



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 23 December 2004  
(OR. en)**

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UEM 178**

**LEGISLATIVE ACTS AND OTHER INSTRUMENTS**

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Subject: COUNCIL RECOMMENDATION of 5 July 2004 with a view to  
bringing an end to the situation of an excessive government deficit in the  
Czech Republic

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**COUNCIL RECOMMENDATION**

**of 5 July 2004**

**with a view to bringing an end to the situation  
of an excessive government deficit in the Czech Republic**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7) thereof,

Having regard to the recommendation from the Commission,

Whereas:

- (1) According to Article 104 of the Treaty, Member States are to avoid excessive government deficits.
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.
- (3) The Council decided on 5 July 2004, in accordance with Article 104(6), that an excessive deficit exists in the Czech Republic.
- (4) Having decided on the existence of an excessive deficit in the Czech Republic, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure <sup>1</sup>, is required to make at the same time recommendations to the Member State concerned with a view to bringing that situation to an end within a given period.
- (5) According to Article 3(4) of Council Regulation (EC) No 1467/97, this Recommendation should specify that effective action is to be taken by the Member State concerned within four months at most and that the correction of the excessive deficit should be completed in the year following its identification unless there are special circumstances. Such special circumstances are present in the case of the Czech Republic, namely because the general government deficit upon EU accession was significantly above the reference value and because of the ongoing structural shift to a modern service-oriented market economy accompanying the process of real convergence.

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<sup>1</sup> OJ L 209, 2.8.1997, p. 6.

- (6) The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework. It is appropriate to consider the convergence programme submitted by the Czech Republic in May 2004, and its subsequent updates, and the Council Opinions thereon as providing the adjustment path for the correction of the excessive deficit. The convergence programme of May 2004 plans to reduce the general government deficit to 3,3% in 2007 and further mentions that the proposed path of deficit reduction indicates that the elimination of the excessive deficit would be completed by 2008, with the following intermediate annual targets for the deficit: 5,3% of GDP in 2004, 4,7% of GDP in 2005, and 3,8% of GDP in 2006. The adjustment path is based on a macro-economic scenario which, according to the Council Opinion of 5 July 2004 on the convergence programme, is cautious.
- (7) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy,

HEREBY RECOMMENDS:

- the Czech authorities to put an end to the present excessive deficit situation as rapidly as possible;
- the Czech authorities to take action in a medium-term framework in order to achieve their objective of bringing the deficit below 3% of GDP by 2008 in a credible and sustainable manner, in accordance with the path for deficit reduction specified in the Council Opinion of 5 July 2004 on the convergence programme submitted in May 2004;

- the Czech authorities to implement with vigour the measures envisaged in the May 2004 convergence programme, in particular a cut in the wage bill of central government and a reduction in spending of individual ministries;
- the Czech authorities to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target.

In addition, the Council invites the Czech authorities to:

- allocate higher-than-budgeted revenues to deficit reduction;
- introduce fiscal targeting based on medium-term expenditure ceilings and draw up effective rules to reduce the risk of increasing indebtedness of regions and municipalities;
- undertake the reform of the pension and healthcare systems to improve the long-term sustainability of the public finances;
- minimise the negative budgetary impact of the operations of the Czech Consolidation Agency.

This Recommendation is addressed to the Czech Republic.

Done at Brussels, 5 July 2004

*For the Council*  
*The President*

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