

## 8. State Budget

Deep budget deficit persisted, nevertheless it decreased for the second year in a row.

State budget<sup>1</sup> of the CR continued with deep deficit for the fourth year in a row and consequently still presented one of the most important macroeconomic imbalances. The deficit equalled 288.5 CZK bn in year 2023 and in fact fulfilled the budget anticipations<sup>2</sup>. Budget lowered year-on-year for the second time in a row, it fell by one fifth against year 2022 (71.9 CZK bn). This positive trend was also apparent after adjustment for the effect of funds from the EU budget (including Financial mechanisms)<sup>3</sup>. Budget deficit development was very unevenly distributed during the last year<sup>4</sup>, which was caused by extraordinary, however largely planned revenues (dividends, proceeds from the exceptional business taxes, especially in the area of energetics), swift growth of collection of “common” business taxes, as well as inclusion of funds from the national recovery plan (these significantly expanded the total revenues of the CR from the EU last year from June).

Growth of SB revenues markedly accelerated last year compared to year 2022, still it did not completely fulfil the budget anticipations.

Even though the growth of total SB revenues arrived at record 289.7 CZK bn, i.e. 17.8% for the last year (nearly the double the pace against year 2022), it did not completely fulfil the budget anticipations (–2.1%). Strong growth of prices in the economy, which also pushed on higher dynamics of wages in the private sphere and simultaneously subdued the adverse impacts of the ongoing weak household consumption of the collection of indirect taxes, participated on the development of revenues apart from the above-mentioned items. More than one half of the last year’s increase of total SB revenues flowed from the higher tax collection, nearly one third from the non-tax and capital revenues and the rest from the mandatory insurance<sup>5</sup>. Pace of insurance collection however weakened due to cooling on the labour market<sup>6</sup> during the year (Q1: 10.5%, Q4: +6.4%). In contrast, the growth of the state-wide tax collection did not slow down – it was 15.4% for the whole last year (resp. 12.2% after deduction of extraordinary business taxes (from excessive income or unexpected profits).

Newly introduced extraordinary business taxes the most contributed to the growth of the tax collection.

Mainly the funds from the extraordinary taxes of companies stood behind the last year’s growth of the total SB tax income (57.7 CZK bn), regardless of the fact, that their total collection was far from fulfilling the original budget anticipations<sup>7</sup>. This is valid for its key item – tax on unexpected profit<sup>8</sup> – whose advanced payments already brought 39.1 CZK bn to the SB. On the contrary, energetic companies paid to state 18.5 CZK bn on the tax on excess income<sup>9</sup> and the planned annual revenues were achieved already last year in September here.

High yield of the corporate tax is linked to the growth of the profit rate of businesses,

Among common taxes, the income tax of legal persons, whose collection strengthened by one third year-on-year (+52 CZK bn) and whose annual planned size was exceeded by more than one quarter (also thanks to the higher collection in the area of financial activities

<sup>1</sup> Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the treasury fulfilment.

<sup>2</sup> Based on Act No. 449/2023 Coll., on the state budget for year 2023 (from 30<sup>th</sup> November 2022) anticipating deficit of 295 bn CZK for the last year.

<sup>3</sup> It relates to funds on programmes/projects from the EU and FM budget, which were pre-financed from the SB and consequently gradually reimbursed from the EU and FM budget. Without these funds, which are included in the approved budget with neutral impact, the last year’s deficit was 299.4 bn CZK (by 17.3 bn less year-on-year).

<sup>4</sup> From January till May, in total the record deficit was reported in the amount of 271.4 bn CZK. On the contrary the surplus reached 90.6 bn from June till September.

<sup>5</sup> It relates to the social security insurance and active employment policy.

<sup>6</sup> It manifested via the weakening growth pace of employment as well as nominal average wages. In addition, the introduction of relief for employers enabling shorter job contracts to selected group of employees (e.g. parents of smaller children, persons caring for relatives or persons above 55 years of age) or increase of levy rates for hazardous occupations also impacted the collection of insurance.

<sup>7</sup> Annual collections of these temporarily introduced “sector” taxes from businesses from the unexpected profits and levies from the excess income was primarily estimated on 100 bn CZK. For its key component – tax on unexpected profits – the original budget estimate of the annual collection was revised already last year in April (from 85 bn CZK to 28 bn), partial correction of the anticipated yield was made in August (to 46 bn CZK).

<sup>8</sup> It applies to energy, petrochemical and mining companies and also involves large banks. Vast majority of the collection of this tax however (88%) flowed into the SB only from the energy industry.

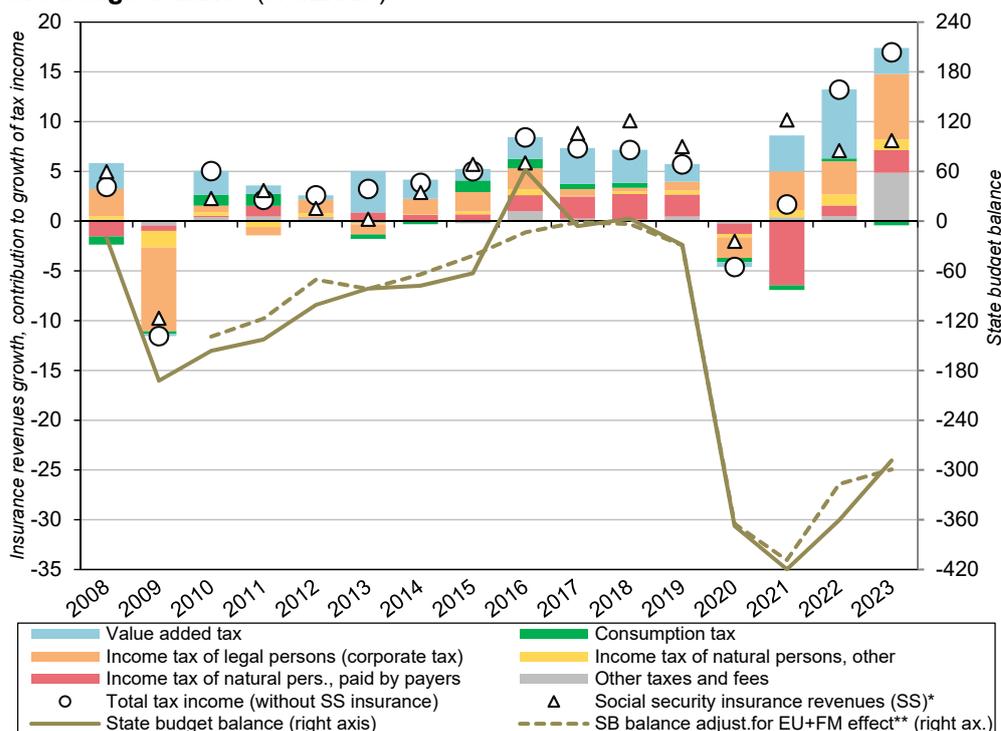
<sup>9</sup> This levy (taxed by 90% rate) presents a difference between real income and ceiling of the market income from the sale of electricity above the given limit (for the time period from 1<sup>st</sup> December 2022 till the end of year 2023).

mainly in financial activities and energy industry.

Collection of all types of income tax of natural persons significantly exceeded the budget anticipations. Year-on-year growth of the collection however weakened during the year.

and energy industry) supported the growth of the SB revenues the most last year. Yield of the corporate tax is connected to the relatively high and still growing rate of profit of businesses<sup>10</sup>. Collection of income tax of natural persons (ITNP) also grew briskly last year – by one fifth (resp. 25.2 CZK bn). Despite slower growth of collection during the year, it was mainly thanks to the key income tax from dependent activity (+17 CZK bn)<sup>11</sup>. It favourably reflected the higher employment as well as the brisk growth of the nominal average wage in the business sphere. On the contrary, the tax changes had an adverse effect to a lesser extent (especially the higher tax deduction on second and third child). Collection of the weight less significant tax ITNP paid by payers (aimed mainly at small entrepreneurs) grew slower year-on-year (+7.5%), nevertheless exceeded the planned collection by more than one third. It was assisted by the ongoing recovery of a number of services afflicted in the pandemic era as well as the rising number of entrepreneurs. Some tax changes (increase of the tax discount per taxpayer, increase of the income limit for the possibility of access to the flat rate scheme) had the opposite effect. Collection of ITNP collected by deduction still thrived. Even though its year-on-year growth gradually weakened during the year, collection widened by more than one third for the whole last year (+7.5 CZK bn). It was driven by the persisting higher interest rates on deposits and to a lesser extent also by the higher number of persons with job agreement contracts.

**Chart 18 Contribution of constituent revenues to the growth of the state wide tax collection (in p. p.), year-on-year growth of social security insurance revenues (%) and state budget balance (in CZK bn)**



\*Include also contributions on state Active employment policy.  
 \*\* Balance adjusted for funds on programmes/projects from the EU budget and Financial mechanisms, which were pre-financed from the SB and subsequently reimbursed from the budget of EU and FM. Yearly data are available starting year 2010.  
 NP = natural persons, LP = legal persons. Other taxes from the incomes of NP include taxes paid by the payers (mainly from small businesses) and further taxes collected by deduction.  
 Other taxes and fees contain mainly property tax, gambling tax, motorway and other tolls, and levy form excess income and unexpected profit also in year 2023.  
 Source: MF CR

<sup>10</sup> Gross operational surplus of the non-financial businesses increased by 16% year-on-year in year 2022 (it also increased similarly in Q1 to Q3 2023), rate of profit of these businesses equalled 47% in year 2022, 48.7% then in Q1 to Q3 2023%.  
<sup>11</sup> State-wide collection of ITNP from dependent activity (at the level of all public budgets) hovered only slightly above the level of year 2017 last year and lagged by 18% behind the record size from year 2019. Reducing the tax burden on labour since year 2021 played a key role here (abolition of the so called super gross wage).



Positive effect of the high growth of prices in the economy on the VAT collection was subdued by the decrease of household consumption. Anticipated collection thus was not fulfilled.

5.8% more year-on-year flowed into the SB from the VAT collection last year, however the originally budgeted size of collection was not again fulfilled (by 4.4%, resp. 16.7 CZK bn). Growth of the VAT collection weakened under the influence of subsiding high inflation during H1, mild increase of collection in Q4 (+6.5% year-on-year) was linked to the light revival of household consumption<sup>12</sup>. Increasing of tax collection was mildly suppressed by the impact of the shifted sales threshold for VAT registration<sup>13</sup> for the whole year.

Collection of the consumption tax decreased and stayed behind the budget anticipation. Collection of tax on tobacco products dropped to the eight-year minimum.

Collection of the consumption tax<sup>14</sup> decreased year-on-year last year (-3.4%) and it lagged behind the budget anticipation for the third time in a row (last time by 5.8%, 9.1 CZK bn). Weak collection from tobacco products, which slumped by one tenth year-on-year, to the lowest level in the last eight years was a factor. It occurs even despite continuing growth of the tax rate, since the change of the buying preference of the CR citizens had a stronger influence of the collection (shift of consumption to alternative, less taxed products locally<sup>15</sup>, rise of purchases across the board). But the collection increased for the key tax on mineral oils last year (+3%) and fulfilled the budget anticipations for the first time in the last three years. Return of the tax rate on diesel fuel to the level before the onset of the energy crisis had a positive effect<sup>16</sup>. Consumption of majority types of petroleum products grew in the CR last year, for the key item – diesel fuel – however only slightly due to the weaker demand for freight transport<sup>17</sup>. Collection of tax on specific commodities (alcohol, beer, sparkling wine as well as intermediate products) decreased as a result of limiting non-essential expenditures of domestic households. Economical behaviours of both households and businesses led to the general decrease of the collection of all energetic taxes (the most on solid fuels).

Collection of tax from mineral oils went up due to the increase of tax rate on diesel fuel.

Non-tax and capital revenues swiftly grew thanks to funds from the EU as well as transfers from businesses with state participation.

Non-tax and capital revenues expanded by nearly one half for the last year, still they stayed behind the planned size by one tenth for the reason of weaker yield from the emission allowances. Dividends and other transfers of funds from the state businesses (+30.6 CZK bn) and also the revenues from the EU budget substantially enhanced by the received payments from the National recovery plan (primarily into the area of transport and environment) shared the most on the year-on-year growth. Net position of the CR towards the EU budget was +49.9 CZK bn last year and slightly decreased year-on-year (-7%)<sup>18</sup>, partially also due to the effect of long-term mildly growing payments of the CR into the EU budget. After calculating the revenues within the National recovery plan however the positive balance of the CR virtually doubled (89.5 CZK bn) and strengthened by 25.2 bn against year 2022.

Growth of total SB outlays markedly accelerated against the preceding years, the year-on-year pace however slowed in H2 2023.

Year-on-year growth of the total SB outlays hiked up to 11.0% and markedly accelerated against years 2021 and 2022. Due to the slower pension adjustment as well as lower need to aid both businesses and households (enabled by the favourable development of prices of energies on the world markets), the rate of growth of total SB outlays weakened in H2 2023 and their annual amount was thus slightly lower compared to the planned budget (by 2.2%, i.e. 48.5 CZK bn). Strong last year's growth of outlays reflected both the assistance of state related to the high prices of energies (inadequately compensated by the extraordinary revenues from the selected sectors of the economy) and the impacts of the gradually subsiding

<sup>12</sup> Real expenditures on the final consumption of domestic households slightly increased at the end of the last year against Q3 and the decrease of expenditures in the year-on-year comparison (lasting continuously nearly two years) practically halted.

<sup>13</sup> It relates to the increase from 1 to 2 mil CZK, which became effective as of January 2023. Together with the widening of the flat rate scheme it reflected in the year-on-year reduction of the number of VAT payers.

<sup>14</sup> It also includes the energy taxes and the digital services tax.

<sup>15</sup> Collection of the consumption tax on heated tobacco products increased by 8.3% year-on-year for the three quarters last year.

<sup>16</sup> This increase occurred from August last year (by 1.5 CZK per litre). Consumption tax rate on diesel fuel thus returned to the original size (9.95 CZK/l) valid until May 2022. From 1<sup>st</sup> June 2022 till 30<sup>th</sup> September 2022 the consumption tax on unleaded petrol was also lowered.

<sup>17</sup> According to the CZSO figures, the consumption of diesel fuel increased by 1.3%, petrol by 6.0% and jet kerosene by 25% from January till November 2023. Decreased occurred for other petroleum products (including e.g. refinery gas, air, technical petrol, paraffin and waxes, petroleum coke).

<sup>18</sup> Vast majority of last year's revenues related to the previous programme period (2014+). The most weight significant revenues from the structural funds attained 51.0 bn CZK (they fell year-on-year for the third time in a row, last time by 18.6%). Resources on rural development decreased by more than one tenth (to 7.2 bn), on the contrary direct wages in agriculture remained traditionally stable (20.5 bn). The CR acquired 30 bn CZK from the cohesion fund last year, by nearly one half more year-on-year.

high inflation (pension adjustment, higher volume of paid out social benefits, growing repayments of the state debt) or higher expenditures in the direct consequence of the war in Ukraine (humanitarian aid, expenditures on defence and security). Even though mainly current expenditures (+192.4 CZK bn) traditionally contributed to the fiscal expansion last year, higher investment (+25.4 bn) also played an important role similarly to the preceding years.

Despite amendment of adjustment, expenditures on pensions contributed the most to the fiscal expansion last year. Pension insurance balance deepened to record 73 CZK bn.

Social benefits essentially spoke into the last year's year-on-year growth of the current expenditures (+100 CZK bn). Their proportion on all SB outlays was the highest in the last five years (39.4%). Nearly all growth of social benefits was covered by expenditures on pensions, which reached 685.2 CZK bn (+16.5%). Their drawing was, similarly to year 2022, fundamentally affected both due January adjustment and extraordinary increase during the year<sup>19</sup>. As a result of considerably higher interest in early pensions<sup>20</sup>, the more than three years lasting decrease of the number of persons, who are recipients of some of the pensions halted. Even though still good condition of the domestic labour market supported brisk growth of pension insurance revenues, its year-on-year pace was not even one half compared to expenditures on pensions last year. Balance of the pension insurance system<sup>21</sup> thus dived into a record deficit last year (72.8 CZK bn), more than triple year-on-year.

Growth of outlays on non-pension social benefits slowed down. Expenditures on child allowances, humanitarian benefit for the refugees, parental allowance as well as sickness benefits decreased.

Growth of expenditures on other social benefits, unlike the pension benefits, vigorously slowed down last year (+1.7%, to 182.9 CZK bn) after the fast pace in year 2022 (+11.2%), even above the scope of the budget anticipation. Decrease of the child allowance (-4.8 CZK bn, i.e. -45%) caused by the pay out of single benefit to majority of households with children during the summer 2022 (5 thousand per child) significantly participated on the year-on-year slowdown of the rate of growth. The volume of humanitarian benefits for refugees from Ukraine (-20%, -1.7 CZK bn) reduced mainly due to the stronger targeting<sup>22</sup>. Lower drawing on weight significant parental allowances (-5.7%, -1.9 CZK bn last year) occurred for the third year in a row. Decrease of expenditures on sickness benefits (-4.6%) last similar time, still their last year amount (45.9 CZK bn<sup>23</sup>) was distinctly above the level of year 2019 (+17%). Housing allowance, whose volume more than doubled year-on-year (to 17.9 CZK bn), worked the most in the direction of growth of non-pension benefits last year. The impact of high prices of energies and increase of costs admitted for payout, but also growth of the awareness regarding the possibility to draw on this assistance in the population, or simplification of the procedure of claiming this benefit manifested here. One order lower effect on the total growth of benefits had the higher volume of benefits for persons with disabilities (+40.9%)<sup>24</sup>, long-term care benefits (+2.2%) or growth of expenditures of the unemployment benefits (+6.2%)<sup>25</sup>, which renewed last year after two preceding years. Cooling of the labour market was reflected in mild growth of the number of long-term unemployed, which also supported the higher drawing of allowances for living (+16%, +0.6 CZK bn).

Drawing of housing allowance dramatically increased.

Sharp growth of the non-investment subsidies to entrepreneurs was

Non-investment subsidies to entrepreneurs presented as expected the fastest growing current outlays of the SB last year when they expanded by 54.6% year-on-year and achieved 137.8

<sup>19</sup> The average retirement pension increased by 4.7% during due adjustment last year in January, by 3.9% in June during the extraordinary increase (under already amended legislative conditions moderating the rate of growth of adjustment). The level of pensions (especially of females) was also elevated by the newly introduced regular allowance per every raised child, child-rearing allowance (500 CZK). The average monthly old age pension (without overlap with other pensions) was 21 454 CZK for males, 19 063 CZK for females last year in December. Resulting from the introduction of "child-raising" the difference in the level of pensions markedly narrowed between males and females.

<sup>20</sup> Growth of the number of all recipients of permanently reduced old age pensions (SOP) accelerated last year (to 7.7% year-on-year in Q4, the most since year 2012) and their share on all old age pension recipients crossed the 30% threshold. Number of SOP do not include persons, which lodged the request for early retirement, but postponed the commencement of its payout.

<sup>21</sup> It expresses the difference between the income from insurance on pensions and outlays on the pension insurance benefits (including the costs of its administration).

<sup>22</sup> Admissible cost of housing is considered during the calculation of the benefit amount (determined by the government regulation) since July 2023, whose size is dependent on the number of persons and the form of housing.

<sup>23</sup> Expenditures on these benefits exceeded the revenues from the insurance also last year (despite their fast growth), this deficit nevertheless decreased from 8.0 bn CZK in year 2022 to last year's 2.7 bn.

<sup>24</sup> Higher growth is connected to the raising of limit of benefits on special aid and on mobility. Number of recipients of these benefits was higher only by 2% year-on-year.

<sup>25</sup> 86 thousand of registered job applicants (30.9% of their total number) were entitled to the unemployment benefit in December last year.



<p>closely connected to the energy price ceilings for customers.</p>	<p>CZK bn<sup>26</sup>. Because they contain the extraordinary outlays on the assistance with high prices of energies – mainly compensations for the supplies of electricity and gas to customers and losses due to the ceilings on their prices (52.8 CZK bn), further subsidies to the operators of the transmission system (18.7 bn) or assistance to firms in energy-intensive branches (4.6 bn). More than 40% of these expenditures were released already in Q1 last year. Year-on-year growth of the transfers to entrepreneurs was subdued by the decrease of the advance subsidies on renewable sources of energy (also containing the impacts of the temporary waiving of the fees), smaller saving was also attained for expenditures on solutions of impacts connected to the pandemics.</p>
<p>Expenditures on wages of employees in the regional education grew.</p>	<p>Weight significant non-investment transfers to regional budgets increased by 9.6% year-on-year to 266.2 CZK bn. More than one half of the last year's increase related to the raised wages of workers in primary and secondary schools<sup>27</sup>. Strengthening of outlays on social services, compensation allowance on the housing of refugees from Ukraine or co-financing of programmes in the area of education, supported from the EU budget, also had an effect. Among other areas, SB was also notably burdened by anticipated expenditures on servicing the state debt, whose year-on-year growth substantially accelerated to record 37.4% last year (+18.6 CZK bn)<sup>28</sup>. 7.4%<sup>29</sup> more (+11.4 CZK bn) was directed to the wages in the central government institutions last year. It was connected to the increase of wage tariffs of the public security forces and armed forces (since January 2023) and employees in the civil service (since September 2022). After the freeze during the pandemics, outlays on the wages of constitutional authorities also increased last year. Payments of the public health insurance for the so-called state insured person, which grew by 7.2% (+9.3 CZK bn) primarily due to the increase of the assessment base for payment represented the last chapter sharing more notably on the growth of current expenditures.</p>
<p>Expenditures on servicing the state debt accelerated to record pace.</p>	<p>Weight significant non-investment transfers to regional budgets increased by 9.6% year-on-year to 266.2 CZK bn. More than one half of the last year's increase related to the raised wages of workers in primary and secondary schools<sup>27</sup>. Strengthening of outlays on social services, compensation allowance on the housing of refugees from Ukraine or co-financing of programmes in the area of education, supported from the EU budget, also had an effect. Among other areas, SB was also notably burdened by anticipated expenditures on servicing the state debt, whose year-on-year growth substantially accelerated to record 37.4% last year (+18.6 CZK bn)<sup>28</sup>. 7.4%<sup>29</sup> more (+11.4 CZK bn) was directed to the wages in the central government institutions last year. It was connected to the increase of wage tariffs of the public security forces and armed forces (since January 2023) and employees in the civil service (since September 2022). After the freeze during the pandemics, outlays on the wages of constitutional authorities also increased last year. Payments of the public health insurance for the so-called state insured person, which grew by 7.2% (+9.3 CZK bn) primarily due to the increase of the assessment base for payment represented the last chapter sharing more notably on the growth of current expenditures.</p>
<p>Size of current subsidies to agriculture or non-investment purchases went down.</p>	<p>Growth of SB current expenditures was mainly subdued by lower subsidies to the State agricultural intervention fund, which slumped by nearly 30% (-12.9 CZK bn) year-on-year. Non-investment purchases, where was directed by one tenth less (-9.6 CZK bn) against year 2022, also recorded savings. Mainly lower price of natural gas acquired into the state material reserves, decrease of purchases of vaccination as well as lower compensation to the Czech Post stood behind it. Increase of expenditures on the contrary arose for purchases associated with the area of defence and internal security last year.</p>
<p>Expenditures on environment, defence and security contributed to the fast growth of investment.</p>	<p>Rate of growth of the SB capital outlays accelerated to 13.6% last year, by 25.4 CZK bn more was invested year-on-year. Still the size of investment remained slightly behind the budget anticipations (-2.6%). Not only resources on common programmes of the CR from the EU, but also investment solely from the national resources (these formed more than one half of all capital expenditures last year) participated on the growth of investment unlike in year 2022. Subsidies to regional budgets (+8.4 CZK bn) shared the most on the increase of total investment from the SB, all categories of investment however recorded higher increase. Subsidies into the transport infrastructure were the exception (-8.7 CZK bn)<sup>30</sup>, still they formed one third of all SB investment (68.1 bn). Opposed to year 2022, investment purchases also participated on the growth of capital outlays last year (+6.9 CZK bn), it concerned especially military equipment and transport equipment. Total investment</p>
<p>Proportion of investment on total SB expenditures was the highest in the last eight years.</p>	<p>Subsidies into the transport infrastructure were the exception (-8.7 CZK bn)<sup>30</sup>, still they formed one third of all SB investment (68.1 bn). Opposed to year 2022, investment purchases also participated on the growth of capital outlays last year (+6.9 CZK bn), it concerned especially military equipment and transport equipment. Total investment</p>

<sup>26</sup> Thus, they exceeded the so far record transfers from year 2021, which mainly consisted of support programmes for entrepreneurs in the peak period of the covid-19 pandemics, by one tenth.

<sup>27</sup> The volume of resource on the wages of qualified teachers increased by 4% since January 2023, the increase for non-teaching workers occurred already since September 2022 (+8%).

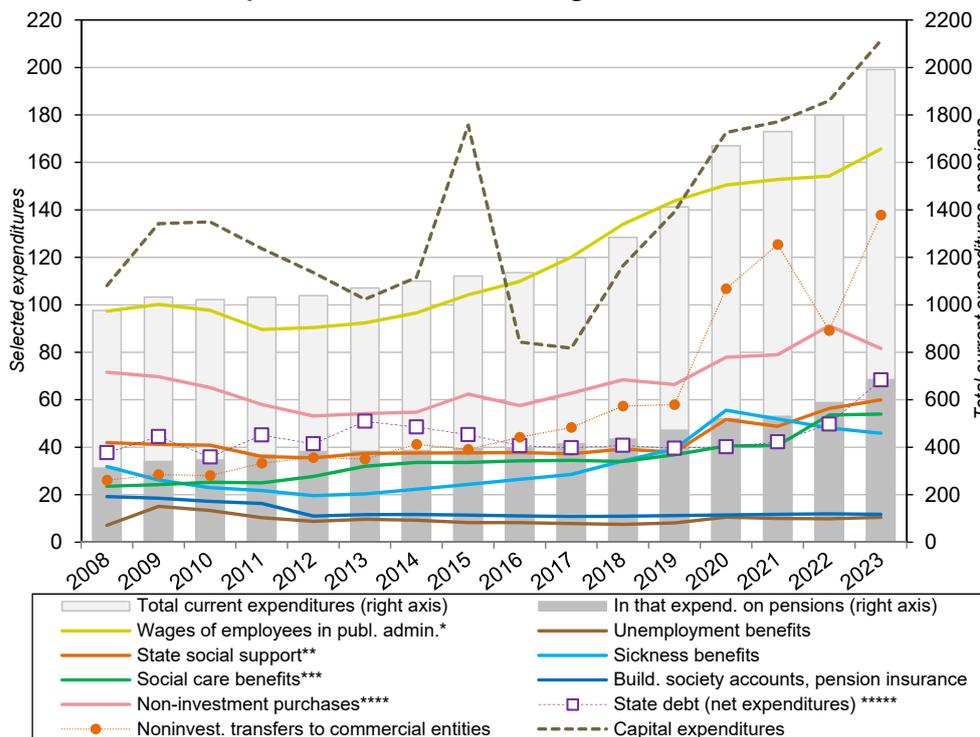
<sup>28</sup> Net expenditures correspond to the balance of the budget chapter State debt (no. 396). Payments of counter-inflationary state bonds to citizens had a major effect on the growth of expenditures here, rising interest rates of other instruments of debt financing and overall trend of growth of indebtedness from the preceding years had a partial role then.

<sup>29</sup> It represented the highest growth in the last five-year period. Still the last year's increase mildly stayed behind the volume of paid out wages and salaries in the whole economy.

<sup>30</sup> Approved budget of the State fund for transport infrastructure counted thanks to the reinforcement of the principle of multi-source financing (including new instruments of debt financing) with record revenues in the amount of 150.9 bn CZK in year 2023.

participated 9.6% on all SB expenditures last year, the most in the last eight years. From the long-time view however (last two decades) it still concerns rather an average value.

**Chart 19 Selected expenditures of the state budget**



\* Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.  
 \*\*Also includes the foster care benefits.  
 \*\*\*Include Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support. Humanitarian aid provided for citizens of Ukraine is also included here.  
 \*\*\*\*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, MPSV

State debt ascended to record size, the indebtedness growth rate was however the lowest in the last four years.

State debt ascended to record 3 111 CZK bn at the end of year 2023. It increased by 216 CZK bn year-on-year, i.e., approximately one half less than during years 2020, 2021 and 2022. Indebtedness pace moderations is linked to the decrease of the above adopted short-term foreign loans and at the same time to the increase of repaid loans. Consequently, the external debt shrank by 47.4% during the last year (to 152 CZK bn). The internal debt however increased by 13.5%, mainly because of continuing high issue of medium and long-term state bonds, higher volume of state treasury bills also had a partial effect.

Budget deficit of the government sector stayed the same for Q1 till Q3 year-on-year.

Sector of government institutions (VI) in the CR managed a deficit of 117 CZK bn<sup>31</sup> in the CR in Q1 to Q3 2023<sup>32</sup>, nearly identical as in the same period of the previous year. Given the stagnation of the deep deficit of central government institutions (which financed key extraordinary expenditures connected to the solution of the impact of higher inflation or integration of refugees from Ukraine) mild increase of the surplus of local government institutions arose (to record 93 bn), on the contrary the positive balance of budget of health insurance companies slightly worsened (from 15 bn to 4 bn). Revenues of the whole sector VI increased by 10.8% year-on-year last year for the three quarters, mainly due to the current taxes on income (+72 CZK bn), received social contributions (+61 bn) or growing importance of received dividends. In contrast, the influence of VAT and consumer taxes weakened. Total expenditures VI analogically increased by 10.2%, which was the result of mostly social

<sup>31</sup> Unless stated otherwise, data regarding the budget balance of sector VI in the CR are expressed without seasonal adjustment.  
<sup>32</sup> Data regarding the budget of government institutions for Q4 as well as the whole year 2023 will be published by the CZSO on 2<sup>nd</sup> April 2024, Eurostat then on 22<sup>nd</sup> April. More detailed assessment of the development for Q3 2023 is contained in the publication Analysis of the sector accounts: [Analýza sektorových účtů](#):



Year-on-year growth of the absolute size of debt again exceeded the budget deficit. Thanks to brisk nominal growth of GDP, the indebtedness rate dropped year-on-year.

benefits and natural social transfers (+96 CZK bn), paid out subsidies (+40 bn) and compensations to employees (+40 bn), whose pro-growth role however strengthened against year 2022. Seasonally adjusted budget deficit VI attained the size of 3.1% of GDP in Q3 2023 and nearly did not change since the beginning of the year. Nominal debt VI reached 3 214 CZK bn at the end of Q3 2023 and increased by 231 bn year-on-year. The growth of debt significantly exceeded the attained budget deficit VI similarly to the period of years 2020–2022. The rate of indebtedness of sector VI reached 44.5% of GDP in Q3 (45.2% one year earlier). Year-on-year decrease of indebtedness<sup>33</sup> occurred for the first time in the last one and a half years.

After increase of public finance imbalance in H2 2022, the budget deficits gradually stabilized in the majority of EU states.

The shape of public finances stabilized in the EU last year following the sharp deterioration during year 2022. After subsiding of the last year price acceleration for energies, the need for extraordinary public expenditures partially mitigated. On the other side the continuing very weak economic growth of the majority of European economies adversely left its mark also on the revenues of sector VI (these in relation to GDP remained below the level from year 2022 last year). The budget deficit (after seasonal adjustment) VI was 2.8% of GDP in the EU in Q3 2023, which was by 0.2 p.p. less than in the previous quarter and by whole 1 p.p. better result in comparison to the same period of the preceding year. Hungary (−7.3% of GDP), Italy (−7.1%), Romania (−5.7%) and Slovakia (−5.5%) was hit by the relatively highest deficit in Q1 to Q3 2023. On the contrary, only Denmark, Ireland, Portugal and Cyprus achieved more significant surplus (above 1% of GDP). The deficit deepened in the majority of states year-on-year (since the situation was still stabilised in the area of public deficits in H1 2022). It dropped the most in Slovakia (from −1.7% to −5.5% of GDP), with mild distance then in Poland, Sweden, Hungary, Estonia and Finland. The deficit remained near 3% of GDP in the EU in both years, similarly to the CR.

The deficit of the sector of government institutions deepened in the number of states of Central and North Europe.

Decrease of the rate of indebtedness continues in the EU countries last year, even though at a slower pace.

The rate of indebtedness of the sector VI was 82.6% of GDP in the EU, in that 89.9% of GDP in the euro area at the end of Q3. Quarter-on-quarter decrease of indebtedness thus lasted 2.5 years, even though it took place at a slower pace last year. Compared to Q3 2022, the current indebtedness was lower in two thirds of the Union states (by precise 2 p.p. in the whole EU), the most in some highly indebted states – in Greece, Portugal, Cyprus (by more than 10 p.p.), but also e.g., in Ireland (−4.9 p.p.) and Sweden (−4.0 p.p.). In contrast, the indebtedness heightened especially in Belgium (from 105.6% to 108.0% of GDP). The indebtedness rate in the CR was still “only” one half against the euro area and the ninth lowest among the EU states (in that the fifth between its newest members – after Estonia, Bulgaria, Lithuania and Latvia). It however increased by 14.5 p.p. against the end of year 2019 (together with France the most in the EU), nearly three times more than in Germany or the average for the Union. On the contrary, eight countries managed to decrease the indebtedness for this period – by more than 13 p.p. Greece, Cyprus and Ireland, milder also Sweden, Denmark and the Netherlands. Poland, where the indebtedness increased from 45.7% to 48.7% of GDP fared relatively the best among the Central European states.

The CR indebtedness rate was the ninth lowest in the Union, but its total increase was the highest among the states since the end of year 2019.

<sup>33</sup> Swiftly growing nominal GDP contributed to the year-on-year decrease of indebtedness −3.9 p.p. in Q3, on the contrary the effect of the nominal change of the debt arrived at + 3.2 p.p.