

1 Introduction

The Czech Republic hereby submits its first regular autumn Convergence Programme, by which it updates the extraordinary Convergence Programme submitted to the European Commission in May 2004. The document was elaborated in accordance with Council Regulation No. 1466/97, which imposes an obligation to present convergence programmes upon the Member States that do not participate in the euro area. The Convergence Programme was elaborated within the multilateral surveillance framework procedure laid down in Article 99 of the Treaty establishing the European Community and in line with the country-specific recommendations of the BEPGs and with their update for the Czech Republic, as adopted by the ECOFIN Council during the European Council meeting in June 2004 in Brussels. It also respects the ECOFIN Council Decision of July 5, 2004, on the existence of an excessive deficit in the Czech Republic and the ensuing Recommendation¹ to the Czech Republic, concerning remedial measures related to the excessive deficit.

From the formal point of view the Convergence Programme fully respects the principles defined by the European Commission in its “2001 Code of Conduct”. As far as its contents are concerned, the Czech government has not been able so far to meet either the reference value of the fiscal deficit set by the Protocol on Excessive Deficit Procedure, or the requirements of the Stability and Growth Pact regarding the medium-term target of budgetary balance or surplus. This is due to the current fiscal situation and fiscal burden, both of which problems the government is striving to solve by means of a multi-annual programme of fiscal consolidation.

The Excessive Deficit Procedure was initiated with the Czech Republic after its accession to the EU. Based on the acknowledgment of the existence of special circumstances, the Council decided to allow the excessive deficit situation to be remedied within a medium-term framework. The recommended strategy of fiscal consolidation was approved in accordance with the Convergence Programme submitted by the Czech Republic in May 2004. According to this, the general government deficit should not exceed 5.3 % of GDP in 2004 and 4.7 % in 2005; it should not be higher than 3.8 % of GDP in 2006 and than 3.3 % of GDP in 2007, so that the Maastricht reference criterion would be reliably and sustainably met in 2008. The updated Convergence Programme also reacts to other Council recommendations.

The Convergence Programme is based on the 2005 Draft State Budget as it was submitted by the government to the Chamber of Deputies of the Parliament. It also takes into account the fiscal notification of September 1, 2004, which was submitted to the Commission, and official statistical data from the Czech Statistical Office available in September 2004.

¹ Pursuant to Article 104 (7) of the Treaty Establishing the European Community