

Office of the Czech Fiscal Council

Czech Fiscal Council

OPINION

of the Czech Fiscal Council

number 3/2023

of 13. June 2023

on the determination of the expenditure frameworks of the state budget
and state funds for the years 2024 to 2026

Czech Fiscal Council

I. expresses a dissenting opinion

pursuant to Section 12(5) of Act No. 23/2017 Coll., on the Rules of Budgetary Responsibility, as amended (hereinafter referred to as "the Act") to determine the expenditure frameworks of the state budget and state funds for the years 2024 to 2026.

II. justification

The presented **Budgetary Strategy of General Government Sector of the Czech Republic, which** sets the expenditure frameworks of the state budget and state funds for the years 2024 to 2026, is not consistent and logical in setting fiscal targets and fiscal effort expressed in the form of a structural deficit value for the period under review (in % of GDP).

As the CFC pointed out in last year's opinion, it cannot be allowed that the Budgetary Strategy, as a key and binding document of the entire budget process in a given year, sets expenditure frameworks for the government sector at a different level than that assumed by the Convergence Programme of the Czech Republic (which is an integral part of the Budget Strategy according to Section 9(1) of the Act), when it is based on the same macroeconomic forecast and the same assessment of the basic parameters of economic development.

In one respect, the situation is more serious than in 2022, as the Budgetary Strategy is not quantitatively consistent with the announced consolidation efforts of the government contained in the government's bill on consolidation of public budgets, which was submitted after the approval of the Convergence Programme.

While the Convergence Programme foresees a structural balance of 2.6% of GDP for 2024 and the Final Report on the Regulatory Impact Assessment of the draft law on public budget consolidation implies a decline in this balance to around 1.4% to 1.5% of GDP, the Budgetary Strategy itself does not envisage consolidation to this extent, and, even after the announcement of the intended parameters for the consolidation of public finances in 2024 and 2025, sets the value of the structural deficit not only at a different but even higher level than that envisaged in the April 2023 Convergence Programme (namely 2,75 % of GDP for 2024).

The CFC adds, however, that the value of the structural government deficit contained in the Budgetary Strategy appears paradoxically to be more consistent with the actual expected evolution of public budgets this year and thus represents a truer reflection of the actual scale of public sector spending between 2024 and 2026. It thus appears that the original estimates of the evolution of public finances contained in the Convergence Programme did not reflect the actual state of public finances. The CFC underlines all the more the urgent need to consolidate public budgets and the consolidation package is not less but more desirable in this light.

In this context, the CFC considers it regrettable that the Budgetary Strategy was not submitted to the Government by the statutory deadline (end of April 2023), arguing that it is impossible to make credible forecasts of fiscal developments for 2024 and beyond if the Government is preparing significant savings in public sector spending and is also counting on additional revenues. Given that in terms of the key indicator, the structural balance, the Budgetary Strategy works with a worse balance than the Convergence Programme, which preceded the package in time, this argument proved difficult to defend.

The Ministry of Finance's explanation that the Budgetary Strategy also takes into account the additional expenditure resulting from the contemplated loan from the European Commission under the so-called Recovery and Resilience Facility means that if the Czech Republic uses the loan, the structural balance of the public budgets will be higher and the debt of general government will also increase. This will partly reduce the scope of the government's consolidation efforts.

The CFC notes that, despite the criticisms mentioned above, there is a tightening of expenditure limits over the 2024–2026 horizon when compared to the 2022 Budget Strategy, which is desirable. Last year's Budgetary Strategy envisaged a structural deficit for 2024 of 4.2% of GDP. However, the CFC adds that, as last year, such high historical balances were only made possible by the undesirable double softening of the budget rules in the repeated amendment of the Act during the Covid-19 pandemic.

The CFC further notes that the chosen level of structural balances for the years 2024 to 2026 is based on a not yet approved amendment to the Act and therefore does not take into account the current wording of Section 10 of the Act.

However, in terms of the technique of deriving the expenditure frameworks, the CFC notes that the methodology for deriving the expenditure frameworks of the state budget and state funds has been followed, and the Ministry's approach cannot be faulted in this respect.

Noted:

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Stanjura Minister of
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