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Notification of government deficit and debt - 2014

For 2014, Czech government deficit has been revised downward; the level of government indebtedness has increased due to revision

In 2014, the Czech government deficit was **83.0 billion CZK**; expressed as a percentage of GDP, government deficit has reached the level of **1.95 percent of GDP**, i.e. below the reference rate set by the Maastricht Treaty. Compared to the notification in April 2015, the deficit for 2014 has been revised downward by 0.03 percentage point (p.p.). At the end of 2014, Czech government gross debt has reached **42.75 percent of GDP**; compared to the previous notification it has been revised upward by 0.18 p.p. The figures have been sent to Eurostat in the framework of the second notification of government deficit and debt in 2015.

**Notification table of government deficit and debt, the Czech Republic, 2011-2014**

|  |  |  |
| --- | --- | --- |
|  | Unit | Year |
| 2011 | 2012 | 2013 | 2014 |
| Net borrowing (deficit) of general government (in current year) | CZK mil. | -110 145 | -160 013 | -50 974 | -82 956 |
| General government consolidated gross debt (at end of year) | CZK mil. | 1 606 492 | 1 805 955 | 1 841 878 | 1 821 327 |
| Gross domestic product (GDP) | CZK mil. | 4 022 511 | 4 041 610 | 4 077 109 | 4 260 886 |
| General government deficit in % of GDP | % | -2,74 | -3,96 | -1,25 | -1,95 |
| General government debt in % of GDP  | % | 39,94 | 44,68 | 45,18 | 42,75 |

The revision has been caused mainly by reclassification of selected units into general government sector; the classification of semi-budgetary organisations has been unified so that all units of this legal form are currently classified as government institutions. The same holds true for public hospitals with legal forms other than semi-budgetary organisations which are newly treated as government institutions. Economic results of these institutions have worsened the fiscal indicators, i.e. increasing the deficit concurrently with a rise in the debt. Final downward revision in the Czech government deficit in 2014 has been brought about by other factors reducing the deficit, especially updating of data sources.

In 2014, the balance of revenues and expenditures (the item net borrowing/lending in the national accounts) has worsened in all sub-sectors of general government sector compared with the previous year. In relative terms, the Czech government deficit was 1.95 percent expressed as a percentage of GDP. The main drivers of the annual increase in deficit were expenditures on gross fixed capital formation (annual increase about 17 percent), government final consumption expenditures (annual increase by 3 percent) and the compensation paid by the Deposit Insurance Fund (14 billion CZK).

At the end of 2014, the Czech government gross debt has reached the level of 42.75 percent of GDP. Compared with the previous year, the level of indebtedness has been reduced by 2.43 percentage points. The reduction has been driven mainly by accelerating growth in nominal GDP (annually 4.5 percent) and the stable level of the state debt. The reduction in indebtedness with concurrent increase in government deficit can be explained mainly by the significant amount of transactions recorded under the item currency and deposits (see F.2 in tables 3A, 3B, 3D) implying coverage of the deficit by a decrease in the assets.

The revision in debt by 0.18 p.p. has been caused especially by the reclassification of units mentioned above. At the same time, the CZSO has implemented new approach to statistical recording of the liquidity system operated under the State treasury. This measure has impacted the financial relations within general government sector with negligible impact on the amount of consolidated government debt due to limited involvement of units classified outside general government sector.

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 criteria, fiscal indicators should comply with reference values for a deficit (3% of GDP) and a debt (60% of GDP). The projection of government deficit and debt for the year 2015 is prepared and published 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.

Indicators mentioned in the table were transmitted to Eurostat at the end of September 2015.

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