

# Tomáš Holub

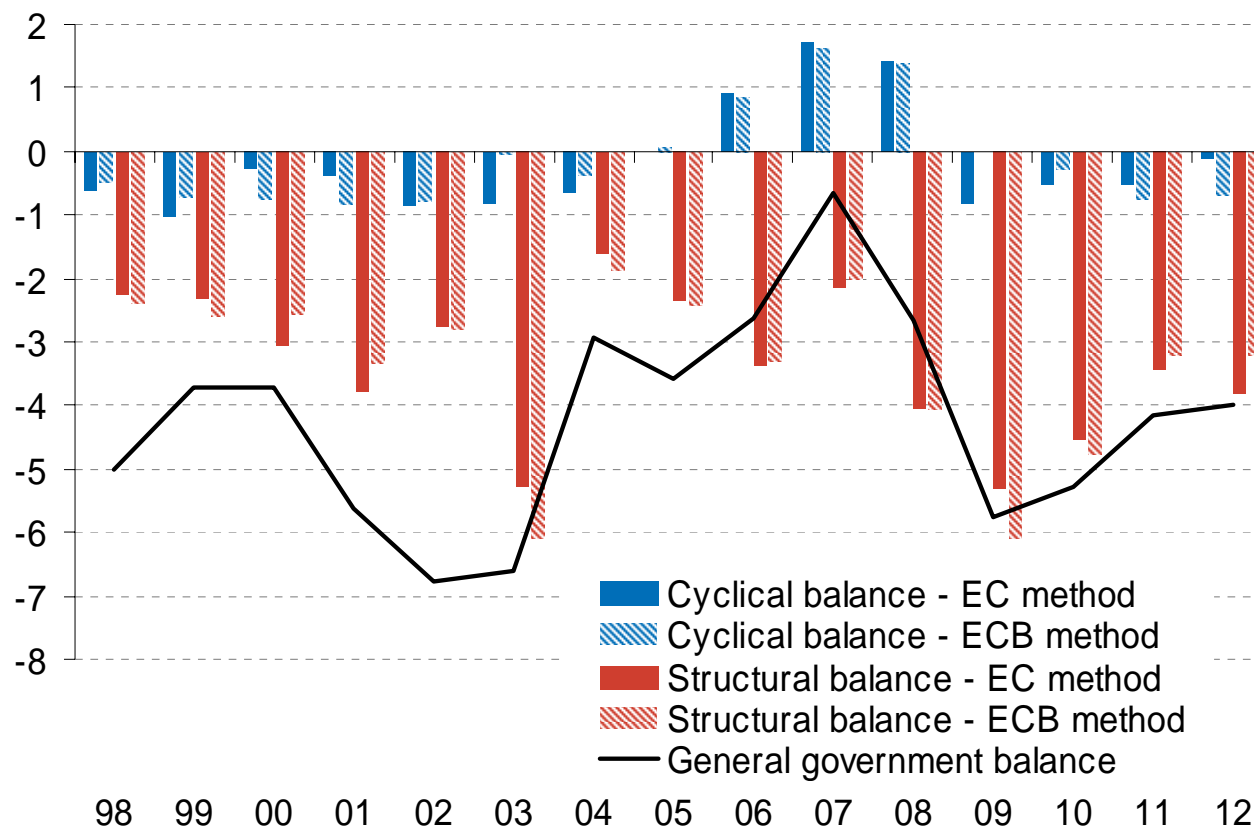
Executive Director

Monetary and Statistics Department

Czech National Bank

Brussels, 19 November 2010

General government balance (in % of GDP)



The planned fiscal consolidation will lead to a noticeable reduction of the general government deficit in 2011.

Related fiscal restriction will curb GDP growth by 0.8 p.p. in 2011 due mainly to:

- strong deceleration of both government (cuts of public servants wage bill and current expenditures restraints) and
- household consumption (decrease in social transfers and increase in PIT)

% of GDP	2009	2010	2011	2012
	actual	forec.	forec.	forec.
<b>Government revenue</b>	40,2	41,5	42,1	41,6
<b>Government expenditure</b>	45,9	46,8	46,2	45,6
of which: interest payments	1,3	1,5	1,5	1,5
<b>GOVERNMENT BUDGET BALANCE</b>	-5,8	-5,3	-4,2	-4,0
of which:				
primary balance <sup>a)</sup>	-4,5	-3,8	-2,7	-2,5
one-off measures	0,4	-0,2	-0,2	-0,1
<b>Adjusted budget balance <sup>b)</sup></b>	-6,1	-5,0	-4,0	-3,9
<b>Cyclical component (ESCB method) <sup>c)</sup></b>	0,0	-0,3	-0,8	-0,7
<b>Structural balance (ESCB method) <sup>c)</sup></b>	-6,1	-4,8	-3,2	-3,2
<b>Fiscal stance in p.p. (ESCB method) <sup>d)</sup></b>	-2,1	1,3	1,6	0,0
<b>Cyclical component (EC method) <sup>c)</sup></b>	-0,8	-0,5	-0,5	-0,1
<b>Structural balance (EC method) <sup>c)</sup></b>	-5,3	-4,5	-3,5	-3,8
<b>Fiscal stance in p.p. (EC method) <sup>d)</sup></b>	-1,2	0,8	1,1	-0,3
<b>GOVERNMENT DEBT</b>	35,3	39,3	42,2	44,1

<sup>a)</sup> government budget balance minus interest payments

<sup>b)</sup> adjusted for one-off measures; CNB estimate

<sup>c)</sup> CNB estimate

<sup>d)</sup> year on year change in structural balance (positive value indicates fiscal restriction, netative value fiscal expansion)

# Consolidation measures in the draft budget 2011

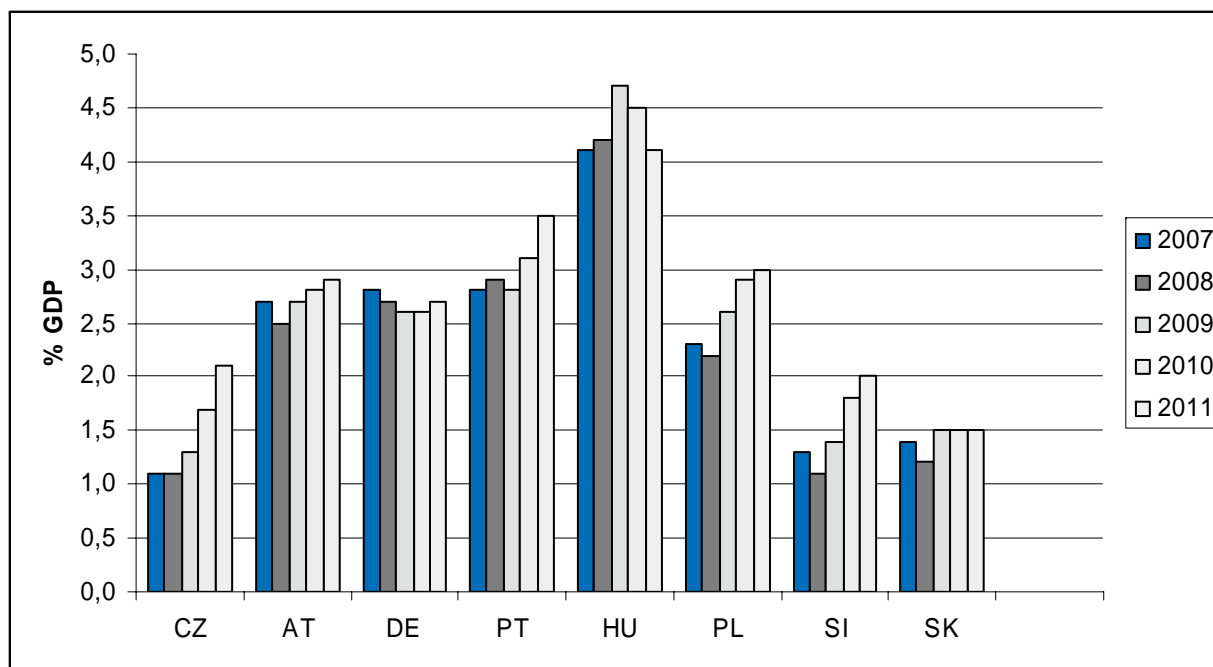
	Impact on balance in 2011 (billion CZK)
<b>Total expenditure measures</b>	<b>58.9</b>
out of:	
1. wages and salaries	11.2
2. state social support benefits	4.5
3. unemployment benefits	0.9
4. social services contribution	1.5
5. sickness benefits	4.5
6. payments to the Fund for Cultural and Social Needs	1.2
7. non mandatory (current) expenditure including cuts in the Ministry of Defense budget	15.2
8. subsidy to the State Fund for Transport Infrastructure	3.5
9. general treasury management	11.1
10. top-up of direct payments from national resources to farmers	3.0
11. state debt service	4.0
12. resources on higher social insurance payments	-1.1
13. an increase in resources on research, development and innovation	-0.6
<b>Total revenue measures</b>	<b>24.0</b>
out of:	
14. social security payments (keeping rate and ceiling)	12.9
15. value added tax	0.2
16. direct tax of enterprises	0.2
17. direct tax of households (including taxing of housing saving support)	6.1
18. lowering of personal allowances	4.6
<b>OVERALL RESULT</b>	<b>82.9</b>

# Sensitivity analysis of VAT change

Differences to baseline scenario due to the lower VAT rate change  
(from 10 % to 14 % since January 2012)

	<b>Headline inflation</b> (y-o-y %)	<b>3M PRIBOR</b> (% p.a.)	<b>GDP</b> (mzr. v %)	<b>Nominal exchange rate</b> (CZK/EUR)	<b>Household consumption</b> (y-o-y %)
<b>IV/10</b>	0,0	0,0	0,0	0,0	0,0
<b>I/11</b>	0,0	0,0	0,0	0,0	0,0
<b>II/11</b>	0,0	0,0	0,0	0,0	0,0
<b>III/11</b>	0,0	0,0	0,0	0,0	0,0
<b>IV/11</b>	0,0	0,0	-0,1	0,0	-0,2
<b>I/12</b>	1,0	0,0	-0,2	0,0	-0,5
<b>II/12</b>	1,0	-0,1	-0,3	0,0	-0,8
<b>III/12</b>	0,9	-0,1	-0,4	0,0	-1,2
<b>IV/12</b>	0,9	-2,0	-0,5	0,0	-1,4

Interest expenditure (in % of GDP, EC assessment, Spring 2010)



Interest expenditure (in % of GDP, EC assessment, Spring 2010)

	2007	2008	2009	2010	2011
<b>CZ</b>	1,1	1,1	1,3	1,7	2,1
<b>AT</b>	2,7	2,5	2,7	2,8	2,9
<b>DE</b>	2,8	2,7	2,6	2,6	2,7
<b>PT</b>	2,8	2,9	2,8	3,1	3,5
<b>HU</b>	4,1	4,2	4,7	4,5	4,1
<b>PL</b>	2,3	2,2	2,6	2,9	3,0
<b>SI</b>	1,3	1,1	1,4	1,8	2,0
<b>SK</b>	1,4	1,2	1,5	1,5	1,5

## Age-related government expenditure

(European Commission: The 2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008–2060)”).

	Pensions		Health care		Long-term care		Unemployment		Total	
	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060
<b>CZ</b>	7,1	11,1	6,4	8,4	0,2	0,6	3,3	3,3	17,0	23,3
<b>AT</b>	12,7	13,7	6,6	8,0	1,3	2,5	5,2	5,0	25,7	29,0
<b>DE</b>	10,2	12,7	7,6	9,2	1,0	2,4	4,6	4,2	23,3	28,4
<b>PT</b>	11,9	13,4	7,3	9,1	0,1	0,2	5,6	5,2	24,9	27,8
<b>HU</b>	10,5	11,2	5,8	7,1	0,3	0,7	4,5	4,2	21,0	23,0
<b>PL</b>	10,8	8,7	4,1	4,9	0,4	1,1	3,8	3,2	19,1	18,0
<b>SI</b>	10,1	18,6	6,8	8,5	1,2	2,9	5,1	5,8	23,1	35,8
<b>SK</b>	6,6	10,2	5,2	7,3	0,2	0,6	2,9	2,3	14,9	20,4