

## 2 Economic Policy

### 2.1 Objectives

One of the key objectives of the government's economic policy is the prosperity and stability of the economy. It intends to achieve this by increasing the economy's competitiveness in the context of EU economic integration and globalisation, by promoting long-term sustainable economic growth and by increasing employment. A stable and predictable macroeconomic environment is an essential condition for attaining this objective.

### 2.2 Priorities

#### Fiscal policy

The main priority of the Czech Republic in the macroeconomic area is the consolidation of public finances. Fulfilling the obligation to eliminate the unfavourable public budget deficit tendency implied from the EU fiscal rules is a condition for the successful functioning of the economy after joining the monetary union and contributes to the long-term sustainability of public finances. Despite continued favourable economic growth, there is currently a delay in the originally planned trajectory. In this respect, a priority of fiscal policy is to return to the trend of reducing the public finance deficit as quickly as possible in a sustainable way.

On condition that the same deficit reduction rate is maintained at least at a minimum level of fiscal effort, the Czech Republic could achieve its medium-term budgetary target of -1.0% of GDP by 2013.

#### Monetary policy

Monetary policy aims at sustaining low and stable price growth. Since 1 January 2006, the inflation target has been defined as a 3% year-on-year rise in the CPI with a maximum deviation of plus/minus one percentage point on both sides. This established target maintains the desired space for a slightly positive inflation differential vis-à-vis EU countries. Such target has been met during the past four quarters, and the outlook for the near future is also favourable.

The Czech Republic is preparing to join the Eurozone. Preparations for membership were formally launched in the autumn of 2003 with the adoption of the Czech Republic's Strategy for Eurozone Accession. On the basis of this document, an assessment is made every year on compliance with the Maastricht criteria and on whether the country is prepared for accession.

This year's assessment has indicated that the long-term stabilisation of the general government sector has not been maintained at a level significantly below the 3% reference value. The analyses of the economy's alignment with the Eurozone confirmed that progress is being made in real economic convergence. The traditional weak spot is the labour market's flexibility. The substantial difference in the cyclical development of GDP between the Czech Republic and the Eurozone and in prices levels still persists.

In this respect, a decision was made not to join the ERM II system next year.

As for monetary policy, it was also said that it might be necessary — as soon as there is a political agreement about the date of introducing the euro — to significantly reduce the inflation target set by the Czech National Bank (the “CNB”) from the current rate of 3% in order to safely meet the criterion of price stability in the strict sense of this term as interpreted by the European Commission and the European Central Bank.

### Structural policies

Structural reforms cover a wide spectrum of microeconomic policies that are particularly targeted in the area of competition (the business environment, research and development, innovation, sustainable use of resources, modernisation and development of transport and the ICT network) and the labour market (a flexible market, market integration, education). The Czech Republic’s National Reform Programme (i.e. the National Lisbon Programme 2005–2008) contains a comprehensive overview of the priorities in these areas.

On 25 October 2006, the government approved the first Report on Implementation of the National Lisbon Programme 2005–2008. The Report indicates that progress has been made on improving the legal and business environment (introducing the assessment of the effects of newly adopted legislation, setting up central registration points for entrepreneurs, and adopting a new insolvency act) and promoting employment growth.

In accordance with the government’s objective, public budget expenditures for research and development are gradually increasing and the networking of innovative activities between research institutions, higher education facilities and business is improving.

Reducing the two lowest rate categories for personal income tax and replacing the standard deductible entries with tax credits contributed to a gradual rise in employment for the lower-income group.

The number of study programmes at higher professional schools and universities had increased, and a new regulation promoting life-time education was adopted.