

## REVENUE AND EXPENDITURE ANALYSIS FROM THE POINT OF VIEW OF THE STATE BUDGET BALANCE

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### ABSTRACT

The aim of this article is to compare the revenue and expenditure of the state budget in two EU countries - in the Slovak Republic (SR) and Czech Republic (CR). Due to the fact that the SR and CR are paying other currency, we have compared only the ratio indicators of both countries. For the reference period, we have identified the period from 2014 to 2018. In this period the economies of both countries have completely overcome the effects of global financial and economic crisis and achieved relatively high economic growth. It was a period very favourable to the governments already not to implement state budget deficits but on the contrary to achieve a balanced state budget.

The average rate of economic growth in the reporting period amounted to 3.6% in the Slovak Republic and to 3.2% in the Czech Republic. The unemployment rate in the SR decreased from 12.3% in 2014 to 5.0% in 2018 and in the CR from 6.1% to 2.1% in the same period. The share of public debt to GDP fell from 53.5% in 2014 to 48.7% in 2018 in the SR. The same indicator fell much more sharply in the CR, from 42.2 % in 2014 to 30.5% in 2018. Fiscal position of the SR and CR was thus during the reporting period favourable.

Total revenue of the state budget in the CR in reporting period slightly grew (with the exception of their minimal decline in 2016). The Czech Republic nearly has reached balanced budget in the year 2017. Significant growth of state budget revenue took place in the year 2018, which greatly contributed to the surplus of the state budget in 2018. The surplus was not only a result of economic boom, but primarily a result of structural improvement in public finances. Favourable economic situation allows to create reserves on cyclical fluctuations in the future, what the Czech government actually is carrying out through the creation of surpluses and decline in debt ratio.

The state budget revenue in the Slovak Republic has been relatively stable during the reporting period, they moved at an interval of 14.1 - 4.4 milliard EUR. In the year 2018 has reached a historical maximum of 15.4 milliard EUR. The Slovak government has introduced a number of measures at that time, which have asked for an increase in expenditure from the state budget. They are not measures that would have brought positive structural changes and which would have, in the medium or long term a positive effect on the revenue part of the state budget or budget of municipalities. These are a few packages of social measures. Although in terms of solidarity is the goal of these measures correct, most of them have been introduced across the board, that is, they were addressed to the individuals or families whose economic situation does not require it.

The Czech Republic made use well a very favourable economic situation in the last five years, to achieve a balanced (or surplus) state budget. The Slovak Republic also gradually reduces the state budget deficit, however, it persists still. Therefore, it can be stated that the fiscal policy of the Czech Republic was more responsible than the fiscal policy of the Slovak Republic.

**Keywords:** *state budget, revenue, expenditure, public debt*

## INTRODUCTION

One of the most important tasks of the government is the management of the public finances of the country to achieve its economic prosperity. The Slovak Republic (SR) and the Czech Republic (CR) have been in past for a few decades part of a single state. Therefore, it may be interesting to look at how successful are those now separate countries in the economic field, and specifically in the fulfilment of fiscal responsibility. The years 2014 to 2018, that we have chosen in our research for the reference period, have already been overtaken negative effects of the global financial and economic crisis, and the economies of the SR and CR amounted to a relatively high economic growth. It was a period of time (and still is) very favourable to the governments that already don't create state budget deficits, and on contrary, achieve a balanced state budget, respectively, its surplus and more significantly reduce the public debt. Therefore, the aim of this article is to compare the revenue and expenditure of the state budget in these two countries, which are the EU members since the year 2004, as well as their disciplining in the field of use of the public funds.

## DEVELOPMENT OF BASIC MACROECONOMIC INDICATORS IN THE SLOVAK REPUBLIC AND THE CZECH REPUBLIC

With the exception of year 2015 was growth of the Slovak economy annually higher than rate of growth of the Czech economy. The most significant difference was observed in year 2018, when the Slovak economy grew by 1.3% faster than the Czech economy. The average annual rate of economic growth during the reporting period amounted to 3.6% in the SR and 3.2% in the CR. In year 2016, the strong economic growth in the CR decreased also as a result of exhausting of euro funds. [4].

*Table 1 Development of the economic growth rate in the Slovak Republic and Czech Republic (%)*

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Slovak Republic	2,4	3,8	3,3	4,5	4,3
Czech Republic	2,0	4,3	2,4	4,5	3,0

*Source: own processing based on data of the Ministry of Finance of the SR and CR*

*Table 2 Development of the unemployment rate in the Slovak Republic and Czech Republic (%)*

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Slovak Republic	12,3	10,6	8,8	5,9	5,0
Czech Republic	6,1	5,1	4,0	2,9	2,1

*Source: own processing based on data of MF SR and MF CR*

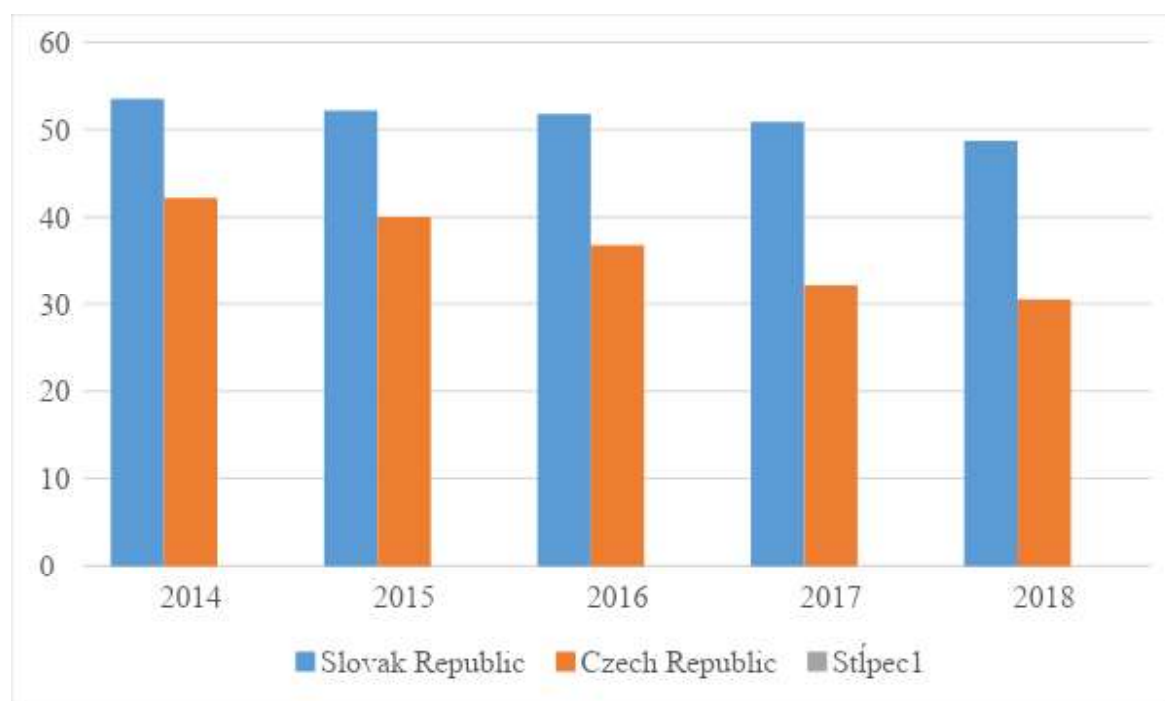
The unemployment rate in the SR and in the CR decreased every year during the reference period, while in both countries has reached historical lows in year 2018. The unemployment rate in the Czech Republic for the whole of the reference period was substantially lower than in the Slovak Republic and belongs to the lowest in the EU. Both states have managed to reduce unemployment to such level that in some sectors (for example, the Slovak automotive industry) is a need to import workers from abroad. [1]. Economy of the Czech Republic has achieved a significantly lower unemployment in the reporting period. It should, however, take into account

the fact that the Slovak Republic had in the field of unemployment worse starting conditions than the Czech Republic.

*Table 3 Development of the public debt share to GDP in the Slovak Republic and Czech Republic (%)*

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Slovak Republic	53,5	52,2	51,8	50,9	48,7
Czech Republic	42,2	40,0	36,8	32,2	30,5

*Source: own processing based on data of MF SR and MF CR*



*Chart 1 Development of the public debt share to GDP in the Slovak Republic and Czech Republic (%)*

The share of public debt to GDP has declined each year in the SR and CR during the reporting period. The share of public debt to GDP in the CR decreased in year 2018 by 38.3%, compared with year 2014, while in the SR over the same period dropped only by 9.9%. [2]. Nevertheless, the amount of public debt of both countries in absolute terms did not decrease so significantly (in the SR by 1.3% and in the CR by 2.5%).

*Table 4 Development of the public debt amount in the Slovak Republic (EUR mill.)*

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Slovak Republic	40 725	41 295	42 053	43 230	40 200

*Source: own processing based on data of the Ministry of Finance of the SR*

*Table 5 Development of the public debt amount in the Czech Republic (CZK milliard)*

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Czech Republic	1 664	1 673	1 613	1 625	1 622

*Source: own processing based on data of the Ministry of Finance of the Czech Republic*

The share of the public debt to GDP fell in the reporting period in the CR by 38.3%, while in the SR decreased over the same period only by 9.9%. [7].

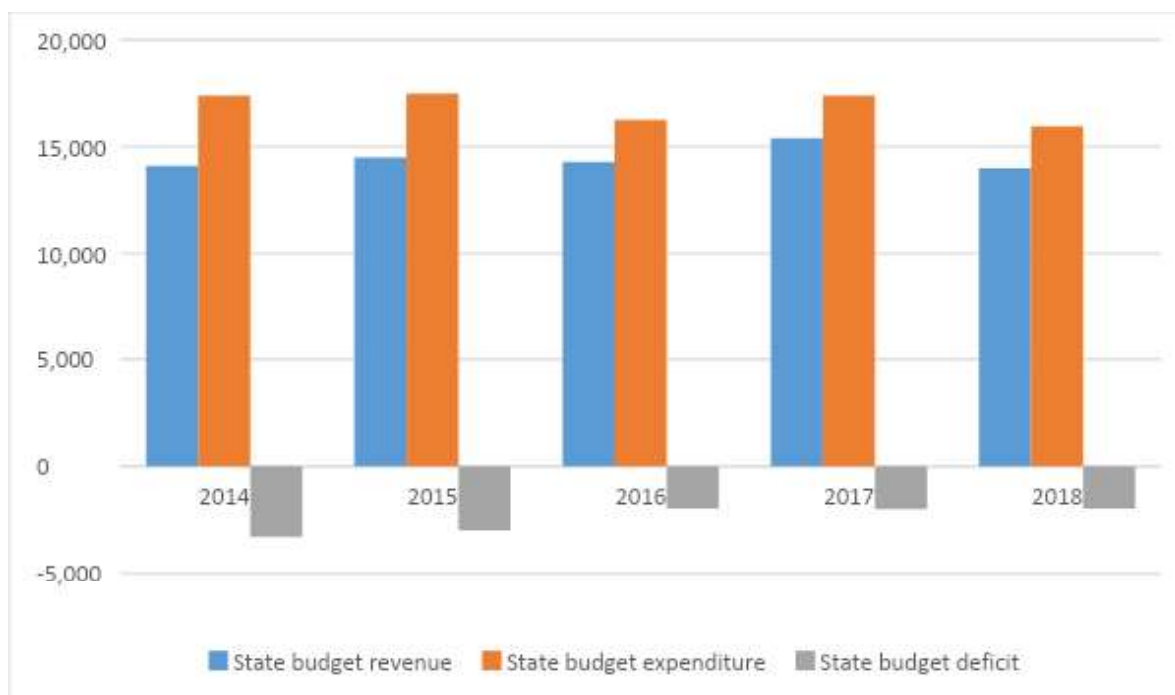
**DEVELOPMENT OF THE STATE BUDGET REVENUE AND EXPENDITURE IN THE SLOVAK REPUBLIC AND CZECH REPUBLIC**

Total revenue of the state budget in the Slovak Republic in year 2017 rose to 15.4 milliard EUR and reach an all-time maximum. In year 2018 decreased to 14.0 milliard EUR. Throughout the reporting period, the state budget revenue have been relatively stabilized. Development of the expenditure was followed by the development of the revenue. [6].

*Table 6 Total revenue and expenditure of the state budget in the Slovak Republic (EUR mill.)*

	2014	2015	2016	2017	2018
State budget revenue	14 108	14 495	14 277	15 390	13 983
State budget expenditure	17 392	17 479	16 247	17 383	15 956
State budget deficit	-3 284	-2 984	-1 970	-1 993	-1 973

*Source: own processing based on data of the Ministry of Finance of the SR*



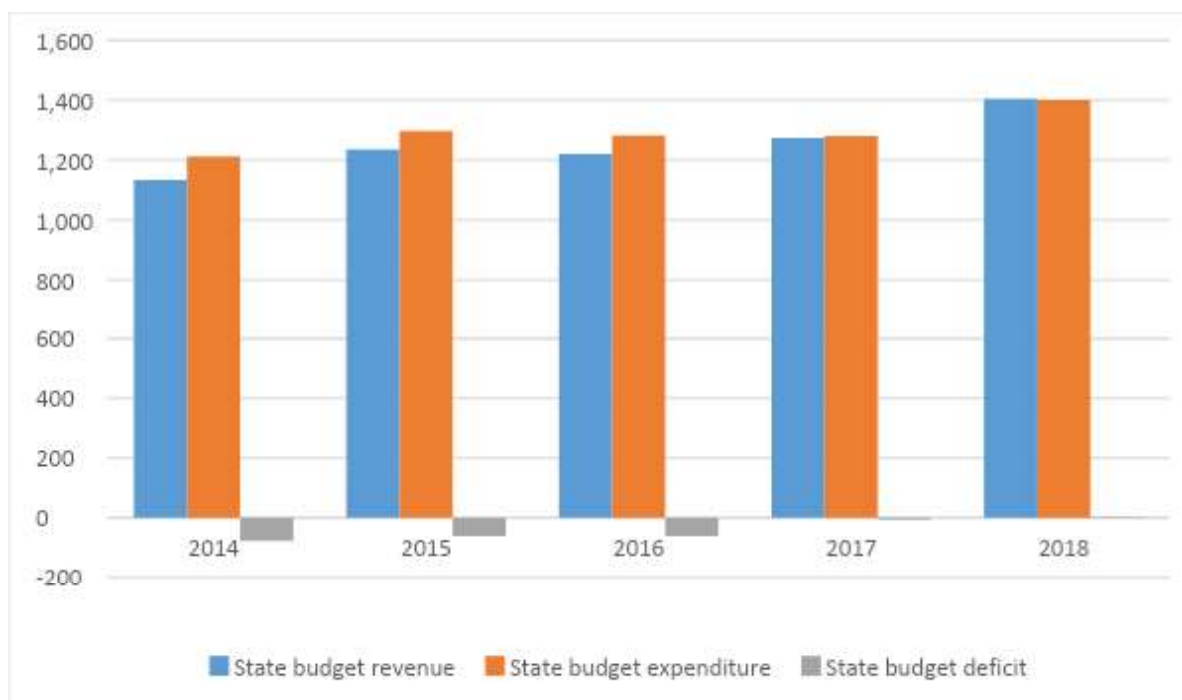
*Chart 2 Total revenue and expenditure of the state budget in the Slovak Republic (EUR million)*

Total revenue of the state budget in the CR have increased consistently in the reporting period (with the exception of their minimum decline in 2016). The revenue growth was not dynamic. Also the state budget expenditure moved in the period from 2014 to 2017 in a very narrow interval from 1 212 to 1 260 milliard CZK. Already in year 2017 the state budget of the Czech Republic was almost balanced. A significant growth of the state budget revenue took place in year 2018, when it reached a maximum height of 1 404 milliard CZK. This revenue growth also has contributed to the fact that in year 2018 the state budget of the Czech Republic was in surplus. [3].

*Table 7 Total revenue and expenditure of the state budget in the Czech Republic (billion CZK)*

	2014	2015	2016	2017	2018
State budget revenue	1 134	1 235	1 220	1 274	1 404
State budget expenditure	1 212	1 297	1 282	1 280	1 401
State budget deficit	-77,8	-62,8	-61,8	-6,2	3,0

*Source: own processing based on data of the Ministry of Finance of the CR*



*Chart 3 Total revenue and expenditure of the state budget in the Czech Republic (billion CZK)*

The Czech Republic has used a very favourable economic situation in the past five years in the order to achieve a balanced budget. [5]. The Slovak Republic has also reduced the state budget deficit gradually, however, the deficit still persists. In 2018 it amounted to 2.0 billion EUR, what makes up 14.1% of the state budget total revenue.

This development was greatly affected by the fact that the Slovak government has introduced a number of measures, which have requested an increase in the state budget expenditure. In doing so, they are not measures that would have brought structural changes in the economy and that would have a positive effect in medium or long term in the revenue part of the state budget or budgets of municipalities. There are, for example, a number of social packages, the introduction of trains for free for a good part of the population, free lunch for school children, the pension ceiling, raising the Christmas allowance for retirees, vacation vouchers and more. These measures are an example of a disorderly and politically motivated fiscal policy, aiming, in particular, to strengthen the declining preference for political parties of the current government coalition.

Although is the goal of these measures of the Slovak government – to help the socially weaker groups of population - in terms of solidarity the right, some of these measures have been

introduced across the board. This means that the expenditure from the state budget and other public budgets were addressed also to individuals or families whose economic situation does not require it.

## CONCLUSION

The government of the Slovak Republic has implemented an expansionary fiscal policy in the reporting period, in particular by increasing the expenditure in almost all major chapters of the state budget. This has helped to significant growth of the gross domestic product. Some of the government measures, such as the introduction of financial licenses, however, should take the form of restrictive fiscal policy.

The Slovak government declared several times that when the economy is doing well, it must to share with this success with the citizens. However, it does not take into account the fact that balanced budgetary management and also a reduction of public debt can be achieved, especially in a period of dynamic economic growth. After the growth of the economy will begin to slow and a recession and crisis come, a balanced budgetary management will be significantly more complicated.

The Czech Republic almost reached a balanced state budget in 2017. Greater revenue growth occurred up to the year 2018. It has contributed significantly to the fact that in 2018 the state budget surplus has been achieved. The surplus management was not only the result of the economic boom but primarily the result of structural improvement in public finance. The structural balance achieved in year 2016 due to the influence of strong fiscal effort positive values.

The Slovak Republic also gradually decreased the state budget deficit, but failed to achieve a balanced budget. In 2018, the state budget deficit of the Slovak Republic amounted to 2.0 milliard EUR, which is 14.1% of the total state budget revenue. The Czech Republic was able to take better advantage of the very favourable international and domestic economic situations in recent years.

## ACKNOWLEDGEMENTS

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