October 4, 2017

Annual government balance revised upwards; government indebtedness declined

Notification of government deficit and debt – 2016

In 2016, the balance of the Czech government sector reached a surplus **CZK** **35.0 billion**; expressed as a percentage of GDP, the surplus corresponds to **0.73 percent of GDP**. Compared to the notification in April 2017, the surplus was revised upwards by CZK +7.4 bn. Czech government gross debt dropped to **36.77 percent of GDP** which corresponds to an annual decline of 3.19 percentage points (p.p.). The figures were sent to Eurostat within the framework of the second notification of government deficit and debt in 2017.

**Notification table of government deficit and debt, the Czech Republic, 2013-2016**

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| --- | --- | --- | --- | --- | --- |
|  | Unit | Year | | | |
| 2013 | 2014 | 2015 | 2016 |
| Net borrowing/lending of general government | CZK mill. | -51 129 | -83 063 | -28 961 | 34 995 |
| General government consolidated gross debt | CZK mill. | 1 840 412 | 1 819 098 | 1 836 255 | 1 754 883 |
| Gross domestic product (GDP) | CZK mill. | 4 098 128 | 4 313 789 | 4 595 783 | 4 773 240 |
| Net borrowing/lending of general government as % of GDP | % | -1.25 | -1.93 | -0.63 | 0.73 |
| General government consolidated gross debt as % of GDP | % | 44.91 | 42.17 | 39.96 | 36.77 |

Compared to the first notification in 2017, the revision was caused predominantly by up-dated data on income tax (CZK 9.6 bn.). On the contrary, the upward revision was notably reduced by new information on the EU flows (CZK - 3.0 bn.).

According to the revised aggregates, total government revenues grew by 1.5 percent on a year-on-year basis. The annual growth in revenues was underpinned mainly by revenues from income tax (8.7 percent), social contributions (6.1 percent) and taxes on products and imports (4.4 percent). On the contrary, a drop was registered in case of other current (-18.9 percent) and capital transfers (-65.3 percent). These declines were significantly linked to the drawdowns of financial resources from EU funds.

Total government expenditures of the general government sector fell by 1.9 percent on a year-on-year basis. Especially drops in both gross capital formation (-34.3 percent) and investment grants (-12.8 percent) account for the total decline. Interest expenditures fell by 8.8 percent which reflects mainly the development on the financial markets. The highest annual growth was registered in other current transfers (6.9 percent), compensation to employees   
(5.4 percent) and social benefits (2.7 percent).

At the end of 2016, the Czech government´s gross consolidated debt reached the level of   
36.77 percent of GDP. Compared to the notification in April 2017, the level of indebtedness was reduced by 0.45 p.p., exclusively due to a revision of nominal GDP. The annual reduction in the relative value of debt by 3.19 p.p. was driven by accelerating growth in nominal GDP (-1.42 p.p.) as well as by declining nominal debt (-1.77 p.p.). As for the individual items, the most significant decline was reached in short-term debt securities (CZK -79.5 bn) and long-term loans (CZK -22.9 bn.). On the contrary, the value of long-term debt securities grew by   
CZK 24.3 bn.

Indicators presented in the table were transmitted to Eurostat on 30 September 2017.

Notification of government deficit and debt is compiled for past four years and submitted to the European Commission by each Member State of the EU at the end of September and March each year under the terms of the Maastricht treaty, including a projection for the current year. Starting from September 2014, quantification of the aggregates is based on the methodology ESA 2010. Pursuant to the Maastricht Treaty, the reference value for fiscal indicators of deficit is set at the level of 3 percent of GDP and for debt at the level of 60 percent of GDP whereas GDP is valued at current market prices. The projection of government deficit and debt for the year 2015 is prepared by the Ministry of Finance of the Czech Republic.

Government surplus/deficit is represented by item B.9 “net borrowing (-) or net lending (+)” in national accounts. It refers to the ability of general government sector to finance other sectors (+) or the need of general government sector to be financed (-) by other economic sectors.

Government debt consists of liabilities of general government sector in form of currency and deposits, debt securities and loans. In case of foreign exchange debt instruments hedged against currency risk, value in CZK is obtained by means of contractual exchange rate.

Notices:

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| *Coming News release:* | *23. 10. 2017* |

*This press release was not edited for language.*