

CZECH REPUBLIC

Several years of strong growth prior to the crisis have steadily narrowed the gaps in GDP per capita and labour productivity vis-à-vis the upper half of OECD countries, yet both remain considerable, notably the productivity gap. Progress has been achieved in improving the business environment by greater use of information technologies, but further actions are needed in the following areas.

Priorities supported by indicators

Relax employment protection legislation

Strict employment protection legislation discourages businesses from hiring regular workers.

Actions taken: A new labour code came into force in 2007, bringing some aspects of flexibility such as short-time working schemes that were widely used during the recent downturn.

Recommendations: Link severance pay and the notice period to the length of job tenure and relax dismissal procedures.

Enhance education outcomes

Education outcomes for 15 year-olds, as assessed by PISA scores, have worsened. Also, streaming of pupils in secondary schools happens from age 11, hampering social mobility and human capital accumulation. Despite considerable progress, tertiary education graduation rates remain slightly below the OECD average.

Actions taken: A blueprint for reform of tertiary education was published in 2009, calling for fees with income contingent loan arrangements as well as changes to the governance of universities, but no action has been taken yet. No action taken on early streaming in secondary education.

Recommendations: End the too-early selection process in secondary education, enhance monitoring of and responsibility of schools for education outcomes. Implement proposals for tertiary education fees together with income contingent loans.

Reduce barriers to business entry

While regulation of the business environment has been eased, it is still more stringent than in the average OECD country, harming productivity.

Actions taken: A new bankruptcy law and administrative one-stop shops for registering a business have been implemented together with simplified and standardised registration forms from 2006. Also, notification of sole proprietors has been largely streamlined.

Recommendations: Reduce minimum capital requirements for business start-ups together with speeding up and cutting the costs of judicial proceedings for contract and bankruptcy enforcement. Also, strengthen competition in electricity and telecommunications through stronger vigilance against possible exploitation of market dominance.

Other key priorities

Improve efficiency in public expenditure

The publicly-funded health care system is in need of efficiency improvements, all the more so because spending pressures stemming from rapid population ageing threaten long-run fiscal sustainability. Local government remains fragmented and public procurement ineffective, hampering cost-effectiveness.

Actions taken: A blueprint for reform has been presented but apart from health care fees introduced in 2008, no systemic action taken. Incentives to encourage efficiency gains in provision of local government services have not been enhanced.

Recommendations: Implement reforms in health care as well as measures to enhance efficiency at local and central government levels in areas such as public procurement.

Reform the tax-benefit system

Interactions between the tax and benefit systems result in work disincentives for low-income and second earners.

Actions taken: Introduction of the flat tax together with increased tax credit reduced the average effective tax rate for most households. At the same time family benefits became more generous and are now withdrawn at lower income levels. This has increased average effective tax rates for second earners and translates into spikes in marginal effective tax rates for others.

Recommendations: Reduce activity disincentives for low-income groups and second earners by reviewing the benefit structure and ensuring better coordination of tax and benefit regulations across the government.

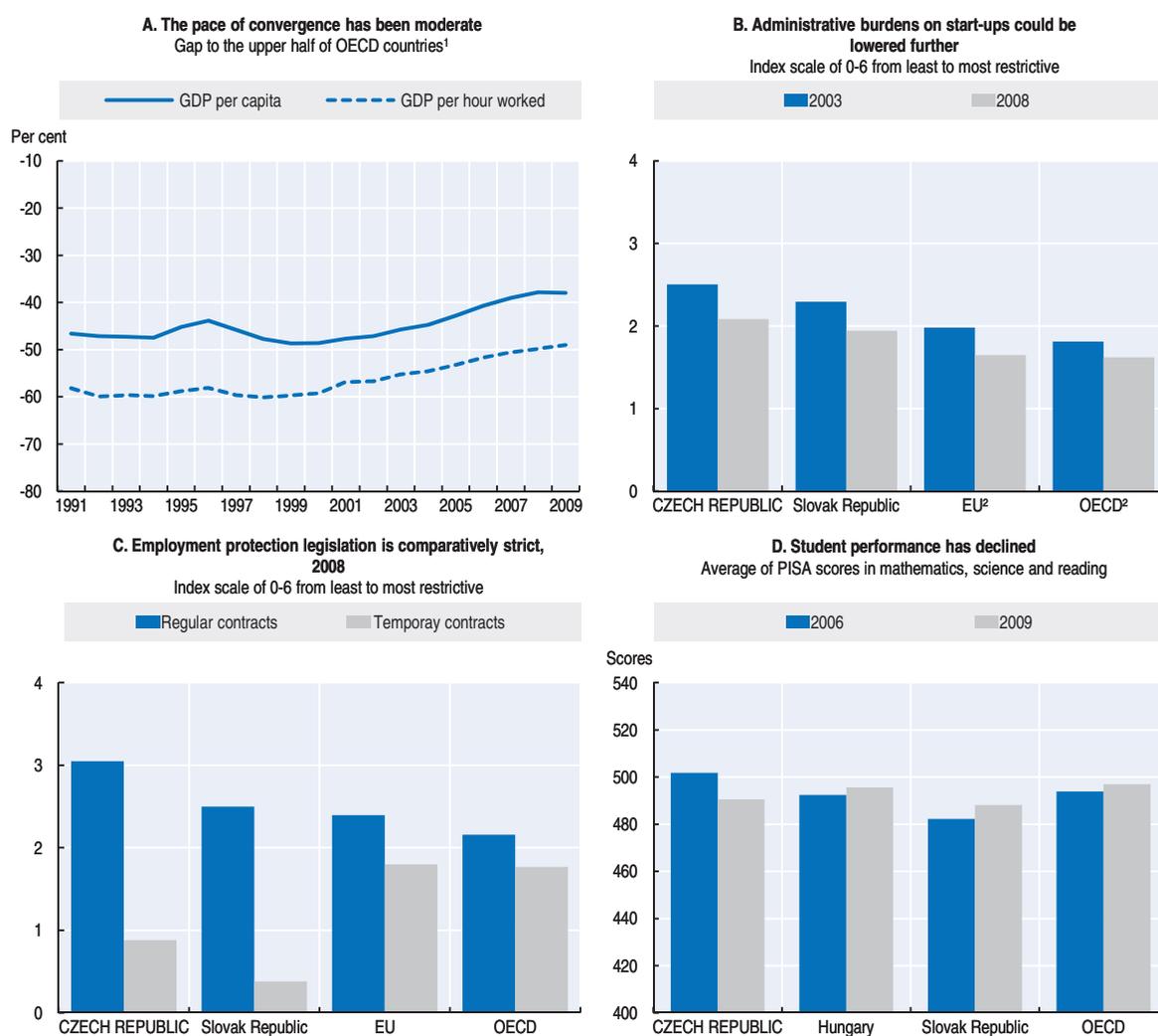
CZECH REPUBLIC

Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	3.3	3.4	3.2
Labour utilisation	-0.2	-0.3	-0.1
of which: Employment rate	0.2	0.1	0.4
Average hours	-0.4	-0.4	-0.4
Labour productivity	3.5	3.7	3.2
of which: Capital intensity
Multifactor productivity

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).

2. Average of European countries in the OECD. In 2003, EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: Product Market Regulation Database; Chart C: OECD, Employment Database; Chart D: OECD, Pisa 2009 Database.

StatLink  <http://dx.doi.org/10.1787/888932373742>