

Supreme Audit Office

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Opinion
on the Draft State Closing Account of the Czech Republic
for 2019

(for Parliamentary Press No 843/0)

(submitted in accordance with Section 5 of Act No 166/1993 Coll.,
on the Supreme Audit Office)

Submitted by: Miloslav Kala,
President of the Supreme Audit Office

The Supreme Audit Office (hereinafter also “SAO”) submits to the Chamber of Deputies of the Parliament of the Czech Republic (hereinafter also “Chamber of Deputies”) an opinion on the government draft state closing account (hereinafter also “SCA”) of the Czech Republic (hereinafter also “CR”) for 2019 on the basis of the provisions of Section 5 of Act No 166/1993 Coll., on the Supreme Audit Office. The SAO based its opinion on the Parliamentary Press of the Chamber of Deputies of the Parliament of the Czech Republic No 843/0, on the closing accounts (hereinafter also “CA”) of individual chapters of the state budget (hereinafter also “SB”), on the approved audit reports from audits and other findings from its audit and analytical activities.

The SAO’s opinion is divided into the following sections:

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Editorial note:

The editorial deadline for the SAO's opinion on the draft SCA for 2019 was set to 10 July 2020.

The document mainly focuses on the facts of 2019 and the evaluation is based on the most current available data. If generally valid, data from older periods may be used where 2019 data are not available.

The number of decimal places in the figures contained in the document is not unified, due to the use of different sources (some sources only state rounded figures, or figures rounded to different numbers of decimal places). Further there also may be slight variations in the values indicated due to rounding or the use of different sources.

I. Preface by the President of the SAO

Dear readers, Ladies and Gentlemen,

you hold in your hands the opinion of the Supreme Audit Office on the draft state closing account for 2019, in which the office evaluates the state's finances for the past year.

Although the economy grew for the sixth year in a row, the state budget for 2019 ended with a deficit of 28.5 billion crowns. The slowdown became apparent. One of the telltale signs was the lower collection of tax revenues by almost 10 billion crowns compared to the approved budget. This happened for the first time in 5 years. The state budget balance was also negatively impacted by the fast growing current expenditures, which rose by 128 billion crowns.

The positive aspect of last year's economy is the year-on-year growth of capital expenditures, which was also driven by the increased use of funds from the EU budget. Let us all hope that the funds have benefited projects that will actually contribute to economic growth and competitiveness of our country.

Nevertheless, we are still struggling to find a path towards long-term sustainability of our public finances. Not only the SAO but other institutions as well, among them the Czech Fiscal Council and, at the international level, the European Commission or the OECD, have been repeatedly voicing their recommendations about what steps we should take. It is thus unfortunate that in previous economically strong years, we have not committed ourselves to some fundamental reforms. And this problem cannot be cured by the short-term satisfaction over our relatively low unemployment rate or the low public sector debt to GDP ratio compared to other EU countries.

Sadly, the structure of state revenues and expenditures so far also has failed to reflect the global challenges, be it digitisation, environmental protection or demographic trends. Other issues include the dependence of revenues on the taxation of labour, or the inability to finalise key infrastructure investments.

We have warned several times already that the level of state budget preparedness for emergencies is worse than at the time of the economic crisis in 2008. Unfortunately, I must say that current developments only underscore this concern. Since early 2020, it has been apparent that tax revenues are not being met as planned, while spending has been rising fast.

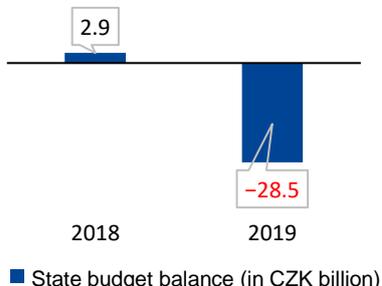
The situation with COVID-19 has exacerbated the unfavourable scenario to unexpected proportions. The decline in tax revenues and the extraordinary expenditures in relation to the disease have significantly worsened the state of public finances. Further development of the pandemic is uncertain and its economic impacts can quickly push the Czech Republic closer to a situation where public finances will no longer be sustainable.

I trust that we will use the current emergency we have been going through along with the entire world as an opportunity for change and better preparation for the future.

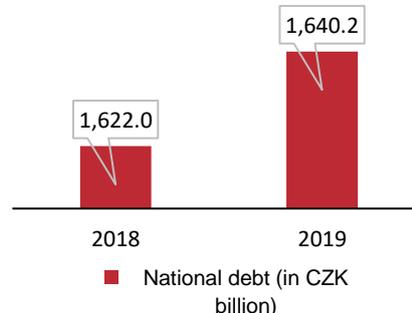
Miloslav Kala,
President of the Supreme Audit Office

II. Summary

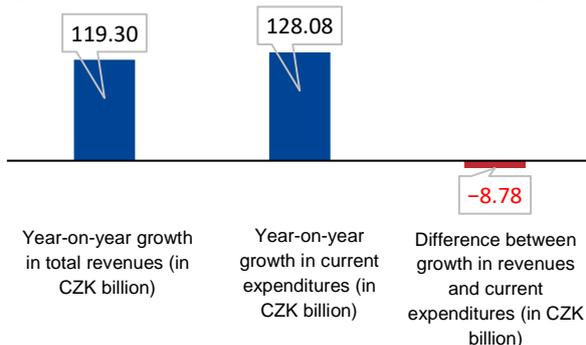
STATE BUDGET DEFICIT



Despite economic growth at a rate of 2.3% of gross domestic product, in 2019 the state budget ended with a **deficit of CZK 28.5 billion**. The national debt increased year on year by CZK 18 billion to CZK 1,640 billion.



INCREASE IN CURRENT EXPENDITURES



The growth in current expenditures, i.e. expenditures intended mainly for the operation of the state without funds for the implementation of investments, **exceeded the growth of total revenues in annual comparison by CZK 8.8 billion**. This fact, in particular at a time of economic growth and fast-growing revenues, does not testify to a prudent approach in terms of sustainability of public finances.

EXTRAORDINARY RESOURCES

+ CZK 18bn

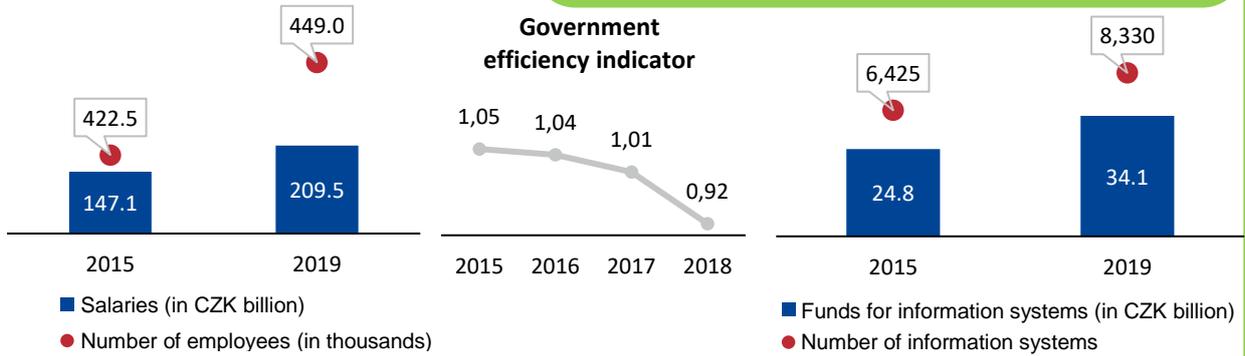
+ CZK 8.7bn

At the time of economic growth, the state budget balance was boosted by a **transfer from the so-called privatisation account** and **higher collection from the sale of emission allowances** as a result of their undervalued budget, yet the budget still ended with the worst result in the last 4 years.

Chapter 396 - *National Debt* serves as a “hidden” reserve for state budget expenditures, as each year part of the funds is transferred to other chapters to cover any needs that are not covered by the budget, as opposed to any means saved being used to reduce the state budget deficit.

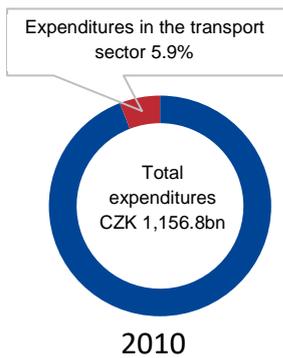
	2015	2016	2017	2018	2019
Transfers to other chapters (in CZK billion)	7.09	10.89	5.76	3.33	6.00

GOVERNMENT SECTOR EFFICIENCY

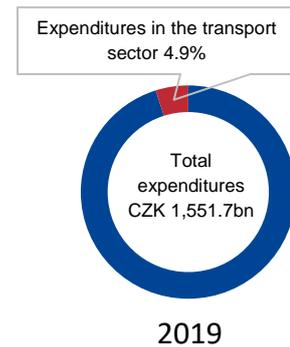


The annual growth in the number of employees in the government sphere and the rising expenditures for information systems do **not improve efficiency** of the general government sector which, on the contrary, is deteriorating.

SUPPORT TO STRATEGIC AREAS



In 2019, there was no significant support to some strategic areas of the national economy compared to 2010, when the Czech economy was in a less favourable economic situation. To reach at least a 5.9% share in total expenditures as in 2010, an additional CZK 16 billion would have to be spent in the transport sector in 2019.



UNEMPLOYMENT

Estimation of the minimum impact on the state budget balance in the event of a rise in the unemployment rate from 2.0% (2019 figure) to the EU average of 6.3% (in CZK billion)



The state budget is highly reliant on tax revenues and the high taxation of labour. Should there be an increase in the unemployment rate, there would be not only a fall in revenues, but also a rise in expenditures due to the higher numbers of unemployed.

Economic Development

-  In 2019, the GDP growth was at 2.3%, which was 0.8 pp above the European Union average.
-  Inflation accelerated to an average rate of 2.8% in 2019 (the highest in seven years) and approached the upper limit of the Czech National Bank's tolerance band. The average increase in consumer prices in the European Union was about half the number.
-  The unemployment rate reached 2% and was once again the lowest in the entire European Union.

State Budget

-  At a time of economic growth, the state budget ended with a deficit of CZK 28.5 billion.
-  The year-on-year increase in the use of current expenditures by CZK 128.1 billion exceeded the year-on-year increase in total state budget revenues by CZK 8.8 billion.
-  The Czech Republic's net position in relation to the EU budget in 2019 amounted to CZK 68.5 billion, which was an improvement for CR by CZK 23.8 billion compared to previous year; it also signifies an acceleration in the use of resources from the European Structural and Investment Funds.
-  The approved budget for tax revenues was not met by a margin of CZK 9.7 billion.
-  The use of capital expenditures increased by CZK 22.7 billion year on year credit to higher investment activity, which had mainly to do with the need to use up EU funds from the allocation for the 2014–2020 programming period.
-  Despite the growth of state budget expenditures in connection with the implementation of electronic government, there is paradoxically a lack of any substantial progress in increasing the level of digitalisation as compared to other countries within the *E-Government Development Index* (EGDI), where the Czech Republic is still lagging behind.
-  The government has not used the favourable economic situation to implement key changes to the pension system, which is unsustainable in the long run due to the demographic trends.
-  The collection of excise duties on alcohol and tobacco products does not cover even half of the estimated total social costs of CZK 160 billion associated with the use of these addictive substances. In contrast, the affordability of alcohol and tobacco products has been increasing in the long term due to rising consumer incomes.

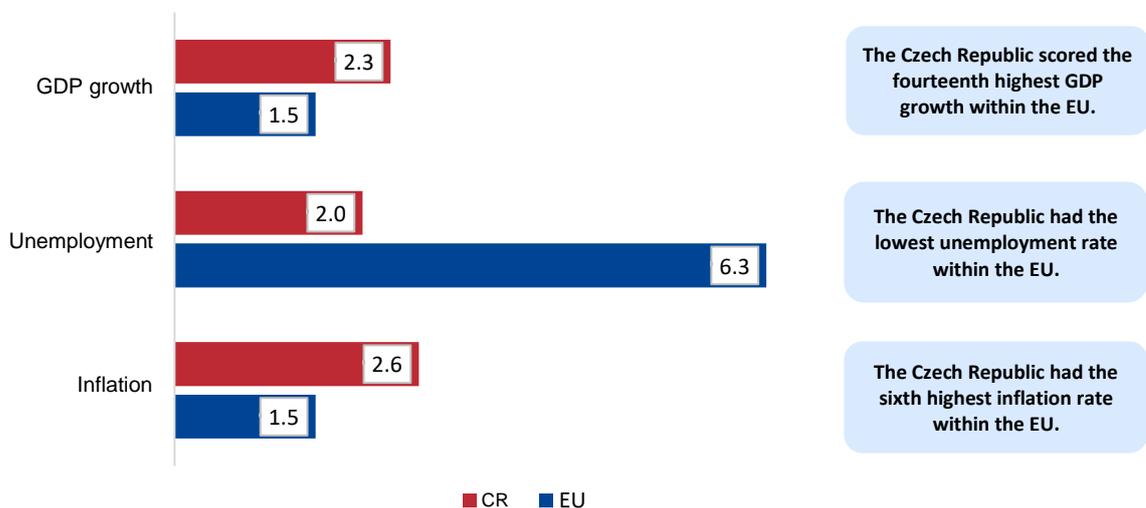
Results of Other Parts of Public Budgets

-  The total local budgets ended with a surplus of CZK 31.7 billion in 2019.
-  Territorial self-governing units did not use CZK 18.1 billion from available capital resources to implement investment projects.
-  The public health insurance system is not resilient to potential negative effects related to the demographic trends and the economic cycle.

III. Economic Development

In 2019, there was a slight slowdown in economic growth in the Czech Republic, which was the lowest since 2014, although it still meant a solid result of 2.3% of gross domestic product (hereinafter also “GDP”)¹. According to the Statistical Office of the European Union (Eurostat), the growth of the Czech economy was 0.8 pp higher than the European Union (hereinafter also “EU”) average and 1.7 pp higher as compared to Germany as the largest EU economy and one of the Czech Republic’s main trading partners. The Czech Republic still holds the lowest unemployment figure in the entire EU, and it even fell in annual comparison by 2.0%¹. On the other hand though in the last months of 2019, the inflation rate in the Czech Republic began to accelerate², reaching an average annual value of 2.8%¹ and so approaching the upper limit of the Czech National Bank’s tolerance band³.

Chart 1 - Selected macroeconomic indicators of the Czech Republic and the EU for 2019 (percentages)



Source: Eurostat database (July 2020 data).

The growth of the Czech economy once again was strongly driven by consumption expenditures of households, disposable income of which grew at a faster rate in recent years, and in the fourth quarter of 2019 also by a recovery in investment activity. Despite this, year-on-year GDP growth began to decline since early in the year. The increase in gross value added, which reflects the performance of sectors in the economy, was mainly driven by the services sector, where information and communication activities continued to perform the best (with a rise of 7.6%), aided also by the construction industry (at a growth rate of 3.4%) and the trade, transport, accommodation and gastronomy sectors (with an increase of 2.6%). In contrast the manufacturing industries scored a very low year-on-year growth in gross value added by only 0.7% in 2019. The most significant obstacles to growth of industrial enterprises were no longer

¹ Source: Czech Statistical Office (July 2020 data).

² For the sake of international comparison, Eurostat was used as a source in Chart 1, although its inflation rate data differ from those of the Czech Statistical Office.

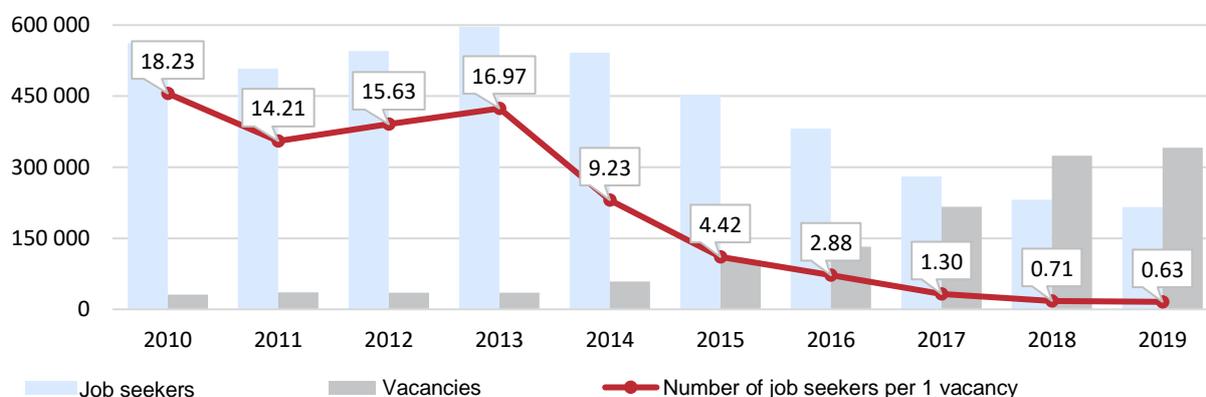
³ The tolerance band of the Czech National Bank is set at between 1% and 3%.

just a shortage of labour, but since mid-2019 also insufficient demand. The stable household consumption was also reflected by a faster increase in retail sales by 4.8%, which was the fifth highest among the EU countries. The foreign trade balance surplus of CZK 345.7 billion contributed less to the overall GDP growth than in previous years. Although the trade surplus in goods was the highest in several years (mainly credit to motor vehicles), it was not enough to cover the marked decline in the trade surplus in services at the end of the year.

The price level (as measured by the GDP deflator) rose by 3.5% in 2019 in what was the highest spike since 2007, matching the year's value. The increase was mainly driven by consumer prices, which rose much higher than overall in the EU. The consumer price index in the Czech Republic grew by 2.8% (the fastest in the last seven years) and was driven mainly by housing and energy prices, and the prices of food and non-alcoholic beverages. The average increase in consumer prices in the EU was about half the number at 1.5%. The average gross nominal monthly salary reached CZK 34,111 in 2019. Once again, there was a significant year-on-year increase in salaries (by 7.1%), which, however, did not translate accordingly in real terms due to the faster growth in prices.

The Czech Republic scored the lowest unemployment rate in the entire EU, which did not change significantly in 2019. The annual increase in total employment was at less than one percent, and its growth stopped completely in the last quarter. This meant that after several years, annual employment growth in the Czech Republic was lower than in most EU countries. The number of working foreigners also fell compared to previous years, although they still play a significant role in the Czech economy (the share of working foreigners in employment exceeded 13%). Although the mentioned shortage of labour was a barrier to growth in some sectors (such as the construction industry), there was already a slight decline in employment in the manufacturing industries in the second half of the year. Nevertheless, the labour market remained unbalanced, with the demand for labour still exceeding supply and a growing gap between both. At the end of 2019, there were 0.63 applicants per vacancy as compared to previous year's figure of 0.71.

Chart 2 - Selected labour market indicators according to the records of labour offices in 2010–2019 (in persons)



Source: Czech Statistical Office.

Note: The data always refer to 31 December of the given year.

Recently, the growth of the Czech economy has been slowing down, which may cause a rise in unemployment and pertinent decline in revenues of the state budget and other parts of public budgets. For the Czech Republic, an increase in the unemployment rate (with the current figure at 2.0%, or 108,372 persons) for example to a level corresponding to the EU average of 6.3%, i.e., by 4.3 pp, or 233 001 persons in absolute terms, would mean a substantial drop in revenues in the region of dozens of billions of crowns. As shown in the following diagram, on supposing average salary, this would amount to a loss of revenues of CZK 56.21 billion on taxes and contributions to social security funds alone (social security, health insurance, discounted income tax). Using the median salary, which better reflects the distribution of salaries among the workforce, the loss of revenues from contributions would total CZK 47.65 billion.

Diagram 1 - Model situation of changes in selected financial indicators in the event of an increase in the unemployment rate to the EU average in 2019 (in CZK billion)

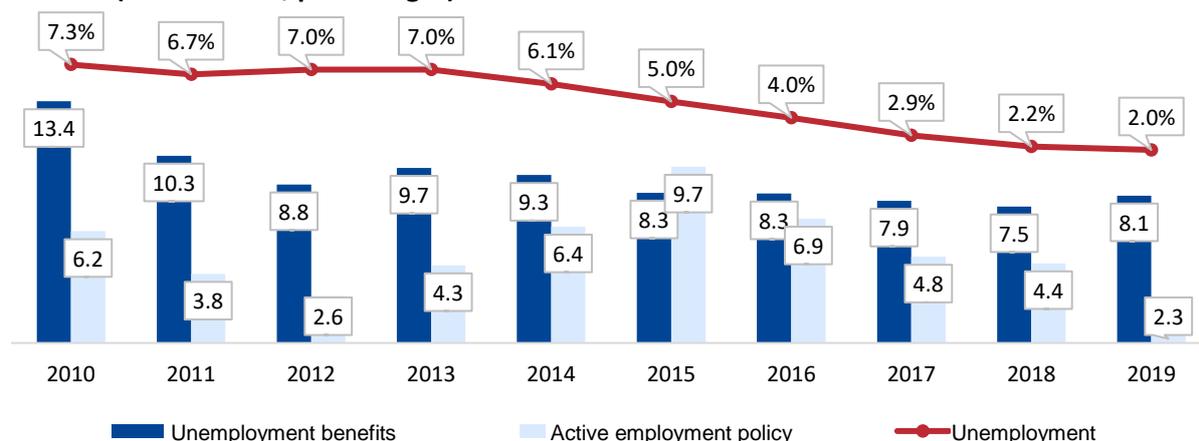
	Calculation on the basis of average salary	Calculation on the basis of median salary
Lower revenues 		
Social security	29.94	25.81
Health insurance	12.87	11.10
Discounted income tax	13.40	10.74
Higher expenditures 		
Payments by the state for state-insured persons		2.85
Unemployment benefits		At least by 5
Active employment policy		At least by 2

Sources: Czech Statistical Office; Financial Administration of the Czech Republic; Ministry of Finance; Ministry of Labour and Social Affairs.

Note: The average salary of CZK 34,111 and the median salary of CZK 29,405 were used in the calculation.

An increase in the unemployment rate also would have a negative effect on the actual amount of gross domestic product and other revenues of public budgets (value added tax, corporate income tax, etc.). A rise in the number of unemployed persons would also add to the expenditure side of the state budget due to pertinent increase in state payments for state-insured persons. Should there be an increase to the average EU unemployment rate, the state payments would grow by CZK 2.85 billion. This would also mean a rise in expenditures on active employment policy and unemployment benefits by several billion crowns. In 2019, at the historically lowest unemployment rate, CZK 8.14 billion was paid in unemployment benefits and expenditures on active employment policy reached CZK 2.35 billion. The following chart shows how these indicators have evolved depending on changes in the unemployment rate.

Chart 3 - Selected indicators of employment and unemployment in the Czech Republic in 2010–2019
(in CZK billion, percentages)



Source: Czech Statistical Office; MONITOR information portal.

Should there be an increase in the unemployment rate, the state budget would face not just a substantial drop in revenues (given the high taxation of labour), but also a rise in expenditures due to increase in the number of unemployed persons. There would be also a significant fall in revenues for public health insurance.

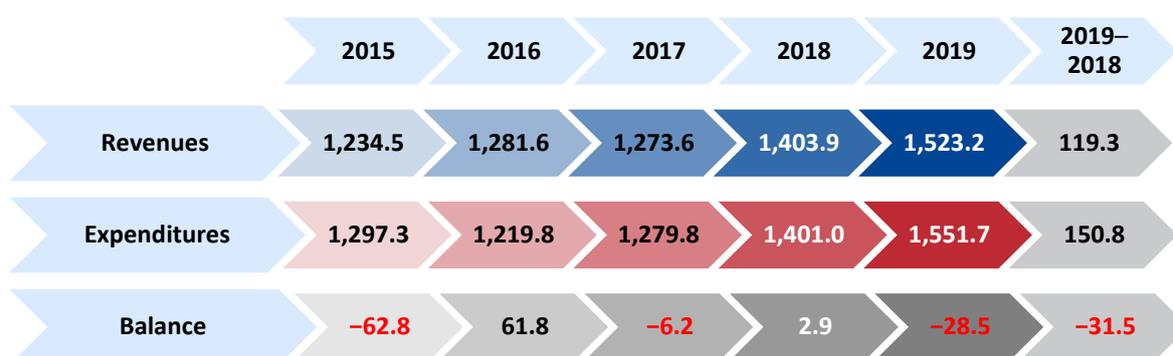
By the reported results, the decline in economic performance of the EU as a whole (with GDP growth in the EU at 1.5%) has not yet fully manifested in the Czech Republic in 2019. The Czech economy slowed slightly to a 2.3% GDP growth rate in annual comparison. Its performance was driven mainly by domestic consumption and high employment, the growth of which though stopped late in the year. Even so, the unemployment rate in the Czech Republic remained the lowest in the entire EU. At the end of the year, there was also a slowdown of the economy in connection with the weaker performance of the global economy as a whole, which will continue to significantly impact the export-oriented Czech economy. The main external factors that may affect the Czech economy in the coming years include trade relations between the United States and China, the economic situation in the euro area, the potential UK-EU Brexit agreement or lack of it, the impact of COVID-19 on the global economy. and the allocation of European funds for the 2021-2027 programming period.

IV. State Budget

1. State Budget Results

In 2019, the total state budget revenues reached CZK 1,523.2 billion and the total expenditures CZK 1,551.7 billion. While the total expenditures exceeded the approved budget by CZK 46.4 billion, revenues were higher by CZK 57.9 billion against the approved budget, credit to which the state budget ended with a deficit of CZK 28.5 billion as opposed to the planned deficit of 40 billion euros. Relative to GDP, the state budget balance reached -0.5% in a deterioration by 0.6 pp against last year.

Diagram 2 - Revenues, expenditures and the state budget balance in 2015–2019 (in CZK billion)



Source: MONITOR information portal.

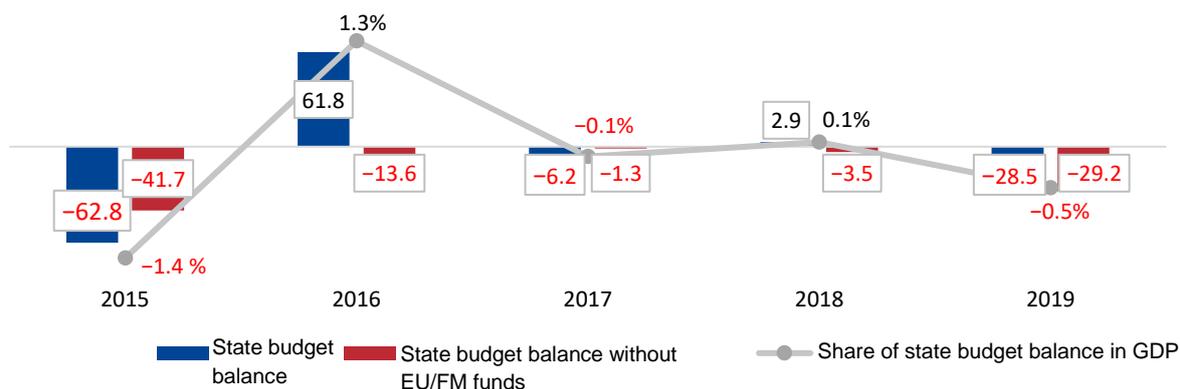
The state budget deficit result was mainly due to the substantial growth in current expenditures (by almost 10% in annual comparison) and also due to a slight increase in investment activity. Compared to 2018, capital expenditures rose by CZK 22.7 billion and their share in total expenditures was at 9%. Nevertheless, even in 2019, there was a failure to reach at least a 10% share as at the time of economic downturn. On the budget revenue side, there was a negative effect of slowdown in economic growth due to lower than budgeted collection of tax revenues. **In contrast, the revenue side and the overall balance of the state budget benefitted from the one-off transfer of CZK 18 billion from the so-called privatisation account⁴ (which occurred in March 2019) and also from higher revenues by CZK 8.7 billion from the sale of emission allowances⁵ than budgeted.**

The flow of funds from the European Union and Financial Mechanisms (hereinafter also “EU/FM”) did not have a significant impact on the state budget results in 2019. After netting the revenue and expenditure side of these funds, the state budget ended with a deficit of CZK 29.2 billion, as shown in the following chart.

⁴ Act No 308/2018 Coll. amending Act No 178/2005 Coll., on the dissolution of the National Property Fund of the Czech Republic and on the powers of the Ministry of Finance in the privatisation of property of the Czech Republic (Act on the dissolution of the National Property Fund), as amended, and some other related laws, allowed the government to transfer funds from privatisation proceeds to the state budget without having to specify the purpose.

⁵ This topic is dealt with in more detail in Chapter 3, *State Budget Revenues*.

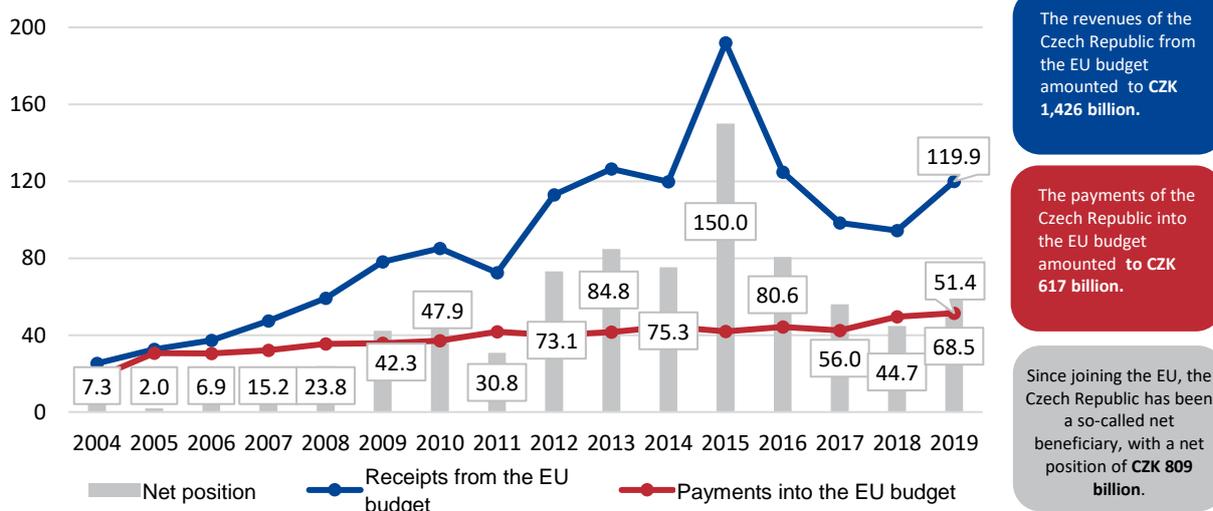
Chart 4 - Trends in the state budget balance, state budget balance without EU/FM funds and the share of the state budget balance in GDP (in CZK billion, percentages)



Sources: Draft State Closing Account for 2019; Czech Statistical Office.

However, financial relations with the EU have had a long-term positive effect on the Czech Republic’s public finances. **Since joining the EU in 2004, the Czech Republic has been a so-called net beneficiary and pays less into the EU budget than it receives from it.** Between 2004 and 2019, the Czech Republic paid into the EU budget a total of CZK 617 billion and received from it a total of CZK 1,426 billion. Thus overall, the net position of the Czech Republic over the period of its EU membership amounted to CZK 809 billion. So far, the Czech Republic recorded the highest net position in 2015, when the full use of payments manifested from the completed 2007–2013 programming period (hereinafter also “PP7+”). In 2019, the Czech Republic received from the EU budget CZK 119.9bn and paid into it CZK 51.4bn. The net position thus totalled CZK 68.5bn and compared to previous year it was an improvement for the Czech Republic by CZK 23.8 billion, which signifies an acceleration in the use of funds from the European Structural and Investment Funds (hereinafter also “ESI Funds”).

Chart 5 - Net position of the Czech Republic in relation to the EU budget (in CZK billion)



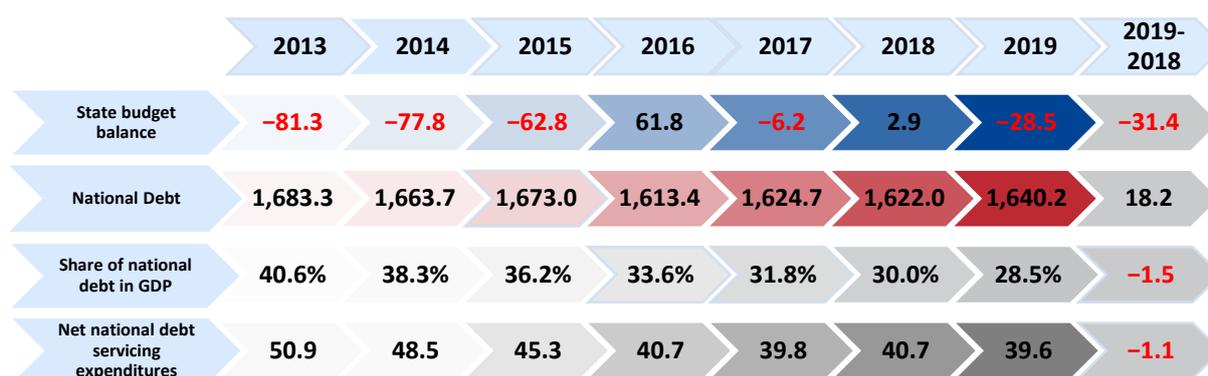
Source: Development of the Czech Republic’s Net Position in Relation to the EU Budget from 2004 to 31 December 2019 (Ministry of Finance).

The state budget in 2019 ended with the worst result in the last 4 years. Without the transfer of funds from the privatisation account in the amount of CZK 18 billion, the deficit would have been even higher (if the budget expenditure side had not been adjusted). The effect of growing state budget revenues credit mainly to economic growth was offset by an increase in expenditures (in particular current expenditures) and was not used either to stabilise the budget or to implement vital reforms (pensions, progress in digitisation efforts, etc.) that would contribute to fiscal sustainability of public finances and higher competitiveness of the Czech economy in the future.

2. National Debt

The national debt grew in annual comparison by CZK 18,2 billion to CZK 1,640.2 billion 2019. This increase was mainly due to the issue of government bonds intended to partially cover the state budget deficit. In relative terms, national debt as a portion of GDP fell from 30.0% to 28.5% in annual comparison. Historically, the Czech Republic's national debt peaked in terms of volume in 2013 with CZK 1,683.3bn at a 40.6% share in GDP. Since then, it has been on the decline relative to GDP for the sixth year in a row, mainly credit to the good condition of the Czech economy with the GDP growth exceeding growth in government debt. Between 2013 and 2019, the national debt shrunk in relation to GDP by 12.1 pp, effectively making the Czech Republic one of the least indebted countries in the European Union. **The nominal value of the national debt has remained stable in recent years, not exceeding CZK 1.7 trillion; as a result of constantly planning deficit budgets though, the state failed to meaningfully reduce the national debt and is even unlikely to keep the deficit at the pre-crisis levels (in 2008 the national debt was just below a trillion crowns).**

Diagram 3 - State budget balance, national debt and its servicing expenditures
(in CZK billion, percentages)

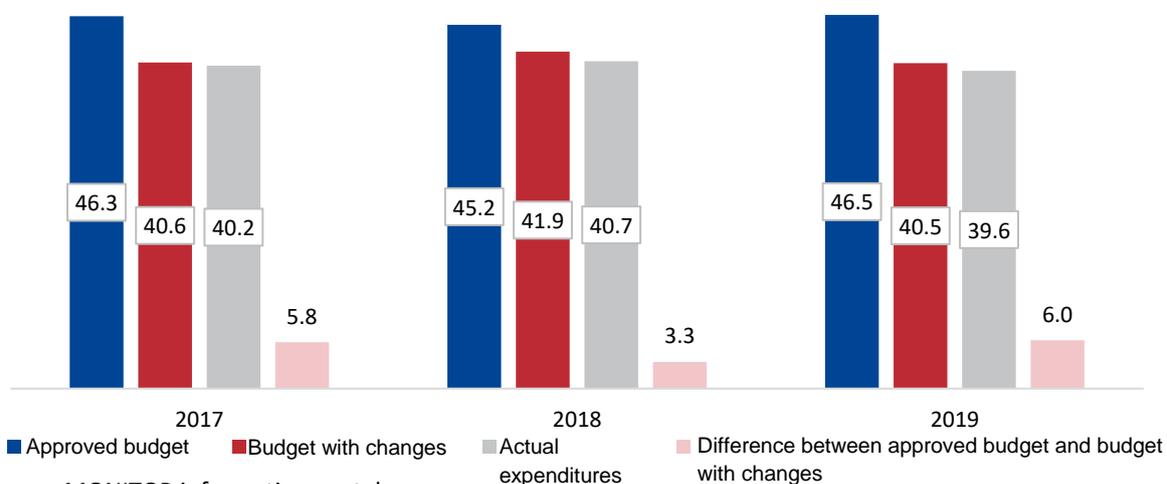


Sources: MONITOR information portal; draft SCA for 2019; key macroeconomic indicators published by the Czech Statistical Office.

The net national debt servicing expenditures reached CZK 39.6 billion in 2019 in a decrease by more than CZK 1 billion in annual comparison. Since 2005, these expenditures have been budgeted using the “cost-at-risk” model framework, under which the maximum cost of national debt is set that is unlikely to be exceeded with a 95% or 99% probability. Practical experience

of recent years shows that the actual expenditures of Chapter 396 - *National Debt* are each year several billion crowns lower than their approved budget, and thus substantial savings are regularly made, as the following chart shows.

Chart 6 - Budget for national debt servicing expenditures and their actual use (in CZK billion)



Source: MONITOR information portal.

The funds thus saved are transferred through budgetary measures to other chapters of the state budget to cover needs that are not covered by budget. Although this practice was already criticised by the SAO in its Audits No 14/14⁶ and No 15/13⁷, funds in the total amount of CZK 6 billion were transferred by budgetary measures to nine different chapters of the state budget in 2019. **In the SAO's opinion, Chapter 396 - *National Debt* should not serve as a "hidden" reserve for state budget expenditures, and any funds saved by virtue of lower than expected interest costs should be reflected accordingly in the reduction of the state budget deficit.**

In times of economic prosperity, gradual reduction of the nominal amount of national debt should be among the priorities to focus on. In 2019 however, national debt fell against previous year in relative terms only, mainly credit to high GDP growth, but nominally it rose. By planning and implementing deficit budgets in times of economic growth, there was a failure to act towards reducing the total volume of national debt. In connection with the economic slowdown, both the absolute amount of debt as a result of growing state budget deficits and its share in GDP may begin to rise rapidly again.

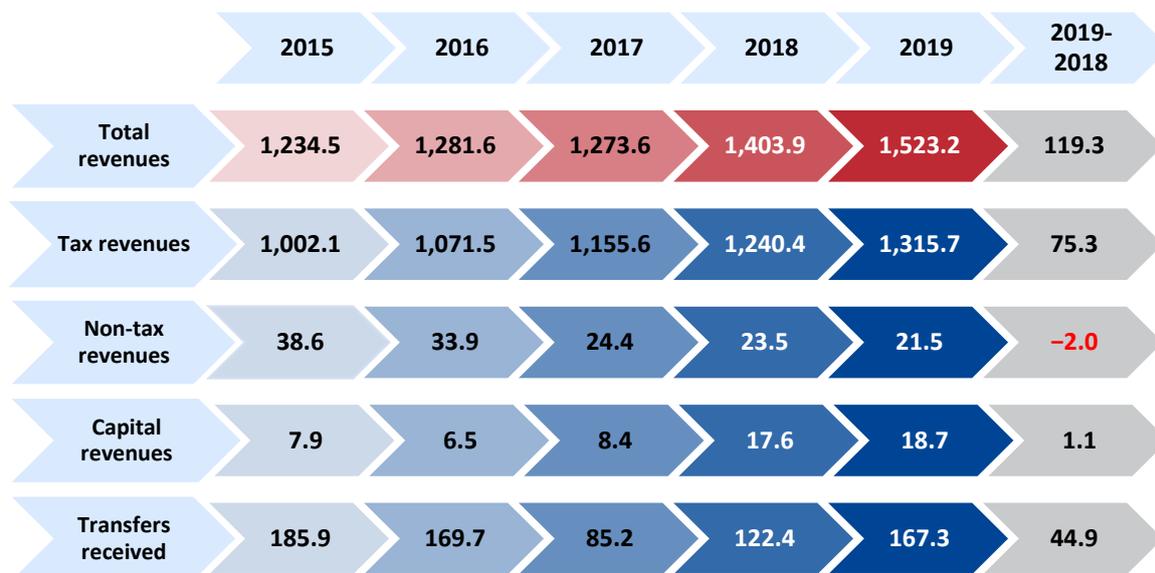
⁶ Audit No 14/14 - *State Budget Funds Included in the State Budget Chapter of General Treasury Administration* (the audit report was published in issue 1/2015 of the *SAO Bulletin*).

⁷ Audit No 15/13 - *National Debt and Its Financing Expenditures* (the audit report was published in issue 3/2016 of the *SAO Bulletin*).

3. State Budget Revenues

The actual state budget revenues in 2019 reached a total of CZK 1,523.2 billion in an annual increase by CZK 119.3 billion (as compared to CZK 130.3bn in 2018) in confirmation of a continuing growth trend.

Diagram 4 - Actual revenues in 2015–2019 (in CZK billion)



Source: MONITOR information portal.

Compared to the approved budget of CZK 1,465.4 billion, revenues were higher by CZK 57.9 billion (as compared to CZK 89.4 billion in 2018), mostly credit to revenues in connection with the co-financing of projects from abroad (CZK 33.4 billion). In contrast without foreign funds, the rise in revenues only amounted to CZK 24.5bn in what was the worst result in the last 5 years. Both in 2017 and 2018, the collection of this part of revenues exceeded CZK 40 billion. From the viewpoint of breakdown of revenues into budget classes, as shown in the following chart, there was a marked growth in received transfers as well as non-tax and capital revenues. On the other hand, tax revenues were lower by almost CZK 10 billion compared to the approved budget and budget with changes.

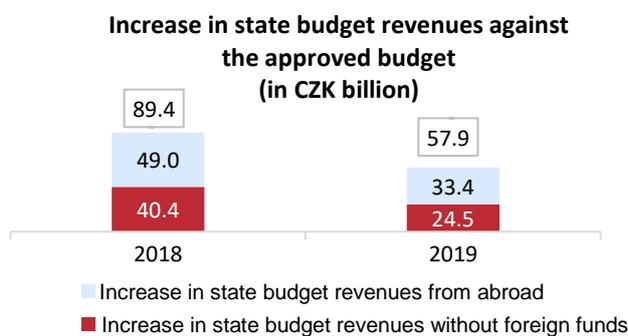
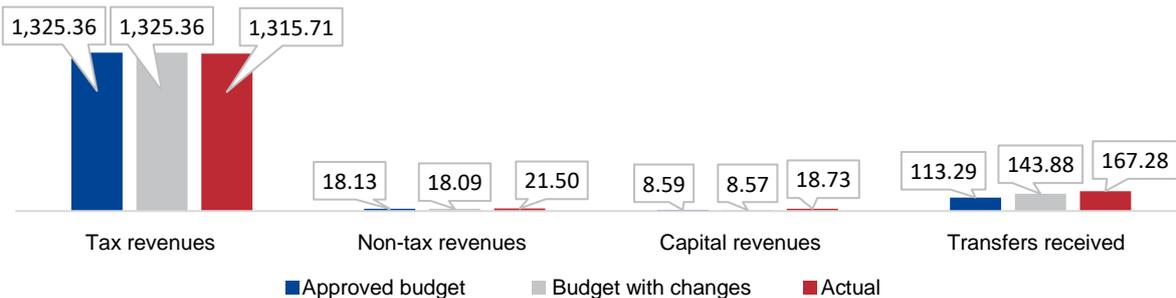


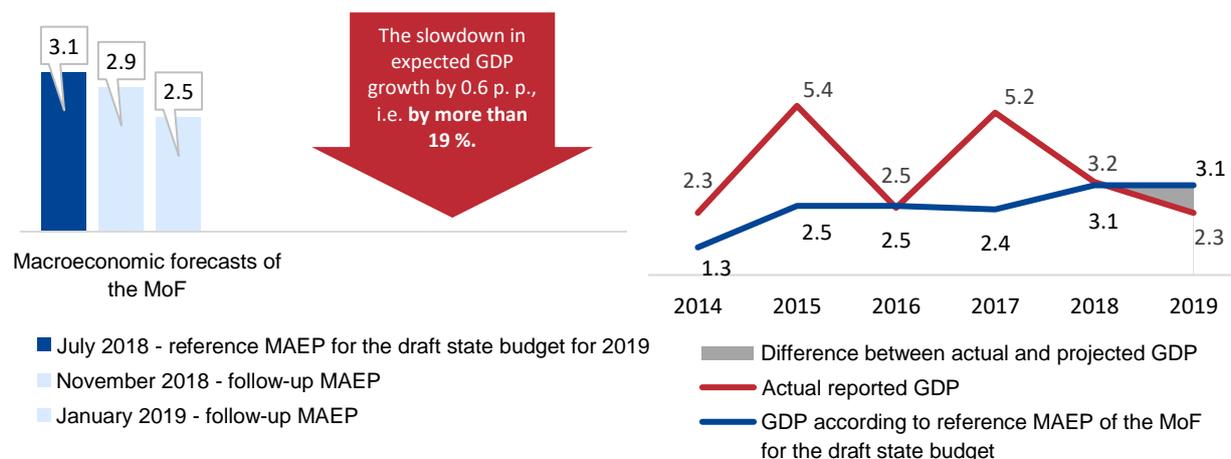
Chart 7 - Budget and actual revenues in 2019 (in CZK billion)



Source: MONITOR information portal.

The actual state budget revenues fully reflected the gradual slowdown in economic growth, which was not sufficiently taken into account in preparing, and particularly in approving the draft State Budget Act for 2019. The Ministry of Finance (hereinafter also “MoF”) has repeatedly stated that the planned state budget revenues are set using a conservative approach and that it has taken into account in preparing the draft budget the macroeconomic forecast (hereinafter also “MAEP”), which has been assessed by the Committee for Budget Forecasts as realistic.⁸

Chart 8 - Development of GDP growth projections for 2019 according to regularly published MAEPs and comparison with actual status (percentages)



Sources: Macroeconomic forecasts published by the Ministry of Finance; Czech Statistical Office.

Chart 8 shows the development of GDP growth projection by the individual macroeconomic forecasts published by the Ministry of Finance, which reflect each the expected trend at the time of their publication of further slowdown in economic growth. In July 2018, GDP growth of 3.1% was still considered realistic but in early 2019, the expected GDP growth already was revised down to 2.5%. **This slowdown in GDP growth by 0.6 percentage point, or by 19%,**

⁸ By the end of 2019, every compiled and published macroeconomic forecast of the Ministry of Finance was assessed by the Committee for Budget Forecasts as realistic and they were matching available data at the time. Over the course of the draft state budget approval procedure, a current macroeconomic forecast that may be published by the MoF may, especially if there is a deterioration of macroeconomic indicators, better specify the amounts of planned public budget revenues and provide guidelines on where the proposed expenditures should go.

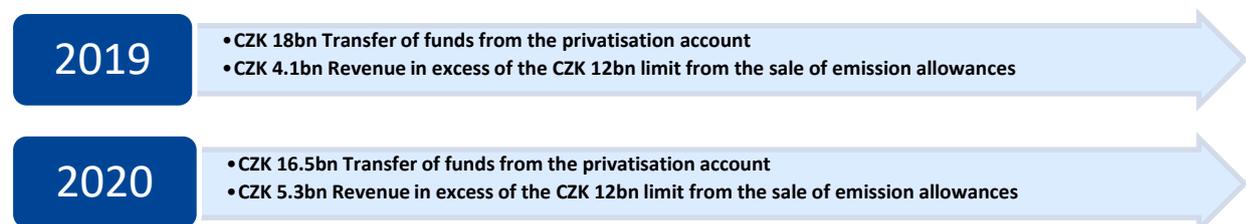
meant a significant impact on the expected volumes of revenues, which over the course of 2019 was confirmed by actual lower tax revenues than approved by the State Budget Act. Since 2014 as the year of return to economic growth, in 2019 for the first time a lower GDP growth was scored than anticipated by the Ministry of Finance's macroeconomic forecast used in the preparation of the draft state budget.

The SAO recommends that in the state budget approval procedure, a more up-to-date macroeconomic forecast be used that will more realistically account for future trends in state budget revenues. By referring to out-of-date macroeconomic forecasts, the budget quality is diminished, and this can have a substantial impact on the planned state budget results.

The Ministry of the Environment in conjunction with the Ministry of Finance did not include in the draft state budget for 2019 a realistic estimate of the amount of capital revenues made on the sales of emission allowances, which currently given the EU policy priorities in the field of reducing emissions counts among significant revenues. For the whole of 2019, these revenues totalled CZK 16.1 billion. On this account already in 2018, the actual revenues from the sale of emission allowances reached CZK 14.9 billion. **The approved budget of CZK 7.4 billion was exceeded by more than double in 2019, specifically by CZK 8.7 billion, or 118%**, which ultimately helped to boost total revenues and to maintain the planned state budget balance, despite the failure to meet the tax revenue budget.

In connection with the worsened economic outlook and the limited possibilities to raise higher state budget revenues through taxes, the Ministry of Finance already in 2018 initiated accelerated **legislative amendments to secure additional state budget resources to cover the growing current expenditures and maintain the planned budget balance**. The state budget revenues thus were boosted for 2019 by funds from the privatisation account in the amount of CZK 18 billion, and in the following year 2020 they should be additionally enhanced with another CZK 16.5 billion from the same source.

Diagram 5 - Enhancing state budget revenues beyond tax revenues to secure the planned state budget deficit in individual years



Sources: Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019; Act No 355/2019 Coll., on the state budget of the Czech Republic for 2020.

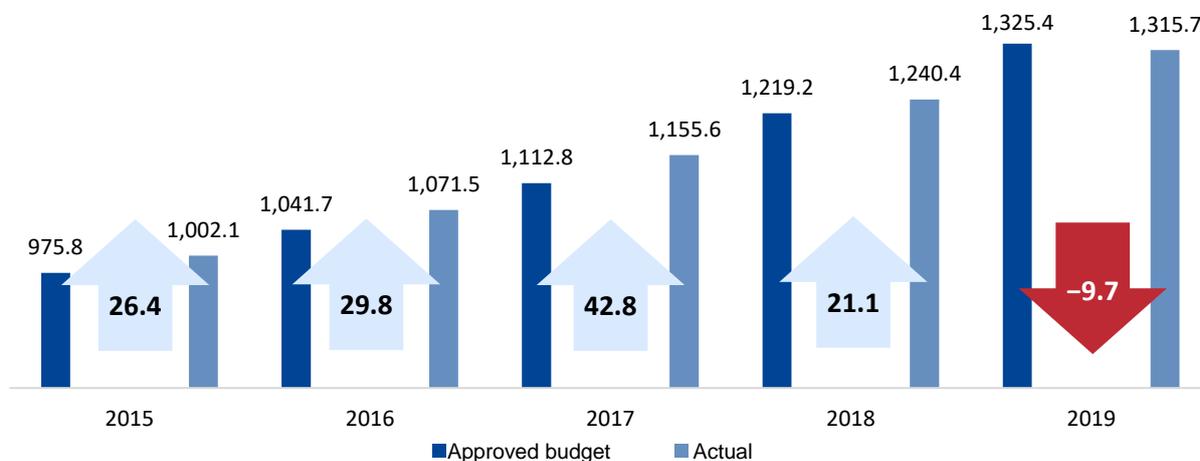
Enhancing the state budget revenues was approached along similar lines as part of the amendment to Act No 383/2012 Coll.⁹, which effective from 2021 reduces the limit on revenues from the sale of emission allowances from CZK 12 billion to CZK 8 billion; these are tied to expenditures to ensure compliance with the Czech Republic’s emission targets. **Revenues made in excess of this limit become state budget revenues that are not tied to a specific purpose¹⁰.**

Since early 2019, the collection of state budget revenues has been affected by slower growth in some macroeconomic indicators, such as household consumption or the volume of salaries and wages. The decline in tax revenues was partially offset by unbudgeted revenues and an underestimated budget for revenues from the sale of emission allowances. To cover the spiralling current expenditures, the state budget revenues were enhanced in the draft budget for 2019 already by transferring funds from the privatisation account.

Tax Revenues

The slowdown in economic growth had a major impact on the overall collection of tax revenues, which are among the key forms of revenues for public budgets, including the state budget. **Compared to the approved budget, tax revenues fell by CZK 9.7 billion in the period under review.** The deterioration was mainly in the core components of tax revenues - personal income tax, corporate income tax, value-added tax (hereinafter also “VAT”) and social security contributions.

Chart 9 - Trends in the collection of tax revenues compared to the approved budget (in CZK billion)



Sources: SCA for 2015–2018; draft SCA for

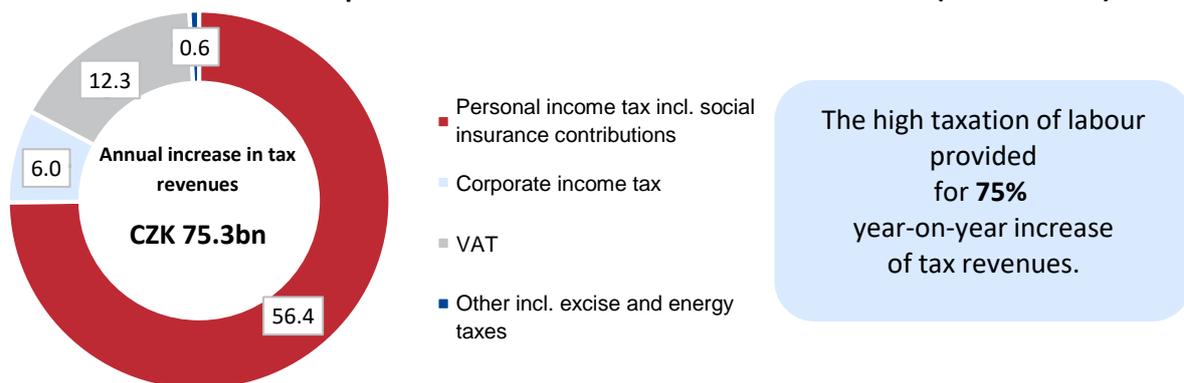
In annual comparison, tax revenues kept growing in a confirmation of last year’s trend, with their collection higher by CZK 75.3 billion. High employment and growing salaries and wages were the key factors behind the increase in collection of personal income tax and attached social security contributions. **The rising tax revenues are strongly dependent on the high level**

⁹ Act No 1/2020 Coll., amending Act No 383/2012 Coll., on the conditions for trading in greenhouse gas emission allowances, as amended.

¹⁰ Explanatory memorandum to the draft Act No 1/2020 Coll., amending Act No 383/2012 Coll.

of taxation of labour, which contributed to annual growth with an amount of CZK 56.4 billion, as shown in the following chart. In this context, the state relies on low unemployment sustained by higher proportion of employment of foreigners and a continuous growth in the volume of salaries and wages. The priority approved by the government in the form of the abolition of the sc. super-gross wage in the Czech Republic keeps being postponed for over 5 years now, although the Organisation for Economic Co-operation and Development (hereinafter also “OECD”) in its evaluations of the Czech Republic has long recommended¹¹ to reduce the level of taxation of labour, which is among the highest internationally.

Chart 10 - Shares of individual parts of tax revenues in annual increase in 2019 (in CZK billion)



Source: Draft SCA for 2019.

A persistent problem in the field of effective collection of tax revenues has been the aspect of taxation of illegal work of natural persons. The strong demand for labour has been reflected in recent years, inter alia, in the growing number of detected illegal workers. The Supreme Audit Office found in its Audit No 18/32¹² that **the sharing of information in the field of illegal employment between individual state administration bodies was not functional. The SAO concluded that the system including control of work performance and pertinent administration of income tax and social insurance was not effective, as it did not lead to the proper determination and additional assessment of taxes and insurance contributions for remuneration for illegal work.** Although measures to combat illegal work are defined in strategic documents concerning employment, the Ministry of Labour and Social Affairs and the Ministry of Finance have not carried out since 2016 relevant studies to estimate income tax evasion and pertinent losses on social security contributions. The previous estimate of likely annual income tax evasion due to illegal employment drawn up by the Ministry of Finance in 2015 was at CZK 0.4 billion. A study by the Research Institute for Labour and Social Affairs reporting to the Ministry of Labour and Social Affairs quantified the annual shortfall in the collection of taxes and social security and health insurance contributions due to illegal work in

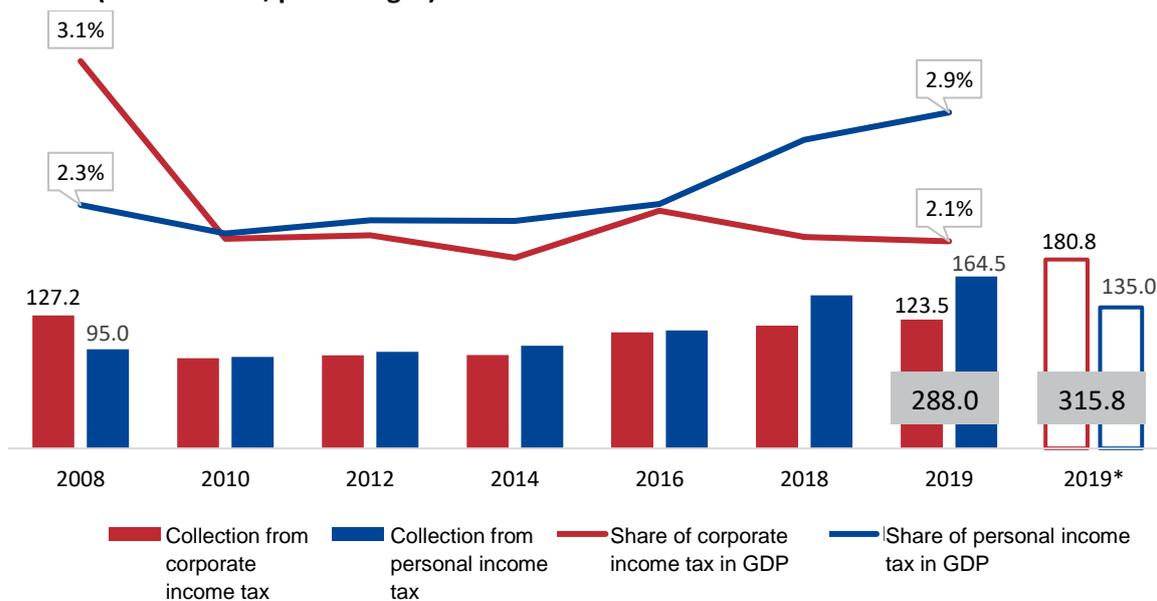
¹¹ E.g. *OECD Economic Surveys. Czech Republic July 2018 Overview* (OECD, July 2018).

¹² Audit No 18/32 - *State Budget Revenues Collected in the Area of the Taxation of Labour* (the audit report was published in issue 3/2020 of the *SAO Bulletin*).

the dependent labour sector at CZK 50 billion, and for the self-employed sector at more than CZK 120 billion.

The collection of corporate income tax grew by CZK 6 billion in annual comparison to CZK 123.5 billion. This result has been presented by the Ministry of Finance as the best since 2008 (the year just before the economic crisis of 2009). In this context, the SAO points out that actual collection of this tax in the state budget in 2008 reached CZK 127.2 billion, or 3.1% relative to GDP. **Were the share of 3.1% GDP maintained in 2019, the collection of corporate income tax would reach CZK 180.8 billion, which is CZK 57.3 billion more than the actual collection of this tax in 2019. For the most part, corporate income tax revenues were substituted by the collection of personal income tax,** as shown in Chart 11 below. The model comparison also implies that total actual revenues from personal and corporate income taxes in the amount of CZK 288 billion in 2019 are lower than total revenues from these taxes in the amount of CZK 315.8 billion were their share in GDP the same as in 2008 (at the time of the onset of the economic crisis).

Chart 11 - Trends in and comparison of actual revenues from corporate and personal income taxes (in CZK billion, percentages)



Sources: SCA for 2008, 2010, 2012, 2014, 2016, 2018; draft SCA for 2019; Czech Statistical Office.

* Model example of revenues from personal and corporate income taxes on maintaining their share in GDP from 2008.

The collection of value added tax increased by CZK 12.3 billion in annual comparison, but at the same time it was lower compared to the approved budget by CZK 6.6 billion. Besides the overall economic slowdown, **the collection of VAT since 2016 also was affected by the high number of changes and reclassifications of selected supplies of goods and services from the standard VAT rate (21%) into the first (15%) or second reduced rate (10%), mainly on account of the promoted implementation of the electronic register of sales (hereinafter also “ERS”) in the business sector.** The approved budget of VAT revenues in the amount of CZK 297.9 billion also was negatively impacted by **non-compliance with the principle of reality and veracity of the**

budget, as the Ministry of Finance included in the planned year-on-year increase in VAT collection at the state budget level the positive effect of launching the 3rd and 4th stages of the electronic register of sales¹³ with an estimated amount of CZK 0.7 billion. Until the approval of the state budget act for 2019 and during the year under review, the amendments to Acts No 112/2016 Coll. and No 235/2004 Coll.¹⁴, which were meant to ensure this enhanced collection of VAT revenues, were not yet effective.

On this account, the SAO recommends that, in accordance with the budgetary principles, only such planned tax revenues be included in the draft state budget that are based on valid laws and/or effectiveness of such laws in the fiscal year concerned.

Following the Constitutional Court ruling¹⁵, the Financial Administration gradually began applying the withholding of excessive VAT deductions to disputed tax transactions only. The following table shows the **volume of excessive deductions withheld, which contributed to the overall positive collection of VAT revenues.**

Table 1 - The effect of withheld excessive VAT deductions on VAT collection (in CZK billion)

Indicator	2015	2016	2017	2018	2019
VAT collection	236.6	245.7	266.0	279.0	291.3
Annual change in VAT collection	6.4	9.0	20.3	13.0	12.3
Thereof the current status of excessive deductions withheld for the month of December	4.9	4.7	3.2	1.1	*1.0
VAT collection without withheld excessive deductions	231.7	241.0	262.8	277.9	290.3

Sources: Financial Administration of the Czech Republic; SCA for 2015–2018; draft SCA for 2019.

* Estimate according to current status data for the first six calendar months.

The excessive VAT deductions withheld had a significant effect on the collection of VAT revenues, in particular in 2015–2017, and helped “silently” to drive the annual growth in VAT collection and to promote with successful inclusion of the measures taken (audit reports, electronic register of sales) for better VAT collection. Over the 2018 and 2019 periods, the tool of retaining excessive VAT deductions gradually became to be used more efficiently.

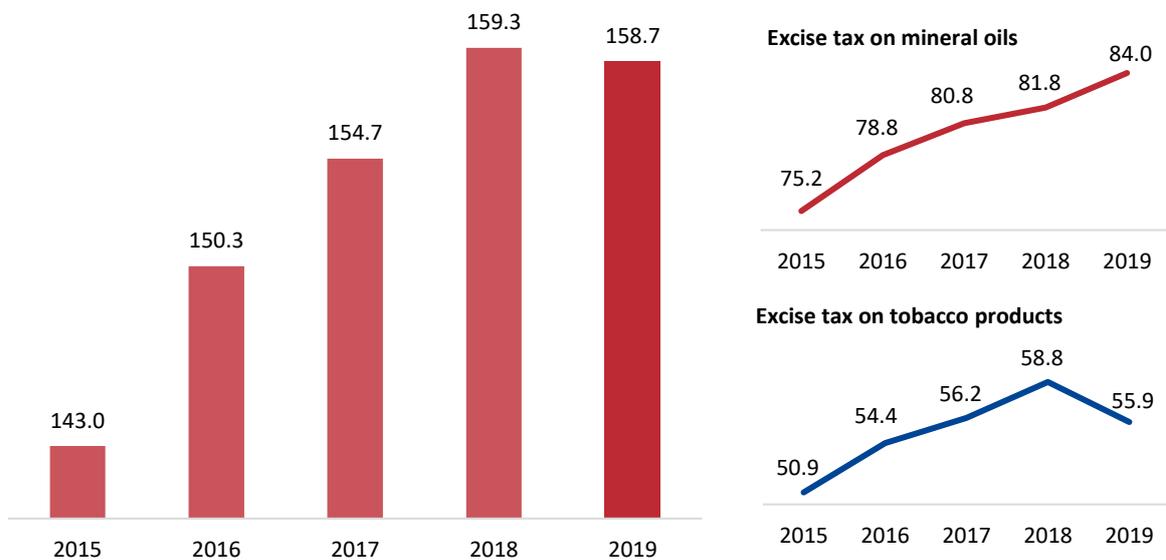
The total collection of excise and energy taxes for 2019 in the amount of CZK 158.7 billion was lower by CZK 0.6 billion in annual comparison, in what was the first year-on-year decline since 2014. Although the collection of the excise tax on mineral oils grew by CZK 2.2 billion in annual comparison (credit to higher household mobility and volumes forwarded by carriers) and of the excise tax on alcohol by CZK 0.3 billion, the **overall collection of excise and energy taxes was**

¹³ By the ruling of the Constitutional Court file No Pl. ÚS 26/16 of 12 December 2017, the original effective date of launch of the 3rd and 4th stages of the electronic register of sales of 28 February 2018 was suspended.

¹⁴ Act No 112/2016 Coll., on the registration of sales, and Act No. 235/2004 Coll., on value added tax.

¹⁵ By the ruling of the Constitutional Court file No II. ÚS 819/18 of 22 February 2019, proportionality was defined of interfering with ownership rights of taxpayers. Such interferences are to be carried out by the Financial Administration in a measured and proportionate manner, and the Financial Administration may withhold in tax proceedings only the disputed part of the excessive VAT deductions.

severely impacted by the decline in the collection of excise duty on tobacco by CZK 2.89 billion. Alongside the annually recurring stocking up on old tobacco stamps, the current trend of some consumers preferring alternative products in the form of electronic or heated tobacco cigarettes also had a more pronounced impact on the actual total revenues from this excise duty. Though such new alternative products emerged already over the course of 2017, no legislative changes in response were adopted in time that would ensure effective collection of excise duty on heated tobacco products.

Chart 12 - Trends in the collection of excise and energy taxes with detailed curves for the key excise taxes in volume terms (in CZK billion)

Sources: SCA for 2015–2018; draft SCA for 2019.

According to the repeated recommendations and evaluation reports of the OECD¹⁶ and the European Commission, excise and energy taxes under the current tax system settings are not used as an efficient tool for improving the collection of tax revenues. These taxes and their rationale are of crucial significance to society, as they can help reduce the current negative externalities and contribute to the protection of human health, nature and climate.

In this context, the SAO reviewed in its Audit No 18/22¹⁷ the settings of support that was meant to effectively aid the fulfilment of objectives in selected areas of climate and energy policy while maintaining the long-term sustainability of public revenues. The audit found that effective and efficient tax measures that would substantially support the fulfilment of climate and energy policy objectives were not in place. There is insufficient motivation of the general public by taxes to reduce energy consumption and to switch to more environmentally friendly energy sources. In most EU states, such financial measures are largely being actively enforced while in the Czech Republic, they are still under scrutiny by the ministries involved with the transport sector.

As the only positive development so far in this respect, the adoption can be deemed of Act No 364/2019 Coll.¹⁸ which, inter alia, promotes the function of excise duties as a tool to regulate

¹⁶ E.g. *OECD Economic Surveys. Czech Republic July 2018 Overview* (OECD, July 2018).

¹⁷ Audit No 18/22 - *Support to Environmental Policy in the Area of Public Budget Revenues* (the audit report was published in issue 6/2019 of the *SAO Bulletin*).

¹⁸ Act No 364/2019 Coll., amending certain acts in the field of taxes in connection with increasing public budget revenues. The excise tax rates on tobacco products and alcohol rose in 2020.

problematic social behaviours and follows up on the approved strategy and action plan¹⁹. With economic growth in the Czech Republic and rising living standards, the excise tax rates are decreasing in real terms. **The availability of alcohol and tobacco products in relation to consumer incomes thus has been increasing**, as shown in the following table. In 2019, despite the gradual increase in prices, more alcohol and tobacco products could be purchased in comparison with 2015. The real prices of this group of products in 2019 thus were lower than the prices corresponding to their availability in 2015.

Table 2 - Availability of alcohol and tobacco products relative to rising economic and living standards (in CZK, in pcs)

Indicator		2015		2019		Index 2019/2015	Difference in availability of alcohol and tobacco (in pcs)	Model price of alcohol and tobacco products*** (in CZK)	
		Price (in CZK)	Quantity that can be purchased with net salary (in pcs)	Price (in CZK)	Quantity that can be purchased with net salary (in pcs)				
		1	2	3	4				5 = 3 / 1
Average gross monthly salary		26,591		34,111		128%	Affordability of alcoholic beverages and tobacco products has increased.		
Thereof average net monthly salary*		20,380		25,573		125%			
Alcohol	Beer, pale, bottled	0.5 l	10.5	1,941	12.0	2,131	114%	190	13.2
	Semi-sweet sparkling wine	0.7 l	126.6	161	128.2**	199	101%	38	158.9
	Rum-type spirit	1 l	229.9	89	259.8	98	113%	10	288.5
Tobacco	Sparta blue	1 pack	87.0	234	97.8**	261	112%	27	109.2
	Marlboro	1 pack	96.0	212	105.9**	241	110%	29	120.5

Source: Czech Statistical Office; calculations by the SAO.

* Calculation including only the basic tax rebate per taxpayer.

** The indicated prices are for 2018 due to unavailability of data for 2019.

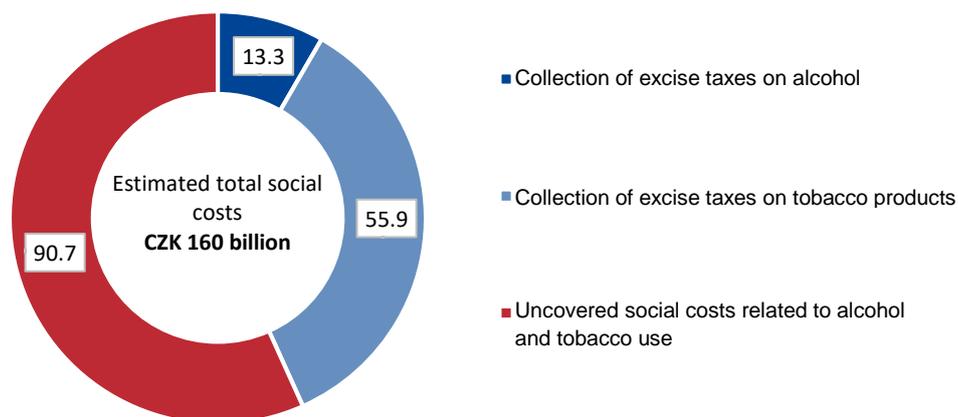
*** Model prices of alcohol and tobacco products for 2019 that would correspond to comparable availability in 2015.

The collection of excise duties on alcohol and tobacco products (without VAT) does not cover even half of the estimated total social costs of CZK 160 billion associated with the use of these addictive substances.

¹⁹ *National Strategy for the Prevention and Reduction of Damage Associated with Addictive Behaviour 2019–2027, and the Action Plan for the Implementation of the National Strategy for the Prevention and Reduction of Damage Associated with Addictive Behaviour 2019–2021, partial measures:*

3.13 - Analyse the current taxation policy with regard to gambling, alcohol, tobacco products and, if necessary, propose an adjustment;

3.14 - Regularly increase excise tax rates on tobacco products while observing differentiation according to the degree of harmfulness of individual products to society.

Chart 13 - Share of collection of excise taxes on alcohol and tobacco products in the social costs related to alcohol and tobacco use in 2019 (in CZK billion)

Source: *Společenské náklady z konzumace alkoholu v České republice (The Social costs of Alcohol Consumption in the Czech Republic)*, published by Institute for Health Economics and Technology Assessment, o. p. s., with the support of the Office of the Government of the Czech Republic in 2019. Explanatory memorandum to the draft Act No 364/2019 Coll., amending certain acts in the field of taxes in connection with increasing public budget revenues.

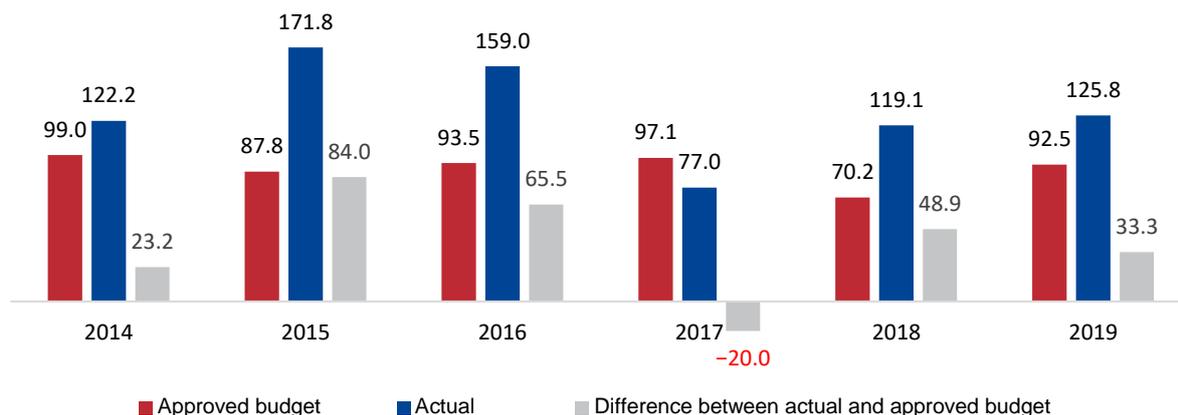
Higher rates of excise taxes with the potential to add an additional CZK 20 to 50 billion to the state budget revenues may help effectively regulate the market for addictive substances (so as to prevent the emergence of a black market), including pertinent positive effects in terms of lowering the social costs²⁰.

Revenues from the European Union Budget and Financial Mechanisms

Total revenues from the EU budget and Financial Mechanisms, including the Common Agricultural Policy (hereinafter also “CAP”) for 2019 amounted to CZK 125.8 billion. Compared to 2018, when there was an increase in revenues from the EU/FM budget also credit to final payments of the European Commission for programmes within the 2007-2013 programming period in the amount of CZK 23.9 billion, in 2019 the revenues from the EU/FM budget rose by CZK 6.7 billion.

²⁰ This issue has been taken up in response to the government bill amending certain acts of law in the field of taxes and some other laws, Parliamentary Press No 910 of 24 June 2020. The bill suggests in its explanatory memorandum regular increases in excise tax rates on tobacco products, raw tobacco and heated tobacco products, so as to abide by the principle of not increasing the affordability of tobacco goods for the end consumer. In the long term, this measure is meant to reduce the cost of dealing with the harm caused by smoking.

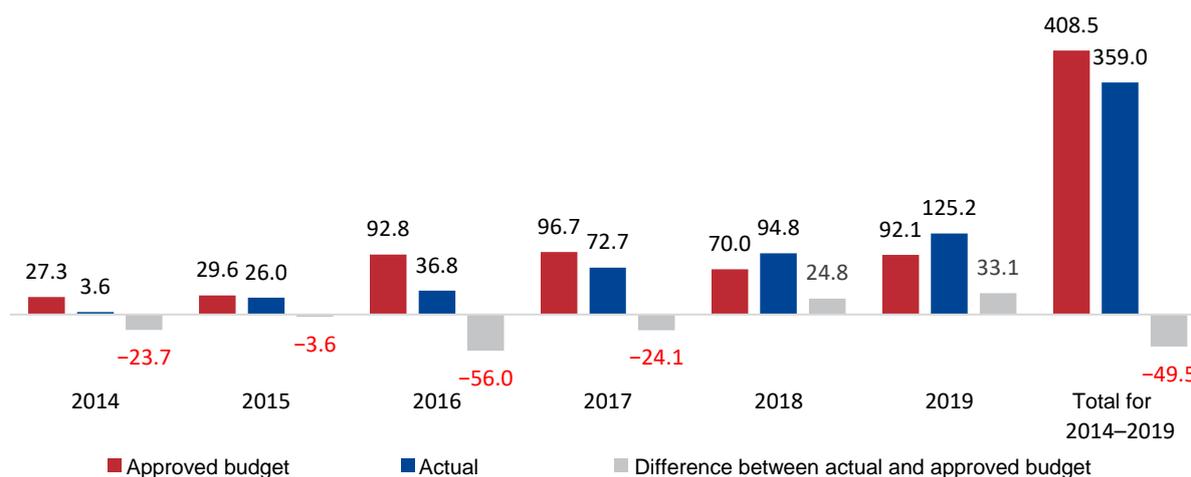
Chart 14 - Revenues from the EU/FM budget (in CZK billion)



Sources: SCA for 2014 to 2018; draft SCA for 2019.

Since 2017, revenues from programmes within the programming period of 2014–2020 (hereinafter also “PP14+”) have accounted for the main part of all revenues from the EU/FM budget. In the wake of continuous fulfilment of the n+3 rule²¹ and the fulfilment of milestones of the performance framework, implementation of the PP14+ programmes successfully increased in 2018 and 2019, which subsequently brought a gradual growth in the collection of revenues. In this context, the **SAO points out that overall, the revenues made from PP14+ programmes over the period 2014 to 2019 were lower by CZK 49.5 billion than their statutory budget**, as shown in the following chart. **The low collection of revenues from the EU/FM budget early on in PP14+ was due to the delayed approval of the programming documents by the European Commission.**

Chart 15 - Collection of revenues from the EU/FM budget for the programming period of 2014–2020, including the Common Agricultural Policy (in CZK billion)



Sources: SCA for 2014 to 2018; draft SCA for 2019.

²¹ The rationale for the n+3 rule is as a control tool to ensure continuous use of resources from the ESI Funds. Under this rule, an allocation for year “n” must be used by the end of year “n+3”. If this condition is not met, there is a risk of loss of the resources not used.

As shown in the following table, the total balance of funds accounted for in applications for payment as of 31 December 2019 for selected programmes is comparable to the collection of revenues under the programme in 2014–2019. The Czech Republic thus met the n+3 rule in 2019 as well. There are differences for the individual programmes between the defined revenue budget and its actual implementation²², both for 2019 and overall for the 2014–2019 period.

Table 3 - Comparison of revenues from the EU/FM budget for selected programmes from the beginning of PP14+ until 31 December 2019 (in CZK billion)

	Status of funds accounted for in applications for payment	Revenues from the EU/FM budget reported in the state budget					
		Approved budget		Actual		Difference between actual and approved budget	
		2014–2019	Of which 2019	2014–2019	Of which 2019	2014–2019	Of which 2019
OP EIC	27.3	23.8	4.0	30.8	17.3	6.9	13.3
OP RDE	25.2	34.0	10.4	25.1	14.8	-8.9	4.5
OP Employment	26.7	35.6	10.2	26.1	8.7	-9.5	-1.5
OPT	48.8	69.7	17.9	47.2	14.5	-22.6	-3.4
OP Environment	27.5	28.4	8.0	25.7	10.5	-2.7	2.5
IROP	43.7	28.7	6.8	43.6	22.4	15.0	15.6

Sources: Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the Programming Period of 2014–2020, 4Q 2019; SCA for 2014–2018; draft SCA for 2019.

Note: OP - Operational Programme, EIC - Enterprise and Innovation for Competitiveness, RDE - Research, Development and Education, T - Transport, IROP - Integrated Regional Operational Programme.

However, the different rate of progress in receiving payments between the individual programmes affects the total revenues generated from the EU/FM budget. For example, OP *Transport* had an approved revenue budget for the 2014–2019 period of CZK 69.7 billion, but the actual figure of CZK 47.2 billion was lower by CZK 22.6 billion. For 2019, the approved revenues for this programme were not met by a margin of CZK 3.4 billion. The Integrated Regional Operational Programme for which the approved revenue budget for 2014–2019 in the amount of CZK 28.7 billion was exceeded by CZK 15 billion, mainly credit to exceeding the approved budget for 2019 by CZK 15.6 billion, had the opposite effect on the collection of revenues from the EU/FM budget. In both cases, the defined usage limit for 2019 was observed (thus meeting the n+3 rule).

The rules set by the European Commission (the n+3 rule, observing the milestones of the performance framework) contributed to an increase in the volume of implementation of projects under the PP14+ programmes, which subsequently brought an overall increase in revenues from the EU/FM budget for 2019. The Czech Republic is mainly catching up with the use of funds from the allocation for 2016 and 2017, when the collection of revenues from the PP14+ programmes was lower against the approved budget by CZK 56.0 billion in 2016 and by CZK 24.1 billion in 2017. In budgeting revenues from the EU/FM budget when preparing

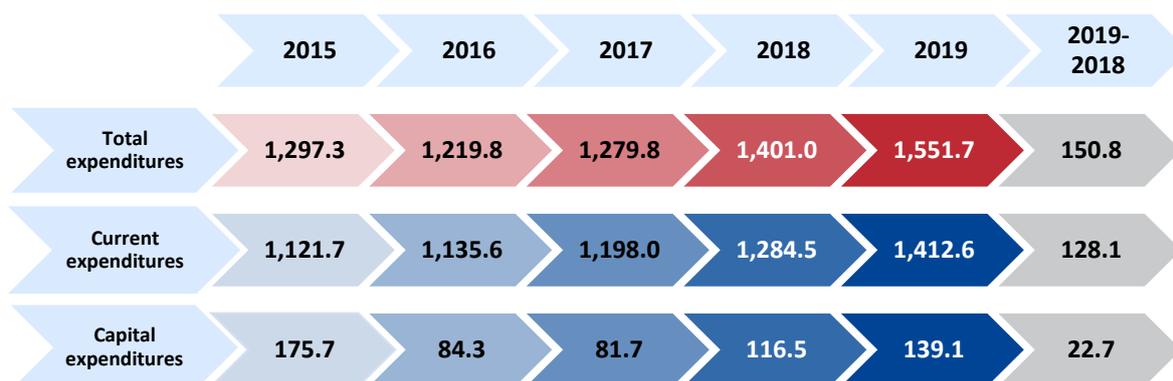
²² The differences are mainly due to the specific exchange rate applied, adjustments or the dates of receipt of payments from the European Commission.

the draft state budget, specific facts and the expected rate of progress in the use of funds under the individual PP14+ programmes should be accounted for.

4. State Budget Expenditures

In 2019, state budget expenditures totalled CZK 1,551.74 billion, which was higher by CZK 150.76 billion against 2018. The annual increase was driven by both current and capital expenditures.

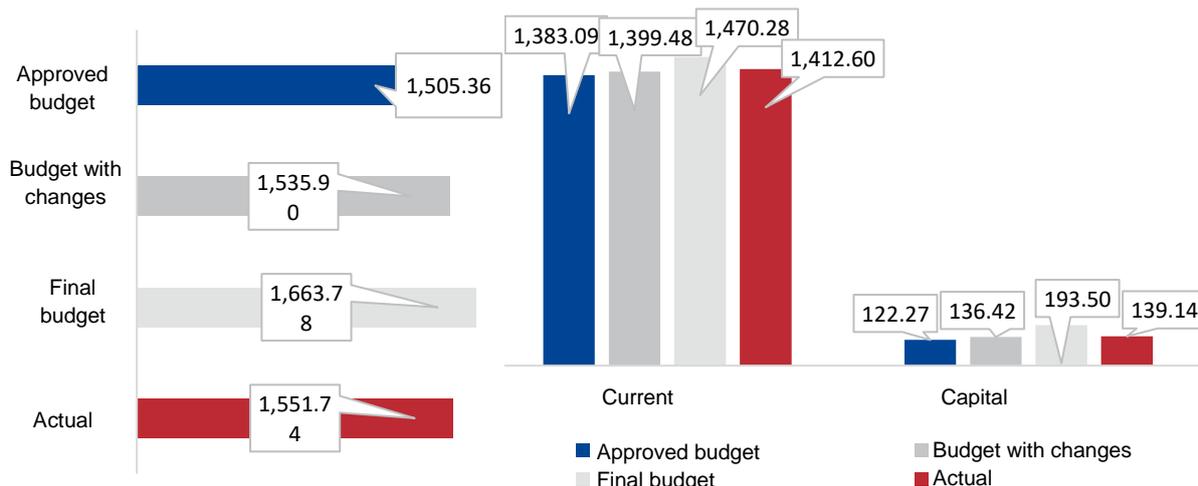
Diagram 6 - Use of expenditures in 2015–2019 (in CZK billion)



Source: MONITOR information portal.

The approved statutory budget²³ of total expenditures in the amount of CZK 1,505.36 billion was exceeded by CZK 46.38 billion (i.e., by 3.08%). The expenditure budget adjusted by all implemented budgetary measures, also referred to as the final budget, in the amount of CZK 1,663.78 billion was not fully used with a remainder of CZK 112.08 billion.

Chart 16 - Budget and actual expenditures in 2019 (in CZK billion)



Source: MONITOR information portal.

Current expenditures totalled CZK 1,412.6 billion in 2019 in what was a historical record number. The annual increase of CZK 128.1 billion represented growth by almost 10%. Of the

²³ Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019.

total amount of current expenditures, CZK 617.3 billion, or almost 43.7%, were spent in 2019 on non-investment transfers to the population (of which pension insurance benefits, including old-age pensions, amounted to almost CZK 472 billion). Within non-investment transfers, large sums were spent, for example, in the form of transfers to regions (CZK 141.8 billion), social and public health insurance funds (CZK 71.9 billion) and state funds (CZK 51.3 billion). As evident from the following table, the largest annual increase was recorded in 2019 for non-investment transfers to various entities, in particular to territorial self-governing units for regional education, and to the population in the form of social benefits (in particular for old-age pensions). On the other end of the scale, there was a successful reduction of funds for non-investment purchases.

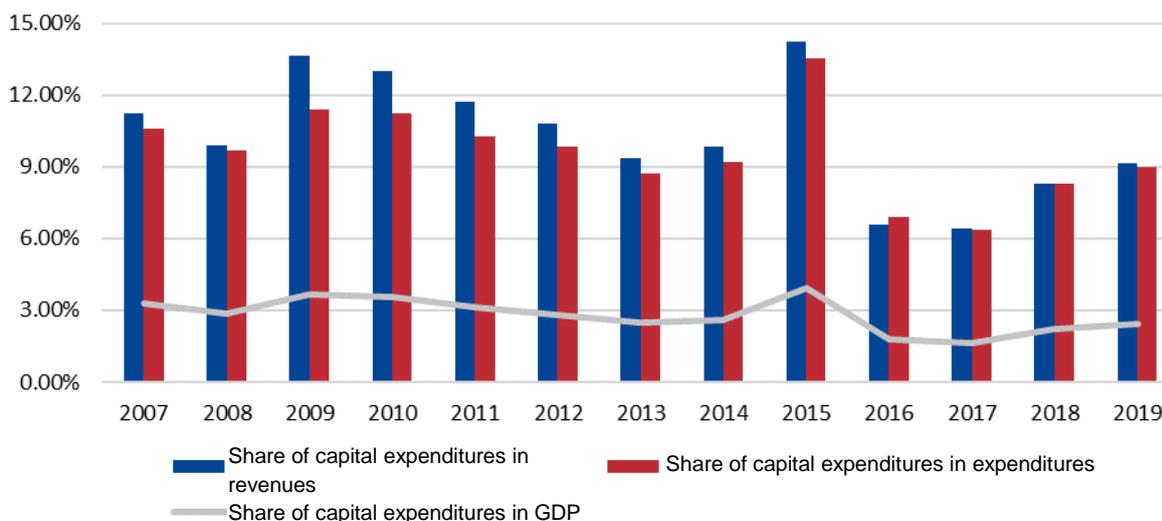
Table 4 - Current state budget expenditures (in CZK billion)

	2015	2016	2017	2018	2019	2019–2015	2019–2018
Salaries	104.19	109.86	120.08	133.90	143.73	39.54	9.83
Non-investment purchases	116.94	99.79	103.83	109.55	106.33	-10.60	-3.21
Non-investment transfers to entities	338.42	353.29	383.85	416.48	483.16	144.73	66.68
Non-investment transfers to the population	520.51	528.29	545.03	572.09	617.31	96.80	45.22
Other current expenditures	41.61	44.34	45.27	52.50	62.07	20.46	9.57

Source: MONITOR information portal.

Note: Complete and exact names of the groups of expenditures: **Salaries** = Salaries and similar and related expenditures; **Non-investment purchases** = Non-investment purchases and related expenditures; **Non-investment transfers to entities** = Non-investment transfers to entities of private law, Non-investment transfers to entities of public law and between monetary funds of the same entity and tax payments; **Other current expenditures** = Non-investment transfers and related payments to foreign recipients, Non-investment borrowed funds, Non-investment transfers to the National Fund, Expenditures on compensation for non-caused harm and Other non-investment expenditures.

Capital expenditures amounted to CZK 139.1 billion in 2019 and rose against 2018 by CZK 22,7 billion (i.e., by 19.4%). The final budget was not used by CZK 54.4 billion (i.e., by 28.1%).

Chart 17 - Trends in the share of capital expenditures in GDP and in state budget revenues and expenditures (in %)

Sources: MONITOR information portal; Czech Statistical Office.

In 2015, the share of capital expenditures in GDP reached 3.9% and their share was also high in state budget revenues (14.2 %) and expenditures (13.5 %). This was due to the high use of resources from EU funds within the 2007-2013 programming period and the related use of claims from unused expenditures created in previous years. In order to comply with the n+2 rule²⁴, the allocated funds had to be used by the end of 2015. In contrast low investment activity of the state manifested mainly in 2016 and 2017 when the share of capital expenditures in GDP was only 1.76% and 1.60% respectively, and their shares were also low in state budget revenues (6.58% and 6.42%) and expenditures (6.91% and 6.39% respectively). In 2019 the share of capital expenditures in GDP was at 2.42%.

Sectoral Breakdown of Expenditures

According to sectoral classification²⁵ in 2019, more than 40% of the total funds were spent on the social affairs and employment policy sector, mainly through pension insurance benefits (in excess of 30%). The second highest share went to the sector of services for the population, specifically to the areas of education (nearly 13%) and health care (above 5%). The following table provides a more detailed view of the allocation of state budget funds to areas of the national economy with the most significant impact on the quality of public life in the Czech Republic. It shows these funds in absolute amounts and their share in total state budget expenditures and in GDP in 2010 and 2019 respectively.

²⁴ The rationale for the n+2 rule is as a control tool to ensure the continuous use of resources from the EU funds in PP7+. Under the rule, an allocation for year “n” must be used by the end of year “n+2”. If this condition is not met, there is a risk of loss of the resources not used.

²⁵ Decree No 323/2002 Coll., on the budget structure.

Table 5 - Expenditures in selected areas of the national economy in 2010 and 2019
(in CZK billion, percentages)

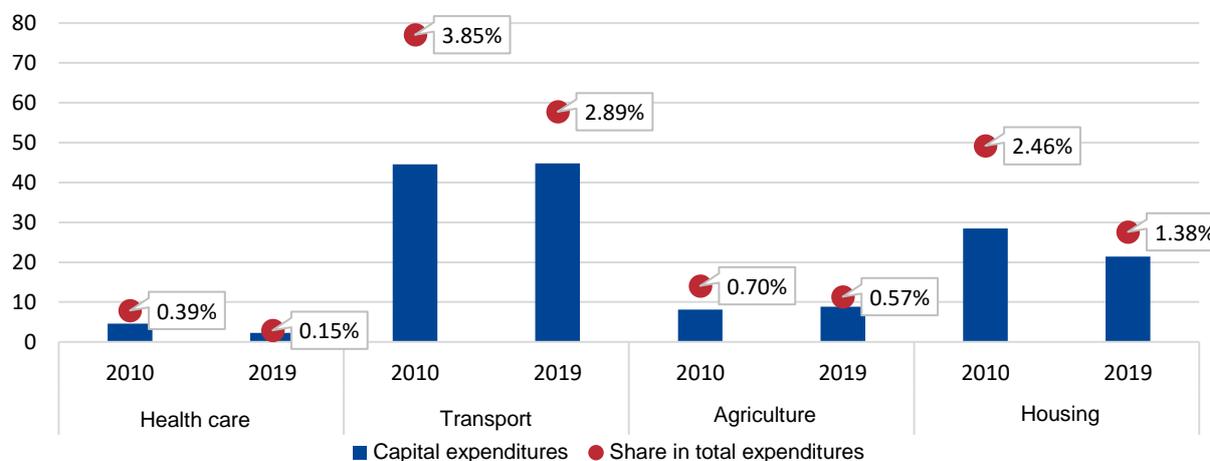
Section	In CZK billion		Share in expenditures		Share in GDP	
	2010	2019	2010	2019	2010	2019
Social security benefits and allowances	424.39	602.95	36.68%	38.86%	10.63%	10.48%
Education and school services	119.22	200.43	10.31%	12.92%	2.99%	3.49%
Health care	64.36	83.47	5.56%	5.38%	1.61%	1.45%
Transport	68.26	75.80	5.90%	4.88%	1.71%	1.32%
Agriculture, forestry and fisheries	47.94	61.57	4.14%	3.97%	1.20%	1.07%
Defence	40.69	56.79	3.52%	3.66%	1.02%	0.99%
Security and public order	40.58	54.69	3.51%	3.52%	1.02%	0.95%
Housing, communal services and territorial development	46.15	30.91	3.99%	1.99%	1.16%	0.54%

Source: MONITOR information portal.

Expenditures on social security benefits and allowances reached CZK 602.95 billion in 2019 and their share in total expenditures was at 38.86%, or 2.18 pp more than in 2010. The significant increase in these expenditures in absolute numbers limits the options for allocating funds to other strategic areas of the national economy. In the following areas:

- Health care;
- Transport;
- Agriculture, forestry and fisheries, and
- Housing, communal services and territorial development,

a lower share of total funds was spent in 2019 than in 2010, although in 2010 the Czech economy was in a much worse economic situation and state budget expenditures were lower by almost CZK 400 billion against 2019 (revenues in 2010 were lower even by more than half a trillion crowns). In terms of investment expenditures, the lower support for these areas is even more pronounced, as shown in the following chart.

Chart 18 - Capital expenditures in selected areas of the national economy in 2010 and 2019 and their share in total expenditures (in CZK billion, percentages)

Source: MONITOR information portal.

Note: Complete and exact names of the sectors: **Agriculture** = Agriculture, forestry and fisheries;
Housing = Housing, communal services and territorial development

Expenditures in the transport sector have risen by only CZK 7.5 billion over the past ten years (capital expenditures even by only CZK 0.23 billion) and their share in total expenditures has even decreased by more than 1 pp over the same period. Still in 2019, the pace of construction of the motorway network finally successfully accelerated to 34 km per year in what was the best result in the last 6 years. In comparison in 2010 though, a total of 52 kilometres of new motorways (and expressways) were put into operation.

On housing, communal services and territorial development, even CZK 15.2 billion less was spent from the state budget in 2019 than in 2010, and the share of these expenditures in total expenditures fell by 2 pp and in GDP by 0.6 pp.

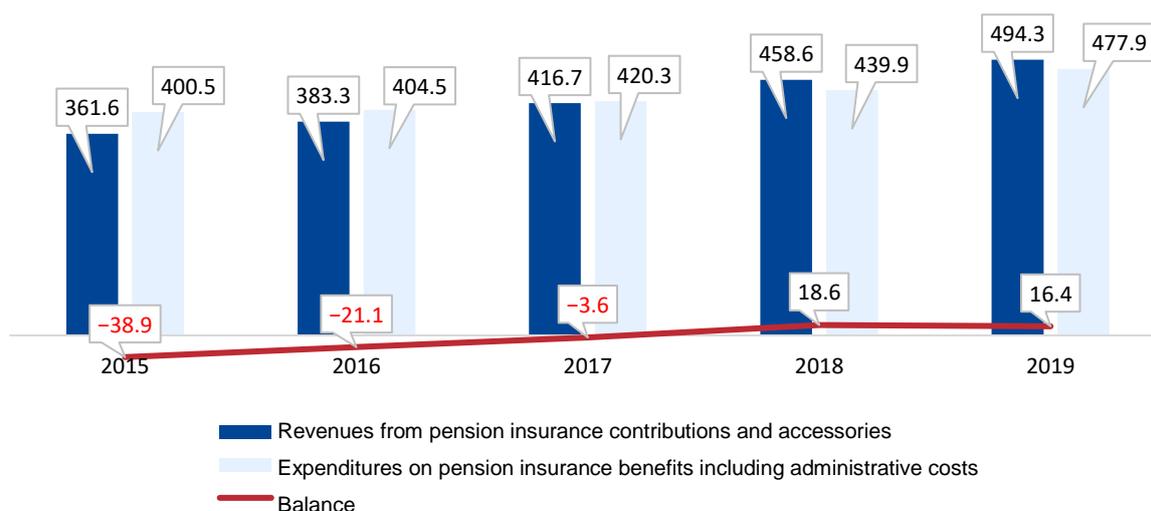
For at least the same share of total expenditures to be spent in the transport sector in 2019 as ten years ago, the sector would have to receive CZK 91 billion from the state budget, i.e. CZK 16 billion more. An amount higher by CZK 31 billion would have to go to the area of housing, communal services and territorial development.

In 2019, the Czech Republic failed to use economic growth and the steadily growing volume of state budget funds to direct more substantial support to strategic areas of the national economy than in 2010, when the Czech economy was in a much less favourable economic situation.

Expenditures on Pension Insurance Benefits

In terms of volumes, the most significant item of total state budget expenditures are social benefits, on which a total of CZK 602.1 billion was spent from the state budget in 2019. Almost 80% of all social benefits are pension insurance benefits. From these benefits, mainly old-age, disability and survivors' pensions are paid. **Expenditures on pension insurance benefits²⁶ grew by CZK 37.7 billion in annual comparison and reached CZK 471.6 billion in 2019. At an annual growth of CZK 35.7 billion, the pension system revenues reached CZK 494.3 billion, and in 2019 the pension system balance was in surplus for the second year in a row, specifically at CZK 16.4 billion.**

²⁶ Pursuant to Decree No 323/2002 Coll., on the budget structure, these are expenditures included in the budget item 5410 – *Social benefits* and subsection 411 – *Pension insurance benefits*.

Chart 19 - Revenues, expenditures and balance of the pension system (in CZK billion)

Sources: SCA for 2015–2018; draft SCA for 2019; MONITOR information portal.

Note: The balance is the difference between revenues from insurance contributions and expenditures on pension insurance benefits, including administrative costs, without transfers of funds to state budget revenues to compensate for the pension system deficit.

The positive closing account of the pension system was mainly due to the positive economic development accompanied by growth in salaries and wages and record low unemployment, as shown in the following table.

Table 6 - Trends in the number of pensioners and pension system contributors in 2015–2019 (as at 31 December)

	2015	2016	2017	2018	2019
Number of pensioners	2 873 953	2 892 469	2 895 963	2 896 973	2 897 527
<i>Of which: Number of old-age pensioners</i>	<i>2 376 883</i>	<i>2 395 382</i>	<i>2 403 933</i>	<i>2 410 080</i>	<i>2 414 814</i>
Number of pension system contributors	5 104 477	5 173 257	5 296 284	5 340 998	5 341 251
Number of contributors per pensioner	1.78	1.79	1.83	1.84	1.84
<i>Of which: Number of contributors per old-age pensioner</i>	<i>2.15</i>	<i>2.16</i>	<i>2.20</i>	<i>2.22</i>	<i>2.21</i>

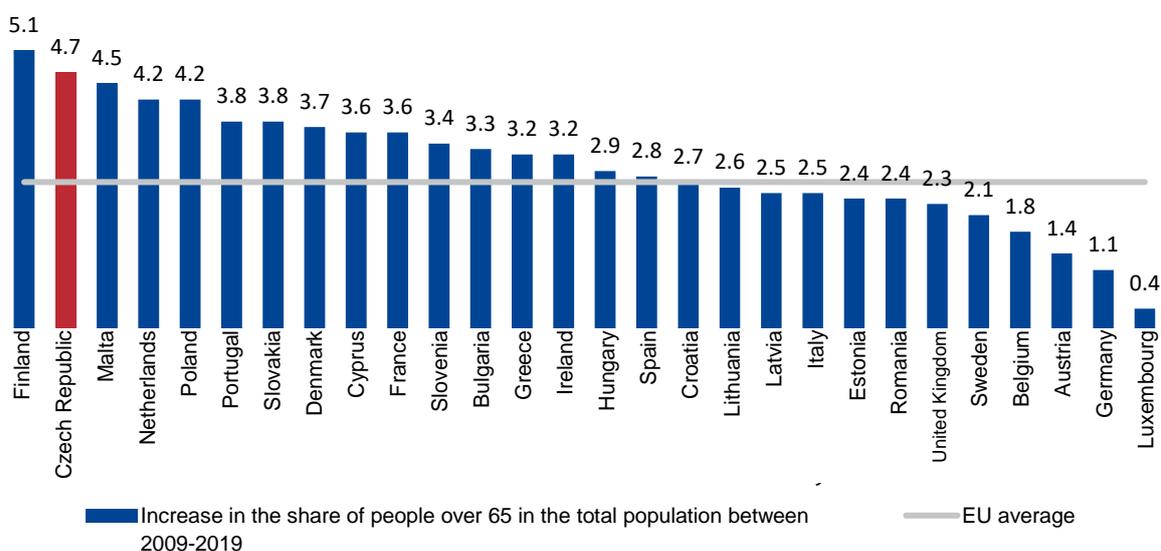
Source: Czech Social Security Administration.

The pension system of the Czech Republic in its current form is heavily dependent on trends in the economic cycle, and at times of economic slowdown, there is a high probability that it will relapse into deficit as was the constant state between 2009 and 2016. Between 2008 and 2009, the pension insurance system went from a surplus of CZK 2.6 billion into a deficit of CZK 36.8 billion, specifically because of the economic crisis and pertinent spike in unemployment, which significantly reduced the number of contributors, and also due to statutory reduction of contribution rates. In 2012 and 2013, the pension system deficit reached CZK 55 billion. **Should a similar drop in revenues in the wake of an economic slowdown occur again, this might have an even more pronounced impact on the resulting balance of the pension system and the state budget as a whole, as old-age pensions saw in 2019 the most significant adjustments in 20 years (year-on-year increase in pensions on average by CZK 901). Not least due to this,**

expenditures on old-age pensions totalled CZK 393.6 billion, which was higher by CZK 32.8 billion than in 2018. In the last ten years, expenditures on old-age pensions have increased by more than half and their share in total state budget expenditures has grown over the same period by almost 4 percentage points (from 21.5% in 2009 to 25.4% in 2019).

The pension system, which is fully open in the Czech Republic²⁷, is going to be progressively impacted also by the demographic shift. Developed countries (with Europe in particular) are increasingly faced with the issue of ageing populations due to rising life expectancy and declining birth rates. The Czech Republic also has not been an exception to these trends including their adverse effects on the state budget. In 2009, the share of people over 65 in the total population of EU countries was at 17.3%, and in 2019 it reached 20.0%. **In the Czech Republic, this share grew the second fastest in the entire EU28 from 14.9% to 19.6% between 2009 and 2019.** Although in terms of absolute numbers so far, the Czech Republic has been ranking slightly below the EU average, the share of seniors in the total population is growing rapidly and the medium variant of the demographic projections by the Czech Statistical Office assumes that by 2060, the number of people over 65 years of age will reach 30% while the share of economically active population in the 15 to 64 age bracket will drop from 64.5% in 2019 to 55.4% by then. This could well lead to a collapse of the pension system as it is currently set up.

Chart 20 - Increase in the share of people over 65 between 2009–2019 in EU countries (pp)



Source: Eurostat - share of population aged 65 and above (% of total population).

The ageing population is stated as the main reason for the long-term unsustainability of the Czech finances in its reports²⁸ also by the Czech Fiscal Council. In the coming years, the economic burden index, which indicates the share of the economically inactive population

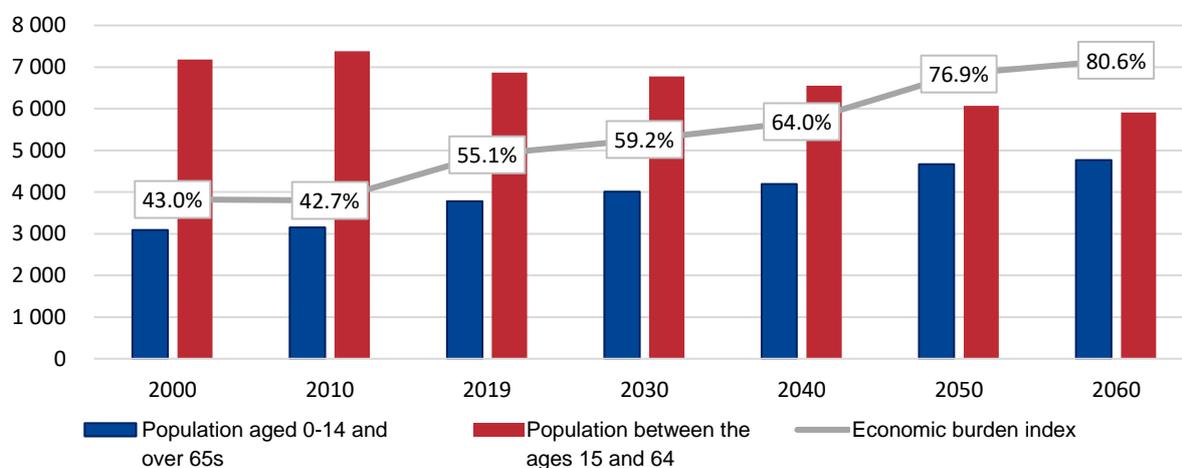
²⁷ A fully open pension system means that people of working age finance through pension insurance the pensions of their fellow senior citizens.

²⁸ *Report on the long-term sustainability of public finances - October 2018. Report on the long-term sustainability of public finances - June 2019.*

(aged 0–14 and 65 and over) in the potentially economically active population (age group 15 to 64), is going to rise. The SAO already in its audit report from Audit No 18/09²⁹ also pointed out that given the demographic trends and the ageing population, demands will be increasing for state budget funds and for staffing in the area of social services.

According to the Czech Statistical Office, in 2000 there were 43 economically inactive persons per 100 economically active people while in 2060 already, 100 economically active persons would have to “feed” as many as 81 inactive individuals. On including in the category of economically active persons only persons between the ages of 20 and 64, this index would exceed the value of 100, i.e., one economically inactive person per one economically active individual.

Chart 21 - Population of the Czech Republic by categories and the economic burden index in 2000–2060 (in thousands of persons, percentages)



Source: Czech Statistical Office.

Note: Economic burden index - calculations by SAO.

Due to the demographic trends, the ongoing financing of the pension system appears unsustainable in the long run, as a progressively growing number of pensioners is going to be dependent in the future on a steadily shrinking number of economically active citizens. But even in 2019, the government failed to take advantage of economic growth and the high revenues to take crucial steps that would contribute to stabilisation and long-term sustainability of the pension system. The constant postponement of key changes to the system poses a risk for future state budgets given the steady growth of expenditures on pensions and the search for alternative sources of revenues, or to cover the system deficits, especially at times of economic slowdown or recession.

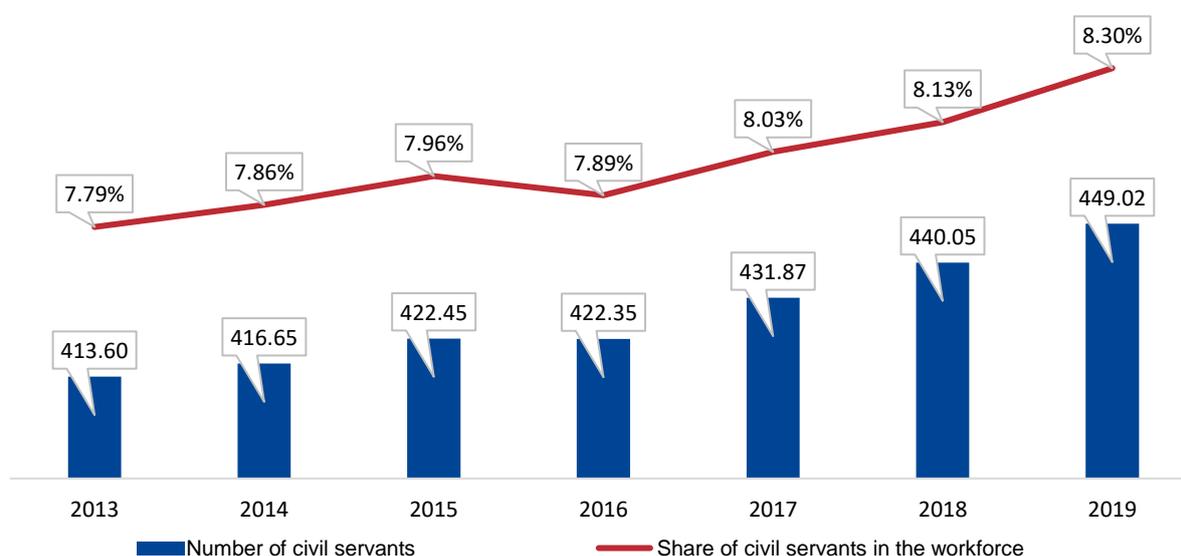
²⁹ Audit No 18/09 - *Funds Intended for the Support of Social Services* (the audit report was published in issue 1/2019 of the *SAO Bulletin*).

Expenditures on Salaries of Civil Servants

A substantial part of current expenditures goes to salaries³⁰ of employees of organisational units of the state and state contributory organisations (hereinafter also “civil servants”). The volume of actual expenditures relates not just to the amount of average salary, but also to the number of civil servants.

The number of civil servants was the lowest over the last 10 years in 2013, when it counted 413,595 persons. In 2019, it reached 449,018 people in an increase by 35,423 persons. The percentage share of civil servants in the total workforce in the population is also growing year-on-year³¹, which poses an increasing burden on the state budget.

Chart 22 - Trends in the number of civil servants and their share in the workforce in 2013–2019 (in thousands of persons, percentages)



Sources: SCA for 2013 to 2018; draft SCA for 2019.

The rising number of employees paid by the state entails higher expenditures from the state budget. While in 2011 the state spent on salaries CZK 130.2 billion (the lowest number in the last 10 years), in 2019 it was already CZK 209.5 billion, i.e. almost CZK 80 billion more. The growth in expenditures on salaries of civil servants was markedly faster than the natural growth of salaries and wages in society as a whole as a function of economic growth. The share of salary funds in total revenues of the state budget peaked in 2009. The reason was a significant and unplanned decline in state budget revenues due to the economic recession. In the following years also credit to the falling number of civil servants (as a matter of response to the economic crisis), this share was decreasing. It reached its minimum in 2016, when it was at 11.82%. Since

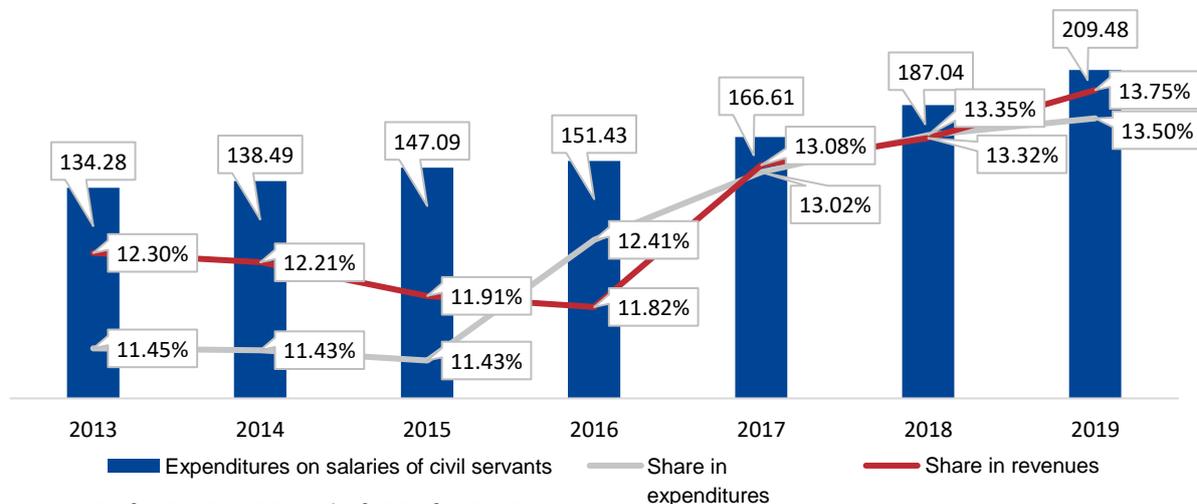
³⁰ The amount of funds for salaries and other payments for work performed is taken in this entire subchapter from Table 11 of the table appendix to the draft SCA.

³¹ According to the Czech Statistical Office, the workforce includes all persons over 15 years of age who meet the requirements for classification as employed or unemployed. This indicator eliminates the influence of the economic cycle on the number of employed and unemployed (it reflects the number of those who are “employable”).

then, however, it has been growing rapidly. In 2019, it reached 13.75%. This trend is alarming as even the high and growing revenues each year thanks to the favourable economic developments are not enough for this share to decline or at least stay at the same level. This means that a progressively growing portion of state budget revenues must be spent to cover these expenditures. Moreover, should there be a slowdown of the economy, with state budget revenues then not growing at such a rapid pace, this share will be increasing further and expenditures on civil servants' salaries will "eat" an even larger share of revenues.

The state managed to keep the share of expenditures on salaries of civil servants in total expenditures of the state budget at a similar level in the period 2011 to 2015, after which this share started to grow each year. In 2019, the share was at 13.50%.

Chart 23 - Trends in expenditures on salaries and other payments for work performed by civil servants in 2013–2019 (in CZK billion, percentages)

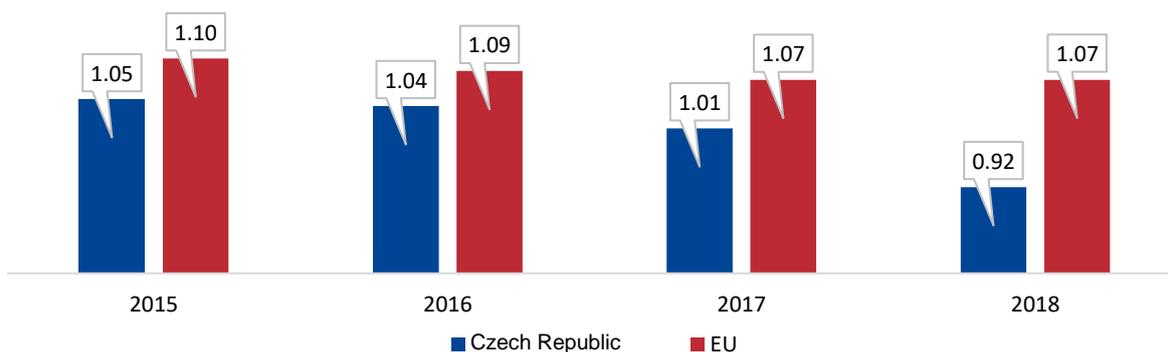


Sources: SCA for 2013 to 2018; draft SCA for 2019.

Although the number of civil servants since 2013 has increased by 35,423 persons and expenditures on their salaries by CZK 75.2 billion, the efficiency of the general government sector³² has not improved; on the contrary, in recent years it has been declining year on year, and there has been a growing gap between the efficiency of the Czech government sector and the EU average.

³² The state budget is a major component of the general government sector.

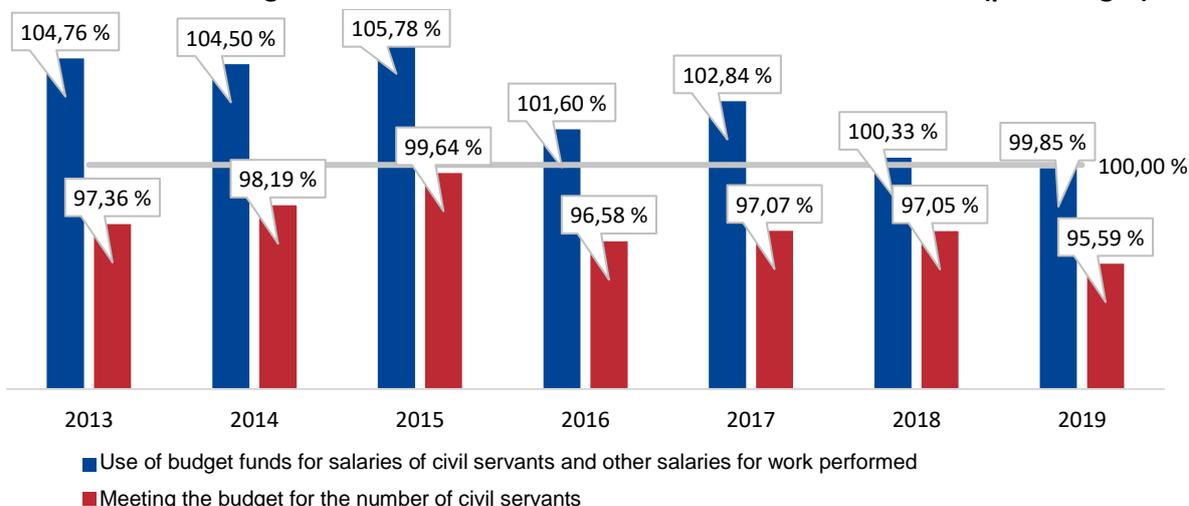
Chart 24 - Government efficiency indicator³³



Source: The Worldwide Governance Indicators (Government Effectiveness).

As can be seen from the following chart, until 2019 the budget for salaries and other payments for work performed was exceeded each year, although targets for the planned numbers of employees were not reached. In 2019, the budget was used to 99.85% and the approved number of civil servants was met to only 95.59%. **Funds for salaries are also spent on those positions that are vacant.** In 2019, the difference between the use of planned expenditures on salaries and other payments for work performed and the shortfall by which the planned number of employees was not met was at 4.26 pp.

Chart 25 - Trends in the use of budget funds for salaries and other payments for work performed and how the budget for the number of civil servants was met in 2013–2019 (percentages)

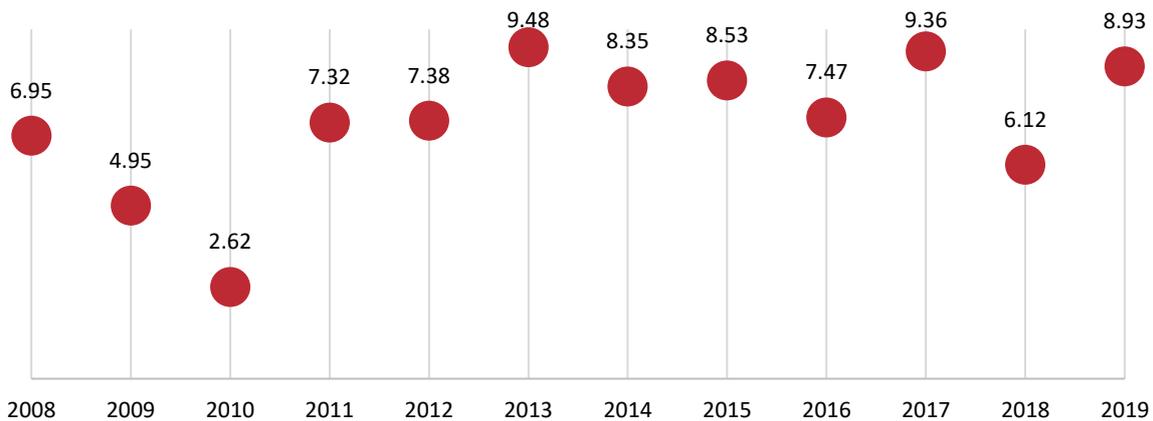


Sources: SCA for 2013 to 2018; draft SCA for 2019.

The following chart shows the potential savings of state budget funds had the expenditures been spent on occupied positions only. In 2019, these potential savings would amount to CZK 8.93 billion.

Over the past 5 years as the Czech Republic has been experiencing economic growth, the savings could have amounted to CZK 40 billion.

³³ The indicator reflects the quality of public services and their independence from political pressures by the sc. governance score in the numerical range from - 2.5 to +2.5, where higher value means higher efficiency.

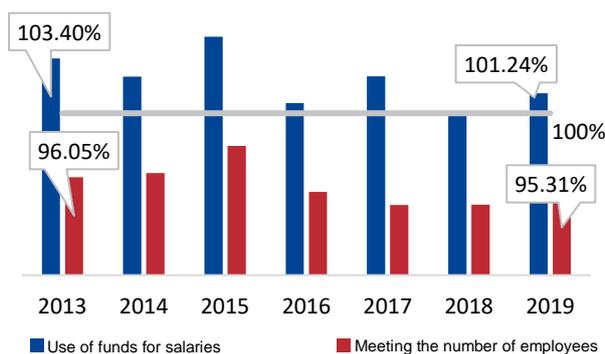
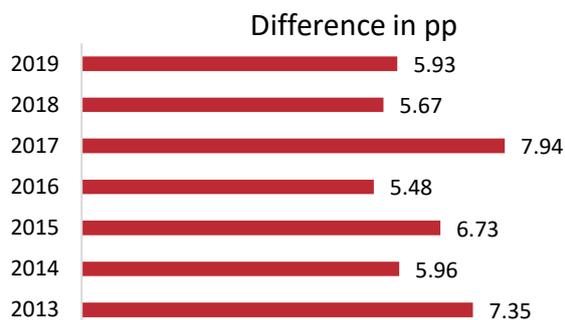
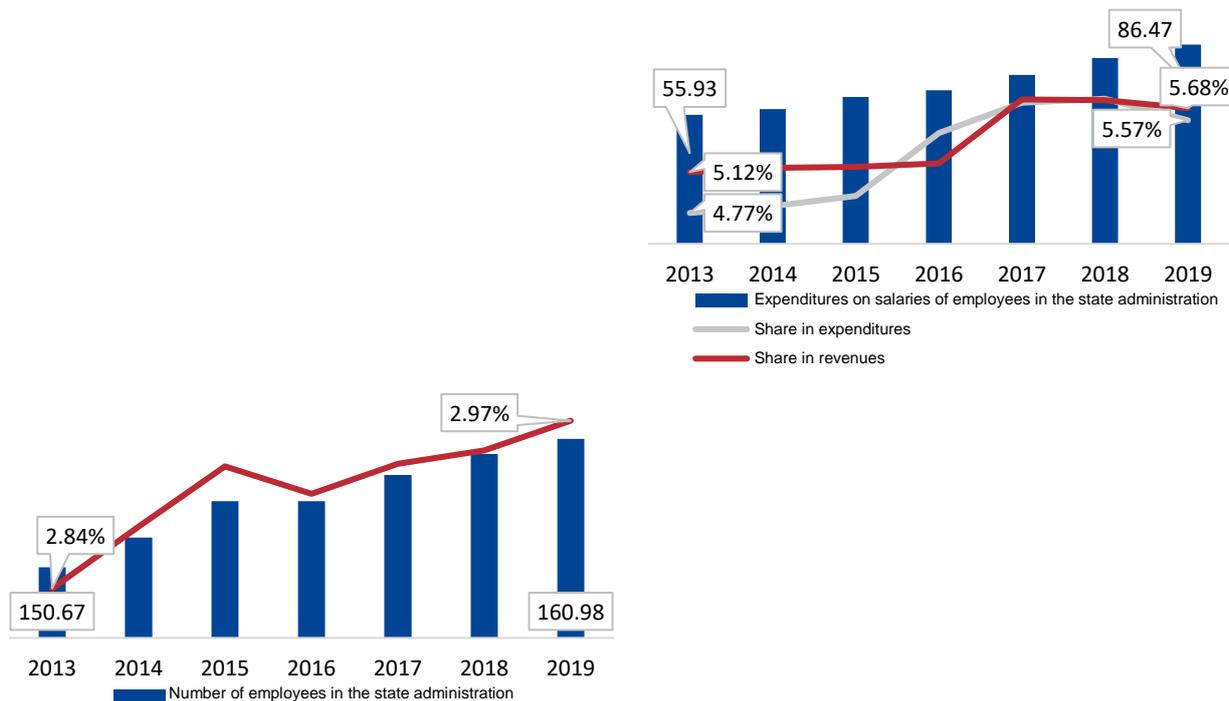
Chart 26 - Hypothetical savings on expenditures on salaries of civil servants tied to vacant posts (in CZK billion)

Sources: SCA for 2008 to 2018; draft SCA for 2019.

The growing amount of expenditures from the state budget on salaries mainly has to do with the large number of civil servants. If efficiency and productivity of the government sector were to increase, the total amount of funds for salaries could be reduced. Average salary in that case could even rise without negatively impacting the state budget.

The table appendix to the state closing account contains, inter alia, data on the number of employees in the state administration, which means without those who do not have the status of an employee in the state administration (such as teachers, soldiers). In this particular group, the lowest number of employees over the past 10 years was in 2012 (at 150,202 persons). In 2019 the number reached 160,978 persons. Compared to 2012, this was an increase by 10,776 employees, i.e., by 7.17%.

Chart 27 - Trends in the number of employees and funds for salaries in the state administration in 2013–2019 (in thousands of persons, percentages, in CZK billion, pp)



Sources: SCA for 2013 to 2018; draft SCA for 2019.

The trends in the share of the number of state administration employees in the workforce, as well as the developments in the amount of expenditures on salaries in the state administration, have not differed significantly from the situation with the entirety of civil servants in the long run. The share of the number of state administration employees in the workforce is increasing at a similar rate as for the total number of civil servants, and the total

amount of salary expenditures is also growing each year. This also means that the rising volumes of funds for salaries of civil servants are not driven solely by growing teachers' salaries, as is generally claimed.

The growing salaries and the growing number of civil servants itself also drive other related expenditures that are paid on a statutory basis from the state budget. These are the social security and public health insurance contributions that are paid for each civil servant. As evident from the following table, the amounts of these payments are growing each year. While in 2013, these contributions were at less than CZK 43 billion, in 2019 they already exceeded CZK 67 billion.

Table 7 - Trends in insurance contributions for civil servants in 2013–2019 (in CZK billion)

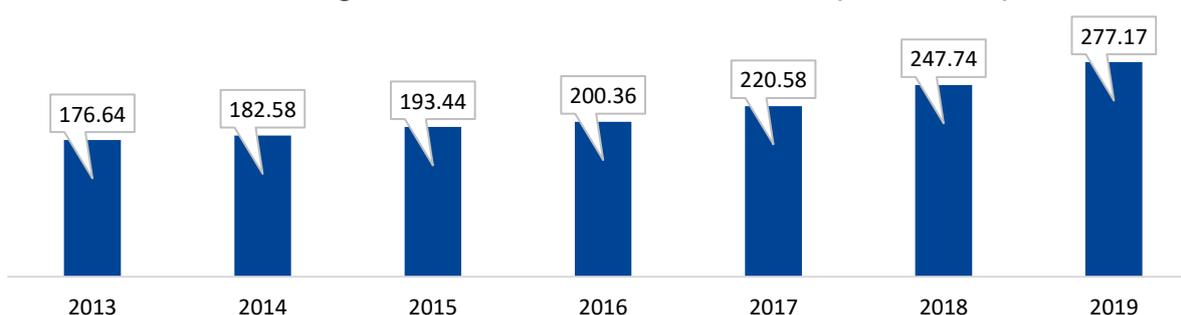
	2013	2014	2015	2016	2017	2018	2019
Social security	31.15	32.35	34.08	35.98	39.68	44.63	49.72
Health insurance	11.21	11.65	12.27	12.95	14.29	16.07	17.97
Total	42.37	43.99	46.35	48.93	53.97	60.69	67.70

Sources: SCA for 2013 to 2018; draft SCA for 2019.

Note: The insurance contributions were calculated on the basis of average salary.

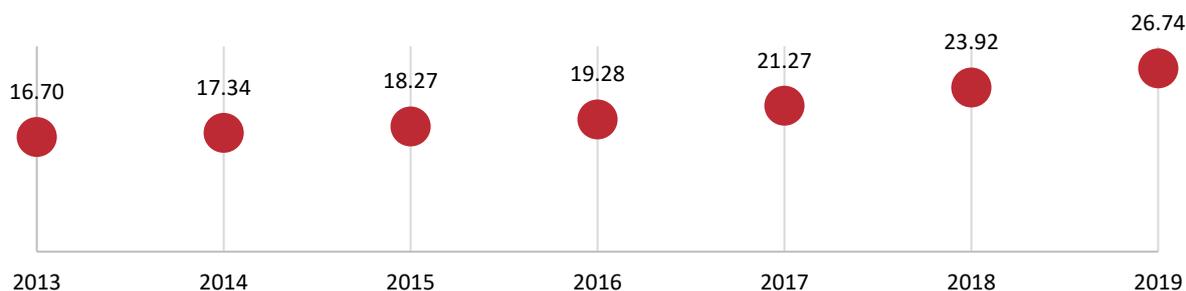
However, social security for civil servants does not only relate to the expenditure side of the state budget, but also to its revenue side. The mentioned insurance contributions are a part of tax revenues, so rising expenditures on salaries of civil servants will proportionally affect also personal income tax, and social security contributions will add to the revenues in full. The expenditures on salaries plus insurance contributions and other payments for work performed are shown in the following chart. In 2019, there was again a significant annual increase in these expenditures, totalling as much as CZK 277.17 billion.

Chart 28 - Trends in expenditures on salaries and other payments for work performed by civil servants, including insurance contributions, in 2013–2019 (in CZK billion)



Sources: SCA for 2013 to 2018; draft SCA for 2019.

If the number of civil servants were to be reduced, for example, by 10%, the related savings on expenditures would be in the region of tens of billions of crowns. In 2019, such reduction in the number of civil servants would cut the state budget expenditures by almost CZK 27 billion.

Chart 29 - Hypothetical savings on expenditures on salaries of civil servants including insurance contributions for a 10% reduction in the number of civil servants (in CZK billion)

Sources: SCA for 2013 to 2018; draft SCA for 2019.

Note: The calculation does not include expenditures on other payments for work performed.

In addition to salary expenditures, for each job position there are also expenditures on overheads, which include expenditures for office equipment and office supplies, energies, telephoning, rent, travel, education, etc. In all, organisational units of the state annually spend from their budgets in connection with the performance of work by their employees several additional dozens of billions of crowns.

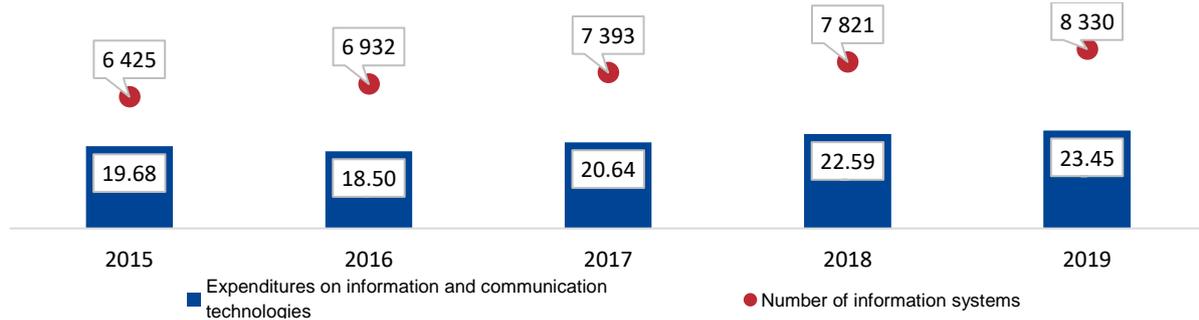
In an economic slowdown, rising unemployment will manifest especially in the private sector, which acts as the “engine of the economy”. A higher unemployment will result in lower contributions to the state budget (in particular lower collection of income taxes and social security contributions), at a constantly high number of civil servants. Thus, a higher share of revenues will be spent on the salaries of civil servants than at present with the low unemployment rate.

Within the state apparatus, there is no long-term plan that would address the need for gradual reduction in the number of civil servants in connection with the declared priority of modernising public administration and reducing the overall bureaucratic burden. Nor was a strategic intent to reduce the number of government sector employees declared in connection with the implementation of electronic government and the development of eGovernment.

Expenditures on Information Systems

Further regular state budget expenditures include expenditures relating to information systems, which have been on the increase recently not least because of efforts at digitalisation of state administration. While in 2015 these amounted to CZK 11.35 billion, in 2019 they reached CZK 13.98 billion³⁴. The rise in expenditures also was due to the increase in the number of information systems, which for the whole public sector grew between 2015 and 2019 by 30%.

³⁴ Total of expenditures reported in budget items 5042 – *Fees for the use of software*, 5162 – *Electronic communication services*, 5168 – *Data processing and services relating to information and communication technologies*, 5172 – *Software*, 6111 – *Software*, 6125 – *Computing systems*.

Chart 30 - Expenditures on public administration information systems (in CZK billion, pieces of units)

Sources: Information system of the Register of Rights and Obligations; MONITOR information portal.

Note: The chart contains data for the entire public sector, which is why the chart data do not match the figures in the previous paragraph that only deals with the state budget funds.

One of the long-term challenges facing the Czech Republic is the inability to update key information systems that are obsolescing technologically and require growing maintenance costs. As an example, the main tax administration system, the *Automated Tax Information System* (also: “ATIS”) can be mentioned, which still operates within the historical environment dating back from the 1990s and the annual operating costs of which amount to CZK 65 million³⁵. Despite this, the General Financial Directorate (also: “GFD”) decided for the Automated Tax Information System to be expanded by additional components needed to implement the electronic register of sales. In 2016, the Financial Administration of the Czech Republic published a study³⁶ that concluded that the Automated Tax Information System was very obsolete and the annual costs to keep it operational would be enough to purchase an up-to-date modern system. The study quantified the estimated inefficiency of keeping with the Automated Tax Information System and upgrading it further at 47%, which in financial terms would mean an average annual amount in excess of CZK 120 million. Also according to the study, it would be possible to reassign more than 5 000 employees to audit activities instead of performing standard transactions without any added value in the Automated Tax Information System. The SAO found in its Audit No 18/07³⁷ that in extending the Automated Tax Information System by the electronic register of sales and other application components, the General Financial Directorate did not observe the rules by which information and communication technology projects must be approved by the Chief eGovernment Architect, worsened the dependency on the existing supplier and unwarrantedly chose in public procurement in the total amount in excess of CZK 400 million non-tender procedures. The General Financial Directorate procured in this manner information technologies worth approx. CZK 70 million, the required performance of which could have been provided by technical equipment acquired earlier on. The average capacity use of the computing power of the servers purchased for purposes of processing data from the electronic register of sales thus was at 1.4 %, and the

³⁵ Data from the information system of the Register of Rights and Obligations.

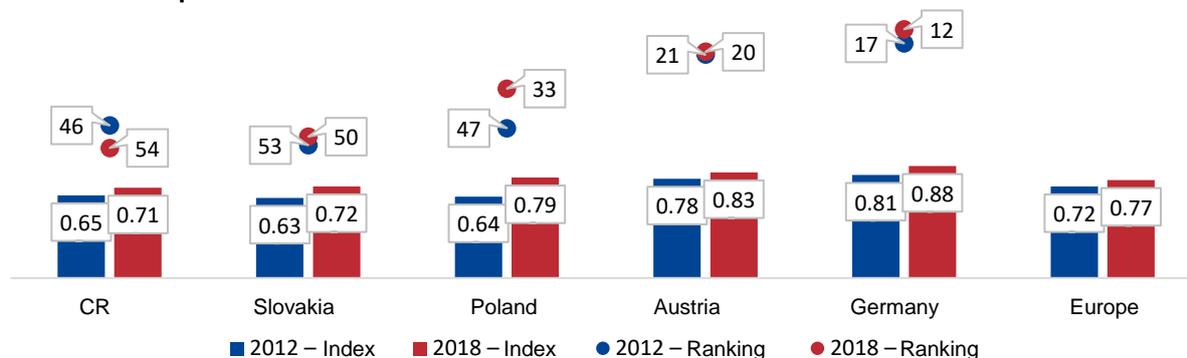
³⁶ *Assessment Study for the Existing Tax Information System of the Czech Financial Administration*.

³⁷ Audit No 18/07 – *Information System Support to the Tax Proceedings Agenda* (the audit report was published in issue 3/2019 of the *SAO Bulletin*).

average amount paid by the General Financial Directorate for one standard post-warranty support intervention for servers for the electronic register of sales was at CZK 824 thousand.

In the area of taxes subsequently to the electronic register of sales, planning began also for the *MOJE daně* (My Taxes) project (since 2016) that was meant to help reduce the administrative burden on the taxpayer and to promote digitalisation of public administration. In contrast to the implementation of information support for the electronic register of sales, which was done on short notice and, in SAO's opinion, with the consequence of violation of budgetary discipline³⁷ while also not complying with the 3E rules³⁷ (expediency, efficiency, effectiveness), and the benefits of which in terms of higher collection of taxes are debatable, the *MOJE daně* portal still was not launched as at the end of 2019. Its implementation is envisaged by the end of 2024³⁸, i.e., eight years from its first draft. Although digitalisation and its implementation in the public administration is one of the government priorities stated in many documents³⁹, its actual benefits to society so far have failed to materialise on any broader scale. As evident from the following chart, **the Czech Republic in comparison with other countries using the E-Government Development Index⁴⁰ (hereinafter also "EGDI") is lagging behind as opposed to any significant progress in the level of digitalisation. In 2018, the Czech Republic ranked 54th in this respect compared to rank 46 in 2012. Among the EU countries, the Czech Republic counts by the EGDI to states with the lowest level of digitalisation of the state administration (rank 25 in 2018).**

Chart 31 - Comparison of EGDI level for selected countries for 2012 and 2018



Source: United Nations (E-Government Development Index).

Since 2016, the unsatisfactory situation of electronic government has been addressed by the Office of the Chief eGovernment Architect (hereinafter also "OHA") with the Ministry of the

³⁸ National Investment Plan of the Czech Republic 2020–2050.

³⁹ Policy papers of the government of the Czech Republic from 2014 and 2018, *Action Plan for the Development of the Digital Market*, the *Digitální Česko* programme etc.

⁴⁰ Every two years, the United Nations evaluates through the EGDI electronic government in each member state. The index consists of three categories, which are the telecommunications infrastructure index, the human capital index and the online services index.

Interior.⁴¹ The OHA's task is to assess all project plans for the purchase of services and investments related to public administration information systems and to issue its respective opinions. However, OHA does not have sufficient powers to be able to verify whether project managers proceeded in accordance with the "approved" project plan. Its assessment role though has significantly contributed to improving coordination and to effective implementation of eGovernment. As an indispensable prerequisite to establish the conditions needed to be able to provide digital services, the act was adopted on the right to digital services⁴², which stipulates the right of natural persons and corporate bodies to be provided digital services by public sector authorities in the exercise of their duties, and an obligation of public sector authorities to provide digital services and accept digital actions. Under the law, the government should present within one year from its effective date a catalogue of services that so far have not been provided in the digital form, and the competent authorities will be obliged to digitise these agendas over the next four years. This step should, given its statutory nature, contribute to increasing the level of digitalisation of public administration, but the downside remains that the Czech Republic can expect results in up to five years at the earliest. Improving digital communication is also one of the goals of the *National Investment Plan of the Czech Republic 2020–2050*, which has allocated for its implementation investments in the total amount of CZK 112.5 billion.

The Czech Republic is failing to fully follow through and catch up with other countries in advancing digitalisation of public administration. Although extensive funds are being spent on designing, developing and operating information systems (totalling CZK 105 billion over the last 5 years), which has shown, for example, in the increase in the number of information systems, implementation of electronic government has not progressed. In many cases, a situation arose where though on the one hand, the information system met its acquisition purpose, but data was not shared across individual agendas, and thus the expected reduction in administrative burden failed to materialise. The obsolescence of the main information systems and historical arrangements the consequence of which has been contractual dependence on a single supplier, including in key elements of the system, obstruct the progress of digitalisation and cause higher expenditures (operation, upgrades, provision of basic functionalities, consultations, service). Precise definition of the functions information systems have to fulfil, including their interconnectedness, support through legislative regulations and transparent tenders are the means to reduce expenditures, unify public administration agendas, improve reliability of data and, crucially, to make the state administration more efficient.

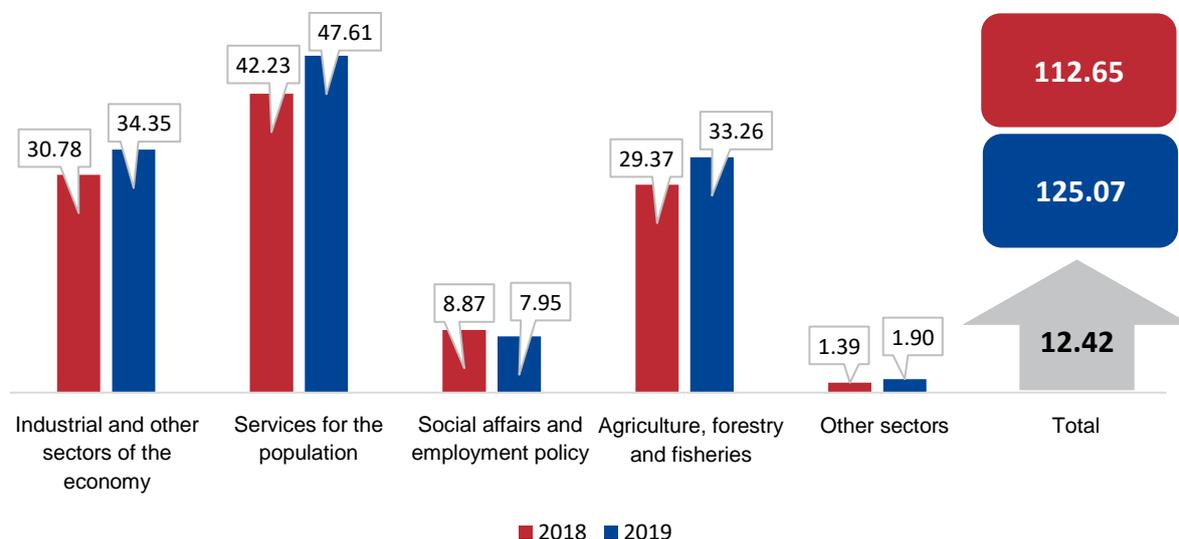
⁴¹ Resolution of the Government of the Czech Republic No 889 of 2 November 2015, on the further development of information and communication technologies of public administration services.

⁴² Act No 12/2020 Coll., on the right to digital services and amending certain acts of law (effective from 1 February 2020).

Expenditures Co-Financed from the EU Budget and Financial Mechanisms

The annual increase in total expenditures of the state budget in 2019 also was driven by expenditures co-financed from the EU/FM budget, including the Common Agricultural Policy⁴³ (hereinafter also “EU/FM expenditures”), the use of which increased by CZK 12.42 billion in annual comparison. The total amount of EU/FM expenditures in 2019 thus amounted to CZK 125.07 billion. The annual increase was due to both current expenditures, which rose by CZK 7.39 billion, and capital expenditures that grew year-on-year by CZK 5.02 billion. The approved EU/FM expenditures budget of CZK 92.48 billion was exceeded by 35.23% (i.e., by CZK 32,59 billion) and the final budget in the amount of CZK 163.73 billion was used to 76.39% (as compared to 73.54% in 2018). The chart below shows which sectors of the national economy received in 2018 and 2019 the highest volumes of EU/FM expenditures.

Chart 32 - EU/FM expenditures in 2018 and 2019 by sectors (in CZK billion)



Source: MONITOR information portal.

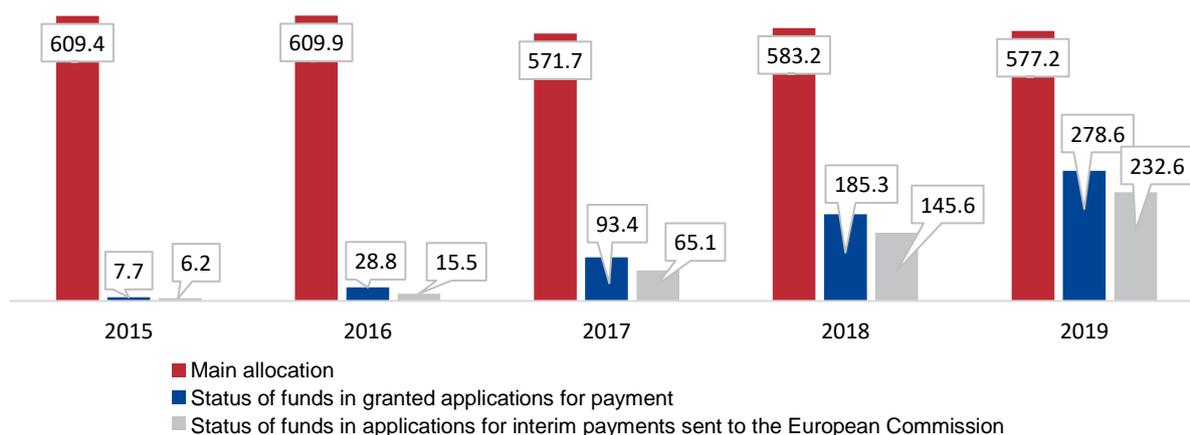
Note: Other sectors include “state security and legal protection” and “general public administration and services”.

In 2019, the largest part of total EU/FM expenditures (in excess of CZK 47 billion) went to the “services for the population” sector, of which almost half (CZK 21.94 billion) targeted territorial development, mainly to improve regional (Class II and III) roads, and the development of regional education. Another large chunk of the expenditures (above CZK 34 billion) went to “industrial and other sectors of the economy”, thereof more than a half (CZK 17.75 billion) to the development of backbone transport infrastructure in the Czech Republic. A significant amount of EU/FM expenditures (CZK 22.10 billion) was also used in direct payments to farmers. The largest part of EU/FM expenditures comes from the European Structural and Investment

⁴³ EU/FM expenditures include all expenditures from the EU budget and Financial Mechanisms (excluding national funds) monitored by the spatial and tool classification imposed by Decree No 323/2002 Coll., on the budget structure.

Funds the resources from which are used under the *Partnership Agreement*⁴⁴. The chart below clearly shows that a significant increase in the implementation of programmes only occurred as late as in 2018 and 2019. Despite this increase, the beneficiaries were paid⁴⁵ (sc. pre-financing from the state budget) as at the end of 2019 a total of CZK 278.6 billion, which makes only 48.3% of the main allocation for the programming period of 2014–2020. **This means that a year before the end of the regular PP14+, the Czech Republic had less than half of the main allocation pre-financed, the amount of which was as of 31 December 2019 CZK 577.2 billion.**

Chart 33 - Status of implementation of ESI Funds in PP14+ as of 31 December, 2015 to 2019 (in CZK billion)



Sources: Quarterly reports on the implementation of ESI Funds in the Czech Republic in the programming period of 2014–2020 for 2015–2019.

Note: The different amounts of the main allocation in crowns are mainly due to fluctuations in the EUR/CZK exchange rate used to convert the allocation from € billion.

In 2019, the state of funds in applications for interim payments sent to the European Commission grew annually⁴⁶ by CZK 87 billion, mainly by virtue of meeting n+3 rule⁴⁷. **By the end of 2019, all programmes under the *Partnership Agreement* had complied with the n+3 rule. On the other hand, a note is due that the OP *Enterprise and Innovation for Competitiveness* met the n+3 limit only narrowly, mainly due to the low use of subsidies under priority axis 4, *Development of High-Speed Internet Access Networks and Information and Communication Technologies*. In this context, the SAO in its audit report from Audit No 19/15⁴⁸ concludes that the Ministry of Industry and Trade did not provide any subsidy from the *High-***

⁴⁴ The *Partnership Agreement for the Programming Period of 2014-2020* is the basic reference document for using resources from the ESI Funds in the programming period of 2014–2020.

⁴⁵ This is the status of funds in granted applications for payment.

⁴⁶ After payment and billing, the managing authorities (except for the *Rural Development Programme*, which use as payment agency for administration of payments the State Agricultural Intervention Fund) submit summaries of expenditures for certification in sc. summary applications to the Paying and Certifying Authority (MoF), which sends applications for payment after certification of expenditures to the European Commission.

⁴⁷ By 31 December 2019, the Czech Republic had to use up the allocation set for 2016.

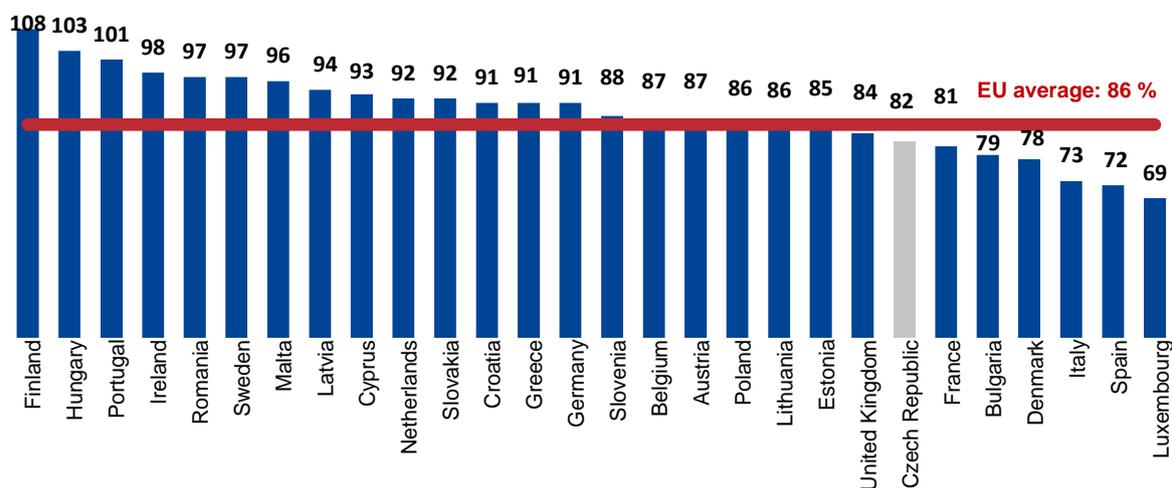
⁴⁸ Audit No 19/15 - *Support for the Development of High-Speed Internet Access Provided from the Operational Programme Enterprise and Innovation for Competitiveness* (the audit report was published in issue 3/2020 of the SAO Bulletin).

Speed Internet programme, which is part of priority axis 4, in almost five years. The reasons were insufficient programme preparation and incorrect initial settings for the subsidies.

By the end of 2019, the Czech Republic had also met important milestones under the so-called performance framework, credit to which its main allocation had been increased from 2020 by additional 6%, i.e., by approximately CZK 36 billion.

Credit to the improving ability to mediate in PP14+ subsidies co-financed from the EU budget, in 2019 as well the Czech Republic managed once again to move closer to the European average in international comparison in terms of contractually secured resources for approved projects financed from ESI Funds. **From the beginning of PP14+ until the end of 2019, the Czech Republic had contractually secured a total of 82% of the total allocation, however the EU average was at 86%. The Czech Republic also scored the lowest result among the Visegrád Group (V4) countries.**

Chart 34 – Contractually secured resources from ESI Funds as of 31 December 2019 (percentages).



Source: European Commission (data from 10 July 2020).

One of the long-standing problems of the Czech Republic in the area of European subsidies has been their hasty use at the end of a programming period, which the SAO already had pointed out in the past⁴⁹. Subsidised are mainly projects with lower added value that are easier to prepare while there is little time left for large investment projects due to the complexity of their preparation. Also subsidised are projects which, unfortunately, will not bring the expected

⁴⁹ For example, in the *EU Report 2017* and *EU Report 2019* (i.e., reports on financial management of the European Union funds in the Czech Republic).

results, as found not least in Audit No 17/23⁵⁰ that focused on the area of reducing energy intensity⁵¹.

As the use of European funds is governed by very strict rules, more consequential errors may occur due to their hastened use at the end of the programming period, with follow-up financial corrections (adjustments) and the possibility of a non-refund by the European Commission.

Table 8 - Financial adjustments for EU funds in the Czech Republic until 30 June 2019 (in CZK billion)

EU Cohesion Policy Funds	Financial adjustments	Common Agricultural Policy	Financial adjustments
PP7+	34.7	Rural Development Programme in PP7+	0.6
PP14+	1.7	Rural Development Programme in PP14+	0.1
		European Agricultural Guarantee Fund	1.3
Total	36.4	Total	2.0

Source: Report on financial adjustments to EU funds in the Czech Republic issued by the Ministry of Finance in August 2019.

As follows from the above table, irregularities and errors in the total amount of CZK 38.4 billion were found in the Czech Republic in the use of ESI Funds and CAP within PP7+ and PP14+ until 30 June 2019. Of these, most (CZK 36.4 billion) related to cohesion policy⁵², which aims to reduce disparities between the development levels of different regions. **Until mid-2019, financial adjustments in the current PP14+ were quantified (within the framework of cohesion policy and the rural development programme) at only CZK 1.8 billion, mainly due to the low amounts used from the total allocation. In the coming years, they can thus be expected to increase, as most of the resources will be used only at the end of the programming period.**

Until 30 June 2019, the largest financial adjustments in total for both programming periods were reported in the operational programmes focused on transport (a total of CZK 14.7 billion, of which *OP Transport 2007–2013* accounted for CZK 13.9 billion and *OP Transport 2014–2020* for CZK 0.8 billion) and operational programmes aimed at supporting innovations (in a total of CZK 7.5 billion, thereof CZK 6.7 billion for the *OP Enterprise and Innovation for the 2007–2013 period* and CZK 0.8 billion for the *OP Enterprise and Innovation for Competitiveness 2014–2020*). These programmes had some of the highest allocations available. Among the beneficiaries of

⁵⁰ Audit No 17/23 - *Energy Efficiency Improvement Measures Implemented under Priority Axis 3 of the Operational Programme Enterprise and Innovation for Competitiveness 2014-2020* (the audit report was published in issue 4/2018 of the *SAO Bulletin*).

⁵¹ By directing funds to this area, the Czech Republic hoped for a total of 20 petajoules of new energy savings by 2020. Among its other conclusions, the SAO found that at the end of 2017, the savings were minimal at less than 1% of the planned value.

⁵² EU Cohesion Policy Funds included in PP7+ the Structural Funds, the *Cohesion Fund* and the *European Fisheries Fund 2007-2013*. These within PP14+ take the form of ESI Funds, with the exception of the *Rural Development Programme for the 2014–2020 period*, which for better clarity is included in the Common Agricultural Policy even though under Regulation (EU) No 1303/2013 it falls under ESI Funds.

European subsidies most prone to mistakes were state organisations (in particular the Road and Motorway Directorate of the Czech Republic), which received the largest volumes of subsidies.

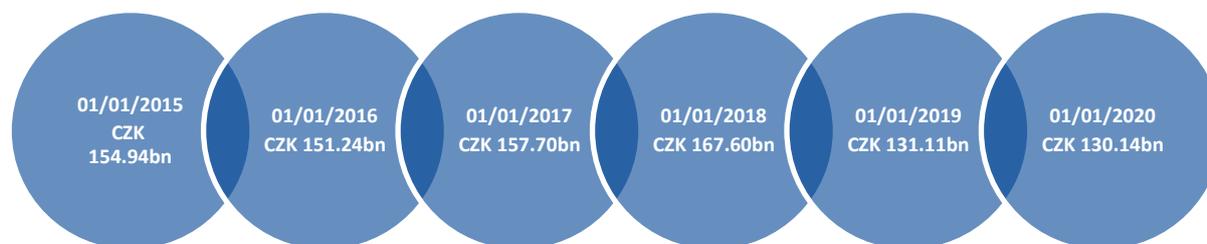
The SAO also deals in its audit activities with the issue of these so-called ineligible expenditures, with pertinent audit findings most frequently in the area of breaches of legal regulations. For instance in Audit No 18/33⁵³, the SAO found among its other conclusions that the beneficiaries did not report expenditures as stipulated by the conditions for their eligibility, which may have amounted to violations of budgetary discipline in the amount of approx. CZK 4.9 billion. Further in Audit No 18/24⁵⁴, the SAO identified cases where the beneficiaries received subsidies for ineligible expenditure, such as for servicing tools and diagnostic equipment for electric buses.

As all projects are pre-financed from the state budget, in case a subsidy is not refunded by the European Commission, the state must claim it back directly from the beneficiaries in a cumbersome procedure. If not successful and the subsidy is not returned by the beneficiary, these non-refunded means remain as a liability for the state budget.

Claims from Unused Expenditures

The main reason for why claims arise from unused expenditures is the long-term inability of state budget chapters to use all budgeted funds in a given year. Claims from unused expenditures from previous years along with unused expenditures of the current year are included again in the records of claims from unused expenditures and so they accumulate.

Diagram 7 - Status of claims from unused expenditures on each 1 January from 2015 to 2020 (in CZK billion)



Sources: SCA for 2015–2018; draft SCA for 2019.

The claims from unused expenditures reached their historically highest value (CZK 167.60 billion) as of 1 January 2018, mainly due to unused expenditures intended for projects and programmes co-financed from the EU/FM budget, including CAP. Credit to higher use during 2018, there was a substantial annual decrease in their total volume as of 1 January 2019 (by CZK 36.49 billion).

⁵³ Audit No 18/33 -Support from the Operational Programme Prague – Growth Pole of the Czech Republic Provided for Social Inclusion and for Fighting Poverty (the audit report was published in issue 3/2019 of the SAO Bulletin).

⁵⁴ Audit No 18/24 - Support for Public Urban and Regional Transport Financed under the Integrated Regional Operational Programme (the audit report was published in issue 4/2019 of the SAO Bulletin).

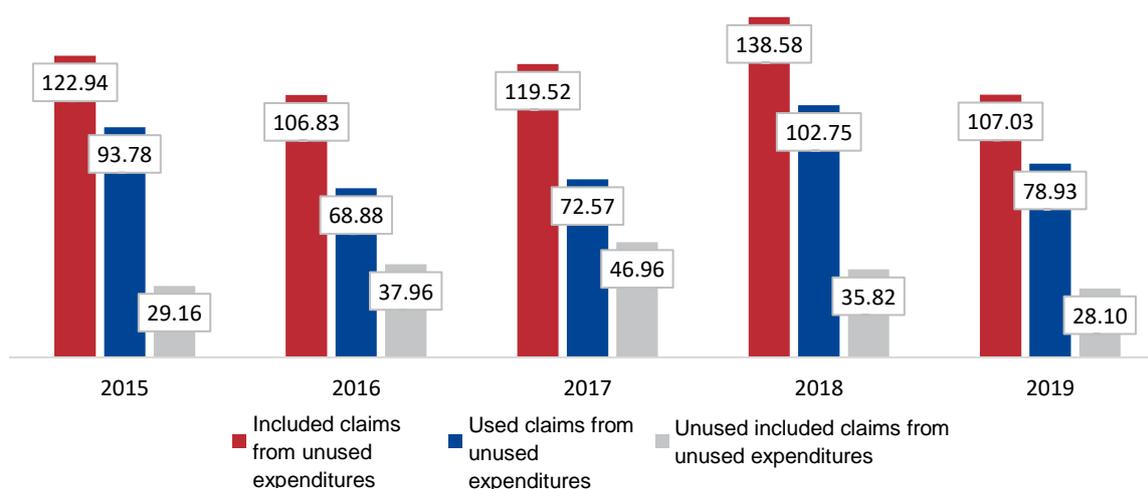
Table 9 - Status of selected claims from unused expenditures on each 1 January from 2015 to 2020 (in CZK billion)

Indicator	01/01 2015	01/01 2016	01/01 2017	01/01 2018	01/01 2019	01/01 2020	Change in status as of 1 January between 2020 and 2015
Profiling expenditures	131.46	124.13	131.49	145.72	109.99	110.06	-21.40
<i>Of which:</i>							
- For projects and programmes co-financed from the EU/FM budget, including CAP	103.83	89.36	93.39	101.09	63.77	58.39	-45.44
- For programme funding	23.64	27.79	30.08	35.26	36.47	41.35	17.71
- For research, development and innovation	2.13	2.77	3.17	3.98	4.63	4.57	2.44
Non-profiling expenditures	23.48	27.10	26.21	21.88	21.13	20.09	-3.39

Sources: SCA for 2015–2018; draft SCA for 2019.

Another annual decrease in the volume of claims from unused expenditures (by CZK 0.97 billion) occurred on 1 January 2020. As a result, their lowest initial state (in the amount of CZK 130.14 billion) was recorded since 2013. The largest share in the claims reduction had projects and programmes co-financed from the EU / FM budget, including the CAP. As at 1 January 2020, their volume fell by CZK 5.38 billion year on year, although there was a significant decrease in their use in annual comparison. In contrast, the volume of exclusively domestic claims from unused expenditures for programme funding increased as at 1 January 2020 in annual comparison (by CZK 4.88 billion). Over long-term, there has been also a failure to use domestic claims from unused expenditures for research, development and innovation. **Apparently the decrease in the total volume of claims is mostly attributable to claims from used expenditures funded from foreign sources, which are used on a priority basis mainly to prevent financial losses from the total allocation from the EU budget.**

Although the total volume of claims from unused expenditures fell by CZK 24.80 billion between 2015 and 2020, had there been more efficient use of all budgeted expenditures in the year concerned, the total of claims from unused expenditures could have been reduced even more significantly. **One of the reasons was the low use of claims from unused expenditures included in the final state expenditure budget.** Over the previous 5 years, only less than 70% of the included claims from unused expenditures were used on average (with the highest number at 76.28% in 2015 and the lowest at 60.71% in 2017).

Chart 35 - Included and used claims from unused expenditures in 2015–2019 (in CZK billion)

Sources: SCA for 2015–2018; draft SCA for 2019.

Of the included claims from unused expenditures, the highest amount unused was in 2017 (CZK 46.96 billion) and the lowest in 2019 (CZK 28.10 billion). **On the other hand, the use of claims from unused expenditures has a negative impact on the overall state budget balance, because ultimately it increases state budget expenditures.**

Table 10 - Impact of potential full use of the total volume of included claims from unused expenditures on the state budget balance in 2015–2019 (in CZK billion)

Indicator	2015	2016	2017	2018	2019
Approved state budget balance	-100.00	-70.00	-60.00	-50.00	-40.00
Actual state budget balance	-62.80	61.77	-6.15	2.94	-28.52
Unused volume of included claims from unused expenditures	29.16	37.96	46.96	35.82	28.10
<i>Of which: Claims from unused current expenditures</i>	9.15	11.18	11.01	9.38	8.48
<i>Claims from unused capital expenditures</i>	20.01	26.78	35.95	26.44	19.62
Potential state budget balance on using the entire volume of included claims from unused expenditures	-91.96	23.81	-53.11	-32.88	-56.62

Sources: SCA for 2015–2018; draft SCA for 2019.

Table 10 shows that although a full use of the total volume of included claims from unused expenditures would mean in each year a worse actual state budget balance, by 2018 it still would not cause the approved deficit to be exceeded. **In 2019, although the unused volume of the included claims from unused expenditures was the lowest over the last 5 years, at the same time its full use would result in not meeting the approved state budget deficit by more than CZK 16 billion.** The approved state budget deficit would be exceeded by CZK 8.14 billion in 2019 also had the state made more consequent use of the available investment potential for 2019 and used all the included claims from unused capital expenditures.

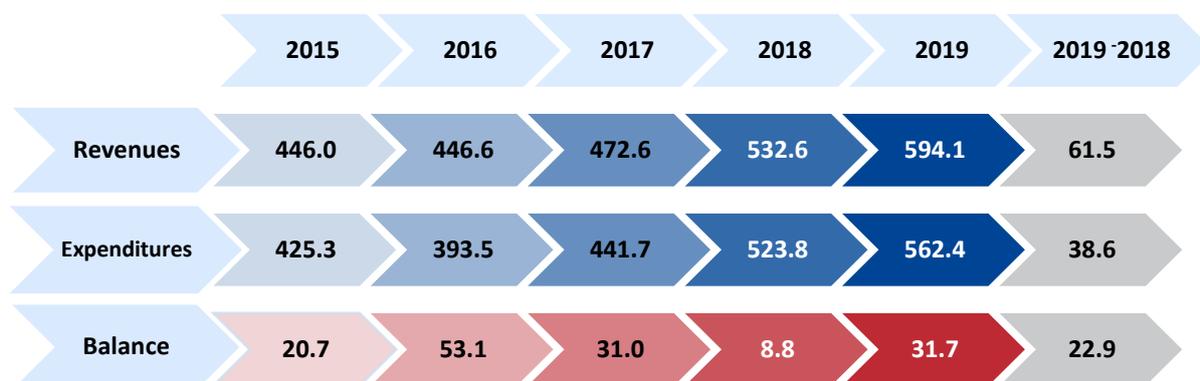
If there were more effective use of included claims from unused expenditures, the state could have significantly reduced their total volume in 2015–2018 without exceeding the approved state budget balance. As it is, claims from unused expenditures will add to the expenditure side of the state budget in the coming years, when the state budget balance may deteriorate again if there is any further slowdown in economic growth. In the next years, it will be necessary to use mainly claims from unused expenditures intended for projects and programmes co-financed from the EU/FM budget, including CAP, the volume of which as at 1 January 2020 amounted to more than CZK 58 billion (i.e., 45% of the total volume of claims from unused expenditures).

V. Results of Other Parts of Public Budgets

1. Results of Local Budgets

The total local budgets ended in 2019 after consolidation⁵⁵ with a surplus of CZK 31.7 billion. The highest surplus was reported by municipalities (CZK 25.5 billion). Regions (CZK 5.8 billion) and voluntary associations of municipalities (CZK 0.4 billion) also ended with a positive balance. Only the regional councils of cohesion regions reported a slight deficit (CZK 0.06 billion). The resulting balance was CZK 22.9 billion higher year-on-year in 2019, as attributable not only to higher revenues, but also to lower capital expenditures compared to the budget.

Diagram 8 - Overall results of local budgets in 2015–2019 (in CZK billion)



Sources: SCA for 2015–2018; draft SCA for 2019.

Total revenues of local budgets grew in annual comparison by CZK 61.5 billion to CZK 594.1 billion in 2019, mainly credit to a rise in received transfers by CZK 33.9 billion (totalling CZK 224.6 billion). The largest part (more than 94%) of the total transfers received were funds from the state budget⁵⁶ (totalling CZK 212.1 billion). Their share in total revenues of local budgets in 2019 was at 35.7% and grew by 2 pp in annual comparison. Total non-investment transfers increased year on year by CZK 25.0 billion to CZK 192.6 billion, due mainly to the government's decision to increase the salaries of teachers in regional education⁵⁷. Investment transfers rose by CZK 8.9 billion to CZK 32.1 billion. However, they still did not reach the average level (CZK 37.1 billion) from the 2009 to 2015 period.

Own revenues of local budgets (i.e., tax, non-tax and capital revenues) were CZK 27.6 billion higher year-on-year in 2019 and reached CZK 369.4 billion. The most substantial growth was in tax revenues (by CZK 25.0 billion), totalling CZK 320.2 billion. In 2019, the collection of tax revenues was no longer affected by the change in budget allocation of taxes, which otherwise

⁵⁵ Due to consolidation, the sum at the national level differs from the sum of individual levels, i.e., regions, municipalities, voluntary associations of municipalities and regional councils of cohesion regions.

⁵⁶ These are budget items 4111 and 4211 (non-investment and investment transfers received from the general treasury administration of the state budget), 4112 and 4212 (non-investment and investment transfers received from the state budget within the general subsidy relationship) and 4116 and 4216 (other non-investment and investment transfers received from the state budget).

⁵⁷ Resolution No 758 of the Government of the Czech Republic of 14 November 2018 amending Government Regulation No 341/2017 Coll., on the remuneration of employees in public services and public administration.

would boost tax revenues of local budgets, as was the case in previous years. **The rise in tax revenues thus was mainly driven by the continued growth of the Czech economy in 2019.**

Total expenditures of local budgets in 2019 increased year-on-year by CZK 38.6 billion to CZK 562.4 billion. The annual increase was 99% attributable to current expenditures (by CZK 38.3 billion), which are used mainly to finance day-to-day operations and totalled CZK 438.5 billion. **Capital (investment) expenditures, which are a principal driver of regional development, only increased marginally by CZK 0.3 billion year on year to CZK 123.9 billion and did not meet the expected growth trend based on previous two years.** This contrasts with their total budgeted volume of almost CZK 142 billion, which was higher by CZK 28 billion in annual comparison. **Thus in 2019, local budgets did not use a total of CZK 18.1 billion of available capital resources,** for example to improve regional (Class II and III) roads.

Table 11 - Budget of local budget expenditures with changes and its actual use in 2018 and 2019 (in CZK billion)

Indicator	2018		2019		Budget with changes 2019-2018	Actual 2019-2018
	Budget with changes	Actual	Budget with changes	Actual		
Total expenditures of local budgets	512.1	523.8	582.6	562.4	70.5	38.6
<i>Of which: Municipalities and voluntary associations of municipalities</i>	314.5	326.0	358.3	338.7	43.8	12.7
<i>Regions</i>	203.7	205.7	231.3	232.7	27.6	27.0
Total current expenditures of local budgets	398.2	400.2	440.7	438.5	42.5	38.3
<i>Of which: Municipalities and voluntary associations of municipalities</i>	226.2	229.7	251.2	244.2	25.0	14.5
<i>Regions</i>	175.7	175.7	194.3	200.4	18.6	24.7
Total capital expenditures of local budgets	113.9	123.6	141.9	123.9	28.0	0.3
<i>Of which: Municipalities and voluntary associations of municipalities</i>	88.3	96.3	107.1	94.5	18.8	-1.8
<i>Regions</i>	27.9	30.1	36.9	32.3	9.0	2.2

Sources: SCA for 2018 to 2019; draft SCA for 2019.

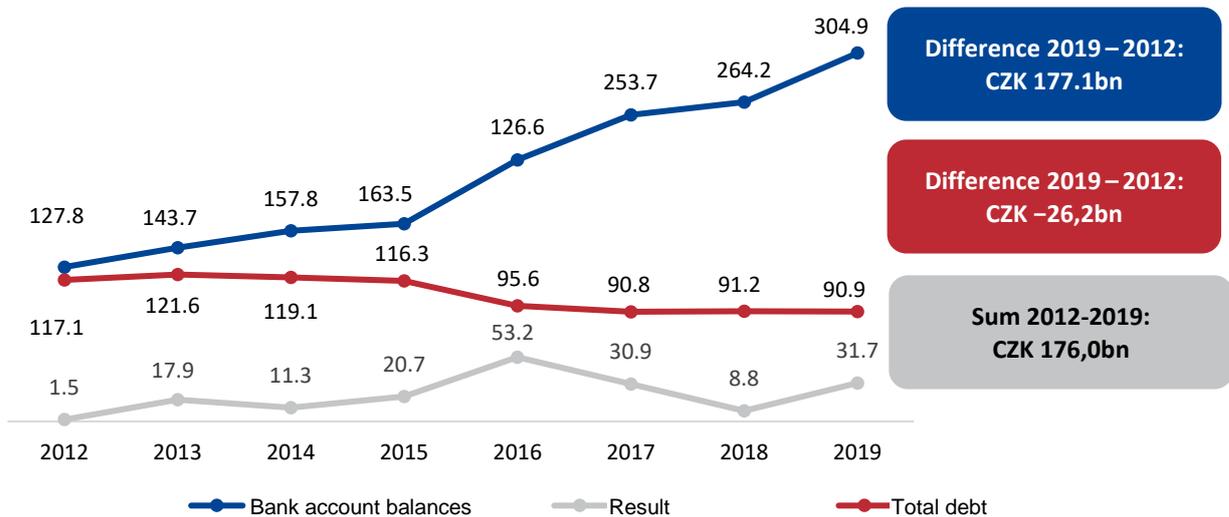
Note: Due to consolidation, the sum at the national level differs from the sum of individual levels of local budgets.

The stagnation of capital expenditures in 2019 was mainly attributable to municipalities. While in 2018, annual growth of municipal capital expenditures exceeded growth in current expenditures, in 2019 capital expenditures fell by CZK 2.2 billion year on year to CZK 92.5 billion. Their annual decline was not least due to the lower use of own resources.

The long-term surplus of local budgets has meant a significant increase in the volume of funds in bank accounts (including those of subsidised organisations) as well as lower indebtedness. The volume of funds in bank accounts amounted to almost CZK 305 billion at the end of 2019 increased by more than 138% against 2012. **Local budgets need a certain financial reserve to**

compensate for a potential drop in revenues or to finance unforeseen expenditures. However, this also begs a question whether the current level of financial reserves is too excessive already. Chart 36 indicates that local budgets could theoretically repay their debt more than three times over.

Chart 36 - Results, bank account balances and indebtedness of local budgets in 2012–2019 (in CZK billion)



Sources: SCA for 2012 to 2018; draft SCA for 2019.

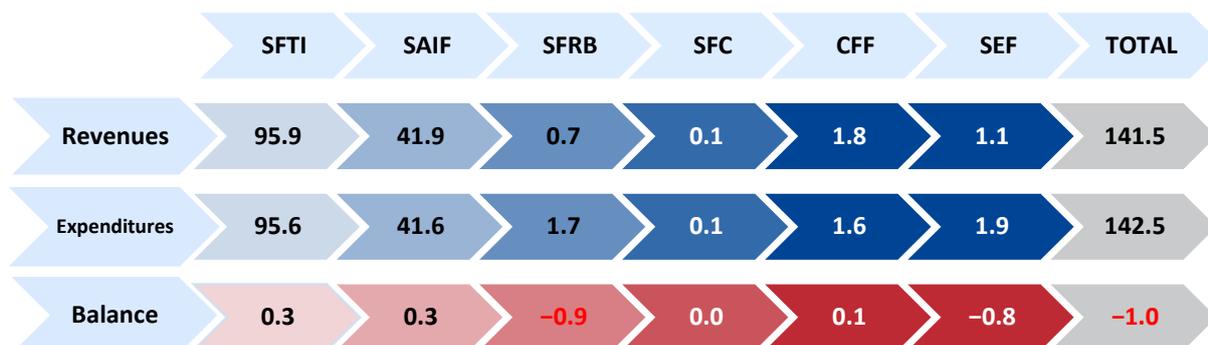
Since 2012, the total indebtedness of local budgets fell by CZK 26.2 billion, but over the last three years it has stagnated at around CZK 91 billion. In 2019, municipal indebtedness even increased by CZK 1.4 billion year on year to CZK 70 billion, partly due to a rise in loans by CZK 0.7 billion (such as for pre-financing investment projects co-financed from the EU budget).

In 2019, local budgets were in surplus not only credit to higher revenues, but also as a result of lower investments than planned. Although they keep accumulating funds in bank accounts, they still receive ever-increasing amounts of funds from the state budget. Local budgets thus should make more effective use of the large amounts of funds in their bank accounts (especially for the implementation of investment projects). Should the current trend continue with growing volumes of funds from the state budget for territorial self-governing units, this will further exacerbate the pressure on the state budget, mainly with a view to the expected decline in the Czech economy and a decrease in tax revenues of local budgets.

2. Results of State Funds

In 2019, state funds⁵⁸ (hereinafter also “SF”) ended with a deficit of CZK 1.02 billion. The deficit was lower by CZK 2.16 billion than in 2018. Compared to the approved budget, total revenues were higher by CZK 14.29 billion and total expenditures by CZK 11.00 billion. The collection of budgeted revenues with changes was at 86.9%. Budgeted expenditures with changes were used to 84.5%.

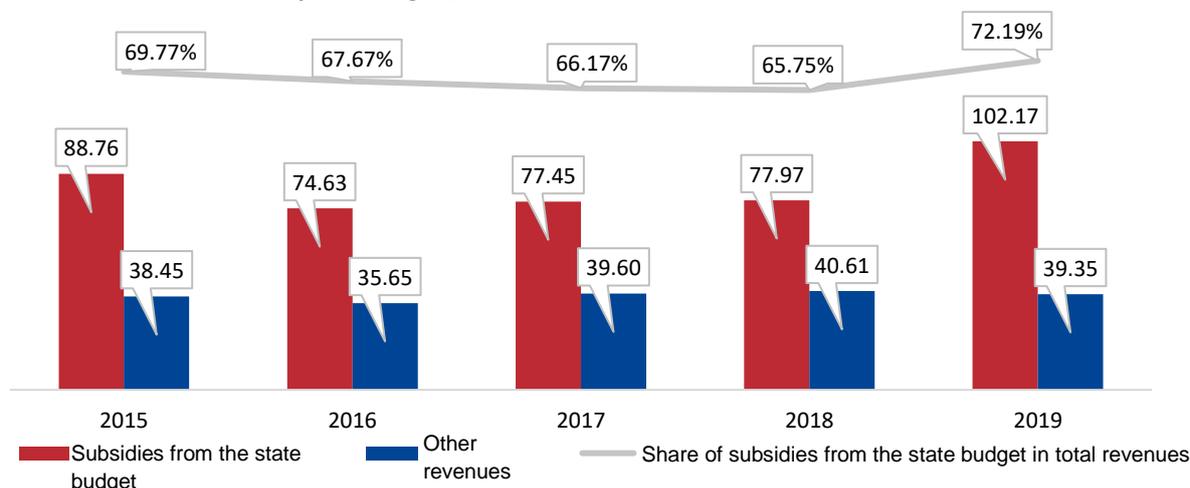
Diagram 9 - Results of state funds in 2019 (in CZK billion)



Source: MONITOR information portal.

The largest part of revenues of state funds are received subsidies from the state budget. The following chart shows that in 2019, subsidies from the state budget reached a record high of CZK 102.17 billion and their share in total revenues of state funds was at 72.19%.

Chart 37 - Share of subsidies from the state budget in total revenues of state funds in 2015–2019 (in CZK billion, percentages)



Sources: SCA for 2015–2018; draft SCA for 2019.

Note: Other revenues mainly include tax revenues and non-tax revenues.

⁵⁸ These are 6 state funds: SFTI - State Fund for Transport Infrastructure, SAIF - State Agricultural Intervention Fund, SFRB - State Housing Development Fund (pursuant to Act No 113/2020 Coll., amending Act No 211/2000 Coll., on the State Housing Development Fund and on amendment to Act No 171/1991 Coll., on the competence of the bodies of the Czech Republic in matters of transfers of state property to other persons and on the National Property Fund of the Czech Republic, as amended, and other related acts of law, the fund was renamed on 1 June 2020 to State Fund for Investment Support), SFC - State Fund for Culture, CFF - Czech Film Fund, SEF - State Environmental Fund.

In 2019, all state funds (except the Czech Film Fund) reduced their actual expenditures compared to the budget with changes. The less than full use concerned both capital expenditures and current expenditures.

Table 12 - Current expenditures of state funds in 2015–2019 by sectors (in CZK billion)

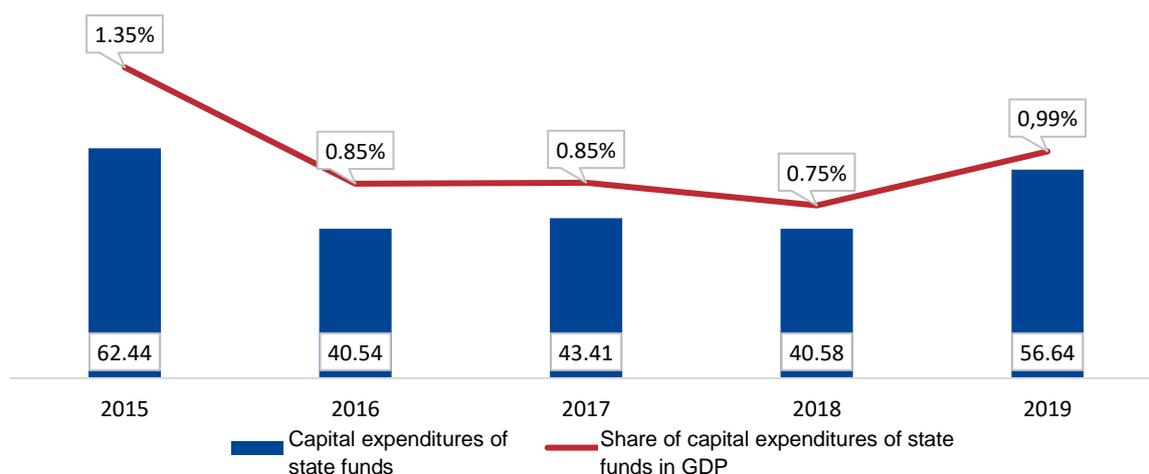
Sector	2015	2016	2017	2018	2019	2019-2018
Housing, communal services and territorial development	1.28	1.00	0.91	0.88	0.84	-0.04
Transport	39.18	39.61	36.88	46.24	47.46	1.22
Culture, churches and media	0.55	0.97	1.07	0.59	1.42	0.82
Environmental protection	0.73	0.59	0.65	0.65	0.75	0.10
Industry, construction, trade and services	0.01	0.00	0.00	0.00	0.00	0.00
Water management	0.00	0.00	0.00	0.00	0.01	0.00
Education and school activities	0.01	0.00	0.00	0.00	0.00	0.00
Agriculture, forestry and fisheries	27.33	35.14	33.73	32.82	35.44	2.61
Total current expenditures	69.09	77.31	73.23	81.19	85.91	4.72

Source: MONITOR information portal.

Current expenditures exceed capital expenditures and their total amount in 2019 grew by almost CZK 5 billion against 2018. The largest operating expenditures were reported in both 2018 and 2019 by the State Agricultural Intervention Fund in the amounts of CZK 1.9 and 1.8 billion respectively. As for the other state funds, none exceeded CZK 1 billion individually in annual operating expenditures.

The following chart shows the share of capital expenditures of state funds in GDP over the last five years. In 2019, capital expenditures grew year on year but in 2016–2019, i.e. during a period of economic growth, they did not even reach 1% of GDP.

Chart 38 - Share of capital expenditures of state funds in GDP in 2015–2019 (in CZK billion, percentages)



Sources: MONITOR information portal; Czech Statistical Office.

Most of the capital expenditures go to the area of transport, where the volume of funds spent in 2015–2019 was fluctuating. The expenditures are intended for the development and maintenance of roads, railways and waterways.

Table 13 - Capital expenditures of state funds in 2015–2019 by sectors (in CZK billion)

Sector	2015	2016	2017	2018	2019	2019-2018
Housing, communal services and territorial development	1.06	0.43	0.30	0.60	1.47	0.87
Transport	52.32	39.10	39.31	33.75	48.17	14.41
Culture, churches and media	0.20	0.18	0.22	0.28	0.29	0.01
Environmental protection	1.00	0.37	0.15	0.13	0.55	0.42
Other activities	0.00	0.00	0.00	0.00	0.01	0.00
Industry, construction, trade and services	1.53	0.03	0.06	0.17	0.22	0.05
Water management	1.19	0.08	0.04	0.34	0.58	0.25
Agriculture, forestry and fisheries	5.14	0.35	3.33	5.31	5.35	0.04
Total capital expenditures	62.44	40.54	43.41	40.58	56.64	16.06

Source: MONITOR information portal.

Revenues of state funds are strongly dependent on received subsidies from the state budget. In 2019, the share of subsidies from the state budget in total revenues of state funds amounted to 72.19% while in 2018 this share was only at 65.75%. Despite the favourable economic situation in recent years, state funds have not increased their own revenues. If the share of subsidies from the state budget continues to grow and the economic situation deteriorates, this will have a negative impact on the state budget. For such case, the state has not an effective sustainability concept to fall back on. A positive trend in the budget results of state funds are the growing capital expenditures. Still, their share in GDP in 2019 did not even exceed 1% (in contrast in 2015 it was at 1.4%). These expenditures go mainly to the area of transport development.

3. Results of Health Insurance Companies

The budget of health insurance companies in 2019 ended with a surplus of CZK 13.45 billion. This figure was lower by CZK 1 billion than in 2018. In recent years, health insurance companies were in surplus and created reserves. As at 31 December 2019, the balance in the accounts of health insurance companies was CZK 58.57 billion.

The draft health insurance plans for 2019 were still not approved by the Chamber of Deputies of the Parliament of the Czech Republic as at 10 July 2020, so health insurance companies operated throughout the whole of 2019 with provisional budgets.

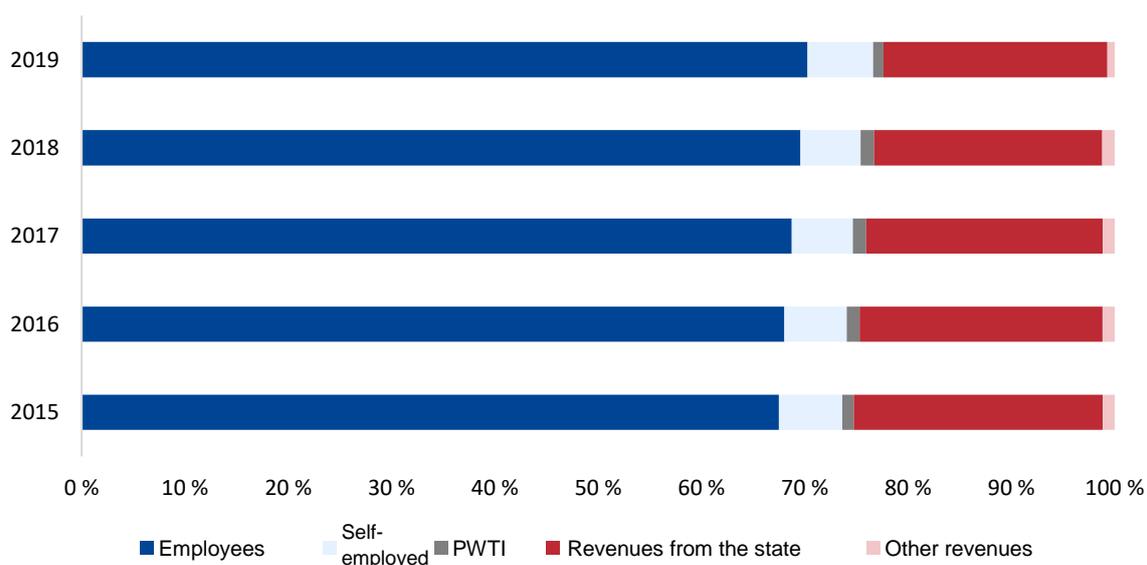
Diagram 10 - Results of health insurance companies in 2015–2019 (in CZK billion)



Sources: SCA for 2015 to 2018; draft SCA for 2019.

The revenues of health insurance companies consist to more than 77% of insurance contributions collected from employers on behalf of employees, from self-employed persons (hereinafter also “self-employed”) and persons without taxable income (hereinafter also “PWTI”). Almost 22% are payments from the state budget (state insured persons) and the remaining 1% are other revenues (fines, penalties).

Chart 39 - Structure of revenues of health insurance companies in 2015–2019 (percentages)

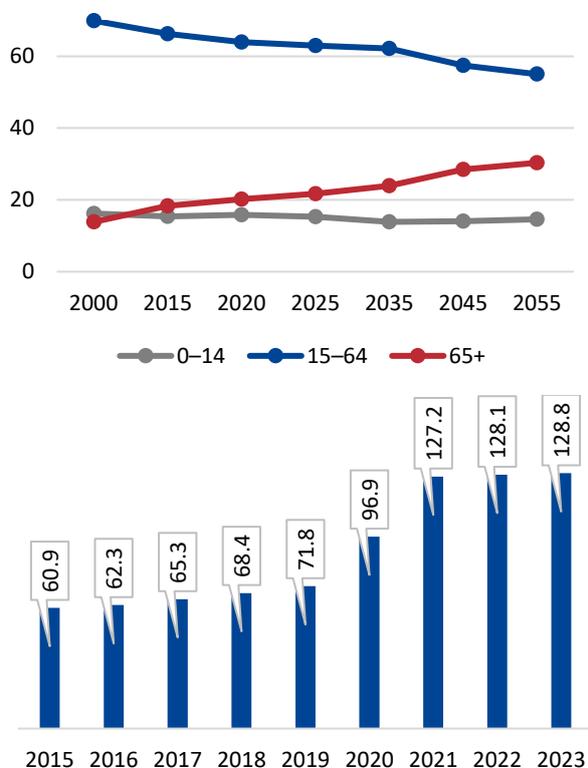


Source: Annual reports of health insurance companies for 2015–2019; health insurance plans for 2020.

Note: For 2019, the values provided are expected values.

Chart 39 shows that the largest part of revenues comes from employers who pay insurance contributions on behalf of their employees. Other group of substantial revenues are payments on behalf of state insured persons, who represent more than half of all insured persons. The largest group of state insured persons are pensioners. Persons who reach the retirement age cease to contribute to the public health insurance system as employees or self-employed and move to the group of person's contributions for which are paid by the state. These persons can be expected to draw more funds for health services, which will add to expenditures (in particular on long-term health care in connection with chronic illnesses). Due to the demographic trends, an increase in the number of people in this age group and thus a higher burden on the state budget can be expected.

Chart 40 - Expected development of the age structure of the population until 2055 and estimated development of payments for state insured persons until 2023 (percentages, in CZK billion)



Sources: Czech Statistical Office; macroeconomic forecast of the Ministry of Finance - April 2020; explanatory memorandum to the draft Act amending Act No 592/1992 Coll., on public health insurance premiums, as amended.

The state addresses the need for higher revenues of health insurance companies to finance health care merely by increasing payments on behalf of state insured persons, which gradually adds to state budget expenditures. Should there be an economic downturn, there will be an increase in unemployment and a rise in the number of state insured persons (persons registered at labour offices). Alongside, revenues will diminish from employers and self-employed persons. These aspects will cause a deterioration in the state budget results.

Another measure taken by the state has been to increase the minimum wage. But revenues of the system will improve especially at times of economic growth. The said measure in contrast

may have an impact in the form of higher employers' expenditures on employees' salaries and wages, with subsequent layoffs. In 2013 due to the difficult economic situation, the state had to provide from the state budget to the largest Czech health insurance provider (Všeobecná zdravotní pojišťovna) repayable financial assistance of CZK 1.7 billion to cover overdue liabilities towards health service providers⁵⁹. **With a view to the expected slowdown of the economy, health insurance companies need to reduce their dependence on the state. The state should effectively address the growing disparity between the demands on health care expenditures and the revenues of the public health insurance system (such as direct payments by households, private resources, voluntary supplementary health insurance).** In previous years, credit to the favourable economic situation, there has been a short-term stabilisation, but this is far from long- or even medium-term sustainability of the system.

Expenditures on health care (including long-term health care) are also set to grow in the future, not least due to research and development of new technologies, methods, drugs and diagnostic procedures (such as special pharmaceuticals), and the same goes also for patients' expectations (better medicines, above standard care, longer life expectancy). In the Czech Republic, patients typically do not have to pay for health services, or symbolic fees only, and the services are guaranteed by the state and include standard procedures and services, medical supplies and medicines. Households only pay for over-the-counter medicines, emergency examinations, some dental treatments and partly for prescription medicines, and each group of prescription medicines must contain medicines that are provided to patients free of charge.

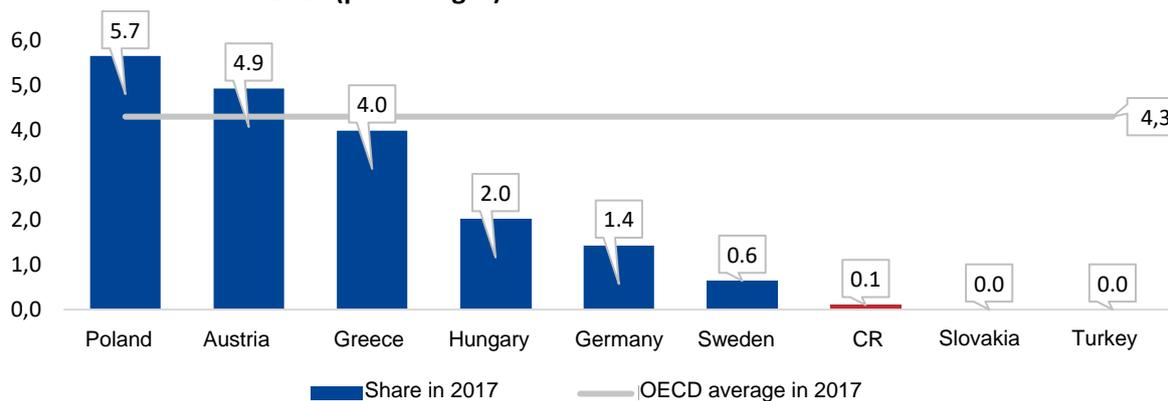
Regulatory fees were introduced in 2008 to prevent waste and overuse of health services. Simultaneously, a protective limit was introduced⁶⁰ for the most vulnerable groups in the population. Although the regulatory fees have been abolished as of 1 January 2015 (excluding emergency treatment), the protective limit for selected groups of insured persons has been lowered since 2018 and since 2020, its scope has been extended to include additional groups. This measure has been driving the expenditures of health insurance companies, including overuse of health care services.

Private voluntary health insurance or supplementary insurance in the Czech Republic cannot be used to pay for state-guaranteed health care and plays in comparison with other EU states a very marginal role⁶¹, as the following chart illustrates.

⁵⁹ Resolution of the Government of the Czech Republic No 823 of 30 October 2013 and Resolution of the Government of the Czech Republic No 882 of 20 November 2013, in accordance with the provisions of Section 7 (1) (u) and Section 14 (4) of Act No 218/2000 Coll.

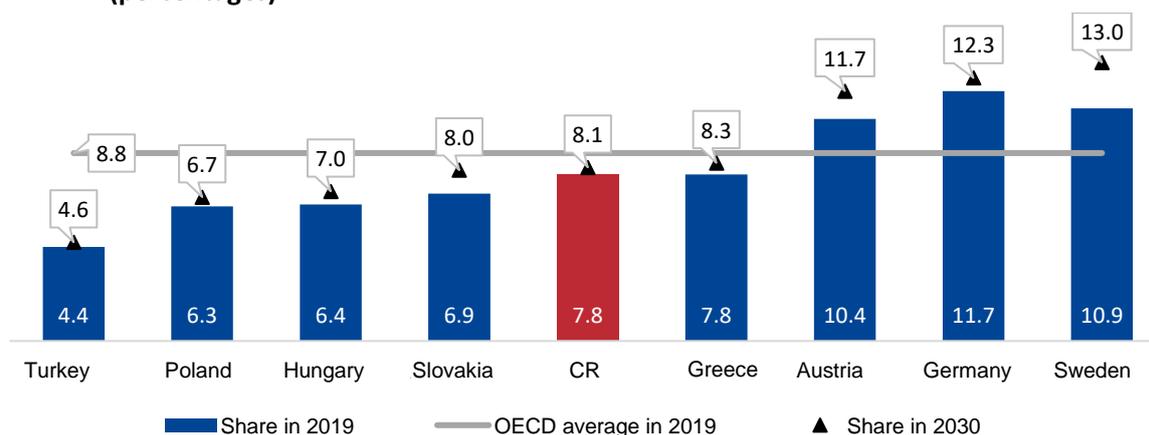
⁶⁰ The protection limit represents the maximum annual amount a patient is meant to pay for health care and medicines from their own funds (its aim is to protect chronically ill patients).

⁶¹ There is only a single type of voluntary private health insurance, which is travel insurance.

Chart 41 - Share of voluntary private expenditures in total health care expenditures in selected countries in 2017 (percentages)

Sources: OECD: *Health at a Glance 2019*; Czech Statistical Office: *Výsledky zdravotnických účtů ČR v letech 2010 až 2018 (Results of CR Health Care Accounts in 2010 to 2018)*.

The revenues of the system in the last 5 years covered the expenditures of health insurance companies. However, the total expenditures on health care in relation to GDP still remain in the lower range in comparison with other OECD countries, which has been a long-term phenomenon, and the Czech Republic is ranking below the OECD average, as shown in Chart 42. If health care expenditures were to increase to the level of the OECD average, they would significantly exceed available revenues, and the current system of health care financing in the Czech Republic would be unable to cover them. The OECD expects an annual growth rate of health care expenditures in 2015-2030 of 2.7% and it is likely to exceed GDP growth, which is projected at 2.1%.

Chart 42 - Share of health care expenditures in GDP in 2019 and its expected value in 2030 (percentages)

Source: OECD: *Health at a Glance 2019*.

The results of health insurance companies depend on the share (and number) of the employed population and the economic situation in the country. The public health insurance system is not being kept up-to-date and, crucially, it lacks a plan for natural future development that would account for demographics and economic cycles. It is also not resilient to potential impacts of outside shocks. On the contrary, there has been

a growing dependence on the state budget (such as the rising payments for state-insured persons). In the event of an economic crisis, the initial revenue losses of health insurance companies may be covered by bank account balances that can be used to cover health care expenses. However, these financial reserves are not infinite and should an economic crisis come, it will not be possible to create them as in times of economic growth. The current public health insurance system in the Czech Republic is not sustainable in the long term.

VI. Evaluation of Accuracy of Reported Data

The reference document for the evaluation of last year's budget results is Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019 (hereinafter also the "Act on the State Budget of the Czech Republic for 2019"). The key indicators of the state budget for 2019 are listed in Appendices 1 to 4 to the Act on the State Budget of the Czech Republic for 2019⁶²; specifically, these are the *Summary Balance of State Budget Revenues and Expenditures*, the *General Overview of State Budget Revenues by Chapters*, the *General Overview of State Budget Expenditures by Chapters* and the *State Budget Indicators by Chapters*.

The SAO's opinion on the accuracy of the data reported in the draft state closing account refers to the data included in the draft SCA for 2019 in *booklet G* in Tables 1-2 and 7-12, which are based on the data indicated in paragraph 1, and on the data in *booklet H*, which relate to budget results of the chapters.

The following opinion is based on two types of audit and analytical procedures, which are:

- SAO audits of the financial audit type, the audited periods in which were the years 2017 and 2018 and the scope of which was also data for the evaluation of the state budget implementation; these audits provide systemic knowledge usable also for the 2019 period;
- Analysis of the reported result data of state budget chapters for 2019.

SAO Audits with the Audited Periods of 2017 and 2018 and with the Scope Also Including Data for Evaluating the State Budget Implementation⁶³

The tools used by the SAO to verify the completeness and accuracy of reporting of the state budget revenues and expenditures listed in booklets G and H of the draft SCA are mainly financial audit-type audits. These audits are focused on the closing accounts of individual chapters of the state budget, data submitted for the evaluation of the state budget implementation and data from financial statements. In the audits, information is collected that can be used to assess the reliability of the systems designed to monitor and report state budget revenues and expenditures.

⁶² Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019, Appendices 1 to 4.

⁶³ As at the date of the editorial deadline for publishing the SAO's opinion on the draft SCA for 2019, no audit reports were published from financial audit-type reviews the scope of which also included data for evaluating the state budget implementation for 2019.

For 2017 and 2018, six SAO audits verified the correctness of the reporting of budget revenues and expenditures in six chapters of the state budget⁶⁴. Also as part of these audits, it was verified whether the closing accounts were compiled in accordance with legal regulations, and whether they were based on accounting data and on the data submitted for the evaluation of the state budget results. The audits of the closing accounts for the chapters revealed in the reporting of revenues and expenditures only isolated, minor inaccuracies that do not affect relevance of the information provided in the closing accounts.

For 2017 and 2018, six SAO audits verified the correctness of the reporting of revenues and expenditures in six chapters of the state budget. The share of revenues of the audited entities in state budget revenues in 2019 was at 4.10%, and the share of expenditures of the audited entities in state budget expenditures in 2019 was 16.30%. The audits did not reveal any significant inaccuracies in assignment of the types of reported revenues and expenditures.

Analysis of the Reported Result Data of State Budget Chapters for 2019

The reported data concerning the budget results of chapters of the state budget were compared with the data recorded in the *Budget Information System* and the *Central System of State Financial Information*. Furthermore, consistency of the data was checked for the mentioned budget chapters contained in booklets G and H, and of the data in evaluation reports, or other parts of the SCA as needed.

⁶⁴ Audit No 19/08 - *Closing Account of the Ministry of Transport State Budget Chapter for 2018, Financial Statements of the Ministry of Transport for 2018 and Data Submitted by the Ministry of Transport for Evaluation of the State Budget Results for 2018* (the audit report was published in issue 3/2020 of the SAO Bulletin).

Audit No 19/03 - *Closing Account of the Ministry of Culture State Budget Chapter for 2018, Financial Statements of the Ministry of Culture for 2018 and Data Submitted by the Ministry of Culture for Evaluation of the State Budget Results for 2018* (the audit report was published in issue 6/2019 of the SAO Bulletin).

Audit No 18/26 - *Closing Account of the Ministry of Labour and Social Affairs State Budget Chapter for 2018, Financial Statements of the Ministry of Labour and Social Affairs for 2018 and Data Submitted by the Ministry of Labour and Social Affairs for Evaluation of the State Budget Results for 2018* (the audit report was published in issue 4/2019 of the SAO Bulletin).

Audit No 18/13 - *Closing Account of the Ministry of Health State Budget Chapter for 2017, Financial Statements of the Ministry of Health for 2017 and Data Submitted by the Ministry of Health for Evaluation of the State Budget Results for 2017* (the audit report was published in issue 1/2019 of the SAO Bulletin).

Audit No 17/31 - *Closing Account of the Ministry of Agriculture State Budget Chapter for 2017, Financial Statements of the Ministry of Agriculture for 2017 and Data Submitted by the Ministry of Agriculture for Evaluation of the State Budget Results for 2017* (the audit report was published in issue 4/2018 of the SAO Bulletin).

Audit No 17/30 - *Closing Account of the Ministry of Defence State Budget Chapter for 2017, Financial Statements of the Ministry of Defence for 2017 and Data Submitted by the Ministry of Defence for Evaluation of the State Budget Results for 2017* (the audit report was published in issue 3/2018 of the SAO Bulletin).

Table 14 - Overview of the number of verified data on budget results included in the text part of booklet H-for individual chapters of the state budget for 2019

Absolute values			
Total number of figures	Number of discrepancies found	Number of verified and positively correlated data	Number of unverified data
4,985	74	4,578	333
Relative values			
Proportion of verified data in the total	- Of which share of identified discrepancies in the total	- Of which share of verified and positively correlated data in the total	Proportion of unverified figures in the total
93.3 %	1.5 %	91.8 %	6.7 %

In the performed analytical verification, **no significant differences in terms of volumes were found.**

The SAO's Opinion on Accuracy of the Reported Data

Given the above, in the opinion of the SAO, the data provided in the first and second paragraphs of this chapter of the SAO' opinion as contained in booklets G and H of the draft SCA for 2019 can be deemed correct.

The SAO has long drawn attention to the fact that the closing accounts make only minimal use of accrual data⁶⁵ from financial statements.

The SAO in its audit report from Audit No 17/36⁶⁶ recommended to the Ministry of Finance to use accrual financial information not only for purposes of compiling closing accounts of the state budget chapters and the state closing account, but also for compiling the state budget, which would make better use of the potential of accrual financial information.

⁶⁵ The accrual principle (also: basis, concept) is one of the basic accounting principles and provides that revenues and expenditures are recognised in the period to which they materially and temporally relate, without taking into account when there was actual movement of funds, and at the same time claims (receivables) and liabilities are accounted for.

⁶⁶ Audit No 17/36 - *Accounting Reform in Public Finance* (the audit report was published in issue 6/2018 of the *SAO Bulletin*).

Examples of relevance of accrual data from Audit No 19/03⁶⁷ carried out at the Ministry of Culture:

- The total cost of financial compensations to registered churches and religious associations⁶⁸, the so-called church restitutions, in the amount of CZK 59 billion and pertinent long-term liability (with a maturity of 30 years)⁶⁹ was reported in the financial statements of the Ministry of Culture as at 31 December 2012. Since 2013, the Ministry of Culture has been paying in its capacity as an institution of the state financial compensation⁷⁰, thus reducing the long-term liability, the amount of which is reported in the financial statements. Only information on the annual instalment will be displayed within the budget result data; information on the remaining long-term liability shown by accrual accounting is not shown in the budget result data.
- According to financial statements, as at 31 December 2018 the Ministry of Culture had contingent liabilities in the amount of CZK 1.6 billion, which consisted to 91% of long-term contingent liabilities from transfers (i.e., already issued subsidy decisions). Contingent liabilities represent potential requirements on budgets of future periods, and are shown in accrual accounting but not in the closing accounts.

In 2019, the SAO received for comments a draft substantive intent of the Accounting Act, and as part of the comments procedure on this draft, it also pointed out the insufficient use of accrual information in the preparation of closing accounts.

Accrual information allows to get an overall picture of the economic result in a given year not distorted by economic impacts and burdens affecting other periods. On comparing data on the state budget results (monetary principle) with economic result data (accrual principle), differences arise and thus different interpretations of the actual state of public finances.

⁶⁷ Audit No 19/03 - *Closing Account of the Ministry of Culture State Budget Chapter for 2018, Financial Statements of the Ministry of Culture for 2018 and Data Submitted by the Ministry of Culture for Evaluation of the State Budget Results for 2018* (the audit report was published in issue 6/2019 of the *SAO Bulletin*).

⁶⁸ Financial compensations to registered churches and religious associations are paid in accordance with Act No 428/2012 Coll., on property settlement with churches and religious associations and on amendments to certain acts of law (Act on property settlement with churches and religious associations).

⁶⁹ This also significantly affected the government deficit for 2012 reported by the Czech Republic and submitted to the European Commission via Eurostat in the methodology of the *European system of national and regional accounts* (ESA 2010).

Detailed information on this is available at:

https://www.czso.cz/csu/czso/notifikace_vladniho_deficitu_a_dluhu_20130422.

⁷⁰ The amount of the annual instalment is calculated as the ratio of the unpaid amount of financial compensation and the number of outstanding annual instalments. After the payment of the first annual instalment in 2013, the amount of the outstanding financial compensation is increased annually by the annual inflation rate published by the Czech Statistical Office for the calendar year by two years preceding the calendar year of the specific annual instalment.

List of Abbreviations Used

ATIS	Automated Tax Information System
CA	Closing account
CAP	Common Agricultural Policy
CFF	Czech Film Fund
CR	Czech Republic
DPFO	Personal income tax (Czech acronym)
DPPO	Corporate income tax (Czech acronym)
ERS	Electronic register of sales
EGDI	<i>E-Government Development Index</i>
ESI Funds	European Structural and Investment Funds
EU	European Union
EU/FM expenditures	Expenditures co-financed from the European Union budget and Financial Mechanisms
3E	Expediency, efficiency, effectiveness
FM	Financial Mechanisms (i.e. European Economic Area and Norway funds and the <i>Swiss-Czech Cooperation Programme</i>)
GFD	General Financial Directorate
GDP	Gross domestic product
HIC	Health insurance companies
IROP	<i>Integrated Regional Operational Programme</i>
MAEP	Macroeconomic forecast (Czech acronym)
MoF	Ministry of Finance
NNV	Claims from unused expenditures (Czech acronym)
o. p. s.	Public benefit organisation (Czech acronym)
OECD	Organisation for Economic Co-Operation and Development
OHA	Office of the Chief eGovernment Architect (Department of the Ministry of the Interior) (Czech acronym)
OP	Operational Programme
OPT	Operational Programme <i>Transport</i>
OP EIC	Operational Programme <i>Enterprise and Innovation for Competitiveness</i>

OP RDE	Operational Programme <i>Research, Development and Education</i>
OP Employment	Operational Programme <i>Employment</i>
OP Environment	Operational Programme <i>Environment</i>
PWTI	Persons without taxable income
pp	Percentage point
PP7+	Programming period of 2007–2013
PP14+	Programming period of 2014–2020
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SB	State budget
SCA	State closing account (state final accounts)
SD	National debt (Czech acronym)
SEF	State Environmental Fund
SF	State funds
SFTI	State Fund for Transport Infrastructure
SFC	State Fund for Culture
SFRB	State Housing Development Fund (Czech acronym)
SPED	Excise and energy taxes (Czech acronym)
SZ	Social security (Czech acronym)
VAT	Value added tax
V4	Visegrád Group (alliance of four Central European countries: Czech Republic, Hungary, Poland and Slovakia)
v. z. p.	Public health insurance (Czech acronym)

Annex 1 - Online resources used for the SAO's opinion

Online source	Part of the opinion in which the resource is used
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=namq_10_gdp&lang=en https://ec.europa.eu/eurostat/databrowser/view/tps00203/default/table?lang=en https://ec.europa.eu/eurostat/databrowser/view/tec00118/default/table?lang=en	Chart 1
https://ec.europa.eu/eurostat/databrowser/view/tps00028/default/table?lang=en	Chart 20
https://info.worldbank.org/governance/wgi/	Chart 24
https://rpp-ais.egon.gov.cz/AISP/verejne/isvs/seznam-informacnich-systemu	Chart 30
https://knoema.com/infographics/mctunlb/un-e-government-development-index?indicator=E-Government%20Index	Chart 31
https://cohesiondata.ec.europa.eu/overview	Chart 34
https://www.oecd-ilibrary.org/sites/4dd50c09-en/1/3/7/4/index.html?itemId=/content/publication/4dd50c09-en&csp=82587932df7c06a6a3f9dab95304095d&itemIGO=oecd&itemContentType=book	Chart 41
https://stats.oecd.org/Index.aspx?ThemeTreeId=9 https://www.oecd-ilibrary.org/sites/4dd50c09-en/1/3/7/9/index.html?itemId=/content/publication/4dd50c09-en&csp=82587932df7c06a6a3f9dab95304095d&itemIGO=oecd&itemContentType=book	Chart 42
https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2018/oecd-zverejnili-hospodarsky-prehled-cr-2-32423	Footnotes 11 and 16

Annex 2 - Audits the Approved Audit Reports from Which Were Used for the SAO's Opinion

Audit number	Audit scope	Approval date of the audit report
14/14	State Budget Funds Included in the State Budget Chapter of <i>General Treasury Administration</i> https://www.nku.cz/assets/kon-zavery/K14014.pdf	2 February 2015
15/13	National Debt and Its Financing Expenditures https://www.nku.cz/assets/kon-zavery/K15013.pdf	15 February 2016
17/23	Energy Efficiency Improvement Measures Implemented under Priority Axis 3 of the Operational Programme <i>Enterprise and Innovation for Competitiveness 2014-2020</i> https://www.nku.cz/assets/kon-zavery/K17023.pdf	25 June 2018
17/30	Closing Account of the <i>Ministry of Defence</i> State Budget Chapter for 2017, Financial Statements of the Ministry of Defence for 2017 and Data Submitted by the Ministry of Defence for Evaluation of the State Budget Results for 2017 https://www.nku.cz/assets/kon-zavery/K17030.pdf	25 June 2018
17/31	Closing Account of the <i>Ministry of Agriculture</i> State Budget Chapter for 2017, Financial Statements of the Ministry of Agriculture for 2017 and Data Submitted by the Ministry of Agriculture for Evaluation of the State Budget Results for 2017 https://www.nku.cz/assets/kon-zavery/K17031.pdf	30 July 2018
17/36	Accounting Reform in Public Finance https://www.nku.cz/assets/kon-zavery/K17036.pdf	17 September 2018
18/07	Information System Support to the Tax Proceedings Agenda https://www.nku.cz/assets/kon-zavery/K18007.pdf	25 March 2019
18/09	Funds Intended for the Support of Social Services https://www.nku.cz/assets/kon-zavery/K18009.pdf	21 January 2019
18/13	Closing Account of the <i>Ministry of Health</i> State Budget Chapter for 2017, Financial Statements of the Ministry of Health for 2017 and Data Submitted by the Ministry of Health for Evaluation of the State Budget Results for 2017 https://www.nku.cz/assets/kon-zavery/K18013.pdf	4 February 2019
18/22	Support to Environmental Policy in the Area of Public Budget Revenues https://www.nku.cz/assets/kon-zavery/K18022.pdf	14 October 2019
18/24	Support for Public Urban and Regional Transport Financed under the <i>Integrated Regional Operational Programme</i> https://www.nku.cz/assets/kon-zavery/K18024.pdf	30 September 2019

18/26	Closing Account of the <i>Ministry of Labour and Social Affairs</i> State Budget Chapter for 2018, Financial Statements of the Ministry of Labour and Social Affairs for 2018 and Data Submitted by the Ministry of Labour and Social Affairs for Evaluation of the State Budget Results for 2018 https://www.nku.cz/assets/kon-zavery/K18026.pdf	19 August 2019
18/32	State Budget Revenues Collected in the Area of the Taxation of Labour https://www.nku.cz/assets/kon-zavery/K18032.pdf	9 March 2020
18/33	Support from the Operational Programme <i>Prague – Growth Pole of the Czech Republic</i> Provided for Social Inclusion and for Fighting Poverty https://www.nku.cz/assets/kon-zavery/K18033.pdf	25 February 2019
19/03	Closing Account of the <i>Ministry of Culture</i> State Budget Chapter for 2018, Financial Statements of the Ministry of Culture for 2018 and Data Submitted by the Ministry of Culture for Evaluation of the State Budget Results for 2018 https://www.nku.cz/assets/kon-zavery/K19003.pdf	4 November 2019
19/08	Closing Account of the <i>Ministry of Transport</i> State Budget Chapter for 2018, Financial Statements of the Ministry of Transport for 2018 and Data Submitted by the Ministry of Transport for Evaluation of the State Budget Results for 2018 https://www.nku.cz/assets/kon-zavery/K19008.pdf	10 February 2020
19/15	Support for the Development of High-Speed Internet Access Provided from the Operational Programme <i>Enterprise and Innovation for Competitiveness</i> https://www.nku.cz/assets/kon-zavery/K19015.pdf	6 April 2020

