5 October 2020

Government deficit and debt increased

Government deficit and debt – the second quarter of 2020

**In Q2 2020, the general government sector balance reached the deficit of CZK 100.4 billion, which corresponded to 7.50% of GDP. Revenues of the general government sector reached 42.61% of GDP, while expenditure amounted to 50.12% of GDP. The government debt ratio increased by 7.31 percentage points (p. p.), year-on-year (y-o-y), to 39.92% of GDP.**

In Q2 2020, the general government sector balance worsened by CZK 126.2 bn, y-o-y. It was contributed to mainly by the central government, the balance of which worsened by CZK 109.0 bn, y-o-y, and ended up with the deficit of CZK 116.0 bn. The local government sector balance ended up with the surplus of CZK 14.8 bn, which was by CZK 13.2 bn lower, compared to the corresponding period of the previous year. Social security funds performance worsened by CZK 4.0 bn, y-o-y, and reached the surplus of CZK 0.9 bn.

The general government sector balance, Q2 2018 – Q2 2020

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| Period | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 |
| CZK bn | 41.6 | 16.3 | -10.8 | -2.6 | 25.8 | 15.3 | -23.3 | -57.2 | -100.4 |
| % of GDP | 3.06 | 1.19 | -0.75 | -0.20 | 1.79 | 1.04 | -1.54 | -4.22 | -7.50 |

*Note: Data in the table are not seasonally adjusted and cannot be compared quarter-on-quarter.*

The total government revenues decreased by 7.17%, y-o-y. The y-o-y decrease in revenues was mainly due to a decrease in revenues from taxes, which are important as for their volume: taxes on income (-21.0% to CZK 102.3 bn), taxes on production and imports (-8.5% to CZK 158.4 bn). On the contrary, revenues increased the most from capital transfers (+45.7% to CZK 14.9 bn) and property income (+43.0% to CZK 22.6 bn).

The total government expenditure increased by 14.0%, y-o-y. The following increased the most: capital transfers (+136.5% to CZK 31.9 bn), subsidies (+50.6% to CZK 50.9 bn), current taxes paid (+47.5% to CZK 3.1 bn), and current transfers (+16.8% to CZK 33.8 bn). A decrease was recorded for intermediate consumption (-1.5% to CZK 79.7 bn).

The government debt ratio increased from 32.60% to 39.92% of GDP, in the year-on-year comparison, while the increasing nominal GDP contributed to a decrease in indebtedness by 0.57 p. p. The nominal debt of the general government increased by CZK 446.9 bn to CZK 2 263.5 bn and its contribution amounted to 7.88 p. p. In the quarter-on-quarter comparison, the debt ratio increased by 7.23 p. p. The nominal debt increased by CZK 376.1 bn, q-o-q. Contribution of the nominal debt to the increase of the debt ratio was 6.51 p. p., while the contribution of the decreasing nominal GDP was 0.71 p. p.

In Q2 2020, an increase of the debt (CZK 376.1 bn) was markedly higher than the deficit (CZK 100.4 bn). The general government borrowed by CZK 275.7 bn more than their need for financing was, which resulted in an increase of the value of assets held, especially of deposits.

Regarding the debt structure, all the main components increased, y-o-y. The volume of received loans increased by CZK 8.3 bn, received deposits by CZK 4.9 bn, and issued debt securities by CZK 433.7 bn. Debt securities remain to be a major part of the debt with the share of 92.6%. In the quarter-on-quarter comparison, the value of issued debt securities increased by CZK 384.2 bn, while the value of received loans decreased by CZK 8.2 bn.

Debt of the general government sector, Q2 2018 – Q2 2020

The general government sector balance after seasonal adjustment as well as adjustment for calendar effects ended up with a deficit of CZK 83.2 bn, which corresponded to 6.26% of GDP. The adjusted general government sector balance decreased by CZK 43.3 bn, q-o-q. The development of the general government sector balance adjusted by seasonal and calendar effects is shown in the chart below.

Seasonally adjusted balance of the general government sector, Q2 2018 – Q2 2020

Due to the epidemiologic situation related to the spread of the COVID-19 disease, emergency measures of the Government were taken in Q2 2020 the influence of which on the government financial statistics is described in a [methodological note](https://www.czso.cz/csu/czso/methodological-note-on-the-government-financial-statistics-the-second-quarter-of-2020-covid-19).

Notes:

*Quantification of fiscal indicators of government deficit and debt mentioned above is based on the ESA2010 methodology. Data published in this release are methodologically consistent with the data used for the statistics of the excessive deficit procedure (EDP) purposes and for the assessment of how Maastricht convergence criteria are met.*

*The government surplus/deficit is represented by the item B.9 “net borrowing (−) or net lending (+)” in the system of national accounts. It refers to the ability of the general government sector to finance other sectors of the economy (+) or the need of the general government sector to be financed (−) by other sectors of the economy in the given period.*

*The general government debt is the amount of consolidated liabilities of the general government sector comprising the following items: currency and deposits, debt securities, and loans. In case of foreign exchange debt instruments hedged against the currency risk, the value in CZK is obtained by means of the contractual exchange rate.*

*The general government sector balance is compared with the amount of the GDP in the given quarter at current prices. The amount of consolidated general government debt is compared with the sum of quarterly GDP for the last four quarters at current prices. Fiscal indicators of quarterly government deficit and debt are published within the Transmission programme (Table 25 and Table 28) on the website* [*www.czso.cz*](http://www.czso.cz) *in the “GDP, National Accounts” section.*

*(*[*http://apl.czso.cz/pll/rocenka/rocenka.indexnu\_gov?mylang=EN*](http://apl.czso.cz/pll/rocenka/rocenka.indexnu_gov?mylang=EN)*)*

*Unless otherwise stated, all data presented in this news release are not adjusted for seasonal and calendar effects.*

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