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**COMPARISON AND ANALYSIS OF PUBLIC
DEBT DEVELOPMENT IN THE CZECH
REPUBLIC AND SLOVAKIA IN 1999 - 2010**

(Bachelor Thesis)

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Téma práce:

Analýza a komparace vývoje veřejného dluhu v ČR a SR v letech 1999 - 2010

Cíl bakalářské práce:

Analýzujte a srovnávejte vývoj veřejného dluhu v ČR a SR v letech 1999 - 2010. V úvodu práce popište teoretická východiška. V další části nastiňte vznik a vývoj veřejného dluhu, proveďte srovnání společných rysů a hlavní difference příjmů a výdajů mezi oběma zeměmi. Proveďte komparaci vzniku a vývoje veřejného dluhu v ČR a SR v období 1999 - 2010, proveďte analýzu příčin a důsledků růstu veřejného dluhu. Shrňte současnou situaci České republiky s výhledy do budoucnosti, uveďte možnosti snižování veřejného dluhu podle politické příslušnosti vlády. V poslední části práce navrhněte a doporučte opatření vedoucí ke snížení veřejného dluhu v České republice. Bakalářskou práci obhájejte před Ústavem ekonomiky a řízení a její hodnocení bude součástí bakalářské práce.

Osnova:

Úvod

1. Teoretický základ
 2. Popis struktury státního rozpočtu ČR a SR a její vývoj v letech 1999 - 2010
 3. Srovnání společných rysů a hlavní difference příjmů a výdajů mezi oběma zeměmi
 4. Komparace vzniku a vývoje veřejného dluhu v ČR a SR
 5. Analýza příčin a důsledků růstu veřejného dluhu ČR a SR
 6. Možnost a návrhy řešení financování současného zadlužení ČR a SR
- ##### **Závěr**

Podle zákona č. 111/1998 Sb., § 473, odst. 3 platí, že odevzdáním práce autor souhlasí se zveřejněním své práce podle tohoto zákona, bez ohledu na výsledek obhajoby.

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Introduction

The subject of this Bachelor Thesis is concerned with the analysis of the public debt and its development. The European Union is not criticizing our country for the amount of the debt, but for its rapid growth. Since the second half of the nineties the deficit of the Czech Republic has increased and there has been a continuous increase in its national debt. Our country is preparing to join the European Monetary Union, so it is necessary to perform the convergence criteria, which it is doing only in part. It is therefore important to stop deficit financing.

This Bachelor Thesis compares the Czech and Slovak Republics, both countries underwent a transformation process from a centrally planned to a market economy, they have a common history and a modern development of the division of the Federation, they were members of the Visegrad Group and in 2004 both became a part of the European Union.

The issue of debt in our country has been particularly great and in the 2010 election it was the number one topic, and across the political spectrum, the long-term fiscal imbalance of the state budget, health insurance, extra-budgetary funds and municipal budgets are very hot topics, which should quickly begin to be solved. This high level of indebtedness threatens not only us but also increases the risk that the debt incurred will be paid by future generations.

The aim of this work is to compare the evolution of the public debt in the Czech and Slovak Republics, and to analyze its causes and to suggest possible measures to reduce public debt in our country.

This thesis is divided into six chapters. The first chapter describes the short-term and long-term fiscal imbalances as literature. I will address the composition of public debt, will bring the possibility of looking at national debt. I will describe the main differences between the methods of reporting the debt, according to Eurostat and the International Monetary Fund.

The second chapter is devoted to the contents of the state budget of the Czech and Slovak Republics, their structure, characteristics and functions. It outlines the budgetary rules and tasks of the public budget-making process.

The third chapter focuses on a deeper insight into the structure of the state budget, a breakdown by development and the growth and decline in both the public income and public spending in 1999 – 2010. The analysis reveals the tax burden that citizens of the compared countries have set a higher tax liability and where the main differentiation is in the income and spending part of budgets

The fourth chapter compares in detail the evolution of the debt in the Czech Republic and Slovakia. The chapter is divided into two parts, the first deals with the creation and evolution of the public debt in both countries in the first five years after the division of these two federations, the second part is focused on a comparison from 1999 until the present with a short preview of the future repeating deficit financing.

The fifth chapter analyzes in depth the causes of debt both in terms of budget deficits and debt taking over from other businesses by the state. This is not only occupied with the negative impacts, but also mentions the positive effects of deficit financing.

The sixth chapter outlines several possible solutions to the principles of public debt and summarizes the attitude of leftist and rightist parties to reduce it.

The work used the literature review, comparison method and method of data analysis. Information is taken from literature, technical documents and publications are also used by professional and newspaper articles. The exception is not even the available Internet resources, from which is going out primarily due to lack of quality literature, particularly on the country comparisons. To obtain statistical data there is the database of Czech and Slovak Statistical Office and the European Statistical Office data. All obtained sources are listed in the bibliography .

1 A theoretical basis

The system of public budgets in the Czech Republic is governed by Act No. 218/2008 Coll., budgetary rules governing the formation, function and content of the state budget and state accounts, receipts and spending of the state budget, the management of state financial assets and liabilities, financial management of state organizational units and contributory organizations, provides conditions for setting up state funds, covering financial control, regulates the conditions for setting up the Treasury, Debt Management and the management of resources concentrated in the National Fund. The Slovak system of public budgets is governed by the law NR SR No 583/2004. Coll. [1, p. 47]

1.1 Short-term and long-term fiscal imbalance

The imbalance between the money collected and issued as a cause of fiscal imbalance, in the same financial period this phenomenon manifests as the budget deficit over the long term as a public debt.

Deficit financing is beginning to appear in the 19th century. It is therefore a relatively young phenomenon. It was accompanied by economic recessions and wars. Since the mid-70 of the 20th century it became a regular result of public budgets in most countries regardless of their economic maturity. Public debt is a much older perspective of the history indicator. Already in antiquity the state borrowed from its citizens, in European history dating to the 17th century we find the roots of many of the public ancient debt. [2, p. 49]

Short-term fiscal imbalance

Short-term fiscal imbalance refers to the imbalance between revenue (P) and budgetary expenditures (V) in a financial year. Between revenues and expenditures can define these three situations:

$P=V$: public revenues are balanced with public expenditures

$P<V$: public revenues are less than public spending, there is a budget deficit

$P>V$: public revenue exceeds public expenditure on budget surplus

The budget surplus can not be indiscriminately viewed as a positive phenomenon, could cause savings in public expenditure (eg. construction of infrastructure) and so can not be clearly negatively assessed the resulting deficit. [3, p. 276]

Even with a balanced draft budget balance may arise during the budget period, it is a standard phenomenon subject to seasonal irregularities. It is usually covered by issuing short-term Treasury bills. The key is to balance the budget year, which reflects the true outcome of the budget realized cash movements during the financial period.

In order to analyze and evaluate the budgetary policy of the Government during the financial period, it is necessary to differentiate between total and primary deficits. Primary deficit shows us the deficit incurred during the financial period, the total is increased by the interest paid on public debt. [3, p. 276]

The budget deficit can be divided according to the causes to the structural and cyclical. Structural (active) deficit stems from a government decision. Cyclic (passive) deficit is caused due to the effects of exogenous factors beyond the government's intentions. [4, p. 424] Table 1 is the basic cause of the deficit passive and active.

| Active(structural) deficit | Passive (cyclic) deficit |
|--|---|
| 1. Expnsive fiscal policy (increased spending or tax cuts) | 1. Economic downturn |
| 2. Political reasons (eg government populism and the related growth in government spending to influence voters) | 2. Prices growth of basic raw materials |
| 3. Effort to spread the consequences of so-called shocks to spending more years. | 3. Social and natural cataclysms, etc. |
| 4. Spread the tax burden for several generations (in the case of costly public projects) | 4. Interest on public debt. |

Table 1: Causes of the budget deficit

Source: [3, p. 278]

The financial consequences of the budget deficit can be divided on the consequences of fiscal (macroeconomic) that affect such interest rate, aggregate demand, the level of private and national savings and budget (financial) consequences in terms of short-term positive, but negative long-term perspective. [5, p. 239]

Long-term fiscal imbalance

Cause long-term fiscal imbalance, the public debt, which can be interpreted as a set of state obligations, the various articles of local government, extrabudgetary funds, public institutions, established by state and local government (eg. grant organizations), public enterprises (state and municipal). It is therefore a debt of elements included in the systém of public finance to other economic entities. [1, p. 79]

Public debt is always necessary to correctly characterized, it is often wrongly confused with the concepts of state debt or government debt. These concepts are beginning to be precisely defined to avoid misinterpretation of them. [3, p. 282]

Incorrect the public debt is often seen as the sum of past budget deficits. Public debt is the sum of debts of other businesses to the state no matter arose when these claims by budgetary or other. [6]

When looking to the fact that the government is changing, but the resulting debt remains, we do not use the connection government debt, but the term of state debt. This is according to Act No. 218/2000 Coll. on budgetary rules characterized as the sum of financial liabilities.

It is also a need to differentiate themselves from the gross and net debt. Gross means the total volume debt obligations of the state, local government, public institutions, etc. The net debt is total gross debt, less the cost of state claims such as:

- Cash
- The state share of stock owned by private companies
- The share of private sector
- Foreign exchange reserves [2, p. 79]

Standardly in most international statistics (in the Czech experience), is public debt reported as gross, as the total volume obligations of the state, regardless of state claims.

Because, eventually, the state bears the burden of debt, but the public, it is theoretically most correct term that collectively refers to the state obligations, the public debt. More important than the method of payment is the way that the fact that public debt represents a claim on current and future tax liabilities of the population. [2, p. 79]

1.2 Structure of public debt

Public debt is composed of state debt, municipal budget from extra-budgetary funds and social security funds.

1.2.1 State debt

State debt can be analyzed in more detail under :

- Maturity and holders
- Trading on financial markets
- Currency composition – here is the largest long Czechcrown. Although its share decreased in recent years, however, the value of the last year climbed more than 80 % as shown in table 2.

| | 1. 1. 2009 | Bilion CZK | | 31. 12. 2009 | Bilion CZK | % |
|--------------|--------------------|----------------|----------------|--------------------|------------------|----------------|
| TOTAL | - | 999,808 | 100,000 | - | 1 178,244 | 100,000 |
| CZK | 861 647 603 645,39 | 861,648 | 86,18 | 984 956 785 147,29 | 984,957 | 83,59 |
| EUR | 4 500 000 000,00 | 131,466 | 13,15 | 6 262 490 000,00 | 178,137 | 15,12 |
| CHF | 0,00 | 0,000 | 0,00 | 500 000 000,00 | 8,918 | 0,76 |
| JPY | 30 000 000 000,00 | 6,404 | 0,64 | 30 000 000 000,00 | 5,963 | 0,51 |
| USD | 14 997 340,80 | 0,290 | 0,03 | 14 631 552,00 | 0,269 | 0,02 |

Table 2: Currency composition of public debt in 2009

Source: [6]

It is very important to decide which currency they are denominated state bonds. Issuer faces exchange rate risk when an unexpected nominal depreciation of the domestic currency, the realvalue of public debt growth. [2, p. 89]

In terms of marketability to distinguish between debt tradable and non-tradable.

Tradable:

- Short-term treasury bills – a short-term securities with validity of a few weeks.
- National medium-and long-term bonds – validity over one year, the issue is on average four times a year.

As regards debt instruments, since 1992, this process is called securitization, ie the direct conversion of loans from banks and from abroad to government securities.

Emissions of the securities covered by payments principal amounts long-term government debt, cover state budget deficits. Both securities are offered for sale at auction. Prevail over the general treasury bonds.

Non-tradable:

After the split of Czechoslovakia in 1993, Czech Republic took up two thirds of the former federal debt on the books of state debt. Since the establishment of the Czech Republic does not create new categories of non-market domestic commitments. At present all non-tradable debt only foreign debt. [8, p. 174]

In terms of maturity of bonds can be categorized as follows:

- Short-term – with maturities of one year (in Czech and Slovak Republics is used the term "Treasury bills")
- Medium-term - with a maturity of 10 years
- Long-term - with maturities over 10 years [9, p. 79]

Another criterion is to whom owe to. If buy and keep bonds the domestic entity it is private **domestic debt**, the debtor country's own citizens. In the event that bonds are in the hands of a foreign body it is **external debt**. Whether it is preferable that the holder was a resident or non-resident, can not be clearly identified. The purchase of domestic government bonds held, there is only a transfer of capital within the country. Purchases of government bonds by non-residents have the advantage in terms of attracting foreign capital, which can replace the lack of domestic capital. [2, p. 88]

1.2.2 Municipal debt, its causes and development

Municipal debt, or debt of local government at the time of the independent Czech Republic does not existed, during several years has grown dynamically. One of the causes of the debt was indeed the opportunity to increase revenue in the municipal treasury loan without government restrictions, thanks to the powers now held villages after 1989. Another reason was the transfer of property under the administration of local circumstances, this property has either been committed to debt, or has been passed in such a condition that required correction, which would not be possible without funding through a credit or a loan. During the first decade after the fall of communism, state debt grew more slowly than municipal debt, cause we could find in the privatization process during the second decade of development was the opposite. [2, p. 99 - 100]

Government resolution No. 1997 229/1997 Coll. invited the Minister of Finance and Deputy Prime Minister for a balanced budget management. April 14, 2004 the Czech Government adopted Resolution No. 346 which required the Deputy Prime Minister and Finance Minister of warning, if municipalities do not exceed 30 % of debt service indicators. If municipalities and counties that exceed the threshold parameters are required within three months to notify the Minister of Finance, which shall také the measures that the following indicators for debt service limit. If exceeding the debt service in the next year, the Ministry of Finance providers of funds from the state budget and state funds shall send a list of these municipalities and counties. Resolution also requires that the Minister of Finance on April 30 to inform the government on the indebtedness of municipalities and counties. In May 2004 this index was first calculated debt service. [10]

The calculation of debt service and its definition :

$$\text{Formula: } \frac{\text{debt service}}{\text{debt base}} \times 100 = \text{debt service indicator. Source: [11]}$$

Debt service is the according to the Ministry of Finance as:

- Interest paid
- Paid installments of bonds
- Repayment of principal amounts
- Lease payments

- Debt basis is formed :
- Indeed, tax revenues reached
- Subsidies general financial relationship [11]

The highest decline in the debt of municipalities and countries was recorded in 2006 - 2007. Following the economic crisis has caused a slight increase again due to a reduction in tax revenue. Also in 2010, the estimated number of expected growth in town halls. Currently, the budget deficit has more than half of the municipalities. Almost 60 % of municipal debt are statutory cities - Prague, Brno, Ostrava, Plzen, despite living here less than a quarter of the population. In 2009, showed a community and region including the capital city of Prague, the total debt of 80.9 billion CZK. [12]

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Total municipal debt | 40,0 | 41,0 | 48,3 | 55,8 | 70,4 | 74,8 | 79,0 | 80,9 | 79,2 | 80,1 | 80,6 |
| Total statutory towns debt | 13,6 | 16,9 | 24,2 | 29,6 | 42,4 | 45,9 | 48,4 | 47,4 | 46,3 | 45,8 | 39,3 |
| Share of largest cities (%) | 39,5 | 41,2 | 50,1 | 53,0 | 60,2 | 61,4 | 61,3 | 58,6 | 58,5 | 57,2 | 48,8 |

Table 3: Share of indebtedness of corporate towns in total debt

Source: [13]

An example of the emergence of municipal debt can also be Czech Republic's accession to the European Union. The various grant programs are offered many opportunities for development and modernization of municipal, business support, etc., to obtain money from the Fund is subject to participation in financing these projects. It is therefore questionable whether it is better to vote for community development at the expense of the possibility of future payment, or go through the investigation, but the slow modernization of the village.

Banks were happy to lend money to municipalities because it is a very solid client who has an assured income through tax sharing. It should also be noted that the council, charged on the loan bank or loan the village in another term, and replaced the debt problem had to deal with the newly elected councilors.

1.2.3 Extra-budgetary funds

Extra-budgetary funds are established to finance the public sector. Their name correctly characterizes that as to the means which are located outside the state budget. Extra-budgetary funds manage their own government, respectively. Individual ministries. The highest level of debt helped the National Property Fund, extra-budgetary funds are generally among the most indebted sector. [2, p. 107]

Currently in the Czech Republic, there are eight extra-budgetary funds:

- The State Environmental Fund
- The State Culture Fund
- The State Fund for Support and Development of Czech Cinematography
- The State Agricultural Intervention Fund
- The State Fund for Transport Infrastructure
- State Housing Development Fund
- Land Fund
- Support and Guarantee Agricultural and Forestry Fund
- State Fund for Land Cultivation (expired to 31 December 2005)
- National Property Fund (expired to 31 December 2005)
- Czech Consolidation Agency (expired on 31 December 2007)

Currently in Slovakia, there are these funds:

- State Culture Fund
- State Housing Development Fund
- Fund for waste disposal
- State Environmental Fund
- State Cultural Fund Pro Slovakia
- National Property Fund

1.2.4 Debt of Health insurance companies

In the Czech Republic accounted for under the Ministry of Finance Decree No. 503/2002 of 6 November 2002 under the chart of accounts for insurance companies. The law of

universal health insurance and employment insurance industry regulates their activities. Health insurance companies submit to the Ministry of Health every year their health insurance plan for the coming year. The plan is approved by the Parliament of the Czech Republic.

The main contribution in the Czech Republic affects the debts of health insurance largest insurance company, a General Health Insurance Company. Generally we can say that all insurance companies offer nearly identical services, the same premiums and provide the same coverage. The difference could be found only in the range of care covered.

1.3 Presentation of debt

The presentation of the budget deficit are used in the European Union, the two methodologies. Methodology for government finance statistics (GFS 1986) and the methodology of the European Statistical Office (ESA 95). [2, p. 82 - 83]

According to the GFS 1986 is responsible in the Czech Republic, the Ministry of Finance. All revenues and spending are monitored on a cash basis in the current year. Ministry of Finance describes the benefits of this methodology follows:

„The advantage is the availability of data in a relatively short time after the end of that period, and lower requirements for source data. It also allows for the timely creation of fiscal predictions. It has a direct link to the state budget, budgets of state funds and other segments of public budgets is therefore in the budget documents provided as general government sector GFS 1986 and the same approach was taken in the reform of public budgets.“ [15]

Eurostat is the creator and controller of the ESA95, which builds on the earlier methodology of ESA 78, is based on the current principles which are not only spending and revenues, but also obligations and claims arising during this period. The Czech Republic is responsible for the accuracy of reporting by the Czech Statistical Office, in Slovakia it is a Slovak Statistical Office. [2, p. 82 - 83]

The table below provides a comparison of both methodologies in public finances in the Czech Republic from 2002 to 2006. It is quite obvious that the methodology of GFS 1986 as a result we always presents better management of public finances (except 2004) than the ESA 95 methodology. [2, s. 82 - 83]

| Indicator | Methodology | Unit | 2002 | 2003 | 2004 | 2005 | Predikcion 2006 |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|----------------------------|
| Total balanc | GFS 1986 | Billion | -11,5 | -127,7 | -90,7 | 0,8 | -136,6 |
| | ESA 95 | Billion | -166,8 | -170,0 | -79,6 | -76,7 | -114,0 |
| Share of government deficit to GDP | GFS 1986 | % GDP | -0,5 | -5,0 | -3,3 | 0,0 | -4,4 |
| | ESA 95 | % GDP | -6,8 | -6,6 | -2,9 | -2,6 | -3,6 |
| Government debt | GFS 1986 | Billion | 444,5 | 553,0 | 659,4 | 762,1 | 856,2 |
| | ESA 95 | Bilion | 702,3 | 775,0 | 855,1 | 901,3 | 969,2 |
| Share of government debt to GDP | GFS 1986 | % GDP | 18,4 | 21,6 | 23,8 | 26,0 | 27,5 |
| | ESA 95 | % GDP | 28,8 | 30,0 | 30,6 | 30,5 | 30,8 |

Table 4: Government deficit and debt in the methodology of national accounts (ESA 95) and GFS 1986
Source: [15]

Methodology GF 2001 developed from a unification of these two methodologies, aims to introduce a new standard for the compilation of fiscal data. It created the International Monetary Fund, the carrying through of GFS 1986, reflects weaknesses in the original methodology and individual Member States to be progressively implemented since 2002. It is similar to reporting by the ESA 95 and the value of public debt when calculating a value close to Maastricht criteria Metodika. [14]

2 Description of the state budget structure in the Czech Republic and Slovakia and its development in 1999 - 2010

Budgetary system, a system of government includes all budgets, which are located in the State. Under this concept is the need to include the interrelations between the various articles of the budget system and budgetary position in that system. Public budgets and extra-budgetary funds are made at centralized and decentralized levels, namely at the level of the two-tier local government.

The budget system of the Czech and the Slovak Republic consists of the following system of public budgets :

- The state budget
- Budgets of municipalities and higher territorial units budgets (budgets of territorial self-government), the Czech Republic since 2001 there includes regional budgets).
- Budgets of funded organizations
- Voluntary municipal budgets

The budgetary system is composed of extra-budgetary funds, which currently include:

- State funds
- Extra-budgetary funds towns and villages
- Extra-budgetary funds at the territorial level. [4, p. 132]

The budget system primarily affects be the :

- The existence of a constitutional arrangement
- Local and regional division of the state
- The structure of the economy and its potential [4, p. 132- 134]

The State budget serves as a macroeconomic tool of the highest importance in managing the economy of the Republic particularly in the economic, social consumption and government administration. A centralized monetary fund, through which are formed, distributed and used state funds. It takes the form of balance. Her left side is the right revenues and spending of the state budget. It is planning for one calendar year. In the

Slovak Republic is approved by the Slovak National Council. It also controls the level of the state budget deficit and the maximum or minimum amount of surplus for the financial year. In the Czech Republic is state budget approved by the Parliament of the Czech Republic, the draft law by the Ministry of Finance and the Government. [3, p. 307 - 309]

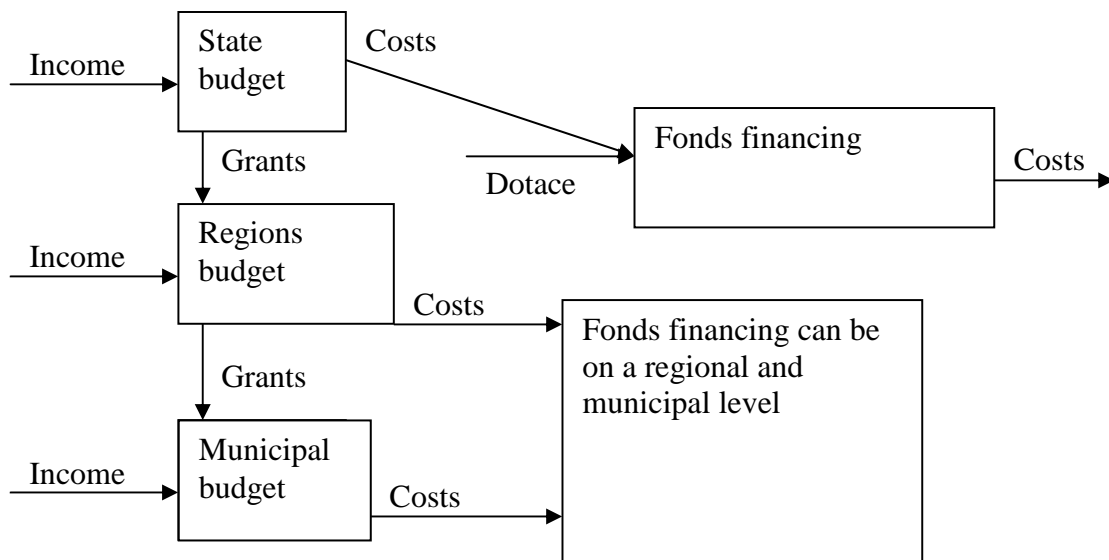


Diagram 1: The system of public budgets in the Czech Republic and Slovakia

Source: [16]

2.1 Functions of the state budget

The State budget and public finances generally performs these three functions:

- **Allocation function** is a process in which the total public resources allocated between the production of private and public needs and building a structure and volume public needs. Residents receive public goods and services undifferentiated. These goods are not rival, if they are used by one consumer, a consumer does not reduce the usefulness for other consumer. What is the range of goods and what their quality is so decided by the government.
- **Distribution function** represents the distribution of pensions affects the tax and transfer policy. It deals with the distribution revenue and goods in order to achieve

the status that society deems fair (progressive taxation of higher income groups, price controls, subsidies to the prices). Distribution functions are distribution and re-distribution of pensions, gross domestic product.

- **The stabilization function** supports macroeconomic goals such as achieving high employment, price stability, high economic growth rate, balance of payments equilibrium. [17]

2.2 The state budgets

State budget passes both countries the largest share of public revenues. Tax revenues are the main group and they are repeated annually. Since the split of the federation began in both countries to work a new tax system, which was the basis for taxation of consumption and revenue. After introduction the concept of public finance reform in December 2002, was to take place in the medium term to reduce the share of fiscal deficits to GDP answering a series of measures, while maintaining both, the social cohesion and quality of public services. [8, p. 13]

Achieving budgetary savings should be receiving and approving a series of legislative norms on rationalizing public expenditure for the years 2003 and 2004. The introduction of these measures should be to increase offers and raise labor utilization. Approval of matériále "content and implementation of audits of state budget spending programs" chapter administrators received detailed questionnaires, where reported, and justified the amount of spending on various programs and activities. Followed by the opposition proceedings brought by the CNB in May 2003 with the participation of opponents from the Ministry of Finance, universities. The result was a proposal for the the next procedure for the preparation the state budget for 2004 and medium-term spending limits for the years 2004-2006. [8, p. 14 - 17]

In February 2010 the Government committed itself in the convergence program to reduce the deficit and improving the structural sources of public finance. The main goal of fiscal

policy was to maintain the value of the deficit to 5.3 % in 2010 and 2013 to remove the excessive level. Other objectives of the Convergence Programme were:

- Reduce adverse impacts of economic development in 2009 on general government sector, through the adoption of measures to reduce the deficit.
- Restriction of administrative burden and the tax distortion by the simplified tax system.
- Strengthening the effectiveness of government spendings. [18]

2.3 The budgets of municipalities

The budget of municipalities and higher territorial unit budget represents local government budgets. The content of the budgets of local government are income and expenditure, which are expressed in financial relationships with companies and individuals operating a business in municipalities and higher territorial units. The budget of municipalities and higher territorial units includes a financial relationship with the state budget (eg subsidies from the state budget). The most important part of local finances in the Czech Republic and the Slovak Republic is a local budget. [19]

After the disintegration of Czechoslovakia in 1 Januray 1993 was changed the structure of the state budget. Increased the budget of local governments and this had led to their greater self-sufficiency. Yield to the budget of municipalities and district offices have become revenue from property tax, tax on personal income, the administrative and local taxes and sales and rental property. Since 1993 there has been several changes in the revenues from VAT to the budget of local governments. From 2002, the revenues of the VAT goes into the regional budgets. [4, p. 166 - 170]

The budgets of municipalities and cities represent a financial management plans of municipalities. They include income and expenditure relating to activities of local communities, the financial community relationships to businesses operating on territory of the municipality and the financial community relationships to the state budget. Expenditure grounded in the municipal budget are intended primarily to protect the activities of local

communities. It may be grants, returnable financial assistance, social assistance to citizens, repayment loans. [19]

The local council approve the budget, the Slovak Republic according to the law of budgetary rules and laws of the state budget. In the Czech Republic, the council operate by the Act No. 250/2000 Coll. budgeting rules. [6]; [20]

2.4 Funds budget

State Trust Fund is established to finance the intended tasks and to manage the funds, which are designed for these tasks. There shall be established by law, in which govern their formation, resources, their uses and the authorities responsible for their administration. Territorial authorities can also create and use extra-budgetary funds, which can be both dedicated and neutral. They are formed from the surpluses of previous years, income from the current year and they are not intended for use in the current financial year and additional. They are made on the transfer of funds from the budget to purpose fund during the year. [4, p. 132 - 134]

2.5 Budgetary principles and budgetary process

In preparation, compiling, approving and implementation of the budget is needed to follow the budgetary principles, which are collected in the course of getting experience in the budgetary process. In the Czech and Slovak Republic are the principles of establishing the budget are very similar.

- The principle of the time validity - it requires that the budget must be valid for a period of time.
- The principle of completeness - it requires that all revenues and expenditures are comprehensively reported.
- The principle of publicity - come to the fore in recent years, reflects the fact that emphasis is placed on transparency of government..

- Reality principle – requires that when the budget were reflected all the real conditions, explicitly and implicitly involved in the area of revenues and expenditures.
- The principle of balance – reflects each ways to use short-term deficit financing .
- The principle of specialization – requires that the revenue and expenditure are more specialized through the individual more detailed classifications. [21, p. 25]

The principal stages of the budgetary process can be considered :

- Preparing, negotiating and approving the state budget
- Management of the budget during the financial period
- Evaluation of implementation of the budget after period

The following diagram approaching the budget process in the Czech Republic and Slovak Republic.

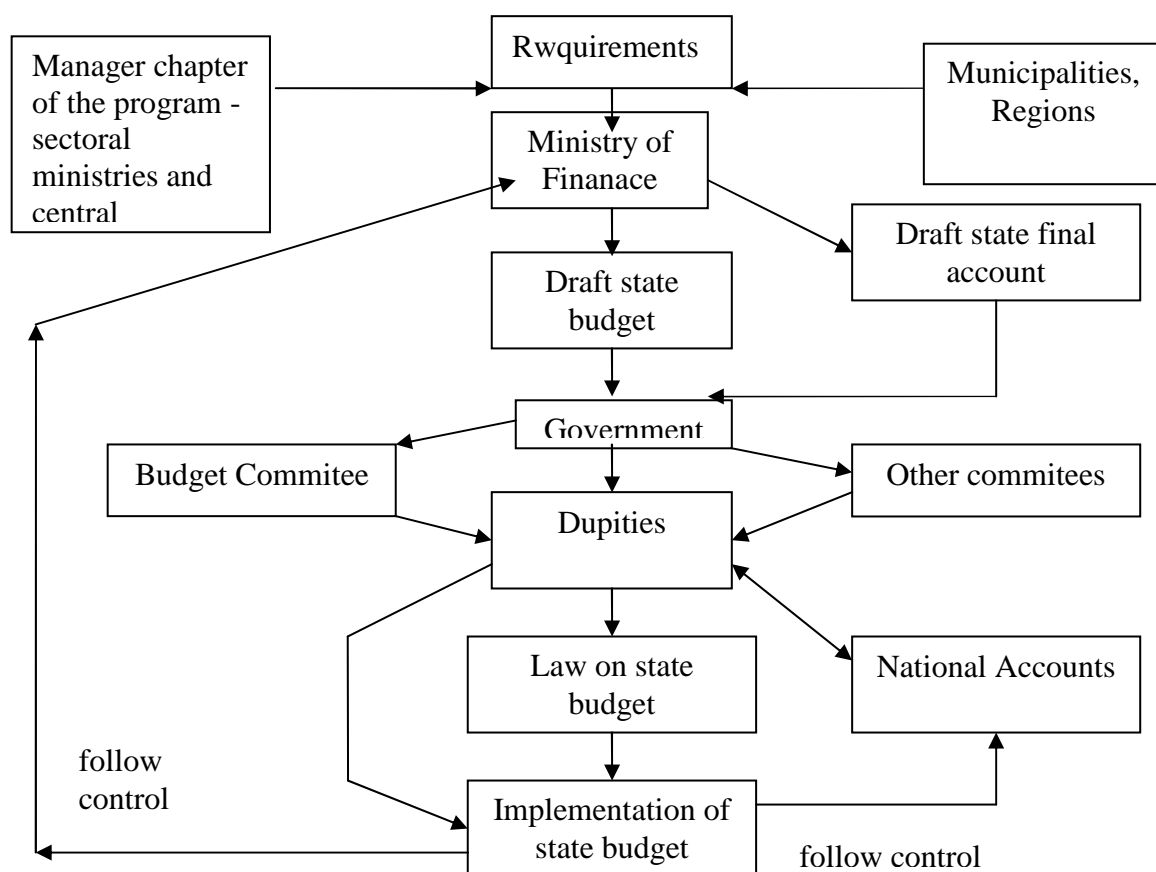


Diagram 2: The proces sof state budget

Source: [3, p. 164]

The budgeting process takes a minimum of 1.5 years, in the past, the process takes two years. In recent years, the Ministry of Finance started to compile a three-year budget forecast. In the 90-ties the mid-term budget forecast has not been customary. If the government fails to submit state budget draft for next year, the National Council of Slovakia, or the Chamber of Deputies to 31 December of current year, budget management manage the state budget by the previous year. Individual budget expenditures shall not in any month of the financial year must not exceed one-twelfth of the approved budget for the previous financial year. This rule is governed by both countries. For the security of budget management are created reserves in the state budget. Government disposes of them in a restricted range of Minister of Finance. [4, p. 162 - 164]

3 Comparison of common features and main difference between revenue and expenditure of both countries

The state budget is centralized cash fund appraising revenues and expenditures of the state. The main source of income are taxes as compulsory payments to the state budget or local budgets, which pay natural persons and persons in law. State budget, respectively. Public funds are used to achieve macroeconomic stability. State through revenues and expenditures of the state budget affects the aggregate offer and aggregate demand. The state budget is the main instrument of fiscal policy. [22]

3.1 State budget revenues

On the distribution of gross domestic product in irreversible way share the most the public revenue. It may seem that the revenue of public budgets are solid in both countries. A deeper analysis will open the conclusion, that this is a very varied part of the coverage of public expenditures. [3, p. 73]

3.1.1 Structure of public revenues

Public revenues can be divided in several respects. From the time perspective can be divided into common revenues, which are intended to finance current expenditures. We can indicate the current revenues as taxes. Furthermore, in time perspective, incomes of the budget system are divided into capital, which is used to finance investment and capital expenditure, for example, may be the income from sale of property. [3, p. 73]

Sort revenues budget system we can also in terms of returns. Revenues, which flow into the government budget from various subjects, citizens, or companies, known as the **irrevocable**, they are as taxes, levies, fees, income from renting or selling of state property. Irrecoverable revenues constitute the absolute majority of the budget system. Revenue budget system, that public budgets have only a specified period of time called

repayable financial resources. These include proceeds from issuing short-term Treasury bills or short-term bank loan. [4, p. 271]

Classification of public revenues can also be done according to the criteria of severity on revenue **obligatory**, ie required by law, such as administrative fees for the public administration and **facultative**, where the selection depends on the decision of the public authority. All public revenues that flow into the public budgets, are called fiscal. Besides these state revenues collected various fees, allowances and benefits, which do not flow to the public budget, but to the extra-budgetary funds. This revenues are called **parafiscal**. [4, p. 273]

According to financial planning and financial analysis is very important the distribution of planned incomes, ie expected and **unexpected** in the budget, that can not always calculate in the future. The above shows the distribution of the public revenues in the following chart. [4, p. 272]

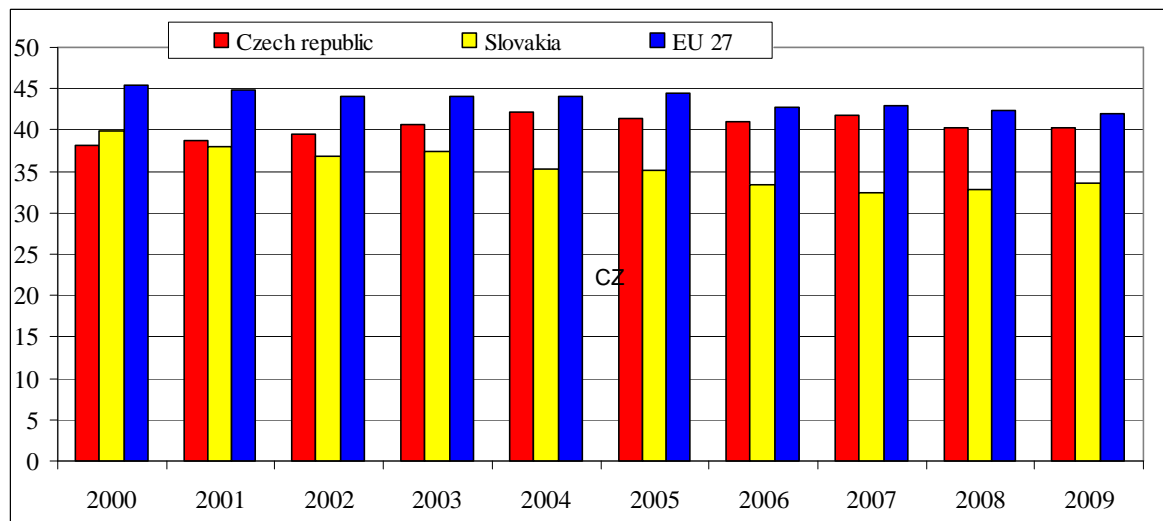
3.1.2 Tax revenues

The most important revenues to the state budget in developed countries are revenues from taxes. Under the tax declaration in the budgetary rules, the tax revenues can be divided into national, municipal and conferred. [3, p. 174] Tax revenues are generated in both countries by direct taxes and indirect taxes. The most voluminous part consists of four main taxes:

- Value added tax
- Excise tax
- Tax on corporate income
- Income tax for individuals

The tax burden in time and comparison irreversibly way of redistribution of the gross domestic product are determined by the **tax quota**, which is also used for international comparisons. It is calculated as a share of all income tax on the gross domestic product. In view that in the tax quota do not include only taxes but also required social security contributions and compulsory health insurance, the regional customs and local taxes, we

use the calculation of the so-called **summary tax quota**. [4, p. 276] After determining the tax quota, we can talk about level of the tax burden, which shows us a graph. No. 1



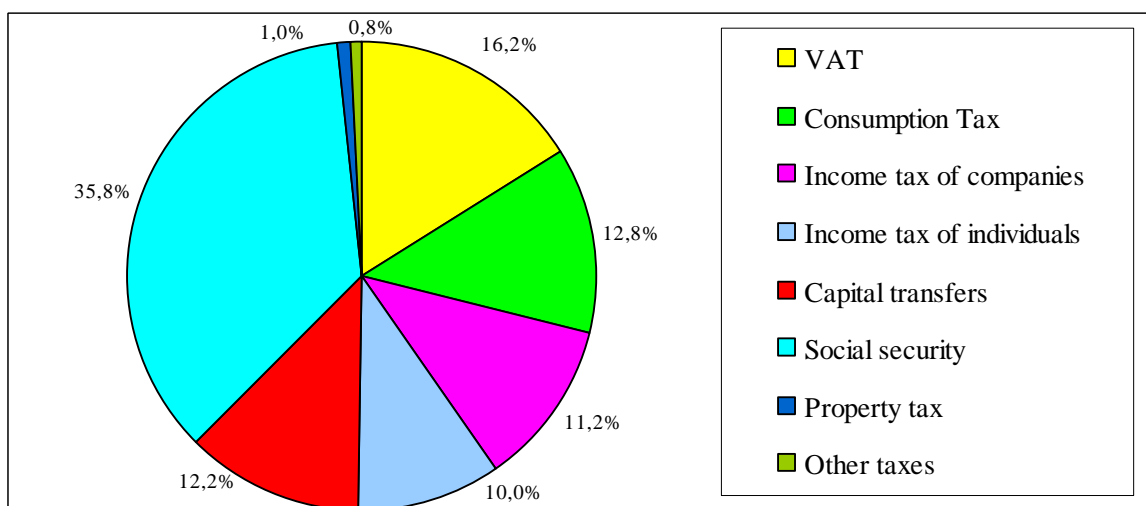
Graph 1: Comparison of the total tax burden of the Czech and Slovak Republic to the EU average in %

Source: [23]

From graph 1 clearly follows that even in 2000 was higher tax obligation for Slovak neighbors, over time their tax burden facing down. Since 2001 have citizens of the Slovak Republic a lower clear he tax liability. Yet as the Czech Republic and Slovakia are below the EU average.

3.1.3 Structure of state budget revenues of the Czech and Slovak Republic

In the Czech Republic make up the largest portion of revenues to the state budget the taxes, together with allowances to social security, it takes approximately 88 % of selected funds. The remaining part consists of non-tax and capital revenues and grants. Because extra-budgetary fund is part of the budget systém, where flows to incomes from privatization. Therefore is the result of capital income in the Czech Republic a little. The structure of public budget revenues are closer to the chart below.

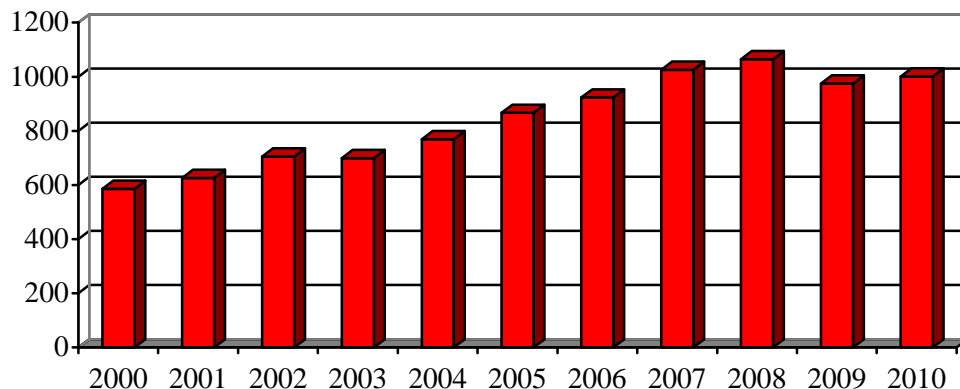


Graph 2: Development of public revenues of the Czech Republic (bil.CZK)

Source:: [24]

Low dynamics is a major problem the development of tax revenues. Value added tax are the most significant share of the income taxes levied by the state budget. The percentage level since its inception has changed several times. Recently in 2010, when the base rate is 20 % and 10% less. Nearly 80 % of tax revenues goes to the state budget, the rest is in the municipal budget, which amounts shall redistributed according to population and size of the municipality. Over the years, increasing excise tax to the minimum limit fixed by the European Union and the government introduced obligatory stamping of alcohol, to prevent tax evasion. At 3 % decreased rate of real estate transfer tax. For personal income tax was legislated the minimum tax base. Approved by the joint taxation of husbands, which was soon canceled. Deductible items were replaced with a tax discount. Tax, corporate income tax rate was lowered, there was a shortening of depreciation of certain groups. Up to 50 % of the difference between revenues and expenditures will gradually increase the assessment base for payment of social security for self-employed.

Long-term pressure to reduce the tax burden from direct taxes and indirect tax increases. The following chart shows the trend of state budget of the Czech Republic.



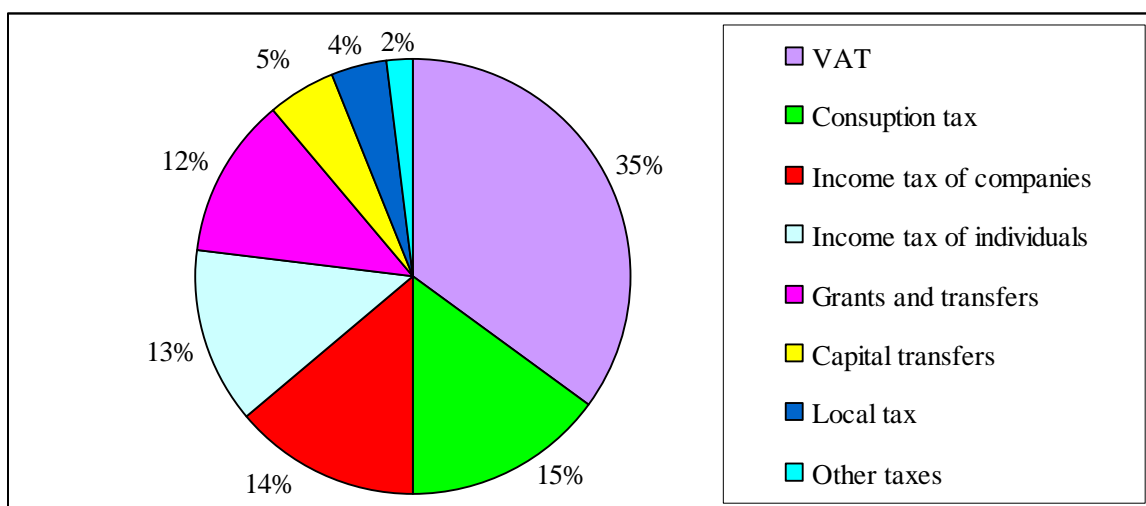
Graph 3: Development of public revenues of the Czech Republic (bil. CZK)

Source: [25]

The share of each income taxes to the state budget has developed progressively in the last 10 years, the ratio of tax revenue from value added tax in total tax revenue increased to account for more than 35 % of all tax revenues. The increase may also be multi-tax rate change of VAT, where the cancellation of two rates and the introduction of a 19 % VAT increase total effective tax. There is reported a mild marginal decrease after introduction of the second a lower tax rates for drugs. [26]

The share of tax revenues has increased significantly in excise taxes. For high growth is responsible consolidation of excise duty rates on tobacco from the EU, but also a high increase in oil prices on world markets. After the introduction of a lower corporate income tax, paradoxically, has dramatically increased revenue from this tax, in 2007 accounted for 15 % of total tax revenues of the state budget. [26]

In the Slovak Republic in 2005 were significantly decreased income tax on personal income to the state budget, 93.8 % of collecting this tax goes to local government budget (including 70.3% of the municipal budget and 23.5 % in the budget of higher territorial units). Share of tax on personal income, after changing the destination of the tax was dropped and replaced in part by increased VAT revenue. The share of other taxes decreased significantly especially after the liberalization of foreign trade. [26] Structural distribution of income, the Slovak Republic closer to us the following graph 4



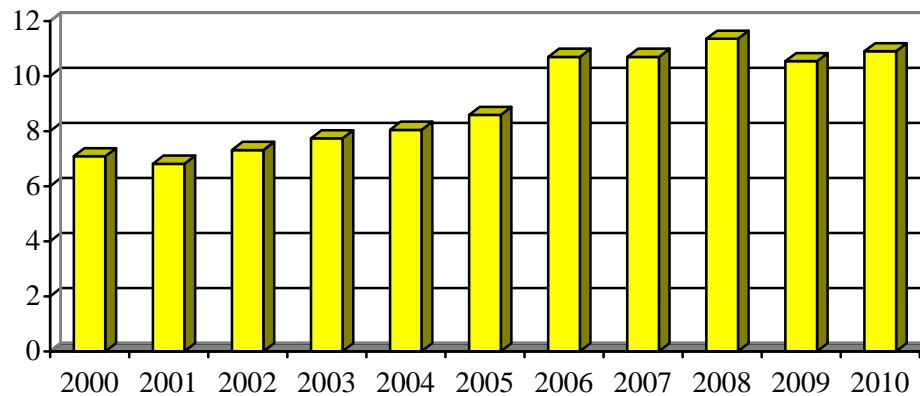
Graph 4: The structure of public revenues of the Slovak Republic for 2007 in %

Source: [27]

The main difference in revenues of the Czech and Slovak Republic can be found under the VAT. Slovakia has chosen 35 % of their incomes just on this tax in reported year in 2007, in the Czech Republic the revenues of the gross domestic product share of 16.2 %. But in the Czech Republic contribute to the state budget in the highest degree incomes of social security, specifically in 2007 it was 35.8 %.

When you looking for income taxes, there is not very noticeable difference, although there is created some differentiation. Corporate income tax accounts of eastern neighbors share of 14 %, tax on personal income 13 %. In our country is a value slightly lower, specifically corporate tax brings into the public budget 11.2 % and 10 % of all individuals of the collected money . There is not very big difference in the excise tax and non-tax revenue, where the values f both States are very balanced.

For completeness is shown the graph of the development of public revenues of the Slovak Republic.



Graph 5: Development of public revenues of Slovak Republic (in bil. EUR)

Source: [28]

3.2 Satet budget expenditures

Public expenditure is the flow of funds under public budget system and on the basis of specific principles are allocated on the principle of irreversibility (partial or complete). Through the expenditure of State ensures the performance of its basic functions of government, defense and national security, but also provides some of the needs of the population by providing services in education, health, culture and ensures citizens in case of illness, pensions or in case of unemployment. Public expenditure participate the GDP that is consumed collectively on the basis of public choice. It is configured system of allocation, spending and monitoring the performance of public expenditure. [4, p. 194]

3.2.1 Functions and classification of public expenditure

In connection the public budget and public spending performs three basic functions namely allocation, redistribution and stabilization.

- **Allocation function** is responsible for funding non-market allocation activities of the State, therefore, provide public goods for the population. Developed countries increased the share of allocation spendings to local government budgets.

- **Redistributive function** of public spending is to finance the redistributive activities of the State, to a lesser extent local government. Parliament respectively. The National Council decides about the aims and instruments of redistribution. State budget expenditures - cash transfers to various entities, which alleviate inequalities in pension and property are the main instruments of redistribution. Transfers have form of special purpose or general grants, contributions, or area or addressed social benefits.
- Funding stability and state regulatory activities is the task of the **stabilizing function** of public spending. The state is trying to influence the function of this economy, especially economic growth and employment. Expenses resulting primarily from the state budget, to a lesser extent from local government budget expenditures. [4, p. 194 - 195]

Functions to each public spending may be blend together, it is in virtue of the fact that different types of public spending are closely linked.

Against the to public expenditure can take a dual approach:

- Purely financial - where we consider only with relationship between public expenditure and public revenue
- Real financial - when we investigate how public expenditure and public revenue operating on real businesses and influence their decisions. [3, p. 123]

Like revenues as well as public spending can be viewed from several perspectives. In terms of time, respectively. generic classification of public expenditure can be divided into **current spendings**, which are for the funding standard, regularly repeating needs of the financial year for each levels of government. The largest share of current spending are claimed by mandatory spending, which must always be financed, because it required by law (eg statutory compulsory school attendance law on public health care, etc.). The second type spendings classified in term of time are **capital expenditures**, which order to cover long-term investment needs, which are longer than one budget period. These funds are mainly spent on capital repayment of the loan or the repayment of loans from the issue of medium-and long-term securities. It may also be a money intended to pay for specific investments in the public sector. [4, p. 198 - 199]

Significant is also broken down into **recoverable and irrecoverable expenditures**. Irreversible and irrecoverable expenditures form a critical part of spendings in the budget system. They are used to finance non-market activities of state and local government articles. Recoverable expenditures are provided as a loan of money between funds under budget system (usually the interest-free loan). [4, p. 198]

According to purpose the public expenditures can be divided into expenditures provided such as education, health, defense, etc. This is the called **sectoral breakdown** of expenditure, which can make international comparisons, and evaluate their evolution over time. Another way of looking at public expenditures is, according to the fund from which money is spent, ie the **expenditures public budgets**, which are the largest in volume and **expenditures of extra-budgetary funds**. [4, p. 199]

From a macroeconomic point of view it is very important to structure **government spendings** and **transfers**. Government spending can be further divided into the consumer character spendings and government investment spending nature. Both of those types of government expenditure are used to finance institutions, projects or programs. [4, s. 199 - 200] This fact can be expressed by the following formula:

$$\text{Public spendings (PS)} = \text{government expenditures (G)} + \text{Transfers (Tr)}$$

where government spending consists of consumption spending (C) and investment (I), tahts means $G = CG + IG$

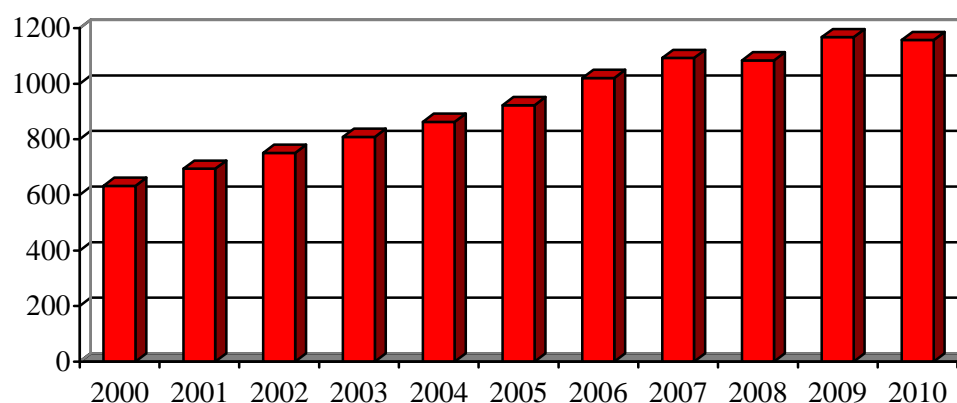
Transfers are a specific type of public spendings. They are provided with some different entities, but there is no compensation. This is a typical manifestation of the principle anticoincidence of public finances. [3, p. 127 - 128]

3.2.2 Structure of expenditures of the state budget in the Czech and Slovak Republic

In the Czech Republic the current expenditures make up the largest share. In the years 1993 – 2000 its share was about 88 %. During the years 1995 to 1997 reduced slightly in

favor of capital spending. There was a reduction in capital spendings because of saving "packages", which in turn led to growth in current expenditure, which grew very dynamically. Mainly due to increase in the ratio of mandatory spending. Current expenditures are now about 90 % of total expenditures.

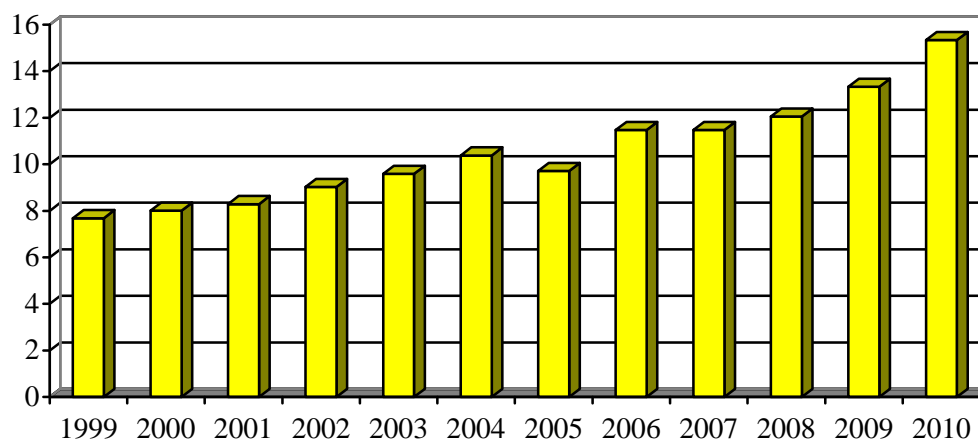
The most significant group of current expenditures in the Czech Republic make up the population transfer, as transfers provided to entities outside the budget system, a private (NGO) non-profit organizations, businesses. Furthermore, in the Czech Republic and a significant volume transfers to local budgets, state funds and a system of universal health insurance. Continuously rising share of mandatory spending, backed by legal arrangements, a burden on financial management. The reduction in the rate of growth and gradual reduction of these costs is subject to change in a wide range of regulatory standards and receive a number of restrictive measures, which is unpopular. The following graph illustrates trends in public spending in the last decade in the Czech Republic.



Graph 6: Development of public budgets in Czech Republic (bil. CZK)

Source: [25]

We can not find considerable differences between the expenditure of the Czech and Slovak Republics. Current expenditures of the Slovak Republic consists of 84 % of total expenditures. Highest percentage of the population consists of transfers and subsidies to municipalities and higher territorial units, NGOs, etc. Overall, the transfers were in 2009 around 51 % which represents more than 6.8 billion euros. Capital spending of Eastern neighbors during recent years increased. In 2005, 10.7 % of total expenditures, in 2009 was 16 % of their value and last year slightly decreased and the amount was less than 15 % of expenditure. Detailed development of public expenditure is shown in Graph No. 7



Graph 7: Development of public spendings of Slovak Republic (bil. EUR)

Source: [28]

Enter of the Czech and Slovak Republic into the European Union, incurred other expenses to the state budget, particularly in relation to revenue in the budget of the European Union. Also is transferred to the budget of the European Union as part of tax revenue, including customs. Czech Republic has done in the year 2009 3.5 % of spendings into the budget, in the Slovak Republic was the proportion of higher overall was 4.5 %. [4, p. 145 - 152]

4 Comparison of the origin and evolution of public debt in the Czech Republic and Slovakia

At the time of the division of Czechoslovakia, thus in the beginning of the transformation process were low levels of debt, which was for the amount of public debt of two newly formed countries a positive indicator. Government debt was the sum of two items, namely the takeover of the federal debt and the existing public debt of the Czech Republic and Slovak Republic in the Federation.

4.1 Comparison of development in the years 1993 to 1998

In the first January 1993 the Czech Republic took over from the ex Federation national debt amounting to approximately CZK 98 billion, of that was an internal debt of CZK 75.6 billion and foreign debt of 22.1 billion CZK. The second part of the debt made up of existing public debt of the Czech Republic at 65.6 billion CZK. From this 15.6 billion CZK of internal debt consisted of bonds issued by the Federation of Czech Republic. The remaining amount of 50 billion CZK formed foreign debt, which was part of the commitments agreed takeover of ČSOB. [2, p. 97]

Overall, the formation of the Czech Republic amounted to gross national debt is almost 164 billion of CZK which represented 17 % of GDP. At the end of the first year of the independent Czech Republic Ministry of Finance showed the volume of state debt in the amount of 158.8 billion CZK. Conversion to per inhabitant was 15 385 CZK and the value of 17.4 % of GDP. Slovakia took over from ex federation debt of 75.6 billion SKK and overall in the first year after division of the federation managed the debt of 116 billion EUR so 28 % GDP. [2, p. 97 - 98]

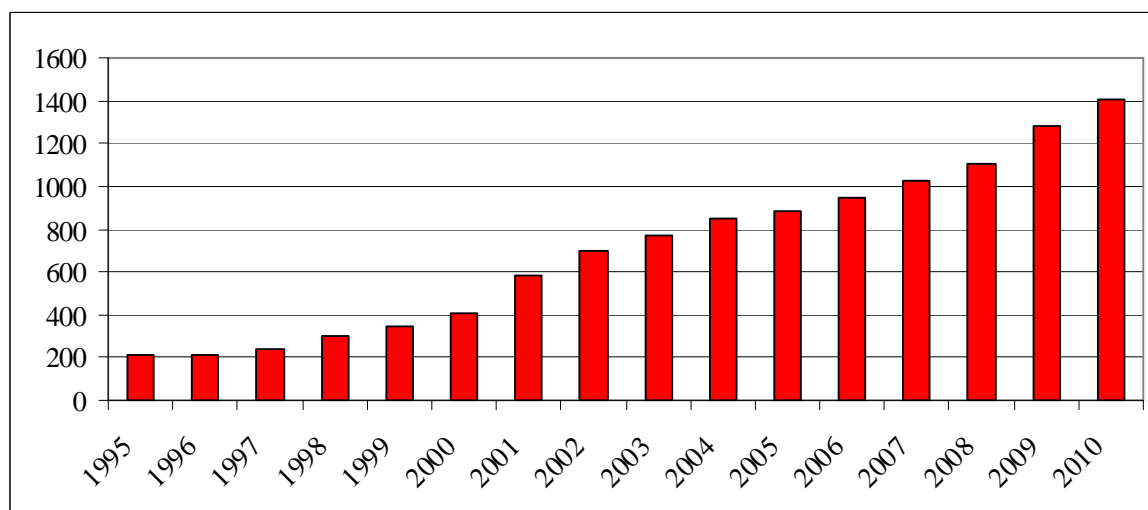
In the Czech Republic in the first years of the independent Czech Republic managed to further reducing the value of debt. Until 1996 the national debt ranged at around 150 billion CZK. Which featured in May 1996, the value of 16,090 CZK per inhabitant. In

these years, gross domestic product grew, so the ratio fell from 17 % to 11 %. That meant one of the lowest shares of public debt to GDP in Europe. The average of European countries in the first part of the second half of the nineties amounted to approximately 75 % of GDP. [2, p. 97 - 98]

In the first years of the independent Czech Republic can be positively evaluated the structure of government debt. Promote the two basic trends:

- Securitization - the transfer of direct government loans to the standard form of bonds (nearly one third of the Czech state debt amounted at the end of 1996 direct loans)
- Internalisation - the reduction of the share of foreign debt (foreign debt was initially more than 50 %). [2, p. 98]

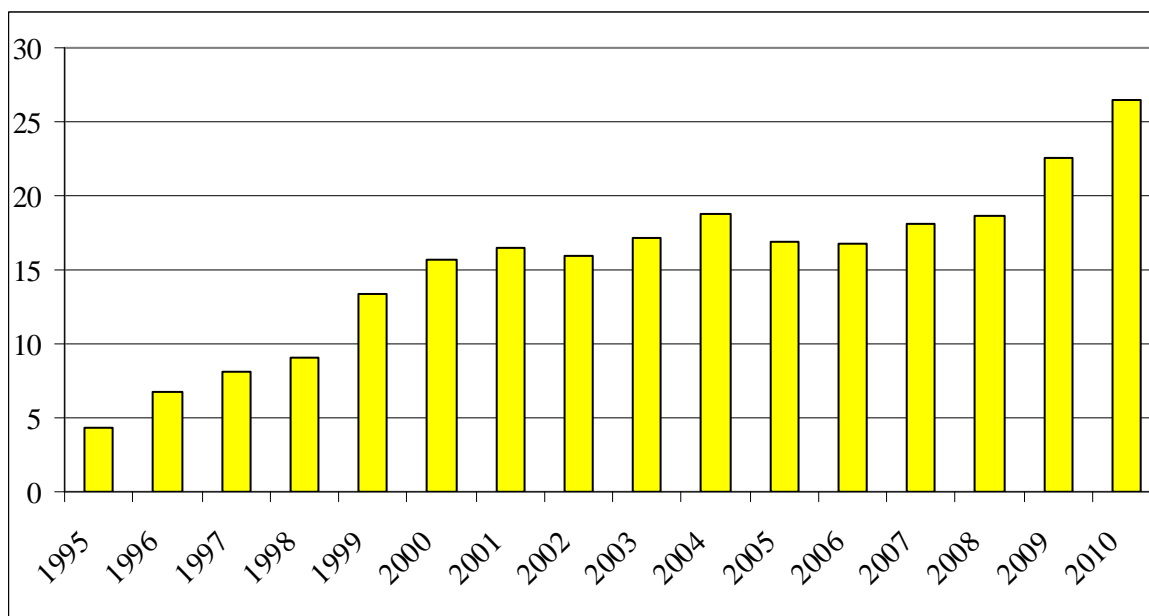
In 1997 there was a major turning point in the development of Czech national debt, from this year until now the national debt increases, as it is increasing its share to GDP. Significant increases also occurred since 2003, when the volume of public debt is growing by about 100 billion each year. A closer look at debt developments of the Czech Republic offer the following graph number 8.



Graph 8: Development of the volume of the Czech government debt in billions CZK

Source: [29]

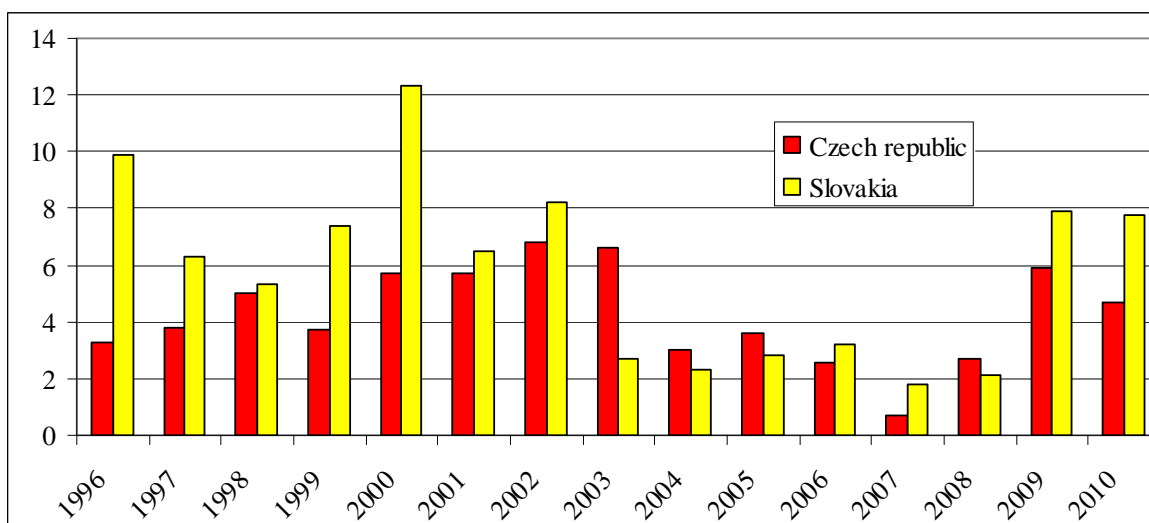
Slovak Republic hit the growth of public debt in 1996, with total debt has increased from 22.1 % to 31.2 % of GDP. This was due to more liberal fiscal stance of government. Development of the debt of the Slovak Republic provides the following graph.



Graph 9: Development of the volumes of Slovak state debt in billions. EURO

Source: [30]; [31]

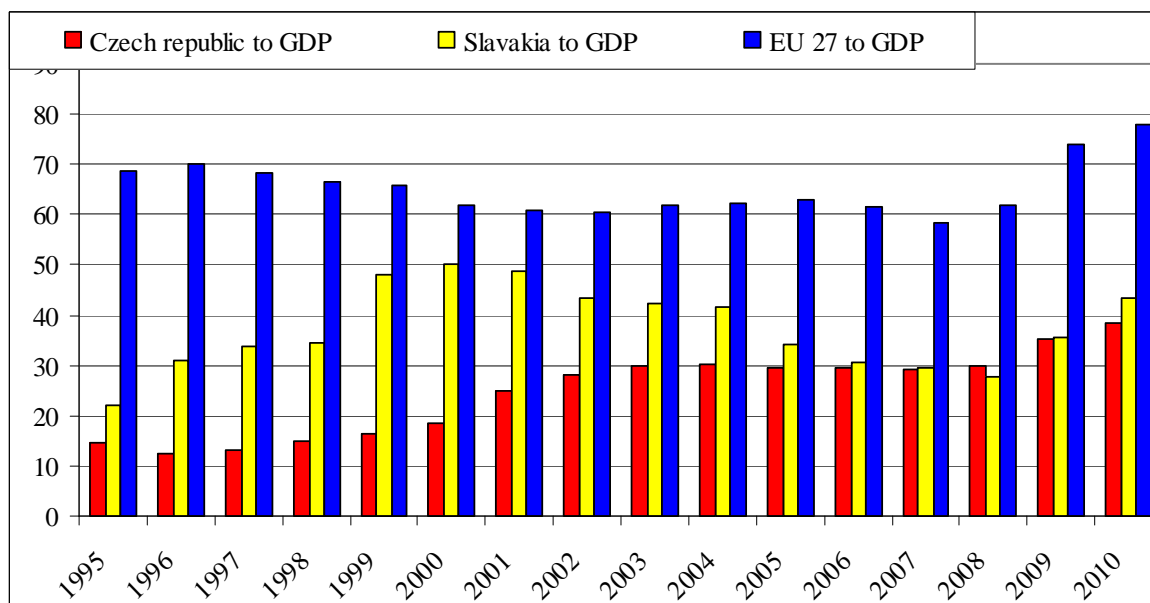
In fact, in 1996 the deficit ratio to GDP of the Slovak Republic at 10 %, which could reduce the country until 2003. Graph 10 describes the development deficit to GDP of both countries.



Graph 10: Development of the budget deficit Czech republic and Slovakia in % of GDP

Source: [28]; [33]

In the Czech Republic and the Slovak Republic since 1995, a significant increase in the ratio of debt to GDP, it remained a relative weight of the state and public debt below the Maastricht debt criterion and did not even reach half the average values of the European Union. Closer to our overall public debt ratio is illustrated in Figure number 11.



Graph 11: Development of public debt Republic and Slovakia in % of GDP

Source: [33]

4.2 Comparison of development in the years 1999 to 2010

Slovak government decided in 1996 to issue bonds, and the National Property Fund is to offer its citizens with maturity in 2001. During the period 1999 to 2001 was the most significant historical increase in the volume of public debt to GDP ratio, and in its nominal value. It reached during those years the absolute value of SKK 226.8 billion.

The Slovak Republic has improved the situation in 2002, part of the national debt has been repaid as well as the debt of the Fund of National Property. They were used money from the privatized company, the Slovak gas industry. Furthermore, positive impact on the development had the implementation of the Slovak Republic State Treasury, which was in

2004. These institutions operate with the financial resources of many organizations and free public funds used to repay public debt.

During the period 2004 - 2008 with a deficit of the Czech Republic declined, though in nominal terms there was a continued deepening of the debt, which resulted in the effect of EU accession and convergence programs with the presentation of plans to reduce deficit financing level convergence criteria.

The general government deficit in 2009 increased nearly 8 % of GDP. The former government of Prime Minister Robert Fico had originally planned a deficit of over 2 % of the performance of economy. Estimated deficit due to loss of revenue because of crisis, but gradually worsened. Slovakia in 2009 is basically where the Czech Republic in 2010, the Slovak debt ratio to gross domestic product last year reach to 35 % of GDP. [34]

In 2010, the value of total debt of the Czech Republic around 1404 billion CZK, which represents 38.5 % of GDP. Compared with other countries such as Poland, Hungary and France and Austria is relatively low. This was reflected in the risk premium, it may be subject to the government this year, submit and approve major steps to maintain fiscal stability.

From the perspective of public debt, if one compares the ratio of total debt to GDP, and here in the 2006 - 2009 will not find a significant difference. However, Slovakia in 2010 recorded an increase of 43.4 % of the value of debt to GDP. The government is aware of the situation with a debt expected to rise until 2013, when its debt would peak at a level of 47 % of GDP. Nominal value should correspond to the sum of 37.3 billion euros, but has subsequently lead to a gradual decline.

Currently, the rate of growth, especially in the debt to GDP in both countries is growing very dynamically. Slightly better is the Czech Republic in terms of fiscal discipline, ie. ratio of deficit to gross domestic product in 2009, which was in the Czech Republic 5.9 %. In 2010, the values are below 5 %, so the Czech Republic is 2.5 - 3 % better than Slovakia. The current center-right government led by Prime Minister Iveta controllers in 2010, provides for a public deficit of 7.8 % for the performance of the economy. The slowdown in borrowing countries to help the austerity package, which provides, inter alia, increased

taxes, the extension of compulsory levies and cuts in government spending. However, the overall contours of the two countries, respectively. the entire European Union, except Estonia registers in terms of fiscal developments is very poor and dismal developments. [34]

From the perspective of public of debt, if one compares the total population, so you do not find too large a difference. If we evaluate the situation in the Czech and Slovak Republics, according to Petr Zahradnik, a member of GNEC, the overall fiscal situation is very strongly influenced by the performance of the real economy. Certainly the rate of decline of the Slovak economy form 2008 to 2010 is deeper than in the Czech Republic. Slovakia is a bigger victim of the economic crisis and it is just very strongly reflected in the fiscal development, since *ceteris, paribus*, Slovakia would not have a significant problem with fiscal developments. Slovaks have switched to a flat tax and the weight of indirect taxation, tahts mean factor on the revenue side, which is not cyclically dependent, but should provide sufficient revenue to the state budget. But intervention on economic activity was so strong that not only income tax but also the decline in domestic demand that resulted in revenue from VAT and therefore, in this sense, the Slovak economy more vulnerable and more affected by the crisis.

If we look at the intentions of Prime Minister Radičová, this situation should stabilize and greater savings should be on the program in 2011. When the deficit should fall below the 5 % of GDP, the Slovak economy would be affect, as the average European economy, ie. Intervention woud not be as strong as in Greece, or Ireland, where will be action really noticeable. However, savings will be greater than in the Czech Republic. On the other hand, the higher deficit figures in the first successful steps to reduce debt relatively easily. Worse is when the real deficit will fall below 5 % as mentioned in the Czech Republic and the government will reach the Maastricht criteria values ,ie 3 % of GDP. It follows that the Slovak economy will be burden by the deficit reduction until some time in 2012 and 2013. [34]

In 2010 there was an exchange of governments of both countries. Compare what they are compared first in what country behind. Slovak Republic has a clear advantage in implementing the reforms in times of prosperity. In 2010, the value of total debt of the Czech Republic around 1404 billion CZK, Gone through pension reforms, although

currently unrated too positive. The Czech Republic has strong burden of mandatory spending will entail very soon and this problem must be reduced. [34]

Slovakia is a member of the eurozone, which begs the question whether this fact is advantageous for him. In global, there are countries for which the membership of the eurozone is complications. Slovakia is not among them, according to Petr Zahradník. Slovakia adapt its interest rates for a long time in advance, before the entry into a common monetary union. It follows that even if Slovakia has its original currency, the rates, as rates in the Czech Republic would be from those in the euro area did not differ significantly. On the other hand one could say that the common European currency help to Slovak Republic in the sense that euro membership is a quality indicator for investors, which represents the country's stability. Another advantage is that Slovakia may participate in some decision processes that take place in the euro area. [34]

Summary of the debt of the Czech Republic we come to the conclusion that the ratio of public debt to GDP is low with the Maastricht criteria. It serves as a frequent argument to further debt problems with underestimating the growth of Czech, Slovak public debt. The problem we should look for in a constantly repeating deficit management and very quickly begin to address this situation.

5 Analysis of the causes and consequences of public debt in Czech republic and Slovakia

The primary problem of the Czech public debt is the increase after 1996, the vast majority of unhealthy debt. According to Dvorak is not the cause of the alarmingly dynamic growth of new productive investment, whose return would generate the resources needed to ensure debt service. In the 90 years, increasing the volume of the Czech public debt due to two factors. The first is a chronic recurring deficit financing, the second factor, which is not so visible character, but equally important. Is of importance is the volume of outstanding debt to be borne by the state government and private enterprises and banks. [2, p. 99 - 109]

Assume that economics is the science of human action. There must be internal consistency between micro and macroeconomical perspective on the issue. For this reason, debt can cause deficits begin to examine from microeconomic perspective, which is closer to the real reasons. Allows the system to detect motivation is indebted. The impact analysis is necessary to build on the contrary, from a macroeconomic perspective, where the debt is becoming a problem throughout society, not just the individuals responsible for decisions made.

5.1 Causes of the state budget deficit and its impact

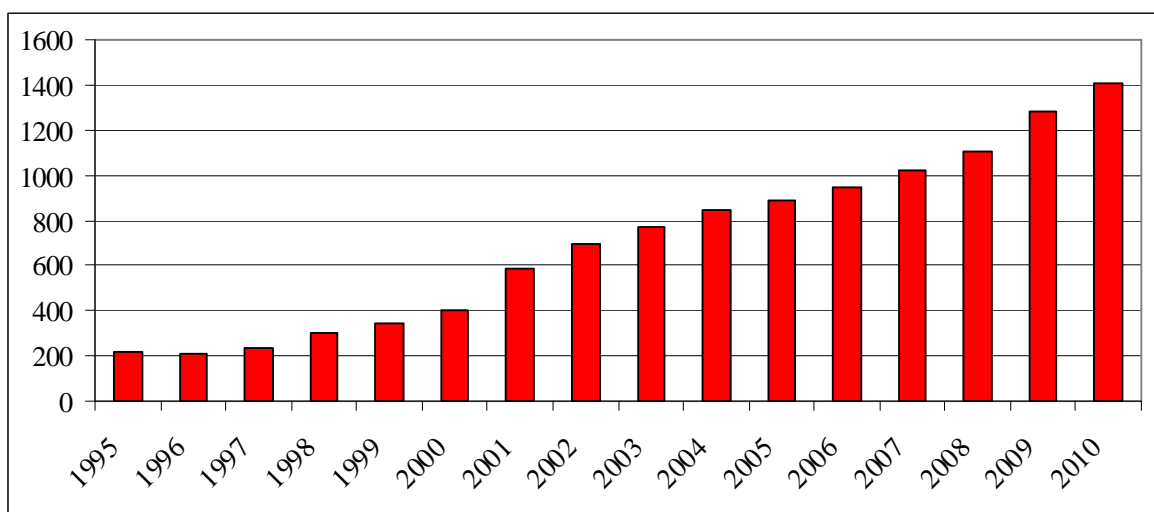
If there is an increase volume of public debt due to the existence of budget deficits, the cause can be found inside the public finance system. The increase in public debt and is subject to parliamentary control Approved Budget for the year is the result of political decisions and priorities of the politicians in power. In the Czech and Slovak debt, this factor played an indisputable role. [2, p. 99 - 109]

The increase in the Czech and Slovak debt contributed to the debt and off-budget effects. The budget presentation is decided by politicians. Based on empirical observation, we can say that they have a high inclination to deficit management. To find reasons for this behavior we can high in time preference, which will help them to their appointment, evaluation, and the possibility of subsequent re-election. Representative democracy, which

is working in both countries since 1989, changed the relationship of the individual in power to the state.

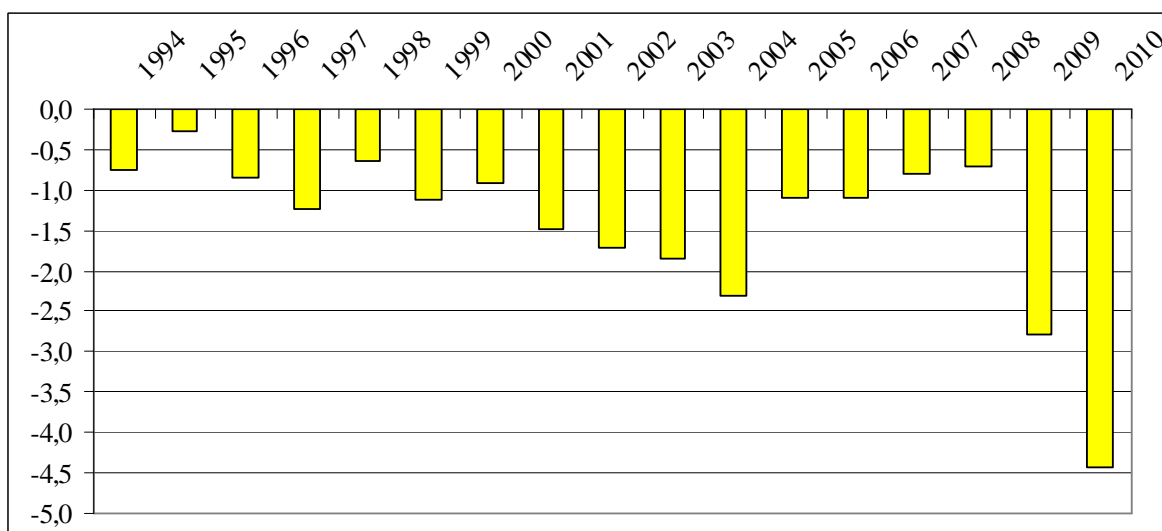
If politicians are only temporary custodians (usually 4 years) and their primary objective is to maximize the existing public services and goods, under which voters are evaluated. Their goal will not increase long-term capital value of property they manage. The politician has every four years to persuade all citizens over 18 years of his achievements. Here is a dangerous compatibility motivation. A politician trying to maximize public services and goods during the election period by increasing spending. The voter turn for his involuntary, irreversible and non-ekvivalent payments that have not been demonstrated. He applies because of his preferences for what he does not want to, and expect quality services in sufficient quantities, according to their preferences. Some prefer high-quality services in health, someone in Education, someone to build the highway network. Selected taxes but do not contain this information.

A politician trying to maximize all goods and services. This can mostly hrough spending increases in the bureaucratic management, because of this are resulting state budget deficits. Of course, that the government received from time to time responsible politicians with lower time preferences, but they were easily replaced by a right populist politicians with higher time preferences. [35] Development of public deficits in the Czech Republic and Slovakia are closer to the following two graphs. List of Finance Ministers of both countries is given in Annex



Graph 12: Development of state budget deficit of Czech Republic in bilions CZK

Source: [25]

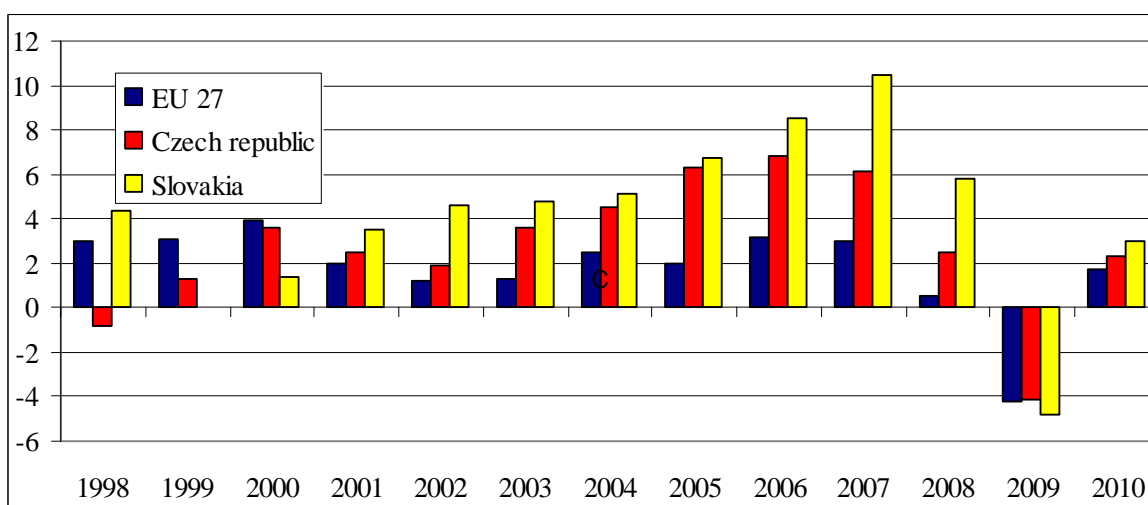


Graph 13: Development of state budget deficit of Slovakia in bilions SK

Source: [30]; [31]

Before we evaluate analysis of the negative consequences of deficit financing and debt funding, introduce one reason why the deficits and debt are needed and have a positive impact on the economy. Today's mainstream economy as the most important role of fiscal policy to maintain stability in aggregate demand. If the economy falls in aggregate demand, fiscal policy is to fill this gap. In this case, the deficit and debt are deemed necessary and to prevent long-term economic recession. [35]

In the Czech Republic and Slovak was deficit management, during periods of economic growth, which is recognized since 1998 as we illustrated in Graph number 14.



Graph 14: Development of GDP in Czech Republic and Slovakia

Source: [36]

Debt itself as a preference of current consumption at the expense of the future does not mean anything negative. A debtor who has decided to borrow, is directly aware of its commitment to the vision of higher current consumption. A creditor who has decided to lend his funds, will expect higher future consumption. The difference between the current (borrowed) and future (return) value is the interest. On the market there must be a person with a higher time preference (the debtor) and one with a lower time preferences (the creditor). [35]

The debt individuals is well-defined debtor who voluntarily decided to debts and is aware that if he prefers current consumption, in the future will either has to reduce consumption. If there is a state debt, every citizen does not realize that the current consumption is at the expense of the future. So at the expense of future public goods and services. If the state wants to maintain the quality and quantity of public services and goods in the future, it will have to drain the equivalent amount of capital from the private sector. If the state is not a producer, there is no other way to maintain the high standard, which was offered by the politics at the time of borrowing. This is a major problem and the negative effect public debt - debt illusion. Citizens who receive debt covered by the standard of public services and goods do not realize that this is the current high standard, which will have to pay the future low standard. [35]

Even the existence of public debt carries the amount of negative phenomena. The state is leveraged by issuing bonds. When buy bonds the private sector, we are talking about indent effect. The state receives capital from the economy and causes problems to acquire it for private companies. When greater part of the capital flows through the state, then more is phasing out the private sector. In this way flows through the state capital in inefficient investments and restructuring the economy slows down, ie. Adaptation to the quantity and type of production to the actual needs of the market - consumers.

Another negative impact is associated with repayment of interest. Periodic deficits and increase the share of debt to GDP increases the costs of its managing. For completeness, now provide a distribution of public debt by covering to the inside of external influence. Distribution of internal or external debt affects the cost of managing debt. The state prefers internal debt, the purchase of government bonds by its citizens. This method allows to countries with large government debt manage debt in a relatively low cost. The

price for this form of financing is of course a huge debt and will be financed again from taxes of its own citizens. Ultimately, it is just about a reallocation of resources in the country. The problem may be exhausted savings of their own citizens. The country, which is leveraged abroad, can significantly increase management costs such as debt due to exchange rate movements. [35]

5.2 Causes and consequences of accepting debts of other businesses by the State

Especially in the corporate sector the debt problems were hidden. The state withdrawing from public enterprises' own resources, the use of the funding (thanks to artificially low interest rates) loans to a large extent. Loans financed by long-term revolving stock.. Follow rapid increase in interest rates in the emerging market environment caused the failure to repay existing debt. [2, p. 99 - 109]

The state was for a very long time a owner or part owner of a number of major companies and banks, thus also became responsible for any debt problems. One from the key errors in the transformation of the Czech Republic was inconsistent separation of emerging private and state ownership. Merging of private and public assets, and liabilities (debts) too was a clear negative consequence of this status.

To avoid junk debt, a state as a part owner seems to weak, but appears to be strong enough to pay these debts. For several rounds of restructuring and stabilization efforts resulted in over-indebtedness of the corporate sector and the poor financial situation of banks. In addition to direct funding, the Ministry of Finance and Czech National Bank shall establish special institutions to implement the quasi-fiscal operations. Still, it was a state institution, the transformation of financial management institutions (Consolidation Bank, later transformed into the Consolidation Agency, the Czech financial, Czech Collection, Konpo etc.) was involved in the public finance system. Until early 1998 the Minister of Finance admitted the existence and amount of these so-called implicit debt. In a large number of cases were outstanding debts of private entities. These are the only visible public finances and unfortunately anonym The unpaid debts of enterprises and banks took over the state,

respectively. The state institutions have been identified as the "hidden debt". [2, p. 99 - 109]

The Slovak causes found in the restructuring of loan portfolios of commercial banks, when the state was trying to heal the banking sector. The state has decided to publish issue bonds to cover debts of commercial banks with state ownership participation. As in the Czech Republic took over troubled debt Slovak consolidation. The government has decided to take risky state guarantees on bank loans that were granted in the nineties enterprises with state participation.

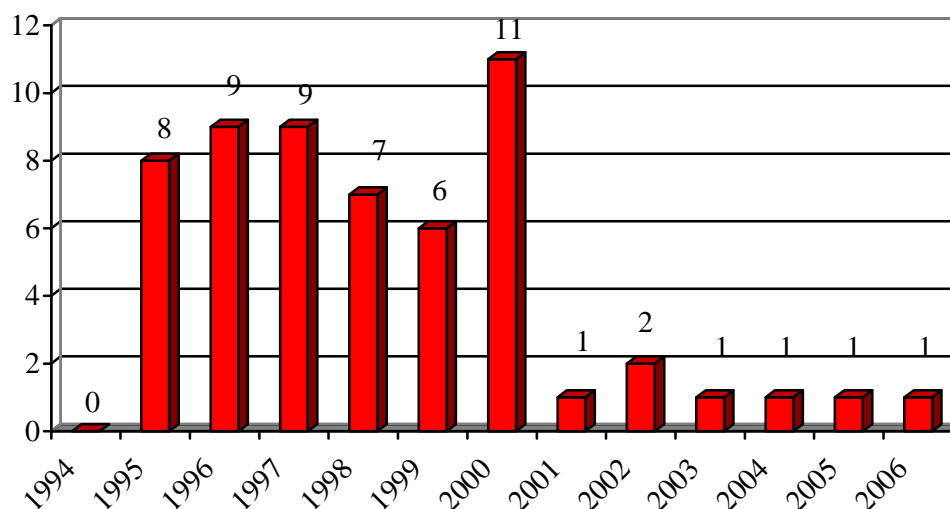
This had the effect not only an important moral hazard problem, but also an important signal for further movement of unpaid private debt into public debt, often has no obvious cause transformation. National Property Fund, a long time apart from the public finance system, but also non-transparent ties, financial transactions of these institutions, have caused a gradual merging of past debts which carried illegally privatized companies and newly emerging junk debt.

Ministry of Finance of the Czech Republic published a detailed analysis of these costs for the period 1991 - 2005. Transformation costs were divided into three groups:

- The first group consists of the transformation costs (TN1) – the cost for solving problems, and state-controlled banks, which have their origin in the centrally planned economy.
- The second group consists of pre-privatization costs (TN2) - costs incurred in connection with the privatization of each entity in order to achieve the highest valuation of the privatized entity
- The third group consists of the cost of other operations (TN3) - other transformation costs associated mainly with the consolidation and stabilization of the banking sector. [37]

More than 10 years raiser large portion of those costs directly, so off-budget debt. Cause of the rise of public debt is out of the public finances and in most cases beyond public control. State budget pass these costs since 2001, when has established two new budget chapter - the national debt and state financial assets. Costs are thus subject to parliamentary control and both increased the budget deficit. [2, p. 99 - 109]

State's obligations arising from government credit guarantees are separate problems, at the end of 2007 their total volume was 383.7 billion CZK. In the period 1992 - 2005 costs associated with their implementation value exceeded 27 billion. By existing non-standard guarantees, particularly the amount of guarantee for IPB, raises the risk of further demands on public finances. Situation guarantees provided by nonstandart statesmen shows graph number 15.



Graph 15: Number of state guarantees in the Czech Republic

Source: [38]

Experience shows that it is difficult to achieve a reduction in the value of public debt only by primary surpluses. This is not a significant factor that renews fiscal discipline and prevents further increase of the debt. In the period of low interest rates and economic growth is necessary to take advantage of the situation and try to reduce the relative weight of public debt. In both countries should also contribute revenues from privatization. These factors are unfortunately missed. In times of economic growth, there was a significant budget deficits and large revenues from the privatized enterprises have not been used to reduce the relative weight of public debt. [2, p. 99 - 109]

6 Possibilities and proposals for solution to fund current debt of Czech Republic and Slovakia

In principle, there are a few ways to pay off state debt. In the first place it is necessary to understand that every option must not mean a reduction in living standards in the future. Repay debt through the private sector in economic growth was possible in the past, today this scenario is due to large, because of state influence in all areas of the economy, less probable.

Thus remains an option to repay the debt by raising taxes, but this again drains the amount of money from the private sector. However, this method can cause even greater problems in the future. More probable is the monetization of debt through inflation. State bonds buy the central bank, thus the economy will gradually increase the money supply and inflation in the debts disappear. Inflation, however, has many negative consequences and seriously damage the whole economy.

Economically, convenient and contrast politically the least popular is the reduction of services and goods provided by the state. So reducing government spendings together with the privatization of property. That would be reduce standard of living, especially for "customers" of the state, but in the long term, it is this opportunity to guarantee prosperity. A society would return back to reality and avoid the endless waste of the state in allocating resources. [35]

In both countries, there is a risk by increasing debt downgrade, which affects not only the debt, as well as loans provided by the Czech and Slovak companies. This would obviously negatively affect economic development.

6.1 The main tools to reduce public debt

Here are few main tools to reduce public debt:

▪**Streamlining the state apparatus** - in 2010, worked for the Czech Republic 434 thousand. Of people, which have burdened the budget of about 129 billion CZK. The government decided last year about cancellation of 20 thousand jobs, that will save 10 billion in coming years. It is necessary to provide continuity. After retirement the salaries of state employees are the second largest item. If we were to credited the army, state employees, community and other facilities we come to number 700 to 800 thousand. But you cannot find the exact number of these in state budget. You need to make an in-depth audit that would uncover what exactly is necessary manpower. Several years in the Czech Republic speaks of the common institutions that would be all paid their taxes and insurance, the result is not yet in sight.

▪**Transparency of government contracts** - in June elected government declared the fight against corruption. In addition to the manual published for the public, from whom the home secretary John promises that people will be more report corruption is too unstable. Last year the government decided to spend 96 billion crowns for road construction, as GNEC are especially civil engineering works - highways, roads, tunnels, etc. overpriced about 38 %, compared with those of the total construction. Cause we should look at non-transparent procurement and inadequate legislation. The solution is hidden in the simplest terms of the selection process through open competition to an intranet, where the public has access and the main criterion was the price

▪**Restrictions on benefits** - According to estimates at least some from benefits currently receiving any second family, only 95 billion flowed out in 2010 just to this purpose. Mandatory spending in the Czech Republic an important part of the expenditure chain. The solution proposed by the GNEC is in linking unemployment with community service and emphasis on the financial status of applicants for state aid. Examples can be introduced in our four-week vacation, which appears internationally as an unusual luxury

▪**Restrictions on building savings** - a bizarre system that is used in the Czech Republic by almost every family and building savings banks recorded more than 6 million contract, the government last year decided to stop. It introduced 50 % tax allowance has also signed contracts. The total cancellation could threaten savings banks and be uncomfortable for them.

▪**Unification of purchase** - the strict rules of the Law on public contracts are not subject to the "small contracts - up to 6 million for construction works and up to 2 million for goods and services. The result becomes micro corruption, when an official on the separate meeting has a freer hand when he select suppliers. The solution is hidden in integration of purchasing for the entire state administration, such as through the public Internet portal, which would disclose any deals.

▪**Pension reform** - the biggest item to expenditure side are clear benefits. In 2010 it was about amount of CZK 347 billion, up from 9 billion more than last year, although the pensions were frozen. The Czech Republic is strongly affected by the aging population trend, which predicts the worsening of the situation. It is necessary to establish a private pension fund and gradually increase the retirement age. Similar pressures in the health service record, the Czech Republic costs about CZK 260 billion annually. Over ringing the populist argument it is necessary to insist to participation of the patient, but important decisions, where these charges will accrue. Greater competition would also enhance health sector.

▪**The unification of VAT rates** - up to last place we should consider increasing the tax burden. It is clear that without this tools, reform can not do. The primary aim was the unification of direct taxes and value added tax to one rate, which has failed. Since 2012, the current governmentof Petr Necas plan to introduce uniform value added tax, about its level is still leading the discussion. It is necessary to cancel a number of exceptions that allow reduction of the tax base. We go through raising excise taxes to alcohol and tobacco, and extending environmental taxes. We should also increase property taxes, which are in the Czech Republic among the lowest in Europe. [39]

6.2 Design solution according to affiliation

Each Party represents political solution to debt problems differently, outlines the two basic directions

6.2.1 Right-wing party solution

The right-wing parties are looking for debt solutions in the VAT rate increase, for example where you can find food, medicine or transportation. On the other hand rejects the increase in direct taxes for individuals and corporate persons. Justifies its position that the tax in times of crisis does not cover such loss, as in direct taxes. Right-wing parties intend to go into pension and health reforms, aiming to solve change of system of social benefits. Pension reforms, indeed, health care reform is to persuade people to save their own resources on health and pensions. The positive impact of these solutions are not reflected in the budget and in the longer term. [39]

6.2.2 Left-wing party solution

Left-wing parties intend to solve debt introducing higher taxes for people with incomes above 100 thousand. CZK, it would also propose to increase taxes for companies from 19 to 21 % by the state received approximately 12 billion CZK. The different is the approach to reform. Left-leaning parties would rather have embarked on cost reduction through better procurement and reducing operating expenses. But this does not save tens of billions each year. [39]

On the way to reduce public debt is always necessary to make a coherent analysis of the selected mode. It is important to realize that the way to debt relief is a painful but necessary. An effective solution is to reduce state employees, pension and health reforms, reduce the complexity of collecting taxes, simpler and more transparent public procurement. [39]

Conclusion

The aim of this Bachelor Thesis was to evaluate the development, causes and impact of the debt of the Czech and Slovak Republics. And also to evaluate the conclusions that we have reached. The debt burden of the State as well as private debt, simply is increasing, but it is very difficult to reduce this tempo of debt growth. In recent years this had been one of the fastest growing debts in Europe.

Overall, the foundation of the Czech Republic amounted a gross state debt of almost CZK 164 billion which represented 17 % of GDP. Slovakia took over from the former federation debt of 75.6 billion SKK. and overall in the first year after division of the federation managed the debt of EUR 116 billion, a 28 % GDP. In 2010 it reached the value of total debt to the Czech Republic around 1404 billion CZK, which corresponds to 38.5 % of GDP. Slovak Republic in 2010 showed the public debt of 26.52 billion euros, ie 43.4 % of GDP. Looking at this result we can say that the Czech Republic compared to Slovakia in terms of debt to GDP was by nearly 5 % better. But we must not forget the series of reforms which is before our country, while the Slovak Republic has carried them out in times of economic growth. Comparing the ratio of government debt with an average of the European Union we will come to the conclusion that both countries do not have even half of these values. From the summary of the debt of the Czech and Slovak Republic, we come to the conclusion that the ratio of public debt to GDP is low with the Maastricht criteria, which serves as a frequent argument to further debt problems and underestimating the growth of Czech, Slovak hence public debt. One from the main causes of increasing debt in both countries is how continuously repeated deficit financing, which occurred during periods of economic expansion. Summary of the debt of the Czech Republic we come to the conclusion that the ratio of public debt to GDP is low with the Maastricht criteria, which serves as a frequent argument to further debt problems with underestimating the growth of Czech, Slovak public debt.

The problem we should look for in a constantly repeating deficit management. In comparison with 1993 as the Czech Republic to increase the public debt of more than 1 200 billion CZK. From the perspective of the Slovak Republic during the period from 1995 - 2009 in the development of debt relative to significant fluctuations. At face value,

however, since 1993, Slovak debt has increased by more than 20 billion euros. Strong interest is also a burden in the years 1996 - 2000 have increased interest in the Czech Republic up to almost 100 billion CZK. This greatly influenced the amount of mandatory spending. In terms of share of GDP deficit recorded in 2010 compared to Slovak Czech Republic by around 3 % better results. In 2010, the Czech Republic managed to manage the 4.7 % deficit to GDP. Slovakia showed 7.8 %, no country has therefore failed to fulfill the Maastricht criterion.

The second cause of debt is wrong transforming the Czech and Slovak Republics, where was inconsistent separation of the emerging private and state ownership. More than 10 years raiser large part of transformation costs directly, off-budget debt. Causes of the rise of public debt lay off the public finances and in most cases beyond the control of public

On the basis of these causes, impacts and possible repayment of public debt may further understand the reasons why the national debt is difficult to solve with large negative consequences for society as a whole. Their solution is connected, like that at the national debt must always be, with decline in living standards in the future. This future we managed long wait, but today when attached to debt problems the economic recession caused by the buildup of mainstream economics, business inexplicable errors, it becomes a serious debt problem. Outlined solutions, reducing costs, decreasing the state's role in the economy, privatization of state property any other way than was recorded in both countries, the delegation of public services and goods to private sectors, will hardly be realized in the system of democracy. where these things decided to temporarily elected representatives people. Politicians will continue to maximize the current level of public goods and services, and postponing problems. On the other hand, voters will still expect payment for their involuntary different services. If bureaucratic management could identify the tax preference but not without the ability to calculate efficiently allocate resources. Important will be to simultaneously cutting spending and reducing the state's role in the economy, to reduce the tax burden. Important will be to simultaneously cutting spending and shrinking the state's role in the economy and reduce the tax burden. Governments of both countries have plans to reduce public debt in the coming years we will see whether to commit to unpopular steps.

BUSINESS REVIEWS



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Hodnocení bakalářské práce ústavem Ekonomika a řízení

Název bakalářské práce: Analýza a komparace vývoje veřejného dluhu v České republice a na Slovensku v letech 1999 - 2010

Jméno a příjmení autora práce: Monika Solanská
Studijní obor: Finance a daně

| Kritéria hodnocení | A | B | C | D | E | F |
|--------------------------|---|---|---|---|---|---|
| 1. Náměnitost práce | | X | | | | |
| 2. Splnění cílů práce | | X | | | | |
| 3. Teoretická část práce | | X | | | | |
| 4. Praktická část práce | | | X | | | |
| 5. Formální úprava práce | | | X | | | |

Hodnocení v jednotlivých kritériích označte X

| Abecední hodnotící stupnice | | | | |
|-----------------------------|--------------------|------------------|-------------------------------|----------------------|
| Číselné hodnocení | Abecední hodnocení | Slovní hodnocení | Anglický ekvivalent hodnocení | Procentuální rozpětí |
| 1 | A | excellentní | upper - excellent | 90 - 100 % |
| 2 | B | výborný | lower - excellent | 80 - 89 % |
| 3 | C | velmi dobrý | very good | 70 - 79 % |
| 4 | D | dobrý | good | 60 - 69 % |
| 5 | E | uspokojivý | sufficient | 50 - 59 % |
| 6 | F | nevyhovující | fail | pod 50 % |

Práci doporučuji – nedoporučuji* k obhajobě. (*nehodící se škrtnete)

Bakalářskou práci navrhuji klasifikovat stupněm: B

Hodnocení vypracoval: Ing. Ondřej Šahara

V Kunovicích dne: 18. 4. 2011

podpis hodnotitele bakalářské práce

ABSTRACT

Monika Solanská *Thesis title: Comparison and analysis of public debt development in the Czech Republic and Slovakia in 1999 - 2010.* Bachelor Thesis. European Polytechnic Institut Ltd., Kunovice

Supervisor: Ing. Tibor Hlačina

Key words: Public debt, state debt, reporting methodology, net debt, gross debt, internal state debt, foreign state debt, Maastricht fiscal criteria, transformation costs.

In this Bachelor thesis there is analyzed and compared the development of public debt in the Czech Republic and the Slovak Republic in 1999 - 2010. There are listed theoretical solutions of the fiscal imbalance, then described the structure of public debt and state budget. It is also a comparison of the common features and main differentiation of income and expenditures between these two countries. The main part of this work compares the creation and development of public debt and set out the causes and consequences of public debt. The last part is devoted to the possible solution to reduce debt and summarizes the attitudes of right-wing and left-wing parties on this issue.

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List of Abbreviations

| | |
|----------|---|
| % | Percent |
| CNB | Czech National Bank |
| Coll. | Collections |
| CR | Czech Republic |
| CSOB | Czechoslovak commercial bank |
| CZK | Czech koruna |
| e.g. | example |
| EMM | European Monetary Union |
| ESA 95 | European System of Integrated Economic Accounts |
| EU | European Union |
| etc. | et cetera |
| GFS 1986 | Government Finance Statistic |
| GDP | Gross domestic product |
| GNEC | Government's national economic council |
| MOF | Ministry of Finance |
| SAO | Supreme Audit Office |
| SK | Slovak Republic |
| SKK | Slovak koruna |
| VAT | Value Added Tax |

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Annex 1: Overview of public spending by individual chapters of the Czech Republic

| Chapter | Total expenditure in thousands in CZK |
|---|---------------------------------------|
| President's Office | 375 750 |
| Chamber of Deputies of Parliament | 1 183 151 |
| Senate | 551 155 |
| Government Office | 722 633 |
| Security Information Service | 1 214 681 |
| Ministry of Foreign Affairs | 6 403 613 |
| Ministry of Defence | 48 867 060 |
| National Security Authority | 272 082 |
| Office of Ombudsman | 104 154 |
| Ministry of Finance | 17 192 861 |
| Ministry of Labour and Social Affairs | 476 488 541 |
| Ministry of Interior | 61 270 573 |
| Ministry of Environment | 17 693 724 |
| Ministry for Regional Development | 8 137 683 |
| Grant Agency CR | 2 016 142 |
| Ministry of Industry and Trade | 18 097 175 |
| Ministry of Transport | 71 037 878 |
| Czech Telecommunications Office | 560 116 |
| Ministry of Agriculture | 39 529 035 |
| Ministry of Education, Youth and Sports | 125 207 635 |
| The Ministry of Culture | 8 248 384 |
| Ministry of Health | 7 899 704 |
| Ministry of Justice | 22 067 742 |
| The Office for Personal Data Protection | 193 216 |
| Office of Industrial Property | 178 704 |
| Czech Statistical Office | 1 337 242 |
| Czech Office for Surveying, Mapping and Cadastre | 3 431 973 |
| Czech Mining Office | 176 502 |
| Energy Regulatory Office | 112 023 |
| Office for the Protection of Competition | 135 838 |
| Institute for the Study of Totalitarian Regimes | 163 741 |
| Constitutional Court | 154 740 |
| Academy of Sciences | 5 157 946 |
| The Council for Radio and Television Broadcasting | 58 957 |
| Administration of State Material Reserves | 2 157 449 |
| State Office for Nuclear Safety | 368 449 |
| Technology Agency of | 51 960 |
| The Supreme Audit Office | 592 875 |
| Government Debt | 76 356 669 |
| State Financial Assets | 2 401 635 |
| General Treasury Administration | 156 747 959 |
| TOTAL | 1 184 919 350 |

Source: : [40]

Annex 2: Overview of public spending by individual chapters of the Slovak Republic

| Chapter | Total expenditure in thousands in € |
|---|-------------------------------------|
| Office of the National Council of the SR | 41 455 690 |
| Office of the President of the SR | 4 040 161 |
| Government Office of SR | 26 993 370 |
| Office of the Constitutional Court of SR | 2 853 383 |
| The Supreme Court of the SR | 8 521 793 |
| The General Prosecutor's Office of SR | 62 502 886 |
| The Supreme Audit Office | 8 195 815 |
| Slovak Information Service | 43 299 886 |
| Ministry of Foreign Affairs | 107 954 125 |
| Ministry of Defence | 822 943 926 |
| Ministry of Interior | 838 574 955 |
| Ministry of Justice | 270 033 393 |
| Ministry of Finance | 491 319 433 |
| Ministry of Environment | 329 600 930 |
| Ministry of Education | 2 348 231 752 |
| Ministry of Health | 1 439 532 045 |
| Ministry of Labour, Social Affairs and Family | 1 967 688 130 |
| The Ministry of Culture | 169 772 522 |
| Ministry of Economy | 319 167 319 |
| Ministry průdohospodářství | 1 158 603 339 |
| Ministry of Construction and Regional Development | 494 350 126 |
| Ministry of Transport, Posts and Telecommunications | 1 424 995 529 |
| Geodesy, Cartography and Cadastre | 39 604 067 |
| Statistical Office | 29 546 627 |
| Office for public procurement | 2 948 242 |
| Office of Nuclear Regulatory | 4 465 344 |
| Office of Industrial Property | 3 137 869 |
| Office normalizaci, Metrology and Testing | 7 254 780 |
| Antitrust Authority | 2 367 745 |
| National Security Authority | 8 800 101 |
| Administration of State Material Reserves | 28 101 998 |
| General Treasury Administration | 3 704 816 670 |
| Slovak Academy of Sciences | 65 326 009 |
| TOTAL | 16 276 999 960 |

Source: [41]

Annex 3: List of Prime Ministers and Ministers of Finance of the Czech Republic

Government

Government of Václav Klaus I.

(2. 7. 1992 - 4. 7. 1996)

Government of Václav Klaus II.

(4. 7. 1996 - 2. 1. 1998)

Government of Josef Tošovský

(2. 1. 1998 - 17. 7. 1998)

Government of Miloš Zeman

(22. 7. 1998 - 12. 7. 2002)

Government of Vladimír Špidla

(15. 7. 2002 - 4. 8. 2004)

Government of Stanislav Gross

(4. 8. 2004 - 25. 4. 2005)

Government of Jiří Paroubek

(25. 4. 2005 - 16. 8. 2006)

Government of Mirek Topolánek I.

(4. 9. 2006 - 9. 1. 2007)

Government of Mirek Topolánek II.

(9. 1. 2007 - 8. 5. 2009)

Government of Jan Fischer

(25. 6. 2010 - 13. 7. 2010)

Government of Petr Nečas

(od 13. 7. 2010)

Minister of Finance

Ivan Kočárník

(2. 7. 1992 - 4. 7. 1996)

Ivan Kočárník

(4. 7. 1996 - 2. 6. 1997)

Ivan Pilip

(2. 6. 1997 - 2. 1. 1998)

Ivan Pilip

(2. 1. 1998 - 17. 7. 1998)

Ivo Svoboda

(22. 7. 1998 - 20. 7. 1999)

Pavel Mertlík

(21. 7. 1999 - 12. 4. 2001)

Jiří Rusnok

(13. 4. 2000 - 12. 7. 2002)

Bohuslav Sobotka

(15. 7. 2002 - 4. 8. 2004)

Bohuslav Sobotka

(4. 8. 2004 - 25. 4. 2005)

Bohuslav Sobotka

(25. 4. 2005 - 16. 8. 2006)

Vlastimil Tlustý

(4. 9. 2006 - 9. 1. 2007)

Miroslav Kalousek

(9. 1. 2007 - 8. 5. 2009)

Eduard Janota

(25. 6. 2010 - 13. 7. 2010)

Miroslav Kalousek

(od 13. 7. 2010)

Source: [42]

Annex 4: List of Prime Ministers and Ministers of Finance of the Slovak Republic since 1993

Government

Government of Vladimír Mečiar I.

(1. 1. 1993 - 14. 3. 1994)

Government of Jozef Moravčík

(16. 3. 1994 - 13. 12. 1994)

Government of Vladimír Mečiar II.

(13. 12. 1994 - 29. 10. 1998)

Government of Mikuláš Dzurinda I.

(30. 10. 1998 - 8. 10. 2002)

Government of Mikuláš Dzurinda II.

(8. 10. 2002 - 4. 7. 2006)

Government of Róbert Fico

(4. 7. 2006 - 8. 7. 2010)

Government of Iveta Radičová

(od 9. 7. 2010)

Minister of Finance

Július Tóth

(1. 1. 1993 - 14. 3. 1994)

Rudolf Filkus

(16. 3. 1994 - 13. 12. 1994)

Sergej Kozlák

(13. 12. 1994 - 14. 1. 1998)

Miroslav Maxon

(14. 1. 1998 - 29. 10. 1998)

Brigita Schmögnerová

(30. 10. 1998 - 28. 1. 2002)

František Hajnovič

(29. 1. 2002 - 15. 10. 2002)

Ivan Miloš

(16. 10. 2002 - 4. 7. 2006)

Ján Počiatek

(4. 7. 2006 - 8. 7. 2010)

Ivan Mikloš

(od 9. 7. 2010)

Source: [43]