Updated estimate of the consequences of COVID-19 for the economic balance and development of public institutions sector debt – situation as at 5 May 2020

Given the dynamic developments brought about by the "coronavirus" crisis, regular updates of the impact of newly adopted measures on the economic balance and projections of public institutions sector debt are required. This amendment presents an update of the main results of the OCFC information study (2020) Hlaváček M., Pavel, J.: Fiscal Costs of the COVID-19 Pandemic in the Czech Republic, published in April 2020, as at 5 May 2020.

One-off government measures

The government of the Czech Republic continues to introduce many steps that aim to stabilise the economy, which has been significantly disrupted by restrictive measures adopted in connection with the coronavirus pandemic. The healthcare situation has also necessitated additional costs on the purchase of medical supplies, etc. Table 1 presents a summary of the expected impact of the most fiscally significant one-off government budget measures in 2020.

Table 1 Discretionary measures of the government of the Czech Republic in support of the economy and other expenditures related to the epidemic (in CZK bn., 2020)

Name of measure	Government Resolution No.	Date	Description	Costs
Purchase of medical supplies	206, 245, 296	Continuous	Purchase of supplies and transport	12.0
Costs of childcare salary compensation benefit	311, 354	Continuous	Childcare benefit paid out to parents. Extended for the duration of school-closure and extended to include the self-employed	10.5
Targeted employment support programme ("Antivirus")	297	31 March	Coverage of employers' wage expenditures. 80% in the case of forced restrictions on operation and quarantine, 60% in the case of related economic difficulties	54.5
Act on compensation bonus (expected by 8 June)	302, 433	31 March and 20 April	Compensation bonus of CZK 500 per day for entrepreneurs for the period beginning 12 March running through to 30 April, extended for the upcoming period (through to 8 June).	31.1
Forgiveness of social and healthcare insurance premiums	272	23 March	Temporary cancellation of social and healthcare insurance premiums for self-employed persons.	23.1
Increased investments in transport infrastructure	337	30 March	Projects for the repair and maintenance and new investments in state road and railway infrastructure.	6.5
Share in rent of business premises	Draft		Payment of one-half of rent for business premises in the period between 12 March and 30 June.	4.0
Total				**141.7**

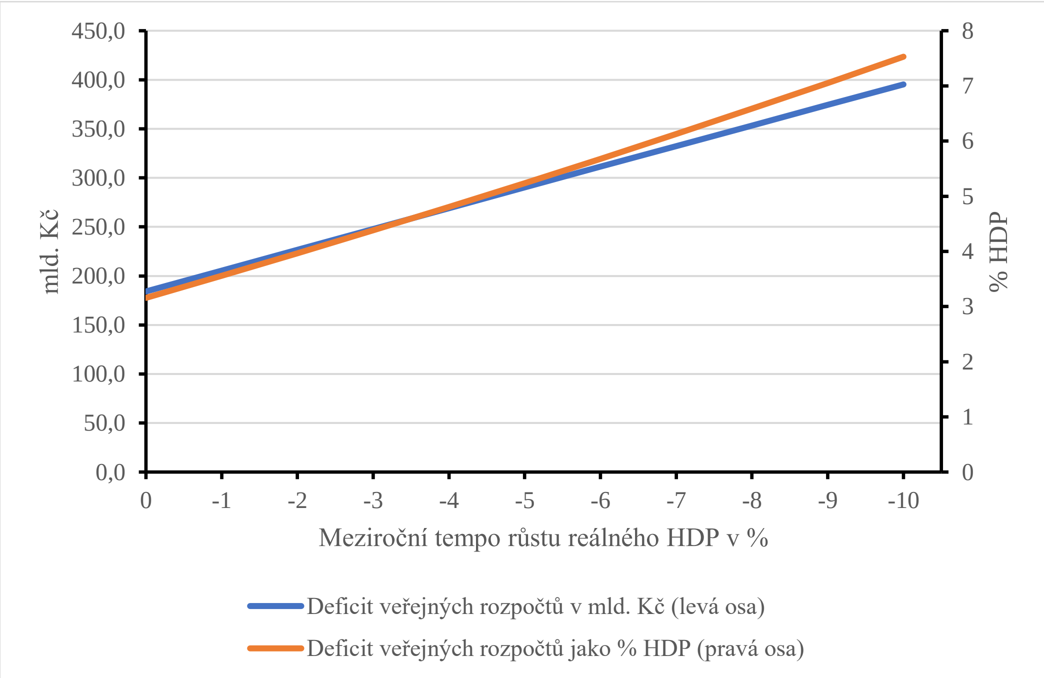
We estimated the total cost of the discretionary measures in 2020 at CZK 141.7 bn; however, this estimate is probably lower than the total costs will be, as additional measures can be expected to be adopted, or an extension of the validity of measures already taken. Furthermore, the estimate does not include the impact of measures that will be manifest only in upcoming years (e.g., materialisation of state guarantees).

Simulation of public sector budget deficits and public debt

The public budget deficit projection has been performed as a sensitivity scenario for various levels of economic decline, with no distinctions made between the likelihoods of various drops in the economy. The most current prediction of the Ministry of Finance of the Czech Republic (MF CR) nevertheless expects an economic decline of 5.6% in 2020.

Chart 1 presents the relationship between different levels of economic decline and the public institutions sector finance deficit. If the prediction of the Czech Ministry of Finance materialised (i.e., decline by 5.6%), the deficit for 2020 would amount to approximately CZK 304 bn., which amounts to 5.5% of GDP. In terms of distribution, the government budget would account for the majority of the deficit (around CZK 296 bn.). If the MMF scenario materialises, which expects a decline in the economy by 6.5%, the deficit would be at CZK 324 bn., corresponding to 5.9% of GDP.

Chart 1 Public sector budget deficits in relation to the decline of the economy (in 2020)

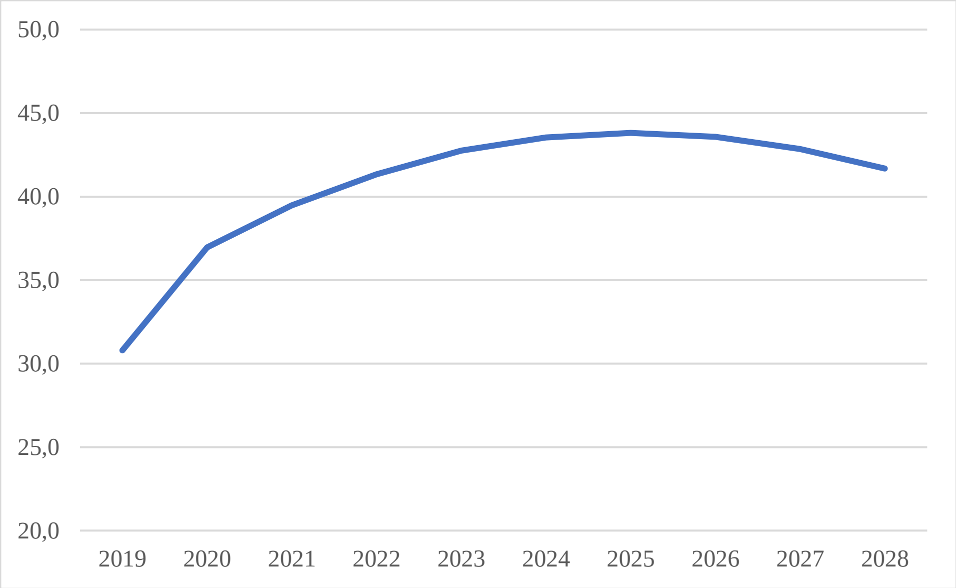


Source: MF CR, own calculations

The government of the Czech Republic expects major deficits of public institutions sector finance after 2020. The amendment of Act No. 23/2017 Coll., on budgetary responsibility, expects structural deficit to amount to as much as 4% of GDP in 2021, and to reduce by 0.5% of GDP per year over the next seven years. That change will naturally have an impact on the development of public institutions sector debt. The chart below presents a simulation of the development through to 2028, on the assumption of a full utilisation of the framework set out by the amendment and a deficit of 5.5% of GDP in 2020. Rates of GDP growth through to 2023 have been adopted from the Macroeconomic Prediction of the Ministry of Finance. In subsequent years, we expect a 2% rate of growth of real as well as potential GDP, an inflation rate of 2%, and an effective public debt yield rate of 2.7%. The simulation shows that the debt, expressed as a percentage of GDP, will grow from 30.8% of GDP in 2019 to

43.8% of GDP in 2025. After 2025, the share of public institutions sector debt in GDP could reduce slightly, provided that certain conditions are met.

Chart 2 Public institutions sector debt as a percentage of GDP (projection for 2019-2028)



Source: MF CR, own calculations