

# Czech Republic 2017



Total: 74.5

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## Political Freedom

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### Free and Fair Elections : 9.64

Citizens in the Czech Republic are able to choose government and other officials at free and fair elections. In October 2016, regional elections and elections for one third of Czech senate seats took place. They occurred in a professional manner, without serious electoral irregularities. Several disputes and harsh rhetoric between Prime Minister Bohuslav Sobotka and former deputy Prime Minister and Minister of Finance Andrej Babiš led to serious crisis in the Government in May 2017. Sobotka called Babiš to resign after he was accused of financial irregularities. By the end of the month, Andrej Babiš was dismissed by Sobotka, but ruling coalition remained intact, itself consisting of Social Democratic Party, Movement Alliance of Dissatisfied Citizens (ANO) and Christian Democratic Party. During summer, parties started to prepare for October 2017 parliamentary elections. Turnout of around 15% at the Senate elections incited discussion on whether this political body should be abolished or not. Two laws which aim to increase transparency of funding of political parties were adopted in 2016.

### Absence of Unconstitutional Veto Players : 9.17

There are no unconstitutional veto players in the Czech Republic and elected officials have unchallenged power to rule the country. Country doesn't have a problem with close ties between politicians and businessmen since some of the most influential ones are in politics. A law was adopted in 2016, which limited public subsidies and incentives to companies with a share of ownership by a member of government higher than 25%. Several high profile corruption allegations happened during a period under review, including one which led to dismissal of the deputy Prime Minister, pointing out at a problem which the Czech Republic still has with the issue of corruption by officials.

### Freedom of Press : 7.9

Freedom of the press is granted by the constitution in the Czech Republic and mainly upheld in practice. Aside of pressure by the media owners, journalists are independent in their work. Ownership of majority of media outlets is concentrated in several media houses, the biggest one being MAFRA group of Andrej Babiš, which owns several most influential daily newspapers and a radio station. The contents of MAFRA media are being significantly influenced by the owner Andrej Babiš. One of the latest media-connected scandals was the leak of alleged recorded communication between Andrej Babiš and MAFRA journalist, where Babiš is choosing which articles should be withheld and at what time they should be published in order to harm his political

opposition the most. An amendment which refers to conflict of interest and prohibits government ministers from owning media was adopted in parliament in late 2016. Defamation remained a criminal offense. Czech media and society in general are also facing extreme increase of disinformation, mostly by the pro-Russian media. Around 25% of Czech population choose to trust rather such disinformation than the country's traditional media broadcasters.

## Rule of Law

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### **Independence of the Judiciary : 5.75**

Judiciary in Czech Republic enjoys a high degree of independence from politics or other illegitimate outside influences. Occasionally, there are tensions between various parts of judiciary, or the latter and the prosecutor sector. In one case of different judgment by different branches of judiciary, Constitutional Court supported the government, contrary to the ruling of the Supreme Court, on an issue of judges' salaries. Besides growing awareness and interest for their own position, Czech judges, together with the Ministry of Justice, showed interest for judicial independence elsewhere in the EU, such as by protesting against political takeover of judiciary in the neighboring Poland. In summer 2017, they called the judicial overhaul in Poland "an attack on freedom".

### **Corruption : 5.5**

Czech Republic is, together with Cyprus and Malta, sharing the place 57 in the Transparency International's Corruption Perceptions Index 2016. For a country that used to be a leader in transition during the early 1990s, that is a fall, especially taken that it fell below the ratings of Poland, Slovenia, all three Baltic states and Georgia. It reflects the actual situation where corruption is still a serious problem of Czech society and politics. Presence of high ranking rich businessmen, not least around but in the heart of Czech politics, makes many people and CSOs uneasy. For instance, Andrej Babiš, a former vice-PM and Minister of Finance, and the leader of the party ANO that participates in the Government, has been at the same time a billionaire and the owner of some of the biggest companies and the second wealthiest and the most powerful man in the country. Numerous investigations were opened or suspicious deals protested over by the public while he was in public office between January 2014 and May 2017. Several other government ministers or their closest aides also had to leave office during the past few years because of perceived conflict of interest. Finally, in September 2016, amendments to the law on the conflict of interest were passed, prohibiting companies with more than 25% ownership by a member of government of getting subsidies, investment incentives or tenders. The legislation was nicknamed "Lex Babiš" for obvious reasons. Unfortunately that did not improve the situation, whereby the ownership of big companies became even less transparent. For instance, instead of giving up the control over his companies, Babiš just transferred the ownership to his closest family members.

### **Protection of Human Rights : 8.22**

Respect for human rights has been an important goal shared by most of the population in Czechia after the deconstruction of communist system (wherein this country had suffered, especially in this field, more than other similar countries). From personal safety, freedom from arbitrary arrest,

decent level of legal certainty, or access to education and academic freedom, or freedom of speech, assembly or movement, through religious freedom and tolerance, to the basically individualistic, liberal approach to the issue of freedom, post-1989 improvements have been substantial. Civil society got a lot more space, even though its deficiency still is its dependence on public funding, while its main inner risk recently has become the growth of organizations that preach intolerance. Intolerance or hate speech might be found also in some politicians' narratives. President Miloš Zeman has verbally abused refugees, Muslim immigrants, Remain Brits, EU enthusiasts, alcohol-abstainers, vegetarians, and many other groups, time and again. However, with more or with less decent justification, all the biggest political parties in Czech Republic share a refusal to participate in the EU quotas for asylum seekers or refugees. Another problem is Romany-phobia, itself very strong across society. In June 2017, Amnesty International warned that Czechia did not follow AI's (as of 2012) and btw. also not EU's (as of 2015) recommendations to have eliminated discrimination of Romany children in education. During the summer 2017, some preparations were taken to correct this in the following school year. During 2016 and 2017, measures were also taken aiming at elimination of human trafficking. In foreign politics, where Czechia had a long tradition of advocating and protecting human rights, President Zeman has jeopardized this, especially regarding China.

## Economic Freedom

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### **Security of Property Rights : 5.71**

Property rights in the Czech Republic are mostly protected. Private property expropriation is possible but only in cases of public interest followed by an adequate monetary compensation. However, there are still problems present within the judiciary, such as 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. Another problem is that court decisions in similar cases can vary from court to court, which is attributed both to the fact that judges often lack specialized knowledge in commercial disputes and to the new Penal and Civil Code which were adopted without a new procedural law to clarify their implementation. Very slow enforcement of contracts is a big problem, both in trial and judgement and its enforcement - a process could take up to almost two years, while the procedures are also very expensive, up to one third of the claim. There are no special commercial courts but only general courts, nor small claims courts. Also, there are no effective procedures regarding adjournments, making such long procedures possible. Insolvency procedures are also long, but with high recovery rates, while most cases are settled as going concern sales. Registering property involves high fees and procedure, due to inefficient cadaster office. The Czech Republic liberalized agricultural land and real estate, enabling their acquisition by foreign nationals. The EU nationals were already free from the existing ban earlier. There are some limitations on foreign ownership or registration requirements in areas such as banking, insurance, media etc.

### **Size of Government: Expenditures, Taxes, and Enterprises : 6.41**

Size of government in the Czech Republic is not excessive as compared to other European countries, mostly in line with other post-transitional countries. Both government revenue and

expenditures are reaching 40% of GDP in 2016, leading to a small budget surplus. Public debt has been sharply reduced in recent years, reaching only 37% of GDP, mostly due to higher revenue. Since the recession, which ended in 2013, growth rates have become robust, relying on high investments, EU cohesion funds on infrastructure and exports. Unemployment is at its historic low - just under 4%. 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. They are prominent also in the utility sector. Although SOEs follow the same rules as private companies and are not in a privileged position on competitive markets, there are accusations that big SOEs use their political connections to gain unfair advantage and privileges. Since not all SOEs are functioning efficiently, the Czech Republic pays high subsidies, second highest among the EU countries, reaching 2.6% of GDP in 2016. Corporate tax in the Czech Republic is 19%, while personal income tax is basically flat at 15% (there is an additional 7% rate, called solidarity tax, for high earners but with a very high threshold of 48 average salaries). 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 of 43%, strongly above the OECD average, and among post-transition countries second only to Hungary.

## **Regulation of Credit, Labour, and Business : 7.5**

Regulation in the Czech Republic is mostly business friendly. Starting a business is generally not expensive and with no minimum capital requirements; this procedure has recently been made easier by involving the notaries that can directly register companies to the courts via an online system. Getting electricity is also inexpensive and streamlined, lasting little over than two months. It was made more efficient with new efforts to access all incoming applications in a timely manner. But, obtaining a construction permit is burdened with as much as 21 procedures. Although many of them are simultaneous, the whole process could last more than 8 months. Although tax payments are mostly on an annual basis, tax procedures are complicated and require long hours to comply with. In fact, complicated tax regulations are often considered among the most important obstacles to a better business environment, closely followed by inefficient government bureaucracy and restrictive labour regulation. Deregulation of the licensing in services and specialized professions stated in the previous National Reform Program (2016) have not been fully implemented, lowering competition in services. Labour regulation is mostly flexible, which is visible in working hours' regulation allowing 6 working days a week, and relatively low increase of the severance payments with the years in tenure. However, fixed contracts' duration is set at only 36 months while fixed term contracts are prohibited for permanent tasks. The minimum wage was increased by ca. 10% in 2017.

## **Freedom to Trade Internationally : 8.7**

Freedom to trade in the Czech Republic is mostly upheld. As a full member of the EU since 2004, the country has applied the EU 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 the shape of necessary certifications or standards, remain present, undermining free trade. Efficient export and imports procedures, requiring only 4 documents, as well as good transport infrastructure, support free 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, which is partially a consequence of the high stock of FDIs in the country, since the Czech Republic received on a per capita basis the highest FDI level of all transitional countries. The Czech Republic is not a Eurozone member state. Although most of the Maastricht criteria have been met, the Czech government decided in

December 2016 once again against the entry into the ERM II mechanism, which is a precondition for the adoption of euro, putting these plans at hold. The Czech national bank left the crown floor, enabling the exchange rate to fluctuate more than it previously allowed, when the exchange rate limit was set at 27 crowns per euro. But controls put on capital account are yet to be more liberalized. With shortages of skilled labour, some 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. The main Czech trade partners are other EU countries, predominantly the ones in the euro zone, Germany accounting for a third of the overall trade flows.