

## CZECH REPUBLIC

*Strong labour productivity and employment growth have recently accelerated convergence, but gaps in GDP-per-capita and labour productivity remain large relative to the OECD average. In recent years, reforms have been undertaken to reduce the administrative burden on businesses and to ease labour and skill shortages, but more remains to be done, especially in the following areas.*

### Priorities supported by indicators

#### **Increase graduation rates from tertiary education**

Tertiary education enrolment has been expanding rapidly, but graduation rates remain low, impeding innovation and productivity growth. The expansion of tertiary education requires more resources and better incentives for both students and higher-education institutions.

**Actions taken:** No significant actions taken. Proposals are being developed to link output and quality indicators to funding.

**Recommendations:** Introduce tuition fees in public institutions backed by student loans with income-contingent repayments. Facilitate cooperation between employers and universities to better cope with changing skill requirements in the labour market. Expand the range of programmes and improve access for adults, in particular for shorter studies. In secondary education, widen access to general courses leading to tertiary-level studies.

#### **Reduce barriers to business entry**

Licence and permits systems, and communication of rules and regulations, remain relatively cumbersome, especially for new firms, discouraging competition and productivity increases. State ownership remains high in certain network industries and concentration in the gas sector is excessive.

**Actions taken:** A substantial amendment to the trade law became effective in July 2008, significantly simplifying licensing procedures, including through electronic registration, and making starting a business easier and faster (with a five-day time limit stipulated). A new insolvency law came into force in 2008 which should shorten the duration of bankruptcy procedures and strengthen creditors' position.

**Recommendations:** Streamline further the implementation of the new trade and insolvency laws to encourage entrepreneurship. Improve communication of rules and procedures. Facilitate new entry by reducing state ownership in network industries (airlines, post and rail) and strengthen competition in the gas sector by reducing the dominant incumbent's interest in transmission networks and in other areas, such as regional distribution.

#### **Reduce the costs of EPL for regular workers**

Relatively costly dismissal protection has been impeding reallocation of workers across jobs and sectors, with potentially adverse effects on innovation, productivity and long-term unemployment.

**Actions taken:** No significant measures have been taken since the adoption of a less constraining labour law effective from January 2007.

**Recommendations:** Reduce the length of the notice period and severance pay requirements at short tenures, thus linking the dismissal conditions to duration of employment. Simplify further other procedures for terminating employment.

### Other key priorities

- **Public sector efficiency.** Increase the efficiency of public spending and ensure fiscal sustainability by reforming health care and pension systems. Strengthen incentives for municipalities to increase cost efficiency while improving service delivery.
- **Work incentives.** Ease labour shortages by improving work incentives for low-income households through further reforms of the tax-benefit system.

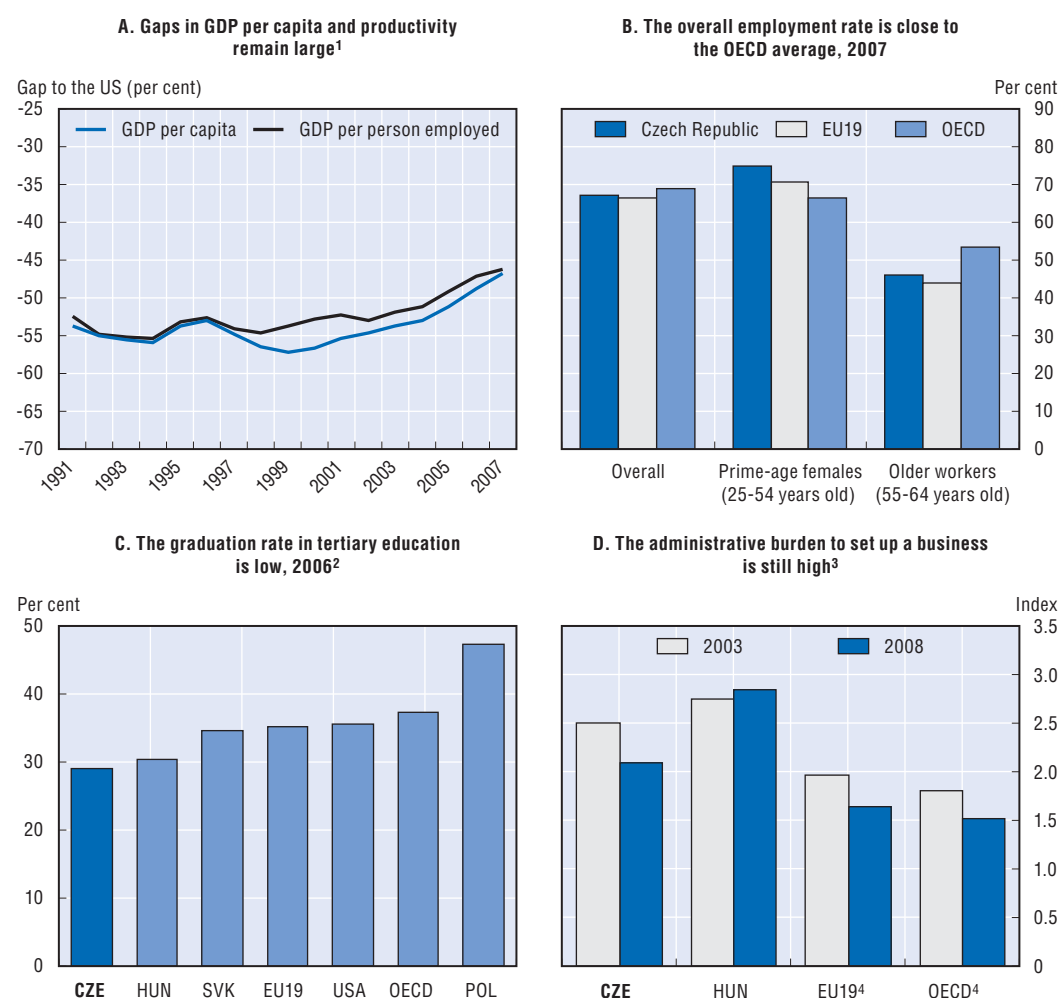
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## Structural indicators

Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	3.5	2.7	4.3
Labour utilisation	-0.3	-0.7	0.1
of which: Employment rate	0.1	-0.3	0.5
Average hours	-0.4	-0.4	-0.4
Labour productivity	3.8	3.4	4.2
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.




1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

2. Number of students completing tertiary-type A programmes for the first time as a percentage of the relevant group.

3. Index scale of 0-6 from least to most restrictive.

4. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD (2008), Education at a Glance; Chart D: OECD, Product Market Regulation Database.

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