

SPRING 2015 REFORM BAROMETER - CZECH REPUBLIC

| | | Q1 : the recommendation is : | Q2 : implementation on effort is : | Detailed comments |
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| CSR 1 | <p>Following the correction of the excessive deficit, preserve a sound fiscal position in 2014. Significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter. Prioritise growth-enhancing expenditure to support the recovery and improve growth prospects. Adopt and implement measures to strengthen the fiscal framework, and in particular establish an independent fiscal institution to monitor fiscal policies, introduce fiscal rules for local and regional governments and improve coordination between all layers of government.</p> | Important | Mixed | <p>This recommendation is important but not very helpful as such. We know that fiscal stability is one of the key issues being reflected in prices on financial markets, public sector stability or in sustainability of existing systems. We support lowering public deficits. We fully support “the correction of excessive deficit” reflecting the real sources of our economy but (at the same time) we are aware of the structure of our public budgets (the ratio of “mandatory expenditure”), the need for structural changes, fragile economic growth (where further fiscal restriction could hinder it) or existing internal debt. So we are not sure if the medium-term objective (if it is measured as 1% structural public deficit) is possible and desirable to meet in 2015. We accepted the proposed deficit of the Czech State Budget for 2015 (CZK 100 bln) but at the same time we admit that it is not helping to fiscal consolidation and it might have been lower. There are risks for future development if no system changes are made. Any increase of public expenditures should be analyzed and contribute to long-term economic growth, sustainability and stability. The recommendation should also be more oriented on specific structural changes (being reflected in public finance directly through public finance systems or indirectly through conditions for private sectors), lowering operating cost of public institutions, monitoring effectiveness of public expenditures, introducing measures lowering tax evasions etc. We agree that it is important to prioritise growth-enhancing expenditure (as mentioned above). The recommendation is insufficient, because it is possible to agree with it in general, but looking for particular steps is questionable and problematic. Prioritization of measures should be a key part of an overall economic policy of the government. The government has to clearly</p> |

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| | | | | <p>define its priorities and decide which measures will be supported. Moreover it is not only about an amount of money (expenditure) but also about its effectiveness and real results for private sector that creates value added and finance public sector. For example there is an increase in our State budget 2015 in the budget for infrastructure but there are strong limitation for using the money like selection procedures, complicated approval processes etc. The Government approved "The action plan of the government to increase economic growth and employment" but we still miss some coordination and management of the plan to secure effective implementation. We do not find introducing a new fiscal institution to monitor fiscal policies as necessary. It is another institution substituting activities that should be done by any responsible government. Nevertheless, we will probably support the basic principles included in the "law on fiscal responsibility" introduced by our government (including fiscal rules). But we will call also for responsible budgetary policy and preventive measures.</p> |
| CSR 2 | <p>Improve tax compliance with a particular focus on VAT and reduce the costs of collecting and paying taxes by simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions. Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed.</p> | Important | Mixed | <p>The assessment is somewhere between "mixed" and "unsatisfactory". We can support the recommendation "to reduce costs of collection and paying taxes by simplifying the tax system". New measures should not have negative impacts on honest tax payers and increase their administrative burden and risks. But the new measures burden honest tax payers and increase their risk and uncertainty. For example, the last amendment of VAT Code includes a new obligation to give another VAT report every month (from 2016) which we consider very complicated and burdensome for some honest tax payers. There has been too many changes in last year's. The tax system should be clear. Nowadays it is too complicated and too confusing. It was very difficult to find out what would change from the 1.1.2015. Regarding the VAT Law there was even some uncertainty in December where companies were not sure what would be effective from the 1.1.2015. The system should not punish those who do not meet their tax obligation unintentionally or those who pay taxes. Each new measure should be thoroughly analysed and consulted with relevant entities (tax payers). There is also the question of quality and motivation of financial officers. The Single Collection Point will not be implemented in 2015 but the discussion and preparatory work should carry on –the main principles of the</p> |

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| | | | | <p>Single Collection Point should be introduced in the future in a way which will really lead to tax simplification (and administrative burden on firms should be really lowered). The work should carry on but an implementation is not a question of this or next year. There has been no significant progress recently, the government focused on other topics. Generally the SP does not contradict the recommendation to shift taxation to areas less detrimental to growth, but again, looking for particular steps is questionable. In general whatever increase in taxation decreases at least the purchasing power of the domestic entities and attractiveness of the territory.</p> <p>The social contributions on labour make the Czech Republic in international benchmarking relatively expensive and price of labour in our country is one of the factors for investors. Reducing the high level of taxation on labour is an interesting idea but not very real. Looking at the amount of tax collection from individual taxes, there is no direct substitute that would not harm the relations in the Czech economy and in public finance these days. So the recommendation should be that "taxes should not be further increased, should be stable, should support key economic priorities and tax collection should be secured". But last amendments of social and health contribution laws increased indirect cost by restricting some exceptions or by removing limits and does not meet this recommendation. Introducing new environmental taxes should not be additional to current systems and should not harm industry sector, which might be problematic. Moreover any such a scheme should be beneficial for the environment, not only for fiscal reasons). It would mean to change the current systems and so it is not possible to implement a new system of environmental taxes in 2014 or 2015. Better tax collection (due to lower tax evasion) might be one of the important tools how to secure fiscal stability without further tax increasing and securing more equal business environment. We support the aim as such and some measures like electronic sales evidence. We supported also the establishment of "Cobra team" (from 2014) - a team of experts aimed at large tax frauds. Or we accepted "reverse charge" mechanism aimed at products with the largest tax evasions.</p> |
| CSR 3 | Ensure the long-term sustainability of the public pension scheme, in particular by accelerating the increase of the statutory retirement age and then by | Important | Mixed | CZ repeatedly expressed its disagreement with the part of the recommendation requiring the acceleration of the increase of the statutory retirement age. Therefore no measures are considered in |

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| | linking it more clearly to changes in life expectancy. | | | this regard. Based on previously accepted measures the long-term sustainability of the public pension scheme has improved. It was established the Expert Commission on Pension Reform till 2050 (involving social partners) which should proposed concrete changes. |
| | Promote the employability of older workers and review the pension indexation mechanism. | Important | Satisfactory | The pilot project Generational Tandem aiming to promote the intergenerational exchange of experiences and to keep older workers longer in employment. The creation of jobs for older workers was supported by the increase of employment subsidy for the employers. |
| | Take measures to improve significantly the cost-effectiveness and governance of the healthcare sector, in particular for hospital care. | Helpful (but not a priority) | Mixed | The government continues with measures defined in the NPR 2014. |
| CSR 4 | Strengthen the efficiency and effectiveness of the public employment service, in particular by setting up a performance measurement system. | Important | Satisfactory | The performance measurement is under developed in order to improve effectiveness of PES. The verification of the results is currently prepared. The capacity of PES was strengthen. |
| | Increase participation of unemployed youth in individualised services. | Important | Satisfactory | The Action plan for the implementation of the Youth guarantee is delivered; the role of career consulting is increasing. |
| | Increase considerably the availability of affordable and quality childcare facilities and services, with a focus on children up to three years old. | Helpful (but not a priority) | Satisfactory | For increasing the capacities of pre-primary education facilities in 2014 there have been two national programmes introduced focused on maternity schools and elementary schools founded by local authorities. |
| CSR 5 | Ensure that the accreditation, governance and financing of higher education contribute to improving its quality and labour market relevance. | Extremely important | Unsatisfactory | The reforms declared in the NRP are ongoing but inconsistent and without any essential effects on the professionalization of schools as expected by the employers. |
| | In compulsory education, make the teaching profession more attractive, implement a comprehensive evaluation framework and support schools and pupils with poor outcomes. | Important | Mixed | The career system for teachers linked to attestation and the motivation reward system established. |
| | Increase the inclusiveness of education, in particular by promoting the participation of socially disadvantaged and Roma children in particular in early childhood education. | Helpful (but not a priority) | Satisfactory | Effective measures have been taken. |

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| | Accelerate the development and introduction of a new methodology for evaluating research and allocating funding in view of increasing the share of performance-based funding of research institutions. | Important | Unsatisfactory | Regarding the European Commission's recommendation on research, development and innovations, the SP can agree that the government continues in the Individual National Project Effective System for Assessing and Funding Research, Development and Innovation (IPN Methodology) with the aim to prepare new methodology for the results assessment and the institutional funding of research organizations. But works on the IPN Methodology and valid Methodology for 2013-2015 discriminate industrial research and don't include some of its results - the business sector cannot agree with this. |
| CSR 6 | Accelerate the reform of regulated professions, focusing on the removal of unjustified and disproportionate requirements. | Important | Unsatisfactory | The number of the regulated professions has been reduced by 30 during the year 2013. The reform should be speeded. |
| | Step up the efforts to improve the energy efficiency in the economy | Important | Satisfactory | National Action Plan for Energy Efficiency has been worked out and is currently in its approval stage. Country Energy Efficiency Target is approved. The most important task for now is to set up methodology for calculating energy savings and find appropriate projects and financial sources to meet the Target. |
| CSR 7 | In 2014, adopt and implement a Civil Service Act that will ensure a stable, efficient and professional state administration service. | Important | Unsatisfactory | In October 2014 approved by the Parliament. The President of the Republic decided to file a suit at the Czech constitutional court to remove several provisions of this act. In the light of the current discussion in the Commission regarding the Civil Act there is a risk that the start of using the structural fund could be further delayed. |
| | Speed up and substantially reinforce the fight against corruption by implementing the remaining legislative measures provided for in the anti-corruption strategy for 2013-2014 and by developing plans for the next period. Further improve the management of EU funds by simplifying implementing structures, improving capacity and tackling conflicts of interest. Increase transparency of public procurement and improve the implementation of public tenders by providing appropriate guidance and supervision. | Important | Satisfactory | Implemented according to the NPR 2014: The Government Council for Coordination of the fight against corruption established, a Government Conception on Combating Corruption 2015-2017 under the debate. As the anti-corruption measures concerns, steps of the government still remain mostly at declaratory level; judicial proceedings are not processed at desired speed and efficiency together with well-deserved impact on the general public. |