# 8. State Budget

Development in both Q1 and Q2 2021 contributed to the half-yearly state budget deficit nearly equally.

The state budget (SR)[1] was characterised by deep deficit in the amount of 265.1 CZK bn in H1 2021. Compared to the so far record deficit from the first half of the last year, it was by nearly 70 bn deeper. The development in both quarters equally contributed to the present this year's deficit. The deficit however deepened „only" by 10 CZK bn also thanks to wider loosening of the counter pandemic measures during June 2021. In total for the whole half-year however, the SB was still decisively affected by lower economic activity. Together with the concessions to entrepreneur subjects, lowering of tax burden on labour as well as property and change of budget appropriations of taxes to the benefit of regional budgets[2], it hampered the growth of the tax income. Apart from this, the need to strengthen the outlay transfers for the support of the affected branches and employees themselves endured, but also on the compensation of the heightened demands especially in the area of health care.

State-wide tax collection slightly grew mainly thanks to weaker last year basis in H1. However, it was higher compared to year 2019 only in this year's June.

Total SB revenues moderately increased by 1.9% (i.e. 13 CZK bn) year-on-year in H1 2021. It however also resulted from the lower last year's basis since the revenues have not reached the pre coronavirus level this year so far[3]. The year on year growth was mostly influenced by the higher collection of social security insurance (thanks to good condition of the labour market as well as the pay out of extraordinary bonuses especially to health care workers) and stronger collection of the corporate tax. Total state-wide of taxes (excluding insurance premium) at the level of all public budgets has grown by 4.4% in H1 2021 year-on-year, nevertheless only in June it slightly also exceeded the corresponding pre coronavirus level (from June 2019). Non-tax and capital revenues and transfers from the SB decreased (by 7.8%) for the first time since year 2017 in this year's half year, both because of mildly lower revenues from the EU budget and especially because the planned transfer of funds from the privatization account into the SB (10 CZK bn) has not as opposed to last year materialised yet this year[4].

Revival of consumption this year in June majorly assisted the higher collection of VAT.

From the weight dominant tax – VAT – by 3.9% (i.e. by 5 CZK bn) more flew into the SB year-on-year in H1. Collection even strengthened by 9.1% at the level of all public budgets. Year-on-year comparison is however affected by the weaker last year basis as a result of considerable suspension of trade and other services operations. In comparison to the pre pandemic period (H1 2019), the state-wide collection was by 2.5% higher, mainly thanks to the stronger revival of the private consumption this year in June. The reduction of the tax rates for some services (especially in food service)[5] also had a partial impact on the collection of VAT.

Collection of consumption taxes sank by more than one tenth year-on-year and sizeably lagged behind the budget anticipation.

Total SB revenues from consumption taxes slumped by more than one tenth in H1 (even by one sixth for the two years). Their collection thus considerably as opposed to the VAT lagged behind the budget anticipations this year. Notable reduction of the collection of tax on mineral oils manifested (by one fifth year-on-year), as a consequence of weaker transport work especially in the passenger transportation amplified by the newly introduced reduction of tax rate for the diesel fuel[6]. Nearly one half of the year-on-year decrease of the collection of all consumption taxes was attributed to the weaker collection from tobacco products this year (–14%). In Q2 itself, the collection copied the last year's level since the impact of the growth of the tax rate and likely also the revival of cross-border purchases started to show more.

[1] Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the cash fulfilment.
[2] The SB thus collected by 12.4 CZK bn less on the shared taxes (VAT, income tax) in H1 this year.
[3] This year's SB revenues lagged behind the amount from H1 2019 by 4.2%.
[4] This discrepancy was partially compensated by this year's extraordinary yields from the frequency auction (+5.6 bn).
[5] Lower tariff on food service and other services was introduced last year from May until July. This year's VAT collection was also mildly subdued by temporary waiving of the tax on protective aids (e.g. respirators) and on both tests and vaccines connected to the covid-19 epidemics.
[6] Reduction of the tariff by 1 CZK started to be negatively reflected in the tax collection due to the time delay only in March this year. According to the MF estimates, it led to the lowering of this tax collection at the SB level by 1.9 CZK bn for this year's H1.

Collection of the tax on beer, holding less weight, was falling in both this year's quarters, on the contrary, the tax on alcohol recorded a positive turn during Q2. The favourable effect of the reopening of restaurants, as well as the gradual recovery of tourism should be fully reflected in the collection of consumption taxes only during the summer period.

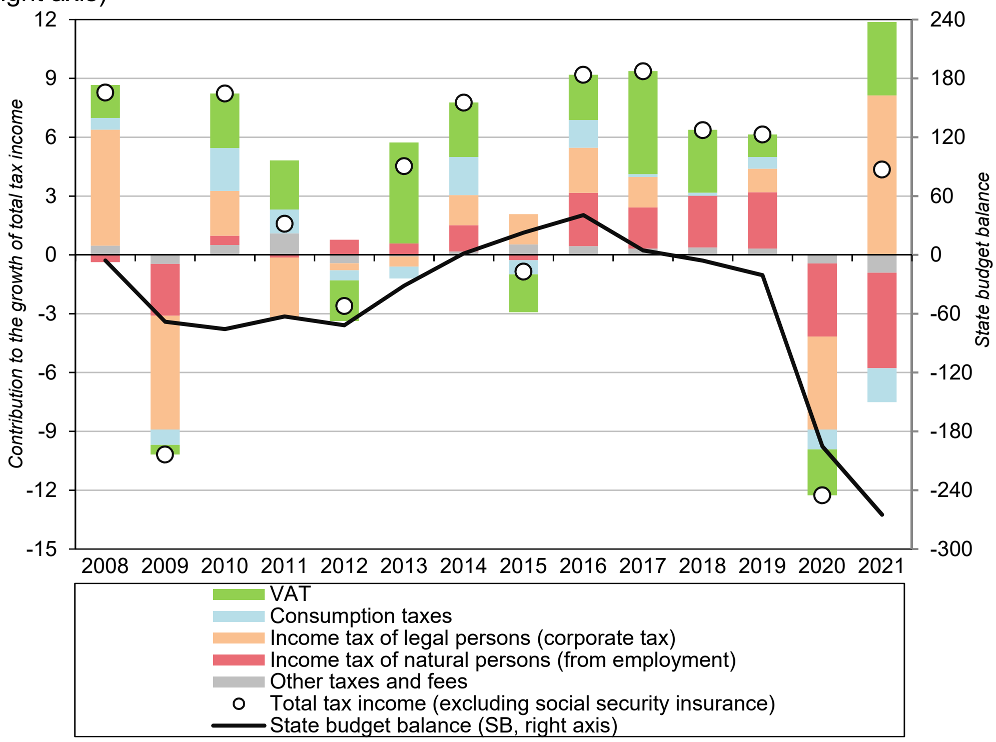
Collection of the corporate tax already overtook the pre-pandemic level.

The SB acquired by 45% (+23 CZK bn) more on the corporate tax year-on-year in H1. Over one half of this addition can be ascribed to the low last year basis (mainly due to the waiver of June advance tax payment). The year-on-year comparison is also blurred by the change of the budgetary tax determination and individual requests of companies for modification of advance tax payments[7]. State-wide collection of the corporate tax exceeded the level from H1 2019 by 8.5% this year.

Collection of tax on income of NP from dependent activity was influenced by lowering tax burden as well as ongoing payments of compensation bonuses.

Lowering of the tax burden on labour[8] constituted a key factor leading the state-wide collection of income tax of natural persons from dependent activity to plunge by nearly one third year-on-year and reaching the lowest half-yearly level in the last nine years (58.3 CZK bn). Paid out compensation bonuses also continued to affect the size of the collection (especially self-employed persons), their negative budget impact was however by nearly one half weaker this year compared to H1 2020.

**Chart 16 Contribution of constituent revenues to the growth of the total state wide tax collection*** (year-on-year in p. p.) **and state budget balance within H1** (in CZK bn, right axis)




* Includes total tax income (without the social security insurance).
Source: MF CR

Fiscal expansion was conducted exclusively by the current outlays of the SB. These were fundamentally affected by higher outlays in health care and on

Total SB outlays strengthened by 10.2% year-on-year in Q1, by 8.5% in the subsequent quarter. In total, they exceeded the pre-pandemic level from H1 2019 even 27.9% (+213 CZK bn). Fiscal expansion was driven exclusively by current outlays so far this year, whose year-on-year growth (by 88.3 bn) can be for the major part directly linked to the measures offsetting the adverse effects of the pandemics (on businesses, individuals as well as municipalities) or

[7] According to the estimates of the MF, this factor led to the decrease of income from the corporate tax into the SB by 6.4 CZK bn in H1 2021.
[8] After the abolition of the "super-gross salary", a basic 15% tax rate (and supplementary 23%) was introduced from the 1st January 2021 and the annual tax rebate per the tax payer increased (+3 CZK thousand). These changes should have according to the MF estimates deprived the public budget on the above mentioned tax for as much as 90 CZK bn this year. The state wide collection of the ITNP from dependent activity fell by 27.8 CZK bn for H1 2021.

support programmes for businesses and organizations.

to the support of the overloaded healthcare system[9]. It can be explained by the fact, that while in the first half of the last year the large part of the swiftly adopted counter pandemic measures was focused on the tax area including insurance (tax suspension, abolition or individual amendment of the size of advance payments, refunds in the form of compensation bonuses), this year it primarily constituted the outlays on the health care (bonuses to workers, higher payments for state insured persons) as well as wide spectrum of support programmes for both afflicted businesses and organisations.

Growth of outlays on wages of workers in education continued.

Outlays on non-investment purchases weakened compared to last year's record amount.

From current outlays, non-investment transfers to business entities the most increased (+61%, to 85.3 CZK bn) concentrating the vital part of support measures (Antivirus programme, support of business in the most hit areas, care benefits for self-employed persons) and non-investment transfers to the funds of social public health insurance (+55%). On the contrary, higher current transfers to regional budgets (+14%, +18.8 bn) related mainly to the ongoing growth of average wages in the regional education[10] and boosting of resources on social services. The growth pace of outlays on wages in the central government institutions was in contrast weakening for the third year in a row (to 1.1%, the least growth in the last ten years). The SB expended approximately by 3 CZK bn less on both the current transfers to contributory organisations (last year's expenditures on the elimination of debt of part of hospitals were not repeated) and non-investment purchases[11], where the lower this year's need for protective aids as well as medical materials was only partially offset by the increase of outlays on the purchases of vaccines year-on-year in H1.

Drawing of non-pension social benefits went down year-on-year. It was however considerably higher compared to the pre-pandemic level.

Growth of the volume of material deprivation assistance benefits continued, it however ceased for the unemployment benefits in Q2.

Even though the social benefits traditionally account for the weight dominant SB outlay, growth of their drawing remained in the shadow of outlays directly associated with the pandemics[12] this year. Only by 3.7% (12.6 CZK bn) more wandered on these benefits year-on-year in H1. In contrast to a major part of the last year, outlays on pensions recorded faster pace in this year's H1 (+5.7%) than outlays on other social benefits (–2.0%)[13]. The sickness benefits were mostly behind the fall of their drawing (–5.0%)[14]. This result manifested in spite of the outlays on the majority of sickness benefits increasing year-on-year. The Spring reopening of schools proved key this year, damping the need for the care benefits, whose drawing culminated last year in Q2. SB spent less also on the state social care benefits year-on-year this year, specifically thanks to the favourable development of nearly all types of benefits, including those income tested. Higher drawing on material deprivation assistance benefits, which was observed already fifth quarter in a row, signals worsened income situation of some households. Improvement of the total situation on the labour market in connection to the decline of the pandemics was mirrored in the paid out unemployment benefits. Their volume dropped by nearly one fifth year-on-year in the period from May to June this year[15].

[9] It was especially the compensation of part of wages and mandatory payments with the Antivirus Programme A, A+ and B (24.0 CZK bn paid out from the SB in H1 2021), special programmes on the direct support of the afflicted sectors of the economy, e.g. in the area of restaurants, tourism, culture, education, sport, agriculture and food industry (including the programmes COVID Rent, COVID Not covered costs) in the total amount of 27.1 bn, further higher outlays in the health care, mainly the increased payment of the state per "state insured persons" (mainly children, students, pensioners, 25.1 bn), heightened personal costs of workers in the health care and social works (16.3 bn), purchases of protective aids (3.1 bn) and finally also the increased outlays on some social benefits – care benefits, extraordinary contributions for employees in the quarantine or isolation (5.1 bn). Majority of the above mentioned outlays substantially increased compared to H1 2020, except for care benefits, purchases of protective aids and hospital debt eliminations.
[10] It reflects the approved this year's year-on-year growth for educational as well as non-educational workers (by 9%, resp. 4.3%).
[11] Does not include the outlays on the state debt servicing.
[12] Proportion of social benefits on all SB outlays narrowed within H1 for the fourth time in a row (to 36.0%, minimum in the ten year comparative time series).
[13] 84.2 CZK bn were directed on the non-pension benefits from the SB. Compared to the pre pandemic level (H1 2019) it was however by 19.4 CZK bn more.
[14] Even though they were the main driver of the growth of non-pension benefits in years 2015 till 2020.
[15] Drawing of benefits last dropped before year-on-year in August 2018. Until the last year's onset of the pandemics, their growth was not accompanied by more significant increase of the unemployment rate, and thus reflected primarily the strengthening of the average wage in the economy.

Pension account balance returned to mild surplus in Q2 2021.

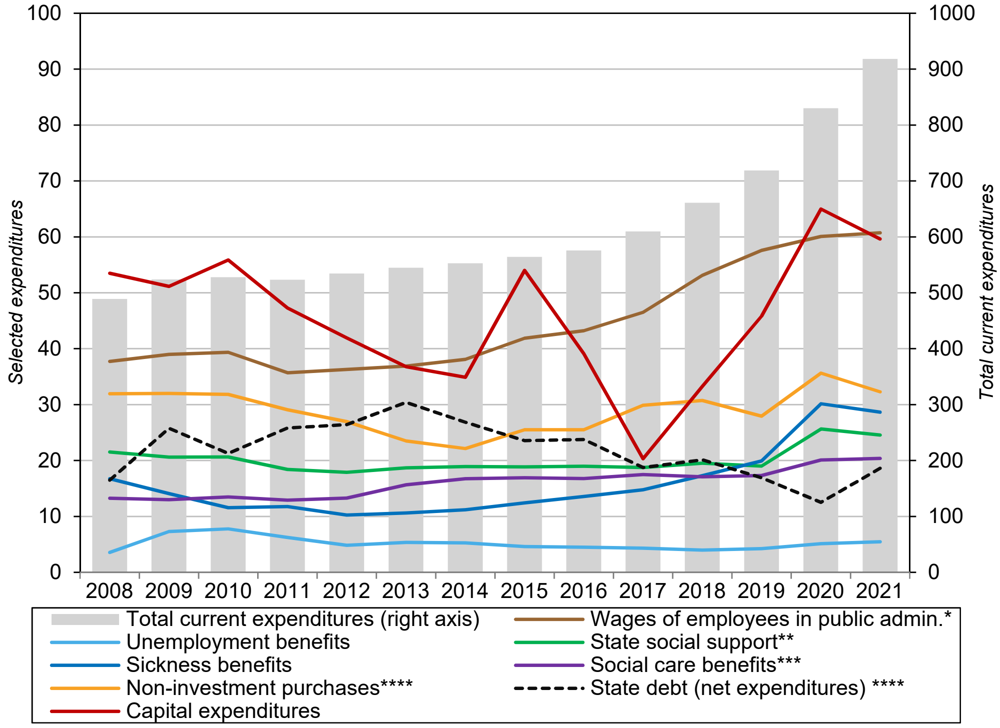
Growth of outlays on pensions was subdued by the decrease of the number of their recipients. Their number decreased by significant 1.2% year-on-year at the end of H1, primarily due to heightened mortality in the pandemics period. Revenues of the pension insurance expanded by 7.4% against the weaker last year basis[16]. Half-yearly pension account balance[17] recorded moderate year-on-year improvement (to –7 CZK bn). In Q2 2021, it returned into a mild surplus (+2 bn) thanks to the revival of economic activity (powered by the payment of extraordinary bonuses in health care) for the first time since the end of year 2019.

Steep growth of investment from the SB halted after three years.

Revenues of the CR from the EU budget were even despite year-on- year decrease the second highest in the last five years.

Capital outlays comprised 60 CZK bn in H1, i.e. less than one third of the annual budgetary objective. They decreased by 8.7% in H1 2021 after three years of strong year-on-year growth. This item however shared more than 6% on all SB outlays. Within all H1s, it still comprised the second highest value in the last five years. The largest share of so far realised investment traditionally aimed at the transport infrastructure, mainly the projects co-financed from the European funds. Total revenues of the CR from the EU budget arrived at 71.5 CZK bn in H1, they fell by 8% year-on-year. Lower revenues from the structural funds (–18%) and less significant by volume revenues on the rural development (–19%) mostly contributed to this result. All other main programme areas nevertheless also experienced smaller decreases. After taking into account the slight increase of the payments of the CR into the EU budget (+3%), the total net position of the CR against the Union attained 38.7 CZK bn, which represented the second highest first half-yearly balance in the last five years.

**Chart 17 Selected expenditures of the state budget within H1** (in CZK bn)




*Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.
**Also includes the foster care benefits.
***Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support.
****Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance).
*****Corresponds to the balance of the budget chapter State debt.
Source: MF CR, MLSA

Dynamic growth of the state debt continued. It

Strongly growing need for finances tied to the necessity to cover the crisis SB deficit caused the acceleration of the state debt. It climbed up to record 2 416 CZK bn at the end of June

[16] The volume of collected insurance was negatively impacted by the abolition of the minimal advance payments for the self-employed persons and also the waiving of the insurance paid by the employer (programme Antivirus C) in H1 last year.
[17] It is expressed as the difference between revenues and expenditures on pensions from the SB. Expenditures on administration of the pension insurance system are not included in the expenditures.

however increased less in H1 than in the same period of the last year.

and strengthened by one eighth year-on-year. Since the beginning of this year, it expanded by 366.5 bn, which was however less than the unprecedented jump in the same period of the last year (+516.7 bn). Traditionally strong issue activity in the area of state bonds[18] also manifested this year, focused primarily into the first quarter of the year, which enabled to fully cover the debt payments planned for this year. The koruna value of the external debt fell due to the payments by more than one quarter year-on-year at the end of the half-year and it participated from only 6.6% on the total indebtedness. Net outlays on the state debt servicing[19] reached 18.6 CZK bn in the first half-year, by nearly one half year-on-year. Trend of decreasing outlays on the state debt observed in years 2019 as well as 2020 halted. It was connected both to the increase of the total indebtedness and higher yields of the state bonds, detected already at the end of the last year.

Outlays on the state debt servicing again grew after the favourable development in both years 2019 and 2020.

Weak growth of revenues as well as acceleration of outlays resulted in record budget deficit of the government institutions sector in Q1.

Government institution sector (VI) budgeted with deficit of 136.3 CZK bn in the CR in Q1 2021[20]. It constituted the deepest recorded deficit for Q1 and second worse result in general (after Q4 2020). Weak growth of revenues (+0.8% year-on-year) was notably affected by the decrease of collected taxes on income and wealth, especially due to the tax changes. Growth of outlays accelerated (+14.1%), mainly under the lead of the social benefits and natural transfers and also strong increase of paid out subsidies. Seasonally adjusted state budget VI amounted to –8.8% of GDP, which represented worsening in both year-on-year (by 6.1 p.p.), but also quarter-on-quarter expression (by 0.7 p.p.). The nominal debt VI reached 2 519.1 CZK bn. this year at the end of Q1. The indebtedness rate rose year-on-year – from 32.4% to 44.1% of GDP. Falling nominal GDP also left its mark on the record growth of indebtedness, dominantly (from nearly 95%) it however also mirrored the acceleration of the absolute amount of debt.

Budget deficit of the government institutions mildly decreased in the EU compared to the end of year 2020, it increased in the CR.

Budget deficit of the sector of government institutions in the EU countries (after seasonal adjustment) partially stabilised following the record downturn in the beginning phase of the pandemics (to –11.8% of GDP in Q2 2020). It was –6.8% of GDP in the first quarter of this year and in contrast to the CR it registered a positive shift compared to the last last year's quarter. Poland and Germany for instance also recorded a quarter-on-quarter deepening of the deficit this year, the size of their deficit was however smaller compared to the CR (–2.6% and –6.0% of GDP, respectively). Deep deficits (at the level of the CR) also afflicted Spain, France, Hungary or Romania at the beginning of this year. On the contrary, only Denmark and Luxembourg achieved budget surpluses. Adverse development of the public budgets was logically reflected in the area of debt. The indebtedness rate VI increased in the Union already at the beginning of the last year and following a significant acceleration in Q2 (above the level of the maximum from the economic recession in 2013), it continued in slower growth up to 92.9% of GDP (in Q1 2021). The indebtedness expanded in all Union states this year compared to the end of year 2019, the most in the countries of the euro area South wing, which belonged to the most afflicted in this respect already before the pandemics outbreak. Slovenia experienced the less favourable development (from 65.6% to 86.0% of GDP) among the "medium indebted economies". Among the states fulfilling the Maastricht debt criterion, Malta (+17.0 p.p., to 59.0% of GDP) and the CR (+14.1 p.p.) fared the worst.

The indebtedness rate grew the most compared to the pre-pandemic level in the countries of South Europe. Growth in the CR was in the context of countries with lower level of indebtedness relatively strong.

[18] In H1 state bonds for 390.8 CZK bn with average annual yield of 1.3% and maturity period of 8 years were issued on the domestic financial market. Domestic banks and other domestic financial institutions, which thus held already 64% from the total domestic state bonds at the end of June 2021, demanded the bonds the most. Non-residents shared 32%, by 3 p.p. less year-on-year and by even 10 p. p. less for two years. Among other debt instruments employed this year, the loans from the European Commission (52.3 CZK bn) to assist in the moderation of the unemployment risks due to the spread of the covid-19 pandemics cannot be omitted. The role of short-term loans and credit to strengthen the liquidity of the state public treasury also grew.

[19] Corresponds to the balance of the budgetary chapter State debt.

[20] More detailed assessment of the development for Q1 2021 is contained in the publication Analysis of the sector accounts: https://www.czso.cz/csu/czso/cri/analyza-ctvrtletnich-sektorovych-uctu-1-ctvrtleti-2021