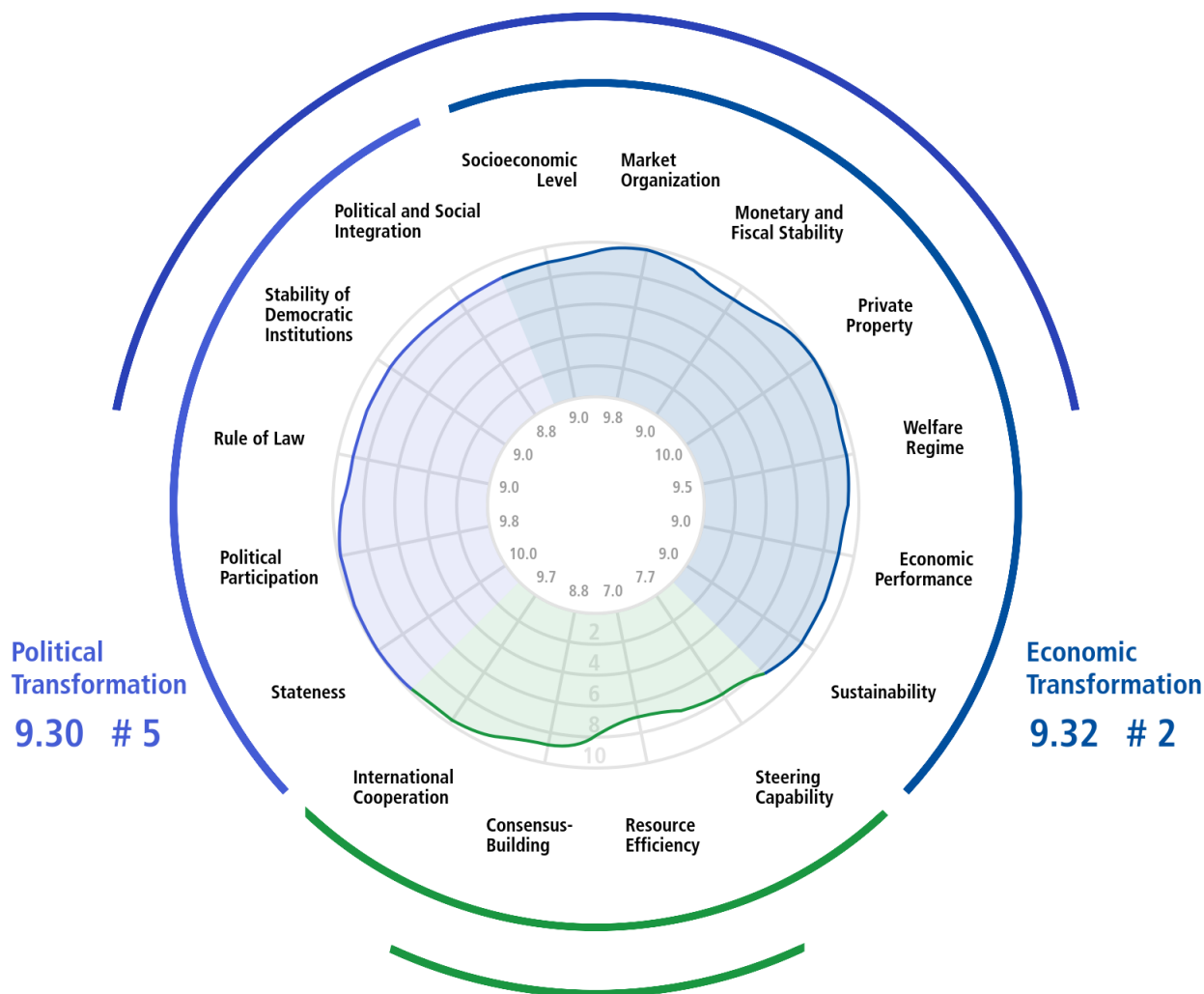


Czech Republic

Status Index

9.31 # 3

on 1-10 scale out of 137



Political Transformation
9.30 # 5

Economic Transformation
9.32 # 2

Governance Index

6.64 # 14

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	10.7	HDI	0.900	GDP p.c., PPP \$	42049
Pop. growth ¹	% p.a.	0.3	HDI rank of 189	27	Gini Index	25.0
Life expectancy	years	79.1	UN Education Index	0.890	Poverty ³	% 0.0
Urban population	%	74.1	Gender inequality ²	0.136	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In economic terms, 2019 was a successful year. Building on recent trends, the country's GDP continued to grow, while public debt, unemployment and inflation remained comparatively low. The macroeconomic situation was stable, and the Czech Republic was getting favorable international ratings. But 2020 could not have been more different. The COVID-19 pandemic has had an enormous impact on the economy, politics, public health and society. Thanks to significant government aid, the economy overcame the unprecedented challenges of the pandemic. Nonetheless, in addition to a fall in demand in 2020, industrial production fell by 5.6%.

In terms of democracy, the dominant issue of 2019 was the prime minister's conflict of interest regarding EU funds, which continues to overshadow his tenure. The issue has polarized the country and generated the largest protests across the country seen since the Velvet Revolution of 1989. Protests organized by Million Moments for Democracy, a civic and decidedly nonpartisan movement, called for the defense of democracy and the rule of law as well as the resignation of the prime minister until his conflict of interest has been resolved.

The movement began losing momentum in 2020, as its founder refused to cooperate with opposition parties and, in a reversal of previous statements about its foundational premise, founded his own party. However, the new party (FOR the People, Pro Lidi) failed to gain traction and is unlikely to enter the parliament in the 2021 general elections.

In 2020, pointing to Prime Minister Andrej Babiš's conflict of interest as final owner of the Czech conglomerate Agrofert Holding – which was receiving EU structural funds for various projects – the EU halted the flow of funds. Because the government did not demand that Agrofert Holding return the funds, Czech taxpayers were left to foot the bill and began protesting. The protracted investigation of the environmental catastrophe on the river Beca linked to an Agrofert chemical factory in 2020 exemplifies Prime Minister Andrej Babiš's inability to separate his personal interests from those of the country.

The dominant issue of 2020 was the COVID-19 pandemic. The handling of the pandemic amplified existing weaknesses in governance (health care, lack of digitalization in the educational area) and the country's strengths (a functioning institutional framework, healthy checks and balances, and civil society). However, Babiš continues to be a dominant and polarizing figure. The opposition has overcome fragmentation to form two coalitions (one liberal, one conservative) that are challenging the prime minister's hold on power in the 2021 general elections.

The management of the pandemic saw several ups and downs that proved difficult for almost everyone. The government was not sufficiently prepared but succeeded in managing the first wave of the pandemic, thanks to considerable interpersonal and international solidarity, civil society, and the rapid involvement of existing scientific and industrial capacities. The prime minister sought to capitalize on this success, claiming that the Czech Republic was "the best in COVID."

In the summer of 2020, the government failed to mitigate the onset of the second wave because mask-wearing was unpopular. The prime minister refused to reintroduce strict measures, including a mask mandate, before the October 2020 elections. When measures were introduced after the October 2020 regional and Senate elections, it was too late to curb the spread effectively. The country's infection tracking system failed, and hospitals reached their intensive care unit (ICU) and human resources capacity. The management of the second wave was a governance failure; the effects of failing to take any strong steps to curb the pandemic were significant. Consequently, Czechia has one of the world's highest case fatalities.

The pandemic deepened socioeconomic inequalities and revealed key weaknesses in digitalization, education, and health care. In terms of the economic impact on citizens, single mothers were among the worst affected groups. The economic impact of the pandemic is more pronounced in cities where not only low-income groups but also the middle class are at risk of poverty in a prolonged crisis. Regional differences in health care and education capacity were significant. Some regions in the north and the west of the country struggled with testing, tracing, ICU capacity, and vaccination. The country's poor level of digitalization adversely affected the educational sector, which struggled to manage with distance learning in the face of material and personnel shortages. One in six children had no access to online learning during the first wave. On the positive side, the pandemic outlined possibilities of transforming the nature of work (more use of home office) and accelerating the use of robotic devices.

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 (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 dissident Vaclav Havel as president and Alexander Dubcek, the symbol of the Prague Spring (1968), as 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. 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, the second phase (1994 – 1996) considerable growth, followed by a recession in the third phase (1997 – 1999). Economic growth was re-established only in 2000 and then stalled by the global economic crisis in late 2008. The impact on the Czech economy was delayed but significant. Since 2016, the economy has returned to growth, unemployment is the lowest in the EU, public debt has decreased, and the state budget had a surplus (between 2017 and 2019). This changed dramatically in 2020, when the government deficit reached CZK 368 billion (€ 14 billion) due to COVID-19, and public debt grew, while unemployment remained low.

Two major actors shaped the country's democratization. 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 was Vaclav Klaus, an economist, one of the Civic Forum's leading figures. Later, Klaus was the Civic Democratic Party's leader, holding the offices of the prime minister, speaker of parliament, and president (2003 – 2013). These two figures represented different streams of democratic politics – representative (party) democracy and participatory democracy. Both significantly shaped the nature of Czech politics, resulting in a highly polarized system interlaced with ideological and personal animosities.

Two other significant figures shaped the last decade – Miloš Zeman and Andrej Babiš. Zeman, president since March 2013, is a former leader of the Czech Social Democratic Party (ČSSD), chairman of the lower house of the Czech parliament (1996 – 1998), and prime minister (1998 – 2002). In 2003, partisan disunity in ČSSD led to Zeman's loss in his first presidential run (won by Vaclav Klaus). Subsequently, Zeman founded the Citizens' Rights Party – Zemanites. The president is a close ally of Andrej Babiš – billionaire turned populist prime minister. Babiš founded Action of Dissatisfied Citizens (ANO) in 2011. In 2013, he won 18.7% of the vote on a

populist, anti-establishment, anti-corruption platform, joining the Social Democrats in government as minister of finance. Babiš's technocratic populist appeal continued – in 2017, ANO won over 30% of the vote and formed a minority coalition government with the Social Democrats.

The 2013 elections upended Czech politics as new anti-establishment (and populist) parties now dominate the political arena. Anti-establishment forces – Babiš'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 the second strongest party) now hold 61% parliamentary seats. 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. Babiš's political career is marked by a dark shadow of fraud charges (related to the misappropriation of EU funds). The prime minister's conflict of interest polarizes the country and in 2019 generated the largest protests since 1989.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

Question
Score

Monopoly on the
use of force

10



The Czech Republic is ethnically homogeneous as various ethnic minorities constitute only 5.3% of the population. The government's stance toward minorities, especially the Roma, has steadily improved over time, primarily because of external pressure (the EU, the Council of Europe). The 2021 census will, for the first time, be administered online and in seven languages, including Romani. Still, half of the Roma in the Czech Republic live in social exclusion. During the pandemic, they faced additional challenges – for example, they could not fully take part in distance learning due to a lack of equipment and access to the internet.

State identity

10



The Czech Republic is a net immigration country. The inward migration was 65,910 in 2018, while outward migration was 26,742. Attitudes toward immigration remain negative. Compared to 2018, the share of respondents rejecting refugee settlement decreased by 5%. As of December 2019, the Ministry of Interior had received 1,922 applications for asylum, of which it approved 61, and 86 applicants received additional protection (one to three years residency).

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, continued to be politically active, particularly on the issues of immigration, LGBTQ+ rights and the Istanbul Convention. Pro-life and anti “gender ideology” rhetoric increased in strength but remained relatively marginal. A public opinion survey from May 2019 showed support for women’s right to choose (68%) and euthanasia (66%).

The separation of the church and state should conclude in 2042, after the state has paid compensation in lieu of restitution of property that was confiscated by the communist regime and is no longer extant for various reasons.

The state has a multi-layered administrative structure that provides all basic public services and has developed structurally since the transformation of the political system. The pandemic was a major stress test for the basic administrative infrastructure.

The pandemic revealed the limits of institutional capacity and its regional variations. The best example is the 14 hygiene stations (tasked with handling infectious diseases), many of which were seriously understaffed, underequipped, and used outmoded methods (pen and paper) for contact tracing. Especially during the second and third waves of the pandemic in fall and winter 2020, most hygiene stations were unable to manage contact tracing and asked citizens to check their contacts themselves. Similarly, large regional differences exist in testing capacity and vaccination administration.

The performance of democratic institutions is partly hampered by corruption. This became evident during the public procurement of personal protective equipment (PPE) during the pandemic. Transparency and mishandling of public funds remain salient issues and contributed to opposition parties’ success in the 2020 regional and Senate elections.

Following a process of consolidation of various administrative functions, regional administration has assumed greater importance than it had previously. The budgetary allocation of taxes and financial decentralization has increased regional governments’ autonomy in fulfilling governing functions and managing basic infrastructure. However, the tax reform of December 2020, resulting in reduced income from taxes, will likely have a negative impact on regional and municipal governments, which are facing hikes in health care and education costs related to the pandemic. On the recommendation of the Upper House (Senate), measures were taken to provide partial compensation for the decline in revenues.

No interference of religious dogmas

10



1

Basic administration

10



1

Negotiations over regional budgets between opposing political majorities at the central, regional and municipal levels remain complicated. This tendency grew stronger as a result of the 2020 regional elections, from which new governing coalitions emerged, sometimes in open opposition to the national government (most significantly in the Central Bohemian region). The tax reform will increase regional governments' dependence on the national government, Negotiations will be very hard – especially in 2021, a general election year.

The effective discretion of local and regional governments is limited. Regional governments are constrained by the need to ensure standards for key services, notably education, limiting the scope with which they can transfer funds from one service to another. The pandemic revealed huge discrepancies in digitalization – in most regions, both schools and pupils struggled with distance learning due to a lack of equipment and skilled personnel. The issue was less pronounced in Prague but still prevalent.

2 | Political Participation

Free and fair elections are regularly organized and constitutionally guaranteed. All adult citizens, including prisoners, can participate in national elections, and voter registration is relatively straightforward. EU citizens resident in 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, but participation is complicated by a special deadline for registration and a limited number of embassies and consulates.

Regional elections and Senate elections for one-third of seats were scheduled for October 2020. Organizing elections during the pandemic was challenging – initially, the government announced (July 2020) that people in quarantine would not be able to vote. After opposition parties pushed back, the government prepared legislation enabling COVID-19 positive and quarantining citizens to vote. Two options were approved: drive-thru voting and special mobile electoral commissions that could visit quarantined citizens at home. Poll workers were equipped with PPE and their pay increased due to pandemic conditions. Compared to 2016, the turnout in regional elections increased from 34.8% to 38.0%. The turnout in Senate elections also increased slightly (36.3% first round; 16.7% second round).

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. Reporting on and presentation of political parties in private media are less balanced than they are in the public media.

Free and fair elections

10



The Office of the Oversight of the Political Parties and Political Movements (UHHPSH), established in 2017, oversaw the 2020 regional and Senate elections. Its website offers detailed financial reports on all parties and candidates. Except for the Communist Party, Mayors and Independents (STAN) and several small regional parties, all reports by parties and movements were completed and confirmed on time.

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, over 129,947 autonomous, self-organized groups, associations, foundations, and organizations registered in the country, although not all are active.

Association / assembly rights

10



The chaotic COVID-19 response by the Czech government mobilized civil society. In the initial phases of the pandemic (spring 2020), civil society mobilized to produce homemade masks. As the spring state of emergency ended and the country started to reopen, Million Moments for Democracy (MMD) demanded accountability regarding the government's COVID-19 response.

Several anti-governmental and anti-mask protests took place (especially in Prague). Some turned violent. The number of protest participants was limited to 100; social distancing and masks were required. Most rules were followed during civil protests, but not during anti-mask protests. The police rarely engaged with the protesters unless violence occurred.

Civil society and the opposition established a COVID-19 information portal, where all restrictions and their implications were published and explained. This helped to mitigate the uncertainty stemming from the government's chaotic COVID-19 response.

COVID-19 related restrictions on assembly during the repeated states of emergency in 2020 and 2021 met the requirements of legality, necessity, proportionality and non-discrimination. The only restrictions rejected by the courts related to retail and services. Some of these restrictions were lifted by the courts in April 2020 and in January 2021, as the principles of proportionality and non-discrimination were not followed by the government.

The Czech Republic has long been characterized by a significant degree of media freedom, partly because of public media's independence and foreign ownership of private media. However, the private media market has changed significantly in recent years. The most critical changes have been a concentration in media ownership, the departure of several foreign media owners, and a broadening of the scope of media holdings (print, online, radio, and television).

In recent years, print media readership has declined significantly, while online media has grown. The MAFRA media group dominates the daily print media, with an estimated 2.4 million readers, and online media, with an estimated 3.4 million daily users (Guasti 2020). During 2020, information emerged that state-owned companies such as the Czech Railways represent a significant MAFRA advertiser. Furthermore, pandemic state aid for cultural institutions, announced in June 2020, will disproportionately benefit MAFRA.

Ownership of MAFRA and other media by Prime Minister Babiš has resulted in biased media reporting and possibly self-censorship of journalists employed by Babiš.

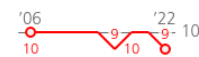
During the pandemic, independent watchdogs collaborated with the media to provide information on the spread of COVID-19 infections, testing and ICU availability. Investigative journalists pursued issues of public procurement of PPE and ventilators. The transparency the media provided enabled the opposition to mount an effective pushback against executive aggrandizement.

The government also made a reasonable effort to inform citizens: regular press conferences were televised and received significant public attention. Nevertheless, the government introduced restricted access to press conferences by excluding some journalists employed by media critical of the government. The government was slow and ineffective in trying to mitigate the spread of COVID-19 and vaccine-related misinformation.

State media are increasingly in the crosshair of politics. The problem is the increased politicization of the watchdog, the Council for Radio and Television Broadcasting, the members of which are nominated by political parties and appointed by parliament.

Freedom of
expression

9



1

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 Senate, where the opposition dominates, acts as a vigorous check on the executive. The Babiš government is a minority coalition government with support from the Communists. However, the Communists do not provide blanket support. The prime minister must negotiate every single vote. On some issues, such as the length of the state of emergency, parliament exercised its power to leverage accountability.

The prime minister and president continue to be close allies; the prime minister informally consults with the president on ministerial appointments. However, the president is also in close contact with the Communists and has openly expressed his willingness to appoint a caretaker government, should the Babiš government lose the vote of confidence scheduled for June 2021.

The Constitutional Court and other courts effectively review the executive's activities. Independent courts were key in the pushback against government overreach during the COVID-19 pandemic. In April 2020, the Prague Municipal Court ruled that four emergency decrees, including limiting freedom of movement, a travel ban and compulsory closure of large shops, were illegal. The ruling stipulated that the measures were arbitrary, chaotic and incomprehensible. It highlighted the need to protect the health of the population and the health of democracy. The government was provided one week to resolve the situation or face legal sanction. After initial hesitation, the government amended the situation. Some measures were refined, but the travel ban was scrapped completely.

Two major cases are currently being litigated in the Constitutional Court, both brought by a group of senators. The first, brought before the court in December 2020, relates to the timing of the announcement of 2021 general elections (claiming the president announced the elections early to favor the prime minister). The second case, presented in 2017, challenges several majoritarian features of the Czech electoral law (the cumulative threshold for multiparty coalitions, the disproportional d'Hondt formula). A decision regarding the latter will be announced in February 2021 and is likely to upend preparations for the 2021 general elections.

Separation of powers

10



1

The judiciary is independent and free from unconstitutional interference by other institutions and mostly from corruption. When corruption in the judiciary emerges, it is rigorously prosecuted. The Constitutional Court constitutes a vital check on the executive.

In the period under study, the Constitutional Court played a very active role in providing checks against executive overreach – both before and during the pandemic. The court’s activity sometimes generated verbal backlash from the president, and the minister of justice accused the court of judicial activism. However, the court stood its ground, and the government complied with its rulings.

The justices on the Constitutional Court, the Supreme Court and the Supreme Administrative Court are appointed by the Senate, the second chamber of parliament, based on the president’s proposals. 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.

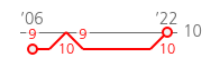
One major corruption case involving a justice emerged in 2020 – it included a High Court justice’s involvement in land purchasing and development. In December 2020, the court decided to take Justice Zdeněk Sovák and two others accused of alleged corruption and influencing cases into custody.

In the Czech Republic, corruption and clientelism remain widespread. Consecutive governments have emphasized their commitment to fighting corruption but have done little to address the issue. Two significant changes were implemented in 2017: amendments were made to the law on party finance and to the law on conflict of interest. Despite this apparent progress, major cases take years to resolve and often end in mistrials. The pandemic further lengthened court proceedings. There are no public statistics on the number of cases of successfully prosecuted public officials.

An example of the prevalence of political corruption and the difficulty stopping it are the investigation and prosecution of the largest pay-for-play scheme in the country’s history, nicknamed “The Gutter” (Stoka). The case involves a multi-year capture of public procurement in the Brno District, where no contracts were awarded without a bribe. Since September 2020, the Regional Court in Brno has conducted a trial of a case that led to the dissolution of the entire Brno cell organization of the ruling ANO. The main defendant is the ANO politician and the deputy mayor of the city district, Jiří Švachula. The case also involves the Antitrust Office due to a suspicion of illegal decision-making in the case of a toll tender. The case also caused the premature resignation of Petr Rafaj from the position of chairman of the Office for the Protection of Competition (ÚOHS). Other politicians from ANO and Civic Democratic Party (ODS) were also investigated but not charged. The National Center against Organized Crime (NCOZ) investigated the case.

Independent judiciary

10



1

Prosecution of office abuse

7



1

Notwithstanding high-profile cases, the prime minister constitutes a key example of merging business, political and media power. The most public controversy concerns the use of EU funds intended for small-to-medium enterprises (SME) support to finance a business temporarily separated from the Agrofert conglomerate, which was then returned to Prime Minister Babiš's control after the subsidy had been received. In 2019 and 2020, the case generated the largest protest mobilization since 1989 in Prague and around the country. Pressure on the prime minister remains strong and the issue continues to polarize the Czech society. In 2020, the mobilization by civil society contributed to an increase in voter turnout in the 2020 regional elections and the success of the opposition parties. While national, international and EU watchdogs criticize the prime minister, and he responds in kind, he continues to deny all allegations.

Furthermore, in 2020, the EU confirmed that the “blind trust” in which Agrofert Holding was placed, in compliance with the law on conflict of interest, was unsatisfactory. Thus, the EU will not reimburse Czech Republic projects funded as part of the EU structural funds scheme for SMEs. The government has thus far taken no steps to request the return of these subsidies from Agrofert.

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.

Fundamental civil rights were protected during the state of emergency, though there were cases in which they were infringed upon. This included not granting travel visas to non-Czech citizens who are the unmarried partners of Czech citizens.

Significant restrictions on civil rights occurred during the pandemic-related state of emergency. However, all requirements of time-boundedness, legality, necessity, proportionality and legality were upheld. Attempts to restrict freedom of assembly were short-lived. Civil society, the opposition, and the courts pushed back against its implementation, and the government backed down. A major infringement was the travel ban that began in March 2020, abolished by the Prague Municipal Court in April 2021. The travel ban closed borders – banning Czech citizens from leaving the country (but allowed citizens to return from abroad). In January 2021, a group of 61 senators presented a case to the Constitutional Court concerning the constitutionality of the measure – especially problematic were issues of proportionality and subpar justification.

Since Stanislav Krecek became ombudsman, significant and public tensions within the office emerged. Krecek espouses controversial, legally dubious opinions on many civil rights issues. These include banning fathers' presence during birth, blaming discrimination against Roma on the Roma, and claiming that some human rights anchored in the constitution are exaggerated and superfluous.

Civil rights

9



In April 2020, over 300 members of the legal community signed an open letter to the ombudsman asking him “to stop relying on his gut and start relying on law and legal expertise” and to “respect the importance of his office.” A cursory read of the ombudsman’s private Facebook account shows that this attempt has failed. Ombudsman by day, culture war warrior by night, Krecek undermines an office that has become a key institution for speaking on behalf of those whose voice is not heard.

4 | Stability of Democratic Institutions

Democratic institutions proved resilient to attempts at executive aggrandizement: parliament and the courts held the government accountable. In parliament, the Babiš minority government faced significant debate before a state of emergency received approval; the Senate returned numerous bills to the executive with significant amendments, threatened litigation with regard to some pandemic restrictions, and litigated in the Constitutional Court against perceived collusion between the president and the prime minister; courts pushed back against government overreach (including rolling back some pandemic restrictions).

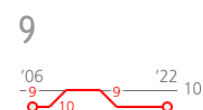
The pandemic tested the effectiveness and efficiency of the country’s democratic institutions. On an institutional level, they performed well, but management of the pandemic was chaotic and haphazard. Political decisions were prepared in a rush and changed often, without prior warning. Implementation of coronavirus measures was often not well-thought-out, or it was delayed, faced a disastrous launch or temporarily failed. Political competition between the junior and the senior partner in the government over PPE acquisition and information control impeded the response to the pandemic. Some authorities were completely overwhelmed by the pandemic and unable to adapt (e.g., hygienic stations).

Democratic institutions are accepted as legitimate by most relevant actors. Most citizens support democratic institutions, and there are no influential groups seeking to change the Czech political system, despite occasional attacks on the Senate. Some politicians, including the prime minister, periodically call the Senate a redundant institution. This is mostly a function of their inability to acquire control of the Senate in elections. The Senate is controlled by the opposition parties and increasingly active.

At the same time, the rise and visibility of extremist political groups are palpable, especially as the radical-right party entered parliament for the second consecutive term in 2017 with 10.6% of seats.

Established parties struggle to maintain the support of citizens, while new parties emerge at all levels (municipal, regional, parliament). Currently, 61% of members of parliament represent anti-establishment parties. Yet, the only anti-establishment

Performance of democratic institutions



1

Commitment to democratic institutions



1

party that questions parliament's institutional legitimacy is the radical-right Party of Direct Democracy, which seeks to introduce national referenda – a measure not supported by other parties.

5 | Political and Social Integration

The multiparty system, which was relatively stable during the 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) have lost their position. First, ODS's position began to weaken as a result of scandals. In the 2017 parliamentary elections, the party partially rebound and remains the major party on the significantly fragmented right side of the political spectrum. After the 2020 regional elections, it formed a conservative bloc with the Christian Democrats and TOP09 for the 2021 general elections.

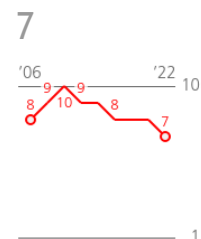
ČSSD was less lucky, as the 2013 elections brought a new rival for its electorate – Action of Dissatisfied Citizens 2011 (ANO), led by businessman Andrej Babiš. ČSSD and ANO were able to govern together for one full term (2013 – 2017). At the end of this period, the country was experiencing economic growth and the lowest unemployment in the EU, but the ČSSD had lost 70% of its support. ANO and ČSSD governed again between 2018 and 2021, with ANO as the senior partner. Support for the ČSSD continued to decline in the 2020 regional elections. The party lost four regional governorships (retaining one) and 88 mandates (retaining 37). At the national level, the party received around 5% of votes, casting doubt on its survival in the 2021 parliamentary elections (the party negotiated a coalition with the fairly marginal Greens).

ANO won the 2020 regional elections, increasing its mandates slightly from 176 to 178. But this was a pyrrhic victory. ANO lost two regional governor's offices out of five, as smaller liberal and conservative parties built coalitions that excluded ANO in most regions of the country. Particularly bitter was the loss of the Central Bohemian Region, where opposition parties repeated their success they had experienced in the 2018 Prague municipal election.

The Pirates and STAN emerged stronger as a result of the 2020 regional elections. The Pirates won 12% of votes (second after ANO) and 99 mandates (previously 5). STAN won 69 mandates with 6% of the vote (previously 38 mandates). Both joined most regional coalition governments. STAN holds three regional governorships and formed a center-left coalition for the 2021 general elections

Support for extremist parties remains stable and localized in structurally and economically disadvantaged regions. In the 2020 regional elections, the Freedom and Direct Democracy Party (SPD) attracted 6% of the vote, and Trikolora, a new radical-right party, won only 0.4% and two mandates.

Party system



The party system is highly fragmented, the social roots of politics are shallow, and party identification is low. Trust in political parties is also very low – according to a poll by the CVVM research institute (September 2020), only 19% of respondents trusted political parties.

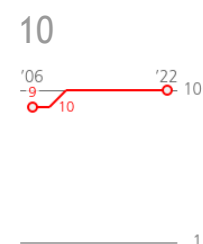
Polarization seemed to have increased, in particular, due to the populist strategies of ANO and a lack of effort to make compromises. Prime Minister Babiš is a polarizing figure. His handling of the pandemic, together with continued accusations of abuse of office, led to a loss in support among urban voters in the 2020 regional elections. The prime minister has also lost support among his key base, senior citizens. The social roots of political parties further deteriorated during the period under study – all parties, except for the radical right, lost significant segments of their membership base. New political parties (Trikolora, For People) have thus far failed to acquire significant support.

Czech interest groups range from social movements and community organizations to unions and professional organizations, representing a broad spectrum of interests, including transparency, corruption, city planning and post-modern values. No one group dominates the others. There are some examples of cooperation among interest groups, although they are few and far between. Addressing the issue of childhood debt has generated broad support among relevant interest groups. LGBTQ+ advocacy groups have begun cooperating with some Protestant churches on the topic of same-sex marriage. Public opinion regarding the adoption of a partner's child by same-sex couples has become more positive than previously but remains divided on same-sex marriage and adoption of children by same-sex couples from care homes.

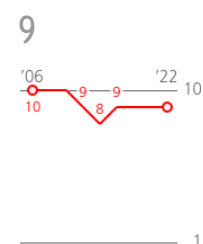
Investigative groups such as the Watchman (Hlídač státu) have successfully fought for transparency and provided regularly updated information on ICU bed availability, medical personnel, and other health care-related data at the regional level. They also carefully monitored pandemic and non-pandemic-related public procurement. Together with an opposition member of parliament (Dominik Fery, TOP09), a group of IT specialists created a COVID-19 information portal to provide overviews of the ever-changing restrictions. Once up and running, maintenance of the portal was transferred to the government.

In the Czech Republic, a disparity exists between general support for democracy and satisfaction with the performance of democratic institutions. While support for democracy is high, satisfaction with institutions and the political situation is low. Democracy is most strongly 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. Satisfaction with the political situation remained relatively stable relative to earlier reporting periods – in September 2020, 44% of those polled were dissatisfied. Regarding handling the pandemic, 61% of respondents found the government response adequate, 13% believed the government did too little, and 19% thought the government overreached (December 2020).

Interest groups



Approval of democracy



Compared to 2018, trust in the government fluctuated slightly, trust in the president decreased slightly, while trust in parliament increased in 2019 – 2020; trust in the Senate remained the same. The Constitutional Court, local governments and mayors enjoy the highest level of trust, which has remained relatively stable over time.

The character of social cohesion, social empathy, and solidarity among social groups and between generations has been changing in parallel with democratization, marketization, and individualization. Levels of interpersonal trust remain significantly lower than in most West European countries, but above levels in most East European countries – about 30% of Czechs believe that other people can be trusted (ESS 2019, score higher than 6 on a 10-point scale).

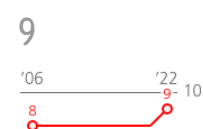
Nevertheless, discussion of solidarity and social cohesion gained momentum before the pandemic (e.g., food sharing). A sense of solidarity grew significantly during the first wave of the pandemic (spring 2020) – neighbors and strangers identified and assisted vulnerable seniors. The Red Cross organized a major drive to train and place volunteers in hospitals facing personnel shortages and health care worker fatigue.

To some degree, civil society mitigated the government’s failure to address the situation of underprivileged children, who lacked the resources and support to participate actively in distance learning. Civil society also addressed issues of food insecurity, especially among children, which the government didn’t do.

However, the second and third waves of the pandemic were accompanied by increased levels of individualization and far less visible solidarity in terms of organized activities and interpersonal behavior, i.e., willingness to follow the restrictions to protect the vulnerable. The mismanagement of the pandemic contributed significantly to this change of behavior.

Intergenerational solidarity is gaining in importance, especially as the ongoing discussions of the pension reform made it very evident that the potential of intergenerational conflict to become a mobilizing issue.

Social capital



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II. Economic Transformation

6 | Level of Socioeconomic Development

The Czech Republic has a high level of human development (0.9 in 2019, ranked 27th in HDI), a low gender inequality index (0.136 in 2019), a low share of people in need, and a low degree of inequality compared to most post-communist countries (GI 24.9 in 2017). The share of Czech citizens who live below the income poverty level was 9.1% in 2017; the situation has slightly improved compared with the 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 unemployment is low, some employees are at the risk of in-work poverty, primarily as a result of precarious work. The growing rate of digitalization and automation will increase the demand for technical education, where men dominate. Gender inequalities were also reflected in rising, albeit still relatively low, unemployment. Unemployment rose by 1.2% year-on-year in December 2020 to 3.2%, with the unemployment rate 2.8% for men and 3.7% for women.

In general, there is no labor market exclusion due to ethnicity, religion or gender. However, studies point to some indirect discrimination based on gender and ethnicity. This includes non-EU nationals often hired through recruitment agencies, who are among the first employees to be laid off, and who cannot rely on state social support. According to the Association of Employment Agencies, approximately 350,000 agency workers made up about 1% of total employment before the pandemic. Agency workers were initially not included in the government support programs but the government changed that in April 2020. However, the demand for agency workers decreased.

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	218628.9	248950.1	252498.0	245349.5
GDP growth	%	5.2	3.2	3.0	-5.8
Inflation (CPI)	%	2.5	2.1	2.8	3.2
Unemployment	%	2.9	2.2	2.0	2.9
Foreign direct investment	% of GDP	5.1	3.3	4.3	-
Export growth	%	7.2	3.7	1.5	-6.9
Import growth	%	6.3	5.8	1.5	-6.9
Current account balance	\$ M	2960.7	1259.7	898.1	8844.7
Public debt	% of GDP	34.2	32.1	30.0	37.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	0.7	0.5	-0.4	-
Tax revenue	% of GDP	15.0	14.8	14.7	-
Government consumption	% of GDP	18.8	19.4	19.6	21.6
Public education spending	% of GDP	3.8	4.3	-	-
Public health spending	% of GDP	5.9	6.3	-	-
R&D expenditure	% of GDP	1.8	1.9	-	-
Military expenditure	% of GDP	1.0	1.1	1.2	1.4

Sources (as of December 2021): 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. According to estimates by the Center for Economic and Market Analysis (CETA), the size of the shadow economy is below the EU average at 10% of GDP.

The Czech Republic fully complies with international rules for equal treatment of companies. Entry and exit barriers are low or nonexistent. However, establishing a business entails a significant amount of time and resources (1.1% of GNI per capita in 2019). In 2020, the country ranked 41st in the World Bank's Doing Business Report (compared to 27th in 2017 and 35th in 2019). The situation varies by field of business – obtaining a construction permit is most difficult, requiring 21 procedures and 246 days. The new Building Act should improve the situation but is yet to be adopted.

The Czech Republic is one of the most open economies globally and a sought-after destination for foreign investors. One crucial factor in planning and assessing FDI is possible security impact. The Act on the Examination of Foreign Investments, intended to help the state better protect key Czech companies from unwanted takeovers by risky foreign investors, was prepared over a long period time and adopted by the lower chamber in January 2021.

Policies and institutions setting competition rules correspond to EU standards. The Office for the Protection of Competition (ÚOHS) protects competition, supervises public procurement, and monitors and coordinates public support.

In the field of competition, ÚOHS's long-term focus on cartels in public procurement has paid off. In 2019, 20 investigations resulted in nine cartel decisions.

Considerable success was achieved in protecting against the abuse of significant market power when ÚOHS reached a settlement agreement with the REWE Group, resulting in the immediate correction of illegal conduct and a fine of €6.3 million. In 2019, 133 competition complaints were submitted to ÚOHS, and 53 administrative procedures were initiated, a slight decline compared to the previous period (183 and 76, respectively in 2018). Twenty unannounced inspections were conducted to obtain evidence.

During the review period, ÚOHS was often criticized by anti-corruption organizations for insufficient supervision of public procurement, lack of transparency in decision-making and low resilience to political pressures. The president of ÚOHS was accused of violating the impartiality and independence of the institution. Among the fundamental problems identified is an excessive

Market
organization
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Competition policy
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concentration of powers in the hands of the president, who fully controls ÚOHS's personnel and can influence its decisions. Under the pressure of this criticism, the ÚOHS president was replaced in December 2020.

For the Czech Republic, as a small open economy, 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 according to EU legislation. More than 80% of Czech exports and imports have traditionally been realized within the European Union.

Pressure for more self-sufficiency in strategic commodities and products is growing. An example is the attempt to introduce a measure introducing a mandatory minimum share of domestically produced food in large supermarkets.

The banking system is stable and consolidated. The bank capital to assets ratio was 6.8% in 2019, the share of bank non-performing loans dropped slightly to 2.7% in 2019 compared to 3.1% in 2018. The Czech National Bank (CNB) is the country's primary bank and financial market supervisor. Financial market supervision includes licensing and approval proceedings, the fulfillment of information duties, on-site and off-site supervision, and international cooperation.

In November 2020, 49 banks and foreign bank branches were active in the Czech Republic, out of which 39 were foreign-controlled. Homeowners control 10 banks, two of which are state-owned.

At the end of 2020, the Banking Act was amended, establishing preconditions for the generalized use of Bank Identity (BankID) and opening the market to electronic identification services. The amendment aims to facilitate the use of BankID to verify access to e-government and widen electronic communication opportunities in the private sector.

The financial sector entered the pandemic in good shape and remains stable and resilient to possible adverse shocks, thanks to the government's stabilization and support programs. Banks offer assistance to individuals and companies in financial distress, and the share of non-performing loans is low.

As early as March 2020, many credit institutions allowed for the deferral of payments to clients suffering a temporary loss of income due to the pandemic. In April, the Czech parliament approved a statutory credit moratorium. Clients of credit institutions could apply for a legal moratorium up until September 30, 2020, while deferral of payments was allowed until October 31, 2020. The CNB introduced extraordinary reporting for credit institutions to monitor deferred payments and published the aggregated data through September 2020.

Liberalization of foreign trade

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Banking system

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8 | Monetary and fiscal stability

Assuring monetary and fiscal stability is a key task of the Czech National Bank (CNB) – the central bank of the Czech Republic, the independent supervisor of the financial market, and the country’s resolution authority. The CNB adopted several measures related to the coronavirus crisis. It reacted immediately at the beginning of the crisis and arranged for financing of medical supplies, proceeded to reduce interest rates and participated in preparing the Ministry of Finance’s repayment moratorium.

Inflation rate rose from 2.8% in 2019 to 3.2% in 2020, the highest in eight years. The rise in prices adversely affected by food, alcohol, tobacco and housing prices. The Czech koruna (CZK) entered a period of stability and gradually offset the decline from the beginning of the spring wave of the pandemic. The real effective exchange rate index stood at 99.4 in 2019. The exchange rate against the euro followed the epidemiological situation, rising from CZK 25.7 to one euro in 2019 to CZK 27.8 in March 2020 and back to CZK 26.1 in August 2020. After a decline during the second wave, the rate returned to CZK 26.1 in January 2021.

The rapid conclusion of the agreement on the European Recovery Fund in July 2020 contributed to strengthening the koruna, but joining the Eurozone is still not on the agenda. Adoption of the euro is a political rather than an economic problem – almost three-quarters of citizens espouse a negative attitude toward the euro.

Economic performance was marked by a slowdown in the second half of 2019 and the COVID-19 pandemic in 2020. COVID-19 significantly and adversely impacted the state budget for 2020 and 2021. Initially, a budget deficit of CZK 40 billion (€1.5 billion) was approved for 2020 but, due to increased spending (compensation programs) and revenue decrease, the actual deficit increased to CZK 368 billion (€14 billion). Government debt increased from 30.2% GDP in 2019 to 37.6% in 2020.

The state budget for 2021 reflects the pandemic’s lingering effects, government mitigation measures and the government’s long-term priorities, such as increasing pensions, teachers’ salaries, increasing payments on state-covered health insurance, income tax reform and capital expenditures. The quality of the budget preparation was significantly impaired by noncompliance with regular budgetary procedures.

Significant tax changes took place in 2020. In the unfavorable pandemic situation and with general elections approaching, the government finally fulfilled its electoral promise of reducing taxes by abolishing the so-called super-gross wage and the flat tax (15%) introduced in 2008. From January 2021, the personal income tax will be calculated based on gross income. As a result, employees receive more money in net wages without companies having to increase wages; however, the change will

Monetary stability

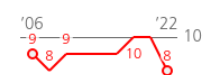
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Fiscal stability

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benefit high-income people the most. Two tax brackets were introduced – a 15% tax up to four times the average gross wage and a higher rate of 23%. The reform also includes an increase in the annual tax rebate. Initially, the change was planned as temporary for two years, but later the time limit was dropped.

The approved budget for 2021 has a deficit of CZK 320 billion (€12 billion). Still, it does not include the effects of the tax reform, which are envisioned to reduce revenues by about CZK 98 billion (€4 billion), or the already approved compensatory measures. The National Budget Council criticized the law's relaxation of budgetary responsibility rules and the change in fiscal regulations. It pointed out that a significant reduction in taxes without significant savings on the expenditure side will lead to the debt brake activation as early as 2025. The debt brake sets the maximum allowable debt ratio of the public sector to GDP at 55%.

9 | Private Property

Property rights are respected. Government authorities regulate property acquisition, use, and sale.

On August 1, 2019, an amendment that speeds up rates of property settlement in critical infrastructure projects came into force. In September 2020, the so-called Liner Act was adopted to speed the construction of motorways and other infrastructures. Among other things, the state is to facilitate the acquisition of land by expropriation – the withdrawal of or restriction on the right of ownership or the right resulting to the land or building's easement. The law strictly allows for expropriation only when public interest outweighs private interest. Expropriation is possible only for specific purposes, defined in special laws, especially in the Building Act. For example, these include construction that benefits the public such as transport infrastructure or measures to ensure the state's defense and security. The possibility of expropriation is also provided by laws on nature and landscape protection, the water law, the law on geological works, monument care and others. Coming to an agreement always takes precedence over expropriation. Expropriation is only possible when a contract for acquiring rights to the land or building has not been concluded.

The privatization of state companies has followed market principles, but some large state-owned companies still exist. Fully or partially state-owned companies deemed of strategic importance will not be privatized, although political consensus is lacking regarding what should remain in the state's possession and what should be offered for privatization.

In February 2020, the government approved a new State Ownership Policy Strategy, prepared by the Ministry of Finance. The strategy represents the starting material for the rational and effective management of the state's business assets.

Property rights

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Private enterprise

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The document aims to define the state's principles for taking action as the owner or co-owner of companies or state enterprises and to ensure that the state exercises its property rights transparently and effectively.

State-owned enterprises are divided into several groups according to whether they are strategic, necessary (for individual ministries' activities) or intended for privatization. According to the document, there were 129 companies under state ownership, one less than in the previous year, but 61 of these were in liquidation or bankruptcy. According to the ministry, the result of the "rationalization of state business activities" should be the sale of minority shares, privatization of some companies, and the acceleration of liquidation or bankruptcy of state-owned companies. The majority of the listed companies, including Energy Company ČEZ, Prague Airport and Czech Railways, were designated as strategic or necessary.

In the summer 2020, the government suggested that the state enter into ownership of key private companies facing hardship due to the economic impact of the pandemic. The procedure should be used sparingly. An example of such a company was the private airline Smartwings. According to the opposition, the state should primarily help SMEs and not large companies.

10 | Welfare Regime

In recent years, positive economic developments have led to an increased minimum wage. The monthly minimum wage increased from CZK 12,200 (€478) in January 2018 to CZK 15,200 (€585) in January 2021, reaching 42.4% of the average wage. There was also a valorization of pensions and an additional one-off contribution of CZK 5,000 (about €190) to all pensioners as compensation for inflation and unexpected pandemic-related expenses.

Based on universal compulsory insurance, the Czech health care system insures a wide range of choices and provides high-quality service by international standards. Under the law, every permanent resident of the Czech Republic (including foreigners) has compulsory health insurance, unless they are subject to another country's legislation (such as the EU or Switzerland). Citizens of third countries are subject to special regulations.

Public health insurance is provided through seven health insurance companies, the largest being the General Health Insurance Company, the clients of which account for more than half the population. The state pays the contribution to health insurance for citizens who cannot pay themselves, such as children, the unemployed, pensioners, etc. Public expenditure on health care remains below the EU average (8.1% of GDP in 2018).

Only 2.7% of the total amount of health care is devoted to prevention (below the EU average, Eurostat 2018). Prevention expenditures further decreased during the

Social safety nets

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pandemic. Health insurance companies finance two-thirds of health care costs. Patients' financial participation is minimal and primarily relates to medicine, dental care and medical equipment.

Life expectancy slightly decreased during the pandemic from 76.2 years for men and 82.1 for women in 2016 to 75.3 years for men and 81.4 for women in 2020 (Czech Statistical Office). However, there are regional differences, with people in Prague enjoying the highest life expectancy.

The state guarantees a sufficient social safety net. Thanks to a series of government measures to support employers during the pandemic, there have been no mass layoffs. In the first wave of the pandemic, the government promptly approved relief programs but the segmentation of COVID-19 loans and individual subsidies became confusing. During the second wave, Kurzarbeit (temporary short-term work) was introduced, allowing for maintaining jobs in severe economic difficulties by providing state support during a transitional period. The government approved the bill; approval by parliament is pending while existing measures remain provisionally in force.

Civil society fills in the gaps in the state social net. During the pandemic, numerous NGOs offered a non-stop infoline, food delivery for seniors or quarantined people, psychosocial assistance, accommodation for the homeless, and assistance to vulnerable children (food insecurity, learning assistance).

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 in state schools is free of charge at all levels. However, a structured support system for marginalized groups to overcome early-life disadvantages has been insufficient – a key obstacle to the Roma minority's access to education and employment. There are some special programs to help socially disadvantaged children.

Income inequalities exist between the capital (Prague) and the structurally disadvantaged regions in the north and west. Eight percent of Czechs are in a spiral of debt due to the easy availability of credit and low economic literacy. In January 2019, parliament approved an amendment to the Insolvency Act to improve this situation.

Socioeconomic inequalities became more pronounced and partly deepened during the pandemic, due to the transition to home offices and online education. Progress in the digitalization of education and IT literacy significantly varies by region – not all schools have access to information and computer technology (ICT) resources

Equal opportunity

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and not all teachers have the necessary skills. A large number of children do not own computers or other devices to use to participate in distance learning.

The gender pay gap has historically been among the highest in the EU, and the situation has improved only slightly. The Czech Republic improved its ranking in the Global Gender Gap Report 2018 (78th out of 153 countries compared to 88th in 2017). Differences between male and female remuneration persist and lead to lower pensions and greater danger of poverty for women. The pandemic deepened the gender pay gap, as the sectors most affected employ a high proportion of women – gastronomy, health and civic services.

11 | Economic Performance

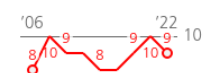
GDP growth slowed in 2019 (2.4%) compared to 2018 (2.9%), before declining by more than 6% in 2020 due to the pandemic. The inflation rate reached 3.2% in 2020 (from 2.8% in 2019), the highest in eight years, affected by prices of food and, in particular, housing.

Overall, economic output fell by 5.6% in 2020, but construction output fell by more than 8%. A more considerable slump was prevented as the industry remained active during the second wave of the pandemic, in contrast to the first wave. Although the Czech Republic recorded a smaller GDP decline than the EU (6.4%) as a whole, it was the worst decline since 1993. At the end of 2020, the state budget had a deficit of CZK 367.4 billion, i.e., CZK 338.9 billion higher than in 2019. Public debt changed from 32.1% of GDP in 2018 to 30.2% in 2019 and was predicted to be 31% in 2020.

The Czech Republic maintained the lowest unemployment rate in the EU. Unemployment rose by 1.2% to 3.2% (December 2020) affecting women more than men (3.7% compared to 2.8%). It reached 4.3% in January 2021, partly caused by a regular increase due to expiration of fixed-term contracts. Unemployment increased mainly in services, gastronomy, hospitality, culture and tourism, where establishments were closed and activities slowed as part of epidemiological measures.

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. The National Energy and Climate Plan adopted in November 2019 contains the main targets and policies in all five dimensions of the Energy Union for 2021 – 2030 with a view to 2050. The Climate Protection Policy (adopted in March 2017) and the Strategy on Adaptation to Climate Change specify climate change policies for 2017 – 2030. They focus is on long-term droughts, floods, flash floods, extreme weather events and wildfires. The Czech Republic's main target is to reduce greenhouse gas emissions by 30% by 2030 (corresponding to an emission reduction of 44 million tons of CO₂). The EU-wide target is a 32% share of renewables in the national energy mix by 2030. The Czech 2020 target was 13%, committed to increasing to 22%, and meets the binding EU target of 14% in transport.

For the period 2021 – 2030, energy efficiency focuses on the size of primary energy sources, final consumption and energy savings, binding targets for energy savings for public sector buildings, and binding annual targets for final consumption savings. Total investments related to the fulfillment of the National Energy and Climate Plan are estimated between CZK 1 to 5 billion (€38 – €194 million). The costs associated with renewable resources development are estimated at CZK 900 billion (€35 billion).

In January 2021, the government approved a CZK 150 billion (€5.8 billion) modernization fund for energy and climate change to wean the country off its dependence on coal-powered energy. The funds marked for up to 2030 are to be earned from the sale of carbon allowances and focus on renewables (almost 40%), heating (26%), and industrial energy efficiency and saving (35%). The government plans to expand the Dukovany Nuclear Power Plant to decrease reliance on fossil fuels while avoiding an increase in dependency on imported energy sources. The inclusion of Russian and Chinese companies in the tender is hotly debated and remains unresolved.

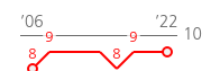
Public expenditure on education has increased since the economic crisis and matches the EU average (4.6% of GDP in 2018). The Czech Republic ranks among the top in the region according to the UN Education Index (0.890 in 2019).

Educational outcomes and the employability of school and higher education graduates are good. However, the employment advantage of the tertiary-educated is one of the lowest across the OECD. Tertiary education attainment among 25- to 34-year-olds is 33% and increased for young women from 20% in 2008 to 41% in 2018. In the same period, male tertiary attainment increased from 16% to 26%.

The Czech Republic has one of the highest percentages of international students in OECD countries (13%, OECD average of 6%), most of whom come from neighboring countries, especially Slovakia (51% in 2017).

Environmental policy

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Education policy / R&D

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Socioeconomic inequalities and regional disparities in digitalization became evident during the pandemic – not all schools have access to ICT resources and teachers are not necessarily equipped to use technology. Many children do not own computers or similar devices – one in six primary school pupils did not have online communication with his or her school during the pandemic’s first wave.

In 2019, the R&D spending was 1.9% of the GDP, just below the EU average of 2.0%. Weaknesses in R&D include lack of efficiency, failure to attract and retain young and qualified researchers, and a low level of employment of women in R&D. The R&D sector reacted proactively and swiftly to the pandemic. Technological Agency (TARC) opened several new COVID-19 related funding lines and adapted existing lines to include COVID-19 related topics (total volume €18.65 million). Further support for innovative companies was organized under three programs: Technology COVID-19, Czech Rise Up – Smart Measures Against COVID-19 and Smart Rise Up 2.0. The total volume of these programs was €22.86 million. However, implementation was troubled. Furthermore, the programs were not targeted – support for nanotechnologies, rapid test development and other pandemic-related areas was slow and bureaucratic.

On the positive side, the pandemic accelerated the implementation of innovations and new technologies, especially in digitalization and robotization. It also made clear the need to adapt the educational system for the future of work, and the need to increase investment in R&D, promoting knowledge transfer between research, universities and industry.

Governance

I. Level of Difficulty

Before the pandemic, the structural constraints on governance were very low as socioeconomic conditions in the Czech Republic were improving and no severe infrastructural deficiencies existed.

Unemployment during the pandemic rose from 2% in 2019 to 4% in December 2020. The Czech Republic has attracted significant numbers of foreign workers, some of whom left during the pandemic. Hence, the labor market might have contracted more than recorded, but the numbers remain comparatively low. The first and the second waves could not have been more different. The Czech Republic weathered the first wave among the countries least affected in Europe: with only 865 cases and 30 deaths per million (as of May 31, 2020). The second wave in the country was among the worst globally as the country reached 91,958 cases and 1,514 deaths per million (as of January 31, 2021).

The tradition of Czech civil organizations dates back to the 19th century. However, the communist dictatorship strongly deformed the pre-totalitarian era's moral values and virtually wiped out civil society. Following the Velvet Revolution, the number of and membership in NGOs sharply increased. This initial public enthusiasm was followed 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 a particular issue, as the domestic donor culture was underdeveloped. This situation is slowly changing, especially thanks to 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 foundations can 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 (providing days off work,

Structural
constraints



Civil society
traditions



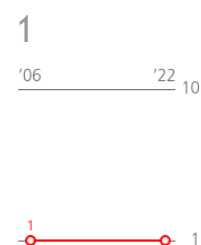
matching funding, etc.). This includes some communication companies (T-Mobile, O2) and domestic companies such as Andrej Babiš's Agrofert Foundation (focused on single mothers, children and sport).

During the review period, the surge in association competence continued. Civil society rallied to fill in gaps in mask and PPE availability, assist vulnerable populations during lockdowns, and act as watchdogs over the government's attempts at executive aggrandizement. NGOs ensured transparency in PPE public procurement and published updated regional data on health, including ICU bed availability, when the state refused to do so.

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 and 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. Internal divisions and infighting mostly consume the current radical-right parties; the support for the Party of Direct Democracy of Tomio Okamura declined slightly during the pandemic.

However, politics remain polarized, and consensus is difficult. The 2021 general elections will be decisive in shaping the future direction of the country.

Conflict intensity



II. Governance Performance

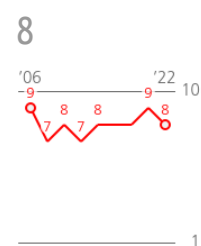
14 | Steering Capability

In June 2018, the Babiš government released a detailed policy statement setting six priorities for its tenure: 1) pension reform, 2) digitalization, 3) proactive EU policy – especially on tax and energy issues, 4) a strategic investment plan for infrastructure, 5) state reform – including taxes, regional and municipal finance, and 6) security and safety.

During the BTI review period, the government focused on the following six priorities: First, it increased pensions, which included providing a special pandemic bonus for seniors (€200) in December 2020. At the same time, the government shelved pension reform. Second, the government made some progress in advancing digital transformation, but with mixed results. The political pressure to deliver meant that several high-profile eGovernance projects were not sufficiently developed or tested before being rolled out and consequently crashed shortly after being launched. Third, the government adopted tax reform, reducing personal income tax for 2020, which will have a significant effect on state and municipal budgets and undercuts efforts to manage the pandemic and the post-pandemic

Question
Score

Prioritization



recovery. Fourth, it became more proactive on the EU front, often opposing measures that do not directly benefit the country and supporting those which deliver direct benefits such as pandemic relief, vaccines. As a result, the government is viewed less as a trusted partner and more as a troublemaker within EU politics. Fifth, the government, under significant domestic and international pressure to act on energy security, postponed tenders for the enlargement of the Dukovany Nuclear Power Plant. Finally, it successfully adopted a law stipulating that supermarkets in the country feature a minimum share of Czech produce. However, the law will likely be struck down by the European Court of Justice.

The pandemic exposed weaknesses in the country's steering capability, especially in terms of prioritization, policy feedback and adaptation. Since the onset of the second wave in particular, the government has had a difficult time with targeting strategic objectives. From its six priorities, the government realized two – tax reform and a proactive EU policy. However, the tax reform significantly cut municipal and regional budgets, undermining the handling of the pandemic by municipalities and regions and post-pandemic recovery. The government's assertive stance toward the EU is often contrarian in nature and undermines the country's reputation.

The country features several strategic frameworks that are in place in part because they comprise an eligibility precondition for EU structural funding. The quality of strategic documents improved over time in response to the EU's standards and the process of institutional adaptation – the strategic plans for the 2021 – 2030 EU funding period. During 2019 and 2020, the Czech Republic was capable of meeting these targets.

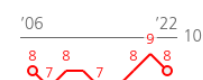
Before the pandemic, the Babiš government faced fewer obstacles than its predecessor. Social Democrats are the junior and weak partner, and Prime Minister Babiš and President Zeman are close allies. The Communists, who support the government (support agreement only between ANO and KSČM) and are sometimes veto players in the legislative arena, have only a minor impact on implementation.

Even during the pandemic, the Babiš government largely continued to meet its objectives in many areas (minimum wage increase, pension valorization, sustainable energy, tax reform, R&D). Progress in areas such as sustainability, energy and R&D are primarily driven by commitment to and oversight by the EU. During the pandemic, new priorities emerged, and divisions within the government grew. ANO even allied with the ODS to reduce taxes in December 2020, which the junior partner in government opposed.

The effectiveness of the government response to the COVID-19 pandemic was limited. Two key factors undermined crisis management: an internal power struggle within the (minority) government coalition and political expediency – prioritization of responsiveness over responsibility. The power struggle between the senior and

Implementation

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the junior partner in the governing coalition (ANO and the Social Democrats, respectively) was especially evident in the opposition the prime minister mounted to the institutional response (Central Emergency Task Force) in March 2020 and the establishment of the parallel institution, the Government Council for Crisis Management (Rada vlády pro zdravotní rizika), in July 2020, which was to replace the activities of the then-disbanded Central Crisis Staff. The Central Crisis Staff is a government working body for resolving crisis situations and included in the system of bodies of the State Security Council. Opposition parties and regional leaders demanded the resumption of its activities, but the government instead created a new structure.

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

In the period under review, the use of EU funds improved. Interministerial coordination remains complicated, especially across party lines. EU oversight constitutes a significant incentive – emulation and knowledge exchange at the EU level contributed significantly to progress in R&D and environmental policy. In research, development, and innovation (RDI), the engagement of academic experts and practitioners enhanced policy learning through systematic evaluation of foreign experiences.

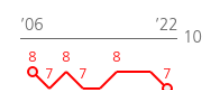
Learning and adaptation were not successful during the pandemic. Sustainable crisis management was undermined by limited capacity and political divisions. The government understood that proactive communication was crucial; government communication was frequent, attempting to explain policy measures and the reasoning behind them. Experts (especially virologists and epidemiologists) and public health officials were brought in to lend legitimacy to policy measures and their frequent shifts. However, the government was hesitant to share detailed information that could be used in crisis assessment.

15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. The number of politically motivated hirings and dismissals is low, and the key criteria are performance (lack thereof during the pandemic). Recruiting procedures for administrative personnel are competitive and regulated at the state level. At a regional level, this is not always the case. During the study period, investigative journalists uncovered disproportional payments to some staff by the governor of Central Bohemia. The scandal resulted in an investigation and political consequences (the governor lost a bid for re-election in 2020).

Policy learning

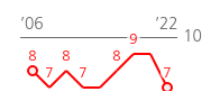
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Efficient use of assets

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The budgetary allocation of taxes, tax autonomy and financial decentralization have enabled regional governments to exhibit increased autonomy in fulfilling their governing functions and manage basic infrastructure. EU regional funds constitute a key resource for regional development. In the period under study, large R&D infrastructures and environmental protection programs remained in place. The main funding source is EU structural funds, which will continue in the 2021 – 2030 budgetary period. In particular, environmental programs will receive significant funding.

Effective independent auditing is performed and has uncovered significant issues in public procurement processes. Before the pandemic, government budgetary planning and implementation were transparent, predictable and without major deviations. The public debt was maintained at a very manageable level. This changed during the pandemic, which caused significant increases in expenditures and drops in revenues. Government debt increased from 28.5% of GDP in 2019 to 36.9% of GDP in 2020. The previously balanced budget (which even had a surplus) was undermined by the pandemic – the budget initially planned to have a CZK 40 billion deficit (€1.5 billion) ended with CZK 368 billion deficit (€14 billion). The 2021 budget is also expected to have a significant deficit (CZK 320 billion, €12 billion in the approved budget). The new Income Tax Act will reduce state budget revenue overall and significantly affect regions and municipalities.

The pandemic tested the efficiency of the country's administrative organization. The COVID-19 response in the Czech Republic was relatively centralized. Rather than regional governments, the central government was responsible for policy responses, securing PPE and medical supplies, and contact tracing and testing. Regional and local governments were tasked with policy implementation. Communication across various government tiers was limited – on multiple occasions, regional and local governments were informed about new measures at the same time as citizens were.

The pandemic tested asset availability, the government's ability to use assets efficiently and its degree of modernization. The regional network of hygiene stations made apparent key gaps, which proved a major liability and significantly weakened responses to the pandemic. Gaps in digitalization represented another major issue. While some services could continue in an uninterrupted manner because e-government functions were in place and personnel were skilled, other parts of the government were caught underequipped and lacking skilled personnel. Information provision to citizens on pandemic-related issues is an example of this.

The capacity of subnational governments to implement pandemic measures professionally varied significantly. For example, during the vaccination rollout, Prague and South Bohemian Region reacted promptly; other governments, especially in economically weak regions, struggled. In particular, after a coal mine in northern Moravia became a COVID-19 hotspot, the regional and local

governments struggled to control the situation for several weeks due to a lack of resources, procedures and political will to coordinate across various levels of governance.

The coalition agreement of the Babiš government includes fixed principles of coalition cooperation and coordination. The most important body for policy coordination is the Coalition Council comprised of party leaders and up to three other representatives from the coalition parties. Coordination mechanisms at the level of parliamentary and senatorial clubs are also important. Coalition parties also have expert commissions that communicate among themselves primarily when preparing legislative proposals.

Babiš leads a minority government that won the vote of investiture with the support of the Communists (KSČM). ANO and the KSČM have signed an agreement on cabinet tolerance and the prime minister must personally consult with the KSČM on important decisions.

The government's legislative plan divides tasks among ministries and other central bodies of the state administration and sets deadlines for submitting bills to the cabinet. Along with other ministries, the government takes part in the interministerial consultation process.

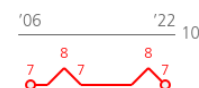
Some coordination among line ministry civil servants takes place. Senior ministry officials are generally a crucial link in collecting and discussing comments on proposed legislation. Still, strong barriers between ministries persist; cross-cutting project groups are rarely established. Important exceptions are internal ANO interministerial consultations.

The pandemic revealed existing weaknesses in cooperation and coordination. The government's pandemic response was particularly hampered by tensions between ANO and the Social Democrats. Babiš (ANO) and the minister of interior (Hamáček) competed for power to manage the pandemic. Babiš sought to install hand-picked expert epidemiologist and virologist Roman Prymula, loyal to ANO, to lead the Central Emergency Task Force (CETF). However, the standard institutional response is for the CETF, a body activated during natural emergencies and pandemics, to be led by the interior minister.

The key body for collecting data on the spread of infection, patients and testing was the Institute of Health Information and Statistics (UZIS), controlled by the Ministry of Health (ANO). The government was criticized by academics and medical experts for a lack of transparency – UZIS refused to share data with other ministries, experts and consultants. The government eventually ceded and NGO Watchman (Hlídač Státu) published all the data online using the freedom of access to information legislation.

Policy
coordination

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The Czech government has the legal capacity to and is relatively effective in enforcing regulations in an unbiased way, including party finance and campaign regulations. In 2021, legislation on lobbying is on the parliamentary agenda. Wealth and business power accumulation were greatly aided by lax regulatory environments of the 1990s and 2000s and subsequently by political favors and contacts with politicians. Prime Minister Babiš exemplifies this phenomenon on the national level, building his business empire on state and EU subsidies and state loans obtained using political contacts. The fight against corruption is made difficult because Babiš continues to be plagued by accusations of misuse of EU funds and conflicts of interest. The government program does not include fighting corruption among its six priorities; two specific proposed changes – a new legal instrument to protect whistleblowers and the regulation of lobbying – remain on paper only.

Due to the prime minister's conflict of interest in the period under study, the EU refused to reimburse several projects funded as part of the EU structural fund program. There are no signs that the Ministry of Finance will request Agrofert Holding to return these subsidies.

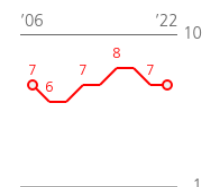
The Supreme Audit Office (SAO) oversees implementation of the state budget, expresses opinions on state budget final accounting statements, and audits the financial management of the state entities and the use of EU funds. The SAO does not audit the finances of municipalities, towns, regions or companies co-financed by subnational governments. Major issues highlighted by the SAO in 2019 and 2020 were digitalization, simplification of taxation, energy savings, social housing and transportation. During 2020, the SAO was critical of repeated adjustments to the budget as a result of the pandemic; it pointed out that not all the extra expenditures were pandemic-related.

A significant topic of SAO inspections has been public procurement – especially purchases of medical devices, protective equipment and related services. The SAO initiated an in-depth inspection at three entities – the Ministries of Health and Interior, and the State Material Reserves Administration. The SAO identified significant irregularities in public procurement – purchases using companies located in tax havens, some of which did not specialize in medical equipment – and masks with forged certificates.

Access to information has improved over time. The Babiš government has increased the visibility of the eKLEP (Electronic Library of Legislative Process). The eKLEP allows the public to follow updated legal proposals from development to approval or rejection. While central government bodies are rather transparent, accessing municipal information can be difficult. However, citizens can pursue legal action when municipal officials refuse to respond to requests for information – publicized cases of significant penalties have caused municipalities to become more transparent. Significant differences still exist between municipalities – some only disclose the necessary minimum, while others stream municipal government meetings online.

Anti-corruption policy

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Party and campaign finance is regulated and overseen by the independent Office for the Oversight of the Political Parties and Political Movements (ÚHHPSH), established in 2017. Regulation includes online posting of transparent campaign accounts. During the period under study, the campaign for the 2019 European Parliament elections was scrutinized. It emerged that only half of the parties and movements met the deadlines for publishing funding reports. In November 2019, the ÚHHPSH identified repeated misconduct and noncompliance among 39 political parties and movements, recommending suspending of activity of 35 and dissolution of four already-suspended parties. After the 2020 regional election, the ÚHHPSH identified fewer irregularities than previously (17 regional parties and 23 Senate candidates did not publish their financial reports within the required 90 days and were fined between €400 and €4,000).

An increasing number of watchdog NGOs support the right to improved access to public administration information by the public. The Watchman (Hlídač Státu) curates a wealth of searchable databases that include a legal process database, transcripts from government meetings, members' speeches in parliament and statements on social media, a database of invoices by all ministries (almost 700,000 items), asset declarations by politicians and state officials, etc. The Watchman created new databases of recipients of COVID-19 relief funding during the pandemic and monitored all 45 pandemic relief programs. It also created a unique database of ICU capacity (updated daily), providing an overview by region and individual hospital. The Ministry of Health initially refused to provide this information even to regional governments. The Watchman used public pressure and the law on access to information, forcing the government to become transparent.

16 | Consensus-Building

There is a consensus among the major political actors and the public on the merits of democracy and the market economy. In the period under study, polarization remained strong, but some signals of decreasing fragmentation emerged. The alliance between Prime Minister Babiš and President Zeman along populist lines strengthened the confrontational character of Czech politics.

The ongoing implementation of the Europe 2020 Strategy and Euro Convergence Criteria enable partial bridging of the otherwise low consensus on goals, reforms and the political process overall. 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.

Consensus on goals

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In principle, there are no anti-democratic veto players in the Czech Republic, but weak governing coalitions and weak and fragmented opposition. Small governing majorities, together with the party system's relative fluidity, do not facilitate the implementation of major long-term reform plans.

Although the 2017 elections brought many new anti-establishment parties to parliament (61% of members of parliament), all are committed to the constitutional order. Only two – the SPD and the Communists are radical, but not anti-democratic.

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).

On the first issue, the controversial 2020 tax reform (reducing taxes during a pandemic) was brought about by an unlikely alliance of ANO and the ODS. The reform was a long-term policy goal of the ODS and its leadership celebrated it as a victory, but the base reaction was mixed – most ODS voters and other members of the population understand that post-pandemic recovery will require resources.

The attitudes toward the EU remain ambivalent, especially due to the two-level game played by the government during the pandemic such that the government owned successes and shunted vaccination program failures onto the EU, exploiting popular ignorance and latent Euroscepticism.

There are no grave socioeconomic, ethnic or religious divisions in Czech society, but the identity dimension is becoming more salient around issues of universal rights and the Istanbul Convention. The Roma community is an exception as it has been disproportionately hit by the economic crisis and the pandemic. The small Muslim minority is also increasingly targeted by populists and extremists. The political leadership has not had to deal with any ethnic conflicts.

The government's legislative rules define trade unions and employer associations as actors eligible to comment on bills dealing with social and economic issues during tripartite meetings with the government in the Council for Economic and Social Accord. Over time, the consultation process has become more open thanks to the electronic publication of legislative norms and regulations. The main employers' unions and trade unions have considerable resources and expertise to develop coherent policies. The extent of their impact, however, is up to the government's discretion.

During the global economic crisis, trade unions and employers found common ground and economic interest associations became important partners for the government. The common goal was finding solutions that would ensure economic prosperity and societal cohesion. However, during the review period, divisions grew between major trade unions, resulting from an erosion of solidarity among various industry branches. This trend could potentially lead to the fragmentation of trade unions and decrease their impact on policies.

Anti-democratic actors

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Cleavage / conflict management

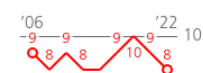
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Civil society participation

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The participation of non-economic interests in agenda-setting and policy formulation increased somewhat but remained significantly below international standards. LGBT groups have been seeking policy changes (same-sex marriage and adoption by same-sex couples) for a decade without success. The only significant influence of non-economic groups includes anti-corruption goals set out by an umbrella organization called Reconstruction of the State, during the previous government. Anti-corruption groups perform performance monitoring, especially of the prime minister's many conflicts of interest. The only successful policy change during the period under study resulting from the engagement of civil society was enlarging the scope of languages used in the 2022 census at the urging of minority groups engaged in the Government Council for Minorities.

During the pandemic, the government consulted regarding its economic response with external expert bodies such as KoroNERV (an informal network of Czech economists) and other experts (virologists and epidemiologists) but followed their expertise only as long as the public was on board. The example of the mathematical model of the pandemic illustrates this. External consultation on mathematical modeling of the virus' spread was crucial for triggering the initial response in March 2020 and successful mitigation of the first wave. This expertise was also available during the second wave. However, before the regional elections in October 2020, the government chose political expedience over attempting to control the pandemic and ignored the infection spread spiraling out of control. The government did not actively involve civil society beyond experts in its COVID-19 response. But civil society activated itself and filled the many gaps that emerged.

Regarding social partners, consultations continued with less intensity than previously during the pandemic. The government regularly consulted regarding mitigation measures with leading trade unions and business associations, but it did not necessarily reflect their views in the measures it adopted. Instead, measures were adopted, and if societal groups provided negative feedback, the government adjusted the measures. This led to unpredictable, chaotic and nontransparent responses – it was unclear who had the prime minister's ear.

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

The Czech Republic introduced wide-ranging transitional justice programs after 1990 – including prosecution for crimes committed by the previous regime, nationalization of Communist Party property, a rehabilitation program for former political prisoners, a comprehensive lustration law and access to secret police archives. 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. A debate on the possible repeal of the still-valid lustration law was stirred up, but no consensus reached.

17 | International Cooperation

The most important factor influencing political and economic development is EU membership. The EU’s common priorities across policy areas are the core of the country’s long-term strategy for development. Clear roadmaps exist regarding steps to reach goals set by the EU and domestic strategy documents. The EU also provides funding and effective oversight of implementation.

Compared to previous periods, the effectiveness of the use of EU funds improved significantly. The year 2019 was successful in terms of drawing funds from the European Investment and Structural Funds. Not only was it possible to reimburse CZK 93.3 billion (€3.6 billion) to beneficiaries, approve over 66,000 new projects, and exhaust all funds that would disappear if not used, but the Czech Republic was also credited another CZK 36.6 billion (€1.4 billion), thanks to the fulfillment of its milestones. However, due to the prime minister’s conflict of interest, the EU refused to reimburse several projects funded as part of the EU structural fund program.

Additional aims of the Babiš administration focus on “confident, active and comprehensive defense of national interests.” More specifically, securing EU’s external borders, combating cyber-terrorism and radical Islam, active engagement with non-Eurozone countries, restrictive refugee and asylum policy, and continued cooperation.

In February 2019, the government adopted a long-term strategy Innovation strategy 2019 – 2030. The aim was to transform the Czech Republic into a symbol of knowledge and advanced technologies and a host of the world’s most important scientific capacities. The strategy consists of nine pillars: R&D funding and evaluation, innovation and research centers, national start-up and spin-off

Reconciliation

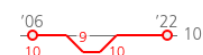
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Effective use of support

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environments, polytechnic education institutions, digitalization, mobility and the building environment, intellectual property protection, smart investments, and smart marketing. During the pandemic, the importance of fulfilling this strategy proved itself.

During 2020, cooperation within the EU intensified, dominated by the COVID-19 pandemic. Following initial reservations, the Czech Republic supported an EU economic recovery plan following the coronavirus pandemic based on state solidarity. To draw funds from this recovery plan, the Czech government had to submit a National Recovery Plan (NRP). The financial sources for the NRP must be directed to six areas: (1) digital transformation, (2) physical infrastructure and a green transition, (3) education and the labor market, (4) institutions, regulation and business support in response to COVID-19, (5) research, development and innovation, and (6) health and resilience of the population. Similar to other EU funds, the presence of clear steps and EU monitoring ensure effective implementation. The Czech Republic is one of the top six recipients for EU funds for Kurzarbeit. Due to the scope of the pandemic, the Czech Republic also benefited from additional vaccine allocation beyond its proportionate share.

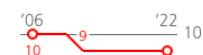
For a long time, the Czech government acted as a trustworthy and reliable, although rather passive partner of the international community (in particular within the EU). Vis-à-vis the EU, this changed in the summer of 2015 in the context of the refugee crisis when the public opposed any refugee resettlement quotas, with the coalition and the opposition almost united. In 2018, the European Commission filed a lawsuit against the Czech Republic, Poland and Hungary for not accepting immigrants. In April 2020, the Court of Justice of the EU concluded that the countries had failed to fulfill their obligations arising from EU legislation by incorrectly invoking a clause to protect internal security.

Global travel restrictions related to the fight against the spread of COVID-19 significantly complicated visits from business partners, negotiation of new contracts abroad and the arrival of foreign partners to the Czech Republic from countries under strict restrictions. The Ministry of Foreign Affairs helped companies with business trips during the pandemic. In addition to pandemic-related activities, it continued to engage in routine development and humanitarian assistance.

In general, the Czech Republic is in compliance with international agreements. However, during the review period, a contentious political debate slowed the ratification of the Istanbul Convention, which remains pending. The country is a reliable and trustworthy partner to international monitoring bodies.

Credibility

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In addition to the EU and NATO membership, the Czech Republic is also a member of the Visegrad 4 (V4) group, which includes Hungary, Poland and Slovakia. In the European Commission's eyes, regional groupings like V4 are instrumental in delivering a valuable and effective regional response to EU policies. The V4 is a pillar of central European policy and considered a successful platform for supporting further development of European cooperation. Visegrad cooperation is not institutionalized – the only organizational structure of the V4 is the International Visegrad Fund, established in 2000, the aim of which is to support joint cultural, scientific, research financial and educational projects. The Czech Republic chaired the V4 from July 2019 to June 2020. Priorities included consolidating the V4's position within the EU and NATO, integrating the western Balkans, and artificial intelligence.

During the pandemic, V4 countries agreed on closer cooperation in the fight against COVID-19 but this did not materialize, since Visegrad proved not well built for the crisis. There were several prime ministerial meetings, of which fighting COVID-19 and cooperation in that fight were the main topics, but the group did not coordinate on the ground. Mutual assistance was minimal.

Two other patterns of cooperation with neighboring countries exist. First, cooperation with Germany regarding movement of goods and cross-border workers (especially in Saxony and Bavaria) was well coordinated and functioned well. The second pattern, coordination with Austria and Slovakia was less fluid than the first, especially as disagreements about border closures, border regime, testing and quarantine for cross-border workers periodically emerged.

Regional
cooperation

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Strategic Outlook

The year 2020 highlighted the strength and weaknesses of the Czech democracy. While polarization and fragmentation persist, the opposition prevented government overreach during the pandemic, as courts and civil society proved resilient. Politically, the 2021 general elections will be decisive for the post-pandemic recovery. They will also be run according to a new electoral law, eliminating some majoritarian elements that disadvantage small parties and cumulative thresholds for coalitions.

In 2021, the country's population will have to decide how it wants to be governed and what priorities should be set once resources become scarcer. The population is aging, and the nature of work is profoundly changing. Two new electoral coalitions emerged after the 2020 regional elections – a liberal block and a conservative one. The Social Democrats are negotiating a center-left block with the Greens. Even with the electoral law change, addressing dominant parties' disproportional benefits ANO will remain a key player and the strongest party. The incumbency, personal wealth and ownership of the MAFRA media group by the prime minister has the potential to skew the electoral competition. Furthermore, it remains to be seen whether the three electoral blocks will prioritize competing against ANO by offering a vision of the future or compete among each other for the second spot below ANO. In 2021, both the Communists and Social Democrats will fight for their political survival. This will depend on their ability to choose resonant topics, win back part of their base and mobilize new voters.

The pandemic tested the safety net. It highlighted its weaknesses regarding vulnerable populations – the poor, children and single-parent households. But the pandemic also highlighted the precariousness of the middle class – a long-term crisis would cause more people to slump into poverty. Economic insecurity, housing insecurity and even food insecurity must be addressed. While many employees were retained during the pandemic due to government relief programs, the pandemic's impact will be felt in the coming years. The government cannot rely on civil society alone to fill the gaps in its safety net.

The tax reform will have a dangerous impact and could lead the country into a debt trap. The central and the regional governments will see a significant decrease in revenue and thus lack funds to restart the economy in the pandemic's aftermath. This will imperil necessary investments in education and health care, in which areas regional disparities prevail.

The pandemic also distracted from the necessity for energy transition and addressing environmental issues. Emissions, water and land management are key environmental issues. The country should develop and implement complex strategies for an environmentally feasible energy transition and a better balance between the urgent need for economic growth and environmental sustainability.

On the positive side, the coronavirus pandemic could accelerate the implementation of innovations and new technologies. The pandemic demonstrated that remote working is a viable option. It also demonstrated the necessity of accelerating digitalization and robotization. The nature of work will change, and the Czech Republic should effectively adapt its educational system (primary/secondary/tertiary and life-long learning). The Czech Republic should also increase investment in R&D and promote knowledge transfer between research, universities and industry. This should include significantly increasing its support for technology startups and bolstering its regime of intellectual property rights.