

8. State Budget

Improving state budget deficit already four years in a row

Despite subsiding adverse development of the economy for the most part of the year, the tendencies leading to gradual consolidation of public budgets asserted in the development of state finances. State budget management for 2013 finished (according to cash fulfilment) with the lowest deficit (81.3 bn crowns) since the beginning of deep economic recession and was compared to the anticipations of the approved budget by one fifth lower. Simultaneously, it represented the fourth lowest deficit since the year 2003. The year-on-year milder deficit was the merit of the first half of the year, in the second half itself the deficit reached nearly 50 bn crowns (year-on-year by more than one half higher). The deficit in relation to nominal GDP improved to 2.1 % (year-on-year by 0.5 p.p.) in 2013.

Better result against the approved budget in 2013 ensured by lower than expected drawing of investments on transport constructions and savings on non-investment purchases

The considerably higher dynamics of the state budget revenues (+3.8 %) ensured year-on-year more favourable result of the deficit given a slower growth of expenditures (year-on-year +1.8 %). Especially the non-tax and capital revenues grew (+31 bn crowns), the effect of normally significant by weight tax revenues¹ was weaker (+9.5 bn crowns). Tax revenues were pulled mostly by the robust growth of VAT collection (+20.3 bn crowns), marginally also the physical person income tax from the dependent activity – e.g. employees (+2.8 bn crowns) and tax on property transfers (+1.2 bn crowns). In all cases the administrative measures played a dominant role². On the contrary the effect of economic recovery in the last quarter of 2013 could be partially reflected in the improvement of indirect taxes collection (especially VAT)³, the year-on-year dynamics of direct taxes however did not change much during the year 2013.

State budget revenues were pulled by the dynamic growth of VAT collection and continuing drawing of the European funds

Adverse development of the economy in spite of partial legislative measures influenced the consumption tax collection, which year-on-year weakened for all main types of consumption taxes

The collection of consumption taxes was fundamentally impacted for the most part of the year by the weak dynamics of final consumption expenditures, which thus overshadowed the influence of the legislation changes. The effect of the increase of rates for tobacco products, which similarly to last year induced their pre-stocking, in the view of state budget revenues subsided during the year 2013 (in Q1 year-on-year +5.5 bn crowns, for four quarters -0.2 bn crowns). Collection of the tax the most significant by weight on the mineral oils went down year-on-year by 3 % especially due to the long-time falling consumption of petrol, the effect also had the lowering of tax refunds on mineral oils to persons using these oils for the agricultural primary production.

Mild year-on-year growth of PPIT from the dependent activity mostly due to the legislative changes, other direct taxes kept falling as a result of the subsiding recession

Six quarters lasting weakening of the year-on-year dynamics of collection of physical person income tax (from dependent activity) was halted at the beginning of year 2013, when the state-wide collection increased by 5.3 % in 2013. The growth of collection apart from the administrative influences also reflects the situation on the labour market (moderate growth of the number of employees, dampened growth of the average nominal wages). The collection of other income taxes on physical persons, influenced among other things by the economic results of small entrepreneurs or drop of the interest rates on deposits in banks, was however weaker year-on-year. The state-wide collection of corporate taxes (not blurred by any significant changes of legislation) then also weakened year-on-year by similar rate (-6 %), which compared to the top of boom decreased even by a whole third.

State finance budget anticipations in 2013 fulfilled only for in terms of volume key VAT, year-on-year decline of fulfilment for all other significant revenues

In relation to the approved budget the state finances achieved year-on-year higher percentage of fulfilment in 2013 only for the VAT (simultaneously this item as the only significant one met the budget expectations). Lower fulfilment prevailed for all basic types of consumption taxes, for income taxes of both legal and physical persons (despite higher year-on-year collection) and for the absolute majority of other tax incomes.

¹ State budget revenues could have been by 5.9 bn crowns higher, if it was not for the changes in the budget determination of taxes, which from the beginning of year 2013 strengthened the preference of municipal budgets to the detriment of both the region and state budgets.

² In case of VAT it was the January increase of both rates by one p.p. in combination with the adopted measures against the tax evasion on VAT (e.g. compulsory deposits and registration duty for traders with automotive fuels), for taxes of physical persons then the cancelling of the element discount for working pensioners and introducing the so-called solidarity surcharge in the amount of 7 % on incomes exceeding the fourfold of the average wage. The collection of tax on transfer of property fully reflected the increase in the tax rate by one p.p. to 4 %.

³ For the first two months of year 2014 the collection of VAT state-wide increased nearly by one fifth (resp. 10.3 bn crowns).

Year-on-year by one fifth higher budget non-tax and capital revenues due to a more continuous drawing of funds from the EU during 2013

By more than one fifth higher year-on-year non-tax and capital revenues of the state budget were affected mostly by the revenues from the EU budget (+29 bn crowns) as well as payment of 6 bn crowns from the state enterprise "Lesy CR" into the revenues of the Ministry of Agriculture. The anticipated-in-budget year-on-year fall of revenues within the chapter "state debt" (-9 bn crowns) had the opposite effect.

Continuing of long-term drop of investment, growth of current expenditures

Year-on-year growth of state budget expenditures (+21 bn crowns) was completely under the direction of current expenditures (+3 %) in 2013, while the capital expenditures year-on-year continuously decreased already for the third time in a row (against the level reached three years ago they were by one quarter lower). Especially the investment into the transport constructions weakened year-on-year (-11 bn crowns). Expenditures on pensions the most significant by volume stopped (opposed to the anticipated increase in the planned budget) their year-on-year growth (-0.3 %) after more than five years. The size of all social benefits on the contrary in total grew from the start of the year (+1.4 %, on total state expenditures shared similar to last year 41.6 %). It was also assisted by the dissatisfactory situation on the labour market (continuing growth of unemployment, decrease of the real income of majority of population). State social support benefits increased year-on-year by 5 % in 2013, the expenditures on the unemployment benefits and other social benefits then by one tenth (e.g. assistance in material deprivation, disability benefits, contribution to care and sickness benefits). Drawing of all main items of social benefits (apart from pensions) was this year in relation to the approved budget year-on-year higher.

Aggregate amount of expenditures on social benefits year-on-year by 1.4 % higher, as opposed to previous years the expenditures on pensions fell, on the contrary the resources on state social support and other social benefits increased

Halting of the year-on-year deepening of the pension account deficit due to the fall of retirees, deficit did not shrink however as collection of insurance lower than expected

Long-term deepening of pension account deficit given the year-on-year comparable weak reduction of incomes (social insurance on pensions) and expenditures (paid out pension benefits) stopped in 2013 (whole year deficit -50 bn crowns). Second quarter of 2013 also terminated the period of more than two years falling dynamics of pension insurance collection, still these incomes were in the aggregate for year 2013 year-on-year weaker by 0.3 %. Both surprisingly slightly falling number of retirees (-0.3 %) and the long-time growing share of recipients with permanently reduced pension affected the size of paid out insurance. Adverse situation on the labour market in 2013 also mirrored in the non-fulfilment (-6 bn crowns) of budget-anticipated collection of insurance.

Since its accession into the EU, the CR has so far gained in „net“ 333 bn crowns, one quarter of this amount only in year 2013 itself

Net positive position of the CR towards the EU budget achieved a record size in 2013, the difference between revenues and payments arrived at 84 bn crowns (year-on-year by +11 bn.). Nearly half of the revenues came from the structural funds. From the view of the CR revenues, the significance of the Cohesion Funds strengthens to the detriment of resources for the Regional Development Fund in the long term. For years 2004-2013 the CR paid to the EU budget 342.8 bn crowns and received from it 676.2 bn crowns.

In 2013 the lowest increment of the state debt since 1996, due to the considerable year-on-year fall of the volume of loans

Total state debt increased by 15.7 bn crowns during the year 2013, the size of the addition in absolute terms was less than one tenth compared to the preceding year. Markedly better result was reached thanks to the considerable drop in the volume of state treasury bills (-75 bn crowns) as well as issue of foreign bonds (-69 bn crowns). Three quarters of the state debt was allotted to the internal debt at the end of 2013 (whose size stagnated year-on-year), the exchange rate influences took care of a mild growth of foreign indebtedness while accompanied by a low volume of both loans and repayments. Given the structure of creditors the weight of financial institutions decreased to the benefit of non-residents and households (which at the end of 2013 held 4.9 % of the CR state debt).

Chart 21 State-wide collection of tax revenues and state budget balance development

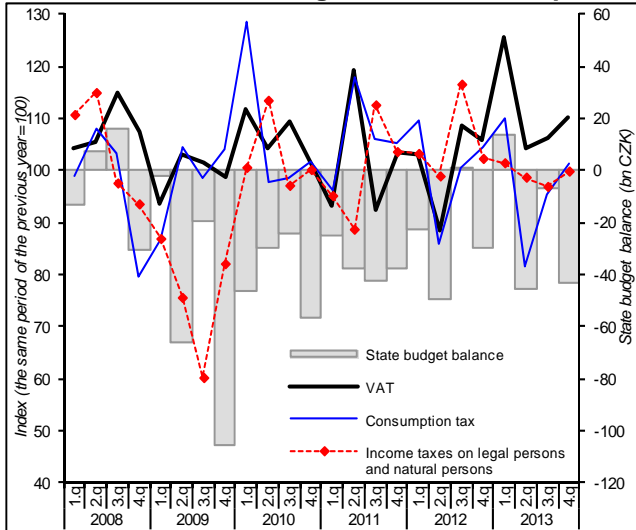


Chart 22 Pension account balance and number of pensioners development

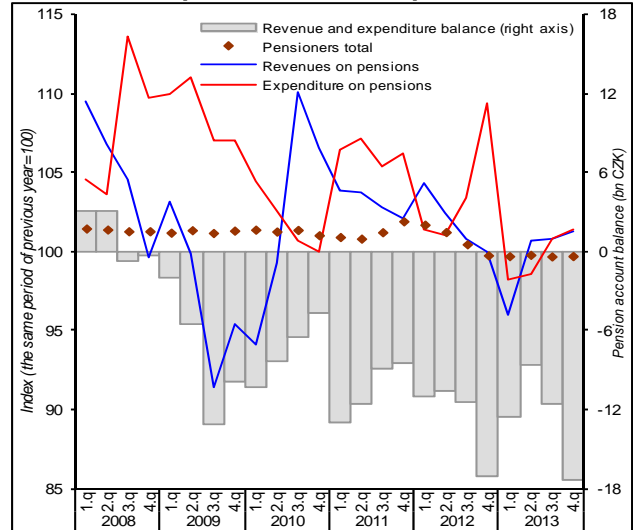


Chart 23 Structure of revenues of the CR from the EU budget and net position of the CR towards the EU budget

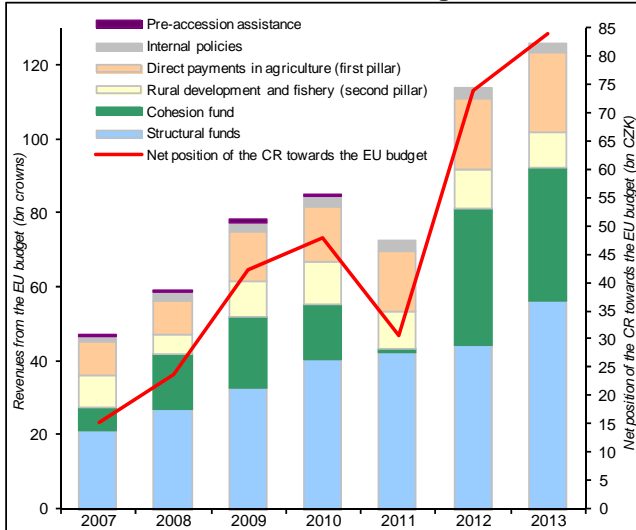
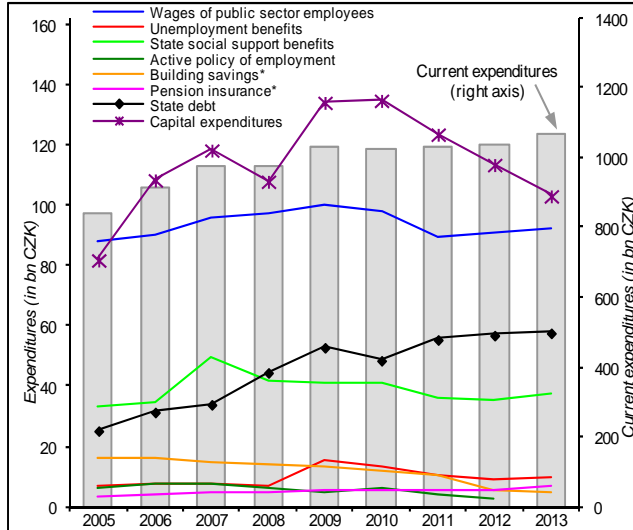


Chart 24 Selected state budget expenditures in years 2005-2013



*State contributions

Source: MF CR

Sources of data in the whole analysis: CZSO, MF CR, CNB, Eurostat, CZSO calculations. Latest information from the CZSO and CNB given in this report has been dated the 12th March 2014.