

CZECH REPUBLIC

Strong labour productivity growth in recent years has supported the pace of catch-up, but both GDP per capita and labour productivity gaps remain sizeable compared with the OECD average.

Priorities supported by indicators

Reduce the tax wedge for low-income workers

The high tax wedge on low earnings, which mainly comprises social contributions, boosts labour costs, thus hampering employment creation, and encourages evasion, notably through subcontracting with “self-employed” workers.

Actions taken: In January 2006, the tax wedge was cut by rate reductions and bracket widening in the two lowest levels of the tax schedule.

Recommendations: Aim to achieve further cuts in the tax wedge, in particular for low-income earners, financed by reducing public spending. Pension reform is also needed to help prevent increases in contributions.

Reduce the costs of EPL for regular workers

Stringent employment protection is dampening labour turnover, thus contributing to high long-term unemployment in the labour market, with potentially adverse effects on productivity.

Actions taken: A new less constraining labour code was adopted in 2006.

Recommendations: Reduce notice period and severance pay requirements at short job tenures and lighten dismissal procedures to make termination of contracts simpler.

Reduce the administration burden for businesses

Legal procedures and administrative processes, such as business registration, have long been too cumbersome. This has had a particularly negative impact on the development of domestic businesses and has encouraged corruption.

Actions taken: Recent steps include amendment of the civil and commercial codes in 2005, which reduced the administrative workload for judges, standardised business registration forms, lightened checking procedures and shortened the maximum time allowed for the authorities to process files.

Recommendations: Further simplify business procedures to encourage entrepreneurship.

Other key priorities

- Intended reforms of the health care system need to be implemented as part of a general strategy to increase the efficiency of public spending. The sub-national levels of administration and government also need to raise efficiency, including by strengthening financial incentives for mergers at the municipality level and more financing flexibility.
- The education system needs to adjust to cope better with the increasing demand for tertiary-level education: elite streaming in secondary schooling should be scrapped and a fee system for tertiary courses introduced backed by income-contingent student loans.