

Deviations between Government Debt and Changes in Government Deficit, Why They Tend to Persist

Václav Rybáček¹ | Jan Evangelista Purkyně University in Ústí nad Labem, Ústí nad Labem, Czech Republic

Abstract

Government deficit and debt represent one of the most prominent statistical aggregates playing a major role in the fiscal surveillance and in the assessment of fiscal sustainability. Achieving fiscal sustainability commonly requires a certain level of surplus/deficit to maintain a sustainable level of debt. When doing so, a close relation between both key aggregates is implicitly expected. Long-term evolution of both aggregates however does not confirm that it is the case. By analysing the data for the period 2001–2020 and by discussing the underlying statistical methodology, the paper aims to scrutinise the key factors contributing to rather counterintuitive findings where the debt is growing at a faster pace, even in the long-term, than the government deficit/surplus would suggest. The paper thus discusses the methodological causes behind the observed deviation.

Keywords

Government deficit, government debt, stock-flow adjustments, fiscal sustainability

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H11, H60, E62

INTRODUCTION

Fiscal sustainability has become one of the main challenges for governments around the globe. After dealing with the consequences of the financial crisis erupting at the end of the first decade of the 21st century, the governments are currently coping with the consequences of the COVID-19 pandemic. In doing so, the governments have routinely expanded their expenditure along with higher activity on the financial market where the government's aim is to raise additional funding by way of issuing debt instruments or acquiring loans. On the top of that, the supra-national institutions such as the European Commission step in the recovery process. By starting to issue their own debt instruments, the need for a thorough fiscal surveillance was further reinforced.

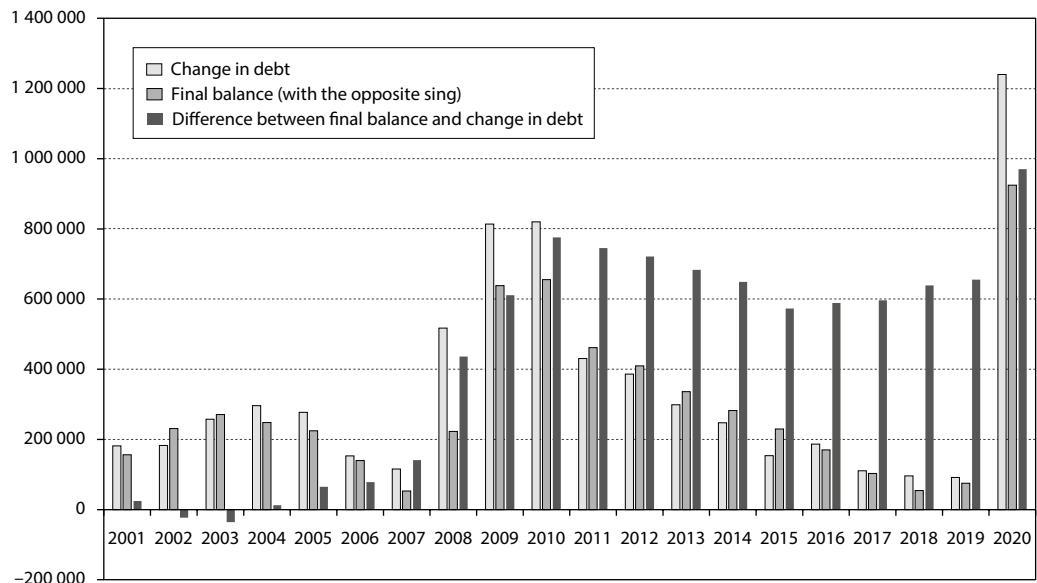
¹ Faculty of Social and Economic Science, Jan Evangelista Purkyně University in Ústí nad Labem, Moskevská 54, 400 96 Ústí nad Labem, Czech Republic. E-mail: vaclav.rybacek@centrum.cz.

The approach towards sustainability of the public finance generally presupposes that there is a close correlation between government debt and changes in surplus/deficit. However, the construction of the relevant statistical system delivering this information leaves a wide room for deviations. As the actual evolution of the relevant aggregates signifies, sizeable disparities between the dynamics of both major aggregates tend to exist even in the long-term. Against this background, to monitor the development of the government net lending/borrowing (hereinafter: ‘B.9’)² does not necessarily suffice to conclude whether government manages its revenue and expenditure in a way which allows government to maintain its debt and the debt service at a sustainable level.

The paper thus deals with the key driving forces of existing deviations between B.9 and changes in debt, as provided by the statistical model of national accounts. The first part of the paper refers to the most recent research carried out in this field and the implication for the robustness of its conclusions. The second part concisely describes the key elements on which the statistical system is built, with a special attention paid to the sources of deviations further demonstrated by currently available data. The third part then discusses explanatory power of available public finance data and the corollaries of the existing disparities for macroeconomic analysis. The final aim of the paper is to identify whether specific operations may account for the diverting development of both aggregates.

To demonstrate the scope of this issue by using the respective data published in the context of the April 2021 EDP notification, the following figure reveals the evolution of the accumulated difference between B.9 and changes in debt for the EU-27 over the period 2001–2020. From the plotted data, we can infer that the nominal differences have been growing, which concerns mainly the years when the countries experience economic downturns, otherwise being broadly stable. Over the analysed period, the accumulated difference reached EUR 970bn that corresponds to 7.2% of the 2020 GDP of the EU-27.

Figure 1 Final balance (B.9), change in debt, the difference between final balance and change in debt (EU-27), 2001–2020 (in EUR)

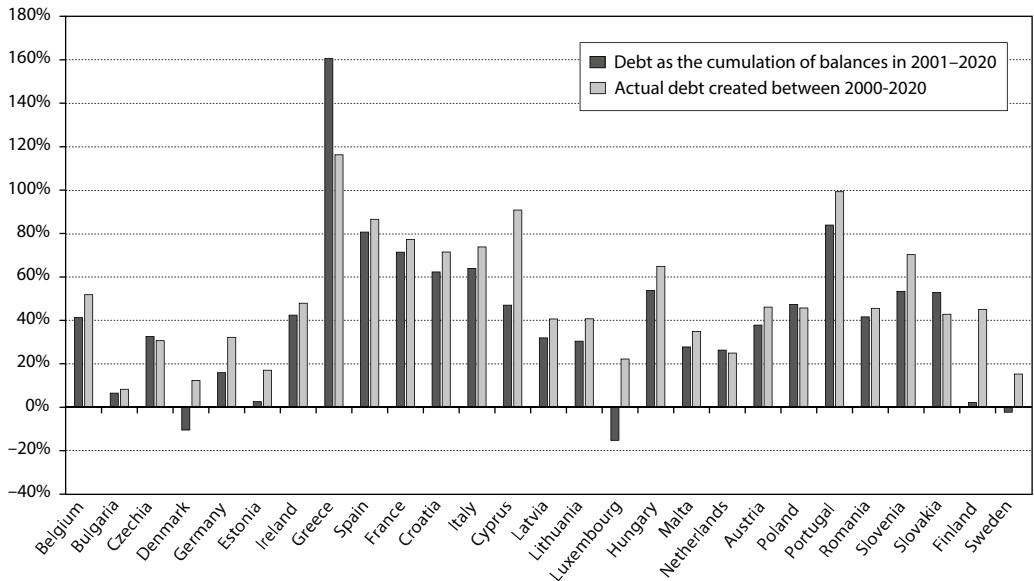


Source: Eurostat, own calculation

² Here the coding as introduced in the ESA 2010 is followed.

Although the extent of differences, in relative terms, may appear to be not that sizeable, this is not always the case at the level of individual countries. In the following figure, plotting the relative values of the accumulated deficits and the debt increases over the period concerned,³ striking differences are observable in several cases such as Greece, Luxembourg, Finland, Sweden, Cyprus and Denmark. In those individual cases, the evolution of both aggregates provides, to a certain extent, somewhat different signals about the evolution of debt against the evolution of B.9.

Figure 2 The comparison between the actual debt and the accumulated surpluses/deficits by countries (EU-27), percentage of GDP



Source: Eurostat, own calculation

Taking Luxembourg as a textbook example, were all expenditures or revenues coupled with a corresponding transaction in debt instruments, the debt would have been by 15 percentage point lower or the said country would have accumulated assets reflecting the surpluses achieved in the analysed period. However, this was not the case. The debt ratio of Luxembourg has increased by 22 percentage points over the period 2001–2020, making the difference between both macroeconomic indicators standing at 37 percentage points. For the sake of the fiscal sustainability assessment, this admittedly poses a challenge, as the stabilisation of debt is obviously not only a matter of improvements in the management of the government budget. The aim of this paper is thus to analyse the reasons as to why differences of this kind not only exist but also tend to persist or even grow in their size.

1 LITERATURE REVIEW

As elaborated in detail in part 3 of the paper, the transition between the government net lending/net borrowing (B.9) and the change in debt is generally designated as ‘stock-flow adjustments’ (hereinafter ‘SFA’). The importance of the SFA in understanding of the mutual relation between B.9 and changes in debt has been extensively investigated in numerous studies, e.g., Rybáček and Musil (2020), Weber

³ The value of GDP, to which both values are related, is reckoned as the sum of the nominal GDP values created in all years in the period concerned (2001–2020).

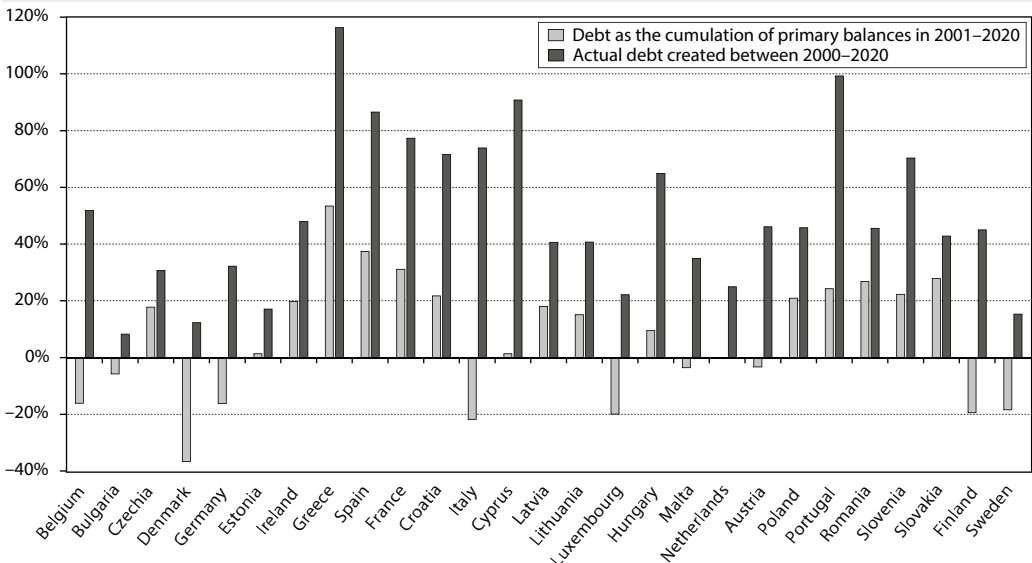
(2012), Alfonso and Jalles (2020), Milesi-Ferretti (2003), Izák (2008, 2009), or Dvořák (2010). Some perceives the aggregate ‘SFA’ as a blind spot in the government statistics (Jaramillo et al., 2017), which is however contributing to the growth in the government debt (Alfonso and Jalles, 2020; Weber 2012).

These findings are of significance for fiscal surveillance and for the considerations concerning the debt sustainability. When referring to the sustainability of the fiscal policy or of the debt DG ECFIN, the institution responsible for the monitoring of fiscal sustainability in the European Union, refers to the present value of future primary balances to be equal to the current level of debt. In other words, the intertemporal government budget constraint is to be satisfied (DG ECFIN, 2020; Krejdl, 2006). In similar vein, the International Monetary Fund considers the debt sustainability as a situation where the government can meet its current and future obligations without exceptional financial assistance or going to default (Hakura, 2020; Chalk and Hemming, 2000).

As analysed in Rybáček and Musil (2020), the aggregate of ‘government debt’ suffers by several shortcomings which may be overcome by use of an alternative aggregate such as net worth, as previously suggested by Buiter (1985). Following this suggestion, Buiter considers the fiscal policy stabilising the net worth-to-GDP ratio as a hallmark of sustainable fiscal policy. Nevertheless, as correctly objected by Groce and Juan-Ramon (2003), the existing availability of reliable net-worth data does not allow to rely on the net worth indicator. Using the net worth indicator would also bring rather more complications into the fiscal analysis (Rybáček and Musil, 2020). The existing practice thus rely on to the stabilisation of debt-GDP ratio, as suggested by Blanchard (1990).

The development in the debt ratio is assumed to be linked with the evolution of B.9, which is technically the difference between the total government revenue and expenditure. However, when assessing fiscal sustainability, economists rather refer to the concept of primary balance to reflect the actual fiscal behaviour independent of the debt accumulated in the past. The primary balance stands for the total net lending/borrowing (B.9) net of interest expenditure on the already existing debt (Pikhart et al., 2015; Ostry and Abiad, 2005; Balassone and Franco, 2000; Komárková et al., 2013). Following this approach, the debt sustainability is routinely defined as the magnitude of primary balance required for the debt-to-GDP ratio to achieve a pre-defined target by a specified date (Burnside, 2005).

Figure 3 The actual debt vs the accumulated primary balances by countries (EU-27), percentage of GDP



Source: Eurostat, own calculation

It is noted that when leaving the interest expenditure aside, the modified differences between the accumulated final (primary) balances and the change in debt would further grow compared to those presented in Figure 3 where striking differences are observable for even most of the countries. Figure 3 further reveals that when a country runs an accumulated primary deficit, the growth in debt more or less substantially exceeds the theoretical growth in debt if fuelled by the accumulated primary balances, confirming the observation that the relation between both aggregates is less tight than one would expect.

2 METHODOLOGY OF THE STATISTICAL SYSTEM

Construction of the said indicators follow directly or in a slightly modified way, the definitions contained in the system of national accounts, more commonly known as 'ESA 2010' in the European Statistical System. At the European level, the methodology has a nature of regulation act (Regulation (EU) No 549/2013). The overall purpose of national accounts, which in essence is a macroeconomic model, is to provide a description of the economic behaviour and the on-going processes in the entire economy. Public sphere obviously encompasses only a part of the whole economy and of this statistical model. Public sphere is commonly understood as embracing all government-controlled units⁴ operating on the non-market basis.⁵ In technical terms, those units constitute so-called general government sector (S.13), as defined in the methodology of national accounts.⁶

The reporting of the relevant fiscal indicators of deficit and debt however further follows Council Regulation (EC) No 479/2009, as amended by European Regulation (EU) No 679/2010 and Commission Regulation (EU) No 220/2014 (hereinafter: 'EDP regulation'). Although the concepts are broadly the same as defined in ESA 2010, a substantial difference is the way the government debt is estimated for the EDP purposes. While ESA 2010 does not define the debt itself and the valuation of liabilities follows primarily the market concept, the EDP regulation requires the debt to be reported at its nominal value. To avoid a confusion with the basic concept in the ESA 2010 where the notion of nominal value has different meaning, for the fiscal reporting, nominal value is assimilated with face value. In terms of the scope of the instruments, the EDP debt is defined as the sum of 'currency and deposits', 'debt securities' and 'loans', all being recorded on the liability side of the government balance sheet.⁷

As the EDP data are incorporated in the assessment of fiscal sustainability, the following analysis thus employs the debt valued at nominal (face) value and its dynamics is assessed against the development of the total government net lending/borrowing (B.9) instead of the primary balance. Incorporating the total B.9 may be justified by at least two reasons. Irrespective of the concept of the final balance, the major methodological causes for the existing deviations stand for both. Furthermore, our aim is to discuss the main sources of the existing deviations which are evidenced in the EDP notification tables, namely Table 3A decomposing the SFA into single components, where B.9 is the very key input. Using the total B.9 will thus also allow us to formulate clearer conclusions as the transition between the government net lending/borrowing and the change in debt contains numerous interest-related adjustments that should have been deducted otherwise.

When analysing the extent and the nature of the SFA, it is also essential to bear in mind the distinction between non-financial and financial transactions in national accounts, as defined in the ESA 2010.⁸ While the former is recorded 'above the line' in the sense that they shape the size of the B.9, the latter

⁴ Par. 20.08 ESA 2010.

⁵ Par. 2.111 ESA 2010.

⁶ Par. 20.19 ESA 2010.

⁷ The methodology of the fiscal indicators is further elaborated in the Manual on government deficit and debt (MGDD).

⁸ Par. 5.01 ESA 2010.

are recorded 'below the line' and have no impact on the B.9. As explained elsewhere (Rybáček, 2015), the transactions 'above the line' are coupled with transactions in financial accounts (except for barter), but the transaction 'below the line' change only the structure of financial assets and liabilities.⁹

For the analysis of the SFA, several eventualities need to be considered. First, government revenue or expenditure might be coupled with transactions in financial assets or with transactions in non-debt liabilities. If this is the case, there is no impact on the debt but the SFA would reach a non-zero value. Second, a government revenue or expenditure may take a form of a pure financial transaction. In this case, there is no impact on B.9, however if a transaction in debt instrument is involved, the value of 'SFA' is non-zero with a change in debt exceeding the amount of B.9. Third, a combination of both above-mentioned cases can be considered. Concretely, a single transaction, either revenue or expenditure, can be partitioned into its non-financial and purely financial part.

To illustrate the partitioning, let us consider a situation where government issues debt securities (100) to exploit the cash received to assist a bank in financial difficulties. Let us further assume that the bank benefitting from the government assistance runs the accumulated loss in the amount of 50. As it is routinely the case, the amount corresponding to the accumulated loss is considered in national accounts as capital transfer negatively affecting B.9 while the remaining 50 is booked as purely financial transaction without any impact on B.9. When this recording is applied, we arrive at an increase in debt by 100 while the B.9 ends up in the deficit of 50, leaving the SFA at 50. Only were the entire 100 recorded as non-financial transaction, the SFA would be zero. To sum up, a transaction might be split in the part weighing on B.9, with the remaining adding to the SFA.

To generalise this observation, any cash raised on the financial markets from the debt issuance which is not used to finance government expenditure 'above the line', gives rise to a non-zero 'SFA'. Conversely, any surplus generated by government, which is not used to amortise the existing debt, adds to the aggregate of the 'SFA' as well. Time difference between the year in which debt securities were placed on the market and when the cash raised is intended to be spent may, of course, also exist. Given the twenty-year long period used in our analysis, this element should not have a disruptive effect on our conclusions. Moreover, the intended expenditure does not need to take the form of transactions affecting the B.9 or to be expensed at all. Government may simply issue debt securities to increase its cash holding in expectation that the market situation may worsen or the economy may shrink. If this expectation is not confirmed, government may use the cash to reduce again its debt, bringing however a volatility into the evolution of debt which would be fully independent of the development in B.9.

The eventual amount of the aggregate SFA further reflects the fact that the EDP debt is valued at nominal (face) value. To arrive at nominal (face) value, as requested by the EDP regulation, a few methodological adjustments in the EDP Table 3 are to be introduced, such as issuance above/below nominal values, accrued interest or redemption of debt above/below nominal value. This class of adjustments revalued the debt-related transactions recorded in national accounts at arm's length into their nominal value. To illustrate this issue, let us consider that government repurchased its own debt securities (100) from the market whereas the transaction was carried out above par (110). When the transaction is completed, the reduction in the nominal debt must reflect the nominal value of repurchased debt (100) and not the cash expensed on this operation (110). The adjustment (10) thus reflects the difference between both value concepts.

3 ANALYSIS OF THE SFA

To facilitate the analysis and demonstrate numerically the conclusions drawn from the data, the following table groups the results in a similar way as those published officially (Table 3A in the EDP notification

⁹ Par. 5.33 ESA 2010, par. 5.34 ESA 2010.

tables). Although Table 1 is an abridged version of Table 3A, it conveys the key indicators decomposing the transition from the general government net lending/borrowing (B.9) to the change in its debt. As the sufficiently detailed data covering the whole period 2001–2020 were available for only some of the EU Member states, the figures in Table 1 cover nine Eurozone countries (Belgium, Greece, Spain, Latvia, Lithuania, Luxembourg, the Netherlands, Portugal and Slovenia) and four non-Eurozone countries (Czechia, Hungary, Poland and Romania) for which the figures converted in EUR are used.

Table 1 EDP Table 3 for selected countries, 2001–2020 (in EUR)

	All countries	Eurozone countries	Eurozone countries excl. Greece
Net lending (-)/net borrowing (+) (B.9) of general government (S.13)	2 301 231	1 777 302	1 511 100
Net acquisition (+) of financial assets	431 296	335 356	278 193
Currency and deposits	197 511	123 110	95 569
Debt securities	9 065	4 510	41
Loans	122 480	102 454	101 369
Equity and investment fund shares/units	-30 573	17 280	8 160
Financial derivatives	-38 557	-32 746	-32 778
Other accounts receivable	170 356	120 128	105 806
Other financial assets	1 012	619	25
Adjustments	-300 184	-218 407	-90 218
Net incurrence (-) of liabilities in financial derivatives	9 429	5 340	1 729
Net incurrence (-) of other accounts payable	-221 333	-105 157	-90 000
Net incurrence (-) of other liabilities	-7 908	-4 969	-4 159
Issuances above (-)/below (+) nominal value	-107 602	-106 288	-108 305
Difference between interest accrued (-) and paid (+)	21 056	25 805	32 735
Redemptions/repurchase of debt above (+)/below (-) nominal value	-106 841	-109 364	8 479
Appreciation (+)/depreciation (-) of foreign-currency debt	32 804	2 007	605
Changes in sector classification (+/-)	78 910	72 307	66 786
Other volume changes in financial liabilities (-)	1 301	1 912	1 912
Statistical discrepancies	-19 043	-17 275	-14 905
Change in general government (S 13) consolidated gross debt	2 413 302	1 876 978	1 684 172
Difference between the change in debt and the deficit/surplus	112 071	99 676	173 072

Source: Eurostat, own calculations

Obviously, the group of financial transactions in assets constitutes the major source of the deviation between B.9 and the change in debt. In fact, the totals for financial transactions do exceed the overall difference indicated in the last row in Table 1, meaning that if the financial transactions in assets were the only constituent of the SFA, the debt would be even higher than it currently stands. However, the second main group covering the methodological adjustments compensates to a certain extent the impact

of the financial transaction on growth in debt. This stands mainly for the transactions in 'other account payables' which serve as a counterpart to transaction where there is a time difference between these transactions and the corresponding payments (par 5.230 ESA 2010).¹⁰ In other words, a certain part of the government expenditure, either non-financial or financial such as an acquisition of financial assets, are financed by an incurrence of non-debt financial liabilities.

Interestingly, a relatively significant influence is observable also for the adjustments related to the accrual interest and the issuances of debt above or below nominal value of debt instruments. For the former, the nominal debt is valued leaving aside the interest accrued on existing debt. Thus, while the accrued interest weighs on B.9, it does not add to the nominal value of debt. The contribution of this adjustment can be either positive or negative, depending on the relation between the interest actually cashed and accrued. Over the analysed period, the total for the countries concerned reached a positive amount of 33 billion implying that the interest actually paid (cash) exceed that accrued over the period in question.

For the latter, governments often raise more cash than is the nominal value of debt securities placed on the market. Although going usually unnoticed, such favourable market condition causes a certain disparity in B.9 and change in debt, even if the entire proceeds from the issuance is available to government to expense. Assuming that government issues the 100 bonds above par (110) whereby raises a cash in excess of the nominal value of debt instrument, government can now spend 110, while the adding to the government debt is only 100. Therefore, if the interest rate or the price of bonds are such that it allows the government to receive additional cash more than the nominal value of bonds, the discrepancy between deficit (110) and the increase in debt (100) occurs (10). That amount is consequently included in the adjustment depicting the transition between B.9 and the change in debt. Generally speaking, different pricing applied in the valuation of B.9 and debt also adds to the eventual value of the aggregate SFA.

Except for the adjustments concerning accrual interest and the issuances above/below par, EDP Table 3 provides also an information on the effect of redemptions/repurchases of debt above or below nominal value. Although the value in Table 1 above is not negligible, the extent of this adjustment is dominated by the transaction with the Greek bonds carried out in 2012, further discussed in the following chapter. Were this particular transaction left aside, the overall impact of the said adjustment falls into insignificance. Just the opposite is however true for the item 'changes in sector classification' whose contribution to the growth in debt is significantly positive. This adjustment itself can explain more than one third of the overall difference between deficit and debt.

The effect of changing sector classification should be also considered as the definition of the government sector has been developing quite dynamically and it is a current practice of the statistical offices that the sector classification of units is regularly reassessed. If a reclassification takes place, either inside or outside general government, the impact depends on the economic situation of the unit to be reclassified. If reclassified inside general government, the debt incurred by the unit in the past will add fully or partly to the total government debt, depending on the extent of consolidation. However, the economic activity creating the debt is not necessarily reflected in the government accounts in its entirety as the unit might be reclassified only starting the year in which it fails to meet the criteria of being considered as non-government unit. If this is the case, then B.9 in the previous years is not affected by the reclassification while the entire debt accumulated over years is transferred to the government accounts. It is of note that the reclassification may also concern debt assumption if the debt is assumed along with a certain asset. If this is the case, then B.9 is impacted only up to the value of gap between assumed assets and debt.

¹⁰ Church restitutions in the Czech Republic can serve as case in point. In this context, a sizeable amount has been booked as capital transfer, weighing on the 2013 deficit of the government. In the financial accounts, the counterparty of this expenditure was the item 'other accounts payable', leaving the change in debt intact.

4 DISCUSSION

In the paragraphs below, we will mention some of the measures undertaken by the governments in Europe in the past, which led to substantial increases in the SFA. The aim is to pinpoint that kind of transactions and government measures which may stand behind the deviations between the key fiscal aggregates and, by divorcing the development of deficit from that of debt, may bring certain noise into the fiscal sustainability assessment which is normally based on the analysis of both major aggregates. The operations described below concerned Cyprus, Luxembourg, Greece and Hungary.

In the analysed period, sizeable aggregates of the SFA were observable in Cyprus. This holds mainly for the years 2012 (7.4),¹¹ 2013 (11.6), 2014 (-7.1), 2018 (7.9) and 2020 (12.8). For the period 2012–2014, the large values are clearly attributable to the operations carried out by the Cypriot Government in the wake of the financial crisis which forced the government to take on debts. In addition, by several capital injections into failing banking institutions, the government increased its holding in equities which was partly financed by the deficit-increasing operation, up to the accumulated losses of the benefitting institution, with the remaining part being considered as an acquisition of equity without any impact on deficit. In 2018, an asset management company then acquired a loan portfolio from a failed bank which accounts for the significant 'SFA' in this year. Relatedly, the impairment of these loans lead to the record value reported in 2020.¹² It follows that extraordinary measures aiming to cope with the consequences of the financial crisis triggered the striking 'SFAs'.

In case of Luxembourg, the most striking difference appears in the year 2007 (10.9). However, except for the years 2004 and 2020, incrementally increasing debt were regularly surpassing the contributions of the government net lending/borrowing which ended up in surpluses in most of the years concerned. The reason for the deviation between both aggregates is regular investment activities of the Luxembourgish government institutions, chiefly in the form of the acquisition of equities explaining 41% of the difference between the total deficit and change in debt. The similar holds true for the purchases of debt securities which can explain further 40% of the difference. In this case, the difference in the development of both aggregates is thus attributable to the investment behaviour of the government institutions.

Other interesting example, which lead to a sizeable adjustment reaching 11.1% of GDP, is observable in Hungary in the year 2011. In that year, the Hungarian Government overtook the second pillar pension fund's equity assets. As the recipient of the portfolio was the Pension Reform and Debt Reduction Fund, a unit classified in the general government entity, and the related transactions were booked in non-debt instrument in the balance sheet, the adjustment of 'SFA' reached a strikingly high value. Introduction of a pension reform is however not an exceptional, the most recent case happened in Greece in 2019, an unbalanced transfer¹³ of pension assets and liabilities. However, these cases are an example of situations where the increases in debt lack behind the deficit run by the government because a sizeable expenditure as coupled with transactions in non-debt instruments.

In case of Greece, the source of the deviation can be traced down quite reliably. It is the debt restructuring consisting in bond exchanges carried out in 2012, whereby Greece managed to reduce its debt by EUR 51 billion. By doing so, the investors lost 53.5% of the nominal value of bonds.¹⁴ It is thus this one-off measurement which constitutes the main source of the deviation. As shown in Table 1, the total difference

¹¹ Positive value implies the growth in debt exceeding the contribution of the government net lending/borrowing in given year. Negative value implies the opposite, i.e., the debt increase was lower than that which would correspond to the government net lending/borrowing.

¹² <<https://ec.europa.eu/eurostat/documents/1015035/12665809/SFA-PR-2021-Apr.pdf/4673ffe8-73d4-67b2-c082-bfb-64c1ed422?t=1618235209605>>.

¹³ In a sense that the value of transferred assets does not match the value of the transferred liabilities. If so, the gap between both has an impact on the government net lending/net borrowing.

¹⁴ European Commission (2020b).

stood at 44 percentage points. This might be interpreted so that if it were not for this debt haircut, the Greek Government debt ratio would be by 44 percentage points higher. From the perspective of our analysis, were this transaction not realised, the accumulated deficits and the change in debt over the analysed period would almost perfectly match, with the difference only 1 percentage point.

CONCLUSION

Faster growing debt or even divergent development in both major indicators might be thus triggered and steadily fuelled by several factors. As shown above, transactions with financial assets represent the most significant source of deviation and the source of the debt growing at faster pace than that indicated by the government net lending/borrowing. As further discussed and evidenced in several countries, this is primarily linked to investment activities of the government institutions. This can be materialised in operations related to the measures in the wake of economic crisis such as capital injections into troubled companies, investing of surpluses that are not used to amortise the existing debts or the debt management with the volatility in the cash holding, although the last factor is of rather temporary nature. As these debt-related transactions are not intended to finance expenditure that enter B.9 or only partly as discussed above, the SFA and a certain divergence between B.9 and debt inevitably occurs.

The second group of factors driving the deviation of B.9 and debt is more of a methodological nature. This concerns the reconciliation of market transactions entering B.9 with the nominal valuation of debt. Admittedly, these adjustments deserve to be monitored, as their size is dependent on the prevailing market conditions and the monetary environment. Furthermore, reclassifications of units or debt assumptions should be mentioned as another important cause of the divergence. Reclassification of units into the general government is a regular practice of the statistical institutes and in addition to that, the methodology itself is still evolving towards the general government sector encompassing still wider population of government-controlled units. While these factors regularly affect the deviation, the debt haircut carried out in 2012 is rather an exceptional case that may however also pose a significant impact on the relation between B.9 and the change debt.

We can conclude that the relation between government net lending/net borrowing and debt is not straightforward, a wide range of factors are entering between the evolutions of both. The aim of this paper was not only to provide quantifications of the accumulated differences, but not least to identify the major causes behind the observed deviations. In addition to those factors analysed in the paper, rising interest rate, economic cycle or even high rates of inflation should be also noted and further investigated in economic research. Generally, the finding that government debt may grow in the long-term independently of the actual net lending/borrowing run by the government, brings certain uncertainty into the considerations concerning the fiscal sustainability of which analysts and researchers should be aware.

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