

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on the Czech Republic's 2012 national reform programme and delivering a Council opinion on the Czech Republic's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 25 April 2012, the **Czech Republic** submitted its convergence programme covering the period 2012-2015 and, on 13 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. **According to the convergence programme, GDP growth is expected to reach 0.2% and 1.3% in 2012 and 2013 respectively, compared to 0% and 1.5% in 2012 and 2013 respectively in the Commission's 2012 spring forecast.** The objective of the budgetary strategy outlined in the programme is to reach a balanced budget in 2016. According to the programme, the debt-to-GDP ratio is expected to peak at 45.1% of GDP in 2013 and decline thereafter, mainly on account of the projected continuous improvement of the primary balance.

The budgetary projections of the programme are subject to **several risks**.

- (1) The law on financial compensation to churches, currently discussed in Parliament, would increase the general government deficit by 1.5% of GDP in the year of entry into force;
- (2) The nature and extent of the envisaged consolidation measures on both the revenue and the expenditure side entails a significant risk for the sustainability of the fiscal adjustment beyond the programme period.

According to the Commission, the **main policy challenges** for the country are as follows:

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- In 2011, the Czech authorities approved an increase in the reduced VAT rate and in excise duties on tobacco; they also approved a major tax reform affecting labour taxation which should enter into force in 2014. Further changes concern environmental and housing taxation, which are currently under-taxed. Tax compliance still remains an issue and the current tax collection system is not based on an articulated and comprehensive tax compliance strategy.
- The Czech government approved, and partly implemented, a reform of the pension system, aimed at restoring fiscal sustainability and raising retirement savings. However, the projected fiscal imbalances in the pension system are still high relative to the EU average.
- The overall unemployment rate is below the EU average but women with children and other vulnerable groups struggle to realise their potential in the labour market. An earlier return from parental leave, which would prevent the loss in skills, is contingent on greater availability of child care, especially for children below the age of three.
- Several measures were adopted to improve the performance of the public employment service (PES). The resulting increased workload will put further strain on the PES staff, whose number declined by 12 % in 2011. Further efforts are needed to ensure better quality and effectiveness of training, job search assistance and individualised services.
- There is still ample scope for improving the efficiency of public administration, despite recent improvements in some areas, such as e-government services and the reduction of the administrative burden for businesses. Furthermore, irregularities in public procurement and sub-optimal functioning of the management and control systems for public administration have been important sources of problems with implementation of the EU Funds.
- The Czech economy needs to mobilise factors facilitating the transition to growth based on innovation, higher value added and human capital because opportunities for further real convergence based on capital-intensive growth seem rather limited. A reform of tertiary education is currently being discussed. Although it includes an overhaul of the current accreditation process, it is not sufficiently precise on the key issue of quality evaluation standards and, given the absence of systematic data collection and analysis, it lacks support from the academic community. These measures are too narrow to effectively increase the quality and equity of compulsory education.

Recommendations proposed for the Czech Republic for the period 2012-2013:

Budgetary measures:

- ensure planned progress towards the timely correction of the excessive deficit;
- ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, 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.

Pension system:

- introduce further changes to the public pension scheme to ensure their long-term sustainability;
- reconsider plans to allow an earlier exit from the labour market;
- ensure broad participation of younger workers in the envisaged funded scheme to improve adequacy of pensions.

Employment:

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- take additional measures to significantly increase the availability of affordable and quality pre-school childcare facilities;
- strengthen public employment services by increasing the quality and effectiveness of training, job search assistance and individualised services, including of outsourced services.

Public administration:

- adopt and implement as a matter of urgency the Public Servants Act to promote stability and effectiveness of the public administration to avoid 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.

Education:

- 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.

These recommendations should be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.