

# BTI 2016 | Czech Republic Country Report

<b>Status Index</b>	1-10	<b>9.40</b>	# 3 of 129	
Political Transformation	1-10	9.45	# 5 of 129	➔
Economic Transformation	1-10	9.36	# 2 of 129	➔
<b>Management Index</b>	1-10	<b>6.85</b>	# 12 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2016 – Czech Republic Country Report. Gütersloh: Bertelsmann Stiftung, 2016.

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## Key Indicators

Population	M	10.5	HDI	0.861	GDP p.c., PPP \$	30444.9
Pop. growth <sup>1</sup>	% p.a.	0.0	HDI rank of 187	28	Gini Index	26.1
Life expectancy	years	78.3	UN Education Index	0.866	Poverty <sup>3</sup>	% 0.0
Urban population	%	73.0	Gender inequality <sup>2</sup>	0.087	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

The Czech Republic experienced political embroilment and an unstable government during the period under review. Internal contradictions and a continuous struggle with a strengthening opposition weakened the center-right minority coalition government led by the Civic Democratic Party (ODS) of Prime Minister Petr Nečas. These political developments have been accompanied by an increasing public disenchantment with political parties and the performance of Nečas's government.

Nečas had to resign in June 2013 because his chief of staff, with whom he was having an extramarital affair, was charged with using a military security service to spy on Nečas's then wife. In addition, Nečas was accused of bribing ODS deputies to ensure their support of tax laws that they had previously opposed. President Miloš Zeman appointed a new cabinet led by Jiří Rusnok, a former minister of finance trusted by the president, although none of the parliamentary parties supported him. This confrontation between the president and the Chamber of Deputies reflected Zeman's attempt to sideline the incumbent chairman of the Czech Social Democratic Party (ČSSD), Bohuslav Sobotka, and to play a stronger political role, drawing on his enhanced legitimacy gained in the first direct presidential election. However, a majority of the parliamentary deputies refused to express their confidence in Zeman's favored cabinet and dissolved the Chamber of Deputies in order to hold new elections on 25 and 26 October 2013. The elections did not produce a clear political majority and brought two new anti-establishment parties into parliament. After seven weeks of negotiations, the Czech Social Democratic Party (ČSSD) formed a majority coalition government with the Christian Democrats (KDU-ČSL) and one of the new parties, the Action of Unsatisfied Citizens (ANO 2011), led by the business tycoon Andrej Babiš. President Zeman appointed the new Prime Minister Sobotka (ČSSD) in January 2014.

The Sobotka government abandoned the Eurosceptic orientation of the Nečas government and abolished, among other things, the second pillar of the pension system and the patient co-payments in health care that had been introduced by the Nečas government. The governing coalition adopted

numerous laws, including the Civil Service Act that had been under preparation since the late 1990s. However, the legal system still lacks transparency; frequent amendments of relevant laws did not contribute to legal certainty and harmed the business environment.

In the period under study, the key remaining problem in the Czech Republic was corruption and ineffective anti-corruption measures. The government lacked the political will to introduce effective integrity measures and establish an independent anti-corruption office. The Sobotka government made important steps to reverse this trend, supported by promising civil society initiatives.

The worsening state of public finances in the short- and mid-term period forced the government to adopt a fiscal consolidation package, the aim of which was to temporarily stall some mandatory spending and increase tax revenues. In the year 2013, the recession of the Czech economy continued, however, a moderate recovery in the economy and modest GDP growth began in 2014 as new investments started to flow into the economy. The new government was in favor of signing the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The Czech Republic is fully integrated into international structures and the government sees Czech membership in NATO as a cornerstone of the country's external security.

## History and Characteristics of Transformation

The transformation of Czechoslovakia is part of the political changes in East-Central Europe between 1988 and 1989. The end of the cold war caught the relatively economically stable, but politically very rigid communist regime off guard. Representatives of the opposition movement, students and artists formed the revolutionary Civic Forum (Obcanske forum, OF), which became party to the transitional power negotiations after the Communist Party gave up its monopoly on power on 28 November 1989. One of the most important immediate results was the reconstruction of (a truly representative) parliament and the co-option of members of the OF to the Czechoslovak National and Federal Assemblies. The newly formed parliament elected Vaclav Havel for president and Alexander Dubcek, the symbol of the Prague Spring (1968), became the speaker of the Federal Assembly.

The transformation of the country (since 1993 the Czech Republic) has included major political and economic changes, as well as a redefinition of the nation state. In this period, two major actors shaped the development in the country. The first was the former dissident and well-known representative of the opposition movement Charter 77, Vaclav Havel (president of the Czechoslovak Federative Republic 1990-1992 and the Czech Republic 1993-2003). The second actor was Vaclav Klaus, an economist, who became one of the leading figures of the Civic Forum and later the leader of the Civic Democratic Party, holding the offices of the prime minister, speaker of the parliament, and president (2003-2013). These two figures often clashed in public due to ideological differences and personal disagreements as they represented strong yet somewhat opposing streams in Czech politics. These differences significantly shaped the nature of Czech

politics resulting in a highly polarized system interlaced with ideological and personal animosities, which in many respects posed a major obstacle to effective governance.

Milos Zeman, the third key political figure, and as of March 2013 the president of the republic, is the former leader of the Czech Social Democratic Party. Between 1996 and 1998 he was also the chairman of the Chamber of Deputies, the lower house of the Czech parliament, prime minister from 1998 to 2002 and in 2003 an unsuccessful presidential candidate (he ran against Vaclav Klaus). It was the partisan disunity in the Czech Social Democratic Party (CSSDC), which led to Klaus's election for president. As a consequence, Zeman turned into an outspoken critic of the new leadership of Social Democrats. The conflict escalated in March 2007, when Zeman left the party, which he led for almost two decades, and founded a new party under the name Citizens' Rights Party – Zemanites (Strana prav obcanu - Zemanovci). The conflict recurred after the October 2013 elections, when Zeman attempted to sideline the party leader, Bohuslav Sobotka and delegate the formation of government to his ally Michal Hasek (vice chairman of the Social Democrats). President Zeman warned that he might not appoint some ministers chosen by ČSSD leader Bohuslav Sobotka and that he might give him his own proposals for ministerial appointments. Due to party base as well as a broader popular rejection of Hasek and strong support for Sobotka, Hasek's allies deserted him.

The attempt to interfere into party politics, Zeman's vocal critique of Western sanctions and increasing isolation of Russia (unpopular among the Czech public), and Zeman's multiple (allegedly alcohol-fueled) public gaffes contributed to a rapid decline in trust of the first directly elected president. However, in January 2015, the confidence in the president began to rise.

The Czech party system quickly stabilized during the 1990s. Politically inexperienced intellectual elites and socialist reformers from the period of the Prague Spring steered the initial phase of the political transformation process. However, in the mid-1990s there was a shift away from a system characterized by "political amateurs" to one dominated by a new political class. This was evident in the evolution of political recruitment patterns, which became increasingly similar to those evident in liberal multiparty democracies. However, the extent of the European integration process established a new political dividing line between parties. This led to a re-fragmentation of right-wing political parties in recent years and contributed to the fluidity of the party system, marked by the continuous emergence of new political subjects. They usually win thanks to their populist program, promotion of direct democracy, use of expertise or the need for radical change.

Since the start of the transformation process, the Czech Republic has aspired for membership in leading international organizations. In March 1999, it became a member of NATO and in May 2004 a member of the European Union. The accession to the IMF and World Bank in 1993 offered credit guarantees, which were necessary for economic and social reforms in a four-phase process. The first phase (1990 – 1993) was characterized by a considerable decline in key economic indicators such as the GDP. In the next phase (1994 – 1996), the country witnessed a considerable economic growth, which was followed by recession in the third phase (1997 – 1999). Economic growth was re-established only in 2000, at the onset of the four phases. The world economic crisis and the slowdown in global economy of late 2008 had a delayed but significant impact on the Czech economy. It first hit the country in 2009 and its effects have not yet been fully reversed.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The Czech Republic has no major problems related to state integrity. There are no separatist movements or territorial enclaves.

The Czech Republic is ethnically and nationally quite homogenous. The government's relationship toward minorities, especially the Roma, has been steadily improving over time. In March 2014, a small ethnically Czech community in the Ukraine's Volyn region made a request to the Czech Ministry of Foreign Affairs that approximately 45 families from the region be repatriated. An increase in crime and insecurity as well as fear of repercussions from nationalists were cited as their main reasons. In response, the Ministry of Foreign Affairs found the ethnic discrimination claims unfounded and rejected the request, citing economic reasons as the driving force of the claim. Their policy has changed since the end of 2014, with a limited number of families preparing to accept the option to repatriate.

Previous governments had officially attempted to increase the social and economic integration of minorities into society. Until January 2013, minority issues were largely neglected by the governments and the portfolio of the former Office for Human Rights and National Minorities was divided across different governmental offices. In July 2013, a new statute of the Government Council for National Minorities was adopted, ensuring that a government member appointed by the prime minister chairs the council.

In June 2013, the new Act on State Citizenship of the Czech Republic was adopted (186/2013 Coll., effective 1 January 2014) allowing dual citizenship. The conditions to gain Czech citizenship have been changed under the new law in order to better reflect country's membership in the European Union.

With the new law, the number of requests for Czech citizenship grew significantly, from 1,771 in 2012, to 2,253 in 2013 and 2,945 in the first half of 2014. In these

Question  
Score

Monopoly on the  
use of force

10

State identity

10

years, Czech citizenship was most often awarded to Ukrainians, Slovaks, Russians and Vietnamese. In 2014, about 4.6% of the population were foreigners without citizenship status in the Czech Republic.

Since the 1990s, and especially after EU accession, the country has experienced increasingly higher levels of immigration. Currently, approximately 440,000 foreigners legally reside in the Czech Republic. The majority (two-thirds) are citizens of non-EU countries. The highest proportion of legal residence stems from Ukraine (approximately 26%), followed by Slovakia (19%), Vietnam (19%), Russia (8%), Poland and Germany (both approx. 4%).

The Czech Republic is one of the most secularized countries in Europe. Religious dogmas have no significant influence over politics or law. The government acknowledges the historical and unique position of the church and religious communities as traditional institutions, which are part of Czech society. However, the church has not been separated from the state and religious communities are funded from the state budget.

The Roman Catholic Church, the most active religious organization, has a limited political agenda and has largely focused on issues of direct concern. The most important of these issues is the highly contested restitution of church property, which was finally approved in 2012. Social Democrats are internally divided on the issue, but the Constitutional Court rejected a revision of the Restitution Act in June 2013. In October 2014, Prime Minister Sobotka, together with the representatives of the Catholic Church, announced a cooperation between the state and the church in support of vulnerable citizens. This is seen as an important step for reconciliation as well as an attempt to gain public support for the restitutions, as Czechs have an ambivalent stand on the question of church property restitution. On one hand, the majority agrees that state confiscation of church property in 1948 was unlawful; but, on the other hand, only a minority (about one-third) sees restitution as the Czech state's moral and historical obligation to the church.

The state has a multi-layered administrative structure that provides all basic public services.

No interference of religious dogmas

10

Basic administration

10

## 2 | Political Participation

Free and fair elections are regularly organized and constitutionally guaranteed. In the period under study, two regular elections were held together with the first direct presidential vote.

Free and fair  
elections  
10

In the period under study, a parliamentary election (October 2013), election to the European Parliament (May 2014), municipal election (October 2014) and election to the Senate (October 2014) took place. Together with municipal election, local referenda took place in approximately 20 municipalities. All electoral rounds for parliamentary and European elections were conducted in a transparent, impartial and correct manner. After the 2014 municipal election, however, the police investigated suspicions of vote buying in the following municipalities: Bilina, Teplice, Kadan, Usti nad Labem, Lovosice, Litvinov and Cesky Tesin. Evidence, including hidden camera recording, of these attempts was provided to the police by the independent anti-corruption groups Our Politicians (Naši Politici), Nadační fond proti korupci (Endowment Fund against Corruption), Oživení (Revival) and Transparency International (TI).

According to NGO reports, cases of vote buying occurred in structurally weaker regions – especially in North Moravia and Northwest Bohemia – and tended to target disadvantaged citizens (economically weaker and/or Roma) who were promised material advantages or money in exchange for voting for a selected candidate.

Universal suffrage is guaranteed to all Czech citizens over the age of 18. However, there are certain limitations for the participation of citizens living abroad. Unlike in the national election, there is a restricted timeframe in which citizens can register from abroad and the number of registration points (embassies) is quite limited. There is no possibility to cast a postal vote. It is not possible to vote from abroad in European elections.

Electoral law guarantees parties' access to state radio and television with 14 hours set aside for all parties to express their views and equal allocation to all irrespective of their size or previous voting performance. Municipalities also provide billboard space and political advertisements are carried in newspapers. There is an obvious bias toward more coverage and representation for larger parties, reflecting their greater resources and also the media's perception that they are more important.

The democratically elected parliament and government of the Czech Republic have effective power to govern, and are not constrained by any non-democratic veto powers.

Effective power to  
govern  
10

Freedom of association and assembly is fully guaranteed in the Czech Republic. A law on political parties and movements regulates the formation and registration of all political entities. In the period under study, a number of public protests took place against selected government reforms. Furthermore, since 2010, small-scale anti-Roma protests take place in cities in North and West Bohemia and North Moravia. These protests are usually organized by right-wing radicals and tend to attract no more than 1,000 participants; they focus on the lack of attention to the issue of Roma integration and the supposed freeriding of the Roma on the welfare system. Since summer 2013, pro-Roma demonstrations tend to take place on the same day, gathering Roma and their supporters. The public opinion, while critical of the Roma, is also critical of the anti-Roma protests, racism and xenophobia.

Association /  
assembly rights  
10

Freedom of speech and the press are guaranteed under Czech law and there is currently a strong independent media.

Freedom of  
expression  
9

The Czech Republic has traditionally been characterized by a high degree of media freedom – its strong foreign ownership did not exercise any visible influence over media content or coverage. This has changed with the transfer of ownership to Czech owners in recent years. The most important tendencies are concentration of media ownership, departure of international owners, and broadening of scope by media holdings (printed and online media, radio and TV).

Measured by the circulation of printed media, the strongest media holding in the Czech Republic is currently Czech News Center (owned by two Czech entrepreneurs, Daniel Kretinsky and Patrik Tkac), followed by MAFRA (owned by Andrej Babis, chairman of political movement Action of Dissatisfied Citizens and the vice prime minister of the present coalition government). The former was initially owned by Swiss and the latter by German groups. Further important players are Economia (owned by multi-millionaire Zdenek Bakala), and German-owned Diekmann Verlagsgruppe Passau, Bauer and Hubert Burda Media. In the television sector, the concentration is not as evident – the strongest private owners are U.S.-owned CME, and Czech-owned FTV Prima holding.

The ideological tone of media output changed significantly in the period under study. Printed media are now often under suspicion of imbalanced and political reporting. This was especially evident in 2013, when numerous top journalists with a reputation in investigative journalism of corruption and political scandals left MAFRA after it was acquired by Andrej Babis. And although most owners, including Andrej Babis, claim not to be involved in the editorial process, the analysis of reporting shows a strong bias toward positive reporting on the political activities of Andrej Babis's Action of Dissatisfied Citizens (ANO).

With the change of ownership, the reporting in the MAFRA media changed significantly with a strong positive bias in favor of ANO and negative bias toward other political subjects (including ANO's governing coalition partners, the Social Democrats). In the fall 2013 and 2014 elections, MAFRA media provided significantly more positive reporting to ANO than it had previously. The main issues were the political engagement of the owner – minister of finance and deputy prime minister – and the tendency of editorial staff to self-censor.

### 3 | Rule of Law

There is a clear separation of powers with mutual checks and balances in the Czech Republic. Throughout the period under study, there was tension between President Zeman, the Chamber of Deputies and the governing coalitions emerging from a fragmented chamber. Although President Zeman did not violate the constitution when he appointed a prime minister against the will of most deputies and tried to topple ČSSD Chairman Sobotka, he changed the established role model for the president and sought to maximize the president's influence as a partisan political actor. The tug-of-war between Zeman and the leaders of the major political parties paralyzed the legislative process for several months and contributed to increased popular disaffection and support for anti-establishment parties.

Separation of  
powers  
10

In the period under review, the Czech courts have generally operated independently from the executive. The most active control on executive actions is the Constitutional Court, which has triggered annoyance with its judgments across much of the political spectrum. The most controversial case in the period under study was the rejection of restitutions to the Catholic Church (four judges of the Constitutional Court were in dissent with the majority decision). The second most important case was the accusation of former President Vaclav Klaus of treason on the grounds of his failure to complete the ratification decision of the European Council in appointing Constitutional Court judges, abolitionist declaration of amnesty, disregard for judicial decisions on the proposed appointment of former trainee judges and inaction in the ratification of the Additional Protocol to the European Social Charter. In its opinion, the Constitutional Court did not address the submitted facts because, according to the majority opinion, the possibility of impeachment proceedings after the end of the presidential mandate was ruled out. Thus, the proceedings were stopped (two judges submitted dissenting opinion).

Independent  
judiciary  
9

The Czech judiciary is led by a triumvirate of courts consisting of the Constitutional Court, which deals with cases of constitutional importance; the Supreme Court, the court of highest appeal in most legal cases; and the Supreme Administrative Court, which deals with administrative law cases as well as with political cases involving electoral disputes or the prohibition of political parties. Justices on each of these three courts are appointed by the president and approved by the upper house of the parliament.

The relationship between President Vaclav Klaus and the Constitutional Court was strenuous throughout his entire presidency. This has changed with the ascent of Milos Zeman to the office of president in March 2013. President Zeman lacks the aggravation of his predecessor, which was well demonstrated in his nomination and appointment procedures.

President Klaus was personally opposed to naming young judges. In addition, his tactics vis-à-vis nomination of judges of the Constitutional Court mostly backfired due to a lack of consultation across party lines. This came to the forefront in 2012 as the regular term of three judges of the Constitutional Court expired, and the Senate rejected all candidates proposed by Klaus. As a result, the President of the Constitutional Court had to urge Klaus to nominate new justices as soon as possible, as understaffing of the court seriously hindered its work. In order to reach lawful and binding decisions on some important issues, the judicial college needs to have at least 12 members.

Immediately after his electoral victory in January 2013, President-elect Milos Zeman reassured the public that he would nominate the first candidates to the Constitutional Court within three months of assuming office and that his nominations would be discussed with all party groups in the Senate and the president of the court (who served in Zeman's previous government). By December 2013, ten judges (eight new judges and two second-term judges) of the 15 member Constitutional Court were nominated by President Zeman. Unlike the candidates nominated by his predecessor, Vaclav Klaus, there were no rejections of Zeman's nominees by the Senate. The most important actor in shaping the composition of the Constitutional Court is Pavel Rychetský, the current chief justice of the Constitutional Court, who served as deputy prime minister in the Social Democratic government of then Prime Minister Milos Zeman.

President Zeman also named 64 new judges in November and December 2013, most of whom were in their thirties. The most important task of the new judges is to decrease the length of trials, which is often criticized by the European Court of Human Rights. The long waiting periods prior to the hearing of court cases remain problematic, as more than half of all cases submitted to regional courts take a minimum of two years on the waiting lists.

Officeholders who break the law and engage in corruption are generally prosecuted under established laws and often attract adverse publicity, however, some occasionally slip through political, legal or procedural loopholes. In the period under study, abuse of office and corruption reached the highest echelons of Czech politics and led to the fall of the Nečas government. In June 2013, the Police Unit for Combating Organized Crime and the chief public prosecutor's office arrested the chief of staff to Prime Minister Nečas, Jana Nagyová; Lubomir Paul, then managing director of the section of the prime minister; and several other high-level public

Prosecution of  
office abuse

8

officials including the then head of the Military Intelligence Service, Ondřej Palenik; Milan Kovanda; former Minister of Agriculture Ivan Fuksa; and former Member of Parliament Petr Tluchor. The offices of the government as well as offices of several influential lobbyists were raided by the police.

The chief public prosecutor's office charged Nagyová and members of the Military Intelligence Service with abuse of office and corruption. The 2012 charges against Jana Nagyová (who was then having an extra-marital affair with Nečas and has since married him) included her misuse the Intelligence Service for private motives in order to monitor Nečas's then wife. In June 2014, a Prague court convicted Nagyová and the three Military Intelligence Service members she assigned were handed over for disciplinary punishment.

In February 2014, Nečas was charged with bribery. Investigators claimed that he offered deputies from his own party seats on the boards of state-owned companies in exchange for withdrawing their opposition against tax laws submitted by the government. In a separate case, one of the most influential Czech lobbyists, Ivo Ritting, was charged with money laundering. As demonstrated by these cases, corruption in the Czech Republic penetrates all levels of government. In addition, numerous cases, which surfaced in the period under study, were related to embezzlement of EU funds and politicians accepting kickbacks and bribes from industrial companies and business.

In 2013 and 2014, the fight against corruption intensified both within the government and from civil society. One such NGO is Reconstruction of the State (Rekonstrukce státu), a joint project of almost twenty domestic and international NGOs, whose nine goals are: transparent party finance; asset declaration of elected officials; publishing of public procurement contracts online; abolition of anonymous shares; transparent appointment procedure to boards of state companies; independent public administration; protection of police investigation from political interference; transparent legislative process (removal of ad hoc amendments and so-called limpets – *prilepky*) and extension of powers of the Supreme Audit Office.

Civil liberties are respected and their observance is supervised by the Constitutional Court, the Supreme Administrative Court and the Office of the Ombudsman (Public Defender of Rights). In association with the EU accession, the Czech Republic strengthened the protection of all forms of legal entities against (illegal) interference by public administrative bodies, including new administrative rules, which improve citizens' rights vis-à-vis the state. The delays in judicial proceedings constitute a persistent obstacle to Czech citizens' access to their rights.

The Office of the Ombudsman continues to serve as a vital protector of civil rights. The office delivers quarterly and annual reports on activities to the Chamber of Deputies, including recommendations on where laws could be changed. It produces

detailed reports on cases it investigates, indicating when laws have been transgressed – to the extent that the damaged parties have a solid basis to seek redress. This frequently leads to a positive reaction from the official body. The quarterly reports and annual reports are publicly available on the office website.

In December 2013, Pavel Varvarovsky resigned as Czech public defender of rights and was replaced by Anna Šabatová in February 2014. In 2013, the office registered 8,041 complaints, which is almost the same as in 2012. Of the complaints received, 57% were within the Office of the Ombudsman's mandate and 43% beyond it. In the first two-quarters of 2014, the office registered 7,004 complains.

In its 2013 report, the office made several recommendations, including that the following issues be addressed by parliament: privacy protection of employees (no sanction mechanism ensuring protection from over-monitoring currently exists), applications for the granting of benefits in cases of material need (to allow applicants access to information on the grounds for refusal of the benefits), shift the burden of proof in disputes regarding discrimination of the defendant and anchoring public action (*actio popularis*) to the Anti-Discrimination Act.

In comparison with the previous period, the number of complains beyond the Office of the Ombudsman's mandate has increased. The structure of complaints received by legal area has not significantly changed over time. Complaints in the area of social security are prevalent, especially with regard to pensions and social benefits. The second largest set of complaints refer to construction and regional development; this is closely followed by a third set of issues related to the army, police and imprisonment.

#### 4 | Stability of Democratic Institutions

The ensemble of democratic institutions is effective and efficient. As a rule, political decisions are prepared, made, implemented and reviewed in legitimate procedures by the appropriate authorities. The Supreme Audit Office (SAO) is an independent agency that audits the management and performance of state property, institutions and the national budget. Its functioning is regulated by the constitution, whereby the president and vice-president of the Supreme Audit Office (SAO) are appointed for a period of nine years by the president of the Czech Republic, who bases his/her decision on nominations provided by the lower house of the parliament.

Since February 2012, due to charges brought against the previous SAO head, Frantisek Dohnal, over his refusal to release documents for an audit of the office's financial management to the lower house of the parliament, the position was left vacant. On 22 March 2013, President Miloš Zeman appointed Miloslav Kala to the presidency of the Supreme Audit Office for a nine-year term based on a proposal by the Chamber of Deputies.

Performance of  
democratic  
institutions  
9

Since 2013, cooperation between the Supreme Audit Office and the government has improved significantly. This is evidenced by the amendment of the government's rules of procedure in 2014, which ushered in changes that have ultimately enhanced SAO's competences. The government is now required to invite the SAO president to deliberations of audit conclusions. For its part, the SAO now has the right to deliver its opinion on accepted measures. The fact that the SAO engages in oversight and draws up a report, but the government does not adequately address problems, has been heavily criticized by parliament (and in particular the parliamentary audit committee) and the public.

The personnel situation of the Constitutional Court has also improved significantly as 13 out of 16 candidates for judges of the Constitutional Court proposed by President Zeman were approved by the Senate.

All democratic institutions are accepted as legitimate by all relevant actors. Most citizens support democratic institutions and there are no important groups seeking to change the Czech political system.

Commitment to  
democratic  
institutions  
10

## 5 | Political and Social Integration

The first two decades of democratic development were characterized by a quick stabilization of the country's multiparty system with two parties dominating, the Civic Democratic Party (ODS) and the Czech Social Democratic Party (CSSD). Since 2010, however, new parties and coalitions have formed. In 2012, the Public Affairs (VV) party, which entered parliament only in 2010, split after a number of scandals, with several of its members breaking away to form the Liberal Democrats (LIDEM). In the 2013 parliamentary elections, neither the VV nor LIDEM were able to obtain any parliamentary seats. However, two new political entities – Action of Dissatisfied Citizens (ANO) and the Dawn Movement, also known as Tomio Okamura's Dawn of Direct Democracy (Úsvit) – entered the parliament. The establishment of ANO and Úsvit strengthened the link between the business sector and politics. Both parties are primarily based on personalities and populist rhetoric, but were together able to gain over 25% of the votes, with ANO becoming the second-strongest party in the Chamber of Deputies.

Party system  
8

The traditional and well-established ODS, which was a primary pillar of the political right for two decades, saw its vote share plummet. Elections in 2010 and 2013 saw a sharp increase in electoral volatility, with more than 30% of voters changing their party allegiance. This trend can be associated with a general public dissatisfaction with the performance of the older or traditional political parties.

In December 2014, according to a Ministry of Interior register, there were 217 registered and active political parties and political movements (97 parties and 120

movements), 21 dissolved parties and movements, and 12 suspended entities. There are no serious ethnic or religious conflicts in the Czech Republic that would motivate representation by political parties. Political polarization is caused by socioeconomic differences that are reflected in party competition. The major cleavage producing intra- and inter-party competition stems from disagreements over 1) all recent major reforms, and in particular their association with the increasing gap between rich and poor, and 2) attitudes toward the country's deepening European integration (in particular the adoption of the euro).

There is a full spectrum of interest groups in the Czech Republic, ranging from social movements and community organizations to unions and professional organizations. They represent a wide spectrum of interests, including issues such as transparency, corruption, city planning and post-modern values. There are around 126,000 autonomous, self-organized groups, associations, foundations and organizations registered in the Czech Republic (although not all are currently active). The number of active organizations varies strongly between the country's individual regions. The difference between these regions is based on social, economic, cultural, historical and institutional factors. The economic crisis has negatively affected funding for many civil-society organizations, especially organizations focused on public services, which are funded through local budgets. A new Civil Code came into force as of 2014, providing legal regulation of non-governmental and non-profit organizations such as civil associations, clubs, foundations and other civil-society organizations. The aim is to improve accountability and the transparency of funding.

Interest groups  
10

Many citizen initiatives were successful in the 2014 local elections; these also played an important role in mobilizing voters around independent candidates. This is an important sign of the strength of Czech civil society, which compensates to a large degree for weak political parties, low party-membership rates and the lack of intra-party democracy.

In the Czech Republic, there is a clear and persistent disparity between the long-term and high level of general support for democracy and the public's avowed satisfaction with the democratic system on the one hand, and the low level of satisfaction with existing institutions of representative democracy and the current political situation on the other. Democracy is often supported by people with secondary and tertiary education, citizens with a high standard of living, young people aged 20 to 29, and residents of large cities.

Approval of  
democracy  
9

During the period under review, the percentage of citizens describing themselves as satisfied with the existing political situation in the country increased somewhat (though from a very low level), ranging according to public-opinion polls from 7% (November 2013) to 17% (November 2014). This positive development may be partially attributable to the fall of the unpopular Petr Nečas cabinet, and the expectations following the early 2013 elections associated with the new Bohuslav

Sobotka cabinet. There has been some improvement in societal satisfaction accompanied by a belief in the value of equality, justice and human rights. Around two-thirds of population (67%) believe they have the ability to express their opinions regarding the problems in society; however, fewer Czechs believe they can influence solutions within their own communities (40%). Less than a tenth (8%) believe they can influence decision-making at the national level.

The character of social cohesion, social empathy and solidarity among social groups as well as between generations has been changing in parallel with democratization, marketization and individualization. Discussion of solidarity and social cohesion is not popular in post-communist societies. Indeed, governments and politicians are primarily concerned with the question of solidarity in connection with pension, health and tax reform. The economic crisis has exposed more people to poverty and social exclusion. The loss of housing represents an extreme case of social exclusion, and the Czech Republic lacks a housing policy or even a concept of social housing (despite a law on social housing).

In the period under review, new charitable, humanitarian and civil-society activities providing financial, material, educational and legal assistance at the regional, national and international levels emerged. Growing public distrust of politics in the period manifested in enhanced interest in civic activities such as the “reconstruction of the state.” In addition, initiatives addressing specific social problems related to poverty gained momentum, such as the “Save Food” initiative. These initiatives are often spontaneous, and related to post-materialist issues such as food quality and food waste. They usually function on ad hoc basis, rather than as a legally registered civil society organization. A second type are strategic networks or coalitions of civil-society organizations that tackle long-standing issues such as anti-corruption (such as the Reconstruction of the State initiative).

Social capital

8

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
10

The Czech Republic is characterized by high human development (ranked 28th of 187 countries in the most recent Human Development Index), a low but steadily increasing share of people in need, and a low degree of inequality when compared with other post-communist countries. The share of Czech citizens who live below or just above the poverty line has been increasing since the onset of the economic and financial crisis. According to the most recent available data, around 10% find themselves under the poverty line, and a bit more than 10% are just slightly above it. People without full-time or permanent employment, single-parent families, families with three or more children, and pensioners have a comparatively higher risk of poverty. The gap between rich and poor is widening; however, the degree of income inequality remains among the lowest in the European Union. Income inequalities exist especially between the capital (Prague) and the structurally disadvantaged regions in the north and west of the country. A persistent income gap between men and women, one of the highest such in the European Union, is also clear. The biggest differences are evident within those of working age. On average, women in this group earn just 74% of what men with the same level of education in the same position earn. This also means that women are in greater danger of poverty than men. Apart from lower salaries, women also receive lower pensions.

The unemployment rate decreased slightly following the end of the last recession; however, gender and regional differences in unemployment rates persist. Long-term unemployment remains a serious problem, characterizing about 40% of the unemployed labor force. With the exception of the Roma population, there is no widespread labor exclusion due to poverty, education, ethnic, religion or gender. However, nationals of foreign countries face some labor discrimination, as they are often hired through recruitment agencies and are among the first employees to be laid off. Moreover, they cannot rely on state social support, lose their rights to public health insurance once they lose their jobs, and are often required to seek help among their family members.

Citizens over 50 years old are having increasing difficulties in finding work. There has been no improvement here as compared to the previous period. Women in this age group are more likely to be unemployed.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	135990.2	207015.9	208796.0	<b>205522.9</b>
GDP growth	%	6.4	2.3	-0.7	<b>2.0</b>
Inflation (CPI)	%	1.8	1.4	1.4	<b>0.3</b>
Unemployment	%	7.9	7.3	6.9	-
Foreign direct investment	% of GDP	8.5	4.9	3.5	<b>2.4</b>
Export growth	%	18.2	14.8	0.3	<b>8.8</b>
Import growth	%	12.8	14.9	0.3	<b>9.5</b>
Current account balance	\$ M	-1209.6	-7351.2	-1105.9	<b>1343.1</b>
Public debt	% of GDP	28.0	38.2	45.1	<b>42.6</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-3.4	-4.5	-	-
Tax revenue	% of GDP	14.3	12.9	-	-
Government consumption	% of GDP	20.4	20.5	19.6	<b>19.6</b>
Public expnd. on education	% of GDP	3.9	4.1	-	-
Public expnd. on health	% of GDP	6.1	6.2	6.0	-
R&D expenditure	% of GDP	1.22	1.40	-	-
Military expenditure	% of GDP	1.8	1.2	1.0	<b>1.0</b>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Market competition is consistently defined and implemented both macroeconomically and microeconomically. Prices are fully liberalized and the currency is fully convertible. The size of the informal sector is between 10% and 20% of GDP. The Czech Republic fully complies with international rules for the equal treatment of companies. Entry and exit barriers within product, factor and capital markets are low or do not exist. The Czech Republic has a rather complex legal framework regulating business competition. In the period under review, however, several problems with the Czech economy's market-based structure emerged. It takes a significant amount of time and resources to establish a business in the Czech

Market-based  
competition  
10

Republic, a consequence of the country's still-complex and rigid legal framework for businesses. In the World Bank's Doing Business 2014 report, the Czech Republic was ranked 44th out of 189 analyzed world countries in terms of the overall ease of doing business, but 110th out of 189 regarding the ease of starting a business. New legislation in force since 2014 has simplified bureaucratic procedures somewhat, improving the situation as compared with the previous period. In January 2015, an amendment to the Trade Act came into force that significantly improved the business environment. Comparatively "business friendly" conditions are increasingly being applied with the aim of stimulating the inflow of foreign and domestic investment in regions with a high level of unemployment.

Policies and institutions setting competition rules correspond to standards applied in the European Union. The Office for the Protection of Competition (ÚOHS) was established in 1991 as the central state administrative authority responsible for creating economic conditions, favoring and protecting competition, supervising public procurement, and consulting and monitoring the provision of state aid. An overview of the current activities of the office and cases it has investigated in the studied period can be found in publicly available annual reports that also include statistical data and the agenda for the next period. ÚOHS is led by a chairman appointed by the president of the republic to a six-year term.

In 2013, parliament adopted a Public Procurement Act governing certain institutes. The legislative changes were significant for the supervision of the ÚOHS and enabled it to tighten its decision-making practices. In 2013, the ÚOHS reviewed 2,873 public-procurement cases on the basis of complaints received. The number of administrative proceedings initiated ex officio increased by 20% compared to 2012. While the same number of fines was imposed in 2012 and 2013, their total amount in 2013 increased by 48.7%.

This intensification of activity lasted throughout the review period. At the end of 2014, the ÚOHS issued three decisions imposing fines totaling CZK 5,070,000 (approximately €184,363) for cartel agreements related to market sharing and collusion in public-procurement bids to supply municipal technology. The highest fine paid in 2014 was CZK 25 million (approximately €26,000). Czech Railways was fined for purchasing Railjet trainsets incorrectly, without an open tender.

The Czech economy is strongly export oriented, and the liberalization of foreign trade has been essential for economic success. The country has been a member of the OECD and the WTO since 1995. As an EU member, the Czech government cannot negotiate new trade policies and act independently, but must proceed in accordance with EU legislation. However, the government also helps to develop business relationships. One example might be the Czech branch of the Facilitation of International Trade Procedures (FITPRO), which is registered with the United Nations' European Economic Commission and is affiliated with the Czech Chamber

Anti-monopoly  
policy  
10

Liberalization of  
foreign trade  
10

of Commerce. Its task is to create the conditions for and assist the introduction and development of effective methods in the technology underlying international (and domestic) trade in the Czech Republic, including electronic-data interchange (EDI) using UN/EDIFACT and other standards.

The Czech banking system is stable and consolidated. The banking sector was only marginally affected by the financial crisis; however, the percentage of nonperforming loans has slightly increased in comparison with the previous analyzed period. The ratio of regulatory tier 1 capital to risk-weighted assets increased from 13.9% (2010) to 16.3% in September 2013.

The Czech National Bank (CNB) is the country's primary bank and the supervisor of the Czech financial market. The conduct of financial-market supervision involves a range of activities encompassing licensing and approval proceedings, fulfilment of information duties, on-site and off-site supervision, and international cooperation. The CNB is an independent institution, and this independence has proven to be a key factor in the successful implementation of monetary policy and the control of inflation. The CNB regularly performs analyses of financial stability and the financial sector in the Czech Republic, performing stress tests within the banking sector and publicly presenting the results. In December 2014, there were 58 monetary financial institutions in the Czech Republic, among them 49 banks. According to the Czech National Bank (December 2014), the domestic banking sector is stable and profitable, with a ratio of loans to deposits of around 80%.

Banking system  
10

## 8 | Currency and Price Stability

In the period under review, the inflation rate decreased, and was below the lower boundary of the tolerance band around the CNB's 2014 target (1.4% in 2013 and 0.4% in 2014). The inflation rate in 2014 was the lowest since 2003. The CNB has kept interest rates at all-time lows for more than a year and a half, with a base rate of 0.05%.

Anti-inflation /  
forex policy  
10

The Czech currency (CZK) has been continuously stable, and experienced only slight shifts during the review period. The annual average for nominal exchange rates was about CZK 26 (November 2013) to the euro. The Czech economy went through a lengthy economic contraction in 2012 – 2013 owing to weak external and domestic demand, a consequence of shrinking public budgets and low household and business confidence levels. This produced anti-inflationary tendencies, and by the start of 2014, the danger of the Czech economy slipping into deflation appeared increasingly real. In November 2013, the CNB therefore started to use the exchange rate as an additional instrument for easing monetary policy. After an initial intervention at the end of 2013, actions throughout the year 2014 held the rate without major fluctuations at about CZK 27.5 to the euro. In January 2015, the exchange rate exceeded CZK 28

to the euro, and according to the Wall Street Journal, the koruna was the worst performing currency. The central bank announced plans to continue these interventions until the second half of 2015, but as of the time of writing, some analysts believed this regime would continue until 2016.

Czech economic policy has been based on the single overriding objective of reducing the state budget deficit, and thereby limiting the growth in public debt. Both were low by European standards, but the policy mix and severity of austerity measures were similar to those in euro-zone member states facing severe debt crises. In the year 2013, the recession in the Czech economy continued; indeed, the decline in GDP was the same as in 2012 (-0.9%). The economy pulled out of recession in the second half of 2013. Developments in other EU countries have played a significant role for the heavily export-oriented Czech economy. At the end of 2013, new investments started to flow into the economy. The year 2014 was characterized by moderate recovery in the economy and modest GDP growth (2.6%). Public debt totaled 48.8% of GDP in 2013 (a slight increase as compared to 46.2% of GDP in 2012).

GDP growth was driven primarily by investment, facilitated by an easing of restrictions associated with large construction projects such as transport infrastructure, as well as co-financing from the EU budget. Growth in wages, salaries and other contributors to household disposable income enabled household consumption to rise. This economic development was also reflected in labor-market improvements.

A weakening of the CZK-EUR exchange rate leads to an increase in import prices, and thus also in the domestic price level. To a lesser extent, it also boosts domestic economic activity. At the same time, the weaker exchange rate supports Czech exports and corporations' profitability, thus enhancing their willingness to invest.

In December 2014, the government approved an action plan to support economic growth and employment for the remainder of 2014 and 2015. The plan draws together both legislative and non-legislative measures aimed at promoting economic growth. The action plan was prepared in cooperation with social partners, and was discussed at meetings of the Council of Economic and Social Agreement, as well as at a joint meeting with the regional tripartite bodies.

In December 2014, the Czech National Bank and the Ministry of Finance jointly recommended that no target date for adoption of the euro be set for the time being. This recommendation was based on a jointly produced document called "Evaluation of fulfilling the Maastricht convergence criteria and the degree of economic alignment with the euro area."

## 9 | Private Property

Private-property rights in the Czech Republic are respected, and government authorities regulate the acquisition, use and sale of property. Property rights are sometimes abridged by the overriding rights of constitutionally defined public interests, for instance by highway construction projects, the protection of cultural heritage objects, and environmental-protection measures. However, defining what constitutes a public interest is a very complicated procedure; for this reason, the government sought to implement a new legal regulation on this issue during the review period. The new Civil Code, taking effect in 2014, simplifies and clarifies the treatment of property rights, expropriation and the curtailment of ownership rights in the public interest. It additionally addresses acquisitions and other issues. It remains too early to evaluate the real impact of these changes, however.

Positive developments with respect to the procedures required for starting a new business have also improved the property-rights and regulatory environment. The Czech Point project, which allows multiple registration-related documents to be obtained at one place, began in 2009, and has simplified the company-registration process. According to the World Bank, registering a property required 24 days and included three procedures.

The restitution of church property, and specifically the return to churches and religious communities of property nationalized by the communist regime represents a particular problem. The adoption of the Restitution Act has been a complicated story not only at parliamentary level, but also at the societal level. However, this law came into force in November 2012, and church property began to be returned during the period under review.

Private businesses and enterprises constitute the backbone of the national economy, and difficulties connected with opening businesses are comparable to those of countries at a similar economic level.

The privatization of state companies has followed market principles, but some large state companies remain. Part of the current government's strategy for reducing public budget deficits has involved the sale of nonessential property. However, it will not privatize companies with state involvement that are deemed to be of strategic significance. As of the time of writing, there is no clear political agreement within the government regarding what should remain in the state's possession and what should be offered for privatization. The current government does not regard privatization of state property as a top priority.

In April 2013, after long negotiations and a search for a strategic partner, Korean Air bought part of the state's stake in Czech Airlines. Despite protracted negotiations, some large state enterprises such as the Czech Post and Lesy CR (Woods of the Czech Republic) have still not been privatized.

Property rights  
10

Private enterprise  
10

## 10 | Welfare Regime

The state social-support system is regulated by law and guarantees basic benefits to the whole population. There are no sectors or social groups that are in principle excluded from the welfare system. Citizens are granted the right to benefits if they and their household members permanently reside in the Czech Republic, or if they are EU citizens. For non-EU foreign nationals, special rules apply.

The change of government, when the right-wing Nečas cabinet was replaced by Sobotka's center-left coalition cabinet in 2013, has resulted in changes or mitigations of some previous social reforms. Nečas' cabinet sought to reduce the state's budget deficit through targeted initiatives for the reduction of social-welfare payments, and by encouraging Czech citizens to take increased responsibility for their own health and welfare.

The majority of all old-age pension payments are covered by the state through a pay-as-you-go system. Currently, the state covers 95% of all pension payments. The aging of the population, which has raised questions regarding the pension system's long-term financial sustainability, was taken as an incentive to implement reforms. In January 2013, a "major pension reform" came into force, with the aim of diversifying funding within an additional second private pillar scheme. This pillar includes a voluntary private element. Entering the new pillar of the pension scheme is voluntary but irreversible. The main purpose of the reform was to allow economically active people, via the newly established second private pillar, to opt out by transferring a part of the compulsory contributions ordinarily paid to the public pay-as-you-go pension system to newly established private companies. General interest in participating in the new scheme has been very low. The new coalition government (ČSSD, ANO and KDU-ČSL) decided to abolish this second private pillar as of January 2016. As of the time of writing, the precise mechanism for doing so had not yet been settled. Proposals on this topic, along with other important structural changes to the Czech pension system, had been made by the newly established Expert Committee on Pension Reform, composed of representatives of coalition and opposition political parties, interest organizations, social partners, sociologists, demographers and economists. The Chamber of Deputies was expected to produce an amendment to the law on pension savings.

The health reform that entered into force in 2012 aimed to increase individual citizens' roles in financing health care. In the period under review, more than 80% of health expenditures were funded through public resources. In 2014, some of the reforms were abandoned by the new cabinet, and the Constitutional Court annulled regulated fees for hospital usage. Consequently, fees including co-payments for doctor visits, for visits to specialists without a referral, and for pharmaceutical prescriptions were curtailed at the end of 2014. The only such charge remaining was

Social safety nets  
10

that for emergency medical services. This decision has created some financial problems for the health sector, as the fees were an important source of income, and their revocation provoked protest from health professionals.

The Czech legal system guarantees legal equality of access to work, education and social services. There is no official discrimination on the basis of gender, race, religion or social origin. Literacy rates in the country are very high. Both males and females have the same degree of opportunity in the education system. Women account for a larger share of students within the tertiary education system than do men. Education at state schools is free of charge at all levels.

Equal opportunity  
9

However, a structured support system intended to allow marginalized groups to overcome their initial disadvantages has been insufficient. This has been the greatest problem with regard to the Roma minority's access to education and employment. Roma pupils account for about 30% of students in so-called special schools dedicated to those with learning disabilities – a share significantly higher than the proportion of Roma in the Czech Republic overall. The issue of special schools is a long-term weakness within the Czech education system, which insufficiently addresses the special needs of children. The special schools are mostly populated by children of Roma descent or those from otherwise socially disadvantaged families, and opportunities to return to the mainstream educational system are limited. A regulation proposed in 2014 that offered the possibility of more assistance prior to special-school transfers was ultimately insufficiently developed, and even risked further restricting vulnerable children's access to education.

Women held 20% of the country's parliamentary seats in 2013. Barriers to women's participation in the workforce remain, and harmonizing work and family life can be difficult. The preschools are underfinanced and lack sufficient capacity; in the period under review, almost 60,000 applications for public and private kindergartens were rejected on the basis of insufficient capacity. One possible solution was presented by legal changes in the regulation of child care services and the introduction of new forms of child care such as children's groups. In autumn 2014, the parliament approved the Act on Child Care Services Provision relating to children's groups. The new regulation specifies the conditions under which different forms of caregiving can be offered.

## 11 | Economic Performance

Macroeconomic development during the period under review was characterized by slow recovery and low industrial output. In comparison with the previous period, industrial production grew despite fluctuation, and in November 2014 showed annual growth of 4.7%. The Czech economy was boosted by the CNB's foreign exchange interventions, low inflation rates and rising real wages (2014), the growing demand for Czech goods abroad, and rising domestic household consumption. The output of the automotive industry made a particularly strong contribution to the good results.

Output strength  
8

GDP began to show positive growth beginning in late 2013. As of the time of writing, 2014 was estimated at 2.7%. Despite the optimistic forecasts for 2015, GDP remains lower than before the onset of the crisis. Compared to the previous period, the unemployment rate decreased only moderately, but the number of available jobs increased, especially in the service, IT and manufacturing sectors

Revenues from industrial activity at current July 2014 prices increased by 14.8%, while direct export sales by industrial enterprises increased by 23.7% at current prices. By the end of the review period, the negative impact of the EU embargo against Russia began to manifest, with developments in Ukraine and declining demand from Russia serving as a further brake.

The Czech national debt is moderate. The banking system is consolidated, and interest rates have fallen to their lowest levels in history. To reduce the state budget deficit, parliament adopted an austerity package that took force in 2013, consisting of increases in value-added tax rates (to 15% and 21%), a reduction of pension valorization by two-thirds, and the implementation of higher tax rates for the highest income groups.

In 2014, the government decided to mitigate the impact of these austerity measures, starting in January 2015. Thus, the government increased the minimum wage by 8.2% to CZK 9,200, resumed the full indexation of pensions, and introduced a third VAT rate of 10% in product groups such as drugs, baby food and books.

## 12 | Sustainability

Environmental policy in the Czech Republic is driven by its obligations to implement EU legislation. Given the clear set of tasks and time schedules officially agreed upon during the country's EU accession, environmental protection and sustainable development are now an important part of the governmental agenda. However, the overview provided by the State Environmental Policy of the Czech Republic Report offers a rather unsatisfactory picture. In most areas, the Czech Republic still lacks key environmental legislation.

In December 2013, the Czech government commenced preparation for the ratification of the Kyoto Protocol extension (the so-called Kyoto Protocol II). As a part of this, it made new commitments to reduce greenhouse-gas emissions. As of January 2015, the protocol had not yet been ratified by the Czech Parliament.

Expenditure on environmental protection in the Czech Republic grew from 2.1% of GDP in 2012 to 2.2% of GDP in 2013, which brought the Czech Republic closer to the EU average (2.22% of GDP in the EU-28 as of 2012). This is a positive reversal of an earlier declining trend, especially considering the relative decrease in environmental expenditures across the EU as a consequence of the economic crisis. The focus of the country's spending is on wastewater management, air protection and climate, and waste management. Between 2012 and 2013, investment related to environmental issues grew by 5.9% (€1 billion). As in previous years, the majority of investment is allocated to the gradual modernization of polluters' facilities and equipment. Both state (central and regional) and private sector investment spending grew in 2013.

In the period under review, the main topics in the area of education centered around the financial sustainability of the Strategy for Educational Policy 2020, which was proposed in February 2013 by Prime Minister Nečas' government, with the strategies adopted in July 2014 by Prime Minister Sobotka's government.

The main strengths of the Czech educational system include well-developed educational infrastructure, a dense network of educational institutions, the education system's focus on the development of key skills, the high number of university graduates, the average and better-than-average outcomes in international comparative reviews (PISA, TIMSS, PIAAC), and the society's historically high regard for education. The system's main weaknesses include below-average funding levels; a lack of conceptual management; unequal access; a failed attempt at reforming the university system, especially in financial terms, which has endangered the successful implementation of the Bologna system; underfinanced preparatory facilities for teachers and a consequent lack of high-quality applicants for teaching positions; a lack of monitoring and quality management in schools; a comparatively inefficient Education Ministry; and an inability to communicate the government's vision for educational policy to educators or to the public.

Environmental  
policy  
8

Education policy /  
R&D  
9

The main planks of the new Strategy for Educational Policy 2020 include the introduction of a Career Code; proposed changes in financing of preschools and elementary, secondary and tertiary schools; and the prospect of increasing education spending as a share of GDP. The weaknesses of the proposed strategy include the lack of a conceptual approach, an apparent lack of synergies, its role in deepening mistrust between educators and the Ministry, and the danger of a decline in education quality due to a regulatory approach that lacks incentives for educators.

The so-called special schools within the Czech education system represent an additional long-term weakness, as they do not sufficiently address pupils' special needs. The special schools are mostly attended by children of Roma descent or those from socially weaker families, and the ability to return to the mainstream educational system is limited. A regulation proposed in 2014 that offered the possibility of more assistance prior to special-school transfers was ultimately insufficiently developed, and even risked further restricting vulnerable children's access to education.

In the period under review, public expenditure on education, science and innovation totaled 11.1% of GDP, below the EU average of 12.4%. Public expenditure on R&D grew from 1.4% of GDP in 2010 to 1.9% GDP in 2012. EU structural funds played a crucial role in this increase, with their share in total R&D expenditures increasing from 10% in 2011 to 16% in 2012, most of which was allocated to universities and public research bodies. The importance of R&D is reflected in the creation of the position of deputy prime minister for R&D by the Sobotka government.

In 2013 and 2014, large R&D infrastructure projects were underway in various Czech regions. However, as of the time of writing, the Ministry of Education and Science was reviewing the sustainability of these projects under the National Sustainability Program (I and II).

In 2012, direct R&D support from the state budget reached its highest level since 2001. Nevertheless, in November 2013 the rectors of the country's technical universities called for a further increase in R&D allocations from the state budget in order to reach the level of advanced countries such as Germany and Scandinavian countries, and to enable high-quality primary research. As of the time of writing, there were no plans to increase R&D expenditures in 2014 – 2016.

The corporate sector's share of R&D expenditure is decreasing; in 2012, the business sector's R&D expenditures amounted to 54% of the total, compared to a 62% share in 2004. The Czech Republic also continued to support applied research in the private sector, with approximately 20% of public R&D expenditures invested in corporate activities. This policy has produced a continuous struggle between backers of primary and applied research. Corporate R&D advocates strongly support the allocation of more resources to applied research, and are winning significant political support. Universities and public research bodies have contested this vision in an increasingly public struggle to protect primary and experimental research, as well as public-sector applied research.

## Transformation Management

### I. Level of Difficulty

Socioeconomic conditions in the Czech Republic are relatively stable. Although they did deteriorate in the aftermath of the global economic crisis, recovery has been evident during the period under review. Unlike some developing states, the Czech Republic does not have serious structural problems.

Structural  
constraints

1

The tradition of civil-society organizations dates back to the 19th century in the Czech-speaking region. Under communism, civil-society organizations were mostly subordinate to the state, and in effect became moribund between 1948 and 1989. Following the Velvet Revolution, civil society revived. Three types of organization exist today, including organizations revived from the pre-communist era, organizations that continued to exist under communism, and organizations newly created in the post-1989 period.

Civil society  
traditions

1

In the early 1990s, there was a sharp increase in the number of NGOs, with membership ranks expanding quickly. This initial public enthusiasm for participation was replaced by an equally sharp decline in citizen activism. Within the last decade, membership and participation in civil-society activities has been marked by the consolidation of some prominent NGOs, while marginal ones have been closed. Consequently, there has been a widening gap between organizations adapting successfully to the new post-communist conditions and those that have been unable to catch up.

Between 2011 and 2014, a surge in association competence was evident, with a number of new active and media-savvy NGOs emerging to address important issues such as transparency, corruption, city planning, and more. Numerous public initiatives emerged addressing issues resonating with post-materialist values such as tolerance, LGBT rights, food safety and organic food, and participative budgeting at the local level. Many citizen initiatives were successful in the 2014 local elections, most notably in Brno (Live Brno, with the support of the Pirate Party, gained 11.89% of the local vote, becoming the third-largest party in the municipality). This is clear evidence of the strength of the country's civil society, which to a significant degree is able to compensate for the weaknesses of political parties and intra-party democracy.

At present, there are no major ethnic, religious or social conflicts in the Czech Republic.

Conflict intensity  
1

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Until recently, neither a governmental office nor a parliamentary committee dealing directly with strategic planning had been established. However, in the second half of 2014, a small strategic planning unit was created within the Office of the Government. At the same time, the advisory Council for Sustainable Development was upgraded, moving back from the Ministry of Environment to the Office of the Government. The government's manifesto, which is presented to the Chamber of Deputies for a vote of confidence, forms the framework for the development of short-to medium-term policy. Strategic planning is driven by the Europe 2020 program and its five main goals, which was adopted by the European Council in June 2010. The main areas of focus here include employment, R&D, energy efficiency, education, and social inclusion in conjunction with decreased poverty.

Prioritization  
8

The Czech government's national sub-goals for employment include attaining a 65% employment rate among women and a 55% employment rate among older workers; decreasing unemployment rates among youth by one-third and among the low skilled by one-fourth as compared to 2010; reducing administrative burdens for businesspeople by 30% as compared to 2010; and increasing labor productivity by 20% as compared to 2010. Additional goals include increasing R&D investment to 2.7% of GDP, increasing energy efficiency in order to reduce use of primary energy sources, increasing the share of the population between 30 and 34 years with university education to 32%, reducing the share of early school leavers to 5.5%, and reducing the share of people at risk of poverty from 15.3% to 15%, thus improving social inclusion.

There are several expert policy-advisory bodies within the Government Office, such as the National Economic Council (NERV), which was responsible for the formulation of the pending economic and anti-corruption reforms. However, NERV's activities were suspended in August 2013. Another example is the Research, Development and Innovation Council (RDIC), which is responsible for R&D policies. While NERV was an advisory body with no direct responsibility, the RDIC has policy-generating functions and other responsibilities.

Between 2009 and 2015, the RDIC's objectives and activities centered on nine objectives: establishing strategic management at all levels; focusing state aid for

research, development and innovation (RDI) on the needs of sustainable development; improving the efficiency of the state RDI-aid system; implementing R&D results and improving public-private cooperation in RDI; enhancing the country's involvement in cooperative international RDI projects; ensuring the quality of human resources in the RDI sector; creating a national environment that stimulates RDI; ensuring effective links to policies in other areas; and establishing a system for the continuous and rigorous evaluation of RDI.

The overall implementation of government measures has been slow due to internal divisions in the governing coalition of the Nečas governments, the limited mandate of the Rusnok interim government, the widespread neglect for strategic issues, and the lack of strategic-governance institutions. Although successive governments have set priorities, a substantial gap remains between proposed goals and the actual results.

Implementation  
7

Three key issues have constrained the functioning of the government and impeded its efforts to engage in structural reform. First, the Nečas government did not hold a majority in the Senate. This issue was not relevant for the Rusnok government, which failed to win a vote of confidence in the lower chamber, and thus its interaction with the upper chamber (the Senate) was limited. Nor has it been an issue for the Sobotka government, whose governing coalition holds a majority of 49 seats (out of 81).

A second problem has been the deep internal divisions between governing-coalition parties, as was the case for several parties in the Nečas government (particularly the Civic Democratic Party and the Public Affairs Party).

Third, interventions by presidents Klaus and Zeman in the main governing parties have complicated reform efforts. Both Klaus and Zeman are former party chairmen, respectively of the Civic Democrats and the Social Democrats. Following the intervention of President Klaus, the Civic Democrats lost their role as the primary standard-bearer of the political right in the October 2013 elections. In Zeman's case, the Sobotka-led Social Democrats fended off the president's attempt to install his ally Michal Hašek at the party's helm. Thus, the relationships between Czech presidents and prime ministers have tended to be less than cordial.

The current Sobotka government seems to be navigating this situation rather well, as demonstrated by its ability to overturn of the presidential veto of the Civil Service Act in October 2014, with 127 of 172 parliamentarians supporting the government position. In November 2014, President Zeman announced that he would appeal the issue to the Constitutional Court. However, the measure entered into force on 1 January 2015. The Sobotka government has also improved the management and oversight system for the use of structural funds, which has led to a higher absorption rate.

The organization of the government and public administration remains relatively rigid. Following EU accession, programs were initiated to improve administrative practices and to take advantage of modern methods of management. However, much of the practice of governing has been affected by the nature of coalition governments, and reinforced by the inertia of officials, leading to a lack of progress.

Policy learning  
8

Unlike other Central and East European countries, the Czech Republic does not have a ministry dealing with EU issues and funds. As a result, the management of EU funds is scattered across various ministries. Activities and programs are not well coordinated, and many are poorly drafted.

The Europe 2020 strategy represents an important learning instrument for strategic planning. Observation, emulation and knowledge exchange on the EU level have contributed significantly to progress in areas such as R&D and environmental policy. In the research, development and innovation (RDI) sector, exchange with academic experts and practitioners has enhanced policy learning through the systematic evaluation of foreign experiences.

In the period under review, particularly in 2014, the quality of communication by government bodies and agencies with the public improved. More information is now available. However, coordination remains rare, and strong variation can be detected across various policy areas.

## 15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. The allocation of taxes through the national budget along with a certain degree of tax autonomy and financial decentralization have given regional governments more autonomy in fulfilling their governing functions and managing basic infrastructure. EU regional funds represent an important resource for regional development.

Efficient use of  
assets  
8

In 2013 and 2014, large R&D infrastructure projects are being constructed in various Czech regions using EU funds. However, the public funding needed to render these large-scale projects sustainable has not been definitively earmarked.

The implementation of the Civil Service Act, which took effect in January 2015, holds the potential of improving administrative organization and the efficiency of the government's personnel use. However, its final version includes a controversial clause on politically nominated state secretaries. This is a means of securing political influence, and is as such a hindrance to the implementation of competitive recruiting procedures.

Government budgetary policy successfully held debt at a very manageable level. However, this policy has led to economic decline rather than growth. In 2013, the state budget posted a lower deficit than in 2012. This was the best result since 2008, and enabled the Czech Republic to meet the budget-deficit criterion for adoption of the euro for the first time since 2008. Indeed, the government managed to keep the public deficit below 3% of GDP throughout the period under review. However, this was largely through cost-saving measures and restrictions on investment.

In the period under review, institutional structures underwent little change despite the shift from an indirectly to directly elected president in 2013. The president's powers remain unchanged. In 2014, a discussion on political-party financial oversight included a proposal for the establishment of new monitoring institution or alternatively for strengthening the Supreme Audit Office's competences.

Whereas the Nečas government sought to reconcile coalition partners' conflicting objectives and interests with only partial success, the Sobotka government was able to implement numerous decisions based on its coalition agreement.

Policy  
coordination  
7

The obvious improvement of policy coordination under Sobotka government is mainly due to the three coalition partners' (ČSSD, ANO and KDU-ČSL) willingness to follow a coalition agreement and agreed-upon governmental policy declarations in 2014.

Formal and informal mechanisms of interministerial cooperation are one means of coordinating policy, but informal coordination mechanisms among the leaders of coalition parties also take place. The effectiveness of these practices in resolving disagreements is evidenced by the infrequency of open disputes within the government. The Sobotka government's coalition agreement includes fixed principles for coalition cooperation and coordination. The Social Democrats control eight ministries, while ANO holds seven (including the Ministry of Finance under Andrej Babi, who is also first deputy prime minister) and the Christian Democrats (whose chairman, Pavel Belobradek, is second deputy prime minister) three.

The government's legislative plan divides tasks among the ministries and the state's other central administrative bodies, and sets deadlines for the submission of bills to the cabinet. The government takes part in the interministerial consultation process along with other ministries. However, strong barriers between the ministries exist, and cross-cutting project groups are rarely established. In 2014, ANO coordinated interministerial consultations among the seven ministries under its control.

The Czech Republic has long battled against corruption. Although the most recent cabinets have placed anti-corruption policy high on their agenda (indeed, it was the top agenda item for the Nečas government), most have failed to propose concrete measures affecting the public administration, the police forces or the political sphere in general. In December 2012, the Nečas government published a second anti-corruption strategy plan entitled “From Corruption to Integrity” (covering the years 2013 and 2014). The strategy plan positively assessed achievements of the first anti-corruption strategy (passed in 2010, implemented in 2011 – 2012). On 22 May 2013 Deputy Prime Minister Karolina Peake submitted a report entitled “Information on the status and method of implementation of the tasks contained in the government strategy in the fight against corruption in the years 2013 and 2014 for the period of first quarter of 2013.” In this report, the government’s anti-corruption strategy for the first quarter was positively reviewed – out of 74 tasks, 12 had already been fully or partially met (16%), while 57 showed progress (77%) and five had not yet been met (7%).

The already completed tasks (i.e., bills on the issue had been submitted to the government) included the Civil Service Act (regulating the status of civil servants, including issues such as recruitment, hiring and firing policies, and training, with the aim of reducing undesirable political influences on decision-making officials, and increasing government professionalism and stability); the Prosecution Act (seeking to strengthen the independence of the State Prosecutor and the fight against corruption; the proposal includes the establishment of the Office for Combating Corruption as part of the Supreme Public Prosecutor’s Office); an Amendment to the Law on Free Access to Information (which includes the prospect of a high-level authority able to order the mandatory provision of information, as well as the obligation to publish internal regulations relating to the actions of outside statutory bodies), a provision the protection of whistle-blowers (here, persons who notify the authorities of misdoings will be granted better personal protection and a better opportunity to assert their employment rights). However, civil-society groups, the media and the public took a less positive view of the progress, criticizing the changes as being excessively formalistic and legalistic, and noting that the measures had only been proposed, not yet passed

The Sobotka coalition government recognizes corruption more generally as one of the most serious problems within Czech society and anti-corruption policy played a key role in the coalition agreement and the government program. In its coalition agreement, the Sobotka government offered a critical review of previous governments’ anti-corruption activities, calling them excessively formalistic and inefficient; the situation was correctly assessed and strategies were formulated, the document stated, but the process was too formalized and the outcomes limited. The new government disposed of its predecessor’s anti-corruption strategy in favor of “simple and conscious” action plans, more strongly incorporating recommendations

Anti-corruption  
policy  
8

by international bodies and the European Commission, with a focus on prevention and legislation. Yet like all previous governments, the Sobotka cabinet has already experienced problems in translating action plans into action.

In the 2013 elections, a number of parties and parliamentarians supported detailed anti-corruption plans proposed by NGO groups such as the Reconstruction of the State project (Rekonstrukce státu). However, legislators have had difficulty in fulfilling their electoral promises in this regard. Reconstruction of the State is a joint project of nearly 20 domestic and international NGOs, whose nine goals include creating transparent party-finance rules, implementing an asset-declaration system for elected officials, creating a system for publishing public-procurement contracts online, abolishing anonymous company shares, creating transparent appointment procedures for the boards of state-owned companies, increasing the independence of the public administration, protecting police investigations from political inference, creating a more transparent legislative process (particularly by eliminating ad hoc amendments), and by expanding the powers of the Supreme Audit Office.

Unlike previous NGO projects, Reconstruction of the State continuously monitors parliamentarians' voting behavior, using the media and social media to name those who violate their election promises. It offered support for a number of senators in the 2014 elections (19 elected senators have committed themselves to the support of the project's anti-corruption measures), seeking to ensure that political momentum is maintained.

## 16 | Consensus-Building

There is a general consensus among the major political actors and the public on the merits of democracy.

Consensus on goals  
10

All major political actors also agree on the consolidation of a market economy as a strategic, long-term transformation goal. The effects of global economic crisis, controversy over governmental reforms and the impact of the country's first direct presidential elections in 2013 intensified the confrontational character of Czech politics, and deepened the left-right gap. The ongoing implementation of the Europe 2020 Strategy and the euro economic-convergence criteria have partially served to bridge the otherwise low general level of consensus regarding goals, reforms and the overall course of the political process.

In principle, there are no anti-democratic veto players in the Czech Republic. However, experience to date suggests that small governing majorities in the lower chamber, along with the relative fluidity of the party system, do not facilitate the implementation of major long-term reform plans. In each of the last five parliamentary elections, a new political party both entered parliament and was a part of the governing coalition. In each case, the party soon lost all parliament seats.

Anti-democratic  
actors

10

In the period under review, the TOP 09 reversed this trend and entered parliament for the second time after the 2013 elections after being part of the Nečas government (although it was significantly weakened). The new party participating in the 2013 election was Andrej Babis' ANO. ANO's success in both in 2013 and 2014 elections can be traced to the general disenchantment of the public with party politics and reform blockades. ANO's campaign capitalized on this by portraying Andrej Babis, a successful businessman, as a savior of the corruption-ridden ineffective state, which Babis would run as competently as his business empire.

Since 2012, the Czech Republic has been experiencing a surge of populism both within major political parties (in particular ANO, with its 2014 campaign slogan "We will simply do it") and among smaller parties. However, strong tendencies toward radicalization have not been evident. The new political party called Dawn of Direct Democracy, led by Senator Tomio Okamura, was unable to gather significant public support for its covert xenophobic agenda, and sank into obscurity in 2014.

Cleavages driving intra- and inter-party competition have stemmed from disagreements over all major reforms, but particularly those related to taxation and pension reform, and from attitudes toward the country's deepening European integration (in particular the potential adoption of the euro). The political management of social cleavages in the Czech Republic has been rather poor, as the main political actors have contributed to increased polarization grounded in Czech society's underlying socioeconomic divisions.

Cleavage /  
conflict  
management

8

These political developments have been accompanied by an increasing public disenchantment with political parties and government performance, and offer fertile ground for populism.

The Sobotka government's attempts to bridge these tensions found institutional expression in the establishment of two governmental advisory bodies, the Expert Committee on Pension Reform and the Expert Committee on Family Policy. Both committees include members of the coalition and the opposition political parties, experts, and civil-society representatives.

With the exception of the Roma community, which has been disproportionately affected by the economic crisis and is increasingly targeted by populists, the government has not had to deal with any ethnic conflicts.

Non-governmental organizations play an important role in local planning and the creation of regional strategies. The government's legislative rules define which entities are considered to be legitimate "commenting actors" during a consultation period. In this respect, trade unions and employer associations have the opportunity to make comments on bills dealing with social and economic issues during tripartite meetings with the government in the Council for Economic and Social Accord. The consultation process has become more open thanks to the electronic publication of legislative norms and regulations. The main employers' unions and the main trade unions both have considerable resources and expertise with which to develop coherent policies.

Civil society  
participation  
9

Trade unions and employers found common ground during the economic global crisis, when the economic interest associations became important partners for the government as it sought solutions that would ensure economic prosperity and societal cohesion. During the economic crisis, the trade unions and other NGOs were unified against the austerity measures and government reforms. In the period under review, the Czech-Moravian Confederation of Trade Unions and the Association of Free Unions, the two most influential unions, showed a trend toward greater collaboration and coordination, even filling in for one another when necessary.

Reconciliation, or the lack thereof, was one of the central themes of the 2013 presidential elections. The Benes Decrees, a series of laws most often associated with the deportation of Germans and Hungarians from Czechoslovakia in 1945 to 1947, were criticized by presidential candidate Karel Schwarzenberg as inconsistent with contemporary human-rights standards. Schwarzenberg stated that under current international human-rights norms, Benes would have to stand trial at the European Court of Human Rights (ECHR) or The Hague. Schwarzenberg's opponent, Milos Zeman, quickly realized the mobilization potential of this highly contested issue, and seized on the Benes Decrees as the focal point of his campaign.

Reconciliation  
9

Although Schwarzenberg and numerous other experts clarified that the Benes Decrees were irrevocable, the irrational fear of German property claims triggered by an abolition of the decrees prevailed. This case demonstrates that many Czechs are not willing to reopen this chapter of history to public debate, and are unwilling to address the issue of the so-called wild deportation, which was associated with mass violence and murders.

However, there is a strong generational change underway, and the young generation is increasingly questioning important chapters of Czech history, including the deportation of Sudeten Germans, the political processes of the 1950s, the aftermath of the 1968 Soviet invasion, and the death of Jan Palach.

The restitution of church property is another controversial issue related to reconciliation and past injustice. On the one hand, the majority of Czechs agree that

the state's confiscation of church property in 1948 was unlawful. On the other, only a minority (about one-third) regards the Czech state as having a moral and historical obligation with regard to the restitution of this property. The future cooperation between the state and the church in support of vulnerable citizens, as jointly announced by Sobotka and representatives of the Catholic Church in October 2014, was an attempt to gain public support for the restitution of church property.

## 17 | International Cooperation

Since the Czech Republic's accession to the European Union, the government's activities have adapted to and are strongly influenced by the EU's legislative framework. In the period under review, the impact of the European Union in promoting domestic reforms was intensified by the need to come to domestic agreement on goals outlined in the Europe 2020 strategy and the associated country-specific goals, the euro convergence criteria, and the EU country report on corruption. The European Union's emphasis on the establishment of concrete goals and steps for implementing reforms, the presence of systematic and rigorous monitoring, and a shift in the domestic political climate toward a more pro-European environment all contributed to improving the quality of implementation of medium- and long-term development strategies. Particular successes have been evident in the areas of environmental policy, R&D, and to a lesser degree anti-corruption policy.

Effective use of  
support  
10

In general, the government acts as a trustworthy and reliable partner in its relations with the international community. Joining the European Union has enabled the Czech Republic to acquire greater credibility within the international business community. The Czech Republic is one of the few EU countries to have retained its AA- credit rating. However, in 2011 – 2013, the decision of the Czech Republic to oppose the European Fiscal Compact, in combination with a lack of credible plans to implement euro, inconsistent attitudes toward the European integration process and numerous scandals associated with the use of EU funds, resulted in a marginalization of the country within European decision-making structures.

Credibility  
9

In contrast, the Sobotka government endorsed the Fiscal Compact and has envisaged an adoption of the euro prior to 2020. Newly elected President Zeman, as opposed to predecessor Václav Klaus, is an avowed supporter of the European Union and the process of European integration. During the Ukrainian crisis, however, Zeman criticized the implementation of the international sanctions against Russia.

In addition to the membership in the European Union, the Czech Republic is a member of the Visegrad 4 (V4) group. In the eyes of the European Commission, regional groupings such as V4 are very useful in delivering a valuable and effective regional response to the Community's policies. Efforts to define common interests within the European Union context have resulted in a strengthening of V4 regional cooperation.

Regional  
cooperation  
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However, during the period under review, regional cooperation within the group decreased in comparison to the previous periods, with each country focusing more intently on its domestic issues. This shift has been driven by the varying effects of the global economic crisis, and by the individual countries' varying geopolitical ambitions within the European Union and NATO (particularly Poland). One exception has been the Visegrad Battlegroup initiative, driven by Poland. This initiative, originally presented in 2011, introduced enhanced military cooperation among the V4 countries under the auspices of the NATO Response Force. The first joint exercise was held in 2013 in Poland. In response to the Ukrainian crisis, a decision was made to include Ukraine. In March 2014, the V4 members signed a pact creating a joint military body within the EU, committing themselves to joint military exercises, coordinated defense procurement and joint development of defense strategies.

The Czech Republic is fully integrated into international structures. The end of Vaclav Klaus's presidential term and the electoral victory of the Social Democrats in the 2013 parliamentary election led to a decrease in political euroskepticism. The government regards membership in NATO as the cornerstone of the country's external-security policy. External security has been further strengthened by taking part in foreign military missions under the NATO command structures in Afghanistan (from 2008 until the present) and the U.N. peacekeeping missions in Kosovo (Kosovo Force (KFOR), 2002 – 2011) and Syria (United Nations Supervision Mission in Syria (UNSMIS), from May 2012 until the present). The main internal-security issue continues to be the fight against political extremism.

Historically, the Czech Republic has maintained strong and positive relationships with Slovakia. Bilateral relations with Germany are more complex, but have increasingly flourished.

## Strategic Outlook

Considerable room remains in the Czech Republic for further improvement politically, economically and in regards to the EU membership. Globally, the country should play a stronger international role, and should in particular seek to become more active on EU issues. Domestically, a key goal should be to find consensus on basic societal goals, and to reach political agreement on the desired level of state intervention in the economy, the appropriate level of social-welfare provision and the acceptable degree of wealth redistribution. Reforms should seek to strengthen the capacity, accountability and efficiency of the public administration; enhance the independence of the judiciary; strengthen the public-procurement system; improve public and social services; and enhance integrity and anti-corruption policy.

In the current political environment, major constitutional changes are not a viable option. However, the problems presented by small governing majorities should be addressed in an electoral reform enabling governments to reach more than minimum winning coalitions, and by changes to the rules of procedures for the lower parliamentary chamber that would prevent the now-routine creation and collapse of new parties. This could be done by the establishment of higher thresholds for the creation of coalitions, and by allowing party clubs within the parliament.

The Czech Republic currently faces a number of significant policy challenges. The Czech economy continues to be overly dependent on foreign investment by multinational companies, and particularly on the automotive industry. The main reasons for this dependence are the presence of skilled workers within the Czech Republic and the country's convenient geographical position, which allows for cross-border transactions and transfers between Czech and German facilities. In order to sustain its competitiveness, the Czech Republic must strengthen its vocational-training system by introducing dual programs consisting of training within companies paired with education in practical skills. Some companies such as Skoda Auto can serve as an example.

Furthermore, in order to make economic growth sustainable, the Czech government needs to pay more attention to research, innovation and education. Investment in R&D by both the public and private sectors must be increased from its current level. The Czech government must also adopt measures to increase the percentage of the population participating in higher education in order to improve the international competitiveness of the Czech educational system, as well as the economy more generally. Finally, the government must focus more strongly on family policy issues, in particular by strengthening support for families with children and enabling women to return to work after maternity leave. Other factors such as immigration may help to offset some of the negative effects of the ongoing demographic change. However, if this offsetting process is to function, the Czech Republic must become more proactive in attracting skilled migrants and integrating them into Czech society.

The goals of economic development in the Czech Republic have long competed with the need to reduce the budget deficit. Strategies should seek to reduce unemployment through consistent and mutually reinforcing economic, social, fiscal and monetary policies. However, if an optimal mix with regard to future challenges and opportunities is to be created, the strategic dimension of governance must be enhanced. This beginning of this process can be seen with the recent establishment of a small strategic-planning unit within the Office of the Government, which will collaborate closely with the upgraded Council for Sustainable Development.