

**State budget**

- ***The state budget deficit reduced significantly tax income from legal entities***

Economic boom in the CZ affected positively the internal balance of the Czech economy. In 2007 the country reached better economic results than estimated by draft budget and even its October update – expenditures exceeded income by CZK 66.4 billion while the approved budget counted with deficit of CZK 91.3 billion. Income increased compared with 2006 faster than expenditures (+11.1% and +7%, respectively). The deficit in economic results of the country then in comparison with 2006 (CZK -97.3 billion) by almost one third reduced and reached 1.9 % of GDP.

In Q4 2004 the y-o-y dynamics of income remained approximately the same as in cumulation of three preceding quarters while expenditures accelerated. Taxes collected from legal entities in 2007 exceeded by more than a fifth those collected in 2006, a two-digit growth was recorded also for income tax from actual persons (+11,4%) – the state thus obtained from these taxes by almost CZK 30 billion more, y-o-y. An increase of further CZK 32 billion was recorded for income from VAT and excise tax compared to 2006. Social insurance increased compared with tax income at slower rate. Its dynamics was identical with the growth rate of pension insurance (+10%). Insurance thus strengthened budget income compared with 2006 to CZK 33.5 billion.

- ***Growth of expenditure slowed down***

The growth of budget expenditure slowed down to +7%, y-o-y, against +10.6% in 2006. Slower growth rates were recorded for pensions (+6,2% against +10.3% in 2006), in contrast, social benefit expenditure grew faster (+9,2% against 8.7% in 2006). In spite of the y-o-y improvement of the state finance deficit in 2007 the CR has not yet reached the trajectory of public finance sustainability – the trend of the state finance deficit as key component of the government sector deficit does not fall but fluctuates.

Data source: CZSO, MF CR, CNB, Ministry of Labour and Social Affairs, CZSO calculations.

Latest information from the CZSO and CNB sources offered in this report refers to 12 March 2008. The report is base on monthly statistical data of statistics on industries and the GCP quarterly estimates.