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# Analysis of the 2024 State Budget Expenditure in Light of the 2019 Pre-Crisis Year<sup>2</sup>

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## Summary

- Our analysis compares the 2024 state budget proposal approved by the government with 2019 state budget results. The interim period includes two major events with a number of significant economic impacts - the coronavirus and Russia's aggression in Ukraine. We compare the percentage increases in key state budget expenditures with the 40.6% increase in prices and the 33.9% increase in nominal gross domestic product (GDP) over the same period, 2019-2024. Comparison that takes inflation into account is indicative of the change in the real value of spending, while comparison accounting for GDP growth shows the change in the shares of spending in GDP.
- Between 2019 and 2024, the Ministry of Finance estimates a 43% increase in state budget expenditures, which far exceeds the 28.9% increase in state budget revenues and the increase in nominal GDP, but only slightly exceeds the increase in consumer prices. The increase in state budget revenues implies a decline in their share of GDP and an even more significant decline in their real value. On the other hand, the increase in state budget expenditures will exceed the increase in nominal GDP, but its real 2024 value will be close to the 2019 level.
- However, the overall increase in state budget expenditures (43.0%) is comprised of very different developments in individual expenditure items. Spending on regional education and social benefits, including parental and sickness benefits, will increase in line with the consumer price level - the real value of spending in 2024 will therefore be similar to that in 2019. In nominal terms (i.e., even without inflation), investments in education,

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agriculture, and the Ministry of Regional Development, and subsidies for some cultural activities, will fall. When we take inflation into account, the decrease in their real value is even more pronounced. In contrast, spending on pensions, defense, national insurance, and national debt repayments will rise more than GDP, and more than the price level. Thus, the share of GDP and the real value of these budget items will rise.

- 90% of the CZK 659 billion increase in the planned 2024 state budget of CZK 2 192 billion compared to the actual 2019 state budget of CZK 1 533 billion (+43.0%) can be explained by only seven budget expenditures (in order of absolute increases). Only four will see a significant increase in their real value (blue):
  - Pensions (+50%; +234 billion CZK)
  - Ministry of Defense expenditures (+121%; + CZK 83 billion)
  - Contributions for state insured people (+110%; + CZK 79 billion)
  - Expenditures on regional education, especially teachers' salaries (+41%; + CZK 59 billion)
  - Social benefits, including maternity and sick leave (+43%; + CZK 56 billion)
  - Servicing the national debt (+138%; + CZK 55 billion)
  - Transfers from the Ministry of Transport to the State Fund for Transport Infrastructure (+39%; +23 billion CZK)