

# Czech Republic 2018



**Total: 73.42**

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## Political Freedom

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### **Free and Fair Elections : 9.64**

Freedom and fairness of elections is granted by the constitution and mainly upheld in practice. During the period under review two elections were held – in October 2017, parliamentary elections for 200 seats in the Chamber of Deputies, which is the lower house of the Czech bicameral parliament, and in January 2018, presidential elections. With some minor violations in vote counting, both elections were regarded as free and fair by domestic and international instances. In the latter one, Miloš Zeman was reelected as the President of Czech Republic, with a small margin in the run-off. But, the parliamentary elections and their aftermath have attracted much more attention. Disputes in the government of former Prime Minister Bohuslav Sobotka, between him and former deputy Prime Minister Andrej Babiš, had led to political crisis, which resulted in Babiš's dismissal with the composition of the governing parties remaining the same. A month prior to elections the parliament lifted Babiš's immunity for fraud accusations involving EU subsidies. However, that move hardly harmed Babiš's ANO party, which won the parliamentary elections, taking 78 seats. His mandate to form a government proved as a very hard task in the fragmented parliament, since almost all parties refused to coalesce with ANO, due to the said fraud allegations. Minority government was formed on the 13th of December 2017, but as early as in January 2018 Babiš lost a confidence vote and resigned. Reelected President Zeman, who has often backed Babiš, prior as well as after elections, gave him once again a mandate to form a government. Finally, in the middle of 2018, the second minority government of the PM Babiš was formed, as an ANO's coalition with the Czech Social Democratic Party, and with necessary external support from the Communist Party of Bohemia and Moravia.

### **Absence of Unconstitutional Veto Players : 8.33**

Democratically elected government of Czech Republic has effective power to govern without interference. In this regard, major concerns in the observed period were weak legislative and executive authority of the incumbent government, strong involvement of businesses into politics and corruption scandals involving high-ranking officials. Political instability throughout the year, as well as dependence of minority government on the benevolence of the Communist Party, represented a huge obstacle to functioning of democratic institutions and brought uncertainty about the upcoming period. Ties between business and politics became even more visible in the previous years, with the dominant role in politics played by a super-wealthy businessman Andrej Babiš. Several corruption scandals recently pointed out at a big problem which Czechia encounters, with the most prominent case of fraud with EU subsidies involving PM Babiš. Besides,

there were alleged attempts of Chinese and Russian interference into Czech politics.

## **Freedom of Press : 7.9**

Printed, broadcast and online media outlets in Czech Republic are free and independent, expressing a wide variety of views. However, increased concentration of media ownership and transfer of ownership from international to domestic companies somewhat deteriorated the media landscape in the country. Politicians and media owners do not restrain from influencing editorial policies. One of the largest media houses, MAFRA group, is owned by the Prime Minister Andrej Babiš, who was involved in the scandal, as a recorded and leaked communication documented his influence over editorial policy. This was exercised by selecting which articles should be published and which should not, thus using his media power to strengthen his political position. Journalists were also targeted, in some more President Zeman's rhetoric, on multiple occasions. Defamation remains punishable by the law. Russian and Chinese influence on Czech media, through spreading their propaganda, have become a growing concern during the last couple of years. Country deteriorated 11 places and now holds 34th place in the Reporters without Borders' 2018 World Press Freedom Index.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## **Rule of Law**

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

After a serious rise in 2017, Czech Republic fell in 2018 as regards independence of judiciary. The data as of several recent years indicated at the lack of enduring efforts to improve. Freedom House notes that although courts are independent their decision-making is slow and their rulings sometimes contradictory in similar cases. Inconsistent laws contribute, especially when determining legitimacy of certain law enforcement procedures. In a notable case of a former regional governor David Rath, accused of corruption and bid rigging, different courts (Regional vs. Supreme) confirmed or overturned initial sentence of 8 and half years prison one after another between 2013 and 2016, where after in June 2018 he again received the same sentence, and subsequently appealed again. Political influence on judiciary in high profile cases was noted by Bertelsmann in 2017. Portal GAN noted "a moderate risk of corruption" and occasional "very sophisticated" methods used to bribe out favorable court decisions.

### **Corruption : 6**

Czech Republic is stagnant in fighting corruption. Problems rest both in insufficient legal background and in inefficient and - in high profile cases - biased or influenced judiciary. Failure to achieve full transparency of ownership and consequential merger of economic and political power in the same persons and misuse of one to support another and vice versa, is described by civil society as the biggest impediment to transparency in politics and fair market competition in the

economy. Czechia's rating in the Transparency International's CPI 2017 slightly improved, putting it, together with Cyprus, Dominica and Spain, in places 42-45/180, with 57/100 points. Yet, for a country that once used to be the leader and trend-setter in the post-1989 transition, this is far from being praiseworthy.

## **Protection of Human Rights : 8.17**

Protection of human rights has been a strong point of the rule of law in Czech Republic. 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. However, hate speech is also common, including by President Zeman, who occasionally practices it while rejecting or even mocking the standard EU rules of "political correctness". Various minorities, such as Roma, or immigrants, often face verbal abuse in public. Amnesty International, while assessing that Roma continued to be discriminated, noted both some improvements, e.g. in attempts by education authorities to reduce the number of ethnically segregated schools, and some new challenges, e.g. in the occasional misuse of authority to protect public order given to the local governments, for an ethnic discrimination in housing. The number of refugees accepted under the EU relocation scheme is neglect. Xenophobia is less visible in the streets than at its peak in 2015, but it is not in retreat, as manifested also by the increased number of MPs from the Islamophobic far right (from 8 to 22) after October 2017 elections. According to Balkan Insight, between 2012 and 2016 Czechia has been the second largest (after Croatia) among Central and Southern Europe exporters of arms and military equipment to MENA countries, whereby final users and modes of use were just superficially controlled.

## **Economic Freedom**

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### **Security of Property Rights : 5.8**

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, judicial independence and impartiality in court dealings, although mostly present, are not always attested. Even though judiciary is clearly separated from the executive power, there are informal ways of influencing some court proceedings. Another issue is the existing level of variation of court decisions in similar cases, which is due to the fact that judges often lack specialized knowledge in commercial disputes, but also due to the new Penal Code and Civil Code adopted without a new procedural law which would clarify their implementation in practice. Very slow enforcement of contracts, sometimes lasting for up to two years, is a serious impediment (in trial, judgment and enforcement process), while these procedures incur very high costs, on average up to one third of the claim. There are no special commercial courts, nor small claims courts, but only general courts. Also, there are no effective procedures regarding adjournments: their maximum number is not set as well as their use as an extraordinary measure only. Insolvency procedures are also long, but with relatively high recovery rates (2/3 of the claim on

average), while most cases are settled as going concern sales. Bankruptcy laws were amended in June 2017 with the aim of making this process more predictable and less prone to misconduct that would affect creditors. Registering property involves long procedures at the cadastre office, but vast majority of land has a clear title and that can be checked electronically. Since 2012, non-EU foreign nationals can purchase real property and agricultural land, although they could have acquired it legally earlier through a locally registered company. As in other European countries, there are limitations on foreign ownership, or registration requirements in areas such as banking, insurance, media etc., but these are relatively rare.

## **Size of Government: Expenditures, Taxes, and Enterprises : 6.58**

Size of government in the Czech Republic is comparable to other CEE post-transitional countries. Total government expenditures stood at 39% of GDP in 2017, with a recorded surplus of 1.3% of GDP. The public debt level has been falling ever since 2013, now being 35%, due to low deficits and higher growth rates, e.g. 4.3% in 2017, on the back of growing investments, exports and private consumption. Inflation is within the targeted band. Unemployment is the lowest in the EU - below 3% - which is pushing wages up. 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, since they count for just a small fraction of employment and output. Utility companies, as in most other countries, are mostly controlled by the local governments. Although SOEs conform to the same rules as private companies and are legally not in a privileged position on competitive markets, there are indications that big SOEs use their political connections or influence to gain unfair advantage and privileges. Since not all SOEs are functioning efficiently, the Czech Republic pays high subsidies, with their level reaching 2.3% of GDP in 2017, more than twice the average level in the EU transition countries. Corporate tax in the Czech Republic is 19%, while personal income tax is basically flat at 15% (except that there is an additional 7% rate called solidarity tax, for high earners, applied over 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%, significantly above the OECD average and among post-transition countries second only to Hungary.

## **Regulation of Credit, Labour, and Business : 7.64**

Regulation in the Czech Republic is mostly business friendly. Starting a business is generally not expensive and requires no minimum capital; this procedure, since recently, introduces notaries, who can directly register companies to the courts via an online system, while the fees for simple limited liability companies were decreased. Obtaining a construction permit is burdened with as much as 21 individual procedures: although many of them are simultaneous and incur low or no fees at all, the whole process could last more than 8 months on average. On the other hand, getting electricity is inexpensive and well streamlined, lasting little over than two 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 better business environment, closely followed by inefficient government bureaucracy and high tax rates. New requirements for filing VAT control statements are expected to further complicate the situation. Much more needs to be done regarding deregulation of the licensed professional services, since many of them effectively remain closed to competition.

Although corruption is perceived as low, there is favouritism in dealings of government officials, while government regulation and policy instability also have a negative impact on businesses. Labour regulation is mostly flexible: fixed contracts are not prohibited for permanent tasks. Their duration is set at 36 months. Working hours' regulation allows 6 working days a week and comparably low salary increase for working in shifts. While notice periods are the same, the severance payments increase only slowly with the years in tenure. The minimum wage has increased by 10% since last year; it is not uniform, but there are 8 levels of occupational minimum wage, alongside their reduced level for workers with disability.

## **Freedom to Trade Internationally : 8.69**

Freedom to trade in the Czech Republic is mostly upheld. As a full member of the EU since 2004, the country applies the EU common trade policy, with relatively low tariffs for manufactured goods, with the Most Favoured Nation rate standing at 5.1%. On the other hand, tariffs on agriculture products are high, especially for sugar and dairy, while non-tariff barriers such as necessary certifications or technical standards remain present. Custom procedures - both for imports and exports - are efficient, requiring only 4 documents, while transport infrastructure is of good quality, which all boosts free trade. Due to its geographical position and proximity to the European core, the Czech Republic is also an important transit country; infrastructure development has not been able to follow closely the rise in trade flows due to economic growth and transit, and more time and resources are necessary to increase the quality of infrastructure. The Czech economy is very open, with exports surpassing 80% of GDP, the highest among the former transition countries after Slovakia. Czech Republic holds the highest per capita FDI in CEE countries. The economy has been experiencing small trade surpluses in recent years, while the main trade partners are other EU countries, most important of all Germany, which was the recipient of 40% of overall Czech exports. Although most of the Maastricht criteria have been met and the country is obliged to join the Eurozone in the future, the Czech government has decided against joining the ERM II mechanism which would be the first step in adopting the euro, since this policy is unpopular among the electorate. The Czech national bank left the crown peg in April 2017, which capped the exchange rate at 27 crown per euro, enabling the exchange rate to float freely, which led to a small appreciation of the crown. Very low unemployment and skilled labour shortages have become a burden to many industries in the country, which encouraged more flexibility in the policy of foreign workers attraction – streamlining visa procedures and introduction of a pilot program for Ukrainian citizens, which was recently broadened to include Serbian nationals too.