

Expense cuts and reforms in the Czech Republic

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On 6 November, the Czech Chamber of Deputies, after six days of obstruction, adopted a package of laws which envisage cuts in expenses and which are of key significance to the implementation of reforms planned by the centre-right government led by Petr Nečas. At the beginning of next year the lowest VAT rate will be lifted from 10% to 14% (it is applicable to food goods, for example), social expenses will be reduced and medicine subsidies will be limited. The retirement age will be gradually increased, and a second, voluntary, pillar of the pension system will start operating at the beginning of 2013. The package of the laws, which has been previously rejected by the Senate where representatives of the political left are predominant, is awaiting the signature of the president, who supports the government's economic policy. The opposition Czech Social Democratic Party (ČSSD), which was blocking the governmental package of legislation for six days at the Chamber of Deputies, has announced it will bring part of them to the Constitutional Court together with a motion for examining whether they have been adopted in a way which complies with the constitution.

Commentary

- The adopted reforms and budget cost cuts fit in with the government's plans for tackling public debt (currently 39% of GDP) and balancing public finances by 2016. The centre-right cabinet does not want to withdraw from these goals despite a clear slowdown in economic growth (the forecast for 2012 is 1% of GDP). The government's austerity policy (initiated already by the previous cabinet led by Jan Fischer in 2009) is translating into a falling deficit in the public finances sector (from 4.8% of GDP in 2010 to 3.8% forecast in 2011) and positive opinions among rating agencies, which improves the stability of the Czech currency.
- Despite the socially expensive reforms and expense cuts, there are stable support levels for the two main right-wing parties, which have been making efforts to convince the public of the need to make radical moves. Although the opposition ČSSD, which is criticising the government's actions, has a stable advantage (10 percentage points) over the Civic Democratic Party (ODS) led by Prime Minister Nečas, it has problems presenting alternative proposals of economic solutions. Stable support for the governing parties (over 40% in total) is most likely an effect of the fear shared by many Czechs of a possible deterioration of the economic situation. In this regard citizens of the Czech

Republic are the most pessimistic in the entire V4, which is making them more responsive to the argumentation that savings are inevitable.

- The complaint to the Constitutional Court the ČSSD has promised to bring regarding the procedure of shortening the debate in the Chamber of Deputies is very likely to be granted. Judging from previous decisions of this court, it may concede the opposition's point and oblige the government to bring the legislation for discussion in parliament again. This decision could delay some solutions being put into effect but not significantly affect the economic policy the government has been pursuing thus far.