

## 8. State Budget

State budget managed a deep deficit last year for a third year in a row.

The state budget (SB)<sup>1</sup> ended in deficit in the amount of 360.4 CZK bn for the entire year 2022, which did not significantly digress from the budget anticipations<sup>2</sup>. Deep deficit was recorded already third year in a row, last year's result was however relatively the most favourable in this regard<sup>3</sup>. More favourable SB management in Q1, when the deficit did not exceed 60 CZK bn mostly stood behind the year-on-year decrease of the total deficit last year. The economic activity had not been restricted due to the counter pandemic measures anymore unlike the beginning of year 2021 and the need to aid affected businesses as well as household also considerably receded. In the subsequent part of year 2022, vigorous acceleration of growth of prices of both energies and fuels manifested due to the war in Ukraine. The rise of prices gradually permeated the whole domestic economy and directed it to the downward phase of the business cycle. These influences negatively manifested more on the expenditure side of the budget at first – by higher social transfers (including those related to the refugee wave from Ukraine), payments of part of costs on energies to households, more expensive common operations of the state as well as increased cost of planned investment. Their negative impact on the budget revenues however also started to be felt towards the end of the year – mainly in the area of indirect taxes. Both annual total revenues and outlays thus stayed behind the budget anticipations (identically by 3.7%).

Impacts of the war in Ukraine influenced the total revenues as well as outlays. They stayed identically by 3.7% behind the budget anticipations.

Higher collection of VAT and social security insurance contributed the most to the growth of total revenues.

Total SB revenues increased by 9.2% year-on-year (+137.2 CZK bn) in year 2022. Mainly higher tax revenues, especially from VAT (+46.7 CZK bn) as well as growth of the collection of mandatory social security insurance (+35.9 bn). Non-tax and capital revenues and transfers (+5.5 CZK bn) had a slightly positive effect in total, primarily due to the planned transfer of funds from the privatisation account into the SB revenues realised in December 2022. Dividend yields also went up (by 14 CZK bn). Thanks to this the unexpected payment gap from the EU budget was offset (their volume was by 6.6% lower year-on-year and did not reach even three fifths of the annual size of the budget anticipation)<sup>4</sup>. State-wide tax collection (without insurance) expanded by 13.2% year-on-year last year, the impact of the weakening economic performance was however clear in the second half-year. While this collection strengthened by 22.5% in Q2, already only by 7.2% in the last quarter. The slowdown reflected the development of collection of indirect taxes, for direct taxes the trend has not manifested yet.

Swift growth of the VAT collection was substantially influenced by the rising prices level, the effect of weakening household consumption also became evident in H2.

From the weight dominant tax – VAT – the SB gained by 15.6% more year-on-year last year. It represented the highest growth in the current millennium, where mainly the price acceleration of weight significant items of consumer basket played role. Pace of the collection growth was falling during the last year – it was 10.9% in Q3, 9.0% in Q4. Negative effect of the decrease of household consumption was still more absorbed by the effect of the rising prices (e.g. food). Equally negative, but one order less, effect had both collection and VAT waiver to selected commodities (e.g. vaccines, respirators). State wide collection of VAT (at the level of all public budgets) exceeded the collection from the pre-crisis year 2019 by 24.2%, consumer prices (23.4%) also increased by nearly same pace in the same time period (23.4%)

Collection of consumption taxes increased only slightly and stayed behind the budget anticipations for all significant items.

Despite 2.2% more flowing into the SB year-on-year from consumption taxes (incl. energetic) last year, the size of collection (similarly to VAT) stayed behind the budget anticipations. Collection of the most weight significant tax – from mineral oils – dropped by 4.1% (by 3.1 CZK bn resp.) compared to year 2021 exclusively due to the adverse

<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> According to the amendment of Act (no. 57/2022 Coll.) on the state budget of the Czech Republic for 2022 (approved on 18<sup>th</sup> October 2022), which raised the anticipated deficit to 375 CZK bn (from 280 CZK bn given in the original version of the Act on the budget from 10<sup>th</sup> March 2022).

<sup>3</sup> It also underlines the deficit after adjustment for revenues and outlays related to the common CR and EU projects, which summed 316.1 CZK bn last year (364.9bn and 408.6 bn then in years 2020 and 2021 respectively).

<sup>4</sup> Delay of payments for approved projects, which had already been pre-financed from the CR budget before, stood behind it.

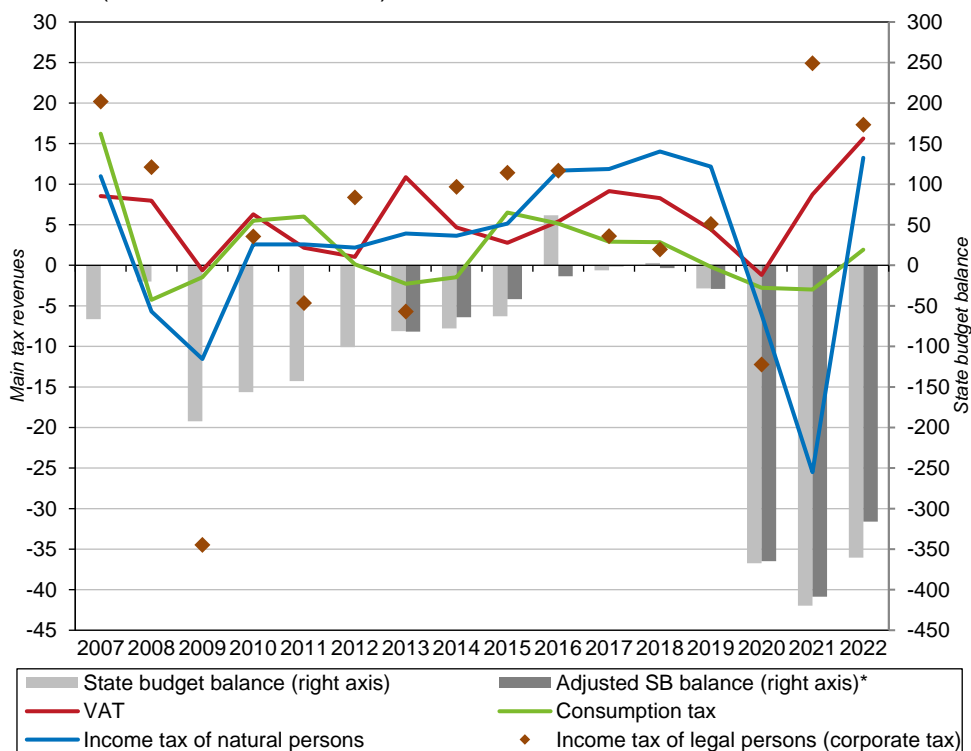


development in H2 2022<sup>5</sup>. Both lower summer as well as autumn consumption of diesel fuel and petrol (mainly due to record high prices) and impacts of the lowered tax rate had an effect here<sup>6</sup>. Collection of tax on tobaccos products increased by 5.6% last year and compensated the SB the lower collection of tax on mineral oils (a decline also occurred here however in Q4 itself). Higher annual collection mainly reflected the effect of the ongoing increase of tax rate on tobacco products. Total collection of consumption taxes also grew thanks to higher rate of levy from older solar power generation plants, the yearly planned collection was not however completely fulfilled here. It was also valid for the collection of tax on alcohol (with year-on-year growth of 1.7%) or beer (+6.7%). The collection of marginal tax on wine fared better (+14.4%) and considerably overtook even the pre-crisis level.

Collection of income tax of legal persons grew fast for the entire last year. Large businesses in some branches influenced it positively.

SB revenue from the corporate tax ascended to record size (151.5 CZK bn) last year. It strengthened by one sixth year-on-year and considerably also surpassed the budget anticipations (by 15%, 20 CZK bn resp.). High June collection had a favourable effect (including both quarter and half-yearly advance tax payments and part of the payment of tax for year 2021), nevertheless the collection maintained a high dynamic also at the end of the year (thanks to quarterly tax advance payment). Collection of taxes reflected the favourable economic results of some large businesses (e.g. in the area of energy, trade or financial activities). Legislative amendments influenced the size of collection as well<sup>7</sup>.

**Chart 18 State-wide collections of main tax revenues (y-o-y in %) and state budget balance (annual total, in CZK bn)**



\*SB balance adjusted for both revenues and expenditures connected to EU/FM. Data adjusted for effect of EU funds and Financial mechanisms are available since year 2013.  
Source: MF CR

<sup>5</sup> The collection plunged by 13.7% in Q3 2022, even by 18.1% the subsequent quarter.

<sup>6</sup> The rate of the consumption tax on petrol and diesel fuel was lowered by 1.50 CZK per litre from June till the end of September 2022. This measure was extended for diesel fuel till the end of year 2023. According to the MF CR calculations, these tax arrangements exerted a negative effect on the yearly collection in the amount of 5.3 CZK bn.

<sup>7</sup> High year-on-year rise of the collection of the corporate tax was partially influenced by the extension of the time period for the payment of the tax advances of the year before the last (based on the individual requests from the firms) with a negative impact on the collection of this tax into the SB in the amount of 22.1 CZK bn (for year 2021). Further it also concerned the change in the taxation of reserves of the insurance companies.

Growth of ITNP collection paid by payers increased thanks to favourable development on the labour market. Legislative amendments had an opposite effect.

13.4% more flowed into the SB from the collection of the income tax of natural persons (ITNP) year-on-year, which was affected both by the higher employment and brisk nominal growth of average wages in the business sphere. With the retreat of pandemics the role of the formerly paid out compensation bonuses (to aid small businesses) weakened, which significantly dwindled the ITNP collection still in year 2021. Legislative amendments had the opposite effect (continuing increase of the tax rebate per taxpayer, higher tax deduction on children or abolishment of the ceiling to use tax bonus). The key tax by volume paid by the payers (on behalf of employees) contributed the most to the ITNP collection growth, whose collection increased by even 8% year-on-year (7 CZK bn resp.)<sup>8</sup>. Collection of other income taxes of natural persons grew more dynamically – both for ITNP payers, resp. persons lodging tax returns (+45%) thanks to economic recovery the year before the last as well as the adjustment of the tax rate for high incomes and for the deduction tax (+30%) due to growth of the interest rates on deposits as well as increase of the number of persons working in the form of work agreements (partially related to the integration of the Ukrainian refugees on the domestic work market).

ITNP collection collected by deduction recorded a high growth.

Total SB outlays mildly increased year-on-year last year (+4.1%, 77.8 CZK bn resp.), greatly assisted by the current outlays (+68.2 CZK bn), one order less than investment. Drawing of outlays was more uneven during the year 2022. It was limited by the regime of interim budget in Q1<sup>9</sup>, subsequently the need arose for extraordinary outlays resulting from the war in Ukraine (foreign aid, outlays on the integration of the refugees in the CR, crisis management in the area of state material reserves). In addition the impacts of the strengthening inflation in the CR amplified by the unexpected August surge of prices of energies on the world markets still more stimulated the fiscal expansion. These led to the need for the pension adjustment as well as other social benefits or introduction of the saving energy tariff to aid the households. Even though the growth of the total current outlays was the second lowest in the last six year last year (3.9%), their size exceeded the pre-crisis year 2019 by 27.3%.

Expenditures on pensions displayed a record increase, the number of their recipients mildly decreased for the third year in a row.

Unlike the years 2020 as well as 2021, the growth of current outlays was driven mainly by the funds on pensions last year. They increased by unprecedented 10.9% year-on-year, since a record three-fold legal adjustment of pensions was performed<sup>10</sup>. Number of pension recipients was on the contrary falling for a third year in a row, in total it was by 1.8% lower compared to December 2019, mainly due to the heightened mortality. At the same time the long-term trend of the growth of number of persons with early pension continued<sup>11</sup>. Good condition of the labour market supported the ongoing growth of the pension insurance revenues (+6.7%). The pension account balance<sup>12</sup> again plunged into deficit (17.4 CZK bn) following a mild surplus in year 2021.

Non-pension social benefits grew swiftly mainly due to the material deprivation assistance benefits and state social assistance benefits.

Unlike the year 2021, the non-pension social benefits (by 11.2% higher year-on-year) also contributed to the growth of the SB current expenditures. Higher material deprivation assistance (+9.0 CZK bn), driven from the vast part by the payment of the humanitarian aid to the refugees from Ukraine, played an essential role here. State social assistance benefits also expanded considerably (SSAB, +7.6 CZK bn). These increased primarily due to the

<sup>8</sup> State-wide collection of this tax (149.6 CZK bn) was only around the level from year 2016 last year, mainly due to the decrease of the tax burden on labour since year 2021 (in connection with the abolition of the so called super gross wage).

<sup>9</sup> Sum of monthly outlays in all the central government institutions thus could have reached maximum of one twelve of the total SB outlays determined by the adopted Act on SB from year 2021. The possibilities to pre-finance some current transfers were restricted at the beginning of the year and utilisation of other source of financing was also substantially limited (e.g. extra-budgetary sources – mainly claims from the unused expenditures from the past years). It led among other things to the postponement of non-essential operational outlays as well as investment.

<sup>10</sup> The due January adjustment meant increase of the average retirement pension by 5.2% (805 CZK), the extraordinary adjustment in June analogically by 6.3% and even 4% then in September. The average monthly retirement pension (without combination with other incomes) thus arrived at 19 755 CZK for males, 16 484 CZK for females in December last year.

<sup>11</sup> It was stimulated by unusually high adjustment in year 2022, which exceeded the effect of „penalty“ for leaving into the early retirement. From the total number of all recipients of the retirements pensions, persons with early retirement comprised already 28.7%.

<sup>12</sup> Difference between revenues and expenditures on pensions from the SB. Expenditures do not contain the costs of administration of the pension insurance system.



<p>Sickness insurance benefits were further decreasing, still they exceeded the insurance revenues.</p>	<p>single payment of the child benefit<sup>13</sup>, child allowances (thanks to the broadening of the number of recipients entitled to the benefit) and housing benefits (due to the raising of costs accepted for the pay-out). The mild decrease for the weight dominant item of SSAB – parental benefits – had the opposite effect (-2.4 CZK bn). From other benefits the volume of care benefits increased (+3.7 CZK bn)<sup>14</sup>. On the contrary thanks to the improvement of the epidemic situation the expenditures on sickness insurance benefits dropped for the second year in a row (by 3.7 CZK bn), the SB however expended by one fifth more on these benefits compared to year 2019<sup>15</sup>. The SB „saved“ one order less also on the unemployment benefits, whose paid out size slightly fell for the second year in a row. Still it totalled not negligible 9.9 CZK bn.</p>
<p>Strong growth of outlays on non-investment purchases related mainly to the strengthening of state material reserves. Growth of outlays on servicing the state debt accelerated and approached so far record size from year 2013.</p>	<p>All social benefits strengthened by 75.7 CZK bn last year (one half of it pertained to the last four months of the year). They comprised 42.7% of all current SB outlays, which was approximately by 3 p.p. less than in the period of the economic recession (2012 till 2013). Outside of the area of social benefits, the unexpectedly large volume of non-investment purchases of the state the most contributed to the growth of the total current expenditures (+15.8%, 12.4 CZK bn resp.), where the higher expenditures on strengthening of the state material reserves (mainly natural gas), payment of older cost to the Czech Post, rising prices for consumed energies or higher need to purchase medicine and medical manifested. Net expenditures on servicing the state debt also burdened the SB more<sup>16</sup>. Their growth accelerated compared to year 2021. It attained 17.7% last year and with its size (49.7 CZK bn) closely approached the record expenditures from year 2013. It was connected with the growth of the size of debt as well as interest rates on domestic state bonds. Significant by volume current transfers towards regions and municipalities mildly grew in alignment with the budget anticipations for the last year (+2.3%, +5.3 CZK bn). Mild growth of the wage tariffs of teachers of primary and secondary schools (+2%) as well as compensations to local authorities for the accommodation of refugees had a pro-growth effect, the decline of funds on social services or inpatient care (connected to the extraordinary bonuses the year before the last) had the opposite effect. From other current expenditures, the payments of the public health insurance for the so called state insured person (2.4%), which were affected both by the change of the adjustment mechanism<sup>17</sup> and the higher number of insured persons.</p>
<p>Higher current transfers to regional budgets reflected especially the mild increase of wage tariffs in education.</p>	
<p>Budget anticipated downturn of current transfers to business entities was linked to the retreat of support programs in pandemics. It was however hampered by expenditures on the energy tariff in the second half of the year.</p>	<p>Noninvestment transfers to business entities, which plunged by 28.8% year-on-year, 36.1 CZK bn resp. significantly worked in the direction of decrease of current expenditures in line with the anticipation. The fundamental retreat of support programmes for business entities hit by the impacts of pandemics manifested here (by 60 CZK bn), lower advance subsidies to the renewable sources of energies also had a partial effect. Mainly the new subsidies on the savings of energy (so called energy tariff serving as an assistance to households) paid out this year in September (17.4 CZK bn) and to a lower extent also the abolition of the mandatory fee for the development of renewable energy had the opposite effect. Lowering of subsidies to budgetary organisations (-4.3%) is closely connected with the higher basis in the year before the last affected by the payment of extraordinary bonuses to medical professionals. The decrease of subsidies to the non-profit organisations was also related to the retreat of the pandemics (-11.9%), mainly in the area of education and sport. Growth of the long-time rising mandatory payments of the CR into the EU budget halted last year (-1.8%), specifically for the first time since year 2017. Weight significant expenditures on the salaries in the central government institutions in reality stagnated for the second year in a row.</p>

<sup>13</sup> It is paid out (in the amount of 5 thousand CZK for each child) to families with middle and lower incomes from August this year with the aim to partially compensate for the rising prices of energies, food and further needs to these families.

<sup>14</sup> It occurred mainly due to the legal raising of the benefits for people with disabilities in the two most severe degrees of dependency.

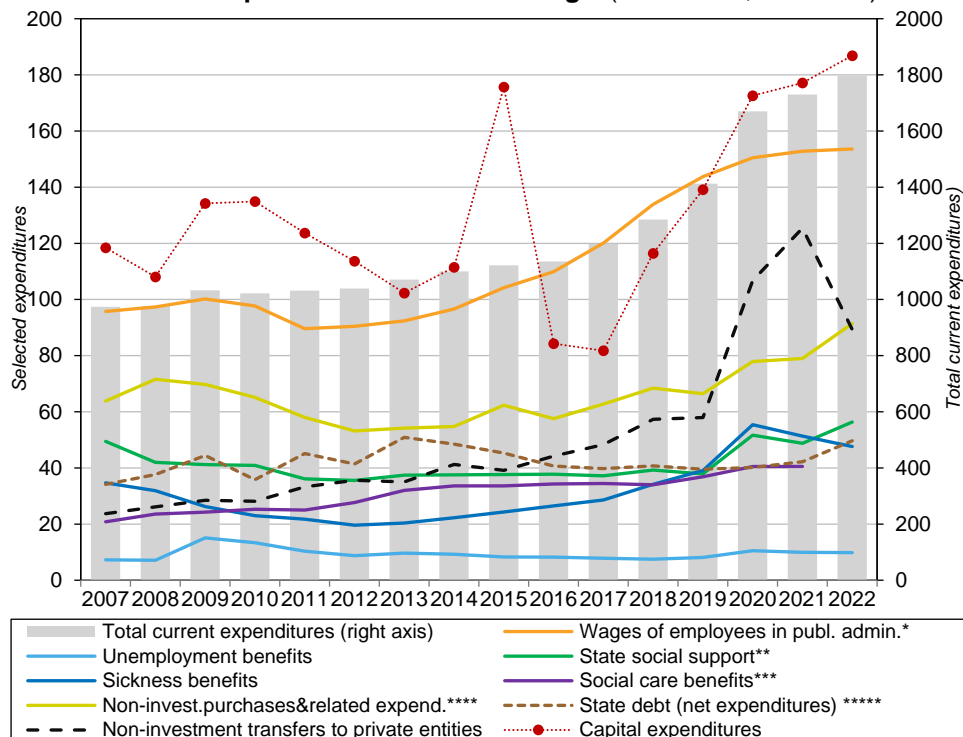
<sup>15</sup> Expenditures on sickness insurance benefits thus exceeded the revenues flowing to sickness insurance by 8 CZK bn in year 2022. It marked better result than in year 2021 (-14.4 bn) and 2020 (-21.3 bn). The surplus in the area of sickness insurance was last recorded in year 2018 (+0.6 bn).

<sup>16</sup> Net expenditures correspond to the balance of the budget chapter State debt (no. 396).

<sup>17</sup> Monthly payments of the state increased from 1767 CZK to 1967 CZK per person since January 2022. According to the later approved amendment of Act on Public Health Insurance however the payment decreased to 1487 since September 2022.



**Chart 19 Selected expenditures of the state budget (annual total, 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. Humanitarian aid provided for citizens of Ukraine are 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, MLSA

Mild growth of investment reflected higher expenditures on transport infrastructure as well as the environment. Common CR and EU projects contributed.

SB capital outlays thanks to marked acceleration of drawing increased by 5.5% year-on-year at the end of the last year<sup>18</sup> and reached record 186.9 CZK bn. Still they lagged behind the budget anticipations by more than one tenth (further mildly lowered amended budget). Nearly one half of resources aimed for the state funds last year, especially the State Fund for Transport Infrastructure (by 11.7 CZK bn more year-on-year) and State Environmental Fund (+8.0 CZK bn, mainly for the realisation of the New Green Savings programme financed from the resources of the National Programme Environment). Investment transfers to business entities also mildly increased. From the view of the source of financing. Investment on the common CR and EU projects contributed to the growth (+19 CZK bn, to 93 bn). In contrast the expenditures on projects from exclusively national resources decreased by nearly one tenth year-on-year. Total investment formed 9.4% of all SB expenditures last year. It was the most in the last seven years but did not digress significantly from the long-term average (for the whole period since the CR accession to the EU).

Size of the state debt increased by more than 400 CZK bn for the third year in a row. The value of both internal and external debt rose last year.

Deep budget deficit was mirrored in the high borrowing need of the state. The state debt climbed up to 2 895 CZK bn at the end of the last year's December, when in increased by record 429 bn (+17.4%)<sup>19</sup> for the entire year 2022. The issues of medium as well as long-term koruna bonds (with maturity above 1 year) on the domestic market fundamentally participated in this, even though they did not achieve the intensity from years 2020 neither 2021<sup>20</sup>. State on the contrary borrowed considerably more from households last year

<sup>18</sup> 39.5 CZK bn was drawn on investment from the SB in December, i.e. more than for the first four months of the year (28.5 bn), which were to a large extent impacted by the regime of the interim budget.

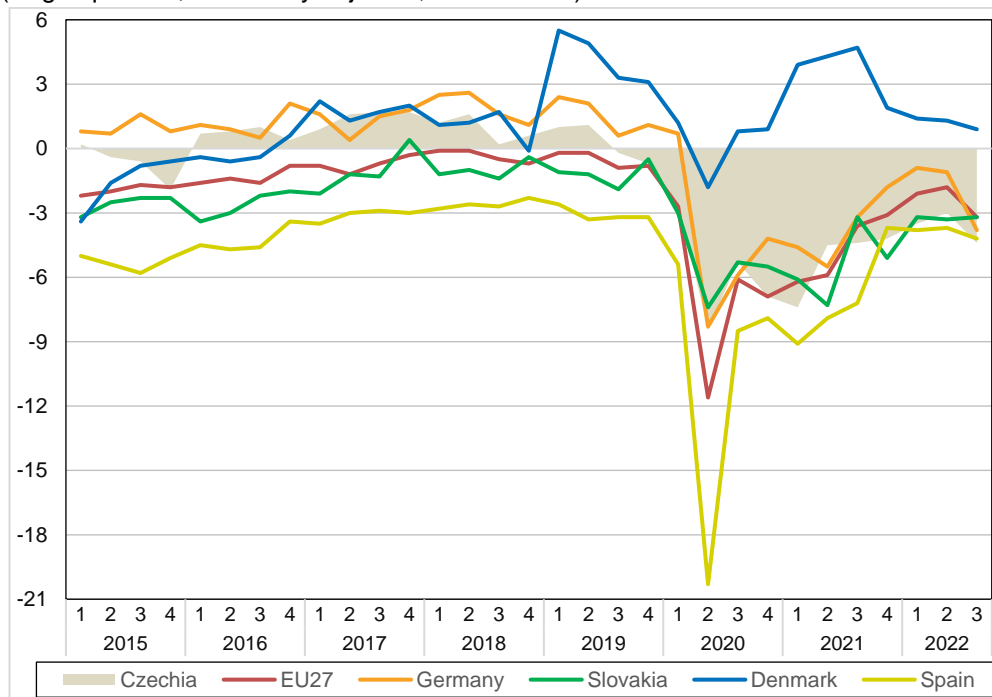
<sup>19</sup> Increase of debt in the preceding two years severely affected by the impacts of the pandemics however also exceeded 400 CZK bn (+409.5 bn in year 2020, +416.1 bn one year later).

<sup>20</sup> Value of all state bonds in circulation expanded by 243.7 CZK bn for the last year, i.e. to 2 609.8 bn. Domestic financial institutions held precisely two thirds of the value of bonds in December 2022, non-residents then little less than 27%. From the view of the total possession of



(bond issue at the beginning of the year reached 43 CZK bn) and it also more intensively utilised short-term debt instruments (treasury bills as well as loans on the euro financial market). Consequently the external indebtedness of the CR also increased for the second year in a row (by more than 110 CZK bn) – it nevertheless still participated on the total amount of the state debt by less than one tenth.

**Chart 20 Budget balance of government institutions sector in selected EU states**  
(single quarters, seasonally adjusted, in % of GDP)



Source: Eurosta

Budget deficit of the sector of government institutions in the CR shrank by one third year-on-year for the three quarters.

Acceleration of the dynamics of expenditures of sector VI in Q3 was also one of the impacts of the unusually high surge of prices in the economy.

The whole sector of government institutions (VI) in the CR recorded deficit 145 CZK bn<sup>21</sup> for Q1 to Q3<sup>22</sup>, which represented by nearly one third more favourable result against the record deficit from the same period last year. Development in the first half of the year, when the impact of the post-pandemics revival of the economy was still more notably evident stood exclusively behind this improvement. In contrast the deficit deepened to 60 CZK bn in Q3 (worse result was in this time period observed only in the crisis year 2009). Strengthening year-on-year growth of expenditures of sector VI manifested here (from 5.5% in Q2 to 12.2% in Q3), caused by higher social benefits (incl. extraordinary pension adjustments) as well as other current transfers (effect of introducing the Energy-saving tariff), growth of paid out owner income (due to higher interest) and larger volume in intermediate consumption and investment (also as a result of growth of prices in the economy). On the contrary the volume of paid out subsidies reduced significantly, it however remained above the level from year 2019. Total revenues of sector VI, unlike the expenditures, grew by stable pace during the last year (by 10.7% in total for three quarters). Especially the collection of tax on production and from import exhibit positive results, however its growth pace was decreasing due to the weakening consumption of households (from 13.1% in Q2 to 8.7% in Q3). The collection of common taxes on income or social

bonds the proportion of domestic households strengthened the most year-on-year (to more than double –3.7%), to a lesser extent then also the proportion of pension funds, insurance companies, investment funds and also non-residents.

<sup>21</sup> Unless stated otherwise, data regarding the budget of sector VI in the CR are expressed without seasonal adjustment.

<sup>22</sup> Data regarding the budget of government institutions for Q4 2022 will be published by the CZSO on 3<sup>rd</sup> April 2023, Eurostat then analogically on 21<sup>st</sup> April 2023. More detailed assessment of the development for Q3 2022 is contained in the publication Analysis of the sector accounts: <https://www.czso.cz/csu/czso/cr/analiza-ctvrtletnich-sektorovych-uctu-3-ctvrtleti-2022>.

contributions in contrast displayed a stable growth thanks to the good condition of the labour market.

Trend of the decrease of relative budget deficit of sector VI halted in both the EU and euro area in Q3.

Improvement of the shape of public finances in the EU as well as the euro area states (also associated with the significant reduction of extraordinary public outlays connected to the pandemics) apparent since the beginning of year 2021, halted. The budget deficit of sector VI deepened to 3.2% of GDP in the Union in Q3 2022 (since it was 1.8% of GDP in the preceding quarter – the least since the end of year 2019)<sup>23</sup>. The deficit also deepened in the CR in Q3 (to 4.4% of GDP). It thus recorded worse result compared to both the EU and euro area for the fifth quarter in a row. Despite worsening macroeconomic situation still approximately one third (generally middle and smaller) states of the Union maintained mild budget surpluses last year in Autumn. In contrast, deep, more than 5% deficit troubled sector VI in Belgium, Hungary and Romania.

The indebtedness rate was mildly falling for the second year in a row in the EU. It however increased in the CR as the only member country during the last year.

The indebtedness of the sector VI in the EU was continuously mildly decreasing following reaching absolute maximum at the beginning of year 2021 (92% of GDP). It was 85.1% of GDP last year at the end of Q3 and fell by 4.6 p.p. year-on-year. Reduction of indebtedness occurred exclusively thanks to the effect of the nominal growth of the economic performance in both the Union and euro area since the absolute size of the debt kept growing (even though only slowly contrary e.g. to the situation in the CR). Some long-time highly indebted states achieved the largest improvement – Greece (by 25 p.p.) and Cyprus (by 15 p.p.), it was however significant also among traditionally fiscally stabilised countries (Ireland, Denmark, Lithuania). The CR presented the only member state of the Union, where the indebtedness increased year-on-year (from 40.4% of GDP to record 45.3%). The indebtedness rate of the CR ranked the eighth lowest among the member states in Q3 (it was the worst position after year 2014), it still however did not reach even one half of the euro area level. The ratio of total revenues of sector VI to GDP still stayed behind the level from 2019 in the CR in last year's Q1 to Q3 unlike the EU. On the contrary, the relative volume of expenditures grew faster in the CR than in the Union for the same time period. Compared to the lowest level of indebtedness from the era of the pre-pandemic boom (period 2015 to 2019) the debt of the sector VI of the EU countries was higher by 7.6 p.p. last year in Q3 – even in the range 17 to 18 p.p. in the most affected states (Spain, France), by 15 p.p. in the CR. On the contrary, only Ireland was in better situation than before the pandemics (by 8 p.p.), with large distance then Denmark, Sweden and Croatia.

Ratio of revenues of sector VI to GDP remained below the level of year 2019 in the CR.

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<sup>23</sup> Data regarding the budget balance of sector VI in the EU countries expressed after seasonal adjustment.

