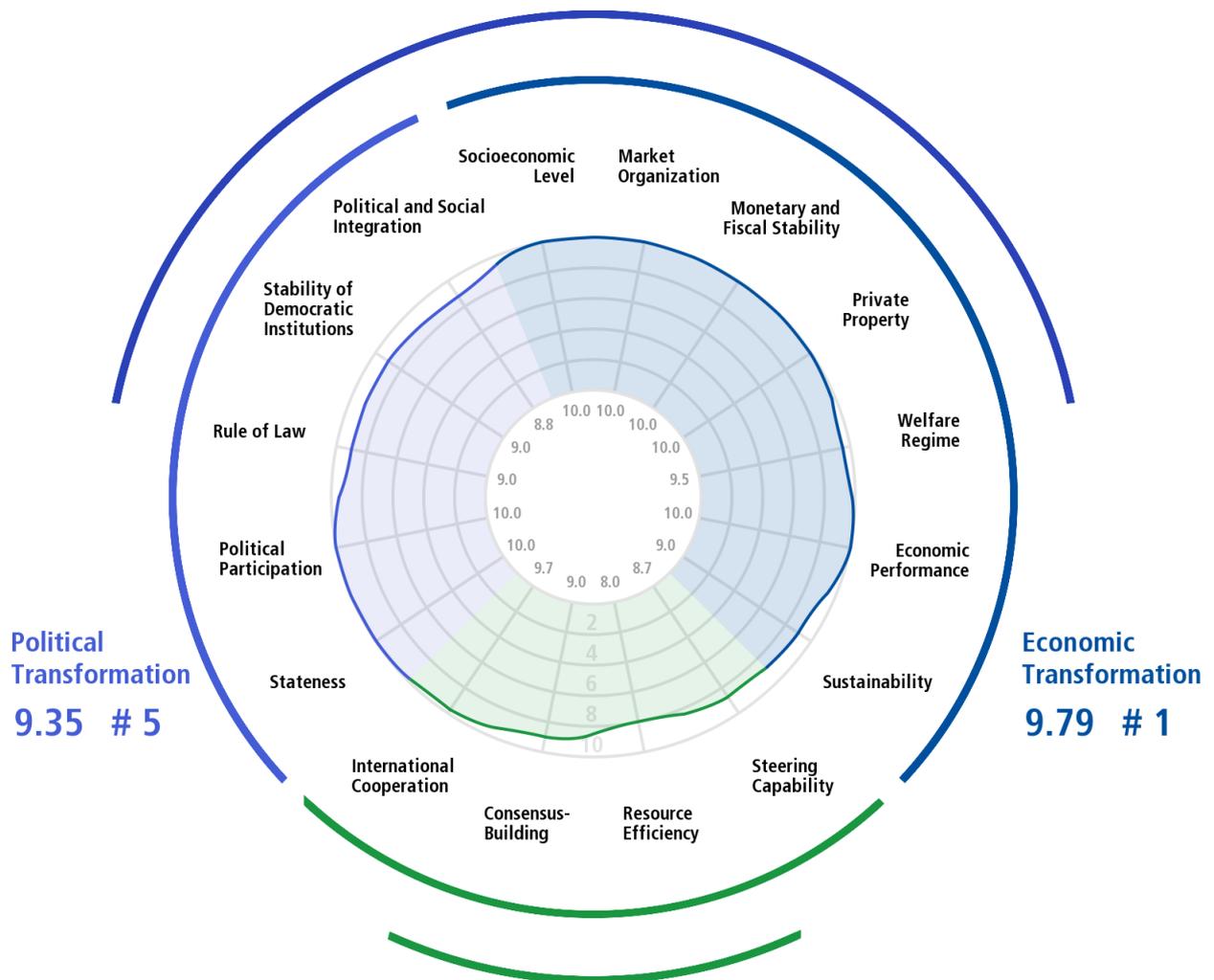


Czech Republic

Status Index

9.57 # 1

on 1-10 scale out of 137



Political Transformation
9.35 # 5

Economic Transformation
9.79 # 1

Governance Index

7.08 # 7

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population | M | 10.6 | HDI | 0.891 | GDP p.c., PPP \$ | 39744 |
| Pop. growth ¹ | % p.a. | 0.3 | HDI rank of 189 | 26 | Gini Index | 25.9 |
| Life expectancy | years | 79.5 | UN Education Index | 0.892 | Poverty ³ | % 0.0 |
| Urban population | % | 73.8 | Gender inequality ² | 0.137 | Aid per capita \$ | - |

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

The October 2017 parliamentary elections were the culmination of the rise of billionaire-turned-politician Andrej Babiš, whose Action of Dissatisfied Citizens (Czech: Akce nespokojených občanů, ANO) won almost 30% of the vote. However, fraud investigations by Czech and EU authorities and the conflict of interest caused by retaining effective control over his business and media interests have significantly polarized the post-election political landscape. The key factors that allowed Babiš to survive and eventually build a government in 2018 were his absolute control over his party, support from President Zeman and fragmentation of the opposition.

In December 2017, Babiš presented a minority ANO government, including some non-party experts, but failed to win a vote of confidence in parliament. On July 12, 2018, a minority coalition government of ANO and Social Democrats was backed by the Communists to ensure it passed the vote of confidence. The political alliance with Babiš enabled ailing President Zeman to win re-election in January 2018.

Public support for ANO and Babiš remains stable at approximately 30%. However, the precariousness of this support was demonstrated in the October 2018 municipal and Senate elections, in which the governing parties lost ground, leaving a majority of Senate seats in the hands of their opponents. There was a significant change in Prague, where the ANO administration was defeated by the Pirate Party and independents.

Policy-wise, the coalition is a continuation of the previous Social Democrat-dominated Sobotka government. It is focused on lowering the fiscal deficit, raising public sector salaries, increasing pensions and accelerating the use of EU funds. The Babiš government gives the appearance of efficiency because the prime minister controls much of the media, unashamedly using it to promote his image and denigrate opponents, and his party and ministers. A new investigation into the conflict of interest with respect to media ownership and EU subsidies initiated by the European Commission in January 2019 further imperils Babiš. His political survival remains contingent on

his control of ANO, his political alliance with President Zeman, maintaining the support of the Communists and fragmentation among the opposition.

Much of public investment remains funded by EU structural funds, the sustainability of which is an urgent issue. A past increase in R&D investment led to the creation of new capacity without a clear conception of how it would be financed, and it has yet to yield results regarding innovation and technological advance. A small increase in R&D spending, still not up to 2015 levels, has occurred due to undertakings by foreign multinational companies upon which the Czech economy remains heavily dependent. The economy has continued to grow, and unemployment is at a historical low, far below the level of job vacancies. Job vacancies continue to be filled by a growing number of foreign workers, mostly from Ukraine, Slovakia, Poland and Vietnam.

Social exclusion remains a significant issue, with about one-tenth of the adult population at the risk of personal bankruptcy due to their inability to keep up with debt repayments. The 2019 attempt to amend the bankruptcy law by the Senate failed. While the number of migrant workers increased significantly without causing much concern, Czech society remains firmly opposed to the integration of refugees.

Internationally, Babiš seeks to present his government and himself as a reliable partner, taking a pro-active role in bilateral and EU negotiations. Babiš pursues policy-based multipolar strategies – aligned with Germany and France on fiscal policy and with Italy on migration policy. Babiš is also leading pro-active EU policies on tax avoidance and energy.

History and Characteristics of Transformation

The transformation of Czechoslovakia is part of the political changes in East-Central Europe between 1988 and 1989. The end of the cold war caught the relatively economically stable, but politically very rigid communist regime off guard. Representatives of the opposition movement formed the revolutionary Civic Forum (Obcanske forum, OF), which negotiated the transition after the Communist Party gave up its monopoly on power on November 28, 1989. Members of the OF were successfully incorporated into 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 significant political and economic changes, as well as a redefinition of statehood – the Velvet Divorce with Slovakia in 1992. Two major actors shaped the development in the country. The first was the former dissident and well-known representative of the opposition movement Charter 77, Vaclav Havel (president of the Czechoslovak Federative Republic 1990 – 1992 and the Czech Republic 1993 – 2003). The second actor was Vaclav Klaus, an economist, 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 parliament, and president (2003 – 2013). These two figures often clashed in public due to ideological differences. These strong yet somewhat opposing streams significantly

shaped the nature of Czech politics resulting in a highly polarized system interlaced with ideological and personal animosities.

Miloš Zeman, a third key political figure, and from March 2013 the country's president, is a former leader of the Czech Social Democratic Party. Between 1996 and 1998, he was also the chairman of the lower house of the Czech parliament and from 1998 to 2002, prime minister. In 2003, partisan disunity in the Czech Social Democratic Party (ČSSD) led to Zeman's loss in his first presidential run. As a consequence, Zeman left the party and founded the Citizens' Rights Party – Zemanites (Strana prav občanů – Zemanovci).

The conflict between Zeman and the leadership of Social Democrats recurred after the October 2013 elections. Zeman unsuccessfully attempted to sideline the party leader, Bohuslav Sobotka. Sobotka prevailed due to a strong party base and popular support. The tensions continued throughout Sobotka's term and included conflicts over ministerial appointments, as well as domestic and international policies. Zeman's vocal critique of the West's sanctions against Russia and interference in party politics led to a steep decline in his support. After January 2015, the president regained support by becoming increasingly populist and a vocal opponent of immigration. In January 2018, he was re-elected for a second term by a narrow majority.

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. The depth of European integration became a political dividing line between parties. This led to a re-fragmentation on both sides of the political spectrum and contributed to the fluidity of the party system. New political parties continue to emerge and, although most did not succeed, some did – Andrej Babiš's Action of Dissatisfied Citizen's (ANO), Tomio Okamura's radical right parties Dawn of Direct Democracy (2013 – 2017) and Freedom and Direct Democracy (2017 –), and the Pirate Party (currently in parliament, and since 2018 leading Prague's municipal government). Anti-establishment rhetoric and populism unite these parties – Babiš is a technocratic populist, Okamura is a nativist populist, and the Pirates are left-wing populists.

The 2013 general elections brought a new key figure to the fore. The businessman turned politician, Andrej Babiš, won the elections with his ANO party, culling 18.7% of the vote on a populist, anti-establishment, anti-corruption platform. Babiš survived numerous scandals over his past business dealings and remains under investigation for fraud. His technocratic populist appeal continued – in 2017, ANO won over 30% of the vote and remains popular in polls.

The fraud charges against Babiš related to misappropriation of EU funds significantly complicated coalition building after the 2017 elections, as many parties refused to enter into a coalition with Babiš as prime minister. However, in summer 2018, after a failed attempt and with the unwavering support of Zeman, Babiš built a minority coalition government with the significantly weakened Social Democrats (20.5% in 2013 to 7.3% in 2017) and, for the first time in the history of the Czech Republic, the silent support of the Communist Party. This further polarized the country and protests ensued.

The Czech Republic is a member of NATO (1999) and the EU (2004). The accession to the IMF and World Bank in 1993 offered credit guarantees, which were necessary for economic and social reforms in a four-phase process. The first phase (1990 – 1993) was characterized by a considerable economic decline. In the next phase (1994 – 1996), the country witnessed considerable growth, followed by recession in the third phase (1997 – 1999). Economic growth was re-established only in 2000. The world economic crisis and the slowdown in the global economy of late 2008 had a delayed but significant impact on the Czech economy. It first hit the country in 2009, and its effects were felt for several years. However, since 2016, the economy has grown, unemployment is the lowest in the EU, public debt is decreasing, and the state budget had a surplus in both 2017 and 2018.

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



1

The Czech Republic (ČR) is ethnically and nationally quite homogeneous. In December 2018, various ethnic minorities constituted only 5.4% of the population.

State identity

10

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



1

Half of Roma in the Czech Republic live in social exclusion. Around 25% of Roma children are educated in “special schools” (populated almost exclusively by Roma), before being placed in vocational schools with low learning standards. Several prominent politicians have voiced xenophobic views, backed by their parties, with regard to Roma. In 2017 to 2018, Tomio Okamura's Freedom and Direct Democracy party denied that when the Czech Roma minority were rounded up and sent to the Lety Concentration Camp during World War II, it constituted a holocaust. President Miloš Zeman has a long track record of anti-Roma statements, having called them welfare parasites in October 2018. The off-the-cuff remark provoked criticism from the media and the opposition. In a social media campaign that went viral, members of the Roma community posted pictures from their workplaces captioned, “Mr. president, I work.” The mainstream Civic Democrats rallied against “welfare parasites” in the 2018 regional elections campaign, albeit without directly mentioning Roma.

The Czech public remains firmly opposed to reception and integration of refugees. In April 2018, 58% of respondents in a public opinion survey entirely opposed the acceptance of refugees from countries torn by war conflicts; 35% respondents approved of temporary protection only, and just 3% approved of permanent settlement of refugees in the country. Compared to 2017, the number of respondents rejecting the refugee settlement decreased by 11%.

As of November 2018, the Ministry of Interior had received 1,537 applications for asylum, of which 42 were approved, and 109 applicants received additional protection (one to three years residency). The issue continues to be salient and portrayed by populist politicians including the Czech president as a danger to the country's identity. As of January 2019, the issue receives significantly less space in the media and reporting has become more balanced.

In the 2017 parliamentary elections, flirting with anti-refugee rhetoric backfired on the mainstream Social Democrats, who lost 70% of their support (down from 20.5% to 7.3%), it mildly strengthened the radical right (from 6.9% to 10.6%) but did not hurt Babiš.

The Czech Republic is one of the most secular countries in Europe. Religious dogmas do not influence politics or law. The government acknowledges the historical and unique position of the church and religious communities as traditional institutions that form a 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 and anti “gender ideology” rhetoric.

In 2012, the Law on Compensation of Churches and Religious Communities was adopted to compensate for injustice suffered under the communist dictatorship. Churches would be returned the properties of which they were dispossessed during the Communist period, worth about CZK 75 billion. In addition, compensation at a total of about CZK 59 billion would be paid by the state over 30 years in annual installments, as replacement for property that is no longer extant for various reasons. The Communist Party of Bohemia and Moravia, which is non-governing but supports the current coalition government in parliament with a vote of confidence, put the issue back on the table in 2018 with demands that compensation paid to churches be taxed.

No interference of religious dogmas

10



The state has a multi-layered administrative structure that provides all basic public services. The state, regional and local administrations have developed structurally since the transformation of the political system. The performance of democratic institutions is partly hampered by corruption. Several problems have arisen in the distribution of EU funds.

Following a consolidation of various administrative functions, the regional tier of Czech governance has taken on greater importance. Budgetary allocation of taxes and financial decentralization have enabled regional governments to exhibit greater autonomy in fulfilling governing functions and managing basic infrastructure. European structural funds constitute an important resource for regional development. The sustainability of many projects beyond their current EU funding period represents an important issue.

A gap between national and EU standards, which threatened the effective use of EU structural funds, was narrowed and the ability to use EU funds improved significantly in the period under review.

All negotiations over regional budgets remain complicated by opposing political majorities at the central, regional and municipal levels. This trend was strengthened by the 2018 municipal elections, in which new governing coalitions emerged, sometimes in open opposition to the national government (most importantly in Prague).

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 have campaigned, have been partly addressed due to the EU pressure and strong oversight of structural funds. The issues of transparency and mishandling of public funds remained salient and contributed to a dramatic change at the helm of the country's capital and largest city, Prague, which is now led by a mayor from the Pirate Party.

Basic
administration

10



1

2 | Political Participation

Free and fair elections are regularly organized and constitutionally guaranteed. In the period under review, parliamentary elections took place in October 2017, presidential elections in January 2018, local elections and Senate elections (one-third of the seats) in October 2018.

All adult citizens, including prisoners, can participate in national elections. Voter registration is relatively straightforward. In municipal and European elections, EU citizens who are permanent residents of the Czech Republic, and since 2018, also EU citizens who are temporary residents of the Czech Republic can participate in the municipal elections. While mobile ballot boxes facilitate voting for the disabled and seriously ill, votes cannot be cast by mail. Czech citizens residing abroad can vote at Czech embassies and consulates. However, participation is complicated by a special deadline for registration and the limited number of embassies and consulates. No cases of vote-buying were reported in the 2017 and 2018 elections.

The electoral law guarantees parties access to state radio and television, with a total of 14 hours set aside for each party to express its views with equal allocation, irrespective of party size or previous electoral performance. Thus, all parties have access to public media, although presentations are often tedious and unlikely to hold viewers' and listeners' attention. Space is also provided by municipalities for billboards, and political advertisements are published in newspapers.

The reporting and presentation of parties by private media is less balanced than in the public media. This was evident in the numerous televised debates between candidates during the 2018 presidential elections. The Czech Council for Radio and Television Stations rated the debates on state television positively, but criticized the private channels, TV Barrandov and TV Nova.

The October 2017, parliamentary elections were the first scrutinized by the newly established Office of the Oversight of the Political Parties and Political Movements (UHHP SH). The report found 123 cases of misdemeanors – most of the cases (98) related to failure to notify authorities of a special account and related issues. Three proceedings addressed more serious offenses – failure to establish, conduct and report the use of a transparent account (smaller political subjects). The UHHP SH imposed 26 administrative penalties totaling €7,000. The penalties were lower than the statutory rate due to the novelty of the law and served an “educational function.”

Free and fair elections

10



1

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

Effective power to govern

10



Freedom of association and assembly is fully guaranteed in the Czech Republic. A law on political parties and movements regulates the formation and registration of all political entities. Interest associations have grown considerably in the Czech Republic since 1990. As of April 2017, there are over 129,947 autonomous, self-organized groups, associations, foundations and organizations registered in the country, although not all of them are active. In the last decade, new NGOs emerged focusing on areas such as corruption, city planning, LGBTI rights, food safety and participatory budgeting on the local level. Many of them have the resources and expertise to formulate relevant policy proposals.

Association / assembly rights

10



During the Prague 2018 municipal elections, a new political actor with NGO origins successfully entered the municipal government on a problem-solving platform: radical improvements to transport infrastructure, spending on education, safety, dignity and inclusiveness, effective and transparent governance. Prague for itself (Praha sobě) was able to draw the support of voters (16.5%) by clearly identifying problems, proposing concrete policy solutions, and making clear that implementation will consider both the benefits and the costs of these policies to all, carried out by experts and including citizens.

In the period under review, protests for various and often opposing causes took place around the country, but particularly in Prague. These included Roma and gay pride events, as well as anti-Islam, anti-NATO, anti-EU or pro-life “March for Life” demonstrations. The latter events drew a limited number of participants, while the Roma and gay pride events drew significant numbers, primarily young people.

The Czech Republic has traditionally been characterized by a high degree of media freedom, partly because of the independence of public media but also because prevalent foreign ownership did not exercise any visible influence over the content and coverage of private media.

Freedom of expression

10



The private media market in the Czech Republic has changed significantly in recent years. Most remarkable among these changes are the concentration of media ownership, the departure of several international owners and the broadening of the scope of media holdings (print, online, radio and television). The capture of much of the Czech media market by Andrej Babiš, and the use of that media power to support

his political position and denigrate alternative positions has further stimulated the development of online media, supported by subscription and crowdsourcing.

Many established journalists including investigative and award-winning journalists left Babiš' Mafra and other dailies to start online media and blended media (online and monthly print). While these projects ensure the continuation of some degree of media independence, their viability is contingent on the trust of the readers and viable business models (online ads, or strong backer). Following action by Transparency International, a lawsuit was initiated against Babiš in November 2018 for conflict of interest since he maintains effective control over his businesses, despite their nominal transfer to a blind trust.

Babiš's businesses dominate the daily print media, with an estimated 2.4 million readers, and also online media, with an estimated 3.4 million daily users. However, there has been growth in readership of independent weekly publications and some new journalistic projects. On October 28, 2018 (the centenary of the establishment of the Czech Republic), following the example of the Slovak Denik N (Journal N), a new daily was created using the Slovak knowhow and combining investor- and crowd-sourced funding. Key journalists and staff own 23.5% of the shares. Most staff are experienced journalists who left Mafra. The crowd-funding campaign raised €270,000 and 5,500 digital subscribers. Starting in 2019, the daily should be available in print.

To ensure independent operation and a long-term viability, 25,000 regular subscribers are needed. The year 2018 also brought the launch of Seznam TV – a major internet platform and email provider ventured into online media content, including investigative journalism. Strong financial backing and hiring experienced and respected journalists enable online media such as Seznam TV to pursue investigative journalism. During the first six months of its existence, the investigative journalists at Seznam TV found irregularities in party finance, lobbying and in November 2018 revealed potentially damning evidence of corruption in Babiš' business activities.

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.

The most active control over executive actions are the Constitutional Court and the Supreme Administrative Court. In the period under review, no major controversial cases were decided by the Constitutional Court. The Supreme Administrative Court rejected several minor complaints regarding the Senate and municipal elections. Some included minor administrative mishaps. Others, for example, initiated by Andrej Babiš' ANO questioned the number of invalid votes in the first round of the

Separation of
powers

10



2018 Senate elections in one electoral district (Rokycany). The court rejected the ANO complaint, as well as the other six complaints, and confirmed the validity of the elections.

Unlike in the past, there are no tensions between the president and the prime minister, who are close allies. After the 2017 elections, the president supported the prolonged efforts of Andrej Babiš to form a government and refused to consider any alternative prime minister. In the 2018 presidential elections, Babiš' ANO did not nominate a candidate and more or less overtly supported the re-election of Miloš Zeman.

The judiciary is independent and free from unconstitutional interference from other institutions and from corruption. The Constitutional Court constitutes a vital check on the executive.

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, based on proposals by the president. The judicial appointment process is transparent and adequately covered by public media. The involvement of both the president and the Senate increases the likelihood of a balance in judges' political views.

In September 2018, the president announced the appointment of a new president of the Supreme Administrative Court. This body oversees administrative abuses and the conduct of elections. President Zeman bypassed the candidate recommended jointly by the outgoing president of the Supreme Administrative Court and the president of the Constitutional Court and appointed the court's long-standing vice president. The choice is uncontroversial and accepted within the judicial community.

Notwithstanding the independence of the judiciary, in January 2019, the media reported on attempts by the Office of the President (not the president personally) to influence various court proceedings. The most prominent revelation came from the former president of the Supreme Administrative Court, Josef Baxa, who accused the president of attempting undue influence and backroom dealing (dangling the possibility of the Presidency of the Constitutional Court in exchange for amicable decisions). The Office of the President denied these efforts, which it cast as "regular consultations."

Independent
judiciary

9



1

In the Czech Republic, corruption and clientelism remain widespread. Consecutive governments have emphasized their commitment to fight corruption but have done little to adequately address the issue. Two significant changes were implemented in 2017: amendments to the law on party finance and to the law on conflict of interest.

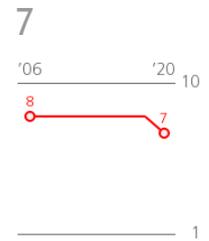
Despite this apparent progress, the merging of business, political and media power in the hands of the prime minister represents an escalation of corruption to a new level. The most public controversy concerns the use of EU funds, intended for SME support. These were used to finance a business that had been temporarily separated from his conglomerate, Mafra, and then returned to his control after the subsidy was received. It emerged that nominal ownership had only been transferred to his family members, but police investigations reached no clear conclusions. A key barrier was that his adult children, the temporary owners, were reportedly unfit to face a trial, owing to psychiatric problems.

In November 2018, journalists from the relatively new online channel Seznam TV published an interview with Andrej Babiš's son, Andrej Babiš, Jr., who reported that he was willing to be interviewed by police but had been kidnapped by people working for his father and taken to Crimea, from where he later escaped. Subsequently, Andrej Babiš gave a press conference denouncing the media for its "attempted coup" and informing the public that both his adult children were mentally ill. Despite demands from the opposition for his resignation and public demonstrations in Prague and other cities, he was aided by a sympathetic hearing from the media he controlled and remained in power thanks to continuing support from Social Democrat coalition partners, who feared that he would remain in power in any case by creating a new coalition with Okamura's party.

Further problems await Babiš as a result of action initiated by Transparency International, challenging his control over the Mafra media companies while an active politician. Likewise prompted by Transparency International, the European Parliament requested that the European Commission take action regarding EU subsidies to AGROFERT, which, according to some opinions, represent a conflict of interest. In January 2019, EU auditors arrived in Prague to assess the extent to which the ties between the prime minister and AGROFERT have been severed. Unless resolved, the EU subsidy issue has the potential to endanger all EU subsidies to the Czech Republic.

However, throughout all this, support for the prime minister and his party has been unwavering, around 30% of the population. There is a large generational gap – voters for Babiš tend to be elderly and mostly retired. Young voters reject corruption and the collusion between political and business interests exemplified by Babiš. The 2018 municipal elections in Prague confirmed that support for Babiš has significantly weakened in Prague, where anti-corruption and transparency interests created a coalition of three new political groups. Young voters see both Babiš and other established parties as part of a corrupt system and demand change.

Prosecution of office abuse



The government and administration of the Czech Republic respect and protect its citizens' basic civil rights. As complaints lodged with the European Court of Human Rights and the Office of the Public Defender of Rights (ombudsman) have indicated, the main problem is the length of legal proceedings.

The Office of the Public Defender of Rights serves as a vital protector of civil rights. It delivers quarterly and annual reports on its activities to the Chamber of Deputies, including recommendations on changes to the law, reports on unfulfilled recommendations and annual evaluations on compliance. It produces detailed reports of the cases it investigates, indicating when laws have been transgressed to the extent that the damaged parties have a basis for seeking redress.

In the period under review, the office received about 10,500 complaints (based on available data and an estimate for the fourth quarter of 2018), of which approximately 70% were within the defender's mandate. This represents a slight increase over the previous period.

Most complaints were related to social security, followed by complaints regarding construction permits and spatial planning, the prison system, the police, the army and the rights of children, youth and families. The activities of defender change over time. Each year, there are new complaints.

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. Since the change from indirect to direct presidential elections in January 2013, there has been little institutional change. However, developments from 2013 to 2017 show that a directly elected president, even without significant competences, can wreak havoc on the party landscape.

Immediately after becoming president, Miloš Zeman started to pursue a long-planned vendetta against the Social Democrats. His attempt to bypass Sobotka in 2013 failed, but in concert with Babiš, he was able to divide and marginalize the Social Democrats. The president pushes the boundaries of his mandate by intervening into foreign policy, often taking sides with China (Huawei) and Russia (extradition of a Russian hacker to the United States in 2018). Currently, the Constitutional Court is reviewing a case in which Zeman refused to perform the ceremonial act of naming a university professor, who, Zeman felt, acted disrespectfully toward the head of state (Zeman).

Civil rights

10



1

Performance of democratic institutions

9



1

All democratic institutions are accepted as legitimate by the majority of relevant actors. Most citizens support democratic institutions, and there are no influential democratic groups seeking to change the Czech political system. At the same time, the rise and visibility of extremist political groups are palpable, especially as the radical-right party entered parliament for a second consecutive term – with the same leader, Tomio Okamura, but a new name. While the scandal-ridden Dawn of Direct Democracy disbanded, Freedom and Direct Democracy (Svoboda a přímá demokracie, SPD) entered parliament with 10.6%. Established political parties struggle to maintain citizen support – new political actors emerge on all levels (municipal, regional, parliament). Furthermore, the 2018 local elections saw a significant rise in the number of independent candidates and their success rate.

Commitment to democratic institutions

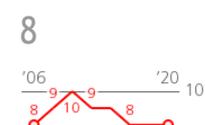


1

5 | Political and Social Integration

The multiparty system, which was relatively stable during two decades of democratic transition and consolidation, began to change after 2010. The two long-term dominant parties – the Czech Social Democratic Party (ČSSD) and the Civic Democratic Party (ODS) – lost their position. First, ODS's position began to weaken as a result of scandals. In the 2017 parliamentary elections, the party was able to partially rebound and remains the main actor on the significantly fragmented right side of the political spectrum. The Social Democrats seem less lucky, as 2013 elections brought a new rival for its voters – Action of Dissatisfied Citizens 2011 (ANO), led by businessmen outsider Andrej Babiš.

Party system



1

ČSSD and ANO were able to govern together for one full term (2013 – 2017), at the end of which the country was experiencing economic growth and the lowest unemployment in the EU. But the ČSSD lost 70% of its support (down to 7.3%).

The 2017 parliamentary elections transformed the Czech political landscape. On both what can broadly be understood as the left and the right, established political parties were challenged by populists and anti-establishment forces. Babiš's anti-establishment and populist ANO, emerged as the strongest party (29.6% of the votes), attracting traditional many voters for the Social Democrats (7.3%) and Communists (7.8%). The Pirate party (10.8%) drew young, educated, left-leaning, anti-establishment voters. The center-right also fragmented among the established Civic Democrats (11.3%) the Christian Democrats (5.8%) and TOP09 (5.3%), while the radical-right Freedom and Direct Democracy (SPD, 10.6%) re-entered parliament.

ANO and the ČSSD continued to govern together, albeit in reversed roles – under the leadership of ANO. The ČSSD was bullied into submission – it can be replaced by the radical right SPD, should its support for the prime minister and his policies waiver.

The most successful parties in 2017 parliamentary elections were anti-establishment parties. In the absence of ethnic or religious conflicts to motivate political realignment, the major cleavage in party competition stems still from attitudes toward economic and social reforms.

In January 2019, according to the Ministry of the Interior, there were 229 registered and active political parties and political movements (89 parties and 149 movements). Most of them are small local groups. Among the political parties, there are several extremist ones that are only relevant at local and regional levels in structurally and economically disadvantaged regions. Their main planks are resistance against and criticism of migrants and Roma, antagonism toward the redistribution of migrants in Europe and criticism of the European Union and deepening of European integration.

In 2016, an amendment to the law on party finance introduced an independent office for the oversight of party and campaign finance. Political parties are now required to have transparent accounts, the management of which is scrutinized by the newly established independent authority (The Office of the Oversight of the Political Parties and Political Movements – UHHPSH). The law also established a limit to the amount in donations that a party can accept from a single donor. The October 2017 parliamentary elections were the first examined by the newly established UHHPSH. Currently, the office is investigating a high-profile case of Freedom and Direct Democracy Party. In March 2018, the media implied that FDD party Chairman Tomio Okamura controlled resources from the illegal sale of party merchandise.

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 broad spectrum of interests, including issues such as transparency, corruption, city planning, and post-modern values. No particular interest group dominates the public sphere.

In 2018, a coalition of 10 non-governmental groups lobbied both chambers of the Czech parliament to soften the bankruptcy law. They succeeded in the Senate but ultimately failed in the Chamber of Deputies. The change was strongly opposed by bailiffs as an interest group. This issue will continue to be crucial, as almost 10% of the population struggles with personal debt. Often small personal debts grow exponentially due to additional penalties and fines.

Mobilization of voters around independent candidates in the 2018 local elections demonstrates the strength of Czech civil society, which compensates to a large degree for the weak and fragmented political parties, low party membership rates and sometimes the lack of intraparty democracy. In the 2018 municipal elections, associations of independent candidates and various local associations won a total of 65% of the vote.

Interest groups

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The number of active organizations varies drastically from one region of the country to another, with social, economic, cultural, historical and institutional factors playing a role. Some NGOs struggle to preserve their independence due to their financial dependence on government and EU subsidies.

In the Czech Republic, there is a clear and persistent disparity between the broad support for democracy as a system and satisfaction with the performance of democratic institutions. 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 increased from 56% in 2016 to 60% in 2018. Compared to the previous period, the proportion of those who believe that democracy is better than any other government increased by 8% (to 56% in 2018). More than one-fifth of those polled believe an authoritarian government is possible.

Among constitutional institutions, the president consistently enjoys the highest confidence. The government is trusted by more than two-fifths of the population, and this confidence increased in the reporting period. Of representative bodies, municipal councils enjoy the most consistent and robust confidence (67% in December 2018), with lower trust expressed with regard to both chambers of parliament. The most trusted public institutions are the army (increasing to 69% in April 2018), and the police (66%), while fewer people trust the churches (25%). Confidence in the press, television, and radio has decreased, while confidence in trade unions has gradually increased.

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 single-parent families with dependent children.

There is a growing gap in political attitudes between younger and older generations. Recent surveys indicate that mutual trust between people in the Czech Republic is decreasing. Asked whether people can be trusted, only 23% of respondents answered positively, which is the lowest percentage during the period under review. Tolerance for some minorities, especially Muslims and immigrants in general, has also declined. Czechs who have long been unwilling to have neighbors who are alcoholics, drug addicts and Roma, also expressed decreasing tolerance toward ethnic and religious minorities.

Approval of democracy

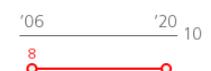
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Social capital

8



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The Czechs, along with other countries that have not experienced a large influx of refugees, continued to view immigration as a major problem in the EU (Eurobarometer 88).

Growing public distrust of politics manifested in enhanced interest in different civic activities and initiatives addressing specific social problems related to poverty or wasting resources, such as the “Save Food” initiative, gay marriage and other issues. Social media plays an essential role in the mobilization of citizen activism.

II. Economic Transformation

6 | Level of Socioeconomic Development

The Czech Republic has a high level of human development (ranked 27 out of 187 countries in the 2017 Human Development Index), a low share of people in need, and a low degree of inequality when compared to most post-communist countries. The share of Czech citizens who live below the income poverty level (below 60% of median income) was 9.1% in 2017; the situation has slightly improved compared with previous period (10% in 2016). 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. 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. While the level of unemployment is low, some employees are at the risk of in-work poverty, especially as a result of precarious work. As a result, 8% of Czechs sink in a spiral of debt and have only a small chance to get out of it. This is due to the easy availability of credit and insufficient economic literacy among part of the population. In January 2019, parliament approved an amendment to the Insolvency Act, which would help people who would otherwise be in debt traps for the rest of their lives.

Income inequalities exist especially between the capital (Prague) and the structurally disadvantaged regions in the north and west of the country. The gender pay gap is one of the highest in the EU. The situation only slightly improved, as the Gender Inequality Index demonstrates (0.129 in 2016, and 0.124 in 2017). Differences between male and female remuneration persist – in 2016, the average female gross wage was 21.8% lower than that of the average male gross wage. Apart from lower salaries, women also receive lower retirement pensions. As a result, women are in greater danger of poverty than men.

Except for the Roma population, there is no general labor market exclusion due to ethnicity, 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.

Question
Score

Socioeconomic
barriers

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| Economic indicators | | 2015 | 2016 | 2017 | 2018 |
|---------------------------|----------|----------|----------|----------|-----------------|
| GDP | \$ M | 186829.9 | 195090.3 | 215913.5 | 245225.9 |
| GDP growth | % | 5.3 | 2.5 | 4.4 | 3.0 |
| Inflation (CPI) | % | 0.3 | 0.7 | 2.5 | 2.1 |
| Unemployment | % | 5.0 | 4.0 | 2.9 | 2.4 |
| Foreign direct investment | % of GDP | 0.9 | 5.6 | 5.2 | 3.5 |
| Export growth | % | 6.0 | 4.3 | 6.7 | 4.4 |
| Import growth | % | 6.8 | 2.8 | 5.9 | 5.9 |
| Current account balance | \$ M | 461.0 | 3015.9 | 3148.0 | 860.0 |
| Public debt | % of GDP | 40.0 | 36.8 | 34.7 | 32.6 |
| External debt | \$ M | - | - | - | - |
| Total debt service | \$ M | - | - | - | - |
| Net lending/borrowing | % of GDP | -1.2 | -0.3 | 0.7 | - |
| Tax revenue | % of GDP | 14.6 | 14.7 | 14.9 | - |
| Government consumption | % of GDP | 19.2 | 19.3 | 19.2 | 20.0 |
| Public education spending | % of GDP | 5.8 | 5.6 | - | - |
| Public health spending | % of GDP | 6 | 5.9 | - | - |
| R&D expenditure | % of GDP | 1.9 | 1.7 | 1.8 | - |
| Military expenditure | % of GDP | 1.0 | 1.0 | 1.0 | 1.1 |

Sources (as of December 2019): 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 rules are defined and implemented. Prices are fully liberalized, and the currency is fully convertible. The size of the informal sector is estimated to be around 9.2%, which is less than the EU average. The Czech Republic fully complies with international rules for the equal treatment of companies. Entry and exit barriers in product, factor and capital markets are low or do not exist. The Czech Republic has a rather complex and complicated legal framework regulating business competition. In the period under review, however, several problems with the Czech economy's market-based structure emerged. In particular, there were problematic competitions in large public procurement, especially in the area of infrastructure.

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 2019 report, the Czech Republic was ranked 35 out of 190 analyzed countries regarding the overall ease of doing business (compared to 27th in 2017); however, the situation varies with the field of business. For example, in terms of the complexity of obtaining a building permit, the Czech Republic has dropped to 156 out of 190 countries. Entrepreneurs cite as problems inappropriate legislation and a lack of flexible functioning in the public administration. While it only costs 1.0% of GNI per capita to establish a business, eight procedures and 24.5 days are needed, placing the country as low as 115 out of 190 countries in the World Bank's 2019 Starting a Business subindex. More "business friendly" conditions are increasingly being applied with the aim of stimulating the inflow of foreign and domestic investment in regions with high levels of unemployment.

Policies and institutions setting competition rules correspond to EU standards. The Office for the Protection of Competition (ÚOHS) was established in 1991; it protects business competition by detecting and imposing sanctions against prohibited agreements, the abuse of dominant positions and controlling concentrations between undertakings. A special provision of Czech competition law includes the possibility of penalizing conduct by public authorities favoring certain undertakings. Annual reports about ÚOHS's activities and cases it has investigated are publicly available, including statistical data and future agendas. The ÚOHS chairperson is appointed by the president for a six-year term for up to two successive terms. In 2017, two amendments to Act No. 143/2001 Coll. on the Protection of Competition were enacted. In particular, these related to adoption of the Act on Liability for Misdemeanors and Related Proceedings and Act No. 262/2017 Coll., on Competition Damages.

In 2017, a total of 207 competition complaints were submitted to ÚOHS and 57 administrative procedures initiated, a slight decline compared to the previous period (454 and 61 in 2016). Most complaints concerned prohibited agreements and abuses

Market
organization
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Competition policy
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of dominant positions. The office issued a total of 49 first-instance decisions in the field of competition. In eight administrative proceedings, fines totaling CZK 383 million (about €15 million) were imposed for the detected infringements on the law (CZK 466 million/€18 million in 2016). An additional 57 new administrative proceedings were initiated. The office carried out 21 unannounced inspections, in which it obtained evidence from the undertakings' premises.

For the Czech Republic, as a small open economy, foreign trade has key importance. 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. The largest volume of Czech exports and imports has traditionally been realized within the European Union countries, where more than four-fifths of exports are directed.

The Czech Republic has a two-tier banking system, with the Czech National Bank and various private commercial banks (commercial, investment and mortgage banks and savings 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's independence has proven to be a key factor in the successful implementation of monetary policy and the control of inflation. The CNB regularly performs analyses of financial stability and the financial sector, performing stress tests within the banking sector and publicly presenting the results. In November 2018, 46 banks and branches of foreign banks were active in the Czech Republic, of which eight had decisive Czech participation. The rest were either banks with crucial foreign ownership interests (15) or branches of foreign banks (21). In 2017, the share of non-performing loans declined to 3.7% and the bank capital to assets ratio was 6.5% (among the lowest in the world, according to World Bank data). The banking sector has adequate capital, profitability and a low share of defaulting loans.

In connection with the increasing volume of loans provided for purchasing housing, the CNB has set limits on banks as to how much credit can be provided. From April 2017, clients' deposits must be at least 10% of the mortgage, and they need to meet other conditions and pay a real estate transfer tax (4% of the property value).

Liberalization of
foreign trade

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Banking system

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8 | Monetary and fiscal stability

In the period under review, the inflation rate was below the lower boundary of the tolerance band target set by the Czech National Bank (CNB), the country's independent central bank. The average inflation rate in 2017 was 2.5%, exceeding the CNB's forecast (2%), and 1.8 percentage points higher than in 2016. In 2018, the average inflation rate was 2.1%. Inflationary pressures on the domestic economy were strong – especially fast wage growth and continued growth in the real economy.

In 2017 and 2018, the CNB raised interest rates several times, responding to development of the economy and inflation. The Czech koruna is considered as one of the most stable currencies in Central Europe and experienced only slight shifts during the review period. The exchange rate vis-à-vis the euro over the whole period was around CZK 26/€1. The U.S. dollar exchange rate varied from CZK 20 to CZK 26. In January 2019, the rate was about CZK 23 to the U.S. dollar.

In the period under study, healthy economic performance enabled the Czech government to retain its objectives of broadly balanced budgets and reduce public debt. In 2017, the budget deficit was smaller than planned and lowest since 1997. A similarly positive outcome was expected in 2018. Growth in wages and other contributors to household disposable income enabled household consumption to rise. This economic development was also reflected in labor-market improvements. Public debt fell from 36.8% of GDP in 2016 to 34.6% in 2017 and continued to decline in 2018 (estimated 33%). It remains among the lowest in the EU and well below the debt limits of 55% and 60% defined in the fiscal responsibility law. While positive development of the state budget continued in 2017, revenue was down by 0.66% compared to 2016. This was mainly due to a lower inflow of EU funds and confirms the perils of overdependence on EU sources. For 2018, the return of a small budget deficit in the first half of the year is expected, following wage and pension increases, as the recent decline the public debt has been caused mainly by strong economic growth and not significant structural reforms of public finances.

The Czech Republic fulfills all the criteria to enable it to adopt the common European currency. Nevertheless, the government believes that joining the eurozone should occur after the Czech economy has been harmonized with the eurozone and is able to adapt to potential asymmetric shocks without its monetary policy. The government adopted the joint recommendation of the Ministry of Finance and the Czech National Bank not to set a target date yet for switching over to the euro.

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 financial management not only from government organizations but also from public universities, state-funded organizations, municipalities or counties. The law has long been debated and, while the upper chamber (Senate) rejected it, the Chamber of

Monetary stability
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Fiscal stability
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Deputies outvoted the Senate veto. The law sets debt limits for all tiers of government, introduces a central government expenditure ceiling and envisages the creation of an independent National Budgetary Council. The primary mission of this body is to evaluate whether public institutions comply with the rules of budgetary responsibility.

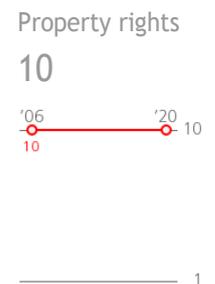
9 | Private Property

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.

The Czech Republic has pushed for changes in the expropriation law since 2014. Investors could start controlling a property before the expropriation process ends. New rules, adopted into law in July 2018, could save three to five years in building key infrastructure such as a highway, railroads, etc. The new legal regulation sets out in detail which infrastructures are of concern.

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 subject to debate and legal disputes.

In December 2018, an extraordinary meeting of the Chamber of Deputies, initiated by members of parliament from the Communist Party, with the support of another government coalition partner, met to discuss taxation of state reimbursements to churches in the framework of church restitution for property destroyed during the socialist period. In January 2019, taxation of monetary compensation, one of the key conditions for the Communists' tolerance of Babiš's minority government, was approved. It is probable that the Constitutional Court will strike down the law.



The privatization of state companies has followed market principles, but some large state companies remain. The state will not privatize companies partially or fully owned by the state deemed to be of strategic significance. There is still no explicit 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 includes state enterprises such as Woods of the Czech Republic (Czech Forests), Czech Post, 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 (€2 billion) a year (2016).

The number of Czech companies with a registered taxpayer from a tax haven had, by the end of 2017, decreased by 1.2% year-on-year. Owners from tax havens control 2.7% of Czech firms (according to the Bisnode consultancy).

10 | Welfare Regime

Positive economic developments helped increase the minimum wage, which is regulated by law and was introduced in 1991. In January 2017, the minimum monthly wage was CZK 11,000 (about €431), increasing to CZK 12,200 (€478) in 2018 and to CZK 13,350 (€524) in January 2019.

During the period under review, pensions also increased, with the most significant increase in the last 20 years in January 2018. The average pension has grown more slowly than the average wage and at the end of 2017 amounted to CZK 11,850 (about €460). However, in January 2019, the average pension increased significantly to CZK 13,350 (about €520). Since January 2019, a special allowance for pensioners aged over 85 was introduced. However, more than half of retirees have a lower pension than the average. In 2018, not only old-age pensions, but also widowers and orphan's pensions were evaluated. Despite these positive developments, the average retirement pension grew more slowly than the average wage. Most old-age pension payments are covered by the state. The public pension scheme is compulsory, and contributions are paid on a pay-as-you-go basis. Currently, the public pension covers 95% of all pensioners' incomes. The aging population, which poses challenges to the pension system's long-term financial sustainability, provides an incentive for implementing a systematic reform. However, this has not yet materialized. The most significant change has grown the establishment of a ceiling on the annual increase of retirement age at the level of 65 years for both women and men.

Private enterprise

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Social safety nets

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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 that is high by international standards. 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, that is, the EU or Switzerland. Citizens of third countries are subject to special regulations. Public health insurance in the Czech Republic is provided through eight health insurance companies, the largest being the General Health Insurance Company (Všeobecná zdravotní pojišťovna). Its clients account for more than half of the population. The state pays the insurance companies for citizens who cannot pay themselves, such as children, the unemployed, pensioners, etc. Public expenditure on health care remains unchanged at 6.3% of GDP. Financial participation of patients is minimal and primarily relate to medicine, dental care and medical equipment.

Life expectancy slightly increased to 76.2 years for men and 82.1 for women in 2016 (Czech Statistical Office). However, there are regional differences, with Prague enjoying the highest life expectancy. The state guarantees a sufficient social safety net. In addition to the state, there are several non-profit organizations assisting people in need.

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 most significant problem concerning the Roma minority's access to education and employment. There are some special programs to help socially disadvantaged children. An inclusive education program, which began in 2016, has contributed to improving their situation. There are also programs to support the employment of elderly, low-skilled and disadvantaged people.

The Antidiscrimination Act talks about race, ethnicity, nationality, gender, sexual orientation, age, disability, religion, belief and worldview. There are also other laws that prohibit discrimination such as the Labor Code or the Public Service Act. However, there are still obstacles to the use of equal opportunities.

According to the Global Gender Gap Report 2017, the Czech Republic dropped by 11 places since 2016 to 88 out of the 144 countries evaluated. The unfortunate outcome is mostly due to two factors: low participation of women in economic life and their low representation in politics. Women's involvement in politics has increased. The representation of women in the Chamber of Deputies rose to 22% in

Equal opportunity
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the 2017 parliamentary elections, compared to 19.5% in 2013. The proportion of women on candidate lists has also increased. However, 100 years after the introduction of women's right to vote in 1918, their representation in politics remains very low. The representation of women in senior management positions has not improved either.

Barriers to women's participation in the workforce remain, and harmonizing work and family life can be difficult. Preschools still lack sufficient capacity, which impedes the return of women to the labor market. The situation for children aged three years and over is somewhat improved thanks to state support for alternative forms of childcare, most notably so-called children's groups; provision of childcare for children up to two years of age is the third lowest among OECD countries.

11 | Economic Performance

Economic output, measured by GDP per capita against the EU average, continued to rise. Foreign trade generates surpluses. Unemployment is lowest among all EU countries. Economic performance during the period under review continued to develop positively. GDP growth accelerated in 2017 compared to 2016 (from 2.4% to 4.0%) but slowed somewhat in 2018 (3%), supported mainly by domestic demand, driven by rising investment expenditures. The average inflation rate increased significantly compared to the previous period, from 0.7% in 2016 to 2.5% in 2017 and 2% in 2018.

In both 2017 and 2018, the state budget had a slight surplus with a lower-than-originally-planned deficit. The government managed to reduce the public debt slightly. Compared to the previous period, unemployment (including long-term unemployment) declined further. According to national statistics, the unemployment rate stood at 2.9% in December 2017 and at 3.1% in 2018. However, significant regional and subregional differences persist.

The inflow of foreign investment continued, but after the record year of 2016, foreign investment declined in 2017 by more than a quarter. Most investing companies are from Germany, and tax havens (Luxembourg and Cyprus). The automotive industry attracts most foreign investments.

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 reinvested in the country. This fact significantly reduces the potential for growth that brought foreign investment in the Czech Republic.

Output strength

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12 | Sustainability

Environmental policy in the Czech Republic is significantly shaped by the country's obligations to implement EU legislation. In June 2016, together with other EU countries, the Czech Republic agreed to a 20% greenhouse gas reduction target by 2020 (baseline is 1990). This is in line with Agenda 2020.

However, the Czech Republic remains a passive recipient of EU and international agendas. On October 5, 2017, the Czech Republic ratified the 2015 Paris climate agreement, which entered into force on November 4, 2016. In its programmatic declaration, the new Babiš government reiterated its commitment to the tasks and objectives of the Paris Agreement.

The 2016 National Action Plan on Adaptation to Climate Change and a climate protection strategy for the period until 2030, with a long-term outlook until 2050, continue to be implemented. However, a 2017 evaluation by the EU revealed mixed performance in the implementation effectiveness of environmental policies.

The main priorities of the State Environmental Policy of the Czech Republic 2012 – 2020 are the sustainable use of resources, climate protection and air quality, nature and landscape protection and maintaining a safe environment. The focus of the new Babiš government is on water management (measures against drought and efforts at water retention, wastewater management, water infrastructure ownership, reconstruction and maintenance); waste management (strengthening strategic raw material security and self-sufficiency through a recycling discount for municipalities and individual citizens); protection of agricultural land; air quality (particularly in Moravian-Silesian and Ústí Regions, where air quality remains low); support for low-emission vehicles in public and private transport; accelerating households' shift from fossil fuels); biodiversity (possible extension of environmentally protected areas, including forests). The government plans to enlarge Dukovany nuclear power plant to decrease reliance on non-renewable (fossil) fuels.

It remains to be seen how these priorities will be implemented, not least given an imminent reduction in EU funding.

Public expenditure on education relative to GDP has increased since the economic crisis and is slightly above the EU average (4.2%). The new Babiš government continues the policies of the Sobotka government and increased teachers' salaries. During the period under review, the absorption of the EU funds for education (Operational Program Research, Development and Education) improved. The target areas included: increasing the number of high-profile scientific publications, the mobility of scientists, teacher training, increasing the number of school assistants and afterschool activities.

Environmental policy

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Education policy / R&D

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Educational outcomes and the employability of school and higher education graduates are good. The educational mobility of children with a non-academic background (whose parents did not attain tertiary education) is limited and contributes to the low tertiary education attainment rate. Roma are a particularly vulnerable group.

The level of enrollment in early childhood education is high, but spending in this area is among the lowest in an OECD country. The limited availability of early childhood education is closely linked with persisting gender inequality – affecting single mothers, in particular. During the period under review, conservative forces in parliament clashed with women’s groups because the form do not support enrollment of children under three years of age in early childhood education.

The early school-leaving rate remains among the lowest in the EU. But the rate has increased steadily since 2010 and regional and economic disparities are significant. It currently exceeds the 5.5% national target for 2020. The rate of tertiary education attainment continues to rise; the 32% national target will be likely attained by 2020. Tertiary education significantly improves earnings, as adults with a tertiary education earn 92% more than those with a secondary education.

In its last year in office (2017), the Sobotka government expanded government spending on R&D, aiming to reach the EU target for total R&D spending of 1.5% of GDP in 2020. The Babiš government has voiced a verbal commitment to R&D. However, previous high levels of total spending were heavily dependent on support from EU funds, raising the total to 1.9% of GDP for the 2013 to 2015 period, with a strong emphasis on investment in new facilities that have yet to show benefits in terms of actual research output.

There was a small drop (2016) and successive revival (2017) in government spending, bringing the total R&D spending to 1.8% of GDP, still below the EU average of 2.0%. Over time, business enterprises – especially foreign-owned companies in the automotive sector – increased their contribution to 57% of the total (against 49% in 2010). The main incentive is the exemption of 100% of R&D expenditures from taxation. Large companies benefit more from these tax breaks than small ones.

Weaknesses in R&D include a perceived lack of government strategy, a failure to attract and retain young, qualified researchers and a low number of women (23% of researchers in 2017). These weaknesses negatively affect the capacity to absorb funding. Several new programs established by the Technological Agency (TA ČR) and the Grant Agency of the Czech Republic were unable to distribute a significant part of this increased funding.

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. In the period under review, labor force shortages remained in low-income, low-qualified segments and were filled mostly by migrant workers (from Ukraine, Poland and Slovakia).

Poverty and unemployment rates are low, but homelessness remains a prevalent issue. In 2018, the first subzero temperature resulted in a number of deaths among the homeless population in various parts of the country. Subsequently, mayors in cities where these deaths occurred promised to cooperate more closely with charities and non-governmental organizations, who are the main providers of services to the homeless. The Salvation Army launched a campaign on social media, which enables people to contribute toward a one-night stay in a shelter. Among the homeless population, women remain particularly vulnerable, and 95% of homeless women report experience with violence.

According to the 2018 statistics by the Office of Public Health, there are approximately 3,400 HIV positive people living in the Czech Republic (1.96 per 100,000 people). The majority are male (86%). The statistic includes both citizens and permanent residents. The number of new cases continues to decrease, with approximately 200 new cases a year. The number of newly infected remains stable (but low) among drug-users and heterosexuals and is decreasing among the gay population.

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.

The departure of foreign donors in the late 2000s was difficult, as domestic donor culture was underdeveloped. This situation is slowly changing, especially thanks to

Structural constraints



Civil society traditions



organizations such as Via Foundation and Jan Hus Foundation – whose mission is to cultivate philanthropy among both wealthy individuals and companies, in general (Via Foundation) and with a particular focus on education (Jan Hus Foundation). Both these foundations operate independently thanks to generous endowments provided by foreign donors before their departures. However, in recent years domestic donors have become more active.

An increasing number of foreign-owned and domestic companies embrace the concept of corporate giving and provide funding for civil society activities, enabling and encouraging employees to become actively engaged (allowing employees paid time off from work, matching funding, etc.). This includes some communication companies (T-Mobile, O2) and domestic companies such as Andrej Babiš's Agrofert Foundation (focused on children and sports).

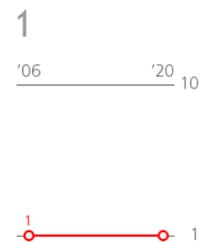
Many organizations have developed new ways to encourage giving (e.g., via text messages or donating gifts in seasonal online shops – books for underprivileged children abroad and at home remain very popular). However, a gap remains between organizations that successfully adapted to post-communist conditions and those that were unable to do so. There are also large regional differences, as most large NGOs are in Prague.

During the review period, the 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, LGBTI rights, food safety and organic food, and participative budgeting on a local level.

At the same time, a backlash against these values materialized in the form of anti-Islam, anti-refugee and pro-life groups. Still, the strength of Czech civil society counterbalances the rise of radical right by strong pro-Western attitudes, and to a large degree mitigate the weaknesses of political party competencies and intraparty democracy.

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. Still, Tomio Okamura's Party of Direct Democracy won 10.6% of the vote in the 2017 general elections. However, its support is decreasing (4% in January 2019) due to lower salience of the refugee issue and several recent corruption scandals (fraud by party members benefiting Okamura), and uncivil behavior in parliament plenary sessions, which are televised.

Conflict intensity



II. Governance Performance

14 | Steering Capability

A number of strategic frameworks exist, partly because they are preconditions for eligibility for EU structural funding. Many strategic documents of varying quality have been elaborated at municipal, regional and sectoral levels over the past two decades. There is no parliamentary committee that directly oversees strategic planning.

In April 2017, the Sobotka government approved the Strategic Framework of Sustainable Development of the Czech Republic (Agenda 2030), setting long-term priorities for development. The document laid out development plans for the next decade to improve the quality of life of the Czech population in all regions. It also aimed to help the country achieve development that is socially, economically and environmentally sustainable.

Accompanying Agenda 2030 are strategic and conceptual documents from individual line ministries. These strategies are elaborated in detail for relevant thematic areas. A certain weakness remains between the strategies and their implementation, often complicated by existing legislation.

In March 2018, the Babiš government transferred the Council for Sustainable Development (established in 2003) from the Office of the Government to the Ministry of the Environment. The council is no longer chaired by the prime minister, but instead by a designated member of the government. Its primary focus shifted to coordination and oversight of implementation of Agenda 2030.

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. The current six priorities were adopted in June 2018. These are pension reform (introduction of individual accounts), digitalization, pro-active EU policy ("We do not just nod to Brussels, but we want to change its policy."), a strategic investment program, reform of the state administration, welfare reform, security and sustainability.

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)

Question
Score

Prioritization

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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 a special advisory body, the Bioethics Committee), and 9) activities related to R&D promotion.

The work of government expert bodies has significantly improved during Prime Minister Babiš's term – the prime minister attends most meetings personally and demands the same from all members of his cabinet. This was previously not the case and puts pressure on the respective bodies to improve performance and enables them to have a policy impact.

Under the Sobotka government, the overall implementation of government measures faced obstacles due to growing internal divisions and strategic use of the presidential veto by President Zeman. Under the Babiš government, this is no longer the case – the Social Democrats are the junior and weak partner, which can be replaced anytime, and Prime Minister Babiš and President Zeman are close allies.

The Sobotka government largely met its objectives in some areas – the economy, education, R&D, environment and most recently anti-corruption. Progress was primarily driven by the commitment to and oversight by the EU. This continues to be the case with the Babiš government, which significantly improved use of EU funds.

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 EU accession, programs were initiated to improve administrative practices and to take advantage of modern methods of management.

Under Sobotka government, the Ministry of Finance led by Andrej Babiš (now prime minister) developed a system called Supervisor for collecting and publishing data on the financial management of ministries and authorities. As of November 2018, data are available for 2015 to 2018 for six (ANO) ministries and three agencies; the information includes overall budget items, allocations for individual categories, and detailed information on purchases. Supervisor does not cover all line ministries or state agencies, but significantly improved the oversight of financial management and spending.

Unlike other EU member states in Central and Eastern Europe, 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. In the period under review, use of EU funds improved. For example, the Ministry of Education was able to draw 100% of

Implementation

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Policy learning

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available R&D funding in the first 10 months of 2018. Still, interministerial coordination remains complicated – especially across party lines.

The Europe 2020 strategy represents a vital learning instrument for strategic planning, and regular EU oversight constitutes a significant incentive. Observation, emulation and knowledge exchange at the EU level contributed significantly to the progress in R&D and environmental policy. In research, development, and innovation (RDI), engaging academic experts and practitioners enhanced policy learning through systematic evaluation of foreign experiences.

Communication of government bodies and agencies with the public has improved. More information is now available; however, there is no coordination and strong disparities exist across policy areas. In fact, further improvement and coordination – establishment of a single governmental portal is one of the Babiš government's six priorities.

15 | Resource Efficiency

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

The government makes efficient use of most available human, financial and organizational resources. Budgetary allocation of taxes, tax autonomy and financial decentralization have enabled regional governments to have greater autonomy than previously in fulfilling their governing functions and managing basic infrastructure. EU regional funds constitute a key resource for regional development.

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

Government budgetary policy has been successful in holding debt at a very manageable level, and in the period under review, fostering economic growth. In 2017, despite projections that there would be a deficit, the Czech Republic ran a fiscal surplus (for the first time since 1994). This was also the case in 2018.

Notwithstanding the 2017 and 2018 budget surplus, the government continues to plan with a deficit (albeit increasingly small). State budgets that include a deficit in times of economic prosperity have been criticized by the newly established National Budget Council.

Efficient use of assets

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The coalition agreement of the Babiš government includes fixed principles for coalition cooperation and coordination.

The most important body for policy coordination is the Coalition Council. It consists of the chairpersons of the coalition parties and a maximum of three other representatives from the respective coalition parties. Coordination mechanisms at the level of parliamentary and senatorial associations are also important. Coalition parties also have their own expert commissions, which communicate among themselves, primarily, when preparing legislative proposals.

Divisions between the coalition partners require the use of time-consuming informal coordination mechanisms among their leaders. The effectiveness of conflict resolution significantly increased under the Babiš government, where Social Democrats are weakened considerably, internally divided and threatened with the possibility of being replaced by Okamura's party of Freedom and Direct Democracy (SPD).

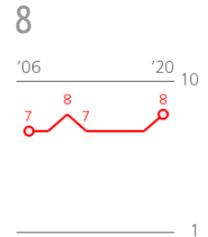
The current coalition government is a minority government, which gained confidence in the House thanks to support from the Communists as a result of a signed agreement on cabinet tolerance in the Chamber of Deputies. The government must thus consult the Communists before making important decisions.

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.

Some coordination among line-ministry civil servants takes place. Senior ministry officials are generally a crucial link in collecting and discussing comments on proposed legislation. The definition of their roles and responsibilities was improved through the civil service law, which went into effect at the beginning of 2015. This law regulates the legal status of state employees in administrative offices and represents a significant step toward establishing a stable and professional public administration. However, how the civil service law has been implemented has not yet resulted in absolute de-politicization of the public administration.

Strong barriers among the ministries persist; cross-cutting project groups are rarely established. Important exceptions are internal ANO interministerial consultations among the seven ministries under ANO's control, including the use of Supervisor.

Policy
coordination



The fight against corruption is made more difficult by the fact that Czech Prime Minister Andrej Babiš is burdened by a number of scandals, such as the misuse of EU funds and conflicts of interest as entrepreneur and politician. The Czech government now has the formal technical capacity to enforce regulations and is relatively effective in doing so in an unbiased way in cases such as party finance and campaign regulations. However, the accumulation of wealth and business power has been greatly aided by a lax regulatory environment and political favors and contacts with politicians. Prime Minister Andrej Babiš exemplifies the phenomenon at the national level, building his business empire from a starting capital of unclear origins. Once established, state and the EU subsidies ensured that Andrej Babiš did not remain just another entrepreneur selling fertilizers and fuel additives. Instead, thanks to the state, he is one of the richest men in Europe, with a business empire worth \$4 billion.

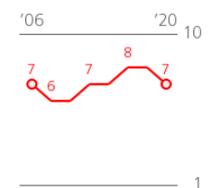
In October 2017, a preliminary report by the European Anti-Fraud Office (OLAF) that investigated the Stork's Nest case – Babiš was accused of using EU subsidies to build a leisure complex – was leaked before the parliamentary elections. The findings were in line with earlier findings by the Czech police – Andrej Babiš defrauded the EU and the Czech state. His political appeal includes promises to fight the corrupt activities of businesses and to run the state efficiently. Prime Minister Babiš rejects accusations as a “political witch hunt.” The accusations are used to promote his image as a successful, honest man wrongly accused by the media. His control of much of the media aids him in propagating that view. The creation of a political party with mass appeal also gives him safety by making any government without his participation currently impossible. The ailing president remains his close ally.

In January 2019, the European Commission started to investigate the extent to which Andrej Babiš continues to control his business empire. This could result in a demand for the return of EU subsidies or a freeze of EU funding for the Czech Republic. However, nothing is likely to occur before the 2019 European Parliament elections and seating of the new European Commission.

Unlike the Sobotka government, which featured fighting corruption prominently in its program, the Babiš government's program does not include anti-corruption as one of its (six) major priorities. It has committed to fight corruption in “all areas,” especially among state officials, and promises better coordination and effectiveness of anti-corruption. The two specific changes proposed by the Babiš government are a new legal instrument to protect whistleblowers and the regulation of lobbying. As of January 2019, these plans remain on paper only.

Anti-corruption policy

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16 | Consensus-Building

There is a consensus among the major political actors and the public on the merits of democracy and market economy. The 2017 general elections and the 2018 elections polarized the country. The subsequent fragmentation of the political landscape (nine parties in parliament) weakened both the government (minority government with the silent support of the Communists) and the opposition – fragmented and internally divided. The 2018 local elections in Prague, exemplified anti-establishment sentiment with the election of new. The new mayor is from the Pirate party. All the establishment parties were significantly weakened. The Communists, Social Democrats and the radical-right Party of Direct Democracy failed to reach the threshold of 5%. New political actors refused to negotiate with the “old” parties. The alliance between Prime Minister Babiš and President Zeman along populist lines strengthened the confrontational character of Czech politics, often leading to open confrontation in parliament and demonstrations and rallies in Prague and other major cities.

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, although some shortcomings in integration were identified in the 2017 report. Agenda 2030 adopted in 2017 represents a further important consensus on areas such as market regulation, welfare and sustainable growth.

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 each of the last six parliamentary elections, a new political actor entered parliament and became part of the governing coalition. The 2017 elections introduced many new anti-establishment actors to parliament. Both the left and the right are now fragmented. The opposition is divided along ideological lines. Civic Democrats refuse to cooperate with the Pirates; the radical-right Party for Direct Democracy is angling to (potentially) replace the Social Democrats in the government; and the Communists are enjoying their role as kingmaker, with silent support for the minority government.

As of January 2019, the Pirates were the second strongest political party (after ANO), followed by the Civic Democrats. The Pirates’ success can be traced to the public’s general disenchantment with party politics of reform blockades and ANO’s populism. Parliamentary elections are unlikely to resolve this situation, but, according to the electoral model, would result in less fragmentation (as the radical right, TOP 09, and mayors and independents would struggle to cross the threshold of 5% of the vote).

Consensus on goals



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Anti-democratic actors



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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 the euro). There are no grave socioeconomic, ethnic and religious divisions in Czech society. Mainstream political elites agree on preventing cleavage-based conflicts from escalating.

With the exception of the Roma community, which has been disproportionately 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.

The government's legislative rules define which entities are considered legitimate "commenting actors" during consultation periods.

Thus, 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' and 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 economic interest associations became important government partners, as it sought solutions that would ensure economic prosperity and social cohesion. At that time, trade unions and other NGOs were unified against austerity measures and government reforms. However, in the period under review, growing divisions occurred in the major trade unions – the result of an erosion of solidarity among various branches of industry. This could potentially lead to the fragmentation of trade unions and decrease their impact on policies.

Non-governmental organizations play an important role in local planning and the creation of regional strategies. NGOs are traditionally not successful in lobbying parliament. There are some exceptions to this rule – most recently, anti-corruption legislation under the Sobotka government. In the period under review, a group of NGOs was able to harness support for an amendment to the 2006 bankruptcy law. However, the Senate's proposal failed in the Chamber of Deputies.

Prime Minister Babiš, who previously allied himself with anti-corruption groups, now sees most of civil society as his enemy. In particular, Transparency International has actively pursued his conflicts of interest in respect to his media ownership and use of EU subsidies. Transparency International was able to gain support from the European Parliament, which requested that the European Commission evaluate the extent to which Andrej Babiš still controls his business empire. The investigation began in January 2019.

Cleavage /
conflict
management

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Civil society
participation

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The government actively supports reconciliation with regard to injustices of the past, namely before, during and after World War II. However, most of the Czech society prefers to ignore the “ghosts of the past,” including the Roma Holocaust, deportation of the German population and crimes connected to the initial post-war period, and the sterilization of Roma women during the socialist period.

The country remains polarized, with significant cleavage between older and younger generations. The political rise of Andrej Babiš and the support of the Communist Party for his government, re-opened the discussion about reconciliation with the communist past – especially as the Communists tried to shift blame for the crushing of Prague Spring away from Russia in the wake of the movement’s 50th anniversary. President Zeman caused controversy by refusing to attend commemoration events.

In January 2019, during the week commemorating the 50th anniversary of the self-immolation of Jan Palach in protest to the Warsaw Pact’s occupation of Czechoslovakia, a 54-year-old man set himself on fire on Prague’s Wenceslas Square. His motivation remains unclear, but in a farewell text message to his brother, he wrote that “he wanted to die like Jan Palach.”

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, 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. The EU recommended both reforms in the framework of the European Semester. Application of the law has progressed. Since October 2018, state administration authorities have to communicate regarding larger public procurements electronically.

The EU’s emphasis on concrete goals and steps for implementing reforms, together with systematic and rigorous monitoring, as well as a change in political climate toward a more pro-European one, contributed to improvement in the implementation of medium- and long-term development strategies. One of the priorities in this period was simplification of the administration and greater flexibility in the use of European funds.

Compared to previous periods, the effectiveness in the use of EU funds improved significantly under Prime Minister Sobotka and more so under Prime Minister Babiš’s government. By the end of 2018, the Czech Republic was able to allocate 61% of the multi-annual European Structural and Investment Fund budget (€14.6

Reconciliation

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Effective use of support

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billion) to specific projects. Further funding (€1.2 billion) was allocated via Horizon 2020 strategic transport networks program (€221 million) and measures to strengthen the capacities of the public administration and civil society (€560 million).

Under the Sobotka government, discrepancies frequently occurred the stands of the president (who is formally only the ceremonial head of the state) and the government (represented by the prime minister and foreign ministers). Due to different interpretations of confusing formulations in the Czech constitution, Czech foreign policy in general and particularly policy toward Europe did not have a single voice. The situation improved with the new government that emerged from the parliamentary elections in October 2017.

For a long time, the Czech government acted as a trustworthy and reliable, albeit rather passive, partner of the international community (in particular within the EU). Vis-à-vis the European Union, this changed in the summer of 2015 in the context of the refugee crisis. The Czech public, driven by the opposition among Czech elites and growing anti-Islam rhetoric, has vehemently opposed refugee resettlement quotas. In their opposition to quotas for redistributing migrants, the coalition and the opposition agreed. Furthermore, coordination with other Visegrad countries (Hungary, Poland and Slovakia) took place.

The Babiš government now seeks a more pro-active role in the EU – on migration, tax evasion and energy policy. Government plans to enlarge Dukovany nuclear power plant to decrease reliance on non-renewable (fossil) fuels, were met with suspicion by the EU and NATO allies over possible involvement by Russia and China. In October 2018, Prime Minister Babiš assured U.S. Defense Minister Mattis that the enlargement of Dukovany is in the planning stages and no negotiations are taking place with neither Russia nor China.

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 and is the best among post-communist countries. The president is particularly courting Chinese foreign direct investment – presenting the country as an investment hub.

In addition to membership in the EU, the Czech Republic is 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's regional cooperation. In 2017 to 2018, the V4 group operated under a Hungarian presidency.

The V4 group has struggled with the image of being the EU's troublemaker, which it acquired during the refugee and migration crisis. Throughout 2017, Slovakia, and to a lesser extent the Czech Republic, started to send different political signals to the

Credibility

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Regional cooperation

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EU from those sent by Hungary and Poland. Prague and Bratislava wanted to be seen as constructive members of the European Union. The V4 group deteriorated during the period under review, due to the illiberal governments in Hungary and Poland and their focus on domestic politics. 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).

Despite occasional differences of opinion, the V4 group has expanded cooperation with other countries. In July 2017, the ministers of foreign affairs from the V4 group, the Republic of Austria, the Republic of Croatia and the Republic of Slovenia met in Budapest and exchanged views on current developments affecting prosperity, stability and security in the region, with a focus on interconnectivity including transport, energy and digital issues, the Western Balkans and the enlargement of the European Union, as well as Ukraine and the Eastern Partnership.

Great attention was paid to preparing for post-Brexit relations with Great Britain. At the end of January 2019, the Chamber of Deputies passed a law on the rights of British citizens in the Czech Republic in the case of a no-deal Brexit.

Strategic Outlook

In the Czech Republic, there is a considerable room for further political and economic improvement. Internationally, pro-active EU policy, multilateral regional coalitions and strengthening NATO ties are paramount.

Domestically, a key goal should be to find a political consensus on basic goals for Czech society and 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 the public administration, ensuring independence of the judiciary, improving the system of public procurement, as well as public integrity and anti-corruption policies. It is of paramount importance that stakeholders, including social partners and civil society, are included in these processes. Democratic innovations would help to strengthen trust in political institutions and revitalize links between citizens and elected representatives.

The Czech Republic faces several 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 an advantageous geographical position that allows for cross-border transactions and transfers between various Czech and German branches. 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.

To make economic growth sustainable, the Czech government needs to pay more attention to R&D and education. To improve the educational system, measures to increase the percentage of the population participating in higher education and the attractiveness of the teaching profession ought to be adopted. Finally, 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. Other factors such as immigration could offset some of the negative effects of the demographic change but the Czech Republic must become more pro-active in attracting skilled migrants and integrating them into Czech society.

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 will be reduced after 2020. Thus, the Czech government must identify resources 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 reform health care, social care and social security systems, carefully considering the possible disproportionate effects on vulnerable groups and on gender equity.