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The Czech Republic will not ratify the fiscal agreement

Jakub Groszkowski

President Václav Klaus announced in his letter to Prime Minister Petr Nečas that he would not sign the intergovernmental agreement introducing a fiscal compact, an instrument for the coordination of the economies of eurozone member states. In the opinion of the Czech president, the agreement to be approved at the summit of the European Council at the end of January provides that the states entering into fiscal union will in fact lose their sovereignty.

The intergovernmental agreement is also a subject of dispute inside the centre-right cabinet led by Petr Nečas. The prime minister, who is the leader of the Civic Democratic Party (ODS), is sceptical about the agreement. He intends, however, to wait for the final version of the document before he makes his decision regarding its ratification. In turn, Foreign Minister Karel Schwarzenberg, who is the leader of TOP 09, threatened that his party would leave the government if the agreement was rejected. In the opinion of Schwarzenberg, rejection would lead the Czech Republic outside the mainstream of European integration. The fiscal pact will come into force on condition that it is ratified by twelve eurozone member states.

Commentary

- The president's consent is necessary for the ratification of the intergovernmental agreement and so the stance he has taken *de facto* decides in advance that the Czech Republic will not be a party to the fiscal compact. The rejection of this agreement by the Czech Republic will not have any direct economic consequences for this country because the provisions of this pact will apply to its signatories who do not belong to the eurozone only after they have adopted the common currency. Nevertheless, this decision will be a clear political declaration. It is therefore very important whether the agreement is supported by the government (and then is rejected by the president) or is rejected already at the governmental level. Nečas' decision will depend on the final content of the document and on the stances taken by the other EU member states.

- A dispute over European policy priorities has been present in the Czech government since the elections of 2010. On the one hand, the prime minister's aides are of the opinion that the recipe for overcoming the economic crisis in the EU should be based on liberalisation of the common market and by stimulating competitiveness, and not by establishing closer co-operation and economic coordination. The scepticism of the Czech conservatives about the pact is also linked to their dislike of the plans to introduce control of fiscal policy by the EU institutions. On the other hand, TOP 09 is arguing that the Czech Republic should back the anti-crisis mechanisms being pushed through in the EU partly because of its minimal economic growth and high dependence on exports. This party is also emphasising that the requirements this pact imposes on eurozone member states converge with the goals of the Czech government's economic policy.

- The dispute over European policy is very unlikely to lead to the disintegration of the government coalition. The cabinet led by Petr Nečas is focused on improving the condition of public finances, and this goal takes priority over all other issues, including European policy. ODS and TOP 09, which compete for the votes of the right, have very similar economic programmes and for this reason deliberately manifest their different stances on European policy to make themselves distinct from their coalition partner and thus mobilise their electorates.