

State Budget

- **Significant state budget deficit, similar to that in the preceding three years**

In the first half of 2012 the state budget posted a deficit of CZK 71.7 billion, a year on year increase of almost CZK 9 billion. This result must be placed in the context of the economic downturn (the half-year deficits in 2009 to 11 varied between CZK 63 and 76 billion). A year on year comparison is to some extent made more difficult because of the differing timing of the advance payments for regional schools (CZK 10 billion to the detriment of 2012), and partly also the time shift in payments for gift tax for the consideration-free acquisition of emissions permits.¹ The deficit was reached through a slight year on year fall in total revenues (-0.6%) and a concurrent rise in expenditure (+1%).

- **Revenues from the three most significant taxes fell year on year by 3% in the first half...**

Tax revenues without premiums were primarily behind the year on year fall in state budget revenues, falling in total by 2.6% (CZK 7 billion). This fall was larger than the growth in the economy's overall performance (GDP at current prices grew by 0.5% in the first half of the year). The state budget collected less mainly in the components with higher weighting, namely VAT (-2.6%), in spite of legislative amendments to its benefit (increasing the lower VAT rate, a change in the budget tax allocation). Falling household consumption was also reflected in lower consumer tax revenue (-2.6%), while a larger fall was prevented by a higher tax rate on tobacco products and increasing revenue from the "solar tax". Corporate tax revenue remained 3% under its 2011 level, and was almost one-third lower than in the same period in 2008. On the other hand, income tax revenue from natural persons grew year on year in spite of a slight fall in the number of employees (-0.7%). The cancellation of the tax break on income from interest on building savings deposits had a positive influence on revenue from this tax.

- **...but improved VAT and corporate tax collection in the summer months**

The collection of some significant taxes improved in July and August. Corporate tax was CZK 5 billion higher year on year in this period and in total since the start of the year has exceeded last year's level by CZK 3.5 billion (7.5%). This year's holidays also brought CZK 4.5 billion more in VAT year on year, meaning that since the start of the year the state budget has received 1.6% more. (However, the nationwide collection of VAT was still 1.3% lower year on year, partly due to lowered collection from goods and services at the base rate.) On the other hand, there was no improvement in the collection of consumer taxes in the summer months, and the year on year fall in collection was 1.6% in the first eight months of this year. The collection of indirect taxes corresponds to the fall in household consumption.

- **Year-on-year fall in revenues from the EU continued**

Income from the EU was primarily behind the fall in budget revenue outside the tax sphere (-1.6%), as in the first half of 2012 this fell year on year by 9% (or CZK 4 billion). In the second quarter drawing increased compared to the start of the year (the year on year fall in the first quarter of 2012 was 20%), but it was not possible to close the deficit in drawing even during the holiday period. Over the first eight months of this year, income from the EU came to only 47% of the approved budget.

- **Reductions in the majority of social benefits with the exception of pensions continued**

The total expenditure of the state budget after reductions resulting from the economising measures in the previous year (CZK -13 billion in the first half) returned to a year on year growth (of CZK 6 billion) in the first half of 2012. The current budget expenditure was CZK 12.5 billion higher year on year, while this larger deficit was primarily the result of the earlier payment of advance payments for regional schools (almost CZK 10 billion to the detriment of 2012). Current expenditure was most impacted by pensions (3.1% higher year on year in the first half of 2012). However, the state made savings on other types of social benefits: sickness benefits (CZK 1.5 billion), state social support (CZK 0.5 billion) and support for the unemployed (CZK 1.4 billion). The number of registered job seekers fell by 4% on average in the

¹ More comparable (in methodological terms) and thus more objective would be a comparison of the deficits in the January to July period. In 2012 the state recorded a deficit of CZK 51.7 billion, a year on year fall of CZK 9.4 billion.

first half year on year. Expenditure on the active employment policy as well as the state contribution towards building savings also fell to half of last year's level. In the first half the state spent CZK 36 billion (year on year +1.7%) in salaries for its employees, while this amount was comparable with that six years ago thanks to significant reductions in the preceding year. State debt expenditure (CZK 33 billion) grew year on year by one-eighth, and by one-half over the past five years. Contributions to the EU budget also grew by almost CZK 5 billion year on year.

• **The net position vis-à-vis the EU weakened year-on-year due to reduced revenues from structural funds**

The net position vis-à-vis the EU budget reached CZK +6.9 billion in the first half of 2012, a year on year fall of CZK 10.5 billion. This drop was the result of lower revenues from structural funds and the Cohesion Fund (a fall to CZK 4.5 billion from last year's CZK 13.4 billion) influenced by the cessation of the payment of the majority of operational programmes. However, year on year revenues from the Common Agricultural Policy were CZK 3 billion higher, almost three-quarters of which were accounted for by direct payments, and the balance directed towards rural development.

• **An increase in the deficit on the pension account was prevented by an almost 3% growth in premium collections**

The pension account balance, expressed as the difference between budget revenues in the form of social security designated for pensions (increased by 2.7% year on year) and pension benefits paid out (+3.1%), slightly worsened in the first half (by CZK 1.3 billion). The increased collections were partly due to an expansion of the obligation to pay premiums (e.g. to include agreements to complete jobs). The height of pension payments was similarly influenced by their valorisation (the increase in the percentage pension assessment by 1.6% since January 2012), as well as the long-term slight growth in the number of pension recipients. The deficit on the pension account reached in the first half (CZK -26 billion) is the highest since 2000.

• **Planned reduction in capital expenditure reduced the state budget deficit**

In the first half of 2012 capital expenditure continued its long-term fall, falling year on year by one-eighth, and by one-fifth over the past four years. Investment transfers to the State Transport Infrastructure Fund (CZK 7.8 billion) fell year on year by almost one-half. The downturn in investment expenditure increased during the holiday period. Over the eight months of this year investment fell year on year by CZK 12 billion and thus significantly contributed, unlike current expenditure, to slowing the growth in the state budget deficit.

Chart No. 17 Nationwide collection of tax revenues and the development of the state budget balance

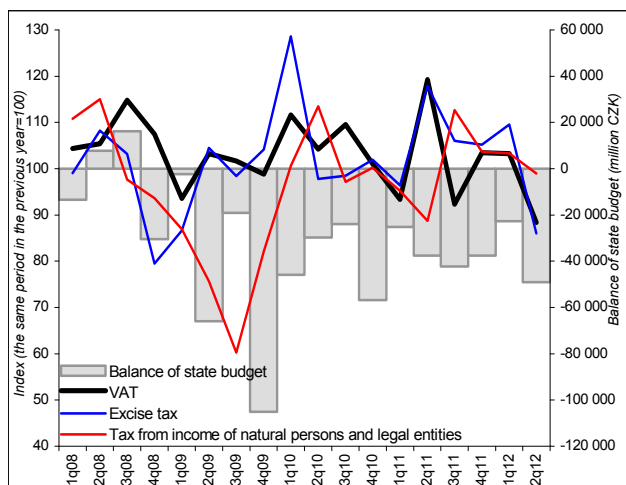


Chart No. 18 Balance on the pension account and the development of the number of pension recipients

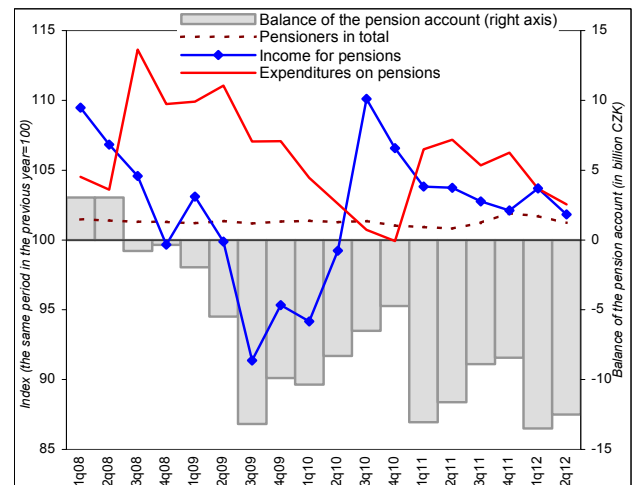
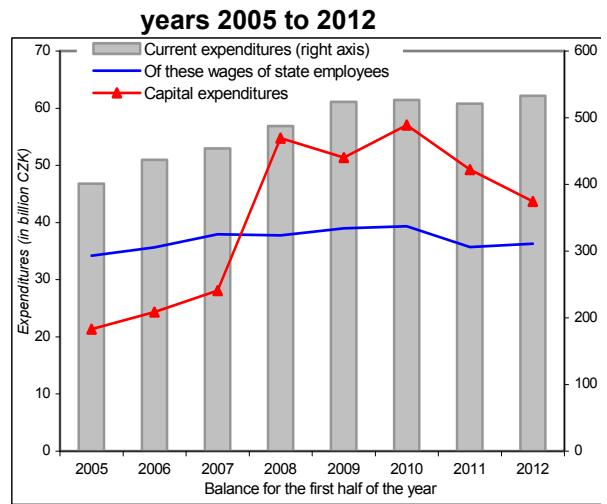
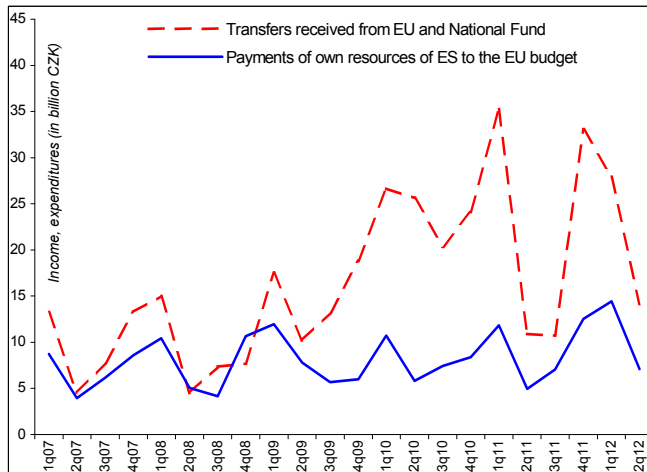


Chart No. 19 CR revenues and expenditure in relation to the EU

Chart No. 20 State budget regular and capital expenditure in the first half of the years 2005 to 2012



Source : MF

Sources of data: CZSO, MF ČR, CNB, Eurostat, CZSO calculations.

The most recent information from the CZSO, CNB and the MLSA given in this report is from 8 September 2012.