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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2017 National Reform Programme of the Czech Republic and delivering a Council opinion on the 2017 Convergence Programme of the Czech Republic

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2017 National Reform Programme of the Czech Republic

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COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies,¹ and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,²

Having regard to the resolutions of the European Parliament,³

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 16 November 2016, the Commission adopted the Annual Growth Survey,⁴ marking the start of the 2017 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report,⁵ in which it

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2017) 503 final.

³ P8_TA(2017)0038, P8_TA(2017)0039, and P8_TA(2017)0040.

⁴ COM(2016) 725 final.

⁵ COM(2016) 728 final.

did not identify the Czech Republic as one of the Member States for which an in-depth review would be carried out.

- (2) The 2017 country report for the Czech Republic⁶ was published on 22 February 2017. It assessed the Czech Republic's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the recommendations adopted in previous years and the Czech Republic's progress towards its national Europe 2020 targets. The Commission's analysis leads it to conclude that the Czech Republic is not experiencing macroeconomic imbalances.
- (3) On 25 April 2017, the Czech Republic submitted its 2017 National Reform Programme and on 28 April 2017 the Czech Republic submitted its 2017 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (4) The relevant country-specific recommendations have been taken into account in the Member States' programmes for the European Structural and Investment Funds (ESI Funds) covering the 2014-2020 period. As foreseen in the legislation governing the ESI Funds,⁷ where it is necessary to support the implementation of relevant country-specific recommendations, the Commission may request a Member State to review and amend its relevant ESI Funds programmes. The Commission has provided further guidelines on the application of those rules.⁸
- (5) The Czech Republic is currently in the preventive arm of the Stability and Growth Pact. In its 2017 Convergence Programme, the government plans for a budgetary surplus in headline terms over 2016-2020. The medium-term budgetary objective — a structural deficit of 1.0% of GDP — continues to be met with a margin throughout the programme period. According to the Convergence Programme, the general government debt-to-GDP ratio is expected to gradually decline to 32.7% in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. While risks to the achievement of budgetary targets seem broadly balanced, the pronounced contraction in public investment in 2016 - linked to the start of a new EU funds cycle - could entail a stronger-than-expected rebound of public investment in 2017. Based on the Commission 2017 spring forecast, the structural balance is forecast to decline to around 0% of GDP in 2017 and -0.2% of GDP in 2018, remaining above the medium-term budgetary objective. Overall, the Council is of the opinion that Czech Republic is projected to comply with the provisions of the Stability and Growth Pact in 2017 and 2018.
- (6) The Czech Republic continues to show medium fiscal sustainability risks in the long-term. These are derived primarily from the projected impact of age-related public spending, in particular in the areas of health care and pensions. The projected

⁶ SWD(2017) 69 final.

⁷ Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013, p. 320.

⁸ COM(2014) 494 final.

increase in long-term spending on health care is a matter of concern, both in terms of the governance and the cost-effectiveness of the health care system, which relies heavily on more expensive in-patient care. Some measures are currently at various stages of implementation, but results are not yet tangible. Recently adopted or planned measures to amend the pension system may, if implemented, worsen public finances in the long term. Firstly, Parliament adopted legislation giving the government the power to adjust the pension indexation mechanism more flexibly. Parliament is also discussing proposals to cap the statutory retirement age at 65 and establish a mechanism for regularly reviewing the pensionable age. Further changes, such as a more generous pension indexation formula and differentiated social insurance rates depending on the number of children, are currently also being discussed.

- (7) The fiscal responsibility law that was adopted by Parliament in January 2017 aims to address the main shortcomings of the Czech fiscal framework, since it was recently evaluated as one of the weakest in the EU. However, an independent fiscal council to oversee the implementation of the rules has yet to be appointed. Furthermore, implementing the newly introduced measures will be crucial in making the fiscal framework more effective and stable.
- (8) The Czech Republic faces challenges in preventing corruption as well as inefficiencies in public procurement. While a number of measures in the government's anti-corruption programme have been implemented and other reforms are pending, in practice corruption is not prosecuted systematically. In general, the Czech public procurement practice still lacks sufficient competition, which is reflected by the high number of single bid procedures and of direct awards, in particular in the IT sector. Inadequate training support and the absence of aggregated purchasing structures and competence centres hamper professionalisation and make it harder to achieve good value for money in public procurement. Very limited use of quality as an award criterion is also symptomatic in this respect. The transition to e-procurement is still facing major challenges. These include the need to improve the State-owned e-procurement platform National Electronic Tool and to clarify the legal framework for the provision of services by private providers that are already active on the Czech e-procurement market.
- (9) The business environment in the Czech Republic is weighed down by a heavy regulatory burden and numerous administrative barriers, in particular permitting procedures and tax payments. In September 2016, the government presented an amendment to the Construction Act and related legislation, with the aim of accelerating and streamlining the procedure for granting building permits by integrating the environmental impact assessment into it. The amendment is currently under parliamentary scrutiny. Tax compliance costs for businesses continue to be above the EU average. Shortcomings also include frequent amendments to the tax code. Addressing tax non-compliance remains a priority for the Czech authorities; however there is no strong focus on simplification. A yet-to-be presented income tax law aims at simplifying the tax code, but a draft is not yet available.
- (10) The use of e-government services in the Czech Republic is one of the lowest in the EU, but has increased from 2015. The Czech authorities have taken steps to improve the availability of e-government services, but many are still in progress and some individual measures have not yet been initiated. Responsibility for the rollout of

services is spread over several ministries and stakeholders perceive limited cross-sector cooperation.

- (11) R&D intensity has increased significantly in recent years, but this is not being matched by corresponding improvements in the quality of R&D outcomes. Reforms to the governance of the R&D system are being pursued, but have not been yet fully implemented. The government approved a new evaluation methodology (Metodika 17+) in February 2017, which intends to strengthen the mechanisms related to the allocation of funding for basic and applied research. A series of measures is being taken to facilitate stronger links between academia and businesses, building on the structuring effect of the Czech innovation platforms.
- (12) Educational outcomes are generally good, but basic skills have deteriorated. Performance is strongly influenced by students' socioeconomic backgrounds. The low educational outcomes of disadvantaged groups, in particular the Roma community, are a clear concern. It is estimated that a very large proportion of Roma children leave school early. A significant number of legislative and administrative measures have been taken to promote inclusive education and are now beginning to be implemented. These are expected to help reduce the gap in educational attainment and achievement between Roma and non-Roma children. Parliament adopted amendments to the Education Act in March 2016, extending compulsory education to the last year of pre-school education and ensuring that younger children are entitled to a place in a kindergarten. Nevertheless, inequalities in the education system represent a barrier to improving the quality of human capital and also hamper labour market outcomes later in life. Increased requirements of teachers and an ageing teacher population mean that the attractiveness of the teaching profession remains a challenge. This is due in part to comparatively low pay, although salaries have increased in recent years. A new career system for teachers and pedagogical staff, developed to increase the attractiveness of the profession, was finally approved by the government after several postponements. Continuous professional development opportunities for teachers are being developed with significant support from EU funds, in particular professional development activities related to teaching mixed groups and inclusive education. The higher education reform was adopted by Parliament in January 2016 and its results need to be monitored. A reform of the funding system of higher education institutions is also planned.
- (13) The unemployment rate in the Czech Republic continues to fall. The tightening labour market conditions are making it more difficult for employers to recruit workers. There is still some potential to offset the shortages by mobilising under-represented groups, such as women with young children, low-skilled workers and members of the Roma community. Increasing the outreach and activation capacities of public employment services, together with appropriate and well-targeted active labour market policies and individualised services, would help boost the participation of untapped groups. The labour market participation of women with young children is hampered by a persistent lack of affordable and quality childcare services, in particular for children up to 3 years old, by long parental leave entitlements, by the limited use of flexible working-time arrangements by both parents and by a low take-up of parental leaves by fathers. Some measures have been taken in recent years to address these issues. However, labour market outcomes for low-skilled workers are notably weaker than for all other groups. The Parliament is currently discussing the

legislative framework for social housing, which is expected to set national standards and target groups.

- (14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Czech Republic's economic policy and published it in the 2017 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Czech Republic in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Czech Republic, but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions.
- (15) In the light of this assessment, the Council has examined the Convergence Programme and is of the opinion that the Czech Republic is expected to comply with the Stability and Growth Pact,

HEREBY RECOMMENDS that the Czech Republic take action in 2017 and 2018 to:

1. Ensure the long-term sustainability of public finances, in view of the ageing population. Increase the effectiveness of public spending, notably by fighting corruption and inefficient practices in public procurement.
2. Remove obstacles to growth, in particular by streamlining procedures for granting building permits and further reducing the administrative burden on businesses, by rolling out key e-government services, by improving the quality of R&D and by fostering employment of underrepresented groups.

Done at Brussels,

For the Council
The President