1. Introduction

Until recently and up until the recession and the financial crisis, the development of the EU Member States' budget policy could have been characterised by the following goals:

- **fiscal consolidation, i.e. reduction of budget deficits and stabilisation or reduction of the level of public debt;**

- **improvement of the process of allocation of resources and increased performance of the public sector;**

While significant differences between EU states in the extent of steps taken and the level of responsibility for resolving the budget issue are visible, a great similarity, if not common patterns, can also be seen in the approach towards achieving these goals. That is to say that all the EU Member States have experience of fiscal problems (big deficits and a high level of public indebtedness), and to be honest, there are not very many ways to remove these problems. The best results are achieved by those countries that focus on all three aspects of this process:

- **macroeconomic fiscal consolidation,**
- **making an effort to improve the performance of the microeconomy, i.e. the performance and efficiency of the country's own economy, including emphasis on increasing the efficiency of the public sector,**
- **having a consolidation plan that is well prepared and well implemented in the long term, and adhering to this plan.**

Countries that place emphasis on all these aspects have a higher chance of achieving better results. Improvement of the budget process should, in the long term, lead to a higher quality of budgetary decision making and consequently to faster fiscal consolidation.

Unfortunately, those good old days of budgetary consolidation and and a sinking average deficit in respect of EU states' public budgets are gone, and we currently face the risk of large deficits. For more and more countries, double-digit deficits are being mentioned. Nobody is talking about fiscal consolidation any more. Perhaps for this very reason, I would like to bring it to mind. The value of fiscal consolidation must not be forgotten even during these tough times.

2. Macroeconomic justification

In the broader sense, budget policy is the financial expression of the governmental policy within the sphere of its constitutional powers. It is thus a collectively borne responsibility and its goal should be societal development that is responsible and sustainable in the long term.

In the middle of the current recession, individual governments are under huge pressure to use fiscal policy as an active day-to-day instrument in easing the crisis, curtailing it or at least assisting individuals affected by it.

As a representative of a small country with clear and defined limits when it comes to the potential to finance public debt, I am somewhat sceptical as to whether fiscal stimuli can markedly or radically flatten the recession or cut it short in any way.

By contrast, as far as direct help to members of the public whose social status has been destroyed by the crisis is concerned, budgetary aid is desirable, effective and entirely appropriate.

Correctly implemented budget policy is, at the very least, a tool serving towards economic stabilisation. If the budget policy is neutral for the most part and if it does not oust private-sector loans due to large expenditure on the state debt or increase money supply on the market and thus stimulate inflation, and if it is consistently rigorous, then one of the main shortcomings - the necessity to time individual governmental measures correctly - will have been removed. Adherence to this policy, however, requires great discipline and sometimes even great courage of the government and the parliament, especially at a time when the performance of the national economy is on a downturn.

During the period of revival that will eventually come, the policy of the small budget deficit will have a positive impact on the economy of the state, e.g. by achieving a stable domestic economic and social environment, low long-term inflation, and stability of realistic interest rates.

It will help countries interested in Euro participation to adopt that currency quickly.

In turbulent times such as these, a sober budget policy can at the very least mean that the situation will not worsen. Governments, which must pay heed to public opinion, are sorely tempted to spend more than they receive in taxes. We know to our cost that it is easier for the legislators to support reduction of taxes than tax increases, or to support increased expenditure than to reduce it. Moreover, every interest group, whether small or large, gives the legislators to understand that it is reflected in their voting preferences or in the social peace.

3. Approaches to fiscal consolidation

In many EU Member States, better macroeconomic management and improved performance of the microeconomy were already achieved in the last period before the crisis by way of the main driving force, public administration.

Fiscal consolidation is compatible with various political philosophies. While reforms of the public sector in the United Kingdom and fiscal consolidation were and are founded on the perspective of minimising the public sector's role, other states (for example, the Northern Countries and Germany with their conservative government; Slovakia, the Czech Republic and others) regard fiscal consolidation as part of the reforms to preserve and increase performance of the public sector - to preserve or approach a state of affluence via its reform.

As we can see, however (particularly in today's turbulent times), not every government is willing, or sometimes even able, to continue with fiscal consolidation and the fiscal goals give way to political or economic pressure.

A number of states see the sensible need to preserve the main traditional public expenditure during the recession as being contrary to cyclic measures, even at the expense of significant growth of the budget deficit. In the interests of maintaining social cohesion, this can be fully accepted.

However, it is important that this strategy not degenerate into a new ad hoc fiscal intervention, often haphazardly thought out and with no demonstrable impact on easing the recession. In addition it makes no difference whether, for example, we are talking about reduced taxes or contributions or provision of various aid. It is these very marketing ad hoc fiscal interventions that can do the greatest damage to public budgets.

Today nobody knows how long the recession will last and how profound it will be. Although everyone is impatiently looking out for good news, there is very little good news and it is evident that 2009-2010 will be tough on the Member States' economies. The crisis is damaging public budgets and increasing the ratio of public debt to GDP. This is another reason why it will be important, once the recession subsides, to return to budget stabilisation as soon as possible so that this process can also help facilitate better macroeconomic balance in the EU states and a way for all of us to leave the economic recession behind**.**

Thank you for your attention.

Government agency sector balance (ESA 1995 methodology; in % GDP)[1]

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Criteria value	**-3,0**	**–3,0**	**–3,0**	**–3,0**	**-3,0**	**-3,0**	**-3,0**	**-3,0**
Czech Republic	**-3,0**	**–3,6**	**–2,7**	**–1,0**	**-1,2**	**–1,6**	**–1,5**	**–1,2**

Governmental debt (ESA 1995 methodology; in % GDP)[1]

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Criteria value	60,0	60,0	60,0	60,0	60,0	60,0	60,0
Czech Republic	29,8	29,6	28,9	28,8	27,9	26,8	25,5

1 [1]CSO, Notification of governmental deficit and governmental debt (October 2008) in the Ministry of Finance, Convergence Programme of the Czech Republic, November 2008