

CZECH REPUBLIC

Trend growth remains high, allowing for a narrowing of the sizeable gaps in GDP per capita and labour productivity vis-à-vis the OECD average.

Policy priorities

Reduce the tax wedge for low-income workers

Challenge and recommendations: To encourage employment creation and reduce incentives for subcontracting with “self-employed” workers, it was recommended that the high tax wedge on low earnings be cut. It was also recommended that the pension system be reformed, *inter alia* to prevent future increases in contribution rates.

Actions taken: A wide-ranging package of fiscal reforms includes the introduction of a “flat tax” on personal incomes. The new system is expected to benefit mainly higher-income earners. Political agreement on a specific pension reform has yet to be reached.

Reduce the cost of EPL for regular workers

Challenge and recommendations: Some aspects of employment protection legislation are reducing labour turnover, thus contributing to high long-term unemployment. In particular, it was recommended that notice period and severance pay requirements at short job tenures be reduced and dismissal procedures lightened.

Actions taken: No significant measures have been taken, but the new less constraining labour code came into force in January 2007, as decided earlier.

Reduce the administration burden for businesses

Challenge and recommendations: To encourage the development of domestic businesses and reduce corruption, it was recommended that legal procedures and administrative processes, such as business registration, be simplified.

Actions taken: There has been some follow-up to the significant cuts in red tape made in 2005 through amendments of the civil and commercial codes. Notably, one-stop shops for setting up a business have since become operational. Also, new insolvency legislation will strengthen the position of creditors (effective from January 2008).

Improve public sector efficiency

Challenge and recommendations: To raise public sector efficiency, it was recommended that the health care system be reformed and incentives for cost effectiveness of sub-national government be strengthened.

Actions taken: The government’s reform package includes changes to the sickness benefit system. In addition, health care reforms aiming at improving efficiency, *e.g.* via introduction of user payments for doctors’ visits, medical prescriptions and hospital stays have been approved. Also, legislation extending the standard retirement age has been drafted.

Improve the system of tertiary education

Challenge and recommendations: In order for the education system to better cope with the increasing demand for tertiary-level education, it was recommended that elite streaming in secondary schooling be removed and a fee system for tertiary courses be introduced, backed by income-contingent student loans.

Actions taken: No significant measures have been taken. However, reforms are being prepared with a view to widening access and attracting more private funding in tertiary education.