



The Strategy of Preparedness
and Acceleration of Growth

12 theses
7 sets of measures



THE NATIONAL COUNTER-CRISIS PLAN

I present you with a plan which I am proud of. This is a plan which is, in contrast with many other countries, free of populism and political bribery which we could have smuggled in under the cloak of critical situation. We have decided to do no such thing. I present a plan which belongs, in international comparison in terms of growth impulses, among the largest yet not among the costlier. In my opinion this plan can be counted among the most useful and the most effective measures in place to combat the crisis. What is the predominant philosophy of the Czech counter-crisis plan? It is a balanced plan, a plan that is not short-sighted, that is free of costly populism, it is a well thought-out and effective plan.

Mirek Topolánek

12 theses of the Governmental National Counter-Crisis Plan (NPPV)

01

Our plan is socially sensitive. The strongest measures are directed at the middle and low income groups. Reduction of insurance will positively affect these groups the most. We do not want to give alms to people who lost their jobs. We aim to preserve their jobs. We believe that this is a more effective and dignified method, whether for the people, for the businesses and for the government.

02

Our plan is based on freedom, not on the principle of more government. The road out of the crisis does not lead through more taxes and through more governmental interference with the everyday lives of the people and running of businesses. We thus significantly lower the tax burden.

03

The plan is clever and integrated. We would not need to be ashamed of the steps we are taking not even in times of prosperity. These are not non-systemic solutions which will hurt us in the long term. Our measures have a strong leverage effect as they involve the private sector, structural funds and are directed on areas which will return a high effect. In total we count on stimuli to be provided to the Czech economy which should amount to 4.7 % of the GDP.

04

This is not a populist plan. Our economy suffers from downturn in demand that is triggered abroad – not domestically. Besides that the domestically-generated demand never was in the past the foremost driving motor of our economy. Czech economy thus cannot be helped by stimulation of the domestic demand. Any form of distribution of public money to population in such a small and open economy, where almost 80 % of the expenditure ends up abroad would equal squander.

05

Instead of a slick stimulation of the domestic demand we focus on the supply side of the economy. Instead of populist cash handouts we make labour cheaper, we maintain employment and support industriousness, we make business easier, and we lower the tax burden. We support in an adequate manner what drove our economy in recent history and what work today: export performance.

06

Our plan is preventive. Instead of pushing up unemployment benefits we aim to prevent loss of jobs. We lower the labour costs and save jobs. Reduced insurance, which works retrospectively, is exactly the tool which assists to maintain jobs in industry, agriculture, construction and in service sector. The measures significantly contribute to the creation of new jobs, even if some of them may be part-time.

07

We draw people near to jobs not to dole. The government strengthens the financial coverage for investment into transportation infrastructure and spending on transportation generally, again seeking to maintain jobs and increase the mobility of the workforce.

08

The plan is strong and responsible. The new measures which the government put into place will not overly strain the exchequer. The new measures total CZK 41.5 billion and correspond to 1.1 % of the GDP. Along with other measures which were carried out since the crisis hit (i.e. CZK 32.2 billion, equal to 0.85 % of the GDP) they amount to CZK 73.7 billion, i.e. 1.95 % of the GDP.

09

The plan is fair and cross-sectional, it avoid partial interests. We do not want to give preferential treatment to individual sectors. Instead of partial measures and fractional support to be given here and there we rely on measures that are effective across the board.

10

The Czech Counter-Crisis Plan is open and does not rely on protectionism. Adopted measures cannot carry signs of economic nationalism; on the contrary it is in the vital interest of such an open economy to combat growing protectionist tendencies inside and outside the EU. Czech Republic will not serve itself well by the equivalent of “buy American” nor by stimulating

consumption which is to a large degree imported and which would worsen the net exports than to stimulate growth of GDP. Anyone who advocates the contrary commits in the context of the small open economy a serious macro-economic mistakes and aims solely at election gain.

11

Our plan provides guarantees to businesses which need them. Although the Czech banking sector was not dramatically hit by the global financial crisis, there exist some serious problems in ensuring of operational financing to businesses outside of the financial sector, in the first place for the SMEs. The NPP focuses on this sector very strongly by dedicating to materially larger volume of funds.

12

We will free up the hands and the funds for businesses. The corporate sector has serious problems with cash flow, which is due to a large degree to a lack of certainty. The employers thus have the chance to request their tax administrator or the Czech Social Security Administration to lower their deposits on taxes to spread their instalment plans or to seek pardon from penalizations. The government also proposes adoption of fundamental changes into the insolvency laws which would aim to secure operational financing and continuing employment in those firms which are economically strong to come through insolvency and to continue to contribute to GDP.



The Strategy of Preparedness and Growth Acceleration (Czech acronym SPAR) was promulgated by the Czech Prime Minister Mirek Topolánek in the Chamber of Deputies on 2. 12. 2008 and Strategy the four fundamental goals:

- **recover the confidence in the financial sector**
- **pre-empt and eliminate the risks of the global financial crisis**
- **find impulses to stimulate growth of economy**
- **find tools to stabilize and increase flexibility of the economic environment**

SPAR is to be realized in three main phases:

Phase I.

(October 2008 until January 2009)

The government adopted measures to recover the confidence in the financial sector and to pre-empt and eliminate the risks emanating from the global financial crisis. These measures represented total stimuli for the economy amounting to 2.6 % of the GDP (98.8 billion korunas) with impacts on public budgets, according to the ESA 95 methodology, amounting to 0.85 % of the GDP (32.2 billion korunas).

Phase II.

(from February 2009 onwards)

The National Counter-Crisis Plan put forward by the government. The government, in cooperation with NERV proposed a new set of measures seeking to alleviate the consequences of the imminent recession. Along with the already adopted and approved measures during Phase I the complex proposal took shape in the form of the National Counter-Crisis Plan. This plan can be divided into 7 topical circuits of executive and legislative measures. The newly proposed tools of Phase II fulfil the goal of providing of pro-growth, multiplying impulses to the economy amounting in total to 2.1 % of the GDP (80.1 billion korunas) with impacts on public budgets amounting to 1.1 % of the GDP (41.5 billion korunas).

Phase III.

(March till October 2009)

The government will present the results of the last SPAR goal which focused on stabilization and increased flexibility of the economic environment (updated view of the structural policies) and will formulate the thesis for the National Strategy for Acceleration of Economic Growth (Czech acronym SAHR).

Phase II.

National Counter-Crisis Plan contains these most important sets of measures:

01

TAXES AND LEVIES

- The reduction of the social security rate by 1.5% in favour of the employees will result in proportional growth of net salary for employees in all income groups. In total the employees will retain CZK 18 billion. Besides that the employers will benefit from a reduced levy by 1% (subject to consent by Parliament)
- Reduction of the tax burden of enterprises (the DPPO rate) will gradually drop by two percentage points between 2009 and 2010; this measure will allow the enterprises to retain approx. CZK 6 billion each year in comparison with the preceding year. Enterprises will thus be facilitated to invest more and to maintain employment (subject to consent by Parliament)
- New support initiative which seeks creation of cash reserves of the tradesmen and enterprises with up to five employees involves the abolishment of the obligation to pay in the deposits on income tax which will significantly increase availability of their financial resources.

02

SUPPORTING BUSINESS AND PRIVATE INVESTMENT

- We will bring forward faster depreciation of assets. In the first depreciation group we will shorten the depreciation period from three years to one; in the second depreciation group from five years to two (60 % and 40 %). This measure will increase the available funds for companies and tradesmen alike by approximately CZK 9 billion. On top of it this measure is in long term horizon fiscally neutral. (Subject to consent by Parliament)
- We will broaden the application of VAT deductions for cars by abolishing the non-systemic barrier for the VAT payers for purchases of any passenger car. This measure

is already being discussed in the Chamber of Deputies of the Czech Parliament. The impact on the state Budget will be about CZK 3 billion (subject to consent by Parliament).

- We will put back the obligation to pay deposits on income tax for the self-employed and for businesses with up to five employees. This measure will impact the public budgets to the tune of CZK 1 billion according to the ESA 95 methodology. (Consent by the Parliament necessary)
- We will speed up the returns of VAT down to 15 days for those subjects who will file their VAT returns electronically.

03

SUPPORTING EMPLOYMENT AND EXTENDING TRANSPORTATION SERVICES

- Deductions on social insurance will be available for employers with respect to employees with salaries of up to 1.15 of gross salary. The amount of the deduction will progressively lower with the amount of the salary. The impact on the state budget is estimated at maximum of CZK 18 billion, although it will be lowered by savings with respect to social benefits and unemployment support due to higher employment generally. This measure will facilitate preservation of some 50 – 70 thousand jobs for employees with primarily lower income. (Subject to approval by the Parliament)
- We will extend transportation services. In order to improve the mobility of the workers in the most hard-hit regions the sending in this are will be increased by about CZK 0.2 billion.
- We will make use of the European Social Fund for re-qualifications with refunds of salary costs for the employers. This will significantly help to maintain employment and to increase the skills of the employees.

04

PROMOTION OF ENVIRONMENTAL AND INFRASTRUCTURE SPENDING

- We will lower railway fees. The fee for the use of the state transportation infrastructure for transportation (railways) will be lowered by 20 %.
- We will lower the energy consumption with respect to buildings. Under the new subsidy program we will promote high-quality heat cladding for family houses and apartment buildings build without the use of panel technology, replacement of non-ecological heating by low-emission boilers using biomass and effective heat pumps. Four-year term will be subsidized by up to CZK 25 billion to be obtained by the sales of emission permits. We will also strengthen the PANEL program by another CZK 0.5 – 0.75 billion.
- Investment into transportation infrastructure will reach in this year record highs. Along with the yet unexpended funds from the SFDI from 2008 which amount to CZK 7.2 billion and which were transferred into SFDI for 2009, the SFDI will also have available funds totalling CZK 90.3 billion.
- We will also strengthen other spending chapters. For instance the Rural Restoration Program will be provided with further CZK 272 million. Spending with respect to indirect payments (co-financing) will increase by approximately 1 billion.

05

PROMOTION OF RESTRUCTURING AND INSOLVENCY PROCESSES

- The amendment to the insolvency act will strengthen the current specific effects of the insolvency law so that there will be chance to maintain the maximum possible number of functioning subjects on the market while respecting the unity of interest of the creditors. Simultaneously we will seek to thoroughly protect the

rights of the debtors' employees. We propose, through specific measures, to support the select groups of subjects in insolvency proceedings, keeping primarily in mind the maintenance of production of the debtor and the satisfaction of the rights pertaining to wages in all phases of the insolvency proceedings. (Parliaments' consent will be required.)

06

PROMOTION OF EXPORTS, STRENGTHENING OF CREDIT LINES

- We will guarantee and promote credit loans. There is a program run by ČMZRB for small and midsize enterprises totalling CZK 40 billion which is guaranteed up to 80% and the maximum possible disbursement of CZK 90 million for one beneficiary.
- We will support export. By increasing the registered capital of the Czech Export Bank by CZK 2 billion we will facilitate support to more export projects up to the amount of CZK 35 billion. We have created new products for SMEs. Furthermore we caused the services of the Export Guarantee and Insurance Corporation to become cheaper and we are in the process of preparation of increasing its insurance cover.

- We will support the entrepreneurs in agriculture. The Farming and Forestry Support and. Guarantee Fund, plc will be provided with further CZK 2.3 billion which will result in availability of loans for SMEs in agriculture.

07

PROMOTING SCIENCE, RESEARCH AND INNOVATION

- The investment into science and development from the state will be strengthened in comparison with last year by CZK 1.8 billion to the total of CZK 24.8 billion. Including the EU funds we have approved for 2009 the amount of CZK 32.4 billion. (Subject to consent by Parliament)

MEASURES	Revenues / Spending PB ESA 95 (in billions of CZK)			Type	Stimuli in billions of CZK
	P _{VR}	V _{VR}	(P-V) _{VR}		
I. Realized and approved measures					
1. Utilization of funds from reserve funds		-1.5	1.5		
2. Increased guarantees for credit provided to SMEs	-0.5		-0.5	SSM	3.0
3. Aid provided to entrepreneurs in agriculture		2.3	-2.3	SSM	13.8
4. Tie-ins of operational expenditure of individual chapters		-6.5	6.5		
5. Reinforcement of the Rural Development Program		0.3	-0.3	SSM	0.3
6. Investment into science and research exc. the proposed state budget figures		0.3	-0.3	INVEST	0.3
7. Reinforcement of investment into transportation infrastructure		7.2	-7.2	INVEST	10.8
8. Increased salaries of state sector employees	0.4	2.7	-2.3	LMM	2.3
9. Increased expenditure for direct payments – co-financing		1.0	-1.0	SSM	1.0
10. Reduction of health insurance rates and on the state employment policy	-18.4		-18.4	PTCT	18.4
11. Reduction of the corporate income tax	-6.0		-6.0	PTCT	6.0
12. Increased if the registered capital of the ČEB			0.0	SSM	20.0
13. Increased insurance coverage of EGAP			0.0	SSM	0.0
14. Amendment of the Act on Export Insurance with state assistance			0.0	SSM	0.0
15. Promotion of research and development		1.9	-1.9	INVEST	1.9
16. Reduction of mandatory income tax deposits			0.0	TTCT	0.5
17. isbursement of the ZFZP balance of the health insurance providers			0.0	SSM	20.0
Total I			-32.2		98.8
			0.85% GDP		2.6% GDP
II. Proposed measures					
1. Deductions for employers with respect to social security insurance and state employment policy contributions	-18.0		-18.0	LMM/TTCT	18.0
2. Acceleration of depreciation schedules for the 1st and 2nd depreciation groups	-9.4		-9.4	INVEST	9.4
3. Extension of the VAT deductions for passenger cars	-2.4		-2.4	INVEST	2.4
4. Guarantees and support provided with respect to SMEs' loans		2.1	-2.1	SSM	12.6
5. Subsidy program with respect to reduction of energy consumption in building		6.0	-6.0	SSM	27.0
6. Reinforcement of the PANEL subsidy program		0.6	-0.6	SSM	2.7
7. Increased expenditure with respect to extended access to transportation		2.0	-2.0	LMM	2.0
8. Measures seeking to support the cash flow in corporate sector (VAT returns tied to electronic communication, sanction pardons, CSSA instalment plans etc.)			0.0	TTCT	2.0
9. Utilization of the European Social Fund (ESF) for requalifications with refunds of salary costs to the employers			0.0	LMM	3.0
10. Insolvency-related measures			1.0	SSM	1.0
Total II			-41.5		80.1
			1.1% GDP		2.1% GDP
Proposed measures in total					
Total I+II			1.95 % GDP		4.7 % GDP

ACRONYMS: **SSM** - SECTOR SPECIFIC MEASURES
LMM - LABOUR MARKET MEASURES
INVEST - INVESTMENT
TTCT - TEMPORARY TAX CUT AND TRANSFERS
PTCT - PERMANENT TAX CUT AND TRANSFERS

Source: NERV



ESTIMATING THE SIZE OF THE STIMULUS PACKAGE FOR 2009

	Tax cuts and fiscal expenditures		Extra credit & similar measures	
	€ bn	% of GDP	€ bn	% of GDP
Belgium	1.2	0.3 %	2.1	0.6 %
Denmark	0.0	0.0 %	0.0	0.0 %
Germany	35.8	1.4 %	70.3	2.7 %
Ireland	0.0	0.0 %	0.0	0.0 %
Greece	0.0	0.0 %	23.0	0.9 %
Spain	12.3	1.1 %	54.3	4.9 %
France	14.3	0.7 %	41.5	2.1 %
Italy	-0.3	0.0 %	0.0	0.0 %
Netherlands	3.2	0.5 %	0.0	0.0 %
Austria	3.9	1.3 %	2.5	0.9 %
Poland	1.5	0.5 %	4.9	1.6 %
Sweden	1.1	0.4 %	9.0	3.0 %
United Kingdom	16.5	1.0 %	22.1	1.4 %
13 Largest EU countries	89.7	0.78 %	229.7	2.0 %
Imputed EU-27 total	103.0	0.78 %	263.8	2.0 %
European Commission	9.3	0.07 %	15.5	0.1 %
Imputed Grand Total	112.3	0.85 %	279.3	2.1 %

Source: Bruegel, stav k 28.1.2009