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July 2001
IMF Country Report No. 01/111

Czech Republic: Report on the Observance of Standards and Codes—An Update Including the following topics: Data Dissemination and Fiscal Transparency

This Report updates the developments in data dissemination and fiscal transparency since the September 1999 "Experimental Report on the Observance of Standards and Codes—Czech Republic" and the June 2000 update (available on the IMF website at http://www.imf.org/external/np/rosc/cze/index.htm). It was prepared by a staff team of the International Monetary Fund in June 2001 as background documentation for the periodic consultation with the member country. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Czech Republic or the Executive Directors of the IMF.

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International Monetary Fund
Washington, D.C.

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES
CZECH REPUBLIC—AN UPDATE[1]
JUNE 2001

This note provides a factual report on developments in data dissemination and fiscal transparency since the September 1999 "Experimental Report on the Observance of Standards and Codes—Czech Republic" and the June 2000 update. For a full description of institutions and practices, it should be read in conjunction with the original reports.[2]

A. Data Dissemination

The Czech Republic meets the Special Data Dissemination Standard (SDDS) specifications for coverage, periodicity, and timeliness of the data, and for the dissemination of the advance release calendars; the metadata have been posted on the Fund's Dissemination Standards Bulletin Board. Since the September 1999 ROSC, the Czech Republic disseminates a National Summary Data Page (NSDP) in observance of the SDDS, which is linked to the IMF's Dissemination Standards Bulletin Board. The NSDP is also linked to the statistics maintained by the relevant institutions of the Czech Republic, providing more detailed information on national statistical data. Since April 2000, the Czech Republic releases detailed information on international reserves and foreign currency liquidity that conform with the required data template.

B. Fiscal Transparency

The 2001 budget was adopted—and is being implemented—in accordance with the new *Law on Budgetary Rules*.[3] It has five main features that improve on past practice: (i) ex post changes in the State Budget are strictly limited; (ii) rules on granting government guarantees are tightened substantially; (iii) all government spending must be executed by institutions approved by law; (iv) budgetary presentation and monitoring have been made more transparent; and (v) the government can no longer operate on the basis of an unapproved budget, but must continue to operate on the basis of the previous year's approved budget.

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[1] Prepared by Roger Nord (European I Department), in consultation with the Czech authorities.

[2] The original report was issued to the Executive Board as EBS/99/158 Supplement 5 (9/1/99) and is on the IMF website as http://www.imf.org/external/np/rosc/cze/index.htm. The update was issued as SM/00/158 (7/12/00).

[3] See the June 2000 update for details on the new budgetary rules.

Preparation of the 2001 budget

The 2001 State Budget was prepared in accordance with the new budgetary rules. Municipal budgets are subject to different rules ("small budgetary rules," which were also amended effective in 2001).[4] Spending by State Funds (such as the newly-created Housing and Transport & Infrastructure Funds) is not subject to the budgetary rules. Although the budgets of the State Funds are also approved by Parliament, their functioning and financial accountability is determined by the laws under which they were created. However, they cannot spend more than what was originally envisaged without returning to Parliament for approval.

State guarantees

According to the new law on budgetary rules, all state guarantees must be approved by way of a special act (law), which means that each individual guarantee must be approved by Government as well as Parliament. Since January 2001, no new state guarantees have been extended.

The new law also requires the annual preparation of a comprehensive statement on guarantees. Such a statement is intended to be part of the source materials for preparing the next State Budget and will include a compilation of all state guarantees and their likely cash impact over the next few years. Retrospectively, the State Budget Final Accounts will include a detailed account of all state guarantees extended in the previous year and any calls on existing guarantees. Moreover, the State Budget always includes an appropriation for expected calls on guarantees ("the realization of state guarantees"). Should the Government be required to pay on behalf of a debtor, the obligation of the debtor is not extinguished: it now becomes a debt to government. On the other hand, should actual calls fall below the expected level, the Government has limited discretion to increase spending in other areas.[5]

Reporting and monitoring

The Ministry of Finance continues to prepare a short quarterly report on budget implementation. In addition, under the new rules, the Government must prepare biannual detailed reports for Parliament, which assess budgetary developments and the outlook for the

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[4] These rules will also apply to the new regional level of government (as of January 1, 2001, the 14 new regions began operations, although debate on their financing structure has not yet been completed).

[5] Within a budgetary chapter, increases in individual spending lines (votes) may not exceed 10 percent, even if the overall chapter ceiling is observed. Across budgetary chapters, the government's discretion is limited to 5 percent additional spending, but only if equivalent savings are realized elsewhere.

remainder of the year in the context of overall economic developments. Both cover only the State Budget. The new rules also require the preparation of a medium-term outlook for a period of two years after the year for which the State Budget is being submitted. However, here too the scope is limited to the coverage of the State Budget.

Staff commentary

The new budgetary rules represent substantial progress in fiscal transparency since the original assessment was prepared. However, their reporting and monitoring requirements apply only to the State Budget. The creation of new extrabudgetary funds is a step backwards in this regard. The stricter rules concerning the extension of state guarantees are welcome and, as drafted, represent an improvement in capturing likely fiscal risks. Finally, the fiscal reporting requirements do not require addressing tax expenditures, as required by the *Code of Good Practices in Fiscal Transparency.*