



Brussels, 29.5.2013  
SWD(2013) 353 final

**COMMISSION STAFF WORKING DOCUMENT**

**Assessment of the 2013 national reform programme and convergence programme for  
THE CZECH REPUBLIC**

*Accompanying the document*

**Recommendation for a COUNCIL RECOMMENDATION**

**on the Czech Republic's 2013 national reform programme and delivering a Council  
Opinion on the Czech Republic's convergence programme for 2012-2016**

{COM(2013) 353 final}

## CONTENTS

Executive summary .....	3
1. Introduction .....	5
2. Economic developments and challenges.....	6
2.1. Recent economic developments and outlook.....	6
2.2. Challenges .....	7
3. Assessment of policy agenda .....	9
3.1. Fiscal policy and taxation.....	9
3.2. Financial sector .....	20
3.3. Labour market, education and social policies .....	21
3.4. Structural measures promoting growth and competitiveness.....	25
3.5. Modernisation of public administration .....	29
4. Overview table .....	32
5. Annex .....	36

## EXECUTIVE SUMMARY

### Economic Outlook

**The Czech economy contracted by 1.3% in 2012, and is expected to shrink again, by 0.4%, in 2013, with real GDP growth turning positive (1.6%) in 2014 on the back of growing household income.** The unemployment rate, which was 7% in 2012, is projected to rise to 7.5% in 2013 and to edge lower in 2014. Industrial production is showing signs of stabilisation compared to the weak 2012 outcome and consumer confidence has already started to improve, although from a very low level. Inflation is expected to remain subdued, falling from 3.5% in 2012 to 1.9% in 2013 and 1.2% in 2014.

**The headline budget deficit increased to 4.4% of GDP in 2012, significantly worse than forecast in the 2012 convergence programme, and the Commission projects it will fall to 2.9% of GDP in 2013.** However, the Czech authorities do not envisage further consolidation measures in 2014 and beyond, and the Commission forecasts that the deficit will increase marginally to 3% of GDP in 2014. The 2013 convergence programme confirms the medium-term objective (MTO) of a structural deficit of 1% of GDP, but it does not specify a deadline for its achievement. The structural deficit is projected to increase in 2014-2016; therefore no adjustment towards the medium-term objective is foreseen. Government debt is expected to reach nearly 52% of GDP in 2016 (from around 46% of GDP in 2012), but to remain below the 60% of GDP reference value.

### Key Issues

**Progress has been made on fiscal and structural policies during the last year and the Czech Republic has reduced its budget deficit in 2012, excluding the one-off deficit-increasing impact of the adoption of the law on financial compensations, despite the deteriorating economic situation.** In the last twelve months, the Czech authorities implemented a sizeable consolidation package, including increases in indirect taxes, reformed the public procurement system, and took steps to strengthen the EU funds management and control system. However, reform efforts in other areas, including the long-term sustainability of public finances, the quality of fiscal adjustment, childcare services and education have been limited.

**In the short term, the main challenge is to kick-start economic recovery by pursuing growth friendly fiscal consolidation, ensuring the correct use of EU funds, better exploiting the potential in the labour market and improving public administration, education and research.** While the case for moving ahead with structural reforms remains strong, weak growth and rising unemployment make it crucial to target policies that can also deliver results in the short term.

- **Public finances:** Prioritising spending on employment, research and innovation, education, childcare and transport and environment projects - such as projects co-

financed by EU funds – could bolster growth, while broadening tax bases, including by further evening out differences between employees and the self-employed, could help to raise revenues in a non-distortive manner. Despite the relatively low general government debt-to-GDP ratio (45.8% in 2012), rising expenditure on pensions and healthcare could, in the medium and long term, limit the room for spending on other policies and generate substantial public deficits.

- **Labour market:** While the labour-market situation in the Czech Republic has proved to be relatively robust, the challenge remains to bring more women and disadvantaged groups – particularly young and older people, low-skilled workers, long-term unemployed and Roma – into the workforce. The employment rate of women was only 62.5% in 2012 (compared to 80.2% of men) and is exacerbated by the continued shortage of childcare facilities, while the gender pay gap was 21% in 2011, one of the highest in the EU (16.2 %). There is also a need to ensure that education and training reflects labour market needs, as the number of third-level graduates almost doubled between 2006 and 2012 (from 13.1% to 25.6%).
- **Innovation:** A major concern is the relatively low level of R&D investment by domestic firms (0.72 % of GDP in 2011, below EU average) and the international relevance of research done by public research institutions.
- **Public administration:** Low accountability and stability in the public administration is a risk for tackling the challenges the Czech Republic is facing. Public administration is hindered by unclear career progression and vulnerability to political influence. Corruption and low operational efficiency in the public administration are perceived as major issues, and the Czech Republic remains at the 21st place among the EU countries in the Transparency International corruption perception ranking. Furthermore, there is scope to improve tax compliance.

## 1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for the Czech Republic. On the basis of these recommendations, the Council of the European Union adopted six CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned public finances, the tax system, the pension system, the labour market, the performance of public administration and education. This Staff Working Document (SWD) assesses the state of implementation of these recommendations in the Czech Republic.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)<sup>1</sup> and the second annual Alert Mechanism Report (AMR),<sup>2</sup> which were published in November 2012. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising the public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 14 Member States were selected for a review of developments in the accumulation and unwinding of imbalances.<sup>3</sup>

Against the background of the 2012 Council Recommendation, the AGS and the AMR, the Czech Republic presented updates of its national reform programme (NRP) and of its convergence programme in April 2013. These programmes provide detailed information on progress made since July 2012 and on the future plans of the government. The information contained in these programmes provides the basis for the assessment made in this Staff Working Document.

The programmes submitted went through an open consultation process. The preparation of the national reform programme involved representatives of the Czech parliament, social partners, regional authorities and other stakeholders. Before adoption by the government the convergence programme was submitted to and discussed in the Czech parliament.

### Overall assessment

---

<sup>1</sup> COM(2012) 750 final.

<sup>2</sup> COM(2012) 751 final.

<sup>3</sup> 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a financial assistance programme.

The analysis in this SWD leads to the conclusion that the Czech Republic has made some progress on measures taken to address the CSRs issued by the Council on fiscal consolidation, taxation, the public employment service and reforms of the public administration. In the last twelve months, a sizeable consolidation package, including increases in indirect taxes, has been adopted, and a reform of public procurement and an action plan to strengthen the EU funds control system have been implemented.

Only limited progress has been made so far in implementing the 2012 recommendations on increasing the availability of childcare facilities, improving the quality of fiscal adjustment and evaluating education and research outcomes. No progress has been made on improving the long-term sustainability of public finances.

Challenges identified in July 2012 and reiterated in the AGS remain valid. In the short term, the main challenge is to kick-start economic recovery by substantially improving the quality of fiscal adjustment, prioritising and ensuring correct use of EU funds, making better use of the potential in the labour market and enhancing and stabilising the public administration and public procurement. Higher quality and efficiency in the education and research system would help buttress innovation and human capital, improving medium- and long-term growth prospects.

The policy plans submitted by the Czech Republic address the challenges identified in last year's Staff Working Document, and broad coherence between the two programmes has been ensured. The national reform programme confirms the Czech Republic's commitment to address shortcomings in the areas of education and the business environment. The convergence programme demonstrates the Czech Republic's commitment to comply with the recommendations of the Excessive Deficit Procedure in line with the Stability and Growth Pact.

## **2. ECONOMIC DEVELOPMENTS AND CHALLENGES**

### **2.1. Recent economic developments and outlook**

#### *Recent economic developments*

**The Czech economy posted negative GDP growth of -1.3% in 2012, as it shrank for four consecutive quarters.** A strong deterioration in consumer confidence, with repercussions on household consumption, a drop in public investment and a weaker external environment were the main drags on growth in 2012. Household consumption was particularly hard hit in view of the hikes in energy and food prices and the ongoing fiscal consolidation, including tax increases (mainly value added tax). The unemployment rate has risen only moderately so far, but the comparatively robust labour market performance masks a persistent shift of labour from regular employment to bogus self-employment as well as cuts in hours worked. Households are therefore under pressure not only due to weak income growth but also because of lower job security, all of which have a clear impact on confidence.

## *Economic outlook*

**Economic activity should bottom out in the middle of the year along with a gradual recovery in consumer confidence.** However, real GDP growth is still expected to edge down in 2013, largely due to a weaker outlook for investment. While industrial production is showing signs of stabilisation compared to the last quarter of 2012, falling domestic and foreign orders do not augur well for a swift improvement. On the other hand, consumer confidence has already started to improve, although from a very low level. Weak wage growth and somewhat higher unemployment should still weigh on private consumption in 2013 but the recovery is expected to gain traction in 2014. The economy should pick up in 2014, supported by growth in real household income and a slower pace of fiscal consolidation. Given the absence of near-term cost and demand pressures, inflation should remain subdued over the forecast horizon.

**The macroeconomic outlook underlying the CP and NRP is broadly plausible.** According to the convergence programme, real GDP growth is expected to reach 0.0% and 1.2% in 2013 and 2014 respectively, compared to -0.4% and 1.6% in 2013 and 2014 respectively in the Commission 2013 spring forecast. The macroeconomic scenario of the CP/NRP does not include estimates of the macroeconomic impact of structural reforms.

## **2.2. Challenges**

**The Czech Republic continues to face significant challenges in terms of strengthening the domestic drivers of growth and the institutional fundamentals of the economy.** Overall, the Czech economy is affected by the quality of consolidation measures, insufficient effectiveness in the public administration, underutilised potential in the labour market, in particular for women with children, and a slow transition to knowledge-based growth. While the case for moving ahead with structural reforms remains strong, the deteriorating cyclical situation and the rising unemployment rate have accentuated the importance of policy responses that can deliver results also in the short term.

**The overarching current challenge therefore is to promote a sustainable job-rich recovery.** Given that the room for manoeuvre for fiscal policy is limited by the need to commit to fiscal stability, it is essential to pursue fiscal consolidation in a manner that mitigates the negative short-term impact on growth. On the revenue side, this entails making the tax system more efficient and fairer by broadening tax bases, as, for instance, large differences remain in taxes imposed on employees and self-employed. This contributes to eroding tax revenues and gives rise to 'shadow employment'. Furthermore, there is scope to improve tax compliance and shift the structure of taxation from labour towards taxes that are less harmful to job creation and stimulate sustainable resource-efficient growth, such as recurrent taxes on housing and vehicle circulation taxes.

**A faster and sustainable recovery is hindered by repeated cuts in public investment expenditure.** Prioritising growth-enhancing expenditures with a high multiplicative effect,

such as projects co-financed by EU funds, would not only help buttress recovery but could also contribute to tackling the long-term challenges identified in the 2012 staff working document. Substantial growth effects could follow from expenditure on employment-activating policies, research and innovation, education, childcare facilities and projects improving the quality of the transport network and the environment. In view of the high energy intensity of the economy, investments in energy efficiency would strengthen the foundation for sustainable development. At the same time, ensuring correctness and efficiency of such spending is key.

**Modernising pensions and healthcare systems would help ensure their sustainability and adequacy.** Long-term projections show that the Czech pension and healthcare systems are facing substantial expenditure increases in the long run. Despite the relatively low general government debt-to-GDP ratio, rising expenditure on pensions and healthcare could, in the medium and long term, limit the room for discretionary spending on other policies and generate substantial public deficits.

**Human capital is an essential ingredient for strengthening knowledge-based growth.** As the number of graduates from Czech higher education institutions has been rising in recent years, the challenge is to ensure that the education and training students receive is of adequate quality and reflects labour-market needs in both the national and the regional context. Regarding the research and innovation system, a major concern is the relatively low international relevance of research produced by domestic firms and public research institutions. The potential for a strong high-tech orientation of the economy offered by the sizeable manufacturing sector remains still underexploited.

**While the labour-market situation in the Czech Republic has proved to be relatively robust, challenges remain in specific segments.** The principal one is the untapped potential in participation of women with young children, who are disadvantaged by the scarce provision of affordable and quality childcare. This prevents them from returning to jobs after parental leave fast enough to retain the skills and human capital built up in education and previous occupations. The employability and labour market participation of disadvantaged people also remains to be improved, in particular as measures implemented by the public employment services do not effectively address the challenge.

**Low accountability and stability in the public administration is a risk for tackling the challenges the Czech Republic is facing.** Performance of the public administration is hindered by unclear career progression and vulnerability to political influences. Due to these factors, corruption and low operational efficiency in the public administration are perceived as major issues.



### 3. ASSESSMENT OF POLICY AGENDA

#### 3.1. Fiscal policy and taxation

##### *Budgetary developments and debt dynamics*

**The objective of the budgetary strategy of the Czech Republic is to bring the government deficit below the 3% of GDP reference value by 2013 and keep the deficit below the 3% of GDP reference value in 2014-16.** The programme confirms the medium-term budgetary objective (MTO), which was fixed at a structural deficit of 1% of GDP in the previous 2012 programme. The MTO reflects the objectives of the Stability and Growth Pact. However, the date for the achievement of the MTO is postponed until after 2016 without further specification. In addition, the programme foresees an increase in the structural deficit in 2014-16.

**The headline general government deficit increased to 4.4% of GDP in 2012, significantly worse than the objective envisaged in the 2012 programme.** The worsening reflects mainly the impact of two one-off deficit-increasing operations: the adoption of the law on financial compensation to churches (1.5 percentage points, or pps, of GDP) and corrections resulting from irregularities in the management of EU funds (0.3 pps of GDP). Without these operations, the headline deficit would have shown a stronger improvement than targeted in the previous programme (a deficit of 2.9% of GDP). The final budgetary outcome was also influenced by revenue and expenditure measures (see Box 1) and a continued reduction in public investment. Overall, the 2012 budget was implemented in line with the 2012 recommendation even though public investment was reduced significantly.

**The programme envisages a reduction in the headline general government deficit to 2.8% of GDP in 2013.** Expenditure growth should be contained somewhat by the expenditure measures adopted (further across-the-board cuts in government consumption, a continued freeze on public sector wages at the central level, and lower indexation of pensions) but, excluding the effect of the two 2012 one-offs, the total expenditure ratio is projected to increase by 0.6 pps to 43.3% of GDP in 2013. Revenues are forecast to increase by 0.4 pps to 40.4% of GDP in 2013 on account of temporary and permanent revenue-side measures adopted in 2012, which include an increase in both value added tax (VAT) rates, in excise duties and in the property transaction tax along with changes in personal income tax and social contributions (see Box 1). The Commission services 2013 spring forecast projects a slightly higher government deficit at 2.9% of GDP in 2013, based on a more conservative underlying macroeconomic scenario in 2013. Despite the net positive effect of discretionary measures, the recalculated structural balance<sup>4</sup> will improve by only 0.1 pp to 1.6% of GDP in 2013. The risk of a worse-than-expected budgetary outcome in 2013 mainly stems from additional corrections in EU funds reimbursements. On the other hand, one-off revenues

---

<sup>4</sup> Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

linked to the planned auction of new telecom frequency bands could result in a better-than-expected budgetary outcome compared to both the convergence programme and the Commission services 2013 spring forecast.

## Box 1. Main measures

### Main budgetary measures

Revenue	Expenditure
<b>2012</b>	
<ul style="list-style-type: none"> <li>• Increase in the lower VAT rate from 10 % to 14 % (+0.5 % of GDP)</li> <li>• Introduction of a lottery tax (+0.2 % of GDP)</li> <li>• Increase in excise duties on tobacco (+0.1 % of GDP)</li> <li>• Higher tax allowance for families with children (-0.1 % of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of the law on financial compensations to churches (+1.5 % of GDP)</li> <li>• Cuts in operational expenditure of and public subsidy to construction savings scheme (-0.6 % of GDP)</li> <li>• Financial corrections to non-recognised expenditures co-financed from the EU (+0.3 % of GDP)</li> </ul>
<b>2013</b>	
<ul style="list-style-type: none"> <li>• Increase in the both VAT rates and in excise duties (+0.4 % of GDP)</li> <li>• Changes in personal income tax and health insurance contributions (+0.2 % of GDP)</li> <li>• Introduction of a private pension pillar (-0.2 % of GDP)</li> <li>• Increase in the property transfer tax and other revenue (+0.1 % of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Cuts in operational expenditure of the central government (-0.3 % of GDP)</li> <li>• Lower indexation of pensions (-0.2 % of GDP)</li> <li>• Reduction in subsidies for renewable energy (-0.1 % of GDP)</li> </ul>
<b>2014</b>	
<ul style="list-style-type: none"> <li>• Further changes in excise duties adopted as part of 2012 revenue package (+0.1 % of GDP)</li> <li>• Expiry of special tax on photovoltaic power plants (-0.2 % of GDP)</li> <li>• Frontloading of some measures in personal income tax (+0.1 % of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in sickness benefit payment system (+0.1 % of GDP)</li> <li>• Savings resulting from the simplification of public administration (-0.3 % of GDP)</li> </ul>
<b>2015</b>	
<ul style="list-style-type: none"> <li>• Changes related to direct tax and payments reform (-0.4 % of GDP)</li> <li>• Tax deduction on dividends for corporations (-0.2 % of GDP)</li> <li>• Lowering of mandatory VAT registration limit (+0.1 % of GDP)</li> <li>• Tax deduction on dividends (-0.1 % of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Savings in government consumption linked to introduction of the single collection point (-0.3 % of GDP)</li> </ul>
<b>2016</b>	
<ul style="list-style-type: none"> <li>• Changes in social contributions (+0.3 % of GDP)</li> <li>• Expiry of some changes adopted in 2012 in personal income tax and social contributions (-0.2 % of GDP)</li> <li>• Unification of VAT rates (-0.4 % of GDP)</li> </ul>	n.a.

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this

measure. The degree of detail reflects the information made available in the convergence programme and, where available, of a multiannual budget.

**The programme does not envisage further consolidation measures in 2014 and beyond and the budgetary plans are moreover not sufficiently supported by concrete measures.**

The programme abandons previous consolidation plans for 2014-16, in favour of a new course aimed at keeping the headline deficit just below 3% of GDP in 2014-16, in order not to 'deepen the procyclical effects of fiscal policy'. According to the programme, the government deficit will edge up by 0.1 pp to 2.9% in 2014, which seems due to rounding effects, as the revenue and expenditure ratios change in broadly the same order of magnitude. The planned savings in the public administration in 2014 are not sufficiently specified and seem to rely heavily on the sale of state property rather than durable cost savings. Also, as the government plans to increase public investment only moderately over the programme horizon from the historical low reached in 2012, it is possible that expenditure may be higher in order to cover the investment gap created in past years. A number of factors impinge on the deficit in the outer years of the programme: the expiry of temporary revenue measures in 2015, the impact of planned changes related to direct tax and payments reform in the same year and VAT unification in 2016. No measures are planned to offset these factors. The projected significant reduction of expenditure by 0.7 pps and 0.6 pps of GDP in 2015 and 2016 respectively is not supported by adequately specified measures. Savings from introduction of the single collection point are likely to be more spread over time.

**While the deficit target for 2013 complies with the Council recommendation, the projected fiscal effort does not comply with the Pact.**

The general government deficit target of 2.9% of GDP in 2013 is in line with the Council recommendation of 2 December 2009. The programme confirms the previous MTO of a deficit of 1% of GDP, which adequately reflects the requirements of the Stability and Growth Pact. The (recalculated) structural budget deficit is projected to increase by 0.3%, 0.2% and 0.5% of GDP in 2014, 2015 and 2016 respectively; therefore no adjustment towards the MTO is envisaged in the programme, which is not in line with the Stability and Growth Pact. According to the information provided in the programme, the rate of growth of government expenditure, net of discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in 2014, but in 2015 and 2016 it is not expected to contribute to an annual structural adjustment towards the MTO of 0.5% of GDP. This is because the growth rate of government expenditure exceeds, by 0.3% and 0.5% of GDP respectively, the lower rate under the expenditure benchmark of 0.45% of GDP.

**The public debt ratio is projected to increase but remain below the reference rate.** Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable. The debt-to-GDP ratio is forecast to continue to increase over the programme period, albeit at a slowing pace, and to reach 51.9% of GDP in 2016. The contributions of the primary balance and interest expenditure are projected to remain stable. The interest risk and

currency risk seem broadly contained, given the relatively low share of short-term and variable debt and of foreign-denominated debt.

### **Box 2. Excessive deficit procedure for the Czech Republic**

On 2 December 2009, the Council decided that an excessive deficit existed in the Czech Republic. The most recent Council Recommendation under Article 126(7) TFEU was adopted on the same date. The Council recommended that the Czech Republic's authorities should put an end to the present excessive deficit situation by 2013. In particular, the Czech Republic was recommended to implement the deficit-reducing measures in 2010 as planned in the draft budget law for 2010; to ensure an average annual fiscal effort of 1 % of GDP over the period 2010-13; and to specify the measures necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than expected at the time. In addition, in order to limit risks to the adjustment, the Czech Republic was recommended to rigorously enforce its medium-term budgetary framework and to improve monitoring of budget execution throughout the year to avoid expenditure overruns compared to budget and multiannual plans. Furthermore, the Council invited the Czech authorities to implement reforms with a view to raising potential GDP growth and reforms conducive to enhancing the quality of public finances, in particular reforms improving the efficiency and effectiveness of public spending. In addition, the Council invited the Czech authorities to continue with the necessary pension and healthcare reforms.

An overview of the current state of excessive deficit procedures is available on: [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/deficit/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm) (please refer to country sections at the bottom of the page).

#### ***Fiscal framework***

**The fiscal framework has remained largely unchanged since 2004, when the last comprehensive reform was adopted.** The main features include an expenditure rule for central government and multiannual fiscal planning within the medium-term budgetary framework, which is based on a rolling three-yearly fiscal outlook. Apart from the nominal expenditure ceilings, there are no additional numerical and binding fiscal rules targeting the central government. The enforcement of the expenditure ceilings is weak, as they have been revised upwards several times. Moreover, the local authorities are not bound by these ceilings, and the link between their expenditure and the state budget expenditure is not easily identifiable. The fiscal framework further suffers from the limited transparency of budgetary procedures, the limited coordination between different levels of government in the budgetary cycle and the lack of systematic evaluation of public spending based on clear performance criteria.

**A new constitutional act on fiscal responsibility, adopted by the government in 2012, is currently under discussion in the parliament.** The main components of the constitutional

act include (i) a debt ceiling of 60% of GDP for the general government with corrective measures in case a threshold of 40% of GDP (excluding cash reserves to finance government debt) is breached, (ii) setting up of a national fiscal council, (iii) a debt rule for regional and local governments and (iv) the obligation for all public entities to prepare a three-yearly budgetary outlook. The commitment to introduce an expenditure rule covering the whole general government sector is also included.

**A draft act on rules of fiscal responsibility, specifying the implementation of the constitutional act on fiscal responsibility and additional rules, has been presented, but is yet to be adopted by the government and the parliament.** The draft act envisages a Committee for Budgetary Forecasts, which would assess macroeconomic and general government revenue forecasts ex-ante twice a year. At this stage, it remains unclear how the independence of this Committee is to be guaranteed. The draft act further details the debt and expenditure rules as well as the content of the medium-term budgetary framework. A transition period for the debt rule may be considered, as the current debt level is already above the envisaged threshold of 40%. In addition, the draft act specifies the composition, funding and responsibilities of the Fiscal Council, which would include the monitoring of fiscal rules and the assessment of fiscal policy. Accelerating the operational establishment of the Fiscal Council, together with ensuring its independence and providing adequate resources, would contribute to greater transparency in the management of public funds and would be in line with good practice.

### *Long-term sustainability*

**The Czech Republic continues to face a large sustainability gap.** While the country does not appear to face a risk of fiscal stress in the short term, the Czech Republic is, however, at medium risk in the medium and long run, mainly due to the cost of ageing.<sup>5</sup> The government debt ratio (45.8% of GDP in 2012 and expected to rise to 50.1% in 2014) is below the 60% of GDP threshold. Medium-term debt projections (Graph below Table V in annex) indicate that, with full implementation of the programme, debt would be higher by 2020, although still below the 60% of GDP reference value. Risks would be higher if the structural primary balance were to revert to the lower values observed in the past, such as the average for the period 1998-2012. Containing growth in age-related expenditure, in particular in pension expenditure and healthcare spending, would contribute to the sustainability of public finances.

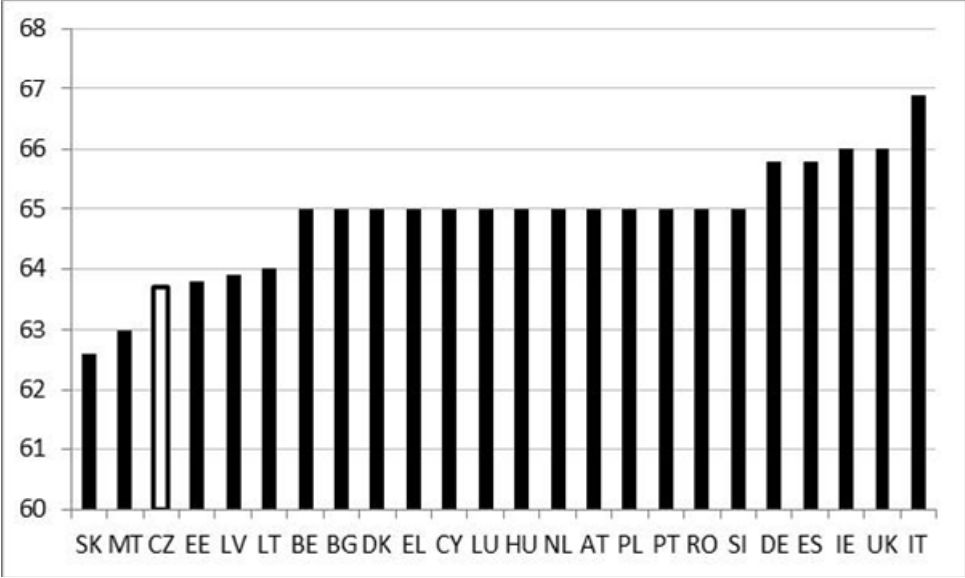
**The main source of the unsustainable increase in pension expenditure remains the slow rate at which the statutory retirement age is being raised.** While the retirement age for men is set to reach 65 by 2020 in most Member States, in the Czech Republic it is expected to reach only 63 years and 8 months in 2020 (the pace of the increase is only two months per year). For women, the expected retirement age will also remain below 65 but this is mostly

---

<sup>5</sup> The Czech Republic has a sustainability gap of 5.0% of GDP, which is above the EU average (3.0%). Compared to the 2012 Fiscal Sustainability Report, the gap has narrowed by 0.5 pps.

due to the very low starting point.<sup>6</sup> Ensuring that the retirement age reaches 65 by 2020 and linking it to life expectancy thereafter would significantly strengthen the sustainability of the system.<sup>7</sup>

**Graph 1: Statutory retirement age in 2020 (men)**



*Note: The retirement age in FI, FR and SE is not specified at a comparable basis.  
Source: Commission.*

**Over the reporting period, the government has not taken systemic steps to improve the long-term sustainability of the first pension pillar.** As part of the consolidation strategy, it has limited increases in pensions between 2013 and 2015. This measure is set to expire in 2015; thereafter pensions will be adjusted based on the current pension indexation formula (prices and a third of the rise in real wages). A number of Member States have opted for an indexation formula based on prices, which, when implemented over the long run, generates substantial savings while, at the same time, preserving the purchasing power of pensioners.

**Two reforms of the second and third pillar entered into force in January 2013:** one improved the functioning of the voluntary private pension savings scheme (the ‘third pillar’) and the other introduced a new fully funded statutory pillar with a partial voluntary opt-out from the ‘first’ pillar. The latter has so far attracted a low number of participants, partly because of the risk that the scheme could be rolled back in the near future given the lack of a wider social consensus on the reform. Participation in the fully funded statutory pillar is also conditional on topping up the present level of contributions with a further 2% of salary, which

<sup>6</sup> The statutory retirement age for women with two children is set to reach 61 and 8 months in 2020. According to current legislation, the gap in statutory retirement ages between men and women, including the differentiation according to the number of children, is set to close fully in 2041.

is relatively difficult in the current economic circumstances. Once the system settles, it may require legislative adjustments to help ensure that savers choose appropriate investment profiles over the life cycle of their savings and that the envisaged pension-payment arrangements do not penalise those who opt for a lifetime annuity. An appropriate level of participation in both the second and the third pillar will be essential to ensure the adequacy of old-age pensions.

**Contrary to the country-specific recommendation, the government introduced a new early retirement scheme in 2013**, which offers the possibility of drawing pensions up to five years before reaching the statutory retirement age. The early-retirement pensions are going to be paid from the (third) pension savings pillar. However, the pillar enjoys a substantial state subsidy through direct co-payments and tax deductibility of contributions. In addition, the beneficiaries of these pensions will not be penalised for retiring earlier in terms of the level of their old-age pensions, as is customarily the case with early-retirement schemes.<sup>8</sup> Irrespective of whether the eligibility criteria for access to the scheme will effectively be met by only a limited number of persons, as the government expects, the measure allows beneficiaries to use the previously accrued public subsidy for a purpose that goes against policies to extend working lives.

**The expected increase in health and long-term care spending also makes a substantial contribution to the cost of ageing.** Reforms aimed at improving the efficiency of the health system via cost containment and more market-oriented solutions have been implemented in recent years in the Czech Republic. For example, user fees for doctor consultations, prescriptions and hospital stays that were introduced in 2008 have been generally successful in reducing overconsumption of health services.<sup>9</sup> Monitoring of reforms increasing private payments would reduce the risk of creating unequal access to care. Despite the steps taken so far, problems still exist. Compared to other Member States, the Czech healthcare system tends to be excessively centred on hospital care, which gives rise to inefficiencies. Both the share of public hospital expenditure in total public current health expenditure and the number of acute hospital beds per 1 000 persons are among the highest in the EU. Also, patients tend to stay too long in hospital care and the share of one-day surgical interventions among total hospital admissions is the lowest in the EU.<sup>10</sup> There is scope to improve provision of care in the most clinically appropriate and cost-effective way, for example by moving to day-of-surgery admission and reducing inappropriate lengths of stay in acute care hospitals. Continuing to

---

<sup>7</sup> The statutory retirement age in the Czech pension system is set to increase by two months (and more) per cohort of birth without any predefined limit. However, the absence of any clear and direct link to life expectancy exposes the system to the risk of under- or over-reaction to future changes.

<sup>8</sup> The established early-retirement scheme currently allows workers to retire up to three years before reaching the statutory retirement age. The period is set to increase to five years once the statutory retirement age reaches 63 (subject to a lower limit of 60 years of age).

<sup>9</sup> See Joint EC(ECFIN)-EPC Report on Health Systems (2010).

<sup>10</sup> See Joint EC(ECFIN)-EPC Report on Health Systems (2010). The number of acute hospital beds per 100 inhabitants is 4.9 in the Czech Republic, compared to the EU average of 3.7; the average length of stay is 7 days (versus 5.9 in the EU) and the share of day-case surgery is 5 % versus 23 % in the EU.



develop alternatives to institutional care would also contribute to reducing long-term hospital stays in favour of independent living solutions. Measures presented in 2013 NRP aimed at optimizing the network of health and social services and increasing efficiency of health insurance system are steps in the right direction.

### *Tax system*

**Overall, the Czech Republic made some progress on the 2012 recommendation on taxation.** The country-specific recommendation called for exploiting the available space for increases in taxes least detrimental to growth, shifting the high level of taxation on labour to housing and environmental taxation and reducing the discrepancies in the tax treatment of employees and the self-employed. The tax-to-GDP ratio in the Czech Republic remains relatively low in comparison with the rest of the EU. In 2011, it stood at 34.4%, against the EU average of 38.8%. However, the Czech Republic has a high implicit tax rate on labour (the sixth highest in the EU). Taxation on labour is the main source of revenue (51.9%, slightly above the EU-27 average of 50.8%), followed by consumption (32.6%) and capital (15.5%).

**To exploit the available room for increases in taxes least detrimental to growth, some measures were adopted in 2012.** Effective from 2013, both value added tax rates were increased by 1 pp (until 2015), some exemptions from excise duties related to diesel used in agriculture were gradually abolished, and tobacco and cigarettes excise duty rates were also increased. In 2014, exemptions from excise duties related to diesel used in agriculture will be fully abolished and cigarettes excise duties will be further increased. Full unification of both value added tax rates that would simplify the system and reduce compliance costs was postponed to 2016.

**Limited progress was made in 2012 on increasing taxation of housing and environmental taxation.** While the real estate transfer tax was increased by 1 pp (to 4%), no steps were taken to raise the very low level of recurrent property taxes (the fourth lowest in the EU). Plans to introduce a CO<sub>2</sub> tax and abolish exemptions from excise duties on natural gas for heating have been dropped. While the revenue from environmental taxes on energy in 2010 was the sixth highest in the EU, due to the relatively high energy intensity of the Czech economy the implicit tax rate on energy was below the EU average. Moreover, non-fuel environmental taxes in the area of transport remain very low (the third lowest in the EU).

**While temporary measures adopted in 2012 increased the progressivity of the labour taxation system and the tax burden on labour,** the existing legislation includes a reduction of the total labour burden in 2015. The measures adopted in 2012 include the introduction of a 7 pps additional tax surcharge above the social contributions cap for high-income earners, the abolition of ceilings on health insurance contributions, and the abolition of the basic tax allowance for working pensioners. These measures will all expire in 2015. The existing legislation includes the tax reform adopted in 2011 and effective from 2015 which would lower the total tax burden on labour. From 2015, the personal income tax rate will rise by 4

pps to 19%, albeit with a narrower tax base. The social security contributions are set to increase slightly, as the current total rate of 34% for employers' contributions will be replaced by a payroll tax of 32.4%, but employees' health insurance contributions should increase by 2 pps.

**Structural challenges remain in taxation of labour.** The tax wedge on low-income earners, while not excessively high by EU standards,<sup>11</sup> could be one of the factors behind the relatively high unemployment rate among low-skilled workers. Currently, the minimum tax base for health insurance contributions leads to a relatively high tax wedge for part-time workers earning less than the minimum wage, which could be one of the factors behind the very low utilisation of part-time work. Measures to address this might therefore encourage the labour participation of second-income earners.

**Limited progress has been made on reducing the discrepancies in the tax treatment of employees and the self-employed in 2012.** In 2012, a cap on selected categories of flat-rate expenses deductions available to self-employed was introduced,<sup>12</sup> with an impact on a limited number of high-income self-employed only, and some limitations were introduced on the use of allowances for the spouse and children of the self-employed. The current system of taxation of the self-employed combines a low tax base (50% of their income tax base) with large flat-rate deductions for expenses (as a percentage of total income) thereby creating perverse incentives for employers to hire de facto dependent employees as self-employed. Furthermore, it severely reduces the tax revenue obtained from a large and growing group of taxpayers,<sup>13</sup> putting more pressure on the authorities to cover the revenue gap with increased taxation of other activities, all other things being equal. In spite of the rising number of self-employed, the tax revenue from the self-employed has decreased substantially, particularly since 2008, when the last major changes to the tax system were enacted. It accounted for only 2.2% of the total personal income tax revenue in cash terms in 2011 compared to around 12% in 2008.

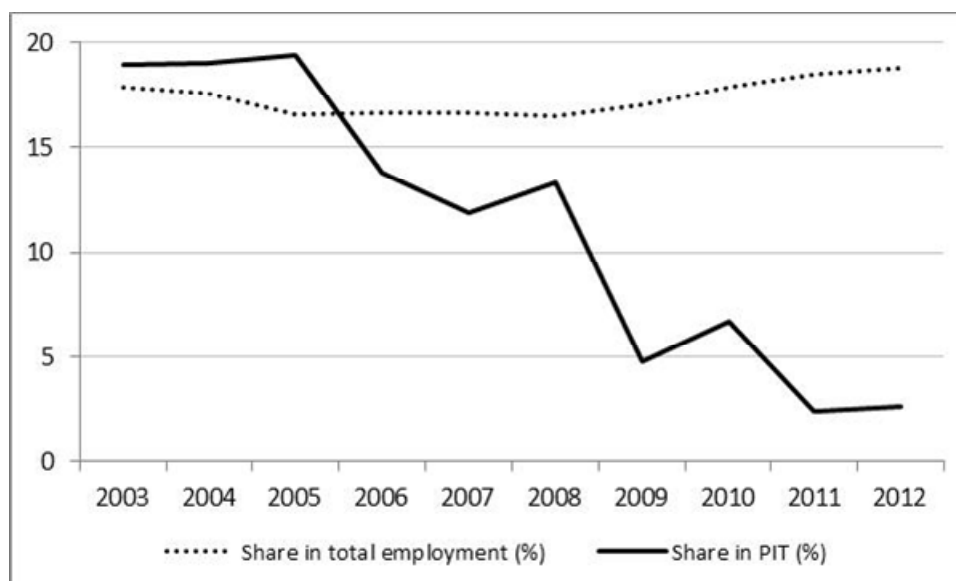
---

<sup>11</sup> At 39.3%, the tax wedge on low-income earners (singles at 67% of the average wage) was the tenth highest in the EU in 2012.

<sup>12</sup> Flat-rate expenses deductions were limited to CZK 800 000 per year for activities in the category eligible for 40% flat-rate expenses deductions and to CZK 600 000 per year for activities in the category eligible for 30% flat-rate expenses deductions.

<sup>13</sup> The share of self-employed in total employment has been increasing since 1995 and stood at 17% in 2011 (sixth highest in the EU).

**Graph 2: Self-employed**



*Note: PIT from self-employment is proxied by PIT reported in tax declarations. All self-employed, unlike most employees, are obliged to submit a tax declaration.*

*Source: Czech Financial Administration, AMECO.*

**The Czech Republic has room to improve the efficiency of its tax administration.** The administrative cost per net revenue collected is one of the highest in the EU.<sup>14</sup> The tax collection system creates one of the highest tax compliance burdens for small and medium-sized enterprises (SMEs) in the EU, which is one of the key bottlenecks that prevent more dynamic development of the business environment in the Czech Republic.<sup>15</sup>

**In response to the 2012 recommendation to take action to improve tax collection, reduce tax evasion and improve tax compliance, the government adopted several measures to lower VAT avoidance.** These include a new concept of ‘unreliable taxpayer’, a requirement to use verified bank accounts for all business transactions, and a duty for newly registered VAT payers to submit tax returns on a monthly basis, the two latter requirements being implemented as from 2013. The first measure is intended to avoid taxpayers declaring bankruptcy before meeting their tax obligations. In particular, the business partners of companies that have seriously breached the VAT law in the past will be liable for the unpaid VAT due on their transactions. The 2013 national reform programme also states that VAT returns will be filed exclusively in electronic form from 2014. All these measures are likely to narrow the scope for VAT fraud but also increase the compliance burden on businesses and reduce the ease of doing business.

<sup>14</sup> OECD (2011): Tax Administration in OECD and Selected Non-OECD Countries.

<sup>15</sup> See the 2011 OECD Forum on Tax Administration Report for evidence of the size and cost of administration per net revenue and the PricewaterhouseCoopers 2013 Paying Taxes Report for estimates of the compliance burden on businesses.

**Reports suggest that the largest compliance costs in terms of the time it takes to pay taxes are due to personal and company income taxes (including health and social contributions)<sup>16</sup>.** For these taxes, the government is planning to establish a single collection point in 2015, which is expected to centralise the procedural aspects, such as payments, audits and appeals.<sup>17</sup> This measure could effectively streamline the tax administration and help reduce the complexity of the current system for taxpayers. However, a major drawback of the reform is that the tax bases for personal income tax, health and social contributions will not be harmonised, thereby leaving a large part of the potential benefits of the reform unexploited. Taxpayers will still have to conform to several legal acts, rulings and practices in order to determine the level of taxes. Although the date of entry into force of the single collection point is laid down in a law, it still faces substantial implementation risks given the delays it has already encountered.

### **3.2. Financial sector**

**The banking sector is mostly foreign-owned and the Czech banks as a whole remain net creditors to their parent banks.** Despite the deterioration in the real economy, the Czech financial sector enjoyed stable conditions, as confirmed by key macro-prudential indicators, and remained resilient to external risks. The banking sector generates sound profits and is well capitalised, with a loan-to-deposit ratio well below 100%. In spite of a recent increase, the proportion of non-performing loans remains well below the EU average. With relatively low government debt and falling interest rates on Czech government debt in 2012, the sovereign rating has remained stable and benefits from a stable outlook.

**The SME Access to Finance Index for the Czech Republic in 2011 shows a weak performance compared to the EU average,** in particular due to very poor access to venture capital, while access to banks loans is perceived by SMEs as still relatively good. The deterioration in SME access to bank lending from 2009 to 2011 was comparatively small. With an underdeveloped stock exchange and venture capital market, equity financing remains very limited and the real economy effectively depends on financing provided by banks or own resources. There was some progress in 2012 given that the government started setting up a new State Seed/Venture Capital Fund designed to assist in funding newly emerging innovative businesses. Also, commercial banks launched a new guarantee facility for innovative start-ups in the Czech Republic.

---

<sup>16</sup> PwC 2013 Paying Taxes report

<sup>17</sup> This measure follows an internal reform of the tax administration, which started in 2011 with its headquarters being split off from the Ministry of Finance into a separate entity. In 2012 a specialised unit was created for large taxpayers and in 2013 some of the principal tasks (including planning of tax inspections) were shifted from local to regional level. This substantial reform, once settled, is expected to harmonise the practical and methodological aspects of the work of tax offices.

### 3.3. Labour market, education and social policies

**After proving resilient in previous years, the Czech Republic's labour market started to show signs of deterioration.** The unemployment rate started to increase in 2012, but at 7.0% it remains well below the EU average 10.6%. At the same time, the employment rate increased to 71.5% in 2012 on account of rising employment of older workers. However, recent projections<sup>18</sup> reveal an expected shortfall of 1.9 pps in meeting the 2020 employment target if no countervailing measures are adopted. A persistent challenge remains the situation of women with young children and other disadvantaged people, notably young and older people, low-skilled workers, long-term unemployed and Roma. The gender employment gap<sup>19</sup> and the gender pay gap<sup>20</sup> were among the highest in the EU. While youth unemployment (15-24) has doubled since 2008 and continued to increase in 2012, it still remains below the EU average. Moreover, the proportion of youth not in employment, education or training stabilised and also compares favourably with the EU average. This said, the worsening situation in the labour market heightens the importance of effective public employment services and education policy reforms in order to tackle the weak trend growth of labour productivity.

#### *Labour market*

**The Czech Republic made limited progress on the 2012 recommendation to increase the availability of affordable and good quality early childhood education and care.** Despite a continued shortage of childcare facilities, in particular for under three year olds,<sup>21</sup> there are no plans to increase budgetary support to public pre-school childcare, to the detriment of the female employment rate. Recent (2012) OECD projections show that full convergence of the female employment rate with that of males would stop the projected decline of the total labour force and increase GDP per capita by as much as 16.5% by 2030.<sup>22</sup> In addition, parental leave remains among the longest and most expensive in the EU, according to the OECD Family database. A draft act on pre-school facilities, to be discussed by the government in 2013, includes plans to introduce private 'child groups' led by professional nannies accompanied by tax subsidies for care providers and participating families. The measure is a step in the right direction but falls short of the objective to allow most workers to return to jobs after parental leave. In particular low income families are not likely to benefit much from the planned tax credit, unless they work for large companies, which are the most likely to set up a private kindergarten. No steps were taken to ensure quality of care at private facilities. The risk is that

---

<sup>18</sup> EPC Aging Working Group: 2012 Ageing Report.

<sup>19</sup> In 2012 the employment rate (20-64) was 62.5% for women and 80.2% for men, with the high gender employment gap standing at 17.7 pps (EU: 12.2 pps). The gender employment gap is high among young employees (e.g. among 30-34 year-olds it reaches 34.3 pps; EU: 13.7 pps) but the figures are also very high with respect to older employees (55-64) where the gap stands at 21.3 pps (EU: 14.6 pps).

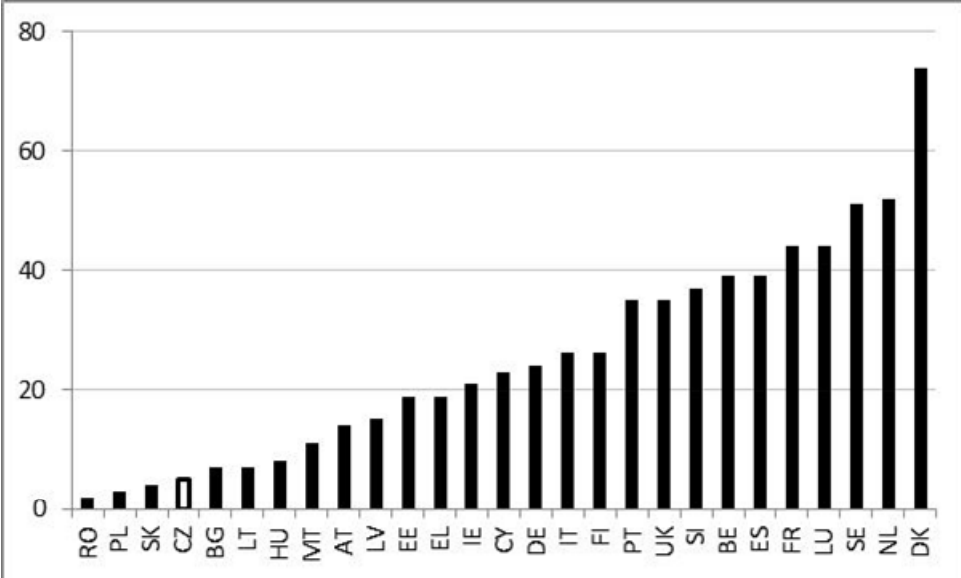
<sup>20</sup> The gender pay gap was 21% in 2011, one of the highest in the EU (16.2%).

<sup>21</sup> In 2011, only 5% of children under three years of age are cared for in formal childcare, below the EU average of 29%.

<sup>22</sup> Closing the Gender Gap. Act Now, OCED 2012. OECD Publishing.

the new private facilities will fail to provide adequate human capital development for the children. A European Social Fund (ESF) pilot project supporting the setting-up of company-based childcare is being implemented from 2013 and will likely improve the situation only to a small extent.

**Graph 3: Children below the age of 3 enrolled in formal childcare (%)**



Source: Eurostat (EU SILC).

**Progress has been made on improving the performance of the public employment service, as recommended in 2012.** Implementation of the reform of the public employment service adopted in 2011 continued in 2012, with positive effects expected to materialise in the medium term. However, in 2012 the workload of the labour offices increased, to the likely detriment of the quality of employment services provided and job search assistance against the background of rising long-term unemployment. In this context, plans in the 2013 NRP to increase staff at labour offices in 2013 by 750 new positions are a step in the right direction. Also, ESF projects are to be implemented in 2013 with the aim of improving skills and capabilities of labour office staff but no measures have been announced to reduce the high administrative workload at the labour offices and to increase the availability of services. A system of outsourcing of employment services to private providers was adopted in 2012 but not implemented because of weaknesses concerning the fee structure, arrangements for evaluating agencies’ performance and a targeted selection policy. A draft amendment that would revise the outsourcing system is to be discussed by the government in 2013. While the budget for active labour market policies in 2013 was increased, as also mentioned in the 2013 NRP, and the role of training was strengthened, the overall expenditure on active labour market policies remains relatively low, as does the share of participating jobseekers. To address persistent weaknesses in the monitoring and evaluation of activation programmes the active labour market policies are being strengthened through co-financed support from the European Social Fund. Two new activation programmes were introduced in 2012, aimed at

improving access to employment and supporting existing positions in companies affected by the economic slowdown.<sup>23</sup>

### *Education*

**The Czech higher-education system has recorded an unprecedented increase in the number of students, which is likely to facilitate meeting the national Europe 2020 tertiary education target.**<sup>24</sup> The main challenge now remains to ensure that students are equipped with skills needed to succeed in the labour market and to further promote quality of education at all levels in order to capitalise on the rising number of students.

**Two main measures were put forward in response to the 2012 recommendation to establish a transparent system for quality evaluation of higher-education and research institutions with a clear link to their funding.** First, the share of the performance-based funding available to higher education institutions (HEIs) has been raised from 20% of the total institutional funding in 2012 to 22.5% as of 2013. The national reform programme does not envisage any further changes in the share or the relevance of the quality indicators in the near term. Secondly, the government is preparing a revision of the Higher Education Act, planned to be adopted in 2013. The revision is expected to enhance the accreditation system (from 2015) and to differentiate funding (from 2016) according to the profile of study programmes (professional, academic and research) offered by each HEI. Regarding accreditation, the plan is notably to move away from ex-ante checks on ‘input’ criteria (such as the quality of academic staff) towards surveillance based on internal quality-evaluation mechanisms. The envisaged change in funding should promote stability over the medium term, as contracts would be multiannual, and support the development of more professionally oriented bachelor degrees, which could help reduce the record-high proportion of students continuing for master’s degrees and contribute to a lower drop-out rate. These are relevant and ambitious proposals, although their actual impact will depend on the final design and timetable of the reform and on the ownership of key stakeholders. The 2013 national reform programme also announced measures concerning strengthened cooperation between education and employers, which could help improve labour-market relevance in particular of vocational education and training.

**At the level of compulsory education, Czech pupils attain broadly average results in international comparisons of education outcomes such as PISA (2009).** The system is relatively cost-efficient in the sense that average results are achieved at below-average costs. In all areas tested, however, the education outcomes have worsened over time and show a

---

<sup>23</sup> The projects ‘Traineeships in companies — education through practice’ and ‘Get trained for stability’ are being carried out under the ESF in 2012-14.

<sup>24</sup> The share of tertiary graduates among young people aged 30-34 increased by more than 95% between 2006 (13.1%) and 2012 (25.6%).

high degree of dispersion across students also within the same school.<sup>25</sup> Against this background, the Council recommended establishing an improvement-oriented evaluation framework that would help identify and develop weak elements of the system.

**Besides ongoing curricular reforms, the authorities responded to this recommendation with two main sets of measures.** The first one entails establishing minimum education standards along with the development of nationwide testing of pupils. The tests are currently in the pilot phase and should be fully operational from school year 2013-14. Despite known risks, the tests could help identify, and provide useful feedback to, schools, teachers and pupils in need of additional support.<sup>26</sup> Such support will need to be provided systematically if this measure is to become a relevant response to the country-specific recommendation. A second set of measures aims to improve the quality and attractiveness of teaching. The government raised the entry salary for teachers in 2012 and is developing a new career system, which is expected to enter in force in 2014. The system should enhance in-service training and tighten the link between wages and performance. The effectiveness of this measure will also depend on whether it will include incentives to attract high-quality headmasters and teachers to schools with low social and economic status.

### *Social policies*

**The share of population at risk of poverty or social exclusion remained among the lowest in the EU at 15.3% in 2011.** Poverty is mostly concentrated in disadvantaged groups, such as the unemployed (at risk of poverty of 46.4%), single parent families (at risk of poverty of 35.6%) and the Roma, who face significant barriers to better integration, in particular in the education system and the labour market. Recent UNDP/WB/EC surveys (2011) estimated the risk of poverty among Roma in some territories at above 80%, their unemployment rate at above 50% and their experience of discrimination when looking for work at above 60%.<sup>27</sup> Equal access to quality and inclusive education for Roma children remains impaired, as only 24% of Roma children attend pre-school facilities, and the education system fosters segregation through the widespread practice of putting Roma children into sub-standard schools designed to cater for the mentally challenged. According to Czech School Inspection data, 26.4% of children educated in such sub-standard institutions in 2012 were Roma, but on the positive side, their number has decreased by 8.6 pps over the previous two years and a reassessment and correction of diagnostic tools is planned from January 2014.<sup>28</sup> Ensuring quality and inclusive care for all children is crucial for supporting children's development.

---

<sup>25</sup> See the 2009 results of the OECD PISA Report. However, latest data from 'Trends in International Mathematics and Science Study' (TIMSS) and 'Progress in International Reading Literacy Study' (PIRLS) suggest that the downward trend could have been reversed recently.

<sup>26</sup> Computer tests are likely to be biased in favour of a narrow range of competences. There is also a risk that teaching will become excessively focused on the topics tested. See SWD 2012 for further details.

<sup>27</sup> FRA Roma Pilot Survey 2011; UNDP/World Bank/EC Regional Roma survey 2011.

<sup>28</sup> See Czech School Inspection Report (2012) 'Postup transformace bývalých zvláštních škol ve školním roce 2011/2012'. According to the 2011 UNDP/WB/EC survey, early school leaving among young Roma (18-24) in the Czech Republic is above 90%.



The Agency for Social Inclusion has developed several initiatives to improve the situation in several excluded localities, but its capacity and resources remain limited. The government policies to fight social exclusion are described in two strategic documents<sup>29</sup> but the responsibilities for coordination channels are not fully clear, which creates substantial implementation risks. The strategies lack an integrated approach, more concrete measures, quantifiable indicators, a clear timeline and a robust monitoring mechanism. No new concrete measures are proposed in the 2013 NRP.

### **3.4. Structural measures promoting growth and competitiveness**

**Potential output growth in the current decade is expected to slow to less than half of the level achieved in the previous decade.** This is mostly due to the downward trend in productivity growth. Low expected productivity growth is consistent with the overall ranking of the Czech Republic as ‘a moderate innovator with below average performance’ in the 2012 Innovation Union Scoreboard. The relative strengths of the Czech economy are the quality of human resources and the solid dynamism of businesses in terms of introducing marketing or organisational innovations and entering new markets. However, some of the key drivers of innovation performance both outside and inside firms are clearly underperforming compared to other Member States. This concerns especially the level of openness, excellence and attractiveness of the research system and the country’s performance in patent applications and Community trademarks and designs. There is also ample room for improvement regarding the business environment, resource efficiency and the quality of transport infrastructure.

#### ***Research and innovation***

**The Czech innovation system is dominated by foreign affiliates of large multinational firms.** In 2011, business research and development (R&D) expenditure reached 1.11% of GDP, a value which is approaching the EU average but is still not in line with the strong innovation potential of the country’s manufacturing sector. The low proportion of business R&D expenditure by domestic firms is reflected in particular in the weak output performance of the country in terms of patent applications under the Patent Cooperation Treaty and licence and patent revenues from abroad.<sup>30</sup>

**There is scope for improving the quality and relevance of public research, which seem relatively low by international comparison.** In particular, the number of high-impact scientific publications and the degree of collaboration between public research institutions and the business sector is very low.<sup>31</sup> In terms of inputs, public expenditure on R&D rose in 2011

---

<sup>29</sup> The National Roma Integration Strategy for 2010-2013, and the Strategy on the Fight Against Social Exclusion 2011-2015.

<sup>30</sup> In terms of patent applications under the Treaty, the Czech Republic ranks 18th in the EU with a normalised value (per GDP) of 22% of the EU average. Regarding licence and patent revenues from abroad, it ranks 20th in the EU with a normalised value (per GDP) of 9% of the EU average.

<sup>31</sup> The Czech Republic ranks 21st in the EU with only 5.5% of all Czech scientific papers published in the 10% most cited scientific publications worldwide (‘high impact scientific publications’), compared to the EU average

to 0.72% of GDP, the ninth best performance in the EU. The main challenge for the Czech innovation system therefore remains to improve the effectiveness of its science base in reaching a higher level of excellence and supporting the development of innovative activities through enhanced collaboration with domestic firms. Public research activities are currently split between academic institutes (with a limited teaching curriculum) and universities. This entails a risk of diluting skills and competencies to the detriment of critical mass and excellence needed for sustainable partnerships with industry.

**To ensure that public R&D funding is allocated on the basis of excellence**, the Council recommended that the government improve the system for evaluating the quality of research institutions and ensure that funding is linked to the outcome of the quality assessment. The current system for funding public research institutions does not sufficiently reflect the specificities of each scientific field and the needs of the business sector. Moreover, the outcomes of the evaluation methodology are not binding for the allocation of institutional funding, as only about 20% of the institutional funding of public research institutions is allocated on the basis of the evaluation of their performance. In response to this, the government intends to adopt for the period 2014-16 a revised methodology based upon new evaluation criteria and peer review to better take into account the quality and relevance of the research performed. In parallel, work is expected to start, with the support of EU funds, on the development of a new evaluation and funding system aimed at promoting excellence and maximising the economic impact of research. The governance of the national research and innovation system remains, however, split between several bodies<sup>32</sup> and this may cause delays in implementing the planned reforms.

**Some steps to increase involvement of the private sector have been taken.** New programmes, including the Technology Agency's 'Alpha' Programme, have been launched to stimulate cooperation between public research institutions and businesses in sectors such as transport, energy and the environment. Furthermore, the Income Tax Act has been amended to allow from January 2015 private firms to deduct the cost of R&D activities contracted out from their taxable income.

### ***Business environment***

**Improving the business environment remains an issue in the Czech Republic, in particular with respect to starting a business.**<sup>33</sup> In fact, the Czech Republic is lagging behind on fulfilling the objectives of conclusions of the May 2011 Competitiveness Council on the need to set up a fully functional one-stop shop for businesses and reduce the time and

---

of 10.9%. Only 1% of the R&D carried out by universities is funded by the business sector (and only 3.4% in the case of R&D carried out by other public research institutions).

<sup>32</sup> The Intergovernmental Steering Committee coordinates the implementation of the International Competitiveness Strategy, while the Council for R&D and Innovation advises the Prime Minister on related matters.

<sup>33</sup> World Bank Doing Business 2013 ranks the Czech Republic in 140th place (out of 160 countries) in terms of the ease of starting a business.

cost to start up a business. However, a new Act on Business Corporations, adopted in 2011 and effective from 2014, is expected to provide some improvement to the business environment for selected groups of companies, mainly for limited liability companies. Regarding other indicators of the quality of the business environment, the average time to enforce contracts and resolve insolvency remains above the EU average but some progress has been made on shortening the delays in payments.<sup>34</sup> Moreover, the Czech Republic performs relatively well with respect to the time and cost it takes to obtain licences.<sup>35</sup> The use of e-government services has also improved, likely due to the establishment of basic public administration registers. E-government services were used by 92 % of businesses (2012) and 42 % of citizens (2011), which is expected to support progress in meeting the 2015 target in this area. The 2013 NRP includes information on the on-going eco-audit project aimed at reducing administrative burden of companies related to environmental regulation.

**The Czech Republic is amongst the Member State with the highest number of regulated professions according to the database on regulated professions.**<sup>36</sup> A public consultation on the review of the regulatory framework for professions was conducted in 2012 and the results are to be presented in 2013. This is an important step in order to reduce or eliminate barriers to those professions for which regulation is not proven necessary or is considered excessive (including the length of mandatory traineeships) and for which easier access could unlock further employment creation and growth.

### *Energy, climate and resource efficiency*

**Despite improvement in the last few years, the Czech Republic has still one of the highest energy and carbon intensities in the EU.**<sup>37</sup> The potential for energy savings is substantial, especially in the buildings and industry sectors.<sup>38</sup> Current plans to improve energy efficiency show only limited ambition as they target to achieve only about a third of the potential energy savings attainable through higher energy efficiency.<sup>39</sup> Lack of an integrated energy efficiency strategy and of strong coordination capacity is a major limitation for further improvement. Such a strategy would bring a long-term vision and the sectoral prioritisation required to effectively allocate available resources and identify adequate tools.<sup>40</sup> The Czech

---

<sup>34</sup> World Bank, Doing Business 2013.

<sup>35</sup> European Commission study 'Business Dynamics: Start-ups, business transfers and bankruptcy' 2011.

<sup>36</sup> See Commission website: [http://ec.europa.eu/internal\\_market/qualifications/regprof](http://ec.europa.eu/internal_market/qualifications/regprof).

<sup>37</sup> Energy intensity in the Czech Republic stood at 383 kgoe/k€ in 2005-10, more than twice the EU-27 average (153 kgoe/€). Accordingly, with a 1.2 t CO<sub>2</sub> equivalent/1000 €, the carbon intensity of the Czech economy is more than twice the EU average (source: Eurostat).

<sup>38</sup> All key sectors of the economy, including industry, transport, and housing, display significantly lower performance in terms of energy and carbon efficiency than the EU average (with an energy intensity of 263 toe/k€ against an EU average of 150 toe/k€, 627 toe/k€ against an EU average of 512 toe/k€ and 112 toe/k€ respectively). Nevertheless, the planned energy savings announced in the second National Energy-Efficiency Action Plan (NEEAP) are particularly low for the buildings and industry sectors compared to their potential (source: Commission's Energy Efficiency Database).

<sup>39</sup> The Czech Republic reported only small planned energy savings for 2016 in its second NEEAP. For a comparison with potential savings, see the Commission Energy Efficiency Database.

<sup>40</sup> See STE Research Report (2011) by Forschungszentrum Jülich.

Republic has not set an indicative national energy efficiency target as required under the Energy Efficiency Directive,<sup>41</sup> and has not indicated how it will reach an acceptable 2020 level of primary consumption and final energy consumption. Regarding the efficiency of the housing sector, funding for the second building-efficiency programme (planned for another seven-year period) is not fully ensured as it relies on income from auctioning of ETS allowances, which are difficult to predict. High energy intensity is also reflected in the relatively low quality of air in the Czech Republic. The Czech Republic has repeatedly exceeded EU standards for PM10<sup>42</sup> over the past few years in numerous regions. Following the adoption of the Clean Air Act in 2012, the Czech Republic must prepare a new national emission reduction programme in 2013.

**Regarding renewable energy, the Czech Republic achieved its 2011/12 interim target already in 2009 but progress has slowed significantly since,** mainly due to a moratorium put in place in 2010 for connecting new renewable energy sources to the electricity grid. The main source of renewable energy remains biomass used for heating. In electricity generation, renewables amount only to 7% (the EU average is 17%), of which most stems from hydropower and biomass co-firing.<sup>43</sup> The National Renewable Energy Action Plan outlines some measures to develop renewable energy sources but these are not considered to be strong in all sectors, particularly in transport and grid reinforcements. The 2013 NRP mentions plans to revise and stabilise the legislation concerning RES in 2013.

**The Czech Republic has a large implementation gap concerning the national waste management policy as it still relies heavily on landfilling of municipal waste.**<sup>44</sup> Despite encouraging progress on recycling and composting, municipal waste generation increased in 2008-10, contrary to the general tendency in the EU-27. A pending amendment to the national Waste Act entails a gradual increase in fees for landfilling, which would be one of the relevant steps towards putting the ‘waste hierarchy’ in place, even though income from landfilling fees is already relatively high. Embedding this in the updates of the National Waste Plan and in the Waste Prevention Programme planned for 2013 would strengthen the credibility of the authorities’ effort.

### *Transport*

**The capacity limitations of the transport infrastructure are one of the bottlenecks to growth.** The lack of effective interconnections between railways and other modes of transport also adversely affects transport performance. The railway network is extensive but under-maintained. Several regional railway connections have been discontinued recently due to unprofitability.

---

<sup>41</sup> Article 3 of the Energy Efficiency Directive requires Member States to report their national energy consumption targets before 1 May 2013.

<sup>42</sup> PM 10 (particulate matter) values became mandatory in 2005 in accordance with the Air Quality Directive.

<sup>43</sup> Member States’ energy dependence: an indicator-based assessment, 13 December 2012 (country factsheets).

<sup>44</sup> See DG Environment website on ‘Support to implementation — municipal waste’.

**The 2011 and 2012 NRPs outlined an ambitious list of rail and highway projects, with further plans to develop transport infrastructure in the 2013 NRP.** The progress achieved is, however, limited and future prospects are uncertain due to cuts in transport infrastructure investment.<sup>45</sup> In addition, infrastructure projects are often not very effective and efficient, due to non-compliance with public procurement rules, increasing costs of ongoing projects, and the lack of economic analysis and a systematic approach in the planning. In the first half of 2013, the government is planning to adopt the second phase of the Transport Sector Strategy and a new transport policy for 2014-20, both of which are relevant steps towards better strategic planning. The new transport strategy is expected to include measures to improve interoperability in urban, public passenger and rail transport through better use of intelligent transport systems and innovative technologies. On the positive side, for certain connections the opening of the railway market to private operators has contributed to more competition, lower prices and better services to passengers. Overall, though, competition is still limited and further opening of the railway sector, together with full separation of transport and infrastructure operations, is necessary.

### **3.5. Modernisation of public administration**

**Efficiency and quality of public administration remains a challenge in the Czech Republic.** Key problems highlighted in business surveys include excessive red tape, corruption, low enforceability of law, frequent changes in the legal framework, instability and inefficient public spending. The Transparency International Corruption perception index for the Czech Republic improved slightly in 2012, moving up to 54th place in 2012 from 57th place in 2011; however, the country's position in the EU ranking has remained the same, at 21st place, for the last three years.

**Limited progress has been made on the need to step up the fight against corruption, as stressed in the 2012 country-specific recommendation on public administration.** Most of the non-legislative measures have been taken but progress in adopting the priority legal acts in the anti-corruption strategy for 2011-12 is very slow (e.g. on independence of the state prosecution, conflicts of interest, freedom of information, creation of specialised courts, regulation of lobbying, the Public Servants Act, financing of political parties); in some cases the adoption process has been stopped in the Czech parliament (extension of powers of the Supreme Audit Office, protection of whistleblowers).<sup>46</sup> A new anti-corruption strategy for 2013-14, adopted by the government in January 2013, and the 2013 NRP retain the intention to adopt the priority acts.

**The Public Servants Act, called for in the 2012 recommendations, has not been adopted.** A draft version of the act, prepared after the inter-ministerial consultation process in April 2013 and to be discussed by the government in 2013, retains significant weaknesses, despite

---

<sup>45</sup> Total investment expenditure in transport infrastructure stood at CZK 83 billion in 2008 and CZK 44.4 billion in 2011 (Transport Yearbook Czech Republic 2011).

some improvements compared to previously presented draft versions. The new draft does not seem to adequately assuring the objective of separating political appointees from non-political staff, guaranteeing independence and stability of state officials and creating a well-functioning career system. In this regard, the Public Servants Act falls short of the Act on Public Service which was adopted in 2002 but has not entered into force due to several postponements and is to be replaced by the new Public Servants Act. The quality of the public administration is one of the ex-ante conditionalities for the use of the EU funds in the new programming period 2014-20. The 2013 NRP retains the intention to prepare a new public servants act.

**The Czech Republic has made substantial progress in implementing the Public Procurement Act, as recommended in 2012.** The amendment to the Act has been in force since April 2012 and additional implementation rules for the act were adopted in 2012. Recent monthly data suggest that the number and value of new public tenders is closer to the average for the last two years, indicating that initial difficulties with implementation have been overcome. However, only limited efforts have been made to address difficulties in implementing the Act reported by local authorities, in particular the lack of administrative capacity and of guidance that would speed up and smooth the process.

**Some progress has been made on improving the implementation of EU funds, in line with the 2012 recommendation.** Due to irregularities in projects financed from EU funds, financial corrections were applied in 2012. An action plan to strengthen the management and control system of the implementation structure for the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) was agreed with the Commission and most of the measures included in it were implemented by the end of 2012. However, fulfilment of the action plan will need to be continuously monitored. In March 2013, in addition to the three programmes with payments from ERDF/CF stopped fully or partially at the end of 2012, payments were stopped fully or partially for another six Operational Programmes, with further possible financial corrections under discussion. The vast majority of deficiencies in the implementation of EU funds stem from a weak public administration, inadequate legislation dealing with conflicts of interest, lack of transparency in the ownership structure of participating companies, and bypassing of public procurement legislation.

**Substantial progress has been made on the issue of anonymous paper shares,<sup>47</sup> highlighted in the 2012 recommendations.** The lack of transparency regarding the ownership of firms with anonymous shares encourages corruption, money laundering and tax evasion. In December 2012, 53.5% of joint stock companies in the Czech Republic had only

---

<sup>46</sup> Implementation report on the 2011-12 strategy from 2012.

<sup>47</sup> Czech legislation allows the existence of specific types of shares: paper bearer shares (*listinné akcie na majitele/doručitele*), ownership of which is determined by the physical holding of the paper share and which are not registered anywhere, and registered paper shares (*listinné akcie na jméno*), ownership of which is determined by the list of shareholders held by the company. Both registered shares and bearer shares can also exist in a book-entry form registered in the central depository.

paper bearer shares and 41.7% had only registered paper shares according to the Czech Capital Information Agency. An act that regulates anonymous paper shares was approved by the parliament in May 2013. According to the proposed act, unless firms enter the paper bearer shares in a central depository or deposit them in a bank, they would be converted into registered paper shares. The regulation enables selected public authorities to request information on ownership of the paper bearer shares deposited in banks and the central depository. While the act is a step in the right direction, extending the right to request information to other public authorities, in particular the competition authority, would further improve the situation. Also, requiring third party registration for all types of shares, including registered paper shares, would help increase transparency. Importantly, the new citizen's code effective from 2014 introduces a new form of property ownership, the so-called "*svěřenecký fond*" trust with limited transparency on the user of and beneficiary of proceeds from property, including shares. This step seems to go against the direction of the proposed changes in anonymous shareholding.

#### 4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
<p><b>CSR 1:</b> Ensure planned progress towards the timely correction of the excessive deficit. To this end, fully implement the 2012 budget and specify measures of a durable nature necessary for the year 2013 so as to achieve the annual average structural adjustment specified in the Council recommendation under the excessive deficit procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark. In this context, avoid across-the-board cuts, safeguard growth-enhancing expenditure and step up efforts to improve the efficiency of public spending. Exploit the available space for increases in taxes least detrimental to growth. Shift the high level of taxation on labour to housing and environmental taxation. Reduce the discrepancies in the tax treatment of employees and the self-employed. Take measures to improve tax collection, reduce tax evasion and improve tax compliance, including by implementing the Single Collection Point for all taxes.</p>	<p><b>Some progress</b></p> <p>The general government deficit target of 2.9% of GDP in 2013 is in line with the deadline for correcting the excessive deficit set out in the Council recommendations. The 2013 spring forecast projects a headline deficit of 2.9% of GDP in 2013. The average annual fiscal effort of 1.4% of GDP over the period 2010-2013, based on the (recalculated) structural budget balance, is above the effort of 1% of GDP recommended by the Council.</p> <p>Some progress was made on decreasing the size of across-the-board cuts and of cuts in growth-enhancing expenditure. In 2013, the government adopted plans to streamline the state administration in 2014-15 and expenditure on R&amp;D is set to increase.</p> <p>Some progress on taxation. A package of tax measures adopted in December 2012 increased indirect taxes (VAT and excise duties) and property taxation (real estate transactions) and reduced limits on deductible expenses for the self-employed. The package also included temporary measures increasing labour taxation and also the progressivity of the system. No measures on environmental taxation and recurrent real estate taxes were adopted and current plans are likely to be delayed.</p> <p>Limited progress on tax collection and compliance. Measures were adopted to limit VAT fraud and the introduction of a single collection point for income taxes is envisaged for 2015. This does not, however, exploit the room to reduce the administrative burden from paying taxes and its effective implementation is subject to risks.</p>
<p><b>CSR 2:</b> Introduce further changes to the public pension scheme to ensure its long-term sustainability. Reconsider plans to allow an earlier exit from the labour market. Promote effective participation of younger workers in</p>	<p><b>No progress</b></p> <p>No progress made on pension system sustainability. As part of the consolidation</p>



<p>the envisaged funded scheme to improve adequacy of pensions.</p>	<p>package, indexation of pensions was lowered. The Czech Republic introduced an early retirement scheme, which goes against policies to extend working lives. Participation in the newly launched fully funded pillar is below expectations. The pillar has still to prove its viability.</p>
<p><b>CSR 3:</b> Take additional measures to significantly increase the availability of affordable and quality pre-school childcare.</p>	<p><b>Limited progress</b></p> <p>The draft law on pre-school childcare is to be adopted by the government in 2013. The law facilitates the provision of private childcare and introduces tax incentives for companies and families. Broader provision, affordability and adequate quality of the new facilities may not be ensured. No additional capacities in public childcare were provided.</p>
<p><b>CSR 4:</b> Strengthen PES by increasing the quality and effectiveness of training, job search assistance and individualised services, including of outsourced services.</p>	<p><b>Some progress</b></p> <p>The reform of the public employment service was adopted in 2011 and implemented throughout 2012, the effects of which should materialise in the medium term. Additional support is also being granted from various European Social Fund projects aimed at improving provision of assistance, quality and accessibility of services, etc. Two new activation programmes for safeguarding jobs and training were put in place in 2012. Plans to increase employment service staff and improve evaluation were announced. The outsourcing of employment services should be revised in 2014.</p>
<p><b>CSR 5:</b> Adopt and implement as a matter of urgency the Public Servants Act to promote stability and effectiveness of the public administration in avoiding irregularities. Ensure adequate implementation of the new Public Procurement Act. Address the issue of anonymous share holding. Ensure correct implementation of EU Funds and step up the fight against corruption.</p>	<p><b>Some progress</b></p> <p>Limited progress fighting corruption. Key measures from the 2011-12 anti-corruption strategy not adopted. Plans retained with delay in implementation in the 2013-14 strategy.</p> <p>Limited progress on the Public Servants Act: a new proposal from April 2013 retains important weaknesses.</p> <p>Substantial progress in implementation of the Public Procurement Act with scope for providing further support for administrative capacity at local and regional level.</p> <p>Substantial progress in addressing anonymous shares issue: An act regulating anonymous shares</p>

	<p>from 2014 was approved by parliament in May 2013. According to the act, unless firms enter the paper bearer shares in a central depository or deposit them in a bank, they would be converted into registered paper shares. Information on ownership of unregistered bearer shares will be made available to selected public authorities. Scope for greater transparency by requiring third party registration for all types of paper shares.</p> <p>Some progress on EU funds implementation. Implementation of an action plan on EU funds control system agreed with the Commission. Problems in reimbursement of EU funds occurred again in March 2013 and measures adopted in 2012 on the level of irregularities in EU projects have yet to show a positive impact.</p>
<p><b>CSR 6:</b> Adopt the necessary legislation to establish a transparent and clearly defined system for quality evaluation of higher education and research institutions. Ensure that the funding is sustainable and linked to the outcome of the quality assessment. Establish an improvement-oriented evaluation framework in compulsory education.</p>	<p><b>Limited progress</b></p> <p>The system for evaluating the quality of higher education institutions has changed only marginally over the reporting period. Further progress is expected from the implementation of the higher education reform, which is planned to be adopted in 2013. The link between quality and funding was strengthened somewhat in 2013 but no further steps are envisaged in the near future.</p> <p>A framework that would define and integrate the responsibilities and capacities of the state, funding bodies, headmasters and teachers in improving quality in compulsory education has not been put forward. Measures to strengthen the evaluation of educational outcomes and quality of teaching in compulsory education are under preparation (nationwide testing from 2014 and new career system for teaching staff announced), but systemic support to underperforming pupils and teachers is yet to be organised.</p>
<p><b>Europe 2020 (national targets and progress)</b></p>	
<p>Employment rate target set in the 2011 NRP: 75 %</p>	<p>Employment rate:</p> <ul style="list-style-type: none"> <li>- 2011: 70.9 %</li> <li>- 2012: 71.5 %</li> </ul> <p>Given the relatively high employment rate, the target/sub-targets are within reach; however:</p> <ul style="list-style-type: none"> <li>- there is a lack of substantial progress in key areas such as childcare provision, activating parents with small children, or strengthening the public</li> </ul>

	<p>employment service;</p> <p>- the increase in the effective taxation of working pensioners and the elimination of the current lower statutory minimum wage levels applicable to those aged 18 to 21 and to the disabled as of January 2013 are measures that may cause small job losses.</p>
R&D target set in the 2011 NRP: 1 %	
Greenhouse gas (GHG) emissions target: limit the increase to +9% (compared to 2005 emissions, Emissions Trading Scheme emissions are not covered by this national target).	<p>Change in greenhouse gas emissions not covered by the Emissions Trading Scheme between 2005 and 2011: -6%</p> <p>According to the latest national projections submitted to the Commission and taking into account existing measures, the target is expected to be reached: -6% in 2020 compared to 2005 (with a projected margin of 15 percentage points).</p>
<p>Renewable energy target: 13 %</p> <p>Share of renewable energy in all modes of transport: 10 %</p>	<p>The share of renewable energy sources in gross final energy consumption was 9.4% in 2011 and 0.6 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included).</p>
National indicative energy efficiency target for 2020: not notified	The Czech Republic has failed to notify its energy efficiency target as required by Articles 3 and 24 of the Energy Efficiency Directive.
R&D target (public funding of R&D): 1 %	Strong increase from 0.63% in 2010 to 0.70% in 2011.
Early school leaving target: 5.5 %	Early school leaving rate: 5.5% in 2012.
Tertiary education target: 32%	Tertiary attainment: 25.6% in 2012. The country, having very high enrolment rates in tertiary education, is assigning higher priority to improving quality than to further increasing the number of students.

## 5. ANNEX

### Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
<b>Core indicators</b>								
GDP growth rate	2.3	3.6	3.6	2.5	1.9	-1.3	-0.4	1.6
Output gap 1	-2.2	0.0	3.5	-1.3	-0.6	-2.3	-3.3	-2.4
HICP (annual % change)	7.1	2.5	2.7	1.2	2.1	3.5	1.9	1.2
Domestic demand (annual % change) 2	2.6	3.5	2.3	2.1	-0.1	-2.9	-0.6	1.6
Unemployment rate (% of labour force) 3	5.6	8.1	6.3	7.3	6.7	7.0	7.2	7.2
Gross fixed capital formation (% of GDP)	29.9	27.5	26.0	24.5	23.9	23.6	22.6	22.5
Gross national saving (% of GDP)	26.7	23.9	24.2	19.7	20.7	21.3	20.7	20.8
<b>General Government (% of GDP)</b>								
Net lending (+) or net borrowing (-)	-5.6	-5.1	-2.9	-4.8	-3.3	-4.4	-2.9	-3.0
Gross debt	13.8	25.3	29.5	37.8	40.8	45.8	48.3	50.1
Net financial assets	43.9	16.9	9.9	-5.1	-5.8	n.a	n.a	n.a
Total revenue	38.9	39.8	39.5	39.0	39.8	40.1	40.5	40.3
Total expenditure	44.5	44.9	42.4	43.8	43.0	44.5	43.4	43.3
<i>of which: Interest</i>	1.1	1.0	1.1	1.4	1.4	1.5	1.6	1.6
<b>Corporations (% of GDP)</b>								
Net lending (+) or net borrowing (-)	-3.3	-0.6	-0.7	0.2	0.2	-1.6	-1.2	-1.2
Net financial assets; non-financial corporations	-124.5	-102.6	-95.7	-93.1	-95.6	n.a	n.a	n.a
Net financial assets; financial corporations	5.5	-0.6	-4.1	-2.9	-1.4	n.a	n.a	n.a
Gross capital formation	21.7	19.1	17.4	14.7	15.8	15.8	14.9	14.9
Gross operating surplus	25.9	27.8	29.3	28.4	28.6	27.2	26.6	26.4
<b>Households and NPISH (% of GDP)</b>								
Net lending (+) or net borrowing (-)	5.1	1.4	1.1	1.4	1.1	4.6	3.2	2.8
Net financial assets	72.3	70.2	59.3	63.5	64.7	n.a	n.a	n.a
Gross wages and salaries	31.6	31.3	31.5	31.8	32.2	32.9	33.0	32.9
Net property income	4.9	3.8	3.7	3.2	3.1	3.5	3.2	3.1
Current transfers received	16.0	17.2	17.1	18.5	18.6	19.1	19.3	19.3
Gross saving	6.8	5.5	5.6	6.4	5.4	7.4	7.4	7.4
<b>Rest of the world (% of GDP)</b>								
Net lending (+) or net borrowing (-)	-3.8	-4.2	-2.5	-3.1	-2.0	-1.4	-0.9	-1.4
Net financial assets	3.6	16.4	30.9	38.3	38.9	n.a	n.a	n.a
Net exports of goods and services	-2.9	-1.0	3.0	3.1	4.0	5.3	5.6	5.7
Net primary income from the rest of the world	-0.9	-3.3	-5.6	-7.5	-7.0	-7.1	-7.2	-7.3
Net capital transactions	0.0	0.3	0.7	2.1	1.9	1.2	1.6	1.1
Tradable sector	54.6	55.0	53.3	50.4	51.4	51.6	n.a	n.a
Non tradable sector	36.2	35.9	37.0	39.8	38.7	38.0	n.a	n.a
<i>of which: Building and construction sector</i>	7.0	6.0	6.1	6.6	6.1	5.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	68.7	86.7	109.9	118.0	121.7	119.3	117.5	116.5
Terms of trade goods and services (index, 2000=100)	99.9	100.9	98.4	96.9	95.4	94.8	95.1	95.1
Market performance of exports (index, 2000=100)	77.2	89.1	105.4	114.0	117.8	121.5	121.1	120.9
<b>Notes:</b>								
<sup>1</sup> The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
<sup>2</sup> The indicator on domestic demand includes stocks.								
<sup>3</sup> Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
<i>Source:</i>								
<i>Commission services' 2013 spring forecasts (COM); Convergence programme (CP).</i>								

**Table II. Comparison of macroeconomic developments and forecasts**

	2012		2013		2014		2015	2016
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	-1.3	-1.3	-0.4	0.0	1.6	1.2	2.1	2.6
Private consumption (% change)	-3.5	-3.5	-0.4	-1.2	1.4	1.0	2.1	2.5
Gross fixed capital formation (% change)	-1.7	-1.7	-3.2	-0.4	2.3	0.9	2.6	3.1
Exports of goods and services (% change)	3.8	3.8	1.1	1.3	5.1	3.7	4.9	5.4
Imports of goods and services (% change)	1.9	1.9	1.0	0.9	5.2	3.5	4.7	5.1
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-2.4	-2.4	-0.9	-0.8	1.3	0.4	1.5	2.0
- Change in inventories	-0.4	-0.4	0.3	0.3	0.1	0.5	0.2	0.1
- Net exports	1.5	1.5	0.1	0.4	0.2	0.3	0.4	0.5
Output gap <sup>1</sup>	-2.3	-2.3	-3.3	-3.0	-2.4	-2.6	-1.7	-0.4
Employment (% change)	0.4	0.4	0.0	-0.2	0.2	0.0	0.1	0.2
Unemployment rate (%)	7.0	7.0	7.2	7.6	7.2	7.7	7.3	6.7
Labour productivity (% change)	-1.7	-1.7	-0.4	0.2	1.4	1.2	2.0	2.4
HICP inflation (%)	3.5	3.5	1.9	2.1	1.2	1.7	1.9	1.1
GDP deflator (% change)	1.4	1.4	1.3	0.4	0.7	0.9	1.4	1.1
Comp. of employees (per head, % change)	1.8	2.1	1.5	1.5	2.1	2.8	3.0	3.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.4	-1.4	-0.9	-1.3	-1.4	-1.2	-1.3	-1.6
<u>Note:</u>								
<sup>1</sup> In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
<u>Source:</u>								
Commission services' 2013 spring forecasts (COM); Convergence programme (CP).								

**Table III. Composition of the budgetary adjustment**

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	CP	COM <sup>1</sup>	CP	CP	CP	CP
<b>Revenue</b>	<b>40.1</b>	<b>40.5</b>	<b>40.4</b>	<b>40.3</b>	<b>40.2</b>	<b>39.5</b>	<b>38.9</b>	<b>-1.2</b>
<i>of which:</i>								
- Taxes on production and imports	12.0	12.3	12.4	12.3	12.1	12.0	11.4	-0.6
- Current taxes on income, wealth, etc.	7.2	7.3	7.3	7.3	7.5	6.9	6.8	-0.4
- Social contributions	15.6	15.5	15.5	15.4	15.5	15.6	15.8	0.2
- Other (residual)	5.3	5.4	5.2	5.3	5.1	5.0	4.9	-0.4
<b>Expenditure</b>	<b>44.5</b>	<b>43.4</b>	<b>43.3</b>	<b>43.3</b>	<b>43.0</b>	<b>42.3</b>	<b>41.7</b>	<b>-2.8</b>
<i>of which:</i>								
- Primary expenditure	43.0	41.8	41.8	41.7	41.5	40.8	40.2	-2.8
<i>of which:</i>								
Compensation of employees	7.3	7.3	7.3	7.3	7.2	6.9	6.7	-0.6
Intermediate consumption	5.7	5.7	5.8	5.5	5.5	5.4	5.3	-0.4
Social payments	20.0	20.2	20.2	20.1	20.3	20.2	19.9	-0.1
Subsidies	2.0	2.0	2.0	2.0	2.0	2.0	1.9	-0.1
Gross fixed capital formation	3.1	3.3	3.2	3.5	3.3	3.3	3.3	0.2
Other (residual)	4.9	3.3	3.1	3.2	3.1	3.1	3.0	-1.9
- Interest expenditure	1.5	1.6	1.5	1.6	1.5	1.5	1.5	0.0
<b>General government balance (GGB)</b>	<b>-4.4</b>	<b>-2.9</b>	<b>-2.8</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-2.8</b>	<b>-2.8</b>	<b>1.6</b>
<b>Primary balance</b>	<b>-2.9</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.3</b>	<b>1.6</b>
One-off and other temporary measures	-1.8	0.0	-0.1	0.0	-0.1	-0.1	-0.1	1.7
<b>GGB excl. one-offs</b>	<b>-2.6</b>	<b>-2.9</b>	<b>-2.7</b>	<b>-3.0</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-0.1</b>
Output gap <sup>2</sup>	-2.3	-3.3	-3.0	-2.4	-2.6	-1.7	-0.4	1.8
Cyclically-adjusted balance <sup>2</sup>	-3.5	-1.6	-1.6	-2.1	-1.9	-2.1	-2.6	0.9
<b>Structural balance (SB)<sup>3</sup></b>	<b>-1.7</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-2.1</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-2.5</b>	<b>-0.9</b>
<i>Change in SB</i>	<i>1.4</i>	<i>0.1</i>	<i>0.1</i>	<i>-0.5</i>	<i>-0.3</i>	<i>-0.2</i>	<i>-0.5</i>	<i>-</i>
<i>Two year average change in SB</i>	<i>1.4</i>	<i>0.7</i>	<i>0.8</i>	<i>-0.2</i>	<i>-0.1</i>	<i>-0.3</i>	<i>-0.4</i>	<i>-</i>
Structural primary balance <sup>3</sup>	-0.2	0.0	0.0	-0.4	-0.3	-0.5	-1.0	-0.8
<i>Change in structural primary balance</i>		<i>0.1</i>	<i>0.2</i>	<i>-0.4</i>	<i>-0.3</i>	<i>-0.2</i>	<i>-0.5</i>	<i>-</i>
<b>Expenditure benchmark</b>								
Applicable reference rate <sup>4</sup>	1.25	1.25	1.25	0.45	0.45	0.45	0.45	-
Deviation <sup>5</sup> (% GDP)	-1.1	-2.3	-3.1	0.0	-0.4	0.3	0.5	-
Two-year average deviation (% GDP)	-0.8	-1.7	-1.7	-1.2	-1.8	0.0	0.4	-
<b>Notes:</b>								
<sup>1</sup> On a no-policy-change basis.								
<sup>2</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
<sup>3</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<sup>4</sup> Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.								
<sup>5</sup> Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.								
<b>Source:</b>								
Convergence programme (CP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.								

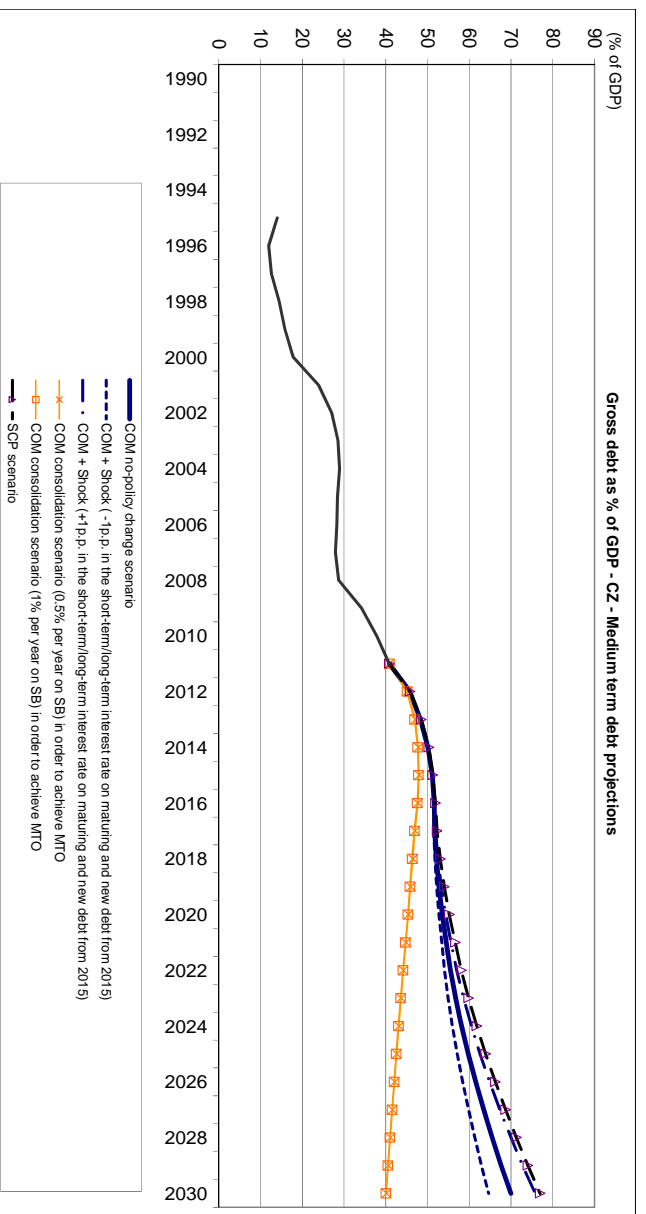
**Table IV. Debt dynamics**

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	CP	COM	CP	CP	CP
<b>Gross debt ratio</b> <sup>1</sup>	<b>33.9</b>	<b>45.8</b>	<b>48.3</b>	<b>48.5</b>	<b>50.1</b>	<b>50.3</b>	<b>51.2</b>	<b>51.9</b>
Change in the ratio	2.5	4.9	2.6	2.7	1.8	1.8	0.9	0.7
<i>Contributions</i> <sup>2</sup> :								
<b>1. Primary balance</b>	<b>2.1</b>	<b>2.9</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>2. “Snow-ball” effect</b>	<b>0.5</b>	<b>1.5</b>	<b>1.2</b>	<b>1.3</b>	<b>0.5</b>	<b>0.6</b>	<b>-0.2</b>	<b>-0.3</b>
<i>Of which:</i>								
Interest expenditure	1.2	1.5	1.6	1.5	1.6	1.6	1.5	1.5
Growth effect	-0.5	0.5	0.2	0.0	-0.8	-0.6	-1.0	-1.3
Inflation effect	-0.3	-0.6	-0.6	-0.2	-0.3	-0.4	-0.7	-0.5
<b>3. Stock-flow adjustment</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.3</b>
<i>Of which:</i>								
Cash/accruals diff.				0.5		0.1	0.0	-0.2
Acc. financial assets				-0.4		-0.2	-0.1	-0.1
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual				0.0		0.0	0.0	0.0
			2013		2014		2015	2016
		2012	COM/ CP <sup>3</sup>	CP <sup>4</sup>	COM/ CP <sup>3</sup>	CP <sup>4</sup>	CP	CP
<b>Gap to the debt benchmark</b> <sup>5,6</sup>		n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
<b>Structural adjustment</b> <sup>7</sup>		n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
<i>To be compared to:</i>								
<b>Required adjustment</b> <sup>8</sup>		n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
<b>Notes:</b>								
<sup>1</sup> End of period. <sup>2</sup> The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects. <sup>3</sup> Assessment of the consolidation path set in CP assuming growth follows the COM forecasts. <sup>4</sup> Assessment of the consolidation path set in the CP assuming growth follows the CP projections. <sup>5</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit. <sup>6</sup> Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark. <sup>7</sup> Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011. <sup>8</sup> Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.								
<i>Source:</i>								
Convergence programme (CP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.								

**Table V. Sustainability indicators**

	CZ		EU27	
	No-policy change scenario	Programme (SCP) scenario	No-policy change scenario	Programme (SCP) scenario
S2	5.0	5.7	3.0	1.3
<i>of which:</i>				
Initial budgetary position (IBP)	1.3	1.7	0.8	-0.9
Long-term cost of ageing (CoA)	3.7	4.0	2.2	2.2
<i>of which:</i>				
Pensions	1.8	2.3	1.0	1.1
Health care	1.1	1.1	0.9	0.8
Long-term care	0.4	0.4	0.6	0.6
Others	0.3	0.3	-0.4	-0.3
S1 (required adjustment)*	0.7	1.2	2.2	0.5
<i>of which:</i>				
Initial budgetary position (IBP)	0.9	1.3	0.0	-1.8
Debt requirement (DR)	-0.6	-0.6	1.9	1.9
Long-term cost of ageing (CoA)	0.4	0.5	0.3	0.4
S0 (risk for fiscal stress)**	0.24		:	
Debt, % of GDP (2012)	45.8		87.0	
Age-related expenditure, % of GDP (2012)	20.1		25.8	
<p><u>Note:</u>            The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.            * The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.            ** The critical threshold for the S0 indicator is 0.44.</p>				
<p><u>Source:</u>            Commission services; 2013 stability programme.</p>				





**Table VI. Taxation indicators**

	2002	2006	2008	2009	2010	2011
<b>Total tax revenues</b> (incl. actual compulsory social contributions, % of GDP)	34.6	35.3	34.4	33.4	33.5	34.4
<b>Breakdown by economic function</b> (% of GDP) <sup>1</sup>						
Consumption	9.6	10.3	10.3	10.8	10.9	11.2
of which:						
- VAT	6.0	6.4	6.8	6.9	6.9	7.0
- excise duties on tobacco and alcohol	1.0	1.3	1.1	1.4	1.4	1.6
- energy	2.1	2.3	2.2	2.2	2.2	2.2
- other (residual)	0.5	0.3	0.3	0.3	0.3	0.4
Labour employed	17.1	17.1	16.8	15.7	16.1	16.5
Labour non-employed	1.2	1.3	1.2	1.3	1.4	1.4
Capital and business income	5.8	6.0	5.4	5.0	4.5	4.6
Stocks of capital/wealth	0.8	0.7	0.6	0.6	0.6	0.8
<i>p.m.</i> Environmental taxes <sup>2</sup>	2.4	2.5	2.4	2.4	2.4	2.3
<b>VAT efficiency</b> <sup>3</sup>						
Actual VAT revenues as % of theoretical revenues at standard rate	41.0	53.3	57.5	56.0	53.9	54.7
<u>Note:</u>						
1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.						
2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.						
3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.						
Source: Commission						

**Table VII. Financial market indicators**

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	101.8	113.8	116.7	115.5	125.8
Share of assets of the five largest banks (% of total assets)	62.1	62.4	62.5	61.8	...
Foreign ownership of banking system (% of total assets)	97.8	89.8	...	...	...
Financial soundness indicators:					
- non-performing loans (% of total loans) <sup>1),2)</sup>	2.8	4.6	5.4	5.2	5.1
- capital adequacy ratio (%) <sup>1),2)</sup>	11.6	14.0	15.3	15.0	15.7
- return on equity (%) <sup>1),2),3)</sup>	20.7	26.4	19.7	18.3	20.9
Bank loans to the private sector (year-on-year % change)	16.3	1.5	4.2	5.9	3.4
Lending for house purchase (year-on-year % change)	20.2	11.7	6.9	7.6	5.6
Loan to deposit ratio	71.6	77.0	74.7	76.1	75.4
CB liquidity as % of liabilities	0.0	1.0	0.0	0.0	0.1
Banks' exposure to countries receiving official financial assistance (% of GDP)	...	...	...	...	...
Private debt (% of GDP)	47.4	53.8	56.9	56.2	...
Gross external debt (% of GDP) <sup>4)</sup>					
- Public	7.1	9.8	12.3	11.7	14.3
- Private	20.0	22.9	23.1	23.0	24.6
Long term interest rates spread versus Bund (basis points)*	0.6	1.6	1.1	1.1	1.3
Credit default swap spreads for sovereign securities (5-year)*	35.2	82.4	85.9	106.7	114.1
<b>Notes:</b>					
<sup>1)</sup> Latest data (September 2012).					
<sup>2)</sup> FSI Compilation Guide methodology from 2008 onwards; previous years may not be comparable.					
<sup>3)</sup> After extraordinary items and taxes. Tier 1 capital.					
<sup>4)</sup> Latest data 2012Q3.					
* Measured in basis points.					
<b>Source:</b>					
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).					

**Table VIII. Labour market and social indicators**

<b>Labour market indicators</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Employment rate (% of population aged 20-64)	72.0	72.4	70.9	70.4	70.9	71.5
Employment growth (% change from previous year)	2.1	2.3	-1.8	-1.0	0.3	0.4
Employment rate of women (% of female population aged 20-64)	62.4	62.5	61.4	60.9	61.7	62.5
Employment rate of men (% of male population aged 20-64)	81.5	82.0	80.2	79.6	79.9	80.2
Employment rate of older workers (% of population aged 55-64)	46.0	47.6	46.8	46.5	47.6	49.3
Part-time employment (% of total employment, 15 years and more)	5.0	4.9	5.5	5.9	5.5	5.8
Part-time employment of women (% of women employment, 15 years and more)	8.5	8.5	9.2	9.9	9.4	9.6
Part-time employment of men (% of men employment, 15 years and more)	2.3	2.2	2.8	2.9	2.5	2.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	8.6	8.0	8.5	8.9	8.5	8.8
Transitions from temporary to permanent employment	4.0	3.3	3.5	3.1	3.2	:
Unemployment rate <sup>1</sup> (% of labour force, age group 15-74)	5.3	4.4	6.7	7.3	6.7	7.0
Long-term unemployment rate <sup>2</sup> (% of labour force)	2.8	2.2	2.0	3.0	2.7	3.1
Youth unemployment rate (% of youth labour force aged 15-24)	10.7	9.9	16.6	18.3	18.1	19.5
Youth NEET rate (% of population aged 15-24)	6.9	6.7	8.5	8.8	8.3	8.9
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	5.2	5.6	5.4	4.9	4.9	5.5
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	13.3	15.4	17.5	20.4	23.8	25.6
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	2.0	1.0	3.0	2.0	4.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	0.0	0.0	0.0	0.0	1.0	:
Labour productivity per person employed (annual % change)	3.5	0.8	-2.8	3.5	1.6	-1.7
Hours worked per person employed (annual % change)	-0.8	0.4	-1.2	1.9	1.0	-1.6
Labour productivity per hour worked (annual % change; constant prices)	4.4	0.4	-1.5	1.6	0.6	0.0
Compensation per employee (annual % change; constant prices)	2.8	2.2	-2.9	5.0	3.5	0.5
Nominal unit labour cost growth (annual % change)	2.6	3.4	2.2	0.0	1.1	3.6
Real unit labour cost growth (annual % change)	-0.7	1.5	-0.1	1.4	1.9	2.2
<b>Notes:</b>						
<sup>1</sup> Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.						
<sup>2</sup> Long-term unemployed are unemployed persons for at least 12 months.						
<b>Sources:</b>						
Commission (EU Labour Force Survey and European National Accounts)						

<b>Expenditure on social protection benefits (% of GDP)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sickness/Health care	5.96	5.88	5.79	6.36	6.30
Invalidity	1.49	1.43	1.42	1.52	1.52
Old age and survivors	7.52	7.67	8.02	9.01	9.19
Family/Children	1.31	1.61	1.39	1.43	1.33
Unemployment	0.56	0.60	0.61	1.04	0.82
Housing and Social exclusion n.e.c.	0.07	0.06	0.06	0.08	0.11
<b>Total</b>	<b>17.39</b>	<b>17.46</b>	<b>17.46</b>	<b>19.68</b>	<b>19.49</b>
of which: means tested benefits	0.89	0.57	0.37	0.35	0.38
<b>Social inclusion indicators</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
At-risk-of-poverty or social exclusion <sup>1</sup> (% of total population)	15.8	15.3	14.0	14.4	15.3
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	21.5	18.6	17.2	18.9	20.0
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	10.9	12.5	11.7	10.1	10.7
At-Risk-of-Poverty rate <sup>2</sup> (% of total population)	9.6	9.0	8.6	9.0	9.8
Severe Material Deprivation <sup>3</sup> (% of total population)	7.4	6.8	6.1	6.2	6.1
Share of people living in low work intensity households <sup>4</sup> (% of people aged 0-59)	8.6	7.2	6.0	6.4	6.6
In-work at-risk-of poverty rate (% of persons employed)	3.3	3.6	3.2	3.7	4.0
Impact of social transfers (excluding pensions) on reducing poverty	52.2	55.0	52.0	50.3	45.6
Poverty thresholds, expressed in national currency at constant prices <sup>5</sup>	92212	98198	99800	101694	101507
Gross disposable income (households)	1921296	2053789	2124749	2155612	2140752
Relative median poverty risk gap (60% of median equivalised income, age: total)	18.1	18.5	18.8	21.1	17.2

**Notes:**

<sup>1</sup> People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

<sup>2</sup> At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

<sup>3</sup> Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

<sup>4</sup> People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

<sup>5</sup> For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

**Sources:**

For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

**Table IX. Product market performance and policy indicators**

<b>Performance indicators</b>	<b>2003-2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Labour productivity <sup>1</sup> total economy (annual growth in %)	4.7	0.8	-2.8	3.5	1.6	-1.7
Labour productivity <sup>1</sup> in manufacturing (annual growth in %)	11.7	9.5	-7.3	15.1	4.8	0.0
Labour productivity <sup>1</sup> in electricity, gas, steam and air conditioning supply (annual growth in %)	6.8	17.0	-10.9	-4.0	-11.5	n.a.
Labour productivity <sup>1</sup> in the construction sector (annual growth in %)	2.7	-4.3	-4.8	6.4	-1.7	-5.4
Total number of patent <sup>2</sup> applications per million of labour force	25.9	39.7	45.5	51.2	n.a.	n.a.
<b>Policy indicators</b>	<b>2003-2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Enforcing contracts <sup>3</sup> (days)	657	653	611	611	611	611
Time to start a business <sup>3</sup> (days)	32	20	20	20	20	20
R&D expenditure (% of GDP)	1.3	1.4	1.5	1.6	1.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	12.9	15.4	17.5	20.4	23.8	25.3
Total public expenditure on education (% of GDP)	4.2	3.9	4.4	4.2	n.a.	n.a.
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Product market regulation <sup>4</sup> , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.6	n.a.	n.a.	n.a.	n.a.
Product market regulation <sup>4</sup> , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	1.6	n.a.	n.a.	n.a.	n.a.
Product market regulation <sup>4</sup> , Network Industries <sup>5</sup> (Index; 0=not regulated; 6=most regulated)	2.0	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Notes:</b>						
<sup>1</sup> Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
<sup>2</sup> Total number of patent applications to the European Patent Office (EPO) per million of labour force						
<sup>3</sup> The methodologies, including the assumptions, for this indicator are presented in detail on the website <a href="http://www.doingbusiness.org/methodology">http://www.doingbusiness.org/methodology</a> .						
<sup>4</sup> The methodologies of the product market regulation indicators are presented in detail on the website <a href="http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html">http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html</a> . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
<sup>5</sup> Aggregate Energy, Transport and Communications Regulation (ETCR). *figure for 2007.						
<b>Source:</b> Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

**Table X. Green Growth**

		2002-2006	2007	2008	2009	2010	2011
<b>Green Growth performance</b>							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.61	0.53	0.50	0.49	0.50	0.48
Carbon intensity	kg / €	1.97	1.69	1.58	1.55	1.56	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.50	2.23	2.13	2.03	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.28	n.a.	0.27	n.a.
Energy balance of trade	% GDP	-2.3%	-3.3%	-4.3%	-2.9%	-3.4%	-4.1%
Energy weight in HICP	%	n.a.	14	15	13	13	14
Difference between change energy price and inflation	%	n.a.	0.1	7.9	7.9	-1.9	3.8
Environmental taxes over labour taxes	ratio	13.5%	13.0%	13.3%	14.1%	13.6%	n.a.
Environmental taxes over total taxes	ratio	7.0%	6.7%	7.0%	7.1%	7.1%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.37	0.27	0.24	0.25	0.25	n.a.
Share of energy-intensive industries in the economy	% GDP	14.2	14.7	14.8	13.9	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€/ kWh	n.a.	0.09	0.11	0.11	0.11	0.11
Gas prices for medium-sized industrial users***	€/ kWh	n.a.	0.02	0.04	0.03	0.03	0.03
Public R&D for energy	% GDP	n.a.	0.01%	0.02%	0.02%	0.02%	0.02%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.01%
Recycling rate of municipal waste	ratio	17.7%	23.0%	21.9%	23.5%	30.7%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	59.5%	56.6%	55.3%	55.0%	55.6%
Transport energy intensity	kgoe / €	n.a.	0.62	0.61	0.61	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.78	1.73	1.70	n.a.	n.a.
<b>Security of energy supply</b>							
Energy import dependency	%	n.a.	25.0%	27.9%	27.0%	25.6%	28.6%
Diversification of oil import sources	HHI	n.a.	0.27	0.29	0.30	0.29	n.a.
Diversification of energy mix	HHI	n.a.	0.31	0.29	0.28	0.28	0.28
Share renewable energy in energy mix	%	n.a.	4.6%	4.9%	5.7%	6.2%	6.8%
<p><u>Country-specific notes:</u>  The year 2012 is not included in the table due to lack of data.</p> <p><u>General explanation of the table items:</u>  Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below  All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)  Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)  Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)  Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)  Waste intensity: waste (in kg) divided by GDP (in EUR)</p> <p>Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP  Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP  Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)  Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"  Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)  Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP  Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.  Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste  Public R&amp;D for energy or for the environment: government spending on R&amp;D (GBAORD) for these categories as % of GDP  Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)  Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)  Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector  Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers  Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin  Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels  Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents</p> <p>*Provisional data (15 April 213). Commission Services and EEA.  ** For 2007 average of S1 &amp; S2 for DE, LU, NL, FI, SE &amp; UK. Other countries only have S2.  *** For 2007 average of S1 &amp; S2 for IT, NL, FI, SE &amp; UK. Other countries only have S2.</p>							