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- Convergence in incomes and productivity has slowed down since the 2008 crisis, reflecting mainly a deceleration in total factor productivity. GDP per capita remains 36% below the average of the most advanced OECD countries.

- Inequality has been stable, remaining below the OECD average. The poorest 20% of households receive close to 10% of total disposable income, which is a larger share than in the OECD on average.

- In recent years, policies to expand access to childcare increase the linkages between the education system and employers and encourage greater collaboration in R&D between businesses and research institutions have addressed some of the *Going for Growth 2015* priorities. Tax reform has been dropped as a standalone policy priority but there is considerable scope for reform to promote inclusive growth. The average tax wedge for low-income earners should be lowered and the progressivity of the tax system should be increased. Furthermore, the overall tax burden should still be shifted from direct to less distorting taxes, such as environmental and immovable property taxes.

- Improving the effectiveness of the public sector would support productivity growth and raise the quality of public services for all. More co-ordination and oversight, better planning and evaluation, and greater focus on measuring and publishing outcomes and results would increase the effectiveness of public spending. More efforts are needed to overcome the challenges of territorial fragmentation, using joint provision of services and benchmarking service providers. Deeper reforms to improve gender equity in the labour market and make the education system more equitable and improve skill development would increase incomes and inclusiveness of growth. Measures to make R&D and innovation support more effective, strengthen the competitiveness of markets and improve the vocational education and training system are needed to foster productivity.

Going for Growth 2017 priorities

Make the labour market more gender inclusive. Helping parents to reconcile work and family would encourage more women to join the labour force and help close gender wage gaps.

Actions taken: "Micro nurseries" for children aged 6 months to 4 years are being piloted using EU funds. Changes to the Education Act in 2016 lowered the minimum age for kindergarten to two years (from three years) and one year of pre-school will be compulsory from September 2017. All children aged four will have the legal right to a kindergarten place as of 2017, and those aged three will have the right as of 2018.

Recommendations: Government spending on childcare and early childhood education should increase to help expand availability. Effectiveness of recent policies to expand childcare availability should be monitored. Conditional on an adequate supply of affordable and high quality childcare facilities, the maximum duration of parental leave should be reduced, with part reserved for fathers, and the parental allowance lowered commensurately with the tax credit for childcare expenses.

Enhance equity and outcomes in education. Strengthening skill development and school-to-work transitions would raise employment among low-skilled workers and facilitate the adoption of higher value-added production.

Actions taken: Recommendations and model contracts have been published for concluding a contractual relationship between employers and students. Amendments to the Higher Education Act in 2016 shift the system of accreditation towards being output-based with more performance reporting.
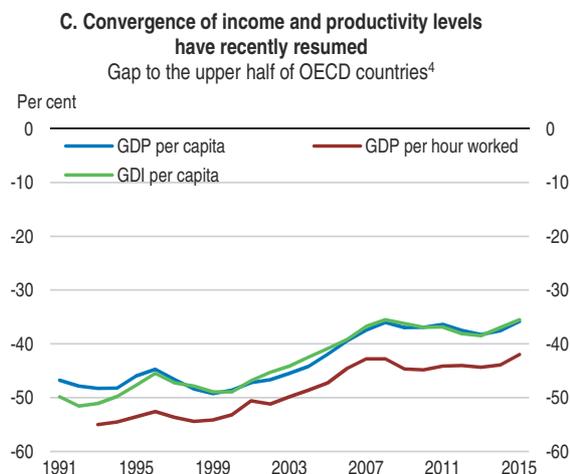
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Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)		2003-09	2009-15
GDP per capita		3.0	1.6
Labour utilisation		0.4	0.3
of which:	Labour force participation rate	0.1	0.2
	Employment rate[1]	0.2	0.3
	Employment coefficient[2]	0.1	-0.1
Labour productivity		2.6	1.5
of which:	Capital deepening	-0.6	-0.3
	Total factor productivity	3.2	1.7
Dependency ratio		0.1	-0.2

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	26.2 (31.7)*	0 (0)*
Share of national disposable income held by the poorest 20%	9.7 (7.7)*	0 (0)*

* OECD average

C. Convergence of income and productivity levels have recently resumed
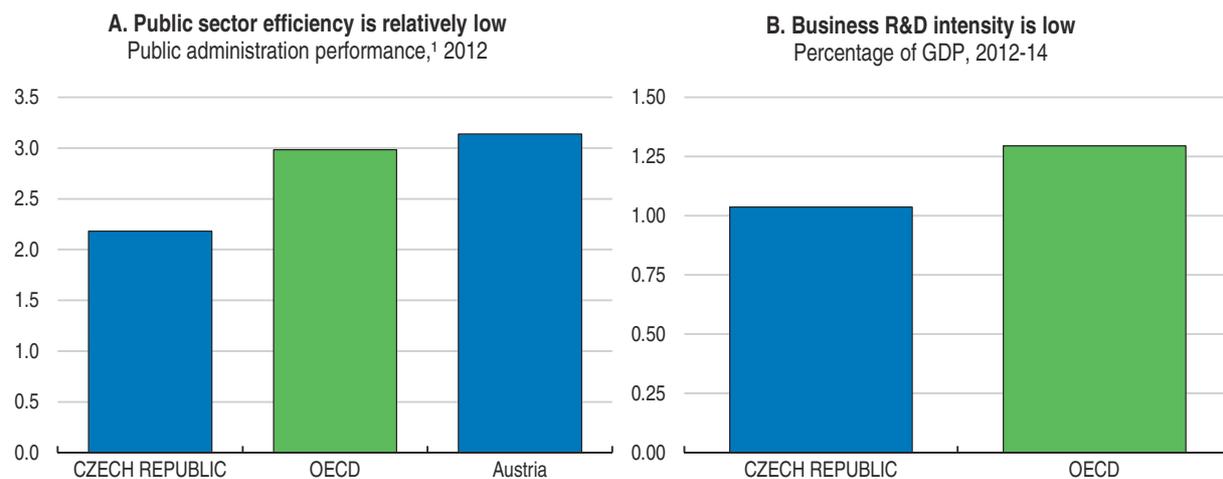Gap to the upper half of OECD countries[4]

1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

StatLink *http://dx.doi.org/10.1787/888933455003*

Policy indicators

A. Public sector efficiency is relatively low
Public administration performance,[1] 2012

B. Business R&D intensity is low
Percentage of GDP, 2012-14

1. Composite performance indicator for public administration outcome based on OECD's Product Market Regulation Indicator (for 2008 and 2013) to proxy the levels of bureaucracy (33% of indicator) and results of the 2014 WEF survey on the quality of justice, level of corruption and government inefficiency (data for 2009 and 2013).

Source: Panel A: Dutu, R. and P. Sicari (2016), "Public Spending Efficiency in the OECD: Benchmarking Health Care, Education and General Administration", *OECD Economics Department Working Papers*, No. 1278; Panel B: OECD, *Science and Technology Indicators Database*.

StatLink *http://dx.doi.org/10.1787/888933455463*

Recommendations: Phase out early tracking. Ensure that the expansion of kindergarten is implemented effectively. Attract and retain high quality personnel in schools with pupils from low socio-economic background. Increase employers' participation in vocational training by simplifying the framework and governance of the system. Review the effectiveness of recently introduced incentives for encouraging employers to provide training. Ensure that the system of output-based accreditation for tertiary education is fully implemented and introduce student fees, accompanied by means-tested grants and income-contingent repayment loans.

Enhance competition in the domestic economy. A competitive service sector is key to boost value-added in production, stimulate innovation and exploit domestic sources of growth.

Actions taken: A policy document on state ownership is being prepared. In 2015 and 2016 the Office for the Protection of Competition issued decisions on cartels in the construction industry and the number of leniency applications increased.

Recommendations: Privatise and divest state-owned enterprises and activities in competitive sectors and segments. Concentrate governance of remaining state-owned enterprises within a single authority. Ensure that the leniency programme to unearth cartels works properly and that efforts to eliminate bid-rigging are successful. Remove the special sector regulation protecting small suppliers of food to retailing chains from the competition policy framework. Boost competition in vertically integrated industries via effective ownership unbundling or via holding structures with financial separation of activities.

Improve R&D and innovation policies. Raising business R&D spending and innovation performance would foster productivity and domestically driven growth.

Actions taken: In the past two years the government expanded programmes to encourage greater collaboration between businesses and research institutions as well as more business R&D spending, through the Technology Agency of the Czech Republic. The National Research, Development and Innovation Policy for 2016-20 aims to be an overarching document to ensure consistency across strategies and programmes. A new global evaluation framework for R&D support has been developed. A National Innovation Fund is being established.

Recommendations: Develop government co-financing schemes to complement grants and increase fiscal incentives for business R&D spending. Streamline the organisation and administration of policies by stepping up efforts to unify the design, assessment and co-ordination of research and development and innovation policies in a single institution. In particular, research institutions should be under the responsibility of the same institution.
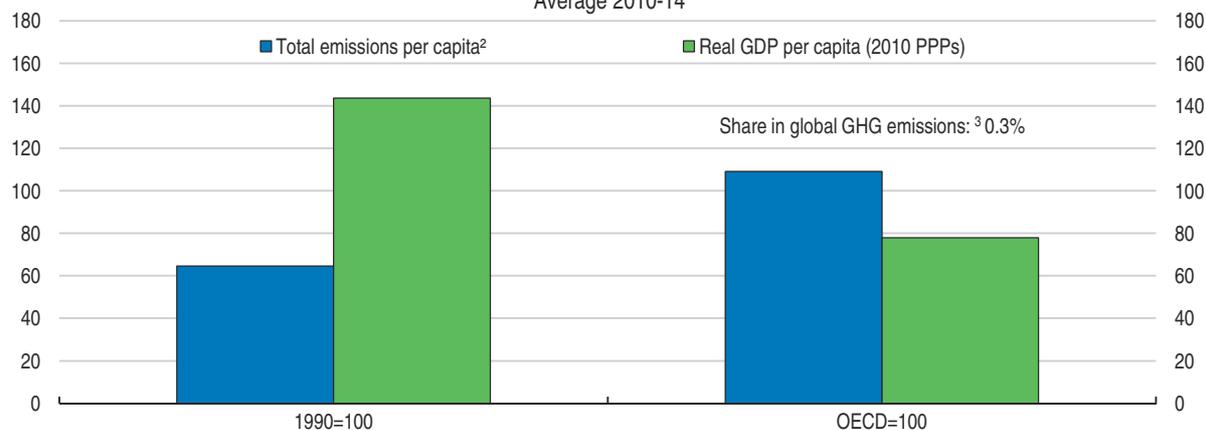
Improve the effectiveness of the public sector.[1] Lifting the performance of the public sector will support domestic productivity growth and higher quality public services for all citizens.

Recommendations: Improve the co-ordination of public investment by designating responsibility for co-ordination and prioritisation on the basis of highest social return and evaluating investment needs in a standardised way across sectors. Improve value-for-money in public procurement by increasing the use of joint procurement through improved tools and rules and increasing auditing. Use and publish standardised performance indicators for publicly funded activities at all levels of government. Establish framework conditions which help municipalities to reap the benefits from joint provision.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an "*".

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Beyond GDP per capita: Other policy objectives

A. Households experienced real income losses, especially poor households
Annualised growth in real household disposable income between 2008 and 2013[1]

%

Lower income households   Mean income households   Higher income households
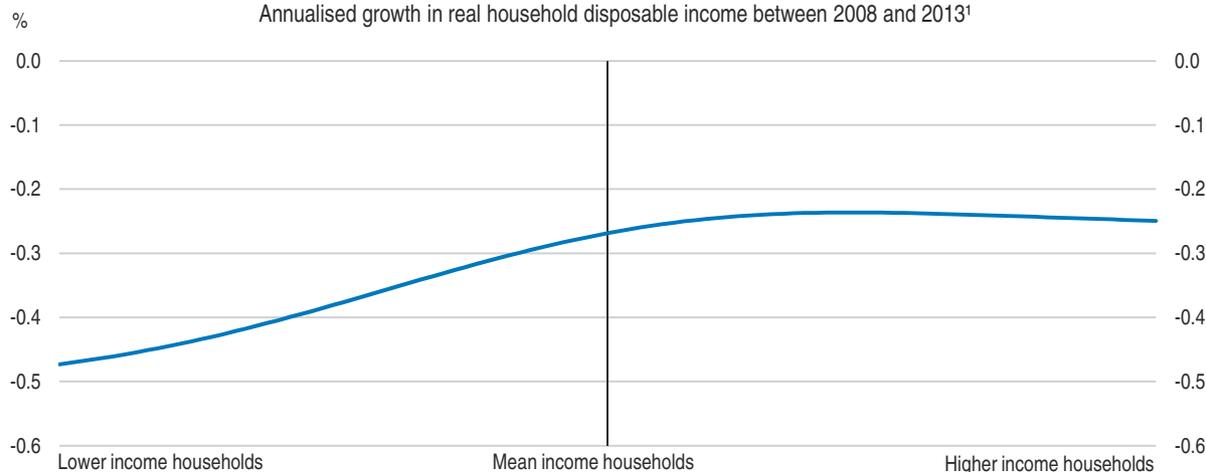
B. Emissions per capita are below the 1990 level but above OECD average
Average 2010-14

■ Total emissions per capita[2]   ■ Real GDP per capita (2010 PPPs)

Share in global GHG emissions: [3] 0.3%

1990=100   OECD=100

1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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