April 04, 2018

Annual balance in surplus; government indebtedness declined

Notification of government deficit and debt – 2017

In 2017, the balance of the Czech government sector reached a surplus **CZK** **80.6 billion**; expressed as a percentage of GDP, the surplus corresponds to **1.59 percent of GDP**. At the end of 2017, the Czech government gross debt dropped annually by 2.17 percentage points (pp) to **34.60 percent of GDP**. The figures were sent to Eurostat in the framework of the first notification of government deficit and debt in 2018.

**Notification table of government deficit and debt, the Czech Republic, 2014-2017**

|  |  |  |
| --- | --- | --- |
|  | Unit | Year |
| 2014 | 2015 | 2016 | 2017 |
| Net borrowing/lending of general government  | CZK mill. | -90 561 | -27 929 | 34 642 | 80 621 |
| General government consolidated gross debt  | CZK mill. | 1 819 098 | 1 836 255 | 1 754 883 | 1 749 141 |
| Gross domestic product (GDP) | CZK mill. | 4 313 789 | 4 595 783 | 4 773 240 | 5 055 029 |
| Net borrowing/lending of general government as % of GDP | % | -2.10 | -0.61 | 0.73 | 1.59 |
| General government consolidated gross debt as % of GDP  | % | 42.17 | 39.96 | 36.77 | 34.60 |

Surplus of the general government sector grew annually by CZK 46.0 bn. In case of the central government institutions, the balance reached surplus (30.1 bn) first time in whole time series, with an annual change amounting to +50.1 bn. In case of the local government, a surplus decreased by 7.2 bn to CZK 42.4 bn. The balance of social security funds rose by almost 3.2 bn to CZK 8.0 bn.

Total government revenues increased annually by 6.5 percent. The annual growth in revenues was underpinned mainly by rising social contributions (8.0 percent), income taxes (7.9 percent) and taxes on products and imports (7.3 percent). On the revenue side, a drop was registered in primary incomes (-18.1 percent), especially in case of dividends and interests, and capital transfers (-2.0 percent).

Total expenditures of the general government sector grew by 4.2 percent on a year-on-year basis. The highest annual growth was registered in expenditures on gross capital formation (10.7 percent) and compensation to employees (10.2 percent). On the other hand, a decrease by 23.7 percent was recorded for capital transfers. Due to declining interest expenditures, the total amount of primary incomes paid by the general government sector declined by 14.3 percent annually.

Government balance in the previous years were revised due to a methodological change in the recording of revenues from sales of mobile phone licences, in line with the Eurostat guidance note released in March 2017. According to a newly applied approach, revenues from sale are evenly distributed over the period of validity of the licence instead of in the full amount in the year of sale. Impact of the revision in individual years is illustrated in the following table:

**Impact of methodological change - revenue from mobile phone licences, 2014-2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Unit | 2014 | 2015 | 2016 |
| Impact on the balance | CZK mill. | -7 498 | 1 032 | -1 462 |

At the end of 2017, the Czech government´s gross consolidated debt reached 34.60 percent of GDP. Especially nominal growth in GDP contributed by 2.05 pp to the annual decline in the government debt ratio (-2.17 pp). In nominal terms, the government debt was reduced by CZK 5.7 bn contributing by 0.12 pp to declining government debt ratio. Concerning the structure of debt, the most significant drop was registered in long-term debt securities (CZK -30.1 bn). With the share of 89.1 percent in total debt, long-term debt securities still represent the major part of the government debt. Decline was registered also in case of loans (CZK -12.4 bn) and On the other hand, the value of short-term debt securities grew annually by CZK 39.4 bn.

Indicators presented in the table were transmitted to Eurostat on March 30, 2018.

*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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