1 April 2020
Snap

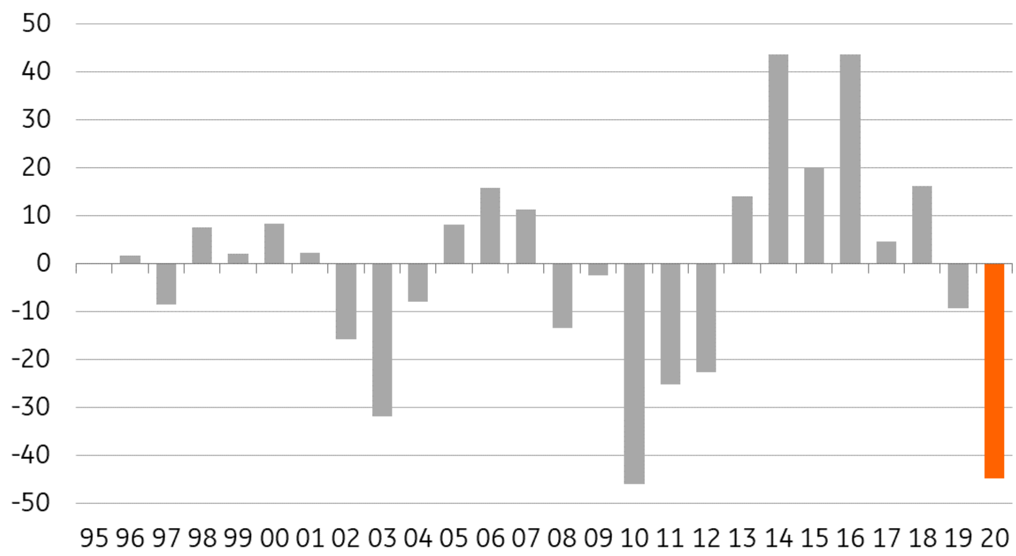
Czech budget deficit widened in March

The January to March Czech budget deteriorated and ended with a deficit of CZK45 bn, which belongs to the worst results together with the 2010-recession print. The impact of the coronavirus was already slightly visible in the figures and totalled around CZK10 bn. The worst will come in the months ahead

Based on our estimates and information revealed by the Ministry of Finance, the total impact of the coronavirus outbreak could result in a CZK10 billion worsened deficit in March. As such, we would see a double-digit budget deficit even without the coronavirus outbreak. The revenues side could be affected broadly by CZK5 bn, due to lower VAT collection and extension of the deadline for filing a personal and corporate income tax. Expenditures increased by broadly CZK5 bn due to an intense buying of protective equipment related to Covid-19.

As such, the negative impact of the Covid-19 outbreak was not realized quickly enough to be visible in the March figures more significantly, but a much stronger impact will come in the next few months. This is the reason why the Government revised the expected deficit from CZK40 bn to CZK200 bn and intensified issuance activity in last weeks, though a CZK200 bn deficit will not very likely be the final outcome, in our view.

March budget result (CZK bn)



Source: MinFin, ING

However, the Czech Statistical Office published today that the total 2019 Government budget ended in a surplus of CZK15.4 bn (0.3% of GDP). As such, the Czech Republic Government debt decreased from 32.6% of GDP in 2018 to 30.8%. This confirms that the Czech Republic has large fiscal room to support the domestic economy in the current adverse situation. Even if the total deficit will be more significant than currently expected, for example CZK300 bn, being approximately 5% of GDP, the total indebtedness will remain close to 35% of GDP, being still among the lowest among the EU countries. This provides some comfort, though the potential recovery of the Czech economy will very likely be disrupted by the global economic slowdown in 2H20, in our view.

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