

## CZECH REPUBLIC

### Priorities supported by indicators

#### ► **Reduce barriers to business entry (2005, 2007, 2009)**

**Recommendations:** Registration should be simplified and bankruptcy law reformed.

**Actions taken:** A new bankruptcy law took effect in 2008. An amendment to this law was adopted in June 2009. Since 2005, there have also been revisions to the civil and commercial codes and other legislation streamlining business registration and imposing tighter deadlines for processing applications. A network of central registration offices (one-stop shops) was established in 2006.

#### ► **Reduce the costs of employment protection legislation for regular workers (2005, 2007, 2009)**

**Recommendations:** Reduce the cost of individual dismissals, including through shorter terms and lower severance pay for short tenures, and less burdensome dismissal procedures.

**Actions taken:** A new, less stringent labour code took effect in 2007 but it included no significant changes to employment protection for workers on regular contracts.

#### **Increase graduation rates from tertiary education (2007, 2009)**

**Recommendations:** End streaming in secondary schools, and introduce fees backed by income-contingent student loans for tertiary courses in order to cope with rising demand for higher qualifications.

**Actions taken:** The issue of fees for tertiary courses and proposals for linking output and quality indicators to funding are under study, but there has been no significant change yet.

#### **Reduce the tax wedge for low-income workers (2005, 2007)**

**Recommendations:** Reduce the tax wedge, particularly for low-income earners, financed by reductions in public spending.

**Actions taken:** Rate reductions and bracket-widening were introduced for the two lowest income categories on the tax schedule in 2006. Tax reforms in 2007-08 also helped lower average tax rates for low-income workers.

### Other key priorities

#### **Improve the efficiency of public expenditure (2007, 2009)**

**Recommendations:** Implement health care reforms, measures to increase the efficiency of sub-national governments and pension reform to help limit future rises in contributions.

**Actions taken:** Fees for some medical services were introduced in 2008 but significantly diluted by regional governments in 2009. The sickness insurance system has been reformed, though ambitious health care reform plans have been stalled. Agreement on a structural pension reform has yet to be reached but in 2008 parliament adopted legislation on raising retirement ages.

#### **Reform the tax-benefit system (2005, 2009)**

**Recommendations:** Improve work incentives for low-income households.

**Actions taken:** The government replaced the child tax allowance with a child tax credit (2008), introduced a job-search allowance (2007), and reduced the share of the income of the low-paid counted in the means test for living allowances (2007). These tax and benefit reforms have reduced the average effective tax rate at the bottom of the earnings scale for many workers but confront some low earners with higher marginal rates.

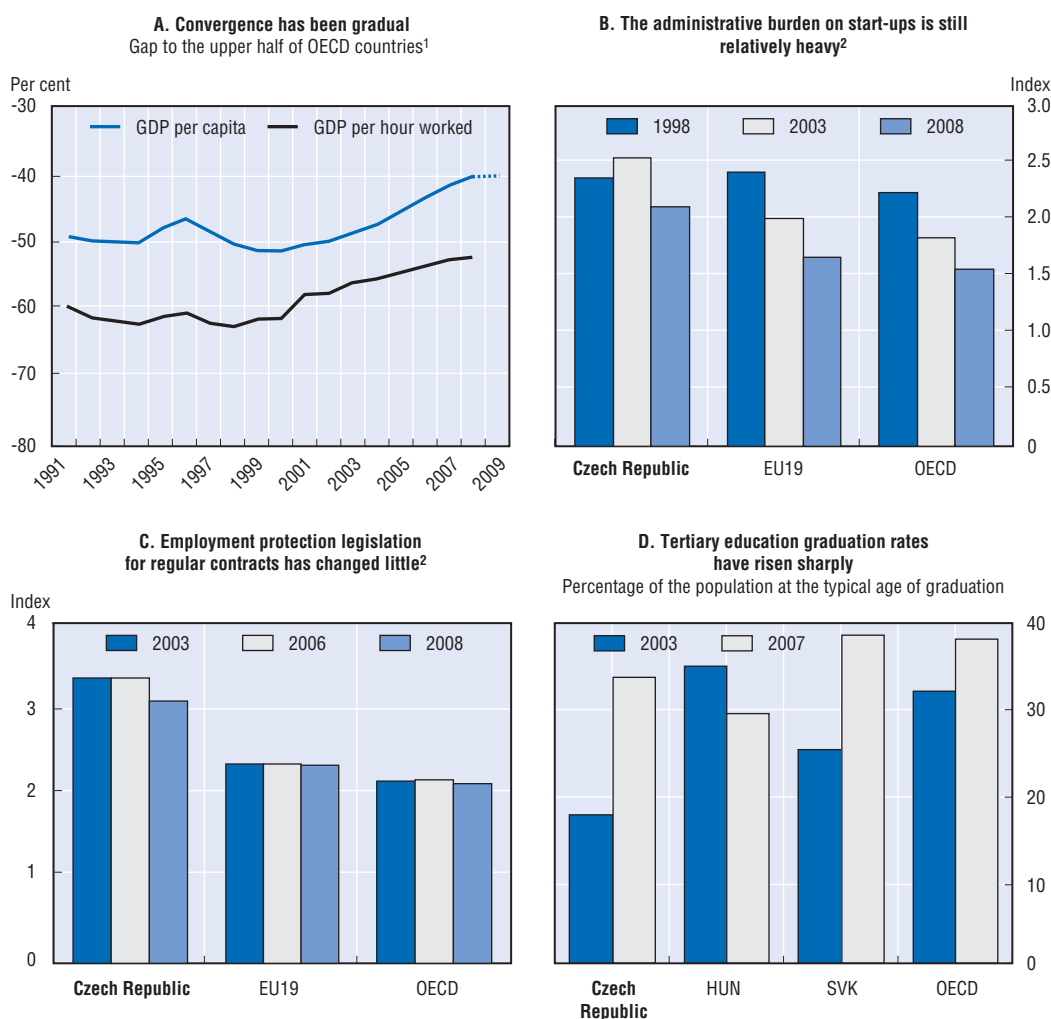
#### **Further liberalise the rental housing market (2005)**

**Recommendations:** Further liberalise the rental housing market to increase labour mobility.

**Actions taken:** Gradual, centrally capped increases in regulated rents have been allowed since 2007 and from 2010 owners should be able to set the rents freely, although this excludes large cities, where the ceiling on increases will continue until 2012.

## CZECH REPUBLIC

- A pick-up in labour productivity growth led to more rapid convergence in the years prior to the crisis. However, the contribution of labour utilisation to growth was limited, as rising employment rates were offset by falling hours worked. The income and productivity gaps vis-à-vis the upper half of OECD countries remain large.
- In priority areas, start-up procedures have been streamlined and the bankruptcy law reformed; significant tax and benefit reforms have taken effect, including modest steps to lower the tax wedge on low-income workers. Pension and health reforms have begun, although they have recently stalled. Little has been done to relax employment protection for regular workers or to reform tertiary education.
- The main reforms in other areas were part of the 2007 fiscal package, which introduced a flat-rate income tax and brought a further shift from direct to indirect taxation.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gap in GDP per capita for 2009 is an OECD estimate, based on the *OECD Economic Outlook*, No. 86.
2. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Product Market Regulation Database*; Chart C: OECD, *Employment Outlook Database*; Chart D: OECD (2005) and (2009), *Education at a Glance*.

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