3. 4. 2017

Notification of government deficit and debt – 2016

Annual government balance reached a surplus for the first time; government indebtedness continues to decline

In 2016, the balance of the Czech government sector reached a surplus **CZK** **29.3 billion**; expressed as a percentage of GDP, the surplus corresponds to **0.62 percent of GDP**. This is the first annual surplus in the whole time series (since 1995). Czech government gross debt dropped to **37.22 percent of GDP** at the end of 2016. The figures were sent to Eurostat in the framework of the first 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 | -28 635 | 29 275 |
| General government consolidated gross debt  | CZK mill. | 1 840 412 | 1 819 098 | 1 836 255 | 1 754 899 |
| Gross domestic product (GDP) | CZK mill. | 4 098 128 | 4 313 789 | 4 554 615 | 4 715 061 |
| Net borrowing/lending of general government as % of GDP | % | -1.25 | -1.93 | -0.63 | 0.62 |
| General government consolidated gross debt as % of GDP  | % | 44.91 | 42.17 | 40.32 | 37.22 |

For individual subsectors, the balance improved at all levels of the general government sector. Compared to the previous year, central government´s deficit was significantly reduced by CZK 36.5 bn to -20.4 bn. In case of local government, a surplus increased by CZK 18.5 bn to
44.8 bn. The balance of social security funds rose by nearly CZK 3 bn to 4.9 bn.

Total government revenues increased by 1.1 percent on a year-on-year basis. The annual growth in revenues was underpinned mainly by rising social contributions (6.1 percent), income taxes (5.9 percent) and taxes on products and imports (5.4 percent). On the contrary, a drop was registered in case of other current (-21.3 percent) and capital transfers (-70.5 percent). This development was significantly linked to declining revenues related to projects co-financed from the EU funds.

Total expenditures of the general government sector fell by 1.9 percent on a year-on-year basis. Especially drops in both gross capital formation (-32.8 percent) and investment grants
(-16.8 percent) account for this decline. Interest expenditures declined by 8.9 percent reflecting mainly the development on the financial markets. The highest annual growth was registered in subsidies (8.1 percent), other current transfers (5.7 percent) and compensation to employees
(5.6 percent).

At the end of 2016, the Czech government´s gross consolidated debt reached the level of
37.22 percent of GDP. Compared to the previous year, the level of indebtedness was reduced by 3.10 percentage points. In nominal terms, the debt fell by CZK 81.4 bn. As for individual items, the most significant decline was reached in short-term debt securities (CZK -79.7 bn) and long-term loans (CZK -22.9 bn.). On the contrary, the value of long-term debt securities grew by
CZK 24.2 bn. The reduction in the relative value of debt was also partly driven by accelerating growth in nominal GDP contributing to the reduction of indebtedness by 1.38 percentage points.

Indicators presented in the table were transmitted to Eurostat on 31 March 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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