Introduction

As a part of the EU's multilateral fiscal surveillance and economic policy coordination process, the Czech Republic hereby submits the regularly updated Convergence Programme (the "CP"). The previous CP, submitted in March 2007, was based on the 2007 State Budget prepared by the former governments and approved by the Chamber of Deputies of the Parliament of the Czech Republic (the "Czech Parliament") in December 2006. A summary of the objectives of the current government relating to its Programme Declaration was contained in the last section of the CP.

The new government, formed by a coalition of the Civic Democrats, the Christian Democrats, and the Green Party, did not receive a vote of confidence from the Czech Parliament until January 2007 and has inherited a budget that implied fiscal expansion for 2007. With respect to the distribution of power in the Czech Parliament after the elections, the government has a limited political mandate (the coalition and the opposition both received 100 seats). Thus, the government cannot act without the support of the opposition political parties. The government has accepted the 2007 budget for this reason as well. Nevertheless, it had also expressed its intention to halt fiscal expansion and to bring public finances back to the original trajectory of a declining deficit.

The economic assessment of the previous CP contained the following recommendations: (i) to stop the deterioration of the budgetary disciplines in 2007 and to remove the excessive deficit in a credible and sustainable manner by 2008 at the latest, (ii) to revise the expenditure structure with the goal of reducing the share of mandatory expenditures, and (iii) with respect to increasing expenditures relating to an ageing population, to improve the long-term sustainability of public finances by implementing needed reforms in the pension and healthcare systems.

The draft state budget for 2008 and the draft medium-term budgetary outlook for 2009 and 2010 respect the established deadline for removing the excessive deficit and respond to the above-mentioned recommendations. An important step is the adoption of the Act on Stabilisation of Public Finances[1] amending 49 acts primarily relating to mandatory expenditures.

The objective of the government is to continue with the reform measures. It would like to get support for the prepared drafts outside the sphere of the parliamentary political parties so that the adopted reforms will be irreversible. The goal is to pass the reforms during the current electoral term, i.e. by mid-2010.

The CP is in line with other Czech strategic documents – the Czech Republic's Updated Strategy for Eurozone Accession of August 2007, the Report on Implementation of the National Lisbon Programme 2005–2008 of October 2007, and the National Strategic Reference Framework for the period 2008 to 2013.

The previous CP from March 2007 was sent to the Czech Parliament for information. In contrast to previous years, the relevant committees had paid closer attention to the CP this time. They asked the government to keep them posted about any new developments during the year and to inform them of how the CP was assessed by the European Commission and

[1] *Act No. 261/2007 Coll. on Stabilisation of Public Finances, adopted on 19 September 2007*

the ECOFIN Council and what additional steps have been approved in the procedures relating to the excessive deficit. Following the discussion, the committees called upon the government to remedy the situation.