

## IV. Disposable income of the household sector 1995-2004

Analysing behaviour of the household sector, the main indicator is disposable income in terms of generation and in terms of use. The data are based on annual national accounts 1995-2003 and quarterly accounts 2004 at current prices. The balancing items, i.e. operating surplus, mixed income, disposable income and saving are given as gross values. This report gives attention also to explanatory notes on methodology.

The household sector includes individuals and groups of individuals who are consumers, producers of products and services for own final consumption, and persons running a small business (craftsmen, farmers, private physicians, tax consultants, lawyers, etc.) producing products and services for the market.

**Table 1 Generation of gross disposable income**

CZK bn, current prices

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Index 2004/95
B. 6g Gross disposable income	838.7	941.6	1 059.9	1 121.0	1 160.1	1 207.1	1 270.8	1 342.1	1 387.9	1 446.5	172.5
Primary income	807.6	901.9	1 004.8	1 070.4	1 089.8	1 122.8	1 201.5	1 270.0	1 326.1	1 394.4	172.7
D1 Income from employment	489.3	565.6	620.5	652.1	675.2	693.0	740.8	803.9	849.1	891.6	182.2
D4 Property income (balance)	48.4	54.9	71.2	85.7	71.8	62.3	62.7	58.7	50.7	55.8	115.3
B2g.B 3 Entrepreneurial income	269.9	281.4	313.1	332.6	342.8	367.5	398.0	407.4	426.3	447.0	165.6
Redistribution income (balance)	31.1	39.7	55.1	50.6	70.3	84.3	69.3	72.1	61.8	52.1	167.5
Received	212.1	251.0	287.1	294.7	328.6	363.1	368.1	394.6	413.7	423.3	199.6
D.62 Social benefits	159.4	186.6	212.4	232.2	252.7	276.8	289.6	312.9	323.9	336.5	211.1
D.7 Other current transfers	52.7	64.4	74.7	62.5	75.9	86.3	78.5	81.7	89.8	86.8	164.7
Paid	181.0	211.3	232.0	244.1	258.3	278.8	298.8	322.5	351.9	371.2	205.1
D.5 Current taxes	71.4	80.4	87.4	94.2	93.5	100.1	106.0	114.6	126.3	133.9	187.5
D.61 Social contributions	72.5	80.2	87.3	93.6	96.6	105.8	113.6	125.1	133.8	146.5	202.1
D.7 Other current transfers	37.1	50.7	57.3	56.3	68.2	72.9	79.2	82.8	91.8	90.8	244.7

Gross disposable income in the reference period grew from CZK 838.7 bn in 1995 to CZK 1446.5 bn in 2004, i.e. by 72.5%, and the average y-o-y increase was 6.5%; higher growth was recorded in the first half of the reference period. Gross disposable income per capita was CZK 141.7 thousand in 2004 and rose by CZK 60.5 thousand, i.e. 74.6%, in the reference period. The share of disposable household income in gross domestic product fell from 57.2% in 1995 to 52.6 in 2004. This share has been decreasing since 1997 when it reached a peak of 59.4%.

**Source of disposable income** are primary household income from factors of production, i.e. income from employment, rent and capital income (property and entrepreneurial income) and net secondary household income (balance of secondary, redistributed income). Gross disposable household income is made up of income from employment (60%), entrepreneurial income (30%), balance of property income (5%) and balance of redistribution income (5%). In the reference period, there was a shift in the structure of gross disposable income generation in favour of income from employment whose share grew by 3.3 percentage points.

**Income from employment** in national accounts is part of compensation of employees, which, besides gross wages and salaries, also includes employers' social and health insurance contributions (compulsory and voluntary)<sup>9</sup>.

**Wages and salaries** (in gross values) grew in the reference period from CZK 489.3 bn in 1995 to CZK 891.6 bn in 2004, i.e. by 82.2%. They grew by CZK 40.8 bn, i.e. 6.9%, on average y-o-y. Below-the-average increases were recorded in 1998-2000 and the highest increases in 1996 and 2002.

A part of wages and salaries paid to households are also wages that are beyond enterprise bookkeeping. This applies to undervaluation of reported wages, which is used by employers who try to avoid paying taxes and social security contributions, some forms of wages in kind, and gratuity. Wages and salaries in 2002 were adjusted by CZK 7.4 bn amounting to estimated undervaluation of wages and by CZK 3.2 bn as estimated undervaluation of gratuity. Important parts of wages in kind are employers' contributions to luncheon vouchers (CZK 10.3 bn in 2002) and to recreation and sports, etc. (CZK 3.9 bn). Meals and beverages on business trips and use of company cars for private purposes are estimated at CZK 13.3 bn. Wages and salaries of households also include earnings of 15-20 thousand residents-commuters who are employed outside the CR and cross the state border on a daily or weekly basis. Their earnings are estimated at CZK 9.3 bn a year on average. On the other hand, wages of households do not include wages paid to 146 thousand non-residents – cross-border commuters and persons working in the Czech Republic on a short-term basis.

**Entrepreneurial income** consists of gross mixed income and gross operating surplus. In the reference period, it grew from CZK 269.9 bn to CZK 447.0 bn, i.e. by 65.6% and by 5.8% on average y-o-y. Mixed household income amounts to

<sup>9</sup> In terms of households, both household income and household expenditure in this report exclude employers' social contributions.

**Property income** is income from financial assets and land (rent). It includes dividends and shares in profits, interest on deposits, loans, interest on leasing, consumer loans, income from property attributed to policyholders, etc. A dominant income item is income from distributed profits of trading companies determined with the help of a statistical survey and expert guess on the basis of non-disclosed profits of owners of non-financial corporations, particularly small companies with limited liability. Income from property attributed to policyholders of life or other insurance and supplementary pension insurance corresponds to income that policyholders receive from insurance companies (from invested shares of households in life and pension insurance reserves from prepaid premiums). Net property income (computed as the difference between received and paid property income) accounts for 4.9% of gross disposable income on average. A part of income received is interest on deposits whose tendency has been falling since 1999 and it halved in comparison to 1995. Development of expenditure interest on loans was affected by interest on leasing and consumer loans, which is increasing in last five years.

**Secondary redistribution income received** grew in the reference period by 99.6% and increased from CZK 212.2 bn to CZK 423.7 bn. Decisive component of this income are social benefits in cash and social assistance benefits (other than social transfers in kind), which make up on average 21.6% of gross disposable household income. They are thus an important part of gross disposable household income. They have doubled since 1995, i.e. they rose by 8.7% on average y-o-y.

Table 2 Social benefits other than social transfers in kind

**Other income transfers** of secondary distribution (Table 1) are current income not included in some of the items given. For example, compensation from non-life insurance premiums (insurance on households, houses and buildings, motor vehicles, fire insurance, etc.), scholarship, winnings in betting pools, lotteries, etc. Other current income transfers have a share of 6.4% in gross disposable income generation.

### Table 3 Current taxes

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		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Index 2004/95
D.5	Current taxes on income, wealth, etc.	71.4	80.4	87.4	94.2	93.5	100.1	106.0	114.6	126.3	133.9	187.5
D.51	Taxes on income	71.0	80.0	86.9	93.5	92.7	99.4	105.3	113.8	124.0	131.4	185.1
Incl.:	Withholding tax	9.0	10.0	11.8	13.3	9.9	8.9	6.7	6.2	7.3	6.3	70.0
	Tax returns	15.3	15.2	17.6	16.5	16.0	17.3	21.4	21.5	22.1	23.6	154.2
	Tax on wages and salaries	46.0	55.0	58.0	64.2	67.1	73.5	78.1	87.1	95.9	102.8	223.5
	Other taxes and corrections	0.7	-0.2	-0.5	-0.5	-0.3	-0.3	-0.9	-1.0	-1.3	-1.3	x
D.59	Other current taxes	0.4	0.4	0.5	0.7	0.8	0.7	0.7	0.8	2.3	2.5	625.0

Total taxes on household income grew by 87.5% in the reference period. This growth was unambiguously affected by the development of taxes on wages and salaries, which doubled, and taxes of natural persons, particularly self-employed persons, which grew by 54.2%. The taxes were rising by 9.6% on average y-o-y.

**Actual social contributions by households** are compulsory and voluntary payments by employees and self-employed persons to social security funds incl. unemployment fund, to health insurance (incl. supplementary insurance) funds, or payments to pension funds for the purpose of supplementary pension insurance. For the sake of completeness and consistency with national accounts, the following table contains also employers' social contributions.

**Table 4 Social security contributions**

CZK bn

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Index 2004/95
D.6111	Employers' social contributions	145.3	167.0	184.4	196.3	204.0	219.1	233.9	253.4	269.5	289.0	198.9
D.6112	Employees' social contributions	55.6	60.3	66.0	70.3	73.2	77.5	82.3	89.2	95.0	101.2	182.0
D.6113	Social contributions by self-employed persons	16.9	19.9	21.3	23.3	23.4	28.3	31.3	35.9	38.8	45.3	268.0

**Other expenditure transfers** have the same items as income transfers. They include non-life insurance payments, private transfers to the rest of the world, payments of fines and penalties, contributions to humanitarian (non-profit) institutions and expenditure on betting. Expenditure on betting, lottery, etc. is given at the level of winnings. This item does not affect the level of disposable income because it is part of both household income and household expenditure. The difference between betting and winning amounts is an item of individual household consumption expenditure (as payment for a service).

The **use of gross disposable income** indicates how disposable income (raised by changes of share of households in reserves of pension funds) is distributed between individual household consumption expenditure (i.e. final consumption) and saving.

**Table 5 Use of gross disposable income**

CZK bn

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Index 2004/95
B. 6g	Gross disposable income	838.7	941.6	1 059.9	1 121.0	1 160.1	1 207.1	1 270.8	1 342.1	1 387.9	1 446.5	172.5
D.8	Adjustment for the change in net equity of households in pension fund reserves	5.5	8.8	9.3	7.6	6.0	7.5	9.4	11.5	13.3	15.4	280.0
P.31	Individual consumption expenditure	724.8	847.2	932.8	998.3	1 046.3	1 108.8	1 179.4	1 220.7	1 283.2	1 349.3	186.2
B.8g	Saving, gross	119.4	103.2	136.4	130.3	119.8	105.8	100.8	132.9	118.0	112.6	94.3
	Saving rate, gross (B.8g/B.6g) in %	14.23	10.96	12.87	11.63	10.33	8.77	7.93	9.90	8.51	7.79	54.7

From generated disposable income (adjusted for changes of share of households in reserves of pension funds), households pay predominantly **final consumption expenditure**, i.e. products and services necessary for satisfying individual needs. This expenditure may take place either within the CR or in the rest of the world. Estimate of final household consumption expenditure is based particularly on data from the sample survey in households, so-called household budgets. However, data from this source are systematically undervalued, in particular expenditure of rich households. Estimate for this upper class was made using data from the tenth, so-called upper decile of household

budgets, i.e. data on expenditure of households on high income. The use of alternative sources in computing final household consumption led to better accuracy of computing consumption of spirits and tobacco.

Final household consumption expenditure includes mainly purchases of products and services. They are purchases of food products, products of industrial nature such as electrical appliances or, e.g., purchases of materials for small improvements of dwellings, material for repair and maintenance of consumer durables (not classified as intermediate consumption), or purchases of consumer durables, e.g. cars for purposes of consumption (not classified as fixed capital formation); further, payments for personal services or financial services (banks, insurance companies, pension funds), etc. This expenditure includes, besides purchases, consumption in kind and so-called imputed rents (i.e. service of housing provided by owner-occupiers).

Final household consumption expenditure at **current prices** grew by CZK 624.5 bn in 1995-2004, and was rising by 7.1% on average y-o-y. The highest growth was recorded in 1996 and 1997. In 1996, expenditure rose by CZK 122.4 bn, of which expenditure on food was up by CZK 19.8 bn, on housing rent by CZK 20.2 bn, on transport by CZK 11.7 bn, and expenditure on recreation was by CZK 16.5 bn higher than in the preceding year. In 1995-2004, households spent 63% of their total final consumption expenditure on housing, food, recreation and transport.

Comparing development of final household consumption expenditure at **constant prices** of the preceding year (Table 6), household expenditure on all commodities except housing rent grew most in 1996 (index 108.8%). Y-o-y growth in the other years did not exceed 2.9%, with the exception of 4.9% in 2003 when growth in most commodities was prevailing; in 2003, households spent substantially more on post and telecommunications (+14.7%) due to development of mobile technologies.

**Table 6 Final household consumption expenditure (constant prices)**

(previous year = 100) in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Final household consumption expenditure	100.0	108.8	101.4	98.5	102.2	102.9	102.8	102.7	104.9	102.4

Final household consumption expenditure in the reference period grew faster than disposable income, except for the years 1997 and 2002. The share of final household consumption expenditure in disposable income rose by 7 percentage points: from 86% in 1995 to 93% in 2004. Consumption trend of households was prevailing. The rate of gross saving measured by the share of saving in disposable income fell from 14.23% in 1995 to 7.93% in 2001. It has been on the decrease since 2002 (9.9%) again.

Household **saving** (the second part of used disposable income) increased by the balance of capital transfers creates a source for gross capital formation and household financial accumulation.

**Gross household disposable income** is the main macroeconomic indicator in analysing behaviour of the household sector. It grew by 72.5% in 1995-2004; the growth was faster in the first half of the reference period. Among its sources are income from employment (gross wages and salaries – 60%), entrepreneurial income (mixed income and gross operating surplus – 30%), property income balance (income from financial assets and land – 5%) and redistribution income balance (5%). Disposable income grew slower than final household consumption expenditure, except for the years 1997 and 2002. Consumption trend of households was prevailing in the reference period. The share of final household consumption expenditure in disposable income rose by 7 percentage points. The rate of gross saving is decreasing; in 2002-2004, it ranged between 9.9% and 7.8%.