

8. State Budget

The surplus of the state budget was the highest since the formation of the CR in H1

The results of the state budget were affected mostly by the strengthening economic growth during the first half of 2015, gradual shift from the former restrictive measures, as well as the intensive drawing of funds from the EU budget. State budget (SB) achieved (based on cash fulfilment) the surplus of 22.6 bn crowns, which represented the best half-yearly result in the history of the independent CR. SB balance (forming the key item of surplus or deficit of the government institutions sector) amounted to +1.0 % in relation to nominal GDP in H1 (+0.1 % last year).

Acceleration of drawing on the EU funds – state budget gained by nearly 50 bn crowns more year-on-year in H1

Non-tax revenues¹ held a key position in the record SB balance thanks to the completion of drawing of funds from the EU at the end of the programme period. The size of revenues from the EU exceeded the level anticipated by the SB for the whole year 2015 already during June. The CR in total acquired 150.5 bn crowns from the EU in H1 (nearly double year-on-year) and at the same time it represented 19 % of all „Union“ revenues gained from year 2007. Mostly the revenues from the structural funds significantly accelerated (to 96 bn crowns, from 35 bn crowns in H1 2014). Total net position of the CR towards the EU budget thus arrived at record 126.8 bn crowns in H1 and 537.1 bn crowns then since the beginning of year 2004.

State wide collection of VAT was continuously higher year-on-year since March 2015, total final consumption expenditure in the economy increased by 3.5 % in nominal terms in H1

The swift economic growth was more and more visibly reflected in the collection of tax revenues during the year, even for the indirect taxes, whose year-on-year dynamics was blurred by the non-standard high last year's basis². State-wide collection of the dominant VAT still lagged by 7.5 bn crowns behind the last year's result for the whole H1, however it recorded a continuous year-on-year growth already since March (and it almost reached the last year's level for the first eight months of 2015). The falling prices of automotive fuels as well as introduction of the second lowered VAT rate (books, medicaments) also influenced the VAT collection.

Collection of all consumption taxes still by 4 % lower year-on-year in H1 (due to the lower collection for tobacco products), however already 4 % higher at the end of August

The state acquired by 4 % more on the tax on mineral oils (the key item of the consumption taxes). Favourable prices of the automotive fuels stimulated demand (incl. foreign carriers), the expanding economy also contributed to the development of transportation, the repeated introduction of tax reliefs had on the contrary a negative effect (so called green fuel). The impact of last year's pre-stocking on the collection of taxes on tobacco products overshadowed the effect of the repeated increase of rates for a long time (the collection weakened by 13 bn crowns for Q1 2015, by 4 bn crowns for H1, it was by nearly 2 bn crowns higher again by the end of August).

Collection of the corporate tax higher year-on-year already sixth quarter in a row, higher collection of income taxes from employees was prevented by the spread of tax reliefs

The improved financial situation of businesses was also reflected in the state-wide collection of corporate income taxes, whose strong growth dynamics from the last year was sustained also in this year's H1 (+8.4 %). The collection of individual income taxes on wages and salaries (ITNP) on the contrary increased only modestly (+1 %), when the effect of higher employment as well as gradual acceleration of growth of wages was partially hampered by the legislative measures (increase of the concession on the second and further child, „kindergarten fee“, basic concession of working pensioners). Tax reliefs also reduced the collection of tax of unincorporated individuals in H1, which was by 2 bn crowns weaker year-on-year. State wide collection of corporate taxes was compared to its boom (H1 2008) lower by one sixth this year, collection of taxes from employees however increased by one seventh compared to the same period.

Lower fulfilment prevailed among the significant items of tax revenues against the budget anticipations only for VAT at the end of August

¹ Non-tax revenues were increased by some extraordinary revenues in the last year (especially the auction of frequency bands for high speed mobile network for 8.5 bn crowns).

² The last year's higher collection of consumer tax on tobacco products was linked to the intensive pre-stocking of traders at the end of year 2013 for the reason of subsequent increase of rates. As of 1.12.2014, another increase of the consumer tax rates occurred for the tobacco products, but was supplemented also by the regulation of the pre-stocking. Higher VAT basis was associated with the temporary deferring of payment of the part of excessive deductions at the beginning of year 2014 (in the amount of 8.4 bn crowns) for the non-settled VAT payers.

Dynamics of the SB outlays growth fastened

Total SB outlays increased by 5.2 % in H1 following their stagnation in the previous three years, the most after year 2009. Investment participated on this result in nearly two thirds, current outlays then to a lesser extent (+11.4 bn crowns). Social benefits, the key component of outlays, rose by a more modest pace year-on-year (+2.7 %). Social benefits cut straight 40 % out of all SB outlays (40.9 % a year ago). More than three quarters of social benefits were directed for pensions, influenced by a restoration of a former adjustment scheme, partially also by the intergenerational change of pensioners (their numbers stagnate for the last three years). Even though the growth of outlays on pensions (by 3.1 % year-on-year) was the highest this year after year 2012, deficit of the pension account balance (the difference between revenues and outlays on pensions from the SB) kept further falling (to 13 bn crowns) thanks to the dynamic growth of the retirement contributions (+4.8 %, the highest in the last seven years within H1).

Economic growth is fully reflected in higher collection of insurance on pensions, pension account deficit was the most favourable this year since H1 2009

The dynamics of social benefits outlays (apart from pensions) slows down since 2013, only the sickness benefits rise more significantly

The growth of sickness benefits (11 %) was reflected in the higher outlays on other social benefits (+1.2 %), due to the repeated payment of sickness benefits already from the 15th day as well as the growth of incapacity for work. Social care benefits also grew but considerably less (+1 %) as a result of higher contributions on care as well as benefits for the persons with disabilities (on the contrary, the supplementary payments for housing growing strongly in the past fell mildly year-on-year in H1). Less was directed to the state social support (when only the contributions for housing, maternity grant and benefits for foster parents grew) and the unemployment benefits (-12 %).

Outlays on state employees' wages overtook the level from years 2009-2010 for the first time

Retreat from the former restrictive measures was also reflected in higher non-capital transfers to the local budgets by one eighth year-on-year (e.g. teacher salaries or contribution on the state governance performance in municipalities) as well as the growth of outlays on wages of the state employees (by 9.9 %, partially also due to the preparation for the new civil service act). The SB saved on the outlays on the state debt similarly to the last year (-3 bn crowns) or payments to the EU budget.

Intensive completion of drawings from the EU funds catapulted the size of SB investment to the level from the first half of years 2008-2010

Continuous fall of the capital outlays halted after four years (within H1), when the investment grew by strong 55 % year-on-year. Full 85 % of outlays consisted of cofinancing projects with the EU (mostly into the transportation infrastructure, entrepreneurship and innovation, environment and also within the framework of the Regional operational programme). The SB investment apart from the cofinancing of projects with the EU played with respect to their volume as well as the year-on-year dynamics a marginal role. The total investment presented 8.7 % of the SB outlays in H1 2015, they moved close to the level from the first half of years 2008-2010 in the absolute amount.

The stabilization of the size of the state debt in process already for nearly two years, the state borrowing needs focus on the domestic market

The stabilisation of the state debt, whose size has been practically stagnating for nearly two years, continued also in H1. It amounted to 1 663 bn crowns towards the end of Q2, featuring minimal movement regarding both the external and internal debt since the beginning of the year. The total debt decreased by 20.3 bn crowns year-on-year. The significant reduction of the external debt contributed to this result (-13.8 %), when the state preferred to realise its new borrowings on the domestic market, internal indebtedness on the contrary increased by 2 %. External debt shared in the total state debt by near 17.8 % (the least since the beginning of year 2008).



Chart 19 State-wide collection of tax revenues (y/y, in %) and state budget balance (in bn crowns, data for individual half-years)

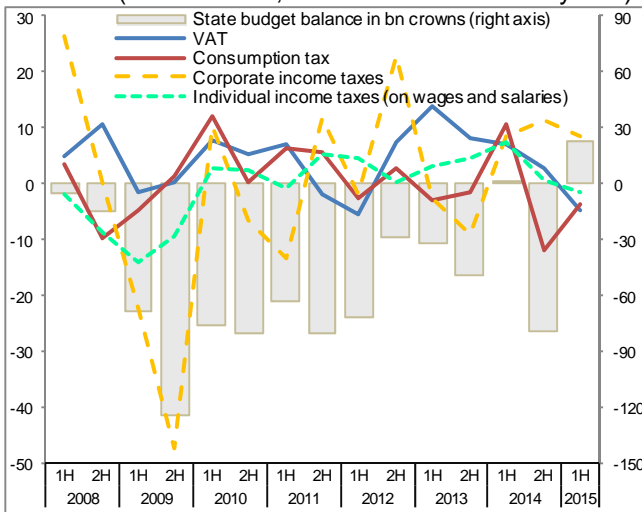
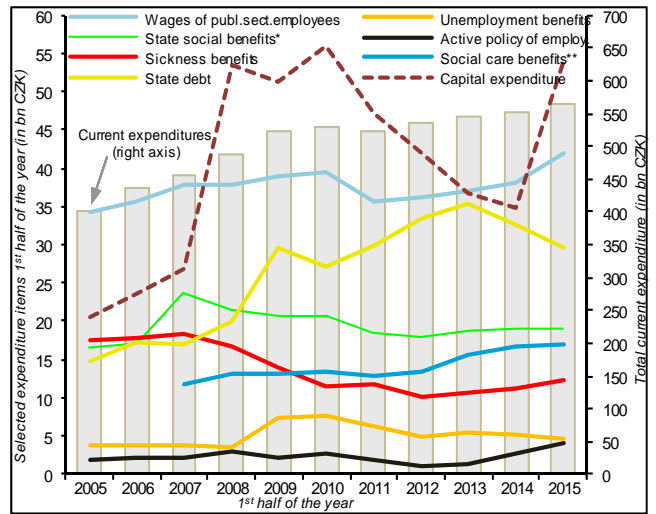


Chart 20 Selected state budget expenditures (1st half-year, in bn crowns)



*incl. foster care benefits

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

Source: MF CR