favourable than the EU average; deeper deficits had e.g. Slovakia or Slovenia**

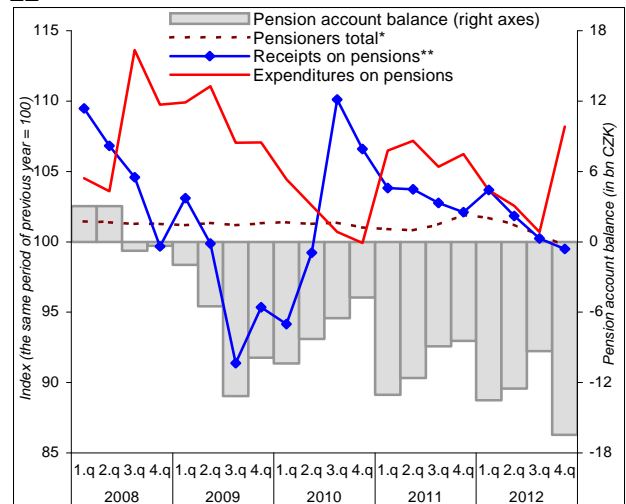
In times of across the world recession (2009 – 2011) the CR with the depth of reached deficits of public budget stood in relation to GDP better (-4.6 %) than countries of the euro area (-5.5 %) or the whole EU (-5.9 %). From the surrounding countries, the better results were achieved by Austria (-3.7 %) and Germany (-2.7 %), considerably worse by Slovenia (-6 %), Poland and Slovakia (both -7%). Balanced public finances in this period sustained only Sweden. Also for the three last year's quarters, the deficit placed the CR (-2.5 %) in the union area among countries better managing their finances, even though the close Poland and Hungary reached according to the preliminary data slightly lower deficits (-2 %). These were traditionally deeper in Slovenia and Slovakia (-4.5 % to -4.7 %) and surprisingly also in Austria (-4.9 %). Euro area countries similarly to the whole EU achieved 4 % deficit, in Greece, Ireland and Spain the deficits deepened even to 10 % of GDP. On the contrary, mild surplus recorded only four economies, mostly on the north of Europe. The government sector deficit reflects apart from the result of the state budget also the results of regional budgets and social security funds.

Chart 21 National tax revenues and state budget balance development



*income taxes of natural or legal persons

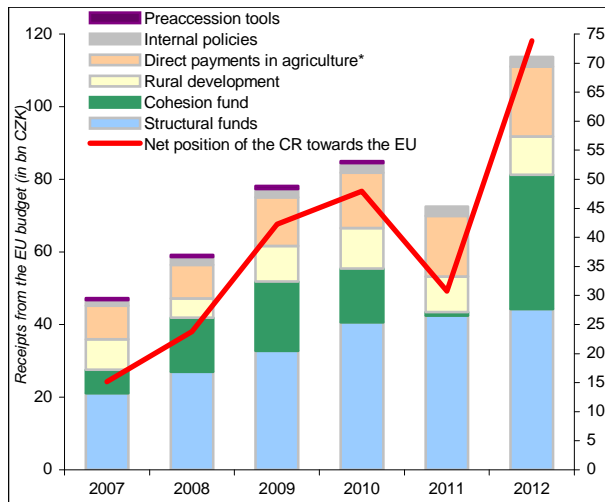
Chart 22 Pension account balance and development of the number of pensioners



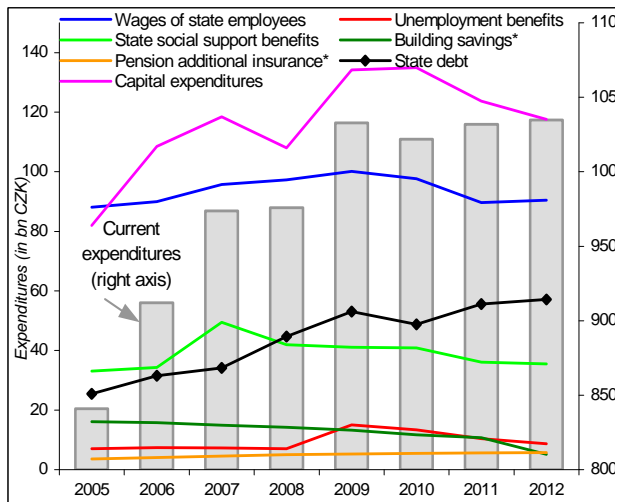
*recipients of pension insurance benefits
** from pension insurance premiums

Chart 23 Receipts of the CR from the EU budget and net position of the CR to the EU budget

Chart 24 Selected types of state budget expenditures in 2005-2012



* incl. veterinary, fishery and market operations



* contributions paid to households from state budget

Source:
MF CR

Sources of data for the entire analysis: Czech Statistical Office (CZSO), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Ministry of Finance (MF), Eurostat, CZSO's calculations. Latest information from the CZSO, CNB, MLSA sources given in this report are dated the 7th of March 2013.