

8. State Budget

Depth of the state budget deficit lowered already for fifth time in a row. In 2014, the absolute size of the deficit was the fourth lowest since 2003

Higher volatility of both revenues and expenditure due to indirect taxes flow and also investment expenditure during the year

Lower deficit was secured by lower than anticipated drawing of social benefits as well as savings on non-investment purchases and higher collection of both VAT and corporate taxes

VAT collection increased by more than doubled rate of growth year-on-year compared to the growth of total consumption in the economy

The collection stayed behind the budget anticipations for main types of consumption taxes

The economic recovery transformed into strong growth of corporate tax collection, natural person income taxes (PPIT) from the dependent activity did not fulfil the budget anticipations despite a mild growth

Next to long-term effort for fiscal consolidation, especially the gradual growth of the economy and significantly also the record drawing from the EU budget (in connection to the ending programming period) impacted the state budget results during 2014. The 2014 state budget ended (based on cash fulfilment) in the lowest deficit (-77.8 bn CZK) since the beginning of deep economic recession. The size of the deficit was more favourable „only“ by 3.5 bn CZK year-on-year, however it was nearly by one third lower compared to the approved budget for 2014 (by one fifth in the previous year). The development in the first half of the year, when the state even managed a mild surplus, was instrumental in the milder deficit year-on-year. Not only the accumulation of investment expenditure at the end of the year or irregularity of drawing of funds from the EU, but also the large collection of indirect taxes at the beginning of the year caused larger fluctuations during the year¹. The state budget (SB) deficit in relation to nominal GDP improved to 1.8 % in 2014 (from last year's -2.0 %). Significantly more favourable result occurred since year 2000 only in 2008 (-0.5 %).

The lead of revenue growth (+ 3.8 % year-on-year) ahead of expenditure (+ 3.3 %) was behind the more favourable result of the state budget deficit year-on-year. Especially the VAT collection (budget surpassed by 11.5 bn CZK) and taxes from corporations (+ 7.0 bn CZK) resulted in the lower than anticipated deficit, savings on non-investment purchases (incl. expenditure on state debt) then on the expenditure side. The anticipated expenditure on social benefits also remained non-fulfilled (-7.5 bn CZK).

The weight dominant tax revenues contributed to the higher year-on-year revenues of the SB by nearly one half (+18.8 bn CZK). Collection of insurance on social security also provided a positive effect (+10.6 bn CZK), as did the revenues outside the tax area (+12.6 bn CZK) supported by intensive drawing from the EU budget and also some extraordinary revenues². VAT was the key item for the growth of the SB revenues in 2014, its state-wide collection strengthened by 4.7 % year-on-year, which next to economic recovery also some measures of the tax evasion fight affected. The collection of consumption taxes was on the contrary affected by legislation³, and especially for these reasons remained behind the budget anticipations for all its main components. The SB acquired by 4.5 % less from the consumption tax on tobacco products year-on-year. The collection for the most weight significant tax on mineral oils strengthened by 4.7 % (sales of fuel sellers themselves increased by 2.1 % in nominal terms), but also did not meet SB anticipations.

Improved economic situation of companies raised the state-wide collection of corporate taxes by one tenth year-on-year (the fastest growth since 2008). On the contrary, the collection of taxes on natural person income tax from dependent activity (+3.8 %) lagged behind not only the last year's dynamics (+5.3 %), but also the budget anticipations. So far very mild rise of both wages and employment and also the return of basic discount on tax for working retirees are reflected in the rates of growth of the collection. Still, the state-wide collection of taxes from employees for the whole year 2014 found itself above the level of boom top (year 2008) by one seventh, on the contrary it was by more than one quarter lower for corporations (it was dampened next to recession impacts on the profits of companies also by the repeated lowering of the tax rate). The collection from PPIT from capital income was higher by one seventh year-on-year in 2014.

¹ The higher collection of the consumption tax on tobacco products (planned whole-year revenues were filled from 35 % even in January itself) was connected with the pre-stocking of traders at the end of year 2013 for the reason of subsequent increase of the rates for the tobacco products from 1st January. Higher collection for the VAT at the beginning of the year can be explained by the holdup of the pay out of excessive deductions of VAT (within the initiation of the procedure to remove doubts by the tax administrator for some tax entities), majority of this way "delayed" funds was paid out by the end of 2014.

² Especially the extraordinary revenue related to the auction of frequency bands for high speed mobile network LTE (+8.5 bn crowns).

³ The effect of pre-stocking faded away for the tax on tobacco products (pl. see note 12) during the year and the long-term trends in tobacco products consumption started to prevail. Further planned increase of rates, included in the state budget 2014 proposal, was not approved. The collection of tax on mineral oils was adversely affected by the re-introduction of the so called "green fuel" as of 1.7.2014.

Lowering of rates occurred for the tax payments on "solar systems" from 26 % to 10 % (resp. from 28 % to 11 %), at the same time lengthening the payment for equipment introduced to operation during the year 2010.



The total SB expenditure rose the most for the last five years year-on-year, still it remained nearly by 30 bn CZK below the budget anticipations

The current expenditure (+2.7 %) contributed to the year-on-year growth of total SB expenditure (+38.5 bn CZK) from three quarters, the continued fall of capital expenditure halted due to the „finish“ at the end of 2014 after three years (+9.8 %). Four fifths of investment expenditure were allocated on the common programs of the CR and the EU. Investment shared in the total state budget expenditure by 9.3 % in 2014, one fifth below the level of years 2009-10, but still more compared to the period shortly before the CR accession to the EU (7-8 %).

Stopping of further deepening of the pension account deficit mostly due to the improved collection of insurance (which for the first time after 2007 fulfilled the budget anticipations in 2014)

The pension expenditure the most significant in volume (in line with budget anticipation) mildly grew year-on-year (+0.8 %). Especially the number of pension recipients, which in fact stagnates nearly ten quarters in a row, affected the size of the pension expenditure given the lower rate of pension adjustment (indexation). The improvement on the labour market was reflected in the growth of social insurance collection on pensions, whose dynamics further strengthened during the year 2014. Pension account balance (as a difference between revenues and expenditure on pensions from the SB) deficit lowered to 45 bn CZK and recorded the largest positive shift year-on-year (lowering of deficit by 5 bn CZK) since 2007.

Other social benefits (without pensions) were by 3.1 % larger year-on-year

The size of all social benefits (excluding pensions) grew year-on-year (+3.1 %). Only funds on unemployment benefits (-4 %), which every fifth registered candidate received at the end of the year, dropped among the more significant items. State however expended more on other benefits – especially the social care benefits (mostly the material deprivation assistance – by nearly one half more in the last two years), sickness insurance benefits (+10 %), as well as the most volume significant state social support benefits (+0.3 %), where mostly the housing benefits grew (+19 %). Expenditure on all social benefits „cut“ 40.9 % from the budget (in 2013 it was 41.7 %).

The CR acquired from EU budget so far „in net“ 410 bn CZK since the accession to the EU, one sixth of this amount in year 2014 itself

Net positive position of the CR towards the EU budget amounted to 76 bn CZK in 2014 and moved close to the so far record level of year 2013. One half of revenues came from the most significant part in the long-term – the structural funds. The significance of the cohesion funds was strengthening to the detriment of funds on rural development from the view of the CR revenues in the past years. The CR paid into the EU budget 387 bn CZK and received 798 bn CZK in years 2004-2014.

The state debt declined (for the first time since 1995) due to the lowering of foreign indebtedness in 2014

Total state debt mildly decreased (by 19.6 bn CZK) to 1 663 bn CZK during 2014. It was the first lowering of indebtedness since 1995. Full 82 % of the state debt pertained to the inner indebtedness at the end of 2014 (whose size increased by 5.9 % year-on-year).

Chart 19 **Statewide collection of tax revenues (y/y, in %) and development of state budget balance (in bn CZK), data for individual quarters**

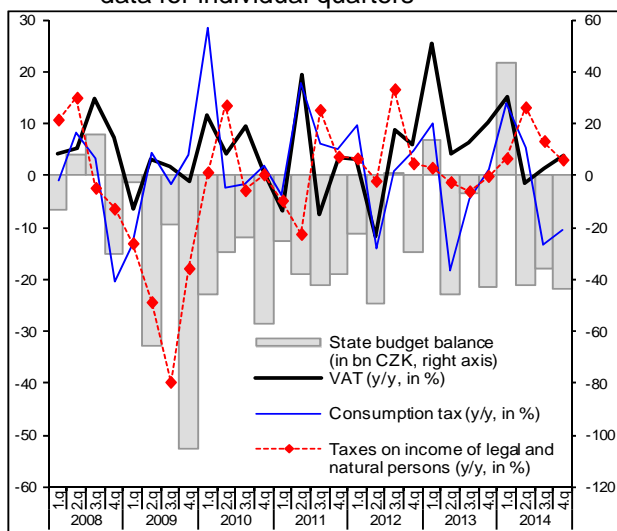
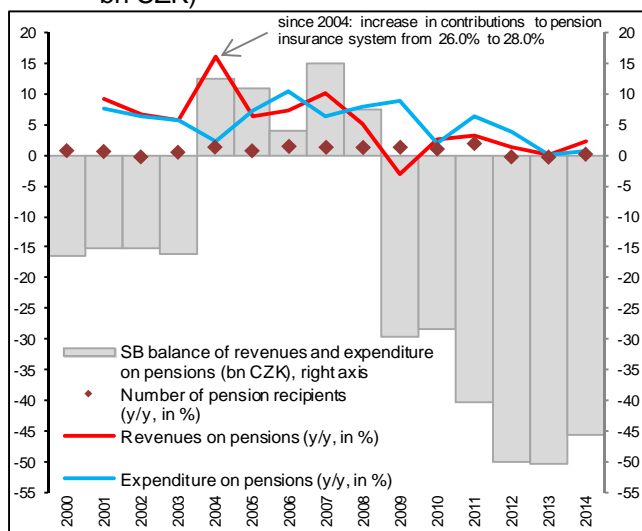


Chart 20 **Number of all pension recipients, revenues, expenditure on pensions from state budget (y/y, in %) and pension account balance (in bn CZK)**



Source: MF CR, CSSA

Chart 21 **Composition of revenues of the CR from the EU budget and net position of the CR towards the EU budget (in bn CZK)**

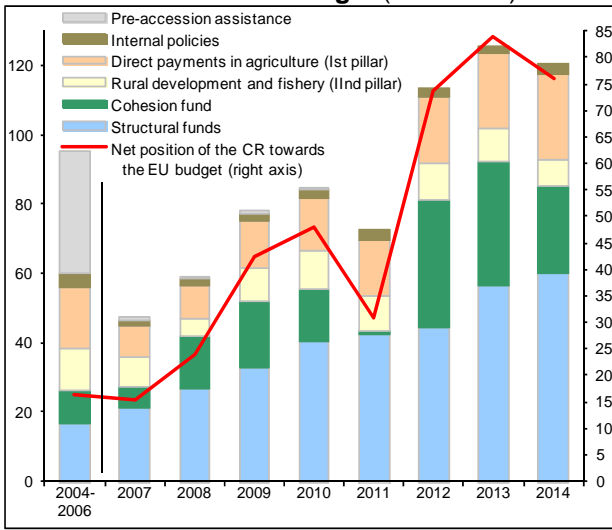
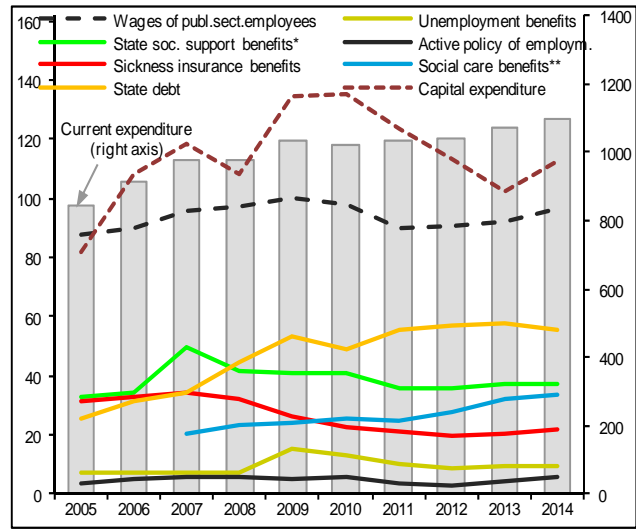


Chart 22 **Selected expenditures of state budget (in bn CZK)**



*incl. foster care benefits

**material deprivation assistance benefits, disability benefits, contribution to care based on Act on State Social Support

Source: MF CR

