

# Czech Republic 2016



Total: 73.61

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## Quick facts

Population:	10.538 million
Unemployment rate:	5.0 %
GDP:	173.491 billion EMU
GDP growth rate:	1.5 %
GDP per capita:	16 460 EMU

## Political Freedom

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### Free and Fair Elections : 9.64

All recent elections in Czech Republic were considered as free and fair. Government elected in 2013 was stable throughout the observed period, although some disagreements between them did occur. The biggest challenge to government stability was the call for no confidence vote by the opposition in the parliament. It was about the conflict of interest by Andrej Babiš, Minister of Finance and wealthy businessman. However, it wasn't successful. In order to increase transparency of the electoral process, the government proposed a bill to establish institutions which would among other tasks oversee party funding prior to and during the campaigns. Czech Republic is a bicameral parliamentary democracy – the parliament consists of the Chamber of Deputies and the Senate.

### Absence of Unconstitutional Veto Players : 9.17

Czech Republic doesn't have unconstitutional veto players in the country. Democratically elected government officials have effective power to govern and system of checks and balances is in place. However, frequent confrontations between President Zeman and the Government blocked the legislative branch for several months each, throughout the 2015. Government has effective mechanisms in place for dealing with corruption, which is not that present as in other Central European countries. In July, an amendment was adopted in the parliament that aimed to raise transparency over politicians' assets. Still, some cases of high profile corruption happen from time to time.

## **Freedom of Press : 7.9**

An independent media and effective system of checks and balances are set to ensure freedom of the press in Czech Republic. Media outlets are expressing wide variety of views. Till recently, most of the ownership belonged to the foreign investors, but the trend started changing when Czech media groups bought some prominent media outlets. This process of concentration of media ownership is in particular present in printed media sector. Current Minister of Finance, Andrej Babiš, played an active role in this process as his companies bought the second largest media holding in the country MAFRA in 2013. Investigative journalism is highly developed in this country as well. It's been mostly present in new media outlets, established by journalists who had left out media houses owned by Babiš.

## **Rule of Law**

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### **Independence of the Judiciary : 4.67**

Czech judiciary has reached a high degree of independence from politics or other outside influence. Corruption is therein not easy to detect. In the Transparency International's Global Corruption Barometer 2013, 52% of the citizens thought judiciary was to some degree corrupt (but less than other two branches of government). In its Freedom in the World 2016 report, Freedom House quoted the country's counter-intelligence agency finding that "very sophisticated" corruption was actually present in judiciary. It is estimated that law enforcement agencies are more often under political pressure or corrupted, while the courts by and large obey the rule of law in civil or criminal matters.

### **Corruption : 5.6**

In Czech Republic, corruption is the biggest stain on the otherwise advancing rule of law. Because of the latter, Czechia has been a lighthouse for many transition countries and a desirable destination for foreign investors ever since 1989. Regarding corruption, the situation is worse than in - comparable - Poland, while better than in the formerly compatriot Slovakia. In the Transparency International's Corruption Perception Index 2015, Czechia is ranked 37 of 168 (with South Korea and Malta). Corruption is present in high politics. Well connected business people are favored in public procurement. In the anti-graft struggle, government does not hesitate to let its own important people down – in July 2015, former MP and regional governor from the ruling SSD

party was sentenced to eight and half years for bribery (the case is still opened). Citizens perceive political parties and public services as the worst affected areas. Tax evasion by SMEs at the local level is often accompanied with petty-corruption.

## **Protection of Human Rights : 8.27**

Post-communist lustration in Czechia was conducted thoroughly, during the early stages of transition, thus diminishing the danger of accusing the wrong people. Since 1989, the human rights` situation has seen improvements for which other European countries needed many times over. Regarding personal safety, or access to education and academic freedom, or freedom of speech, assembly or movement, most Czech citizens do not need to envy their most advanced EU neighbors. As for some groups, though, situation is far worse than elsewhere in the region. Romany are still discriminated in education, employment and housing. Forced sterilization of Romany women, that went on 1966-2012, is still matter of lawsuits and unmet demands for compensation. Romany-phobia is very strong nonetheless, whereby hate speech is a normal part of everyday street communication. Hate speech is normalcy also when targeting refugees, even by highest ranking politicians such as President. Czechia refused to participate in the inner-EU quotas for the settlement of refugees and asylum seekers. LGBTs are somewhat better protected of discrimination or hate-speech (besides, same-sex partnerships are regulated), but adoption rights and identity rights of trans-persons are seriously restricted. Women are under-represented in politics or high echelons of business, while harassment at work, as well as human trafficking of women and children for the purpose of sexual exploitation, still pose a serious problem.

## **Economic Freedom**

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### **Security of Property Rights : 5.59**

Property rights in the Czech Republic are mostly protected. Expropriation of private property is possible only in cases of public interest and with suitable monetary compensation; this measure is rarely used. However, judiciary is still prone to many problems, some of which are the perceived low judicial independence and partiality in court dealings. Although judiciary is clearly separated from the executive power, there are informal ways of influencing some court proceedings. Court decisions may vary from court to court, which could also be attributed to adoption of the new Penal and Civil Code, alas, without a new procedural law which would clarify their implementation. Very slow enforcement of contracts is a big problem, both in trial and judgment and enforcement of judgment. The procedure is also very expensive, up to one third of the claim. Slow pace is in some instances connected with the lack of familiarity with commercial cases among judges. There are no special commercial courts but only general courts. Re-solvency procedures are also long, but with high recovery rates. Registering property involves high fees and procedure, due to inefficient cadastre office. Foreign nationals - since 2012 - have got the right to acquire real estate or even agricultural land. There are certain industries with limitations or registration restrictions of foreign ownership, most notably in banking, insurance and media.

## **Size of Government: Expenditures, Taxes, and Enterprises : 6.49**

Size of government in Czech Republic is not excessive as compared to other European countries, but in line with most post-transitional countries of the region. Public expenditure reached 41.8% of GDP in 2015, almost leveling the revenues. At the same time, public deficits are minute, only 0.4% of GDP, allowing for the decrease of moderate public deficit, that stood at 40% of GDP. Growth has been stable, supported by surge in exports and better absorption of EU cohesion funds for infrastructure. State-owned enterprises (SOEs) are present in several sectors considered as strategic: energy, postal service, information and communication, and transport, but they are not numerous and do not dominate the economy. The state also has equity in two small banks and an insurance house. SOEs follow the same rules as private companies and are not in a privileged position on competitive markets. However, there are accusations that big SOEs (same as their private counterparts) use their political connections to gain unfair advantage and privileges. Corporate tax in Czech Republic is 19%, while personal income tax is basically flat at 15% (there is an additional 7% rate for high earners but with a threshold so high that it is barely applied). VAT stands with one standard rate of 21% and two preferential rates of 15% and 10%. Social contributions are high, leading to an overall high labour tax wedge, above the OECD average, and among post-transition countries second only to Hungary.

## **Regulation of Credit, Labour, and Business : 7.48**

Regulation of business activities is mostly conducive to entrepreneurial activities. Starting a business is generally not expensive and with no minimum capital requirements. Though recently reduced, it still takes more time than necessary. Getting electricity is also inexpensive, but obtaining a construction permit is burdened with as much as 21 procedures. It can last long. Although there are just few annual tax payments, tax procedures are so complicated that they require long hours to comply with. Apart from corruption and inefficient government bureaucracy, complexity of tax regulation and restrictive labour regulations are often cited as obstacles to a better business environment. National Reform Program 2016 suggests further decrease in administrative burden and deregulation of licensed professions. Labour regulation is by and large flexible, but there are also some stringent rules, especially in the hiring and firing area. Duration of fixed contracts is set at only 36 months. Severance pay is relatively high. It is increasing with years in tenure. Although working hours are flexible, with maximum 6 working days a week, total amount of overtime working hours is restricted to 150 a year. The minimum wage was increased by ca. 10% in 2016.

## **Freedom to Trade Internationally : 8.8**

Freedom to trade is mostly upheld in the Czech Republic. Since 2004, it has been a member of the EU, hence it applied the common trade policy. Therefore, tariffs for imported goods are low and mostly concentrated in the field of agricultural products, with the overall applied mean tariff rate of 5.3%. But non-tariff barriers in form of necessary certifications or standards remain present, undermining free trade. Efficient customs` procedures, with documentary and border compliance, support free trade. Good transport infrastructure provides another catalyst for international trade. Czech economy is very outward oriented, with high exports, reaching approximately 80% of GDP, second only to the Slovak Republic among post-transition countries. The Czech Republic is not a Euro-zone member state. National currency, the koruna, is in sort of managed floating regime

towards euro, with the aim of the National Bank not to exceed the limit of 27 units per euro. There are capital controls put, so as to maintain exchange stability. Although the country fulfilled four out of five existing Maastricht criteria for the adoption of the euro, the government decided in late 2015 not to enter the ERM II, which is a prerequisite for euro adoption. Recently, certain measures were introduced to encourage skilled migrants to move to the country, with streamlining visa processes and introduction of a pilot program for Ukrainian citizens.