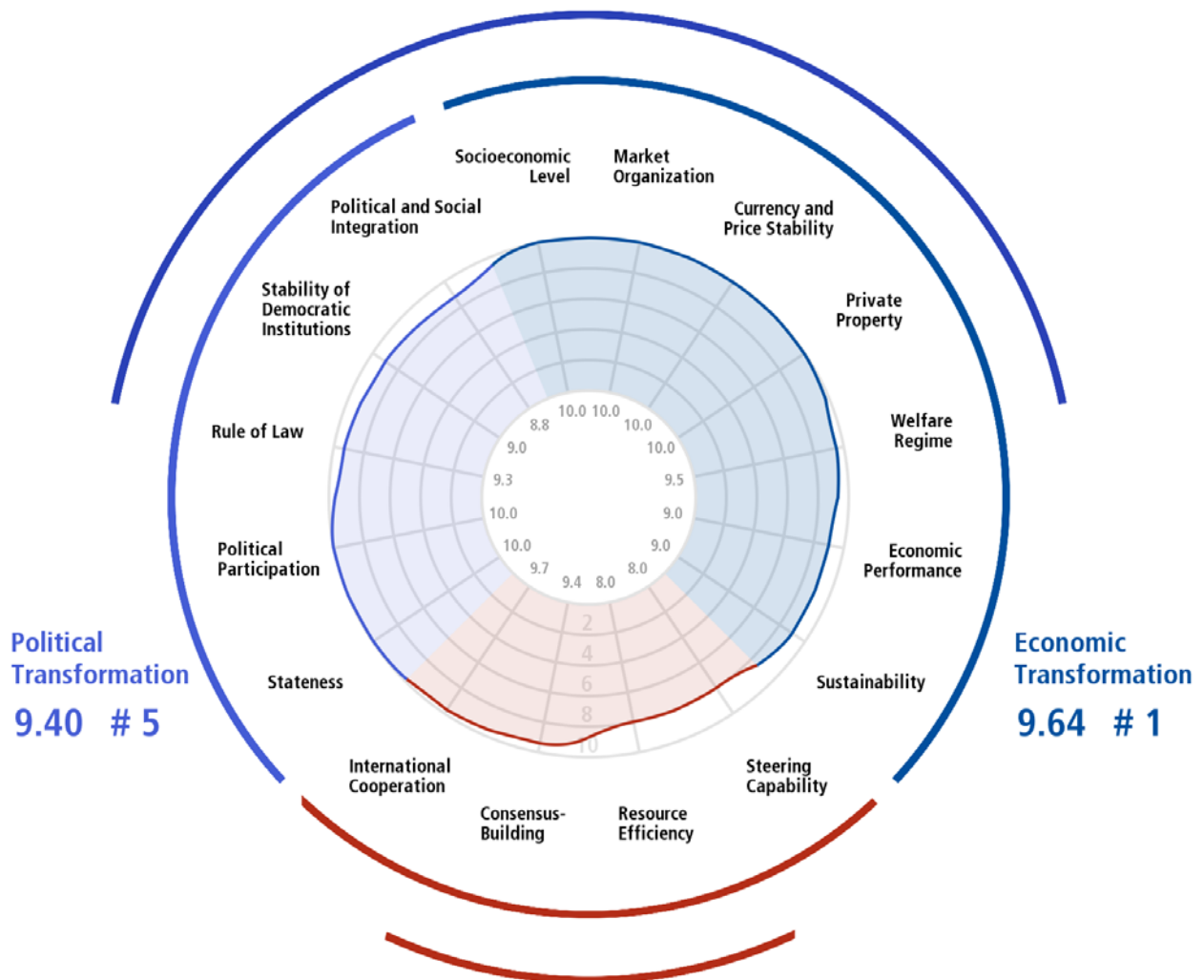


Czech Republic

Status Index

9.52 # 1

on 1-10 scale out of 129



Governance Index

7.03 # 7

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

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Key Indicators

Population	M	10.6	HDI	0.878	GDP p.c., PPP \$	34711
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	28	Gini Index	25.9
Life expectancy	years	79.5	UN Education Index	0.903	Poverty ³	% 0.0
Urban population	%	73.0	Gender inequality ²	0.129	Aid per capita	\$ -

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the period from 2015 to January 2017, tensions within the center-right coalition government grew. Prime Minister Bohuslav Sobotka criticized the biased reporting of the MAFRA group comprising two major newspapers and a popular radio station owned by Vice-Prime Minister Andrej Babiš. In January 2017, Sobotka's party, Czech Social Democratic Party (ČSSD), together with opposition party deputies adopted an amendment to the law on conflict of interest, also called Lex Babiš, to render media ownership incompatible with government positions and to exclude companies owned by members of government from participation in public procurement. Companies of the Babiš-owned Agrofert had been among the largest beneficiaries of EU funding and state subsidies. President Miloš Zeman criticized and vetoed the law, but was overruled by an absolute majority of parliamentarians. In the meantime, Babiš transferred his Agrofert assets into a blind trust to adhere to the new regulation and lead his party ANO 2011 (ANO) into the 2017 general elections.

Socioeconomic conditions in the Czech Republic improved in the period under review. Growth improved significantly in 2015 in particular due to the absorption of EU funds and low commodity prices. However, these effects are temporary, and the recovery since the global economic crisis has been uneven. No systemic reform of the pension system has been implemented. The government has carried out a set of incremental parametric reforms on both the mandatory public pillar and a complementary voluntary, private, fully-funded pension savings pillar with a state contribution. The share of Czech citizens with income less than 60% of the standardized median income is almost 10%. Indicators of inequality are viewed as good by OECD, with attention drawn to long-standing issues related to gender equity. However, the highly open Czech economy remains vulnerable to (possible) lower EU and world demand. The R&D system generates weak outcomes, which represents a key impediment and barrier in transition to a more diversified innovation-driven economy.

In 2016, an amendment to the law on party finance introduced an independent office for the oversight of party and campaign finance. Political parties will be required to have transparent accounts subject to monitoring by the newly established independent authority. The law also establishes limits on some donations that a party can accept from a single donor. The coalition of anti-corruption NGOs Reconstruction of State, a major proponent of the law, significantly contributed to its adoption by convincing members of parliament and senators to pledge their support to the reform, ongoing oversight and effective communication with the public.

Driven by populist political voices and unbalanced media reporting, Czech public opinion is strongly opposed to both reception and integration of refugees. Surveys indicate that the number of negative attitudes toward refugees grew from 50% in September 2015 to 64% in December 2016. These attitudes mainly refer to Muslim refugees from the Middle East and North Africa, not to Ukrainian refugees who have come to the Czech Republic in much larger numbers. The Czech public, driven by Czech elite opposition and growing anti-Islam rhetoric, is strongly opposed to any form of refugee resettlement quotas. In January 2017, President Milos Zeman became the only EU leader to openly welcome both the proposed wall on the U.S.-Mexican border and the U.S. ban on Muslim refugees. Zeman also criticized the EU's economic sanctions against Russia triggered by the conflict in Ukraine.

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 economically stagnating and 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 November 28, 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. It was first 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 president as of March 2013, 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. The partisan disunity in ČSSD led to Zeman's unsuccessful bid to become president. Feeling betrayed, Zeman turned into the most outspoken critic of the new leadership of Social Democrats. The conflict escalated in March 2007, when Zeman left to establish a new party Citizens' Rights Party – Zemanites (Strana prav občanů - 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 SD ally Michal Hasek. Due to a rejection of Hasek and strong support for Sobotka by both the SD base and broader public, Hasek was deserted by his allies and dropped by Zeman.

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. In the mid-1990s there was a shift away from a system characterized by “political amateurs” to one dominated by the new political class. This was evident in the evolution of political recruitment patterns, which became increasingly similar to those evident in liberal multiparty democracies. The stance on further European integration established a new political cleavage. This led to a re-fragmentation of right-wing political parties (Euro-sceptic and Euro-optimists) and contributed to fluidity of the party system marked by the continuous emergence of new political subjects. From 2013 onwards, a new period of political stabilization can be observed, with the right still fragmented, populist centrist ANO dominating the center-right, and Social Democrats the center-left.

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 EU. 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 (1990-93) was characterized by a considerable decline in key economic indicators such as the GDP. In the next phase (1994-96), the country witnessed a considerable economic growth, which was followed by recession in the third phase (1997-99). Economic growth was re-established only in 2000, at the onset of the four phases. The world economic crisis and the global economic slowdown in late 2008 had a delayed but significant impact on the Czech economy. It first hit the country in 2009 and the full recovery only took place between 2014 and 2016 driven by improving public management, fight against corruption, public investment, growing domestic demand and EU funding.

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 and territorial enclaves.

Question
Score

Monopoly on the
use of force

10



The Czech Republic (CR) is ethnically and nationally quite homogenous. In December 2015, foreigners, currently approximately 465,000, consist of roughly 4.3 % of the population. The majority of foreigners have a status of permanent residents and stem from non-EU countries. The most numerous groups according to the country of origin include Ukrainians (23%), Slovaks (22%), Vietnamese (12%), Russians (8%), Germans (5%) and Poles (4%).

State identity

10



The government's relationship toward minorities, especially the Roma, has steadily been improving over time, especially due to external pressure (EU, Council of Europe). Still past injustice against Roma, including the full recognition of the Roma Holocaust and forced sterilizations of Roma women during the Communist regime and thereafter have not been addressed.

In October 2015, Prime Minister Sobotka announced that his government rejected the bill to compensate Roma victims for forced sterilization. Despite criticism from civil society and human rights organizations, and judgments from the European Court of Human Rights, this serious violation of human rights remains neglected.

Driven by populist political voices and unbalanced media reporting, Czech public opinion is strongly opposed to both reception and integration of refugees. This is paradoxical, as the country previously integrated two waves of migrants without

major problems (in particular 8,500 from Bosnia in 1992 and 12,000 from Ukraine and Moldova in 2001), and the number of refugees seeking asylum in the Czech Republic is manageable. In 2015, the Ministry of Interior received 1,525 applications for asylum, of which 71 were approved and 399 applicants received additional protection (the possibility of one to three years residency in the Czech Republic), the top three application stem from Ukrainian (694), Syrian (134) and Cuban (128) applicants. Compared to 18,094 applicants in 2001, which did not raise any major alarm, the current situation is portrayed by populist politicians including the Czech President as an unmanageable stream and a danger to country's identity.

The Czech Republic is one of the most secularized countries in Europe. Religious dogmas have no influence on 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.

In the period under study, the Roman Catholic Church, the most active religious organization, which had previously had a limited political agenda became significantly more politically active – in particular, the anti-Islam articles of Cardinal Duka and intensification of anti-abortion rhetoric. In April 2016, the anti-abortion “March for Life” attracted 3,000 supporters including high-level clergy and political figures, including members of the government. However, there is a strong split within the Church between traditionalists such as the Cardinal Duka, who has close ties to President Zeman, and the reformists who support the views of the Pope.

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

Following a process of consolidation of various administrative functions, the regional tier of Czech governance has taken on greater importance. The budgetary allocation of taxes and financial decentralization have enabled regional governments to exhibit more autonomy in fulfilling governing functions and managing basic infrastructure. European structural funds constitute an important resource for regional development. A gap still exists between national and EU standards, which threatens the effective use of EU structural funds, in particular as the last year of the current funding period (2017) approaches.

However, all negotiations over regional budgets remain complicated by opposing political majorities on a central, regional and municipal level. This trend was further strengthened by the 2016 regional elections, in which new governing coalitions emerged, sometimes bringing the parties of the current government in open opposition. The victory of ANO in 2016 regional elections (ANO gained 176 mandates, while Social Democrats lost 80, Christian Democrats the third partner in

No interference of religious dogmas

10



1

Basic administration

10



1

the current governing coalition maintained its 61 mandates) led to some new regional coalitions.

The effective discretion of local and regional governments is limited – regional governments are constrained by the need to ensure set standards for key services, notably education, which limits the scope for transferring funds between uses. Irregularities in public procurement, against which NGOs campaigned, have been somewhat addressed, in particular, due to the EU pressure and strong oversight in respect to EU structural funding.

2 | Political Participation

Free and fair elections are regularly organized and constitutionally guaranteed. In the period under review, members of regional councils and one-third of the deputies of the second chamber of parliament (Senate) were elected on October 7 and 8, 2016.

All adult citizens, including convicted prisoners, can participate in national elections, and voter registration is relatively straightforward. However, while special provisions for a mobile ballot box facilitate voting for the disabled and seriously ill, there is no general ability to vote by mail. 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 abroad, and the number of registration points (embassies) is quite limited. There is no possibility of casting a postal vote. Embassies function as polling stations, which for many citizens mean extensive in-country travel or even travel abroad in the case of overseas countries. Given the continuously decreasing number of Czech consulates and embassies, this effectively reduces the voting opportunity.

During the 2016 regional and Senate elections, occurrences of vote-buying were not officially reported to the police. Media and watchdog organizations focused in particular on the North and West Bohemian regions, where such practices took place in the past especially among the underprivileged population and reported several cases (15). However, with limited to no evidence, there was no follow-up. Unlike in local elections, vote-buying practices are rarely used in regional elections. Media also reported some complaints among the vulnerable minority Roma population that no offers of vote-buying were made – the voters expressed their dismay and refused to consider “participating in elections for free” the electoral participation in the second round of Senate elections in Chanov, a district of Most with majority Roma population, where 0.84% (7) eligible voters took part in elections compared to the overall 10.78% participation in Most as a whole.

The electoral law guarantees parties access to state radio and television, with a total of 14 hours set aside for all parties to express their views with equal allocation irrespective of the party’s size or previous electoral performance. Thus, all parties do

Free and fair elections

10



1

have access to the public media, although presentations are often tedious and unlikely to hold viewers' and listeners' attentions. Space is also provided by municipalities for billboards, and political advertisements are published in newspapers.

There is an obvious bias toward more coverage and presentation for the larger parties, however, reflecting the parties' greater resources and also media perception that such parties are more important. Moreover, the current minister of finance and vice-chairman of government, Andrej Babiš, is the owner of one of the major media holdings – MAFRA.

In August 2016, before the fall Senate and regional elections, leaders of five major political parties refused to participate in a live political debate organized by Idu.cz (an online branch of the MAFRA biggest daily MF Today), accusing the media outlet of biased reporting.

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.

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. Interest associations have grown considerably in the Czech Republic since 1990. As of June 2016, there are over 127,500 autonomous, self-organized groups, associations, foundations and organizations registered in the country, not all of them active. Between 2011 and 2016, new NGOs emerged focusing on areas such as corruption, city planning, LGBT rights, food safety and participatory budgeting on the local level; many of them are effective and competent.

In the period under study, some protests for various and often opposing causes took place around the country, but especially in Prague. For example on October 28, 2016, the national holiday commemorating the foundation of modern Czechoslovakia in 1918, a total number of ten demonstrations was announced in Prague. These ranged from several protests against President Zeman and his populism, organized as an alternative to the official celebrations at the Prague Castle; two anti-Islam demonstrations entitled "Threat of Islamization" organized by several anti-Islamism groups; anti-NATO and anti-EU "Peace Demonstration" organized by the Communists; libertarian groups organized "Independence from Austro-Hungarian Empire;" and monarchists held a "Commemoration of the Fall of Austro-Hungarian Empire."

Effective power to govern

10



Association / assembly rights

10



The number of participants at these demonstrations ranged from 100-200 hundred (monarchists, libertarians, communists), to 500-1500 (anti-Islam, anti-migrant protests) to several thousand (anti-President Zeman demonstration).

Freedom of speech and the press are guaranteed under Czech law.

The Czech Republic has traditionally been characterized by a high degree of media freedom. The government does not limit access to the internet. Access to information legislation is in place and effective. Strong foreign ownership did not exercise visible influence over media content and coverage. This has changed with the transfer of ownership to Czech owners in recent years.

Vice Prime Minister Andrej Babiš has been publicly accused of using his media ownership to pursue business and political goals. In 2016, Prime Minister Sobotka said, “It is necessary to call things their proper names. MF Today and People’s News are not independent newspapers. They are owned by Andrej Babiš, who actively uses them as a tool of his business and political influence, and as a site of an untrue and purposefully misleading campaign against his ideological opponents.” A sizable portion of the public shared Prime Minister Sobotka’s opinion that Babiš’s media ownership would endanger Czech democracy.

This is why, the amendment to the bill on conflict of interest, also called Lex Babiš, passed in the Chamber of Deputies in September 2016, deemed, among others, media ownership (defined as printed media, radio and or television) as incompatible with governmental positions. The law gained a constitutional majority of 135 votes (Social Democrats, Christian Democrats, Top09 and Communists). None of the 47 ANO parliamentarians supported the bill. The bill passed in the Senate, and in January 2017 the parliament overruled presidential veto by 129 against 49 votes. The legal change came into force prior to the September 2017 parliamentary elections. The Lex Babiš deepened the rift between Prime Minister Sobotka and Vice-Prime Minister Babiš, who portrayed the vote as a personal betrayal by the Prime Minister. Babiš announced that he will seek to challenge the law at the Constitutional Court as interference with the right to private property ownership.

In 2015, Babiš threatened legal action against Foreign Policy magazine, which referred to him as an “oligarch” and saw his accumulation of economic and political power as potentially threatening Czech democracy. In a 2016 interview with the Financial Times, Babiš defended himself, saying, “My newspapers are completely independent. Of course, maybe – probably – there is some self-censorship, but that is not my fault.”

In January 2017, when scandal broke around the purchasing of bonds, which legally allow Babiš to avoid paying taxes, but whose purchasing price surpassed Basis’s legal income at that time, Babiš repeatedly complained about “politically motivated witch-hunt,” in particular by Czech TV. Babiš initially refused to say whether he paid any

Freedom of
expression

10



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taxes at all, and what was the source of funding for the purchase of his bonds. Nevertheless, under the pressure of other political leaders and independent media, he changed his mind and published some data about his incomes. At the same time, Babiš filed a formal complaint to the Council for Radio and Television Broadcasting (RRTV) of the Czech Republic, claiming that the journalists were corrupt and their reporting unbalanced.

3 | Rule of Law

Collusion between democratic institutions has not been a serious problem in the Czech Republic. There is a clear separation of powers with mutual checks and balances. The Constitutional Court effectively reviews executive activities.

However, throughout the period under study, there were several tensions between the president and the fragile center-left coalition government of Prime Minister Sobotka. Most recently in January 2017, Social democrats led by Prime Minister Sobotka, together with the parliamentary opposition overruled presidential veto of the Lex Babiš. This indicates that the tension is not between the president and the government as a whole, but between the president allied with ANO leader Andrej Babiš against Social and Christian Democrats. The Zeman-Babiš alliance seems to be centered on 2017 fall parliamentary elections (which Babiš is seeking PM post) and the January 2018 presidential elections (Zeman is expected to seek re-election and is hoping that ANO will not nominate a counter candidate).

Czech courts have operated independently of the executive branch of government. The most active control on executive actions is the Constitutional Court, a body that has triggered much controversy with its judgments across the political spectrum.

The justices of the Constitutional Court, the Supreme Court and the Supreme Administrative Court are appointed by the Senate, the second chamber of the Czech parliament, by proposals made by the president. Within the Senate, no special majority requirement applies. The process of appointing judges is transparent and adequately covered by public media. The involvement of both the president and the Senate increases the likelihood of balance in judges' political views and other characteristics. President Zeman's proposals have continued to be uncontroversial.

The judicial system lacks a transparent selection mechanism both for judges and for judicial personnel, and courts are understaffed (judges, judicial clerks, assistants). In November 2016, the Union of Judges announced its intention to challenge re-nominations of chairpersons and vice-chairpersons of courts of every level, including the Constitutional Court. This might be an attempt for generational change within the top echelons of the Czech judiciary, where several dominant figures seem to support circulation and change within lower courts, but do not think the rule applies to them (such as the current head of the Constitutional Court Rychetsky, who is a strong opponent of the repeated mandate of constitutional judges, one he currently holds).

Separation of powers

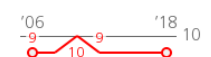
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Independent judiciary

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Upon entering office in March 2015, Minister of Justice Robert Pelikan announced his intentions for judicial reform. However, as of January 2016, the Minister had submitted to the parliamentary sub-committee for justice and judiciary self-government only nine pages from his White Paper on Justice. All major figures within the judiciary – Head of the Supreme Court, the Supreme Administrative Court, and the Union of Judges – disagreed both with the outcome (deemed unsatisfactory quality), but especially with the process (lack of continuity and lack of communication with the judicial branch). Representatives of the judiciary called on the Ministry of Justice to consult the judiciary during the preparation of the reform, rather than try to introduce foreign models incompatible with the Czech legal system (as was the case in the nine pages of the White Paper, which proposed a number of measures from Germany). Based on this strong and unified opposition of the judiciary, tired of ever-changing proposals by every new Minister of Justice (including the current minister, there were 15 in the period from 1993 to 2016), the reform was postponed indefinitely.

The fight against corruption has featured prominently in the program of the Sobotka government, which has criticized activities of previous governments as excessively formalistic and ineffective.

After the amendment to the law on conflict of interest, President Zeman, a strong critic of the law, lodged an appeal with the Constitutional Court. In the meantime, Andrej Babiš organized the transfer of the Agrofert ownership into a blind trust to adhere to the new regulation and lead ANO into the 2017 general elections, which he is expected to win.

The public has been disappointed by the circuitous lawsuits covering high-profile corruption cases, including the ex-Minister of Health Rath and the wife of ex-Prime Minister Nečas, without clear outcomes. A high-profile libel case against the Office of the President took place in 2016 in which the Office of the President was sentenced to pay a fine and to apologize to the granddaughter of a Czech journalist and writer Ferdinand Peroutka, who was slandered by the president as the author of an article “Hitler is gentleman.” The office of the President failed to provide evidence for the statement, but even after the ruling, the president refused to renounce the existence of such article. The Office of the President refused to issue an apology, to pay the fine (CZK100,000, €3,700) and continues to pursue further legal action. The president continues to repeat the slander against Ferdinand Peroutka and makes generalizations regarding fascination and admiration of public intellectuals for fascism and Nazism. The behavior of the president – both the defamation itself and the subsequent rejection of the several legal judgments have been criticized as undermining political culture – as the president continues to display a lack of respect for the rule of law. In October 2016, it became evident that the grounds for the defamation (the supposed article by Peroutka, which the president continues to cite, does not exist) was a similar article, by another author in another newspaper.

Prosecution of
office abuse

8

'06 '18 10

8

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The government and administration of the Czech Republic respect and protect citizens' basic civil rights. 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).

Related to 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 the persistent obstacle for Czech citizens accessing their rights. As complaints lodged with the Office of the Public Defender of Rights (ombudsman) and with the European Court of Human Rights have indicated, the main problem is the length of legal proceedings. The relatively high number of complaints compared to other East-Central European countries shows that Czech citizens are increasingly aware of their civil rights and have the resources (financial, cultural and social) to pursue these rights.

The Office of the Public Defender of Rights (Ombudsman) continues to serve as a vital protector of civil rights. The Public Defender of Rights delivers quarterly reports 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 for seeking 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 February 2014, Anna Šabatová became the Public Defender of Rights. In 2015, the office registered 7,679 complaints, which is slightly less than in the previous years. According to the 3rd quarter 2016 Report, the office received 2,193 of which 67% fell within its competence.

The Office of the Public Defender of Rights may also start inquiries on its own initiative – in 2015 and 2016, it organized regular visits to refugee facilities. Also in summer 2016, it completed an inquiry into police-related incidents during the March 2016 visit of the president of People's Republic of China to Prague. The inquiry concluded that in some instances “the police acted disproportionately and chaotically in providing security during the visit.” According to the Report, the Director of the Regional Police Directorate Prague accepted most of the findings and adopted appropriate remedies. In one instance, the director of the police disagreed with the Ombudsman's finding and the case was referred to superior authority.

In comparison with the previous period, the number of complains beyond Ombudsman's mandate decreased, information provision improved and the structure of complaints received by legal area has not significantly changed over time. Complaints in the area of social security are prevalent, especially in regard to pensions and social benefits. The second most numerous groups of complaints refer

Civil rights

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to construction and regional development, closely followed by the third set of issues related to the army, police and imprisonment.

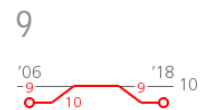
4 | Stability of Democratic Institutions

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.

After the shift from indirect to direct presidential elections in January 2013, the institutional structures of governing have undergone little change. In 2016, an amendment of the law on the party finance introduced an independent office for the oversight of party and campaign finance. The law was approved by the Senate and sign by the president in September 2016, and came into effect in January 2017 ahead of the 2017 general elections. Political parties will be required to have transparent accounts; their management will control the newly established independent authority. The law also establishes limits on a number of donations that a party can accept from a single donor. In December 2016, the president appointed Vojtech Weis to head the new institution.

A 2016 police reform also caused conflict in the governing coalition. In spring 2016, the police president announced the intention to undergo wide-reaching reform of the force, including centralization of specialized units (corruption task force, economic crime task force, and other special elite units) into one body. This was a top-down decision, which lacked substantial discussion with those involved and was rejected by stakeholders – both the leaders of elite forces and public prosecutors. The main reason for their strong reservations was the fear of encroachment on current cases, some of which are reaching to the highest echelons of power. In protest, the popular Director of the Unit for Organized Crime Robert Slachta resigned and left the police force. The tension within the governing coalition grew in the summer, media coverage by MAFRA (Babiš) was strongly against the reform, framing it as an unsuccessful attempt by the Social Democratic Minister of Interior, and a sinister attempt to tame fight against corruption. In order to gain clarification, the parliament established a special investigative committee into these claims. The conclusion, presented in January 2017, did not find any breach of law, or any attempt to impinge on Director Slachta. This case shows how severely the lack of trust between the governing coalition partners undermines any reform effort.

Performance of democratic institutions



1

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

On the other hand, the rise and visibility of extremist political groups are palpable.

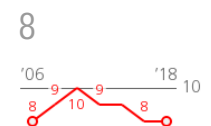
Commitment to democratic institutions



5 | Political and Social Integration

The multiparty system, which was profiled during the democratic development of the country, can be described as relatively stable, even though only the Czech Social Democratic Party (ČSSD) remains dominant from the original two dominant parties. After the 2013 elections, the ČSSD has a new rival, Action of Dissatisfied Citizens (ANO), which is both a coalition partner and rival for first place in electoral preferences, though without a clear cut socially and economically rooted political program. In 2015, the other newcomer after 2013 elections, the Dawn Movement, also known as Tomio Okamura's Dawn of Direct Democracy (Úsvit) split, and representatives of two rival groups have established new parties Freedom and Direct Democracy (SPD) and Dawn – National Coalition(Úsvit-NK). Both hold their original populist character. The traditional and well-established Civic Democratic Party (ODS), which was a primary pillar of the political right for two decades, saw its vote share plummet. On the right side of the political spectrum, there is not a strong rival. There are no serious ethnic or religious conflicts in the Czech Republic that would motivate representation by political parties. The major cleavage producing intra- and inter-party competition stems still from attitude to different economic and social reforms.

Party system



Looking for the total number of registered political parties and movements, there was only little change compared with the previous period. In January 2017, according to a Ministry of Interior register, there were 218 registered and active political parties and political movements (91 parties and 127 movements), 20 dissolved parties and movements, and 24 suspended entities. Most were small local groups who failed several times to deliver the annual financial report, which is a condition imposed by law. Among the political parties, there are also several extremist parties, but they remain at local and regional level. Besides them, there are also radical and extremist groups. The main topics for both of them are resistance and criticism toward migrants, antagonism towards redistribution of migrants and criticism of the European Union and deepening of European integration.

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. Mobilizing voters around independent candidates 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 sometimes the lack of intra-party democracy. Many citizen initiatives were successful in the 2016 regional elections. 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 was to improve accountability and the transparency of funding.

The number of active organizations varies strongly between the country's regions. The difference between these regions is based on social, economic, cultural, historical and institutional factors. Some NGOs are struggling to preserve their independence due to their financial dependence on public subsidies.

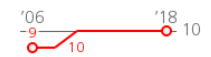
In the Czech Republic, there is a clear and persistent disparity between the long-term and high level of broad support for democracy and the public's avowed satisfaction with the democratic system on the one hand, and the low level of satisfaction with existing institutions of representative democracy 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, people aged 30 to 44, and residents of large cities.

During the period under review, the percentage of citizens describing themselves as satisfied with democracy in the Czech Republic has improved while public-opinion polls nonetheless show government approval rates falling from 23% (September 2015) to 17% (November 2016).

Among the constitutional institutions, the president consistently enjoys the highest confidence, while the government has been trusted by less than two-fifths of the population and this confidence has decreased in the reporting period. Of the representative bodies, municipal councils enjoy the largest consistent confidence, with lower trust is expressed toward both chambers of the parliament. Trust in the Chamber of Deputies in the analyzed period fell from 37% to 26%, in the Senate from 35% to 28%. The most trusted public institutions are the army (65% in September 2016) and the police (60%), while fewer people trust the churches (22%). The confidence in the press, television and radio has decreased, while gradually increasing confidence in trade unions could be observed.

Interest groups

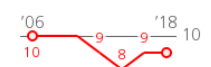
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Approval of democracy

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In a representative cross-national survey commissioned by the European Bank for Reconstruction and Development in 2016, 20% of Czechs declared that most people could be trusted fully or to some extent. This level of interpersonal trust was the lowest found by the survey in East-Central Europe. 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. Nevertheless, discussion of solidarity and social cohesion has gained momentum. Governments and politicians were traditionally concerned with the question of solidarity in connection with the pension system, health and tax reform. Recently, new agendas attracted the attention of citizens and decision-makers alike, such as social housing or the economic situation of families with dependent children.

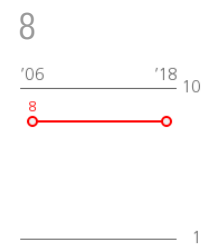
In the period under review, new charitable, humanitarian and civil society activities providing financial, material, educational and legal assistance emerged at the regional, national and international levels. There are some volunteer organizations and centers with a broad spectrum of activities and professional management. Growing public distrust of politics in the period manifested in enhanced interest in different civic activities and initiatives addressing specific social problems related to poverty gained momenta, such as the “Save Food” initiative, or actual problems such as the migration crisis. 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. Social media plays an important role in the mobilization of citizen activism.

II. Economic Transformation

6 | Level of Socioeconomic Development

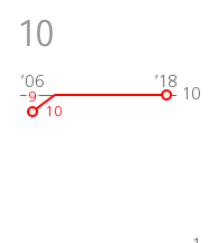
The Czech Republic is characterized by high human development (ranked 28 out of 187 countries in the 2014 Human Development Index), a low share of people in need, and still a low degree of inequality when compared with majority of post-communist countries. The share of Czech citizens who live below the income poverty level (measured as 60% of the standardized median income level) is almost 10%; however, the situation has slightly improved in the period under study. Unemployed 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. Income poverty threatens up to 4% of people who work. People living below the poverty line include 7% of retirees, 15% of children under 16 years of age and 45% of unemployed. Three-quarters of retirees at risk of income poverty are living alone. Most of them are women. One-third of children below the poverty line are growing up in single-parent families.

Social capital



Question
Score

Socioeconomic
barriers



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 in the EU, is also clear, although the Czech Republic was among the top five BTI countries regarding gender equality, as measured by the Gender Inequality Index in 2015. The biggest differences are evident within those of working age. On average, women in this group earn just 78% 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 on average about 20% lower pensions.

With the exception of the Roma population, there is no widespread labor market exclusion due 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 from 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		2013	2014	2015	2016
GDP	\$ M	209402.4	207818.3	185156.4	192924.6
GDP growth	%	-0.5	2.7	4.5	2.4
Inflation (CPI)	%	1.4	0.3	0.3	0.6
Unemployment	%	7.0	6.1	5.0	4.0
Foreign direct investment	% of GDP	3.5	3.9	0.9	3.4
Export growth	%	0.2	8.7	7.7	4.3
Import growth	%	0.1	10.1	8.2	3.2
Current account balance	\$ M	-1105.9	457.7	461.0	2138.8
Public debt	% of GDP	44.9	42.2	40.0	36.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-1.7	-3.4	-1.2	-
Tax revenue	% of GDP	13.5	13.3	13.3	-
Government consumption	% of GDP	20.2	19.7	19.5	19.4
Public education spending	% of GDP	4.1	-	-	-
Public health spending	% of GDP	6.3	6.3	-	-
R&D expenditure	% of GDP	1.9	2.0	1.9	-
Military expenditure	% of GDP	1.0	0.9	1.0	1.0

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

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 estimated to be around 15% 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 Republic, a consequence of the country's still-complex legal framework for businesses. In the World Bank's Doing Business 2017 report, the Czech Republic was ranked 27 out of 190 analyzed world countries in terms of the overall ease of doing business; however, the situation varies by field of business. According to the Czech Chamber of Commerce, there is no improvement compared with the previous period. 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. In 1992, the Office was replaced by the Ministry of Competition. This change was justified by the economic transformation then in progress, but above all by the role the ministry played in the privatization process. Since November 1996, the protection of

Market-based competition

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Anti-monopoly policy

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competition is again in the competence of the ÚOHS, a central administrative body entirely independent in its decision-making practice. 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. The ÚOHS chairman is appointed by the president of the republic to a six-year term and can be appointed for two successive periods. The main purpose of ÚOHS consists in efforts to remedy defective conditions in the market and to eliminate violations of rules in the award procedure and not in the imposition of fines.

In 2015, a total of 287 complaints were submitted, of which 127 concerned prohibited agreements, 98 concerned abuse of dominant position, 54 concerned surveillance of public administration and eight concerned concentration between undertakings. It is a slight decline compared to the previous period. However, it doesn't mean a decline in penalties. In 2015, the highest fine in the history of office was imposed for a cartel of construction companies. The final fine for the seven members of the cartel eventually amounted to nearly CZK 1.66 billion (approximately €1,48 million). The office recorded great progress in the area of public procurement, where it managed to significantly increase the efficiency of the process of first-instance proceedings and shorten the period for decision.

In 2016, new legislation on public procurement and concessions came into force. New legislation will simplify the procurement process and lead to greater transparency.

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.

In the Czech Republic, there exists a two-tier banking system, with the Czech National Bank and various private commercial banks. The banking system is stable and consolidated over the time. In the period under study, the banking sector operated in an environment of rapid domestic economic growth and continued improvement in the labor market situation. 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, fulfillment 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

Liberalization of
foreign trade

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Banking system

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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 2015, there were 57 financial institutions in the Czech Republic, among them 23 domestic banks, 23 foreign bank branches and 11 credit unions. In 2015, the share of non-performing in total loans was 5.6% and the bank capital to assets ratio was 6.9%.

An example of control activities is the withdrawal of the license from ERB bank in the fall of 2016. It was the first time in 13 years when a banking house fell. The main reasons were dysfunctional management and control system of the bank and purchase bonds in conflict with the law. Bank with Russian capital focused mainly on financing Czech exports to Russia but also provided regular banking services. In 2016, the CNB extended supervision in accordance with the new law on credit for consumers.

8 | Currency and Price Stability

In the period under review, the inflation rate was below the lower boundary of the tolerance band around the target set by the Czech National Bank (CNB), the independent central bank of the Czech Republic. The average inflation rate in 2016 was 0.7%, which is 0.4 percentage points more than in 2015 and the highest figure for the last three years. The CNB has kept interest rates at all-time lows for more than a year and a half, with a base rate of 0.5%. The Czech currency (CZK) has been continuously stable, and experienced only slight shifts during the review period.

In the period under study, economic development took place in almost all sectors of the economy. 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. In the review period, public debt was decreasing.

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.

The Czech Republic now fulfills all criteria enabling it to adopt the common currency. Nevertheless, the government believes the decision to join the euro zone should take into account the harmonization of the Czech economy with the euro area and its ability to adapt to potential asymmetric shocks without its own monetary policy. The government adopted the joint recommendation of the Ministry of Finance and the Czech National Bank not to set a target date for adopting the euro yet.

After restoring economic growth and reducing unemployment, it was possible to change the trend of state finances from a deficit to a balanced household. In 2016, the Czech Republic managed the highest surplus since the fall of communism, and it was the first positive figure since 1995. The surplus is the result of higher tax collection

Anti-inflation /
forex policy



Macrostability



and better utilization of EU money, but also of reduced government investment. This positive result unleashed a debate about how to dispose of the surplus, whether to use it to redeem state debt, for environmental projects or for pensions.

In January 2017, the Chamber of Deputies approved a law on fiscal responsibility. The Ministry of Finance will have the right to obtain selected information on the financial management not only of the government organizations but also of public universities, state-funded organizations, municipalities or counties. The law has long been debated, the upper chamber (Senate) rejected it, but the Chamber of Deputies outvoted the Senate veto, and the president signed the law.

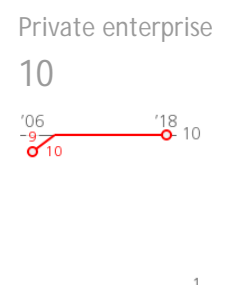
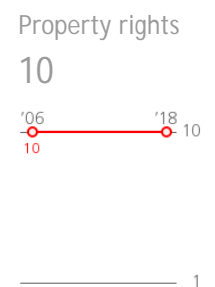
9 | Private Property

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, electricity and water networks, 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.

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. The law came into force in January 2013, however, the process is not finished yet, and is still the subject of debate and legal disputes.

Private businesses and enterprises constitute the backbone of the national economy, and difficulties connected with opening businesses are gradually decreasing.

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. The state holds its stake in about 290 companies (July 2016). There is still 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. The list



of companies that could be privatized have long be included state enterprises such as Woods of the Czech Republic (Czech Forests), Cepro, Mero or Prague Airport.

There is no consensus even within the government coalition on the question, whether the character of company ownership or management quality is more important. One of the arguments against privatization is that state companies pay taxes in the country, while private companies still go to tax havens. By shifting profits into tax havens, the Czech Republic loses, as estimated by think-tank Glopolis, up to CZK 57 billion a year.

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.

The majority of all old-age pension payments are covered by the state. The public pension scheme is compulsory, the contributions to the system are paid on a pay-as-you-go basis through a pay-as-you-go system. Currently, the public pension covers 95% of all pensioners' incomes. 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. However, in reality, no systemic reform has materialized yet. The reform which came into force in January 2013, so-called second pillar, was abolished in 2016 by the coalition government, which took over after elections in 2013, and instead of it, the government has implemented a set of incremental parametric reforms on both the mandatory public pillar and a complementary voluntary, private, fully-funded pension savings pillar with a state contribution. The retirement age was 63 years for men and 62 years for women without children in 2016. The most important change was the establishment of a ceiling on the year-by-year continuous increase of retirement age at the level of 65 years. The average pension has grown more slowly than the average wage and at the end of 2016 amounted to CZK 11,400 (about EUR 425). More than half of retirees have a lower pension than the average, and it is expected that this group will grow in the future.

The Czech health care system, based on universal compulsory insurance, ensures a wide range of choice for both providers and consumers of health care and provides a service which is high by international standards. Public health insurance in the Czech Republic is provided through seven health insurance companies, the largest being the General Health Insurance Company (Všeobecná zdravotní pojišťovna). Its clients account for about half of the population. The state pays the insurance company health insurance for those citizens who cannot pay themselves as children, the unemployed, pensioners, etc. Public expenditure on health remains unchanged at 6.3% of GDP. The life expectancy by men stagnated (75.8 both in 2014 and 2015) and by women

Social safety nets

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slightly decreased (81.7 in 2014 and 81.4 in 2015). Nevertheless, it is the highest among post-communist countries (after Slovenia). Financial participation of patients is minimal and primarily relate to medicine, dental care and medical equipment.

Under the law, every person who has permanent residence in the Czech Republic has compulsory health insurance, including foreigners, unless they are not subject to the legislation of another country EU /Switzerland. Citizens of third countries are subject to special regulation.

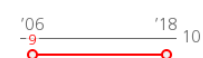
The Czech legal system guarantees legal equality of access to work, education and social services. There is no official discrimination on the basis of gender, race, religion or social origin. Literacy rates in the country are very high. Both males and females have the same degree of opportunity in the 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.

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. There are some special programs to help socially disadvantaged children. An inclusive education program, which began in 2016, has helped to improve their situation.

The Antidiscrimination Act talks about race, ethnicity, nationality, gender, sexual orientation, age, disability, religion, belief and world view. There are also other laws which prohibit discrimination such as the Labor Code or the Public Service Act. However, there are still obstacles to the use of equal opportunities. Women held 20% of the country's parliamentary seats in 2013 and 20.4% of seats in regional assemblies after 2016 regional elections. The proportion of women elected to regional bodies has increased by 0.4 percentage points compared to the previous period.

Barriers to women's participation in the workforce remain, and harmonizing work and family life can be difficult. The preschools still lack sufficient capacity which impedes the return of women to the labor market. 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. The Ministry of Education, Youth and Sports have developed some support programs, but the situation is improving only slowly.

Equal opportunity
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11 | Economic Performance

Economic performance during the period under review was characterized by positive development. GDP shows positive growth, from 2% in 2014 to 4.2% in 2015 and estimated 2.6% in 2016. The average inflation rate was under 1%, industrial production grew despite fluctuation of 4.6% year-on-year in 2015 and of estimated 4.5% in 2016. The Czech economy was boosted by the CNB's foreign exchange interventions, low inflation rates and rising real wages, 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.

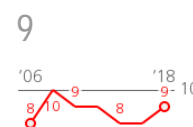
Compared to the previous period, the unemployment declined, including long-term. According to the national statistics, the unemployment rate stood at 6.2% in December 2015 and 5.5% in 2016. This is the lowest annual average since 2008. The number of available jobs increased, especially in the service, IT and manufacturing sectors. For the first time in more than 20 years, the state budget was in considerable surplus and indebtedness of the country slightly dropped.

Positive economic developments help to increase the minimum wage, which in practice means that the remuneration shall not be less than the state minimum wage. The minimum wage is regulated by law. In January 2015, the minimum monthly wage increased from of CZK 8,500 (2014) to CZK 9,200, in January 2016 to CZK 9,900, and in January 2017 to CZK 11,000. Since January 2017 the pensions have also increased.

The inflow of foreign investments continued, even in regions that have long been struggling with high unemployment. The positive increase includes the share of so-called hi-tech projects with higher added value. However, the influx of foreign investment is lower in comparison with previous years. Due to the lower rate of investment support introduced in 2014 from the European Commission Regulation, it is more difficult to attract investors into the country. There is also some negative development. According to the Czech Statistical Office, the Czech Republic is in the third phase of foreign direct investment, in which the outflow of income exceeds profits for reinvestment in the country. This fact significantly reduces the potential for growth that brought foreign investment in the Czech Republic.

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. Thanks to the positive economic development and some reforms that reduced tax fraud and made tax collection more effective, the new legal regulation has reduced in some cases the VAT rate to the original 15% from 21%, and 10% from 15%.

Output strength



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12 | Sustainability

The Czech Republic continues to battle both a historical legacy of environmental damage and other ongoing environmental issues. There has been a long-term trend of decline in emissions of acidifying substances, ozone precursors, primary particles, secondary particulate precursors and greenhouse gas emissions from the manufacturing industry. Surface and groundwater pollution have also diminished over time. The main priorities of the State Environmental Policy of the Czech Republic 2012-2020 are the sustainable use of resources, climate and air protection, nature and landscape protection and safe environment.

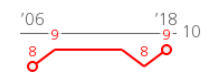
While environmental policy in the Czech Republic is strongly shaped by the country's obligations to implement EU legislation, the country is not a driving force in shaping EU legislation and remains a passive and ambivalent recipient of international agendas. Together with other East-Central European member states, the Czech Republic has opposed more ambitious goals for reducing carbon dioxide emissions. As of November 2015, parliament had not yet ratified the second phase of the Kyoto Protocol.

In 2015, the overall investment in environmental protection grew by 27.8% compared to 2014 (to the total of CZK 40.1 billion, € 1.5 billion). The spending on environmental protection from the central budget grew by 12.2% to CZK 43.1 billion (€1.6 billion and 1% of GDP) and from local budgets by 32.5% to CZK 44.9 billion (€1.66 billion also 1% of GDP).

In October 2015, the Czech government adopted the Strategy on Adaptation to Climate Change in the Czech Republic. This document sets specific tasks and deadlines across all fields in which negative impacts of climate change are expected (e.g., agriculture, water and forest management, transport, human health, etc.) and represents a national adaptation strategy of the Czech Republic. It will be implemented by the National Action Plan on Adaptation to Climate Change (2016). Also in 2016, Climate Protection Policy in the Czech Republic was drafted. It represents the Czech Republic's climate protection strategy for the period until 2030 with a long-term outlook until 2050 and in accordance with the transition to an efficient low-carbon economy. Its stipulated goals are based on the Czech Republic's international commitments regarding the reduction of greenhouse gas emissions and the relevant EU documents and strategies, particularly on the climate and energy package until 2020 and the new climate and energy framework until 2030. More extensive changes are also implemented in the Environmental Impact Assessment Act and in the Act on the Acceleration of Construction of Transport, Water and Energy Infrastructure. In March 2016, the draft act has been sent back for fine-tuning to the Ministry of Environment by the government's Legislative Council.

Environmental
policy

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The level of public expenditure on tertiary education as a percentage of GDP is among the lowest in the EU. Expenditure in 2013 amounted to 0.6 % of GDP, excluding R&D. The tertiary education attainment rate stood at 28.2 % in 2014, compared with an EU average of 37.9 %. The long-awaited higher education reform was adopted by the Chamber of Deputies in January 2016, after long consultations with higher education institutions. The main objectives of this reform are to raise the standard of accreditation (by setting up an independent accreditation authority and enabling institutional accreditation), internal quality assurance, and diversification of educational programs (especially increasing profession-oriented programs). However, the reform of the funding system for higher education is still to be adopted. There are some attempts to introduce output indicators to increase efficiency in the use of resources. These attempts were seriously undermined by large-scale scandals uncovering millions of CZK used as rewards for publishing articles in fraudulent and unethical journals.

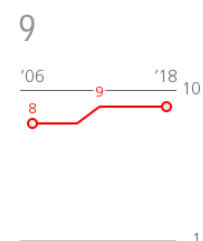
The attractiveness of the teaching profession is low and remains a challenge for maintaining educational outcomes and improving inclusiveness in mainstream education. Some issues such as standards and support for teachers with respect to inclusive education are included in the Long-Term Plan for Education 2015-2020 and the Action Plan for Inclusive Education 2016-2018, measures co-financed through the European Structural and Investment Funds. In November 2015, teachers' salaries were increased by 3.3% for 2016 (the same increase for most public employees). There are no commitments to a long-term increase.

In terms of EU benchmarks, the Czech Republic has a high level of enrollment in early childhood education (90.9% in 2008, EU benchmark for 2020 is 95%), number of early leavers from education and training 5.5% (reaching the EU 2020 benchmark of 5.5% in 2014), low achievers all above the EU 2020 15% benchmark (reading 23.1%, mathematics 22.3% and science 17.3%), higher education attainment significantly below the EU 2020 target of 40%, and the Czech 2020 target of 32%, the 2009 data (last available) indicating 17.5%, adult participation in lifelong learning at 7.5% (in 2010) compared to the EU 2020 benchmark of 15%.

Educational outcomes and the employability of school and higher education graduates are generally good, but student socioeconomic backgrounds strongly influence these outcomes.

Overall, R&D expenditures are growing and approaching the EU average in terms of spending as a share of GDP. European structural funds are the main driver of this growth. The majority of the public R&D funding is allocated to public universities and research institutions and focuses mostly on natural, technical and medical sciences. In the past five years R&D expenditures grew by two-thirds. In 2015, the R&D expenditures reached CZK 88.7 billion (€3.2 billion), 4.2% growth compared to the previous year. More than half of the growth is within the private sector (own funding), almost one-third was public spending and the remaining part was EU

Education policy /
R&D



funding. This is a change to 2010 and 2011, when the majority R&D expenditures came from the EU. Compared to R&D expenditures in other new EU member states, the Czech Republic is surpassed only by Slovenia, and in terms of GDP proportion is comparable to the Netherlands, Ireland and the UK. In the past several years, the importance of universities grew within the R&D, whose annual expenditures are CZK 20 billion (€74 million) compared to CZK 10 billion (€370 million) in 2010.

The majority of the private sectors spending is within foreign-owned companies – traditionally dominated by the automotive industry – both in terms of spending and total number of researchers, but more recently also in ICT services and programming. In 2015, there were 2,870 research facilities in the Czech Republic, and the size of personnel was 100,000, 6% growth compared to the previous year. Half of the personnel are employed in research facilities of private companies, one-third at public universities and one tenth in research facilities of the Academy of Sciences.

Governance

I. Level of Difficulty

The structural constraints on governance are very low. Socioeconomic conditions in the Czech Republic improved in the period under study. No severe infrastructural deficiencies exist. There is a highly educated labor force. The government has started to implement reforms to increase the participation of children with special needs in mainstream education. Poverty and unemployment rates are low, and indicators of inequality are evaluated as good by OECD, with attention drawn to long-standing issues related to gender equity.

The tradition of civil organizations in Czech history dates back to the 19th century. Under communism, civil society organizations were mostly subordinate to the state and in effect became moribund between 1948 and 1989. Following the Velvet Revolution, there was a sharp increase in the number of and membership in NGOs. This initial public enthusiasm for participating in civil society was replaced by an equally sharp decline in citizen activism in the late 1990s. In this period the membership and participation in civil society activities have been marked by the consolidation of some prominent NGOs, while marginal ones have been closed. Consequently, there has been a widening gap between organizations that successfully adapted to the new post-communist conditions as opposed to those, which were unable to catch up to the new conditions, in particular the changing donor landscape.

The 2011 and 2014 surge in association competence continued and the number of new active and media savvy NGOs continued to emerge addressing important issues in line with defense of both traditional socioeconomic rights of employees and citizens, and post-materialist values such as tolerance, gay and lesbian rights, food safety and organic food, and participative budgeting on a local level. However, in the period under study, the backlash against these values also materialized in the form of anti-Islam and anti-refugee groups. Still, the strength of Czech civil society is to counter-balance the rise of radical right by strong pro-Western attitudes, and to a large degree mitigate the weaknesses of political party competencies and intra-party democracy. The continuous joint effort of anti-corruption NGOs contributed to long-awaited reform of party finance in 2016, which should improve transparency of both party and campaign finance.

Structural constraints

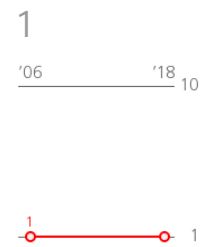


Civil society traditions



At present, there are no major ethnic, religious or social conflicts in the Czech Republic. However, the mobilization of anti-refugee and anti-Islam groups, as well as strong negative public attitudes to refugees and relative tolerance to nationalist, xenophobic and racist attitudes in popular culture, indicate a potential for the rise of radical right parties. The current radical right parties are mostly consumed by internal divisions and infighting. The January 2017 electoral model of the party preferences does not expect any radical right party being able to cross the 5% threshold in the 2017 parliamentary elections.

Conflict intensity



II. Governance Performance

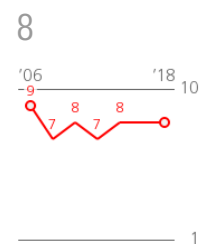
14 | Steering Capability

Since 2013, the present coalition government has started to update the political document called “The strategic framework of sustainable development for the Czech Republic.” The Department of Sustainable Development was established, attached to the government office in charge of this agenda. As the precondition to become eligible for EU structural funding, many strategic documents of various quality have been elaborated at municipal, regional and sectoral level. The framework for short-to medium-term development is based on the government’s policy manifesto, which is presented to the Chamber of Deputies by asking for a confidence vote. There is not a parliamentary committee dealing directly with strategic planning. The strategic planning of the Czech Republic is also driven by the Europe 2020: European Strategy for Smart, Sustainable and Inclusive Growth and its five main goals (adopted by the European Council in June 2010). The main areas are employment, R&D, energy efficiency, education and social inclusion with decreased poverty.

Question

Score

Prioritization



Policy-advisory expert bodies include the Research, Development and Innovation Council (RDIC), a policy-generating body whose functions include: 1) preparation of national R&D policies, 2) oversight of R&D policy implementation, 3) preparation of guidelines for evaluation of research institutions, R&D output, and completed programs, 4) nominations for the Chairman and the Board of the R&D public funding bodies, Technology Agency (TACR) and the Czech Science Foundation (GACR), 5) identification of R&D priorities including budgetary requirements and funding sources, 6) production of regular analytical reports and other governmental materials related to all aspects of R&D, 7) negotiation with R&D advisory bodies of the EU, EU member states, and other countries, 8) preparation of opinions and evaluation of applications for human embryonic research, including permission to import human embryonic stem cells (via special advisory body, Bioethics Committee), and 9) activities related to R&D promotion.

Special expert committees have been established to advise the government in social welfare: the Expert Committee on Pension Reform as well as the Expert Committee on Family Policy.

The overall implementation of government measures is improving but has faced struggles due to growing internal divisions in the Sobotka government and strategic use of the presidential veto by President Zeman. Generally speaking, the Sobotka government has largely met its objectives in some areas – the economy, education, R&D, environment and most recently anti-corruption. The progress is largely driven by the commitment to and oversight by the EU. The tension within the governing coalition grew significantly in 2016 and 2017.

In summer 2016, two governing coalition partners – Social Democrats and Christian Democrats aligned with the opposition to reach one of the main objectives – to amend the law on conflict of interest. This put a significant wedge between the governing coalition partners, as ANO and its Chairman Andrej Babiš perceived this to be a law directed against him (the law is known as Lex Babiš). No ANO parliamentarian supported the bill, which still received constitutional majority, and in January 2017 overturned the presidential veto.

The intervention of the President Zeman mostly aligned with ANO and directed against Prime Minister Sobotka and Social Democrats (his former party) significantly complicates the situation, and strengthens conflicts within the governing coalition. However, the example of the Lex Babiš shows that Social Democrats were able to overcome the obstruction of the presidential veto and implement their policies.

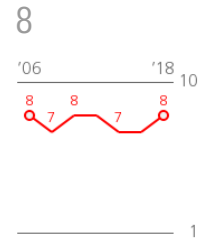
The organization of government and public administration remains relatively rigid. Much of the practice of governing has been tied to the nature of coalition governments, reinforced by the inertia of officials and lack of progress. Following the EU accession, programs were initiated to improve administrative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

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.

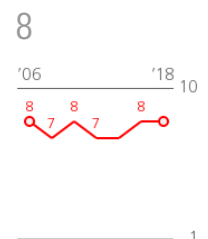
Europe 2020 strategy represents an important learning instrument for strategic planning. Observation, emulation and knowledge exchange on the EU level contributed significantly to the progress in areas of R&D and environmental policy. In research, development and innovation (RDI), engagement of academic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

In the period under study, in particular, since 2014, communication of government bodies and agencies with the public improved. More information is now available;

Implementation



Policy learning



however, there is no coordination 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 budgetary allocation of taxes, tax autonomy, and financial decentralization have enabled regional governments to exhibit more autonomy in fulfilling their governing functions and manage basic infrastructure. EU regional funds constitute a key resource for regional development.

Large infrastructure for R&D is being constructed in various Czech regions using EU funds. Similarly, large-scale environmental protection programs are underway. However, the funding for the required sustainability of these large-scale projects, which should ensue from public budgets, is still not fully ensured for the period after 2020, when most EU funds will expire.

The implementation of the Civil Service Act, which started in January 2015, has the potential to improve the administrative organization, efficient use and productive stabilization of government personnel. However, its final version includes a controversial clause on politically nominated state secretaries – requiring political influence and as such a hindrance to the implementation of competitive recruiting procedures.

Government budgetary policy has been successful in holding debt at a very manageable level, and in the period under review, fostering economic growth. Government debt decreased to 34.2 % of GDP (compared to 36.7 % in 2015). Nevertheless, the highly open Czech economy remains vulnerable to (possible) lower EU and world demand. Inefficiencies in the private R&D sector constrain its development and efficiency.

In the period under review, institutional structures have undergone little change with the establishment of the independent office for the oversight of party and campaign finance in time for 2017 elections.

Until 2016, the Sobotka government has tried to reconcile conflicting objectives and interests of coalition partners – particularly after the 2016 regional elections which changed the power balance within the government key coalition partners ANO and Social Democrats. Tensions in the governing coalition, strengthened by a strategic alliance between Vice Prime-Minister Babiš and President Zeman are undermining the executive power of the prime minister and clear ministries held by Social Democrats. The necessity to negotiate every vote in the parliament, and the reoccurring need for overruling the presidential veto, forced the governments to accept numerous compromises both within the governing coalition, and as in the case

Efficient use of assets

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Policy coordination

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of Lex Babiš, between part of the government coalition (Social Democrats and Christian Democrats) and the opposition.

In the current political situation, policy coordination and formal and informal mechanisms of inter-ministerial cooperation run along party lines. The divisions between coalition partners require the use of time-consuming informal coordination mechanisms among the leaders of coalition parties. The effectiveness of this practice in resolving disagreements significantly decreased in 2016 and is seen in increasing number of open disputes within the government, often covered in the media. The coalition agreement of the Sobotka government includes fixed principles of coalition cooperation and coordination, however as the elections are approaching, the compliance of the coalition partners is decreasing and Vice-Prime Minister Babiš is increasingly using his media to gain public support for his agenda, publicly praising ANO ministers and slamming the inefficacy of the prime minister and of ministries held by Social Democrats, and to lesser degree by Christian Democrats.

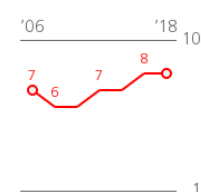
The legislative plan of the government divides tasks among ministries and other central bodies of the state administration and sets deadlines for the submission of bills to the cabinet. Along with other ministries, the government takes part in the inter-ministerial consultation process. However, strong barriers among the ministries exist; cross-cutting project groups are rarely established. Important exceptions are internal ANO inter-ministerial consultations among the seven ministries under ANO's control.

The fight against corruption has featured prominently in the program of the Sobotka government, which has criticized activities of previous governments as excessively formalistic and ineffective. In December 2014, the government presented an anti-corruption plan for the period 2015-2017. The new strategy features four key points: strengthening the executive's integrity through the adoption and implementation of the long-discussed civil service law and the preparation of a new law on the public prosecution office; increasing transparency through the electronic collection of laws and legislative materials and an amendment to the law on the central register; a better use of state property through new rules for public procurement, greater transparency of ownership and an expansion of the powers of the Supreme Audit Office; and fostering civil society by providing whistleblowers better protection.

However, the Sobotka government's present action plan has been the fifth anti-corruption strategy since 1999. With the exception of the civil service law, all bills are still under discussion, as there is a lack of political agreement within the governing coalition. Two major changes took place in 2016, the changes to the law on party financing and more importantly the amendment to the law on conflict of interest the so-called Lex Babiš in September 2016. In addition to the incompatibility of media ownership and governmental positions, companies in which member of government holds more than 25% share will be in the future excluded from participation in public procurement (companies of the Babiš' holding Agrofert are the largest beneficiaries

Anti-corruption policy

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of EU funding and state subsidies). The bill is seen as an attempt to both remove the daily conflict of interest presented by Andrej Babiš, and to avoid repeating the current situation in which media, business and political power collude.

The rules for party and campaign financing and their enforcement have been a major political issue for some time. In April 2015, the Ministry of Interior eventually submitted an amendment to the law on political parties to parliament. The proposal was based on the Group of States against Corruption of the Council of Europe (GRECO) recommendations to the Czech Republic issued in 2011. The suggested changes included an overhaul of the structure of the parties' annual reports, the introduction of a new threshold for donations to political parties set at CZK 2 million (€75,000) per year, establishing a new and independent regulatory body shifting the task of monitoring party and campaign financing away from parliament and the creation of new political foundations (modeled loosely on the structure, functioning and funding of German party foundations). The amendment was adopted by the Chamber of Deputies in June 2016, by the Senate in August 2016 and subsequently signed by the president. It came to force in January 2017 (302/2016 Coll).

The coalition of anti-corruption NGOs Reconstruction of State, a major proponent of the law, significantly contributed to its adoption, by convincing parliamentarians and senators to pledge their support to the reform, and continuous oversight of their behavior (including detailed information on MP/Senator behavior on the scale between strong support, support, indifference, opposition and strong opposition to the law, whether MPs/Senators took and kept their pledge; RS openly supports proponents and actively uses naming and shaming practices toward the opponents of the reform).

Overall, Reconstruction of State welcomed the increasing transparency of party finance but highlighted several unfinished issues. Issues such as unjustified exceptions, no oversight for entities connected to political parties, no attention to the functioning of political think tanks, and the small-scale sanctions all undermine the efficiency of the reform. The RS project will continue to lobby for the strengthening of the oversight mechanisms and efficient implementation of the adopted changes.

In December 2016, the amendment of the Income Tax Act took effect. The law allows tax administrations to invite the taxpayer to prove the origin of the property. This challenge can only be done if there was a greater increase in assets than the income declared in tax returns. The difference must be more than five million.

16 | Consensus-Building

There is a general consensus among the major political actors and the public on the merits of democracy and market economy. The effects of the 2016 regional elections, perceived as a test prior to 2017 general elections, and an alliance between Vice-Prime Minister Babiš and President Zeman along populist lines strengthened the confrontational character of Czech politics.

The ongoing implementation of Europe 2020 Strategy and Euro Convergence Criteria enable partial bridging of the otherwise low general consensus on goals, reforms and the overall course of the political process. In the period under review, the EU positively evaluated progress in most areas of the Europe 2020 strategy.

In principle, there are no anti-democratic veto players in the Czech Republic. However, the experience to date suggests that small governing majorities in the lower chamber, together with the relative fluidity of the party system, do not facilitate the implementation of major long-term reform plans. In the last five parliamentary elections, a new political subject entered parliament and was part of the governing coalition. The party soon was unsuccessful in returning to parliament. In the period under review, ANO reversed this trend reaching success in 2014 and 2016 elections. The basis of this success can be traced to the general disenchantment of the public with party politics of reform blockades and the populism of ANO. However, in January 2017, information emerged regarding Babiš' use of bonds to avoid paying taxes, and question about funds for their purchase. Also, the competitive advantage of Babiš' media ownership was successfully contained by the Lex Babiš. This leveled the political field but failed to curtail ANO's rise.

According to the January 2017 electoral model, no new parties are expected to cross the 5% threshold in 2017 general elections. Several populists, xenophobic and anti-Islamist parties emerged on the right of the political spectrum in the aftermath of 2015 refugee crisis. However, these fizzled, due to strong internal divisions, infighting and funding- and corruption-related scandals. The Czech population has negative attitudes to both refugees and racism and xenophobia, and the improving economic situation does not provide fertile ground for anti-government sentiment. Anti-Euro and anti-EU agenda of the former President Klaus, as well as the EU policy on refugees quota which is refused by the majority of the Czech population, tends to be counter-balanced by the general recognition of the EU's positive economic development.

The major divides of intra- and inter-party competition stem from disagreements over (1) all major reforms, in particular taxes and (2) attitudes toward deepening the process of European integration (in particular the adoption of Euro and refugee quotas). There are no grave socioeconomic, ethnic and religious divisions in Czech society. With the exception of the Roma community, which has been

Consensus on goals

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Anti-democratic actors

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Cleavage /
conflict
management

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disproportionally hit by the economic crisis and is recovering slower than the majority society, and a small Muslim minority increasingly targeted by populists and extremists, the political leadership has not had to deal with any ethnic conflicts. Mainstream political elites agree in preventing cleavage-based conflicts from escalating.

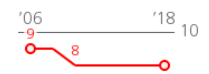
Non-governmental organizations play an important role in local planning and the creation of regional strategies. The government's legislative rules define which entities are considered to be legitimate "commenting actors" during a consultation period. In this respect, trade unions and employer associations 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.

Trade unions and employers found common ground during the global economic crisis when the economic interest associations became important partners for the government as it sought solutions which 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, however, in the period under review, growing division can be observed within major trade unions – the result of erosion of solidarity between various industry branches. This trend can potentially lead to fragmentation of trade unions and decrease their impact on policies.

In 2015, the government approved a strategy toward non-governmental, non-profit sector for the years 2015-2020. This policy document sets out the principles on which the state and its institutions will promote sustainable, strong, diverse and independent NGOs.

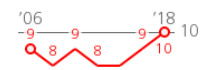
The Czech government is actively supporting reconciliation with the injustice deeds committed in the past, namely before, during and after World War 2. On the other hand, the majority of the Czech society prefers to ignore the "ghosts of the past" including the Roma Holocaust, deportation of the German population and the crimes connected to the initial post-war period, or sterilization of Roma women during the communist regime.

In 2016, a group of Jewish NGOs attempted to rebuild a Jewish cemetery in the Moravian city of Prostějov. A number of gravestones were sold to the local population, and used as affordable pavement material. This effort produced a significant backlash and a localized wave of anti-Semitism. The attempt to restore the former cemetery, now a parking lot and dog park, met with a strong opposition. A petition against this effort collected more than 3,000 signatures and local media



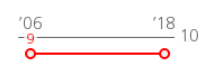
Civil society participation

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Reconciliation

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was filled with anti-Semitic calls against “Jewish-Free masons lobby, Zionist complot of American Jews”, and fears of “Jewish world complot against proper Christians.”

The conflict about public space turned into a rejection of historical guilt (several families rejected the offer to donate the stones even if they were offered funds for restoration). The topic has been captured by several anti-Semitic individuals, which swayed the public unwilling to face the past and the questions about the personal role of their families. On the other hand, some local activists spoke publicly against the hysteria and framed the restoration of the cemetery as an opportunity to rediscover a portion of lost local history and possible tourist attraction. The final decision regarding the restoration of the Jewish cemetery rests with the Prostějov city council.

17 | International Cooperation

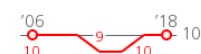
After accession to the EU, the government’s activities have adapted to, and are strongly influenced by, the EU’s legislative framework. In the period under review, the impact of the EU in promoting domestic reforms was strengthened by the need to reconcile goals outlined in the Europe 2020 Strategy and related country-specific goals, Euro Convergence criteria, and EU country report on corruption. For example, the parliament adopted a law on fiscal responsibility in January 2017, entitling the Ministry of Finance to obtain financial management information from public sector organizations. A new public procurement law entered into force in October 2016. Both reforms have been recommended by the EU in the framework of the European Semester. EU’s emphasis on concrete goals and steps for implementing reforms, together with systematic and rigorous monitoring, and well as a change of political climate toward more pro-European contributed to the improvement in the implementation of medium- and long-term strategies for development. Particular success can be demonstrated in environmental policy, R&D and, to a lesser degree, in the fight against corruption. Some of these goals failed to be reached and resources aimed at achieving them were wasted due to administrative deficiencies and incidence of corruption.

Due to a different interpretation of the confusing formulations included in the Czech constitution, the Czech foreign policy in general and European policy, in particular, does not have a single voice. There are occurring discrepancies namely between the stands of the president (who is formally only ceremonial head of the state) and the government (represented by the prime and foreign ministers).

For a long time, the Czech government acted not as a leader, but as a trustworthy and reliable partner of the international community. Vis-à-vis the European Union, this has changed in the summer of 2015 in the context of the refugee crisis. The Czech public, driven by the opposition of the Czech elites and growing anti-Islam rhetoric (in particular President Zeman), is strongly opposed to any form of refugee

Effective use of support

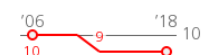
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Credibility

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resettlement quotas. This has been further strengthened by a failure of a pilot project for resettlement of 25 Christian refugees from Iraq by a Czech Christian charity (Generation 21 Fund). In April 2016, after a few months in the Czech Republic, the refugees flew to Germany. After a diplomatic discussion, they will be allowed to remain there. This incident strengthened both the elite and the public opposition to refugee resettlement into the country.

Contradicting the position of the Social Democrat-led government, President Zeman in 2016 declared that Crimea should belong to Russia. Zeman also criticized the international sanctions imposed against Russia during the Ukraine conflict. During the U.S. presidential campaign, Zeman openly supported Donald Trump, voiced a sexist critique against the Democratic candidate Hillary Clinton, and in January 2017 Milos Zeman was the only EU leader to openly welcome both the proposed wall on US-Mexican border and the “Muslim Ban.” In late January 2017, President Zeman received an invitation to visit the White House in April 2017.

By joining the EU, the Czech Republic acquired greater credibility among the international business community. The Czech Republic is one of the few EU countries, which has kept its AA-credit rating. In 2016 the visit of Chinese President to Prague was presented as a unique opportunity to attract Chinese investment and to secure a place as a hub for Chinese finance.

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

In 2015, together with other Visegrad countries, the Czech Republic opposed EU quotas for the relocation of refugees without having any constructive proposals for a global solution to the problem. In 2016, the Czech government maintained its position – support for strong efforts outside EU borders and functioning hotspots, but strong opposition to any form of quotas.

However, with the exception of rejection of refugee quotas, the cooperation within the V4 has deteriorated during the period under study due to the illiberal government of Hungary and Poland and their focus on domestic politics.

The Czech Republic is fully integrated into international structures. The government sees Czech membership in NATO as the cornerstone of the country’s external security. External security has been further strengthened by taking part in foreign military missions under the NATO command structures in Afghanistan (from 2008 until present) and the U.N. supervisory mission in Syria (UNSMIS, from May 2012 until present). The main internal security issues remain the fight against political extremism and increasingly against cyber-terrorism (in January 2017 the Czech

Regional
cooperation

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Ministry of Foreign Affairs was attacked by hackers, the attack was similar to the 2016 DNC attack and allegedly conducted by Russian hackers).

Historically, the Czech Republic maintains strong and positive relationships with Slovakia. However, the current Czech and Slovak presidents represent opposing values (populist, anti-refugee, anti-Islam, pro-Trump President Zeman versus pro-western, open President Kiska). The relationship to Austria is based on common historical memories and cultural proximity, the development of joint infrastructure projects and mutually beneficial economic collaboration. The relationship to Germany is more complex and Czech reluctance to contribute to the resolution of the refugee crisis is negatively affecting the otherwise positively developing political and economic relationship with Germany.

Strategic Outlook

In the Czech Republic, there is a considerable room for further improvement politically, economically and in regards to EU membership. Globally, the Czech Republic needs to strengthen its international role, in particular to become more active and constructive on EU issues. In the current situation, with the illiberal turn in Poland and Hungary and Brexit, the Czech Republic, dependent on trade with the EU (especially Germany) can find itself increasingly isolated. Attempting to align the Czech Republic with Trump's United States is as unrealistic as the hope that the Czech Republic would become the hub for Chinese investment in Europe.

Domestically, a key goal should be to find consensus on basic goals for Czech society as well as a political agreement on the desired level of state intervention in the economy, the level of social welfare provision and the degree of wealth redistribution. The key areas for reforms are strengthening the capacity, accountability, strategic competence and efficiency of public administration, independence of the judiciary, public procurement, integrity and anti-corruption.

The Czech Republic faces a number of important policy challenges. The Czech economy is growing but continues to be overly dependent on foreign investment by multinational companies and the car industry. The main reasons for this are skilled workers, persistent policy of cheap labor, and a good geographical position, which allows for cross-border transactions and transfers between the various Czech and German branches. In order to sustain its competitiveness, the Czech Republic must strengthen its vocational training, by introducing dual programs, consisting of training in companies and education in practical skills. Furthermore, populist and simplistic attacks on German political leaders by President Zeman are not conducive to presenting the Czech Republic as a reliable partner.

Furthermore, in order to make economic growth sustainable, the Czech government needs to pay more attention to R&D output and education. In order to improve the international economic competitiveness, the Czech government must improve the educational system, including to adopt measures to increase the percentage of the population participating in higher education and to address the attractiveness of teaching. Last but not least, the government must target family policy issues, in particular by strengthening support for families with children and enabling women to return to work after parental leave. Undoubtedly, other factors such as immigration could offset some of the negative effects of the demographic change; however, if the offsetting process is to work, the Czech Republic must become more proactive in attracting skilled migrants and integrating them into Czech society, rather than fostering nativist feelings.

The government also needs to recognize that the current economic growth driven by public spending and EU funding is not sustainable, especially after the EU funds finish in 2020. Thus, the Czech government must identify resources and processes to sustain the programs and infrastructures initiated with EU aid. Regardless of political constraints, the aging population highlights the urgent need to strengthen the capacity of the Czech welfare system and to adapt it to the changing needs of the various strata of the population. An important goal is to update the health care, social care and social security systems, carefully considering the impacts of such reforms on possible disproportionate effects on vulnerable groups and on gender equity.