

1 Introduction

In accordance with the Stability and Growth Pact¹ and as part of the multilateral fiscal surveillance², the Czech Republic hereby submits the updated Convergence Programme (the “CP”). Due to the recent political developments, this year’s update is of a specific character. In June 2006, parliamentary elections took place in the Czech Republic for the Chamber of Deputies. Long and complicated negotiations on the new government had taken place as a result of the close results of the elections. The first government, which was formed in September 2006 by the winner of the elections (Civic Democratic Party – ODS), did not receive a vote of confidence. This did not occur until the second government in January 2007, which was set up as a coalition of ODS, the Christian Democrats and the Green Party.

The submitted CP update was prepared by the first government in November 2006 on the basis of binding legal regulations in accordance with the approved State Budget for 2007, the Medium-Term Budgetary Outlook for 2008 to 2009, the updated National Reform Programme of the Czech Republic and the National Strategic Reference Framework. The update was based on the autumn notifications of the general government deficit and debt and the government macroeconomic forecast, which was used as a macroeconomic framework for the 2007 State Budget and its medium-term outlook. However, as mentioned above, this government did not receive a vote of confidence and thus it did not submit the programme.

Due to time constraints, the new, second government accepted the update and supplemented it with the strategic fiscal objectives of its government declaration, which are presented in Section 9. It should be stressed that the quantitative scenario of fiscal development in Sections 4, 6 and 7 is based on binding legal regulations and comes from the assumption of sustaining the approved budgetary outlook and expenditure frameworks. Section 9 contains the thus far non-quantified objectives of the new government, whose goal is to speed up fiscal consolidation in 2008-2009. These measures will be incorporated into the draft state budget for 2008 and hence will be contained in the next CP update.

Fiscal policy was loosened last year as a consequence of the political cycle, and in spite of a favourable economic period, the Czech Republic will not manage this year to meet the trajectory for lowering the excessive deficit, as recommended by the Council in 2004 and confirmed during the last CP update.

The new government, however, has taken on the ambitious goal of consistent fiscal consolidation to not only halt the adverse development of public finances, but also to reverse this process, especially in the area of mandatory expenditures. Moreover, it is also aware of the need for long-term stabilisation of public finances, which, on the basis of wide political consensus, requires a swift reform of the pension and healthcare systems.

The submitted update was discussed in the relevant committees of both chambers of the Czech Parliament. Last year’s recommendations were submitted to the Czech Parliament for information purposes as a part of the draft state budget for 2007.

¹ Council Regulation (EC) 1466/97 as amended by Council Regulation (EC) 1055/05

² See Article 99 of the Treaty establishing the European Community.