8. State Budget

State budget ended in record deficit in year 2021, which was however lower than the budget anticipations.

State budget (SR)[1] ended in deep deficit in the amount of 419.7 CZK bn in 2021, which was by 52.2 bn higher[2] compared to the previously record deficit from year 2020. Mainly the growth of current expenditures contributed to the deepening of the deficit. Even though the budget deficit was achieved in all last year's months, the measures realised during the Spring pandemic wave, which put a major strain on the budget expenditures[3] fundamentally participated on the total deficit size. Partial loosening of pressure on some current budget expenditures occurred and gradual recovery started to be favourably reflected in total tax collection in the remaining part of the year.

Continuing revival of economy as well as the absence of more significant restrictions during the Autumn pandemic wave led to the situation, when the state-wide tax collection already evened up the pre pandemic level at the end of the year.

The total SR revenues increased by 0.8% (+11.8 CZK bn) year-on-year last year. Mild increase was associated with higher tax income here (including insurance), since both the non-tax and capital income and received transfers did not reach the level from year 2020. Mainly the low comparative bases were reflected in the strengthened tax revenues (+35.4 CZK bn) since an exceptional deferral of legal deadlines on the due date of weight significant taxes as well as insurance on social security (SS) was put in place in Q2 2020. Lowering of tax burden on labour and property and also the change of the budgetary determination of the tax to the benefit of the regional budgets[4] had an adverse effect on the SB revenues for year 2021. The total state wide collection of taxes (without the insurance on SS) at the level of all public budgets did strengthen by 1.2% year-on-year last year, nevertheless it still lagged behind the level from year 2019 (by 4.2%). In the course of the last year the collection however gradually improved. The revival of economy was not even majorly disrupted by the Autumn pandemic wave, which was not anymore accompanied by more significant restrictions of the economic activity in services. The state wide collection of taxes thus lagged behind only by 0.7% behind the same period of year 2019 and it was comparable with this level in Q4.

Growing VAT collection reflected the impact of fast recovery of private consumption as well as the acceleration of prices in the economy.

From the VAT, which traditionally represents the significantly weight dominant tax, flew by 3.7% more (+10.7 CZK bn) into the SB year-on-year last year. The collection at the level of all public budgets strengthened by 8.7% (by 7.4% in two years). The effect of fast revival of private consumption (supported by swift growth of volume of paid out wages and salaries in the economy) overshadowed the impact of lowering of rate of this tax for some services[5]. Especially at the end of the last year, the large collection of tax more and more reflected the accelerating price growth pervading the whole economy. State wide VAT collection thus exceeded the corresponding level from year 2019 by more than 15% in both November and December.

Collection of consumption tax on mineral oils and tobacco fell year-on-year and did not fulfil the budget anticipations.

SB revenues from all consumption taxes decreased by even 3% last year and slightly deepened their decrease from the first year of the pandemics. The lower collection of tax on tobacco products was the most evident last year (–5.5%), despite the 10% increase of the tax rate. By contrast, for mineral oils the decrease of the tax rate (by 1 CZK for diesel fuels) had a visible impact, since the collection of tax would grow without it[6], as suggested by (so far

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[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] Compared to the budget anticipations (anchored in the amendment of the Act on the state budget for year 2021, effective as of 1st March 2021) it represented deficit lower by 80 CZK bn. Mainly the higher than anticipated growth of the collection of direct taxes (especially the corporate tax) stood behind it.
[3] The cumulated SB deficit for the first five months of year 2021 arrived at 255 CZK bn.
[4] Since January 2021, the ratio of municipalities on the state-wide collection of shared taxes increased from 23.58% to 25.84% and regions from 8.92% to 9.78%. This increase represented according to the MF estimations an adverse impact on the annual SB tax collection in the amount of 27.4 CZK bn.
[5] Lowered rate (from 15% to 10%) on food and accommodation and services, cultural and sport events, further also for example on water rate, sewer rate, drinking water or draught beer, was introduced starting May last year, resp. July. The VAT collection for year 2021 was also mildly subdued by the temporary tax waiver for protective equipment (e.g. respirators) and for tests as well as vaccines associated with the covid-19 epidemy.
[6] SB collection of this tax fell by 2.3 CZK bn (–3.0%) year-on-year last year, the lowering of the tariff itself led based on the MF estimation to decreased collection by 4.7 bn.

incomplete) data regarding the consumption of oil products[7]. In Q4, the collection of this tax was higher year-on-year (+5.1%), however it still slightly lagged behind the level from the pre pandemic year. Despite revival at the end of the last year, the collection of both above mentioned consumption taxes, in contrast to all other weight more significant taxes, behind the budget anticipations.

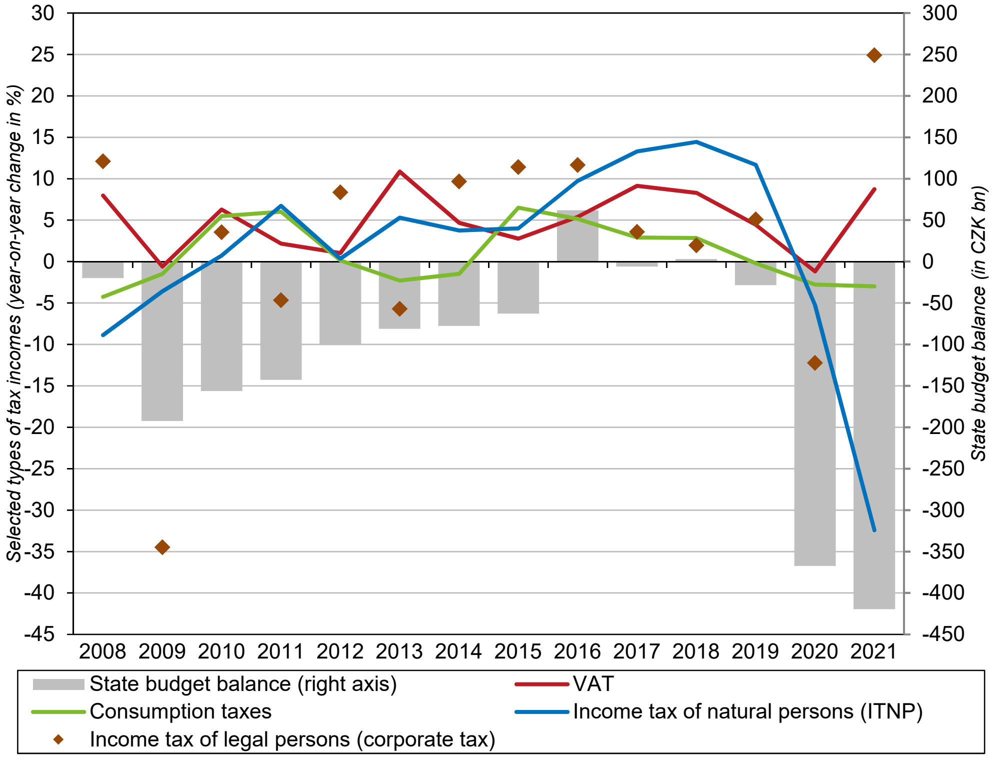
Collection of consumption tax on alcohol grew from tax on beer it fell

Collection of other, less significant by weight consumption taxes slightly grew last year, mainly due to the newly introduced tax on digital services and higher collection of tax on alcohol (also thanks to increased rate). On the contrary, the collection of tax on beer fell (by 5.5%) since some administrative measures affecting the attendance of restaurant facilities as well as the arrival tourism were in place also in the last months of year 2021.

Swift growth of the collection of corporate tax was significantly affected by the transfer of part of payments from year 2020 to year 2021.

SB acquired by 19% (20.8 CZK bn) more on the corporate tax. Together with higher collection of insurance on SS (+55 bn) it concerned the items, which contributed to the growth of the total SB revenue the most. Swift growth of the corporate tax collection was significantly affected by the transfer of part of payments from year 2020 into the subsequent year[8]. Collection of this tax adversely affected the individual requests of firms for adjustment of the advance payments[9] in both pandemic years. The comparison of state wide collection of the corporate tax (at the level of all public budgets) presents a relatively non-distorted picture for H2 2021 with the same period of year 2019 (+6.2%).

Chart 18 State wide collection of selected tax incomes (year-on-year in %) **and state budget balance** (in CZK bn)



Source: MF CR

Extraordinary budget slump for income tax of

The lowering of the tax burden on labour was next to the change of the budget determination of taxes the most reflected in the extraordinary last year's slump of SB revenues (by 29.2%,

[7] According to the CZSO data, the year-on-year consumption of diesel fuel increased in the CR from January till October 2021 year-on-year (+7.1%) and also the petrol by slower rate (+0.9%). Following the sharp dive during the year 2020, the consumption of kerosene in fact stagnated for the first ten months of the last year (–0.7%). In comparison to the pre-pandemic year 2019 however, the consumption of all main oil products still considerably lagged behind, except for diesel (+1.8%).

[8] It presented mainly the waiver of the June advance payment for this tax (with negative impact on the SB level collection in the amount of 13.5 CZK bn in year 2020). Part of the cancelled and unpaid June advance payment of year 2020 was paid last year in the tax realignment.

[9] They react to the worsened financial situation of businesses. According to the MF estimations, these requests led to the decrease of the revenues from corporate tax into the SB by 6.9 bn in year 2020, by 22.1 bn in year 2021.

natural persons was completely caused by the legislative amendments.

resp. 45 CZK bn)[10]. The rescue programmes also still affected the size of collection (compensatory bonuses – especially self-employed persons), their negative budget impact was however weaker last year compared to year 2020[11]. The slump of collection was subdued by the growing employment, further increase of the minimum wage, as well as the Spring payment of extraordinary bonuses to workers of the public sector standing in the front line of fight with the pandemics.

Year-on-year growth of revenues from the EU budget halted in year 2021.

Swift growth of the non-tax and capital revenues and SB transfer after year 2017 halted last year. Their year-on-year decrease (by 23.7 CZK bn) was from nearly one half affected by lower revenues from the EU budget (serving to cover the expenditures previously already prefinanced by the state)[12]. Planned year-on-year decrease of the volume of transfer of funds of the privatisation account into the SB was broadly compensated by extraordinary last year's revenues from the auction of radio frequencies (+5.6 bn).

Lower need for support programmes and measures thanks to the improved epidemic situation was reflected in the considerable slowdown of growth of the SB current expenditures in H2.

Total SB expenditures slightly increased by 3.5% (+64 CZK bn) in line with the budget anticipations in year 2021. Compared to the sharp increase in the first pandemic year (+291.2 bn) it represented a significant moderation of the fiscal expansion. The pace of expenditures also slowed down during the last year – while it was compared to the same period of the „common" year 2019 higher by 31% in Q2 2021, it was already „only" by 17% in Q4. It was associated with the loosening of the counter pandemic measures. Out of the wide spectrum of the support programmes and measures[13] thus some of them were in effect suspended at the beginning of Summer, alternatively significantly reduced (e.g. care benefits or the Antivirus programme). In H2, the drawing of special programmes on the direct support of the afflicted branches of the economy also fell. Only increased payments per state insured persons and also the purchases of protective equipment (e.g. vaccines) burdened the SB evenly throughout the whole last year.

Increase of the SB current expenditures mirrored especially the heightened payments into the health care per state insured persons and also the higher transfers to entrepreneur entities.

Raised payments per state insured persons (with growth of 30%) and further the non-investment transfers to commercial entities (+18%), whose drawing significantly overtook the budget anticipations (+19 CZK bn), were instrumental in the last year's strengthening of the total current expenditures (+59.2 CZK bn) year-on-year. These transfers concentrate the decisive part of the support measures (programme Antivirus, support of companies in the most hit branches, care benefits for the self-employed). Even despite milder growth (+5.9%), the current transfers to regional budgets significant by volume also had substantial impact, which was associated with the continuing growth of wages in the regional education[14], with increased financing of the social services and to a lesser extent also with the extraordinary bonuses to employees in the hospital bed care. These bonuses were also reflected in the transfers to the state cofinanced organisations, which however slightly fell in total (by 3.5%), since the expenditures on the debt elimination realised in year 2020 did not repeat last year.

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[10] SB revenue from this tax arrived at 109.1 CZK bn last year, which was the least in the last six years. Still it presented result considerably exceeding the last year's budget anticipation (by more than 21 bn).

[11] Based on the MF calculations, it concerned at the SB level 16.1 CZK bn in year 2020, 12.1 bn one year later.

[12] Total net revenues of the CR from the EU budget were gauged at 131.7 CZK bn last year and went down by nearly one tenth year-on-year. Weaker revenues from the Cohesion funds (–5.8 CZK bn, resp. –19%) and from structural funds (–5.6 bn, –7 %) contributed the most. Received direct payments into agriculture, which reached 21.8 CZK bn and dropped only by 4% year-on-year, remained on the contrary relatively stable. The CR stayed in the position of significant net recipient from the EU funds (+65.3 CZK bn), despite the fact that the payments of the CR into the EU budget increased by one tenth against the year 2020 (besides other things also due to the expansion of volume of the EU budget as well as due to the covid crisis). After adding the revenues from the new EU tool to the support of recovery, which the CR utilises in the National recovery plan, the net positive position of the CR towards the EU would approach 90 CZK bn last year and slightly thus overtook the value from year 2019, which was the second highest in the history of the CR membership in the Union.

[13] It concerned mainly the compensation of part of wages and compulsory payments withing the program Antivirus A, A+ and B (25.8 CZK bn paid out from the SB in year 2021) and special programs on the direct support of affected sectors of the economy, e.g. in the area of food services, tourism, culture, education, sport, transportation, agriculture and food industry (including newer programs COVID 2021, COVID Rent, COVID costs not covered), in the total amount of 38.5 bn. Further, it was higher expenditures in health care, especially strengthened payments of the state per so called state insured person (50.0 bn), heightened personal costs of workers in health and social care (16.8 bn), purchases of protective equipment including vaccines (7.9 bn) and finally also the heightened expenditures on some social benefits – care benefits, extraordinary benefit for employees in the quarantine or isolation (5.9 bn).
Majority from the given data increased compared to year 2020. Care benefits, purchases of protective equipment and hospital debt elimination.

[14] It reflects the approved increase of pedagogical as well as non-pedagogical workers year-on-year last year (by 9%, resp. 4.3%).

Sharp growth for the non-investment purchases in the year before the last markedly dampened in year 2021.

The expenditures on non-investment purchases were also linked to the pandemics[15]. Compared to their record size from year 2020 (77.9 CZK bn), they increased only slightly (+1.6%). Lower need of protective equipment and medical goods was to a large part substituted by higher expenditures on purchases of vaccines. The rate of growth of expenditures on wages (and related expenditures) in the organisational units of the state eased pace for the third year in a row. These expenditures increased by 1.3% year-on-year last year, the least in the last nine years. The majority of growth was associated to the agendas more intensively employed in the fight with the pandemics (e.g. police, army, sanitary services).

Proportion of SB expenditures allocated on the social benefits kept falling further. The pension account returned into a mild surplus.

Resources on social benefits, which represent the weight dominant SB expenditure[16] in the long-term, increased by 0.8% year-on-year last year, when they escalated to 14.2%[17] in year 2020. In contrast to year 2020, the last year's growth was saturated exclusively by higher expenditure on pensions (+2.1%). Weaker pace of the growth of pensions is connected to the pay out of one-off allowance to all pensioners in December 2020[18]. The decline of the number of pension recipients (by nearly 1%) also had an effect to a lesser extent. Revenues of the pension insurance compared to weaker basis of year 2020[19] increased by 9.8% last year. The pension account balance[20] thus following a mild slump in the first pandemic year (–34 CZK bn) returned to a mild surplus last year (+2 bn).

Drawing of majority of non-pension social benefits went down thanks to the economic revival in year 2021.

Growth of expenditures on sickness benefits, maternity benefits as well as material deprivation benefits however continued.

162 CZK bn was directed on the non-pension social benefits last year, by 5.7% less year-on-year (however expenditures rose by nearly one third compared to year 2019). Primarily the lower drawing of care benefits became evident, which compared to the record level from year 2020 (11.5 CZK bn) slumped by more than one half. Monetary benefits (+6.9%) as well as the more significant by volume sickness benefits continued in growth last year (+3.1%), even though in the second case by markedly weaker pace than in the previous years. The growth of the volume of state social support benefits after the jump increase two years ago halted (–5.5%), because the key expenditures on parental allowances with simultaneous higher drawing of the child allowance (due to legislative amendment as of 1. 7. 2021)[21] decreased. Improvement of the situation on the labour market thanks to the retreat of pandemics led to the lower volume of paid out unemployment benefits (–5.2%). The higher drawing of material deprivation benefits however signals a worsened income situation of some households, apparent throughout the whole pandemic period. By one tenth more year-on-year was directed on these benefits for year 2021, the extraordinary help to persons damaged by natural disaster (June tornado).

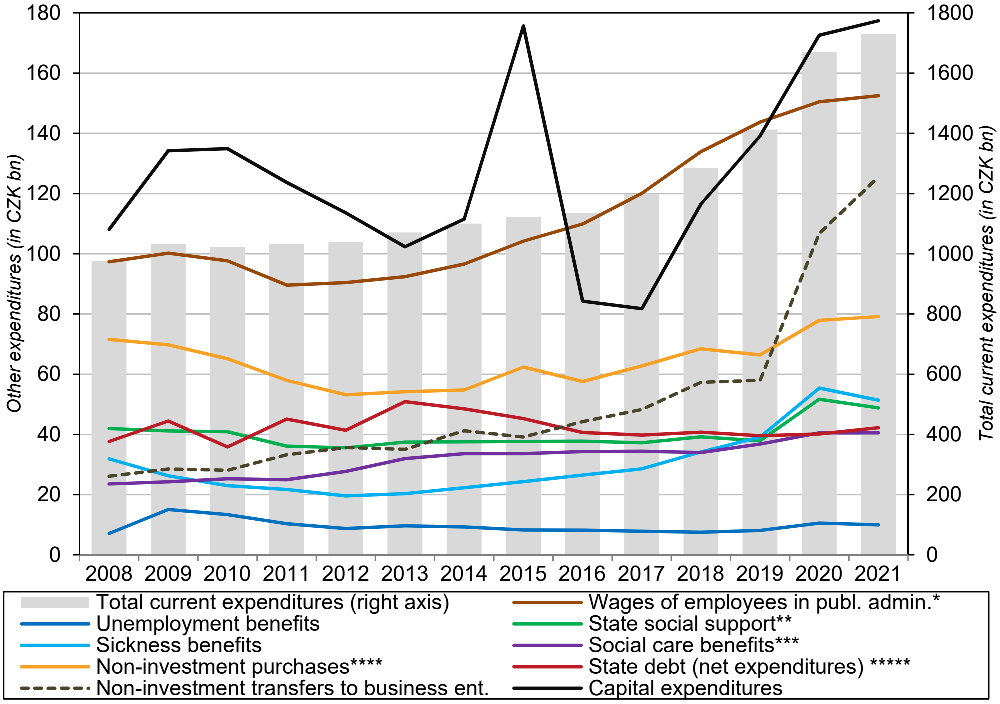
Investment expenditures lagged behind the budget anticipations despite mild year-on-year growth.

Capital expenditures achieved record 177.4 CZK bn last year and it strengthened by 2.8% year-on-year. Even in spite of fast drawing, they remained around 6% behind the budget anticipations towards the end of the year. It is connected to the slower realisation of projects in the area of transportation, regional development, sport and culture. More than one third of investment were aimed at the State Fund for Transport Infrastructure. Its budget was strengthened by 3.5 CZK bn this way year-on-year, which together with higher own revenues (from collection of tolls) led to a mild strengthening of expenditures

[15] These expenditures do not contain expenditures on servicing the state debt and also in the latest years marginal item of expenditures on implementing the guarantees.
[16] The proportion of social benefits on all SB expenditures decreased for the fifth year in a row year-on-year (to 36.3%, minimum in the comparable series after year 2011).
[17] Introduction of crisis care benefit (associated with the home care for the children for the reason of forced shutdown of schools or the quarantine), increase of the parental allowance and faster rate of the pension adjustment were mainly reflected in the high growth.
[18] The contribution was 5 CZK thousand and meant increase of total expenditures for the SB by nearly 15 CZK bn. From January till November 2021, the year-on-year growth of expenditures on pensions equalled 5.4% and reflected for the major part the effect of the commons pensions adjustment.
[19] The volume of collected insurance was negatively marked by the cancellation of minimal advance payments for self-employed persons in both Q2 and Q3 and also by the waiver of insurance paid by the employer (program Antivirus C).
[20] It is expressed as a difference between revenues and expenditures on pensions from the SB budget. Costs of management of the pension insurance system are not included in the expenditures.
[21] From 1st July 2021, the limit of the determinate income for drawing was raised (from 2.7- to 3.4times of the family minimum subsistence level) as well as the adjustment of the size of the allowance (by 26%).

of the Transportation Fund. The share of investment on total SB expenditures stayed last year at similar size to year 2020 (9.3%) and it also did not significantly deflect from the long-term average.

Chart 19 Selected expenditures of the state budget (in CZK bn)



** They cover expenditure on wages in organisational units of the state. They exclude, for example, wage expenditure on regional education.*
*** It also includes foster care benefits and substitute child support (maintenance).*
**** They include benefits of assistance in material need, benefits for people with disabilities, care benefit pursuant to the Act on Social Services.*
***** They mainly include expenditure on purchase of services, material, energies, or other services (for example, expenditure on repairs and maintenance).*
****** It corresponds to the balance of the "State debt" budget chapter.*
Source: Ministry of Finance of the Czech Republic, Ministry of Labour and Social Affairs

Dynamic growth of the state debt continued for the second year in a row. Expenditures on servicing the debt however have not grown significantly so far.

Strongly growing need for funding tied to the necessity to cover the crisis SB deficit resulted in the acceleration of the state debt during the pandemic period. It arrived at 2 466 CZK bn at the end of last year's December and it hiked up by 416 bn from January 2021, i.e. comparably to year 2020. Total increase of debt for both pandemic years was by nearly 40 CZK bn higher than the budget deficits. The debt increase was for the major part financed by means of domestic bonds. Their total volume increased by 22% for year 2021 (by 60% in two years), it was 2 292 CZK bn at the end of December. The domestic financial institutions still more dominated among the bond holders, the proportion of non-residents on the contrary decreased from 40.6% to 26.5% between years 2019 and 2021. Ratio of external debt on the total indebtedness was further falling, mainly thanks to the repayments of foreign bonds. Net expenditures on servicing the state debt[22] rose also due to the growing interest rates of the domestic state bonds slightly increased year-on-year (by 5.2%) to 42.2 CZK bn last year. Expenditures oscillated around 40 CZK bn in the last six years.

Budget of the government institutions sector (VI) ended in deficit 246 CZK bn for the three quarters.

Budget of the government institution sector (VI) in the CR ended in deficit of 245.9 CZK bn in total for the three quarters 2021[23], deeper by 61.7 bn year-on-year. Growth of total revenues VI (6.0%) was essentially influenced by the received net social contribution (+89.5 CZK bn), since thanks to the government stabilisation support of the economy during the

[22] It corresponds to the balance of the budget chapter State debt.
[23] Data regarding the budget of the government institutions in the CR for Q4 2021 as well as the whole last year will be published by the CZSO on 1st April 2022, Eurostat for its member states subsequently on 22nd April. More detailed assessment of the domestic development for Q3 is contained in the publication Sector Account Analysis: https://www.czso.cz/csu/czso/cri/analyza-ctvrtletnich-sektorovych-uctu-3-ctvrtleti-2021

pandemics the employment did not decrease significantly. Revenues from the tax on production and import also increased year-on-year (+6.1%) and already caught up to the level from Q1 to Q3 2019. The year-on-year growth of the total expenditures VI was for the three last year's quarters despite the brisk pace (8.7%) lowest for the last four years. Last year's growth was driven mainly by higher social benefits and social transfers in-kind (+57.5 CZK bn), even though their growth slowed down compared to pace from Q1 till Q3 2020 (to 7.8%). The contribution of paid out subsidies was also significant (+40.0 bn, it was mainly the assistance to afflicted businesses during the pandemics) and compensations to employees (+43.1 bn), where the payment of bonuses to medical staff and other forces participating on solving the pandemics was substantially reflected.

Budget balance VI in the EU unlike in the CR shrank in Q3 both year-on-year and quarter-on-quarter.

Seasonally adjusted budget balance VI in the CR amounted to –6.0% of GDP in Q3 last year, which meant mild worsening in relation to the preceding quarter and also in the year-on-year comparison (similarly by 0.6 p.p.). On the contrary, the last year's improvement of the pandemic situation was already reflected in the deficit VI positively in the EU. While it arrived at 7.3% of GDP in Q4 2020, it was "only" 3.7% of GDP in Q3 the following year, when only Belgium, Romania, Spain and Malta recorded the deeper deficit compared to the CR (within range 6.6% to 8.1% of GDP)[24]. By contrast the government sector ended in surplus only in Denmark last year in Q3 (2.7% of GDP), where it however presented even more significant surpluses in the pre-crisis year 2019.

Year-on-year growth of the indebtedness rate VI was considerably moderated by the nominal increase of GDP in the CR.

Compared to the end of year 2019, the cumulative increase of the indebtedness in the CR was comparable to Poland of Germany.

The nominal debt VI reached 2 432.9 CZK bn in the CR at the end of Q3, by 260.0 bn more year-on-year. The indebtedness rate grew analogously from 38.1% to 40.5% of GDP for the last year. The growth of indebtedness was subdued by the swift nominal strengthening of the GDP (contribution –1.9 p.p.). The indebtedness rate VI was 90.1% of GDP in the EU in Q3, it mildly decreased however in the quarter-on-quarter view for the second time in a row. The indebtedness rate rose in all Union states compared to the end of year 2019, the most in countries of the South wing of the euro area (e.g. in Spain from 95.5% to 121.8% of GDP), which except for Malta belonged in this respect to the most affected already before the onset of the pandemics. This increase was 12.9 p.p. in the EU, by 10.5 p.p. in the CR – similarly to Germany or Poland. Only Ireland (by 0.4 p.p.) and Sweden (by 1.2 p.p.) reported a minimum worsening and together with other eleven EU states kept their indebtedness below 60% of GDP.

[24] Without Italy, Croatia and Cyprus, where the seasonally data were not available.