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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of the Czech Republic

and delivering a Council opinion on the 2015 Convergence Programme of the Czech Republic

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission²,

Having regard to the resolutions of the European Parliament³,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2015) 254

³ P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

- (3) On 8 July 2014, the Council adopted a Recommendation on the Czech Republic's National Reform Programme for 2014 and delivered its opinion on the Czech Republic's updated Convergence Programme for 2014.
- (4) On 28 November 2014, the Commission adopted the Annual Growth Survey⁴, marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁵, in which it did not identify the Czech Republic as one of the Member States for which an in-depth review would be carried out.
- (5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.
- (6) On 26 February 2015, the Commission published its 2015 country report for the Czech Republic⁶. This assessed the Czech Republic's progress in addressing the country-specific recommendations adopted on 8 July 2014.
- (7) On 30 April 2015, the Czech Republic submitted its 2015 National Reform Programme and its 2015 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (8) The Czech Republic is currently in the preventive arm of the Stability and Growth Pact. In its 2015 Convergence Programme, the government plans to gradually improve the headline deficit to 1.9% of GDP in 2015 and further to 0.6% of GDP in 2018. The government sets out its intention to meet the medium-term objective – a structural deficit of 1% of GDP – in 2018, but according to the recalculated structural balance⁷ it is expected to be met by 2016. According to the Convergence Programme, the government debt-to-GDP ratio is expected to reach almost 41% in 2015 and to gradually decline to 40.2% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible and the measures to support the planned deficit targets from 2016 onwards are sufficiently specified. However, there is a risk that the impact of the planned revenue measures may be lower than estimated. Based on the Commission's 2015 spring forecast, the expenditure benchmark is expected to be complied with in 2015. In 2016, some deviation is expected as net expenditure growth exceeds the benchmark by 0.3% of GDP. Therefore, further measures will be needed in 2016. Based on its assessment of the Convergence Programme and taking to account the Commission's 2015 spring forecast, the Council is of the opinion that Czech Republic is expected to broadly comply with the provisions of the Stability and Growth Pact. The main elements of the current fiscal framework are in place. However the scope of medium-term budgetary planning and of the numerical fiscal rule is limited, and enforcement has been weak. A draft reform package has been modified and delayed several times and its adoption is currently planned during 2015. The Czech Republic still faces challenges with respect to long-term fiscal sustainability, largely due to projected increases in pension and healthcare expenditure. There has been some improvement

⁴ COM(2014) 902.

⁵ COM(2014) 904.

⁶ SWD(2015) 23 final.

⁷ The structural balance as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology.

in the outlook for the pension system as a result of more favourable demographic projections. The Czech Government plans to gradually increase the statutory retirement age, but the change programmed for the medium term is too slow. Changes to the current system of pension indexation are currently being discussed but no measures have yet been adopted. Although some measures have been taken to improve the cost efficiency and governance of the healthcare sector, limited progress has been made in this area. Indicators used to measure the performance of the hospital sector show that medical treatment is not always delivered in a cost-efficient way, while the allocation of resources is hampered by ongoing difficulties in rolling out a reimbursement system for costs incurred by hospitals. There are also signs that general practitioners are not adequately fulfilling their role as gate-keepers. Public procurement in the healthcare sector suffers from a high incidence of irregularities, suggesting insufficient guidance and supervision.

- (9) The main challenges in the area of taxation are to reduce tax evasion and to make tax collection less costly and less time-consuming, both for taxpayers and for the authorities. The Czech Republic has identified tax compliance and the fight against tax evasion as priorities, and is taking a number of steps in these areas. Several measures were introduced in 2015, relating to both direct and indirect taxes, and further measures are planned for 2016. The cost of compliance is still, however, too high. Standardising the tax bases for personal income tax, social security and health contributions would help to simplify the tax system, but this change has not been brought in, and there are currently no plans to tackle this issue. Work on simplifying tax returns and increasing the use of pre-filled forms is not being carried out in a systematic way. Rather than simplifying the VAT system, the Czech Republic introduced a third VAT rate in 2014. Limited progress has been made in reducing the discrepancies in the tax treatment of employees and the self-employed. Tax revenue in the Czech Republic still relies heavily on the taxation of labour, and low-income workers, particularly those without children, face a relatively high labour tax burden. Measures entering into force in 2015 somewhat reduce labour taxation for specific groups, but will have a limited impact overall. Property and environmental taxes (except fuel) remain low, indicating potential scope for shifting tax away from labour.
- (10) Limited progress was made in 2014 on accelerating the reform of regulated professions but the intermediary national action plan adopted in April 2015 contains a number of concrete measures and actions designed to improve the regulatory framework and to remove unjustified and disproportionate requirements.
- (11) Efforts made in recent years to tackle the problem of corruption have met with serious delays. The most recent anti-corruption action plan covered a number of priority areas. It included Acts on financial control, public prosecution, the financing of political parties, the protection of whistle-blowers, a new policy on the management of state-owned companies and an amendment to the Act on free access to information. Nonetheless, it appears that little is being done to bring about the adoption of these Acts. The adoption and implementation of the Civil Service Act and of related measures has seen the Czech Republic start to address problems relating to the efficiency and stability of its public administration. Both the administrative and regulatory barriers related to investment planning, and the lack of transparency and long duration of the procedures for obtaining building and land-use permits hold back public investment. Public procurement has been the focus of a number of initiatives in recent years but concerns about transparency still remain. In

particular, public contracts are still not published in a centralised register. The efficiency of public procurement procedures is hampered by the inadequate provision of guidance and training to tendering institutions. Supervision of the system remains weak.

- (12) The overall level of employment is currently high, but certain disadvantaged groups remain underrepresented in the labour market. These include parents with young children, low-skilled workers, people with disabilities and Roma. Some steps have been taken towards strengthening the efficiency and effectiveness of public employment services. The level of employment among young people is increasing, and public employment services try to target their services towards young people in particular. The lack of affordable and quality childcare services and the limited use of flexible working-time arrangements make it difficult for women with children to participate in the labour market. Some steps have been taken towards increasing the availability of childcare but policies supporting public childcare for the youngest children are still insufficient.
- (13) The Czech Republic's educational outcomes have improved in recent years but structural challenges still remain. Participation in tertiary education has increased rapidly, but concerns have emerged in relation to the decline in skills of younger tertiary education graduates. It is hoped that the overdue higher education reform planned to be adopted in 2015 will introduce institutional accreditation, stronger internal quality assurance and greater use of profiling of students, and improve financing systems. More teachers need to be recruited into the compulsory education sector, but low salaries and a negative perception of the profession make it difficult to attract talented candidates. A new career system designed to improve both the recruitment of teachers and their professional development should be finalised in the first half of 2015, to be introduced in September 2016. Its overall impact will, however, largely depend on available funding. A comprehensive approach to evaluating and supporting low-performing schools and pupils is, meanwhile, still lacking. The introduction of such an approach could help improve efficiency and equality in the education sector. Limited progress has been made in making education more inclusive, despite the government's adoption of a comprehensive strategy for education. Young people from low socioeconomic backgrounds, including Roma, are shown to be less successful in education and on the labour market.
- (14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Czech Republic's economic policy and published it in the 2015 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Czech Republic in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Czech Republic but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(15) In the light of this assessment, the Council has examined the Czech Republic's Convergence Programme, and its opinion⁸ is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that the Czech Republic take action in 2015 and 2016 to:

1. Achieve a fiscal adjustment of 0.5% of GDP in 2016. Further improve the cost-effectiveness and governance of the healthcare sector.
2. Fight tax evasion, simplify the tax system and implement the anti-corruption plan. Take measures to increase the transparency and efficiency of public procurement, in particular by establishing a central register of public contracts and strengthening guidance and supervision.
3. Reduce the high level of taxation levied on low-income earners, by shifting taxation to other areas. Further improve the availability of affordable childcare.
4. Adopt the higher education reform. Ensure adequate training for teachers, support poorly performing schools and take measures to increase participation among disadvantaged children, including Roma.

Done at Brussels,

*For the Council
The President*

⁸ Under Article 9(2) of Council Regulation (EC) No 1466/97.