8. State Budget

Size of last year´s state budget deficit as well as its year-on-year deepening was record in the history of the independent CR.

In 2020, the state budget (SB)[1] ended in deficit in the amount of 367.4 CZK bn, which was by nearly 340 bn deeper year-on-year. Its value as well as the year-on-year increase were unprecedented in the history of the modern CR. Even though the deficit was reached in all last year´s months, its size was majorly determined by the anti-pandemic measures, which radically restricted the economic activity especially in the area of market services in both spring and autumn wave[2]. Together with the reliefs to business entities, it led into a notable reduction of the tax collection. Simultaneously an acute need arose to strengthen the outlay transfers for the support of the hit branches as well as workers, but also for the compensation of higher claims especially in the area of health care.

State-wide tax collection decreased by 5.7% for the whole last year, mainly due to the slump in Q2.

Following two preceding years of strong growth, the total SB revenues decreased by 3.1% year-on-year in 2020. Substantial fallout of tax incomes (in the amount of 46.5 CZK bn) as well as collection of insurance on social security (–11.3 bn.) was evident. Total state-wide collection of taxes (without insurance) at the level of all public budgets fell by 5.7%[3] year-on-year for the first time since 2009 last year. While in Q1 2020, this collection was still growing (+4.6%), in Q2 the slump already occurred (–12.6%). Certain stabilisation eventuated in the subsequent quarter (+1.3%), which despite repeated adoption of anti-pandemic measures continued in the remaining part of the year (+0.3%). Increasing inflow of funds from the EU budget and transfer of funds from the privatization account supported last year (similarly to year 2019) the SB revenue side.

State-wide collection of corporate tax fell by one eighth last year, the most since year 2009.

Fallout of the collection of corporate tax left the largest mark on the last year´s decrease of the total SB revenues. It was lower by 15.1 CZK bn (contrary, it grew by 6.0 bn for year 2019). Waiver of the July tax advance payment as well as the option of individual setting of tax advance payment mainly had an impact (total effect –20.3 bn). State-wide collection of the corporate tax decreased by 12.2% year-on-year, that is more than in year 2013 (–5.7%), but at the same time much less than in the crisis year 2009 (–34.5%). Positive fact was, that the collection of tax grew year-on-year in Q4 2020 itself (+16%). It could have been linked to the recovery of industry. However, adverse results of the budgets of businesses in the branches of services the most hit by the anti-pandemic restrictions have not been fully reflected by far in the corporate tax collection[4].

Collection of income tax of natural persons was mainly affected by the paid out compensation bonuses. Tax collection mildly grew in H2 of the year.

SB gained by 5.3% (resp. 7.5 CZK bn) less year-on-year on the income tax of natural persons (NO) from the taxpayers. State-wide collection of this tax was decreasing by a similar rate of growth and thus fell for the first time in the last eleven years[5]. Direct support in the form of paid out compensation bonuses, especially to self-employed persons (in the total amount of 16.1 CZK bn) played a key negative role here. Higher number of persons caring for a child in the period of closed schools, reduced total employment as well as the lower dynamics of the average wage growth in the economy also had an effect. Annual collection was majorly affected by the slump in Q2 2020, the collection slightly increased year-on-year in the following two quarters (+4%). SB revenues from other taxes from NO reduced by one eighth in year 2020. Collection of taxes from tax returns (paid by taxpayers) was the lowest in the last four years (4.6 CZK bn), mainly due to waiving part of advance tax payments (alternatively their lowering) and also by the repeated increase of outlay flat rates. On the contrary, the SB acquired by 3%

[1] Unless stated otherwise, all figures related to the state budget stem from the data of the Ministry of Finance of the CR regarding the cash fulfilment.
[2] SB deficit deepened by 63.7 CZK bn during May only, by further 67.5 bn in November.
[3] The depth of slump in 2009 was however compared to the last year more than double (–11.6%).
[4] Small and medium businesses are more frequently represented in this segment, who with the view to the size of their sales often do not have to be regular payers of the tax advances. Their adverse economic results will thus be fully reflected in tax collection only in summer 2021 (at annual tax settlement).
[5] Deeper year-on-year plunge of the collection of this tax occurred last in year 2008 (by 8.9%). The introduction of even 15% tax from the super-gross wage had a major effect at that time.

more year-on-year[6] on the revenue tax of NO (withholding tax). Number of part time jobs (contracts for work) and also the total amount of household savings and change of client interest rates had effect on the size of this tax.

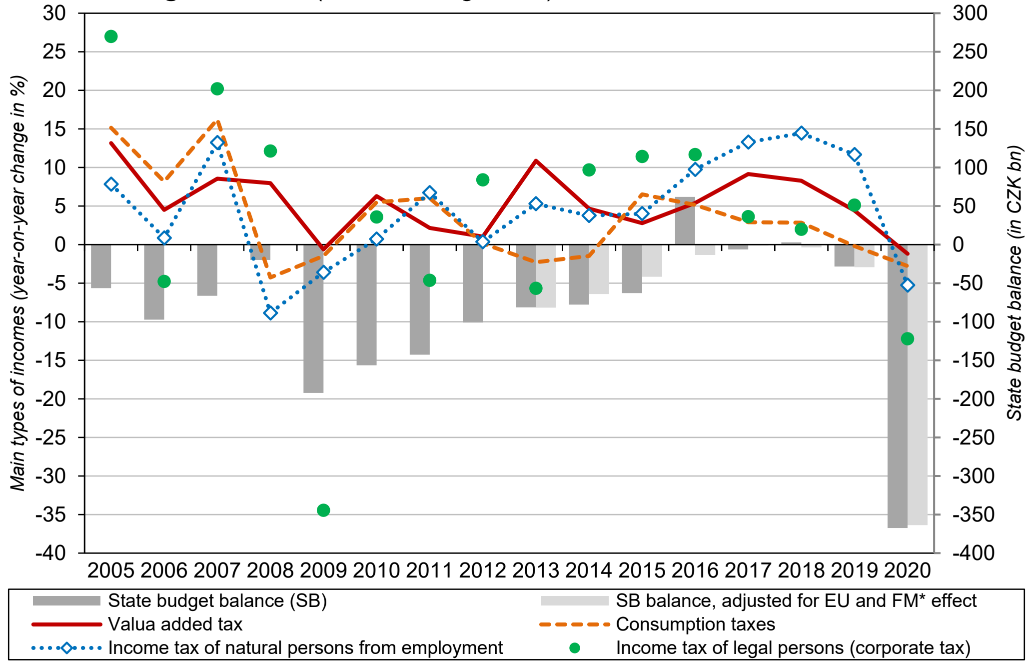
State wide collection of VAT mildly fell last year, for the first time since year 2009.

Total SB revenues were negatively affected also by the slump of the property tax collection (due to the cancelling of real estate transfer tax with the impact of –11 CZK bn) in year 2020. On the contrary, the influence of indirect taxes was smaller last year. From the weight dominant tax – VAT – by 1.2% less year-on-year (resp. by 3.5 CZK bn) flew into the SB. Annual reduction of the tax collection (at the level of all public budgets) occurred last in year 2009. Last year´s VAT collection was apart from the restriction of establishments also affected by the cut of tax rate for some services (e.g. in food service). Retail sales in current prices slightly increased (+0.3%) compared to year 2019.

Lower transport works, downturn of tourism as well as repeated closures of restaurants stood behind the decrease of the consumption tax collection.

Total last year SB collection from the consumption taxes shrank by 2.5% (resp. by 4 CZK bn), due to the year-on-year fallout in both Q2 and Q4 (by 18.3%, resp. 3.2%). Substantial reduction of the transport work (including the transit traffic) for the whole year 2020 was reflected in the 8.2% slump of collection of tax on mineral oils. Decrease of this tax manifested for the first time since year 2013. Despite the increase of tax rate, the collection of tax on alcohol also fell last year (–5.7%). Repeated closures of hospitality establishments amplified by the subdued arrival tourism for the prevailing part of the year proved to be the key factor. Similar factors also had effect on the collection of tax on tobacco products, which grew (+6.4%), but still did not fulfil the budget anticipation last year.

Chart 16 State wide collection of selected tax incomes (year-on-year in %) **and state budget balance** (in CZK bn, right axis)



*Balance adjusted for funds on programmes and projects from the EU budget (including financial mechanisms), which were pre-financed from the SB and are subsequently reimbursed from the EU budget and financial mechanisms.
Source: MF CR

Pace of SB outlays accelerated to record 18.8% last year.

Total SB outlays shot by 18.8% year-on-year (resp. 291 CZK bn), record rate of growth in the current millennium. Outlays exceeded the original budget anticipations by 225 CZK bn. Pace of outlays strengthened by a fourth year in a row. Mainly current outlays contributed to the growth last year (+258 bn). More than one half of their last year addition was attributed to the outlays associated with the compensation measures (to businesses, individuals as well as

[6] It was the only more significant by volume tax, whose collection exceeded the original budget anticipation in year 2020 (based on the State Budget Act approved on 4th December 2019 with budget deficit of 40 CZK bn).

More than one half of the year-on-year addition to current outlays was closely connected to the anti-pandemic measures.

municipalities) or support of the burdened both health and social system[7]. Year-on-year rate of growth of the current outlays gained intensity during the year – from 12.4% in Q1 to 24.5% in the last quarter of the year. Non-investment transfers to business entities (+84%, resp. 49 CZK bn), which concentrated significant part of the anti-pandemic support measures (compensation of part of the wage to employees within the Antivirus programme, support of businesses in the most hit branches, extraordinary wage growth in the private hospitals) grew the most among the current outlays for the whole year 2020. Current transfers to regional budgets also increased (+40 bn), primarily thanks to the planned increase of the outlays on wages of primary and secondary education employees and also in the area of social care. Provision of extraordinary allowance to municipalities to mitigate the impacts of the reduced tax incomes also had an effect. By 25 CZK bn more were channelled into the funds of the state and public health insurance, mainly thanks to the increased payments per so called person with state medical insurance (e.g. children, students, old-age pensioners). Current outlays on state funds (mainly into the transport infrastructure and agriculture) and state funded organisations (debt relief of selected hospitals and also extraordinary increase of wage outlays in the inpatient hospital care) strengthened similarly by 15 bn. Higher outlays on non-investment purchases were also linked to the anti-pandemic measures[8] (+11 bn), primarily on the acquirement of protective aids. Higher outlays on the wages in the state organisation divisions (+6 bn) were partially associated with higher work performance in the selected areas (police, army, hygienic stations). Transfers of own SB resources into the EU budget grew by more than one fifth (to 54 CZK bn).

Outlays on wages especially in the primary and secondary education grew swiftly. Their strengthening in health care also had an effect.

Growth pace of the outlays on social benefits strengthened. Their proportion on all SB outlays however fell for the fourth year in a row.

Social benefits, whose volume was by 14.2% (resp. 85.2 CZK bn) higher year-on-year, significantly contributed to the current SB outlays last year. Even though it represented a record pace in the current millennium, the proportion of social benefits on all SB outlays has been decreasing for the fourth year in a row (to 37.3%). While in both Q1 to Q3 2020, their growth was driven by the non-pension benefits, in the annual total the role of outlays on pensions proved dominant. It occurred due to the one-off benefit payment (paid out to pension benefits in December) in the amount of 15 CZK bn. Outlays on pensions thus with the view to the regular pension adjustment expanded by 10.2% last year, the most in the last fourteen years. Number of pension recipients lowered by 0.6% compared to the end of year 2019, partially presumably as a consequence of heightened mortality. The revenues of the pension insurance decreased last year (by 2.1%) – for the first time since year 2009, when the decrease amounted even to 3.0%. Measures to support the small entrepreneurs as well as employers played a major role here[9]. Deteriorated situation on the labour market (employment reduction, slowdown of the average wage growth) also played a role. Pension account balance[10] thus following the three surplus preceding years returned to deficit (35.9 CZK bn), the highest in the last six years.

Outlays on pensions accelerated, revenues of the pension insurance in contrast fell for the first time since year 2009.

Payment of care benefits, increase of sickness and raised parental allowance contributed the most to the growth of “non-

SB also expended more on almost all other more significant types of social benefits compared to year 2019 last year. Sickness benefits accelerated (+42%, resp. 55.4 CZK bn), primarily due to the payment of the care benefits provided for the reasons of closure of schools and other establishments. Growth of the total sickness[11] as well as higher number of reimbursed days due to the cancelled “waiting period” were also evident. Volume significant outlays on state

[7] It primarily concerned outlays on health care (54.8 CZK bn, especially purchase of protective aids in connection to covid-19, debt relief of selected hospitals, enhanced payment of the state per the state insured persons and increase of personal costs of workers in the health care), further programme Antivirus A + B (23.7 bn), care benefits for employees and self-employed (12.0 bn), one-off compensation for the income fallout for municipalities and cities (13.4 bn), increase of funds on wages and bonuses in social works and further selected areas of the public sector outside the health care (3.3 bn) or other programmes on direct support of hit businesses as well as branches – e.g. COVID Rent (4.1 bn) and COVID Accommodation (2.3 CZK bn).

[8] Total outlays on non-investment purchases (excluding outlays servicing the state debt) amounted to 78 CZK bn last year and overtook the so far record size from year 2008 (72 bn). These outlays were significantly reduced in ties to the austerity measures in the first half of the last decade.

[9] It concerned the cancellation of minimal advance payments for self-employed persons on social insurance with estimated budget impact of 7.4 CZK bn and further the waiver of insurance on social security and employment policy paid by the employer (13.3 bn).

[10] Expresses the difference between revenues and outlays on pensions from the SB. Outlays do not include the costs of the management of the pension insurance system.

[11] The CSSA data regarding the temporary inability to work show, that while in Q1 2020, the number of sickness days fell by 1.5% year-on-year, it grew by 15.8% in Q2 and by 13.4% in the subsequent quarter.

pension" social benefits.

social support (+36.5%) also expanded, nearly exclusively due to the regulatory increase of the parental allowance, since the drawing of income tested benefits (child allowance, housing allowance) fell further. Long term growing social care benefits also strengthened by one tenth last year, for the first time since year 2014 also due to the higher volume of paid out materiality deprivation benefits (+8.6%). State expended more on the unemployment benefits already second year in a row (in total by 2.4 CZK bn).

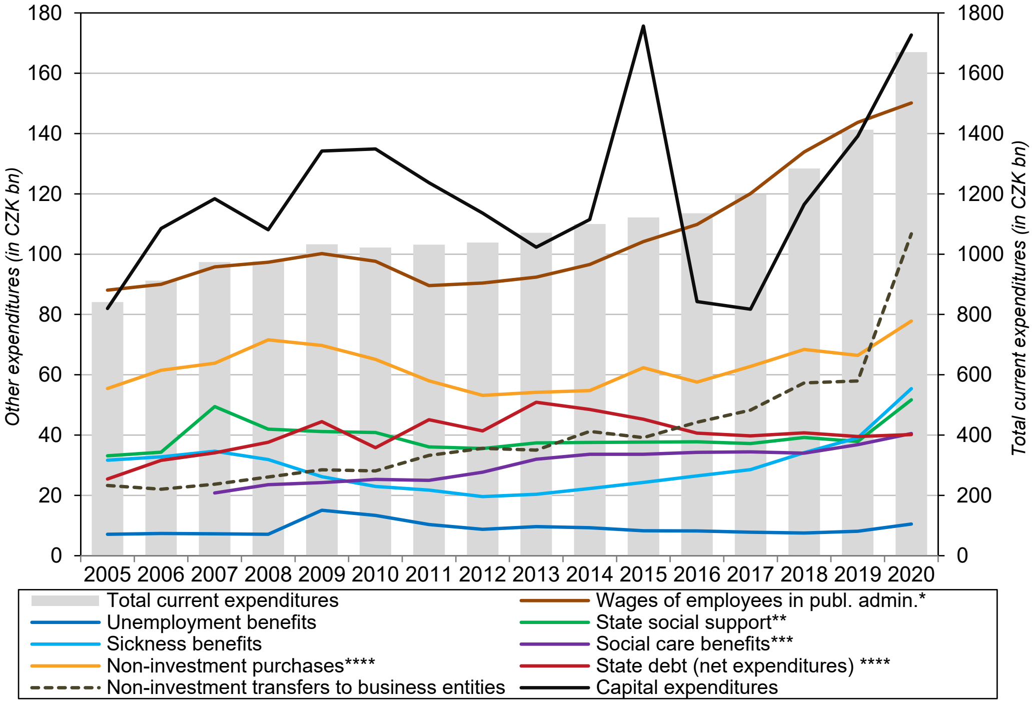
Higher investment from national resources stood mainly behind last year SB capital outlays growth.

SB capital outlays grew by nearly one quarter year-on-year. They amounted to 172.7 CZK bn and nearly matched the record size from year 2015, when the drawing (at the end of the EU programme period) culminated. Strengthening investment from national resources (to 101 CZK bn) contributed from nearly three quarters to the total last year´s growth. Higher outlays aimed at the transport infrastructure (+18 bn) held a key role.

Net position of the CR towards the EU budget increased to 86 CZK bn last year.

Share of total investment on all SB outlays increased for the third year in a row and attained 9.4%. It is also connected to the approaching end of the drawing on „European" investment in the current programme period. Total SB revenues from the EU reached 145.9 CZK bn last year and strengthened by one fifth year-on-year. Higher allocation into the Structural funds (+13 bn) and also the Cohesion fund (+10 bn) stood behind it. Despite significant increase of payments into the Union budget, the total positive balance of the CR with the EU budget increased to 85.7 CZK bn, i.e. the highest value in the last four years.

Chart 17 Selected expenditures of the state budget (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)
*****Expresses the balance of the budget chapter State debt. Consists of net interest outlays and also fees.
Source: MF CR, MLSA

State debt increased by one quarter last year, i.e. more than in years 2009 and 2010.

Strongly growing needed for financing linked to the necessity to cover the crisis SB deficit led to the acceleration of the amount of the state debt. It amounted to 2 050 CZK bn at the end of the last year, grew by one quarter year-on-year[12]. Traditionally issued medium and long-term state bonds were the key debt instruments, last year attained record 600 CZK bn. More than

[12] The state debt expanded by 18% in the crisis year 2009, by 14% in the subsequent year.

Interest outlays on state debt stagnated in the last years.

three quarters of this issue were allotted only to H1 2020. Especially the domestic financial institutions created the demand for the bonds, and thus held already nearly two thirds of the total domestic state bonds at the end of the year. Almost 31% was attributed to non-residents, the least in the last four years. Borrowing need of the state was nearly exclusively focused on the domestic market last year. Koruna value of the external debt thus shrank already seventh year in a row (by 6% last year). External debt comprised only 8.2% of the total state debt at the end of Q4 2020. Net SB outlays to the state debt service amounted to 40.1 CZK bn last year and stagnated year-on-year (already for the fourth time in a row). The decline of the bond yields as well as lowering of the interest rates on the part of CNB also had an effect.

Central government institutions deficit substantially deepened. Regional government institutions and health insurance companies preserved a surplus.

Sector of government institutions (VI) recorded a deficit of 195 CZK bn in the CR during Q1 to Q3 2020. Revenues VI reduced by 2.8% year-on-year, growth of outlays hiked up to 10.7% (in both cases it presented a record paces for the last decade). Budget balance worsened year-on-year in all subsectors VI, the most however in central institutions VI, which bore the decisive part of the costs of anti-pandemic measures. Health insurance companies as well as local institutions VI preserved a surplus budget, partially thanks to lower investment activity. Seasonally adjusted balance of sector VI budget plunged to –4.5% HDP in period Q1 to Q3. It thus recorded a first deficit after five years and at the same time the worst result since year 2009 (–5.5%).

Both budget deficit and increase of indebtedness of the CR were among the smaller in the EU countries.

Still, it represented more positive value than in the EU (–6.6%) or all central European states (e.g. Germany –4.6%, Poland –8.5%). This deep budget must have been reflected in the debt acceleration. The indebtedness rate overtook the record level from year 2014 in the EU, at the end of Q3 2020, it closely approached the value of 90% of GDP. It increased in all Union countries year-on-year – by more than 15 p.p. in Cyprus, Italy, Greece, Spain and France. Growth in the CR (+6.9 p.p., to 38.4% of GDP) was weaker compared to the whole EU (+10.6 p.p.). Also thanks to this, the CR still belonged among the four less indebted countries of the EU.