Introduction

This regular update of the Convergence Programme (the “CP”) is hereby submitted as a part of the European Union’s multilateral budgetary surveillance and fiscal policy coordination process. With respect to the date of submission, the macroeconomic scenario draws from the data known at January 15, 2010.

The global financial market crisis and subsequent recession were reflected in the Czech economy by a marked slowdown in economic growth in 2008 and a drop in GDP in 2009. GDP is expected to have decreased by 4.0% in real terms in 2009 and to slightly increase by 1.3% in 2010. In line with the anticipated abatement of the global crisis, economic growth should accelerate up to a level of 3.8% in 2012. General government finances during 2008 turned out slightly worse than expected: the government balance reached –2.1% of GDP. The worsening of the public finances continued to accelerate significantly due to the strong impact of automatic stabilisers and the government stimulus package to support the economy. For 2009, the preliminary estimate of the government balance is around –6.6% of GDP. The general government debt will rise to 35.2% of GDP this year with future prospect of growth. On the other hand, the Czech Republic has avoided the banking sector crisis.

This CP is submitted by the government which was given a mandate until the parliamentary elections in May 2010 after the coalition government had lost a no-confidence vote in spring 2009. Aware of the problems in public budgets, the risks of excessive indebtedness, and the expected gradual economic recovery, the Czech government has pushed through Parliament in the proposal for the 2010 budget measures to reduce the government sector deficit. In comparison with 2009, the consolidation package will contribute to year-on-year improvement of the structural balance by approximately 2% of GDP and make it possible to reduce the government deficit to about 5.3% of GDP.

An excessive deficit procedure was initiated with the Czech Republic on 2 December 2009. The Council of the EU has recommended that the Czech Republic by credible and sustainable means reduce the ratio of its general government deficit to GDP below the 3% reference limit by 2013. A report on the progress made in implementing the Council’s recommendations is the subject of Chapter 8.

Another consequence of the internal political situation is that the current government did not inherited approved consolidation strategy beyond the 2010 horizon. Despite the given political limitations, however, and in addition to enforcing an austerity budget for 2010, the government has prepared a consolidation strategy ensuring progress in correcting the excessive deficit within the timetable set by the Council. The aim is to create conditions for the succeeding government formed after the May elections to continue the initiated consolidation in following years with specification of its own consolidation strategy.

Even excluding political factors, macroeconomic and fiscal development is currently encumbered by substantial uncertainties. Although the macroeconomic scenario on the basis of which the CP is created is rather conservative compared to other institutions’ forecasts, the recovery profile of the Czech economy cannot, for the time being, be estimated with greater certainty.

The Programme was sent to the Czech Parliament for information. The relevant committees have discussed it and are regularly informed about its assessment by European bodies. Both chambers of the Parliament of the Czech Republic have also been properly informed about the initiation of the excessive deficit procedure with the Czech Republic.

The CP is available in electronic format on the website of the Ministry of Finance: http://www.mfcr.cz.