

Comments on the EC recommendation for a Council recommendation for the Czech Republic 2013

The Czech Republic submitted its 2013 Convergence and National Reform Programmes under the European semester. On 29 May 2013 the European Commission published its specific recommendations for Member States, including the Czech Republic.

Recommendation no. 1:

Implement as envisaged the budget for the year 2013 so as to correct the excessive deficit in 2013 in a sustainable manner. For the year 2014 and beyond, reinforce and rigorously implement the budgetary strategy. Prioritise growth-enhancing expenditure including committing on time remaining projects co-financed with EU funds under the current financial framework.

Based on the assessment of the 2013 convergence programme, the Council is of the opinion that the Czech Republic has reduced the headline deficit by 1.4 % of GDP due to substantial consolidation efforts and that, based on current expectations, it is on good track to correct the excessive deficit.

Swift and durable recovery is hindered in the Czech Republic by repeated cuts in public investment expenditure. Safeguarding growth-enhancing expenditure with a high multiplicative effect, including projects co-financed by EU funds, would not only help buttress recovery but could also contribute to tackling the long-term challenges.

SP comments:

The SP does not contradict the necessity of fiscal consolidation and achievement of reduction of the deficit to GDP ratio. The question of public finance had not been addressed for a long time (not only in the Czech Republic!) and the increase in the debt is unsustainable in the long term. Nonetheless, the wording (formulation) “rigorously implement the budgetary strategy” is not quite appropriate with regard to the need for (and absence of) systemic nature of austerity measures within a more complex economic policy. The recommendation of giving preference to growth-enhancing expenditure is insufficient, because it is possible to agree with it in general, but looking for particular steps is questionable and problematic. But still it is possible to agree that the Commission perceives the intention of the Czech Republic for the next years to ease pace of consolidation (The SP as well welcome the Government’s approach refraining from the original purpose of “more drastic” decrease and achievement of a balanced budget in 2016 towards more taking into consideration of the effects on the economy – while maintaining the deficit under 3 % of GDP, according to rating agencies also correct.

Recommendation No. 2:

Reduce the high level of taxation on labour by shifting taxation to areas less detrimental to growth, such as recurrent taxes on housing and vehicle circulation taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed. Improve tax compliance and reduce compliance costs by establishing the Single Collection Point and harmonising the tax bases for personal income tax and social and health contributions.

Limited progress was made in 2012 on tax reform. Structural challenges remain mainly in taxation of labour, in particular affecting low-income earners and part-time workers. Only marginal steps

were taken to reduce discrepancies in the tax treatment of employees and the self-employed. The Czech Republic has room to further improve the efficiency of its tax administration.

SP comments:

The SP supports reduction of taxation on labour. The social contributions and taxation on labour make the Czech Republic in international benchmarking relatively expensive. The Czech Republic intends to worsen this more by a measure within the framework of acts in the context of the Single Collection Point embracing newly also income (as e.g. redundancy payments etc.) taxation, which makes the situation on the labour market still worse. However, in general whatever increase in taxation decreases at least the purchasing power of the domestic entities and attractiveness of the territory. It is possible to admit that the property/housing taxes do not belong to the highest ones according to the international benchmarking. In the matter of the Single Collection Point the SP continues to emphasize certain doubts concerning the system – whether it will work in time and in an effective way, whether the Government will manage proper implementation and whether the administrative burden on firms will really be lowered. Generally the SP does not contradict this recommendation, but it lacks concrete recommendation in areas as the fight against tax evasion. Further it is necessary to stress the necessity of the tax system stability (incessant changes and excessive complexity and proposals for changes of the tax laws) or other concrete recommendations (efficient tax collection) with the goals to support priority aims. In this context the SP supports the 22 May 2013 European Council conclusions and subsequent provisions to the Action Plan to strengthen the fight against tax fraud and tax evasion.

Recommendation No. 3:

Speed up the increase of the statutory retirement age compared to current legislation, introduce a clear link between the statutory retirement age and life expectancy and revise the indexation mechanism. Accompany the increase in retirement age with measures promoting employability of older workers and reduce early exit pathways. In particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve cost-effectiveness of healthcare expenditure, in particular for hospital care.

The Czech Republic has a sustainability gap of 5.0 % of GDP, which is above the EU average. An important source of the unsustainable increase in pension expenditure lies in the slow rate at which the statutory retirement age is being raised, in particular for men. It is repeatedly criticised also for the pre-retirement scheme introduced in 2013. The Commission points out that pre-retirement pensions are going to be paid from the (3rd) pension savings pillar that enjoys a substantial state subsidy. Compared to other Member States, the Czech healthcare system tends to be excessively centred on hospital care, which gives rise to inefficiencies.

SP comments:

The recommendation on pension systems is sensitive for all Member States. It is an area exclusively under the responsibility of individual countries. The Czech Republic has already done many steps for sustainability of the pension system. Nevertheless, last year the European Commission reproached the Czech Republic for low attractiveness of the second pillar for young people. This still persists. To further increase (and accelerate the pace of) the statutory retirement age and to link it to the life expectancy, the next steps must be based on national consensus and political will. The SP supports the Government in their objection to the criticism of so called pre-retirement scheme where the Commission misunderstood the principle of the scheme based on the social partners' joint agreement.

Recommendation No. 4:

Take measures to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old, and the participation of Roma children, notably by adopting and implementing the law on private childcare facilities and strengthening the capacities of public childcare facilities.

In the context of recent OECD projections of decline of the total labour force a continued shortage of childcare facilities and non-existence of plans to increase budgetary support to these facilities are repeatedly criticised. The European Commission further criticizes employability and labour market participation of disadvantaged people and calls for increasing the efficiency and effectiveness of public employment services.

SP comments:

The SP repeatedly supports the Commission's recommendations for preschool childcare facilities and their accessibility. This way parents, especially mothers, will integrate into the labour market earlier and match their work and private lives. The SP puts emphasis on the role and quality of the preschool facilities, because it finds them to be a part of pre-school education.

As for the recommendation relating improvement in efficiency and effectiveness of the public employment service, the SP hopes that there is a real prerequisite for the current approach to the employment offices role, function and content of their operation to be revised and that the employment offices will perform the expected role.

Recommendation No. 5:

Ensure implementation of the anti-corruption strategy for 2013-2014. Adopt a Public Servants Act that should ensure a stable, efficient and professional state administration service. Improve the management of EU funds in view of the 2014-2020 programming period. Strengthen the capacity for implementation of public tenders at local and regional level.

The Commission appeals to increase the efficiency of public administration and to step up the fight against corruption. In the context of the adopted Anti-corruption Strategy for 2013-14, the priority is the urgent adoption of the Public Servants Act that would adequately separate political appointees from non-political staff.

The SP comments:

Effective and business-friendly public administration and implementation of anti-corruption measures is one of the SP's priorities. In January the Government adopted the Anti-corruption Strategy for 2013-2014. However, the absence of the Public Servants Act is a critical moment. The business environment needs a stable and efficient public administration that will support business and not put burdens on it in terms of bureaucracy, administrative burden and corruption practice. More over, the absence of the Act blocks the Czech Republic even in the proper implementation of the ratified ILO Convention No. 111 on non-discrimination where the ILO experts reproach the Czech Republic for existence of the screening law and the Czech Republic pledged that the matter will be solved by adoption of the Public Servants Act. The absence of the Public Servants Act can also impact the processes for the preparation for deriving money from the structural funds during the period 2014-2020.

Recommendation No. 6:

Establish a comprehensive evaluation framework in compulsory education and take targeted measures to support schools that rank low in educational outcomes. Adopt measures to enhance accreditation and funding of higher education. Increase the share of performance-based funding of research institutions.

At the level of compulsory education, Czech pupils attain broadly average results in international comparisons. Even though the Czech authorities have responded with a set of measures which entails the development of minimum education standards, the Commission recommends a more integrated system, ensuring that pupils, teachers and schools that underperform in the tests receive more support. The Commission expects a concrete reform of the Higher Education Act. As for funding of research institutions, the Commission calls for an increased share of quality indicators and enhanced collaboration with the business sector with the aim to increase the quality of the research and innovation system.

The SP comments:

The SP supports peer reviews (nationwide testing) of the outcomes of primary schools and at the same time agrees that it must be supplemented with efficient help to schools with poor results. Beyond the recommendations the SP notes that it is necessary to link the evaluation of the 5th – 9th grades to the entrance examination to the secondary schools (GCSE branches of study in the first place) in terms of both terms and processes. The SP also lacks an appeal to implement elements of the dual learning (co-operative models) into the professional education, including tax advantages/concessions of employees investing in education (Amendment to the Taxation Law in the 2nd reading in the Chamber of Deputies of the Parliament of the Czech Republic). In the area of universities the SP would like rather to support a higher (not only formal) participation of employers in the bodies of the universities, increase in the scope of the work-based practice within employers and coefficients of preferential treatment of funding of universities. Regarding the European Commission's recommendation on science, research and innovations, the SP agrees and calls for higher volume of funds for applied (company) research.

Recommendation No. 7:

Drawing on the on-going review, proceed with a reform of regulated professions, by reducing or eliminating entry barriers and reserves of activities where they are unjustified. Take further measures to improve energy efficiency in the buildings and industry sectors.

The Czech Republic is amongst the EU Member States with the highest number of regulated professions. An easier access could unlock further employment. The Czech Republic has still one of the highest energy intensity in the EU, in particular in the buildings and energy sector.

The SP comments:

The SP agrees that the Czech Republic has a high number of regulated professions (highly over the EU average). In the context of the review of the directive on recognition of professional qualifications the Czech Republic however adopted measures to reduce the number of regulated professions. The SP supports this effort in relation to the implementation of the provisions adopted within the Single Market Act I.

The SP takes a good note of the recommendation to adopt provisions to reduce the energy intensity of buildings and industrial sectors. An orientational national goal of energy efficiency is being prepared for discussion with the European Commission. Funding of the New Green Investment Scheme stays open.
