3 April 2019

Indebtedness declined

Notification of government deficit and debt – 2018

**In 2018, the balance of the general government sector reached a surplus in the amount of CZK 47.4 billion; expressed as a percentage of GDP, the surplus corresponds to 0.89% of GDP. At the end of 2018, the general government debt dropped by 1.95 percentage points (p. p.), year-on-year (y-o-y), to 32.71% of GDP. The mentioned fiscal data serving to an assessment of how the Maastricht convergence criteria are met were sent to the European Commission within the first notifications in 2019.**

The surplus of the general government sector dropped by CZK 31.7 bn, y-o-y. The balance of the central government reached a surplus of CZK 12.0 bn, which was, however, by CZK 17.0 bn lower, y-o-y. The surplus of local government decreased by CZK 22.9 bn, y-o-y, to CZK 19.0 bn. The surplus of the balance of social security funds sub-sector (health insurance companies) increased by CZK 8.2 bn to CZK 16.4 bn.

Notification table of government deficit and debt, the Czech Republic, 2015–2018

|  |  |  |
| --- | --- | --- |
|  | Unit | Year |
| 2015 | 2016 | 2017 | 2018 |
| Net borrowing/lending of general government  | CZK mil. | −28 260 | 34 274 | 79 149 | 47 427 |
| General government consolidated gross debt  | CZK mil. | 1 836 255 | 1 754 883 | 1 749 532 | 1 735 076 |
| Gross domestic product (GDP), current prices | CZK mil. | 4 595 783 | 4 767 990 | 5 047 267 | 5 304 386 |
| Net borrowing/lending of general government as % of GDP | % | −0.61 | 0.72 | 1.57 | 0.89 |
| General government consolidated gross debt as % of GDP  | % | 39.96 | 36.81 | 34.66 | 32.71 |

The total general government revenue increased in 2018 by 8.1%, y-o-y; it was an increase by CZK 166.1 bn. All types of revenues increased; social contributions increased the most (+74.3 bn or 8.0%), taxes on production and imports (+30.2 bn or 4.8%), income taxes (+27.3 bn or 7.0%), and capital transfers (+10.3 bn or 31.3%).

The total general government expenditure grew in 2018 by 10.1%, y-o-y; i.e. by CZK 198.8 bn. The following increased the most: compensation of employees paid (+58.8 bn or 12.7%), gross capital formation expenditure (+47.3 bn or 26.7%), and social benefits (+41.6 bn or 5.5%).

In accordance with an updated Eurostat methodology on general government receivables, there was a change in the capture of related interests in the years 2015 to 2018. The following table shows how it influenced the balance in 2015 to 2017:

**Impact of methodological change – capture of receivables, 2015–2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Unit | 2015 | 2016 | 2017 |
| Impact on the balance | CZK mil. | −332 | −368 | 738 |

In 2018, the general government debt decreased by CZK 14.5 bn, y-o-y, to CZK 1 735.1 bn, which (when expressed as a percentage of GDP) corresponds to 32.71% of GDP. In the year-on-year comparison, the government debt ratio declined by 1.95 p. p. It was contributed to mainly by growing nominal GDP (+1.68 p. p.); a decrease in the nominal amount of the debt contributed by 0.27 p. p.

Concerning the debt structure, there was a decrease in issued debt securities (CZK −47.8 bn), especially the short-term debt securities (CZK −39.6 bn). The share of debt securities dropped by 1.99 p. p. to 89.6% and debt securities thus remain to be the major part of the government debt. The volume of received loans increased by CZK 30.6 bn; as for short-term loans there was an increase by CZK 42.4 bn, while the volume of long-term loans decreased by CZK 11.9 bn. The volume of received deposits increased by CZK 2.8 bn.

Indicators presented in the notification table were transmitted to Eurostat on 30 March 2019.

*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 March and September 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 ESA 2010 methodology. 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 current year 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 of the economy (+) or the need of general government sector to be financed (−) by other 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.*

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