

# **National Reform Programme of the Czech Republic 2018**

Úřad vlády České republiky



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# 1 Introduction

The *National Reform Programme of the Czech Republic* (the “Programme”) for 2018 is a Czech Government concept paper for economic and social policy that aims to formulate key measures conducive to prosperity and sustainable growth. These measures draw on the Czech Government’s programme priorities and are interlinked with other national strategy documents and action plans. They also accommodate the EU’s economic and social priorities set out in the *Annual Growth Survey 2018*, which has the Czech Government’s backing. Every year, the Programme is submitted, along with the *Convergence Programme of the Czech Republic*, to the European Commission (the “Commission”) as part of the *European Semester* for the coordination of EU Member States’ economic policies.

The document starts by outlining the macroeconomic backdrop. One of the core features is the overview of structural measures that are at various stages of preparation and implementation, and proposals that will be developed further at national level in the period ahead. A particular emphasis is placed on measures employed to address the recommendations made by the EU Council to the Czech Republic last year, and on measures in areas singled out by the Commission in its *Country Report – Czech Republic* from March this year. The document closes with an evaluation of progress made in the pursuit of national targets set by the Czech Republic as it implements the targets of the EU’s economic strategy, *Europe 2020*, including an assessment of the contribution by the European Structural and Investment Funds (ESIF).

The Czech Republic’s economic situation is currently very buoyant. In 2017, economic growth picked up significantly and is expected to remain robust over the coming years. The structure of this growth, primarily driven by domestic demand, can be regarded as healthy. With employment at an all-time low, the Czech Republic is verging on *full employment*. Economic good times mean that there is scope to resolve a host of structural problems: renew the process of aligning the quality of life in the Czech Republic with that of the EU’s most developed states, strengthen the Czech economy’s resilience to potential shocks, enhance the economy’s growth potential, and provide more support for integration.

One of the challenges, as also described in this year’s *Country Report – Czech Republic*, lies in the dynamic development of the housing market. In response, the 2018 Programme includes a new separate section (3.2) describing housing policy measures that are being implemented or are in the pipeline.

The Czech Republic has already achieved most of the national targets set as part of the *Europe 2020* strategy. Further increases in public expenditure on science, research and innovation are a challenge. The Commission notes that there has been *some progress* in improving the quality of research and development in the Czech Republic (just as there has been *some progress* in addressing the majority of the EU Council’s recommendations to the Czech Republic in 2017).

The 2018 Programme is a product of close interdepartmental cooperation coordinated by the Office of the Government of the Czech Republic (the “Government Office”). Representatives of economic and social partners, the Czech Parliament and other expert stakeholders were also closely involved, either formally or more casually, in the preparations.

The *National Reform Programme of the Czech Republic* for 2018 was approved by the Government on 30 April 2018.<sup>1</sup> Following its evaluation of the document, the Commission

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<sup>1</sup> Specifically, by the Government Committee on the European Union.

should publish new draft recommendations for each Member State in the second half of May. This autumn, the Government will assess how much progress has been made in the set measures in its periodic evaluation report. The Government will continuously monitor the proper implementation of the various reform steps throughout the year. The next update – the preparation of the 2019 Programme – is planned for next spring as part of the next *European Semester* cycle.

## 2 Macroeconomic backdrop to the National Reform Programme

In 2017, the Czech economy's growth picked up significantly, driven in particular by domestic demand and backed up by net exports. Household consumption was boosted by developments on the labour market, growing disposable income, and strong consumer confidence. Investment activity recovered after losing ground in 2016, thanks primarily to the scale of private investment. Broken down by sector, growth in real gross value added was spearheaded by industry. This is in keeping with its greater volatility during the economic cycle and with the way the Czech economy is structured. Gross value added also increased in other economic sectors.

We expect to see the economy expand by more than 3% per annum in 2018 and 2019. In subsequent years, the rise in real gross domestic product (GDP) should bob along at just under 2.5%.<sup>2</sup> In the timeframe covered by the National Reform Programme, economic growth should be driven almost purely by domestic demand in the form of both consumption (especially private) and investments by the business and government sector alike. This growth structure can be viewed as healthy. Labour market tensions indicate that a labour shortage is impeding the faster growth of the economy.

The Czech Republic's economic growth is set outstrip that in the euro area, which should be a boost to the national economy as it continues catch up. The forecast medium-term trend towards a stronger exchange rate following the discontinuance of the exchange-rate commitment by the Czech National Bank (CNB) and the greater wage momentum should be reflected in higher comparative GDP pricing. That is not to say, however, that the expected growth will trigger price competitiveness problems.

Until the end of 2016, economic growth was accompanied by extremely low inflation, which had been primarily kept down by externalities, especially oil prices. At this point, consumer price growth accelerated to the extent that, since January 2017, inflation has tended to range between 2% and 3%. We expect inflation to remain within the tolerance band of the CNB's 2% inflation target in 2018-2021. In the future, inflation should be fuelled in particular by hikes in unit labour costs and stronger domestic demand against a backdrop where there is a positive output gap. The stronger exchange rate will have the opposite effect on consumer prices. Higher inflation will inhibit real wage growth and, by extension, household consumption.

On the labour market, the economic upturn is echoed in the dynamic development of all important indicators, confirming that the economy has reached a state of full employment. According to the *Labour Force Survey*,<sup>3</sup> employment has been reporting year-on-year growth ever since early 2012. Since the beginning of 2016, the seasonally adjusted unemployment rate has been the lowest in the EU. There is now very little room for any further decline. This is also borne out by registered unemployment figures, which show – among other things – that even the share of the long-term unemployed<sup>4</sup> is contracting.

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<sup>2</sup> According to the Ministry of Finance's April Macroeconomic Forecast and the Convergence Programme of the Czech Republic 2018, GDP in 2017 stood at 4.4%; economic growth for 2018 and 2019 is forecast at 3.6% and 3.3%, respectively.

<sup>3</sup> A rolling questionnaire survey conducted by the Czech Statistical Office.

<sup>4</sup> These are persons who have been registered as unemployed for at least 12 consecutive months.

In certain professions and regions, there is now a severe disconnect between labour demand and supply. The scarcity of labour could hobble production growth<sup>5</sup> – some companies have been forced to put a hold on any new business because they do not have the staff. On the flip side, the workforce is being put to more efficient use, wages are rising, and this is also pushing up household consumption. These circumstances could galvanise firms to invest in machinery and equipment that will increase labour productivity.

A short-term partial solution to the lack of workers could be to engage “*discouraged persons*” (persons who are economically inactive, yet willing to work) or to ease the conditions in place for the employment of third-country nationals. In the medium and long term, for the sake of economic growth it will be important to ensure that the education system is better at equipping school-leavers with the confidence and skills required to pursue certain professions in a situation where the economy is being digitalised and roboticised, including occupations that do not exist yet. As for the labour market’s demand side, production and other procedures will have to do be modernised so that the necessary intensity of workforce engagement is alleviated.

On the strength of the external macroeconomic equilibrium, the current account of the balance of payments has been in the black since 2014. Surpluses in the balance of goods and services have outstripped the primary income deficit, which is weighed down most by the fact that the income generated by foreign direct investment is drained away in the form of dividends and reinvested earnings. The small surplus reported in the current account of the balance of payments looks set to persist into the years ahead.

Despite the positive expectations, downside risks are also factored into the economic forecast. Our main trading partners’ economic prospects continue to improve. Both in the euro area at large and in the monetary union’s largest economies, a host of soft indicators are close to record values, or are at least at highs not seen in years. This means that, contrary to expectations, economic trends in the euro area could be even rosier, making them ripe for exploitation by the heavily export-oriented Czech economy.

One of the risks in this respect is a shift towards greater protectionism – although the Czech Republic does most of its trading with other EU Member States, its indirect exposure to third countries could yet prove significant. Another risk is the shape of future relations between the United Kingdom and the EU with regard to the free movement of goods and services. Even so, considering how little progress has been made in the negotiations, if barriers were to be raised to external trade with the UK, there would be no fallout for the Czech economy until the end of the outlook timeframe. We maintain the assumption that both parties are keen for the impacts of the UK’s departure from the EU, taken as a whole, to be as inconsequential as possible. Elsewhere, the Czech economy could be dented by escalating problems in the Italian banking sector and by geopolitical factors.

In some areas – most obviously in the labour market – the Czech economy is showing signs of overheating. It is not inconceivable, bearing in mind the cyclical nature of the economy, that, were any of the above risks to materialise, the economy could be pushed into a regressive stage of its cycle during the Programme’s timeframe.

Another key investment-related factor is whether we successfully resume the investment cycle linked to the EU’s 2014-2020 programming period. Looking further ahead, it is not just

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<sup>5</sup> This is also implied by the results of short-term surveys and by the spiralling number of vacancies (according to figures maintained by the Ministry of Labour and Social Affairs), which broke through 250,000 in March 2018, thereby outstripping the number of registered unemployed available.

the EU budget's funding shortfall in the absence of the UK's contribution that will be significant, but also the new allocation prompted by the greater relative maturity of the Czech Republic's regions and the potential redirecting of EU budget funds to other priorities.

The cyclical development of the economy has combined with low interest rates to quicken the momentum of mortgage lending.<sup>6</sup> In conditions (some Prague-centric) where the supply of housing is limited, this situation has seen property prices rocket. If mortgage lending and property prices continue to shoot up, this could constitute a macroeconomic risk in the future because a deterioration in the economic situation or a hike in market rates could topple certain households into insolvency, which would also erode financial stability. Nevertheless, the rise in interest rates and the high property prices dampened lending in the housing sector somewhat compared to the previous year. Figures on housing construction and the numbers of building permits issued suggest that the supply of residential property should grow in the future.

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<sup>6</sup> See Section 3.2 (Housing) for more details.

## **3 Structural reforms**

### **3.1 Fiscal and tax policy**

#### **3.1.1 Combating tax evasion, and the future tax system set-up**

In recent years, one of the Czech Republic's top tax-related priorities has been to combat tax evasion. The whole point of this strategy is not to increase the level of taxation shouldered by upstanding taxpayers, but to coerce dishonest taxpayers into complying with their tax liabilities so that the additional tax receipts that are generated can be used to finance a universal reduction in dutiful taxpayers' taxes. The strategy has turned out to be highly effective and is gradually fulfilling the required objectives.

The fight against tax evasion relies on a system of "check statements", which primarily stymie fictional reductions in tax liabilities and value added tax (VAT) deductions. In the first year of its existence (2016), the system generated extra VAT receipts of CZK 13.7 billion, plus a further additional CZK 8 billion in 2017, which was better than we had originally (and already highly optimistically) anticipated. Another weapon to combat tax evasion is the electronic central registration of sales, introduced at the tail end of 2016, which has the deliberate non-reporting of retail sales in its sights. In 2017, the first two stages alone of this measure (so far it has only been introduced for hospitality, accommodation, retail and wholesale) reaped more than CZK 5 billion in VAT receipts for public budgets. Again, this was over 20% more than budgetary forecasts had originally projected. The Czech Republic also aspires to introduce a blanket reverse charging mechanism that would fundamentally clamp down on any remaining VAT evasion. A bill is currently passing through the legislative process that envisages electronic registration for the remaining types of businesses, to take effect during 2019. A lower VAT rate is even being proposed for certain businesses. A simplified paper-based system of records is proposed for the very smallest businesses.

As for corporate income tax, in recent years Financial Administration staff have focused on inspecting transfer pricing. Their efforts have yielded an annual doubling in the amount of additional tax levied, with reported losses down as much as twenty-fold in certain cases. Starting in late 2018, with some spillover into 2019 (in response to the effect of the EU's Anti-Tax Avoidance Directive – ATAD<sup>7</sup>), the Financial Administration is planning measures to guard against the practices primarily of those transnational corporations that shy away from tax compliance.

The steadfastly intensifying international exchange of information on tax matters is an important international weapon in the fight against tax evasion. In this respect, it is important to highlight the reaction we saw, in 2017, to LuxLeaks. This is why, further to the transposition of Council Directive (EU) 2015/2376, the automatic exchange of information was introduced in respect of advance cross-border rulings and advance pricing arrangements. In addition, large multinational businesses are required to engage in country-by-country reporting. In those reports, multinational businesses provide information on selected indicators for each tax jurisdiction in which they operate. This information is then automatically exchanged between the various tax administrations and is used to identify potential transfer pricing discrepancies. That directive has also been transposed by the

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<sup>7</sup> EU Anti-Tax Avoidance Directive.

Czech Republic. It is also necessary to mention arrangements in place for a tax authority to access certain data within the scope of international tax administration cooperation. This data is obtained on the basis of AML<sup>8</sup> procedures (measures to combat money laundering and terrorist financing).

The EU Council is finalising a draft amendment regulating the automatic exchange of information on tax optimisation schemes in a bid to protect the national basis of income tax by means of a special notification requirement. In the Czech Republic, this notification requirement will also apply to mediators themselves, including tax advisers, lawyers, accountants and other entities on whom it will be incumbent to notify the tax authorities of tax optimisation schemes.

These measures are either preventive or generate – and will continue to generate – budgetary resources which, together with savings on the expenditure side, can contribute to a subsequent reduction in the general tax liability.

Since 1 January 2018, the simplified expenses that can be claimed by entrepreneurs have been radically scaled-down. This makes it less appealing to engage in the misclassification of employees as independent contractors<sup>9</sup> if they are earning CZK 1-2 million and brings the taxation rate of the self-employed into closer alignment with the levels of tax paid by employees. Other concepts planned for inclusion in the recodification of income tax should also close the gap in taxation between employees and the self-employed. As part of this project, we are also considering whether to pare down the system for the depreciation of tangible assets and to introduce other changes that will reduce the overall complexity of the tax system. It has been proposed to lower the VAT rate from the current 15% to 10% for further labour-intensive services as of 2019. This will act as a positive tax incentive for those who provide such services.

The planned measures are aimed at lightening the incidence of tax faced by employees and the self-employed and at simplifying the entire tax system, while applying only acceptable exemptions, to the benefit of taxpayers. One of the Czech Republic's top priorities is long-term tax system stability, free of futile and haphazard changes, that will act as a monumental building block to spur on business.

In 2018, the *Analysis of the Possibility and Impact of Accommodating Environmental Elements in Excise Duty and Energy Tax Rates in the Czech Republic*<sup>10</sup> will be updated in response to the outcome of negotiations on the approach to emission abatement in and outside of the EU ETS within the EU, and will be supplemented to include a more detailed estimate of environmental impacts.

### **3.1.2 Streamlining tax collection from the taxpayer's point of view**

We are working in earnest on across-the-board digitalisation of tax administration. A gradual process, this is one of the top priorities in the realm of tax. Most tax confirmations can already be filed electronically, with no need to visit the tax office in person. *MOJE daně* (short for "Modern and Simple Tax", and translatable in this abbreviated form as "My Tax") is the flagship of the gradual computerisation of tax administration and is central to our fundamental simplification for clients and accommodating approach to VAT and income tax

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<sup>8</sup> Anti-money Laundering.

<sup>9</sup> Self-employed persons.

<sup>10</sup> Approved by the Government on 9 January 2017.

payers. This project encompasses several important concepts that make it easier for most taxable entities to meet their tax liabilities. One of the measures under the project is the establishment of the MOJE daně portal. This will be a virtual tax office offering taxpayers services such as the option of pre-filled tax forms containing basic information about the taxpayer, payroll input from the employer, and third-party data important for the final establishment of the tax liability (information from banks and/or pension funds). Besides providing pre-filled forms, the portal also aims to eliminate reporting duplication and errors, to target and coordinate audits, and to forge links with other systems, e.g. e-invoicing.

When it comes to the substance of tax simplification, the project envisages, for instance, a system where it is possible to withhold only the disputed part of an excessive VAT deduction, as this will allow business to benefit from smooth and foreseeable cash flow. In the longer term, there are also plans for an integrated tax administration system that will merge taxes and insurance contributions into a one-stop shop, which will provide taxable entities and tax and insurance authorities with considerable savings.

### **3.1.3 Budgetary policy**

In terms of budgetary procedure, 2017 was the first year in which the new fiscal rule for determining the maximum expenditure of the central government budget and state funds was applied. In keeping with this rule, expenditure was set so that the general government sector's balance, adjusted for the effects of the economic cycle, and one-off or other temporary measures are not less than -1% of GDP.

In addition, the National Budget Council was set up. Its members were elected by the Chamber of Deputies in January 2018. In budgetary procedure, the National Budget Council will be backed up by the Budgetary Forecast Committee, which is tasked with assessing whether the forecasts used in the budgetary procedure are overoptimistic in terms of accuracy.

The latest budgetary policy measure has been the adoption of an amendment to the Budgetary Rules Act, effective since 1 January 2018. This amendment regulates the process for granting subsidies and repayable financial assistance from the central government budget. The procedure followed by grantors has been unified and arrangements are in place to safeguard the fundamental procedural rights of subsidy applicants and the right to the judicial review of grantors' decisions on subsidies and repayable financial assistance.

In February 2018, a draft amendment to the Act on Financial Control in Public Administration was submitted for external consultation, which is now being evaluated. This draft expands the set of public authorities obliged to introduce the system for the management and control of public finances in such a way that it covers all general government institutions. The amendment is expected to take effect on 1 January 2020. Once adopted, it will complete the transposition of the Council Directive on requirements for budgetary frameworks of the Member States into Czech law.

The Government has confirmed<sup>11</sup> its consent for the Czech Republic to accede to the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* and has ordered the Prime Minister to submit the treaty to the Czech Parliament so that it can

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<sup>11</sup> Under resolutions of 14 February 2018 and 16 April 2018.

endorse this accession. This should complete the ratification process initiated by the previous government.<sup>12</sup>

### **3.1.4 Long-term sustainability of the pension system**

In 2017, there was another significant improvement in the Czech Republic's pension system balance on the back of economic developments and changes previously made to public pension insurance. Major momentum in revenues from contributions, driven by rapid wage rises, was the main reason why the gap between pension insurance contribution revenues and spending on pensions (excluding expenditure on the administration of the pension service) has closed to a neutral balance, having been mired in a negative difference of approximately CZK 50 billion in 2013.

Although the balance between contribution revenues and pension spending is developing along very positive lines, in the long run the indications are that a heavier burden will be placed on public finances by a sharp uptick in pension spending relative to GDP. According to the latest projections, the demographic ageing of the population in the Czech Republic in particular, along with the factoring of the current dynamic growth in wages and prices into the payment of pensions, could (if the retirement age is not raised above 65, or if other parametric adjustments are not made) gradually push up spending on pensions from approximately 8% of GDP today to 11.6% of GDP in by 2060, i.e. a hike by 3.6% of GDP. There would then be a gradual and gentle decline in expenditure up to the end of the projection timeframe in 2070, when pension spending will stand at 10.9% of GDP (i.e. 2.9% of GDP more than at present). If anything, current pension spending in the Czech Republic is towards the lower end of the European scale. Nevertheless, the retirement age will be assessed in a regular five-year cycle as a key parameter affecting pension spending.

Rapid wage growth eroded the ratio of the average pension to the average wage, which dropped from 42.3% in 2013 to 39.4%, i.e. the first time it has ever dipped below 40%. This prompted a slew of measures to improve the income of pensioners, centring on greater pension indexation.

Despite the measures taken, the negative trend in pension income could not be overturned, so the Government is preparing further action to improve pensioners' financial situation. The main proposals include an increase in the base pension assessment from 9% to 10% of the average wage and an extra CZK 1,000 per month for pensioners aged 85 and over. These measures will have a positive impact on the anticipated trend in the pension-to-wage ratio. There will also be a salutary effect on the degree to which pensioners are at risk of poverty; compared to the current legal situation, there will be an improvement of between 2.1 percentage points (short term) and 2.5 percentage points (long term). On the other hand, the measures will impose on the long-term stability of public finances (by worsening the S2 indicator) by 0.2-0.3% of GDP.

In 2016, an interdepartmental working party was formed to prepare a proposal that would enable those who work in physically demanding or health-straining professions to take early retirement. The specific details of the proposal will be discussed in 2018.

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<sup>12</sup> In this respect, the Czech Republic is not acceding to the Treaty's Title III (Fiscal Compact) and Title IV (Economic Policy Coordination), as these do not apply to states outside the euro area unless they accede to them of their own accord.

### **3.1.5 Health sector – sustainability and efficiency**

While health spending in the Czech Republic is below the EU average, we are mindful of the risks of mounting health care expenditure associated primarily with population ageing. Consequently, the Czech Republic is continuing to implement measures to improve cost-effectiveness and management in the health sector.

#### **Reimbursement decree**

The reimbursement decree for 2018 was devised in 2017. Its main goals include the securing of funding to raise health professionals' wages and salaries, including allowances for shift work, support for the availability of care, and support for a shift in care from the inpatient to the outpatient sphere. In 2018, the Government is laying the groundwork for a new concept to be applied to the reimbursement decree for 2019. The conciliation procedure for reimbursements in 2019 will encourage, as much as possible, the negotiation of agreements between care providers and health insurance companies, and will not favour health care segments on which there has been no agreement.

#### **Public health insurance system**

In 2018, the public health insurance system will be managing revenue of approximately CZK 297 billion in accordance with health insurance companies' health insurance plans. This is a 5.7% rise on 2017. Expenditure of CZK 295 billion (a 7.3% increase) is forecast, of which CZK 286 billion will be spent on health services. In this light, the balance of revenues and expenditure is expected to return a surplus of almost CZK 2 billion.

Health insurance companies' top expenditure priorities in 2018 include increased payments to hospitals to compensate for the rise in wages and salaries by 10%, and a bigger allowance for nurses' shift work. Other areas of significant growth are social health services, facility-based drugs and after-care. Greater support will also be channelled into psychiatric care, in preparation for the planned reform thereof, and into preventive examinations and screening. Other changes planned for inpatient care include the convergence of coverage between individual providers and insurers, and support for the shift from inpatient outpatient care.

#### **e-Health**

In keeping with the *National e-Health Strategy 2016-2020*, one of the Czech Republic's priorities is to computerise the Czech health sector. The immediate frontline objectives are: the implementation of the second stage of *e-Prescription*; the completion of preparations for the consultation document on the e-Health Act; the establishment of a *National e-Health Centre* and arrangements for the structure to control the management of computerisation; the creation or adjustment of reference registers for the health sector, and the establishment of a database, i.e. the project for an integrated departmental data interface – *e-Health Infrastructure Services (IDRR)*.

In 2017, the *Reference Hospital Data Repository* was created and, in accordance with the proposed *Acute Inpatient Care Appraisal Methodology*, the collection of real cost data on the overall output of reference providers of acute inpatient care went live. In addition, the first version of the CZ-DRG classification system was devised, along with classification rules and a structured cost appraisal of system units.

There was significant headway in the creation of a database of reports on healthcare facility performance thanks to the passing of an amendment to the law,<sup>13</sup> making it possible to implement a fully-fledged system for the evaluation of care quality and helping to clarify the remuneration prescribed for care provision. It also allows for the establishment of new registers, in particular a national register of health service coverage. On 31 January 2018, the register was put into operation with data from 2015 and 2016. In 2018, production data from health insurance companies should gradually be entered in the register.

In 2017, a non-public register of health professionals was set up. This is crucial for the planning of staffing requirements and for the timely preparation of staffing capacities in response to demographic changes and developments in the capacity of individual professions. This register was put into operation on 19 December 2017, and production data will gradually be entered over the course of 2018.

In keeping with the *Health 2020* strategy, the *National Coordination Centre for Early Detection Programmes* and *Database of Screening Programme Implementation* projects were launched with funding approved from the Operational Programme Employment. The *National Council for the Implementation and Management of Early Application Programmes* was set up to supervise the implementation of the corresponding action plan and individual projects.

### Medical apparatus

The implementation of measures related to the activities of the *Commission for the Assessment of the Distribution of Medical Apparatus* continued in 2017. The Commission is preparing for the creation of an overview of final purchase prices paid for expensive apparatus. This overview of final prices will be used to evaluate applications. In order to assess new technologies, preparations are afoot to switch to a fully-fledged health technology evaluation system.

## 3.2 Housing

In the final quarter of 2016 and the first two quarters of 2017, the Czech property price index rose on average by 13% year on year. Spiralling prices on the housing market can be attributed to the generally sound financial situation and upbeat expectations of households on the back of low employment and rising nominal income, as well as to low interest rates and the fact that demand for housing outweighs supply (especially in Prague and the surrounding area). Demand-driven factors are compounded by the enduring preference to own rather than rent housing.

In Prague, where prices are climbing fastest, a role (besides the strong demand fuelled by economic growth and rising real wages) is played by the city's appeal, the fact that prices are approaching those in western cities, and the purchase of flats as business projects, e.g. for short-term letting to tourists as part of the *platform economy*. On the other hand, there is the weighty factor that housing construction is in short supply because of its low intensity, thanks in part to the protracted permit procedure associated with the preparation of a development. The rising newbuild prices are diverting buyers' interest towards older flats. This trend is reflected in the growing rents. In the future, the Government wishes to respond by rallying behind the development of rental housing as a significant sector in terms of affordability and

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<sup>13</sup> Act No 372/2011.

mobility. The Government is placing a particular emphasis on socially disadvantaged target groups.

The Czech financial sector revolves around banking, which generally reports a high level of capitalisation, profitability and liquidity, accompanied by a high rate of return on (repayment of) loans. There is still plenty of room here for credit financing. Nevertheless, the overall amount of credit and loans intended for housing at Czech banks in 2016 went up, climbing to CZK 1,344 billion (growth by 2.4 percentage points of GDP). According to the Czech Statistical Office, 21.1% of Czech households are saddled with housing loans. For the most part, these households comprise couples with children. Mortgages and lending under building society savings schemes have also been taken out by low-income households. Although the property market remains on an upward trajectory, any potentially adverse developments would scale up the Czech banking sector's vulnerability. As mortgages account for a large proportion of Czech banks' portfolios, the quickening spiral between this lending and the prices of properties bought with mortgages is now the most significant risk to domestic financial stability. In response, in April 2017 the CNB tightened the recommended limit on lending secured with residential property to 90% of the value of the property (LTV). In addition, the overall volume of newly granted loans secured with residential property where the LTV is 80-90% should not be more than 15%.

Rising housing market prices could impede worker mobility and have adverse social impacts, especially on the less fortunate.<sup>14</sup>

The *Housing Concept of the Czech Republic up to 2020 (revised)* was approved in July 2016. According to that Concept, the state's fundamental mission is to create a stable environment reinforcing the responsibility of its citizens for themselves and to encourage them to secure their basic needs with their own resources. At the same time, there are people in all societies who, for objective reasons, are unable to secure their own housing themselves. It is incumbent on the state and municipalities to assist them by applying the principle of solidarity. Social housing, as defined by law, will be intended for households who are faced with a housing emergency and are victims of housing market failure. The aim of the law is to establish minimum social housing standards and to arrange for the state-subsidised operation and acquisition of such housing by municipalities.

The *Social Housing Concept of the Czech Republic 2015-2025* was approved in October 2015. The planned update of the Concept revision will also go ahead in 2018 so that this document is consistent with developments to date and with the latest trends in social housing. The Concept formed the basis for the bill on social housing and on the housing benefit, which was approved by the Government in March 2017 but has yet to be approved by the Chamber of Deputies. The Government's plan of legislative work for 2018 envisages the production of a consultation document for the Social Housing Act, to be coordinated by the Ministry of Regional Development in cooperation with the Ministry of Labour and Social Affairs. The deadline for the submission of the consultation document for this law to the Government is 31 October 2018.

### **Housing support programmes**

So far, investment aid for social rental housing has been channelled via *Housing Support*, a programme run by the Ministry of Regional Development. The sub-programmes *Care Flats*

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<sup>14</sup> In particular, low-income groups of the working-age population with no disability (e.g. single parents with multiple children) are still not adequately supported under housing policy.

and *Community Buildings for Seniors*, geared towards the construction of rental apartments for those who are disadvantaged in their housing on grounds of age or health, have been announced for 2018. This support aims to secure rental housing for seniors in order to prolong their self-sufficiency and independence, while promoting a community-based lifestyle in community buildings for seniors, based on the principle of neighbourly assistance.<sup>15</sup>

The *Barrier-free Multi-family Buildings* sub-programme is intended for owners or co-owners of multi-family buildings and unit owner associations with a view to improving current housing stock by removing barriers at the entrances to buildings and to lifts, and by installing lifts in buildings with four or more storeys, on condition that they are not and have never been equipped with a lift, and provided that the structural and technical requirements are in place for this.

Under the Integrated Regional Operational Programme, funding of EUR 137,459,145 (i.e. approximately CZK 3.5 billion) has been earmarked for social housing from the European Regional Development Fund (ERDF).<sup>16</sup>

Rental housing is also supported by the State Housing Development Fund. This entails the construction of rental apartments in the Czech Republic in accordance with Government Regulation No 284/2011 via the *Rental Apartment Construction Programme*. This programme targets support for the construction of rental apartments. Natural and legal persons, including municipalities, may apply for credit. Rental apartments are intended for defined groups of people (seniors aged 65 or over, young adults under the age of 30, persons with a defined income, disabled persons, and those who have lost their home in a natural disaster). Credit is available for up to 90% of relevant expenditure and is repayable over a period of up to 30 years from the completion of construction. Interest rates start at 0.75% p.a.<sup>17</sup>

### **3.3 The labour market, social policy and education**

#### **3.3.1 Employment policy and employment services**

##### **Active employment policy**

An amendment to the Employment Act, effective from 29 July 2017, changed the period over which it is possible to provide a financial allowance for a job of social value from 12 to 24 months. The main reason for this change is to tackle and prevent long-term unemployment. The aim is to lend support to people who, regardless of the high demand for labour, have

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<sup>15</sup> The subsidy beneficiaries are legal persons (including municipalities). In keeping with the EC SGEI De Minimis Regulation (with a ceiling of EUR 500,000), the maximum subsidy is CZK 600,000 per dwelling. Rent must not exceed a prescribed limit.

<sup>16</sup> Under Calls 34 and 35 of the Integrated Regional Operational Programme (Social Housing I), financing of approximately CZK 746 million was approved for 119 projects. Calls 79 and 80 (Social Housing II) are now under way. The overall ERDF allocation is CZK 2 billion, and applications can be submitted between June and September 2018. The remaining funds, amounting to approximately CZK 750 million, will be channelled into social housing under integrated calls of the Integrated Regional Operational Programme – Integrated Territorial Investments (ITI), Integrated Area Development Plans, and Community-led Local Development (CLLD) (Calls 60, 61 and 62).

<sup>17</sup> In 2017, the budget for the implementation of Government Regulation No 284/2011 was CZK 320 million. Three contracts worth CZK 57.55 million were concluded for the construction of 75 rental apartments (for seniors, physically or otherwise disabled citizens, and young adults up to the age of 30). In 2018, CZK 270 million has been earmarked in the budget for the implementation of this programme, allowing for the construction of approximately 300 dwellings to be supported.

been unable to find employment, in particular because they have suffered numerous setbacks resulting in long-term unemployment (higher age, disability, low education, other statistically difficult-to-prove social disadvantages). In this light, the allowance for a maximum of 24 months will be granted to jobseekers who have been registered as such for longer than 24 months, persons with low skills or no qualifications (ISCED 0-2, i.e. the maximum they have obtained is lower secondary education), persons who are at risk of social exclusion or are already socially excluded (e.g. persons from a socio-culturally disadvantaged background, persons who have served a prison sentence, or persons suffering hardship). In other cases, the allowance may be granted for a maximum of 12 months.

In a bid to increase the flexibility and targeting of active employment policy instruments for at-risk groups of jobseekers, including the provision of timely intervention, a new instruction of the Ministry of Labour and Social Affairs for the implementation of the active employment policy was drawn up and, in February 2018, approved. This instruction provides an up-to-date response to the evolving situation on the labour market. The main essence of the change is that it is possible to provide support to disadvantaged persons without the need for them to have been registered long term as jobseekers, thereby reinforcing the preventive nature of active employment policy instruments before hard-to-resolve long-term unemployment occurs. Where justified and necessary, the same people may be supported repeatedly, or they may be permitted to access numerous active employment policy instruments with a view to guiding them as much as possible to the open labour market.

In 2017, CZK 4.76 billion was spent on the active employment policy, with 59,925 recipients of support. Of that amount, CZK 2.24 billion went on community service in the support of 19,221 persons, while CZK 174,000 was spent on retraining in the support of 16,810 persons. Compared to 2016, there was a drop in active employment policy funding owing to the very upbeat situation on the labour market, characterised by a fall in the number of jobseekers, including a significant decrease among disadvantaged groups, and by the accelerated momentum in demand for labour. In this context, there is ebbing employer interest in some of the most frequently used active employment policy instruments due to the need to secure labour quickly, even without the need for intervention by the Labour Office of the Czech Republic.

### **Efficiency of public employment services**

The current situation on the labour market is distinguished by high demand for labour. This employer demand is mainly reflected in the high number of vacancies offered via the Labour Office.

The Labour Office has focused on targeted cooperation with employers, improvements in the efficiency of active employment policy measures, and enhanced interdepartmental cooperation when dealing with the long-term unemployed. This cooperation has been set up to provide users/clients with customised services tailored specifically to their own personal requirements. Individual departments mainly cooperate with each other in relation to users/clients who require an individual approach to their circumstances, which are often very wide-ranging and may encompass debts, enforcement orders, long-term unemployment, and disability. Interdepartmental cooperation<sup>18</sup> tends to involve units responsible for mediation and sections responsible for non-insurance social benefits, and draws on social-work methods. The point is to offer a comprehensive solution to dismal social situations and to

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<sup>18</sup> This cooperation is regulated by an internal management act. It is compulsory and is periodically evaluated.

prepare high-quality individual employment-related action plans reflecting the abilities, skills and opportunities of users/clients in relation to the local labour market. Support was also built around cooperation with employers and cooperation in preparing the workforce for the evolving conditions on the labour market, including a system of labour market forecasting (the KOMPAS project) and a revision of the retraining system to make it more flexible and more in keeping with the requirements of employers (the KVASAR project). Both of these measures are implemented in cooperation with the relevant labour market stakeholders.

In 2017, work began on implementing the project *Evaluation of Effectiveness and Efficiency in the Implementation of the Active Employment Policy*. On the initiative of the Ministry of Labour and Social Affairs, this project, drawn up to map out and assess the impacts of the active employment policy on the groups of people supported, is being implemented by the Research Institute for Labour and Social Affairs. The project results should be known in the course of 2018.

The Labour Office provides employers with services aimed at improvements in the filling of vacancies. Specifically, it offers individual consulting, with a preference for personal contact at the Labour Office's contact centre or directly at the employer. The aim is to apprise employers of the situation prevailing on the labour market in the given region, find the most appropriate solutions to employers' requirements, and help employers to fill their vacancies. The Labour Office arranges for the pre-selection and selection of suitable jobseekers for employers and helps to organise job fairs. It implements workshops for employers, where it reports on the current labour market situation and Labour Office measures, especially in relation to the active employment policy. The data acquired from employer monitoring is periodically evaluated and updated. The evaluated data is used to create short-term labour market projections, enabling employers to adapt their activity on the labour market with an eye to filling their vacancies.

In 2017, certain legislative changes were made to enhance the efficiency and quality of the system of employment services (not just public ones). In the support of employment for disabled persons, modifications were introduced to the system where employers can pay contributions as an alternative to the employment of a mandatory proportion of disabled persons; records of these contributions were computerised. Changes were also made to temping, mainly to increase users' liability for failing to comply with the rights of workers temporarily assigned to them by temporary-work agencies. This included the establishment of a definition for the disguised mediation of employment. Measures were also introduced to reinforce the legal status of temporarily assigned workers and to ensure that mediation activity is carried out only by respectable temporary-work agencies with proper staffing and material resources.

### **Support for young people on the labour market**

In 2017, unemployment among young people up to the age of 25 continued to shrink rapidly until it reached record low values. On the other hand, even in this age group a certain proportion remained as registered unemployed for a period longer than might be perceived as frictional (i.e. temporarily voluntary) unemployment.<sup>19</sup>

The main instruments helping to tackle the situation faced by young jobseekers, including the young long-term unemployed, comprise 11 individual regional projects entitled *Guarantees*

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<sup>19</sup> For example, time out to explore the labour market and find appropriate employment upon completing initial education.

for *Young People*. Financed by the Operational Programme Employment (Investment Priority 1.1), these projects were launched between December 2015 and April 2016. Proposals have now been submitted to extend their implementation until 31 December 2020. In the North-West NUTS 2 region (i.e. in the Ústí nad Labem and Karlovy Vary Regions), similarly focused projects are being implemented as part of the *Initiative to Support the Employment of Young People*, also financed by the Operational Programme Employment (Investment Priority 1.5). In 2017, Operational Programme Employment projects supported 10,362 young jobseekers up to the age of 30, 4,498 as part of the national active employment policy. These projects combine multiple instruments and measures to ensure the enduring employability of young people on the open labour market.<sup>20</sup>

### **Social entrepreneurship**

In 2017, a consultation document was drawn up for the Social Entrepreneurship Act. Approved by the Government on 15 May 2017, it aims to define the legally binding status of a social enterprise and a social integration enterprise, and to establish a definition for the segment of the social economy in the Czech Republic. This is one of the first steps on the way to unifying the approach to social entrepreneurship in the Czech Republic. In 2018, the Government will be presented with the draft articulated text of the law, which is currently being prepared by the Government Office in cooperation with the Ministry of Labour and Social Affairs and the Ministry of Industry and Trade.

Social enterprises continue to be supported via the Operational Programme Employment, directly in the form of calls centring on the direct support of social enterprises, and also via support within local action groups and through the creation of a support network for social enterprises (consulting, advisory services, etc.). The Integrated Regional Operational Programme is also continuing to support social enterprises by way of calls for individual projects and for projects implemented via the integrated instruments of the ITI, integrated area development plans and community-led local development (CLLD).

### **Reform of regulated professions**

The Czech Republic continues to implement the *National Action Plan*, which was sent to the Commission in January 2016. The legislative process for some of the amendments proposed to legislation is expected to be completed.

The Czech Republic is holding internal discussions on the recommendations made to it by the Commission as part of the services package. The recommendations concern the occupations of civil engineer and architect and new professional regulations being prepared for the occupation of estate agent, as well as general recommendations for all states regulating the professions of lawyer and accountant/tax adviser. However, most of the ministries concerned believe that the existing regulation of these occupations is adequate. A new bill is being prepared that will lay down conditions for the occupation of estate agent. Negotiations on the specific conditions to engage in the occupations assessed and their reasonableness have yet to take place on a European scale.

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<sup>20</sup> Besides job creation, support focuses in particular on mentoring – as a vehicle for the integration and acquisition of the necessary competence to pursue a profession – directly in an employer's workplace by the employer's existing staff. The projects are also complemented by support for further education via retraining and advisory activities. Certain projects (depending on the regional labour market situation) include support for a return to education, including the related assistance, and/or the acquisition of relevant skills abroad via internships.

### 3.3.2 The participation of women in the labour market

#### Childcare services

Affordable, locally available and high-quality childcare services are an important means of maintaining contact with employment at a time of maternity and parental leave and when parents return (or enter) the labour market. According to Government targets and the Commission's recommendations, they are crucial for the Czech Republic as they are a significant measure in the reconciliation of work and family life (i.e. the work-life balance; see below), and as such exercise influence over the rate of employment among parents with children and over developments in the birth rate.

It is for this reason that the Children's Group Act<sup>21</sup> entered into force on 29 November 2014.<sup>22</sup> The adoption of that legislative act established basic parameters of non-commercial childcare services. This measure enables parents to remain in contact with employment at a time when they are taking care of a child and gradually returning (entering) the labour market, and also helps to mitigate the risk of poverty and insufficient income if a parent were to remain outside the labour market for an extended period. This service is intended for children as young as one year old.

Children's groups provide care in smaller groups of children and can accommodate children's individual needs. The law establishes conditions for the provision of care proportionate to the number of children and, as such, is also accessible for providers who are unable to meet the requirements of nursery schools under the Schools Act. These providers include small municipalities, small employers, branches of employers or non-governmental organisations.

In this respect, an amendment has been made to the Income Tax Act that encompasses pro-family tax measures, i.e. the introduction of the tax deductibility of an employer's costs in connection with the provision of childcare services for employees' children, and the introduction of an income tax concession for parents who draw on childcare services as they enter (return to) the labour market. These parents may apply a tax concession for each child who attends a children's group, up to a maximum amount of the minimum wage per year.

Approximately 600 children's groups with more than 7,000 places for children are currently registered with the Ministry of Labour and Social Affairs. Further registration applications are being processed.<sup>23</sup> We expect another 200 children's groups to be registered and 10,000 places to be created by the end of 2018. Developments in the number of children's groups will depend on the form taken by the national financing of children's groups and the final version of arrangements for the care of two-year-olds in nursery schools after 2020. In keeping with measures under the *Family Policy Concept*, a proposal is being prepared for the financing of children's groups with national resources to ensure the sustainability of the care system and the quality of the care on offer. The introduction of children's groups has the potential to create additional jobs for carers, e.g. for women over 50, who are a vulnerable group on the labour market.

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<sup>21</sup> Act No 247/2014 on the provision of childcare in a children's group and amending related acts.

<sup>22</sup> Implementing Decree No 281/2014 on hygiene requirements for the premises and operation of a children's group of up to 12 children is linked to that legislative act. For the care of more than 12 children, Implementing Decree No 410/2005 on hygiene requirements for the premises and operation of facilities and establishments for the instruction and education of children and young people comes into play.

<sup>23</sup> The Ministry of Labour and Social Affairs also runs an informative website at [www.dsmpsv.cz](http://www.dsmpsv.cz).

Since 2016, a service where care is provided for children from the age of six months in “micro-crèches” has been piloted. This service offers childcare in small groups of up to four children, usually set up by a municipality or a non-profit organisation in cooperation with the municipality. Micro-crèches may also be established by mothers on parental leave themselves.”

There are currently 72 new micro-crèches registered across the Czech Republic.<sup>24</sup> Interest in this service exceeded expectations. Project output also includes the production of a draft solution, within the scope of non-legislative or, where appropriate, legislative arrangements, for the establishment and operation of micro-crèches based on the piloting of this service. A working draft is being prepared to enshrine micro-crèches in legislation, combined with the securing of additional financing for micro-crèches with national resources, together with children’s groups. In November 2018, a second call will be announced under the European Social Fund (ESF), within the framework of the Operational Programme Employment, for the support of micro-crèches. The project also revisits the standards of education among those who care for the smallest children in order to enhance the quality and expertise of service provision.<sup>25</sup>

Within the framework of the Operational Programme Employment,<sup>26</sup> there is continued support for children’s groups with a modified scale of unit costs for the establishment of new children’s groups in the operation of existing ones. The Ministry of Labour and Social Affairs continues to realise the project Support for the Implementation of Children’s Groups, under which comprehensive advice and methodological support are given to the providers of children’s groups in order to implement the Children’s Group Act. The project includes the creation of a national database of children’s groups, guidelines for parents and providers, and an online communication platform for providers. The Ministry of Labour and Social Affairs is also continuing the piloting of micro-crèches.

Since 2012, the Ministry of Labour and Social Affairs has been the authorising authority for the professional qualifications of<sup>27</sup> “Nanny for children until they commence compulsory school attendance” and “Nanny for children’s corners”.<sup>28</sup> Those who hold the first of these professional qualifications meet the requirement of professional competence, e.g. for carers in a children’s group. Interest in the professional qualification of “Nanny for children until they commence compulsory school attendance” continues to rise,<sup>29</sup> with a corresponding increase in the number of natural and legal persons holding the examinations. This burgeoning interest can mainly be attributed to the rise in the number of children’s groups and the introduction of the new service of micro-crèches, where this qualification can be put to use. The professional qualification has worked very well for the employability of women over the age of 55.

An amendment to the Schools Act in 2016 introduced the guarantee of a place in nursery schools (for four-year-olds from 2017, for three-year-olds from 2018, and for two-year-olds from 2020). This is crucial for the support of parents’ employment because it enables them

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<sup>24</sup> The Ministry of Labour and Social Affairs also runs an informative website for the project at [mikrojesle.mpsv.cz](http://mikrojesle.mpsv.cz)

<sup>25</sup> Within the scope of current calls for the support of micro-crèches and children’s groups, it is possible to take an examination for the professional qualification of Nanny and to cover the cost of the exam with an ESF subsidy.

<sup>26</sup> One of the significant benefits for children’s group providers is the opportunity to draw on financing from the European Social Fund (overall more than CZK 3.5 billion has been released already).

<sup>27</sup> More information on professional qualifications is available on the website of the National Register of Qualifications at [www.narodnikvalifikace.cz](http://www.narodnikvalifikace.cz).

<sup>28</sup> In accordance with Act No 179/2006.

<sup>29</sup> This is borne out by figures on the number of people who’ve taken the examinations: 118 in 2013, 227 in 2014, 454 in 2015, 1,161 in 2016 and 2,023 in 2017.

and their employers to plan their return to the labour market at the end of parental leave. Consequently, it improves families' financial situation, prevents them from plunging into poverty and avoids dependence on social benefits. Children under the age of three already attend nursery schools. Their share in the overall number of nursery school children is 12.3% (44,729 out of 362,653 children).

### **Measures to support the work-life balance**

The work-life balance remains one of the Government's top priorities in gender equality and is expressed, for example, in its *Gender Equality Strategy in the Czech Republic 2014-2020*. The Government Office continues to implement a project – funded by the Operational Programme Employment – that focuses on implementing this Strategy. The project includes support for the work-life balance, an evaluation of the Civil Service Act from the aspect of gender equality, and the performance of a gender audit of the Government Office with a view to piloting the *Gender Audit Standard*. In this area, the Government Office will continue to expand the methodology *How to Achieve a Work-Privacy Balance*, which provides employers with instructions on the practical implementation of measures to reconcile work and private life.

Several fundamental changes have been made to the family support system:

As of 1 February 2018, there is now a one-week paternal leave. This is an important signal from the state that fathers must be involved in childcare from the outset as this reinforces the stability of the whole family.

As of 1 January 2018, there is also the option of drawing on parental allowance at higher amounts, ranging from the current maximum of CZK 11,500 per month for 1.5 years to CZK 35,000 per month for seven months. The amount is determined as a maximum of 70% of the daily assessment base for the previous income. The option of accelerated drawdown (up to CZK 7,600) has also been introduced for persons whose maternity benefit cannot be measured; this mainly applies to students, the self-employed of the unemployed. This change means that freedom of choice is available for all families, i.e. for families who wish to care for a child up to the age of four and for families who wish to return to work while the child is still very young. The amendment has also introduced a second assessment for child allowance, applicable to economically active parents (a CZK 300 increase on the current CZK 500, CZK 610 and CZK 700).

In response to the EU Council's recommendation for the Czech Republic, in 2017 the Government discussed proposed legislative changes intended to improve the balance between work and private life and to reinforce the protection of employee status. These include the introduction of a long-term carer allowance, the main purpose of which is to provide those who have taken out sickness insurance with reasonable compensation for the loss of income from gainful activity that they have had to interrupt in order to provide long-term care to the person they are nursing. This takes the form of a sickness insurance benefit. The Sickness Insurance Act introduces the new sickness insurance benefit – a long-term carer allowance – at 60% of the daily assessment base. In connection with the long-term carer allowance, the Labour Code sets employers the obligation to excuse the absence of employees from work over any period that they need to provide long-term care (up to 90 days) and the obligation to place employees back in their original work and workplace when they have finished providing such care. The long-term carer allowance will commence on 1 June 2018.

The Government approved the *Family Policy Concept* and the *Family Report* in September 2017. The Concept includes numerous specific measures for the work-life balance. In this respect, the development of accessible and high-quality forms of preschool care facilities and adjustments to benefits and taxes are crucial. Fundamental measures include support for accessible public services in housing and preschool care, and support for flexible non-precarious forms of work; these are vital to ensure the financial stability of families. The Ministry of Labour and Social Affairs has established the new Family Work Party, which aims to draw up a Pro-family Package on the strength of the Family Policy Concept, with measures such as: guaranteed places in nursery schools for children from two years of age; arrangements for the financing and operation of micro-crèches and children's groups from the central government budget after 2020; reform of the system for the financial support of families; the status of families with single parents and the problems in recovering maintenance; support for flexitime under the active employment policy; the introduction of the concept of job sharing; the closing of the pay gap between men and women; the building of starter rental apartments for families with children; loans for newlyweds; the legislative establishment of primary prevention services in order to stabilise families, including systemic financing; the inclusion of men in care; arrangements for the blanket operation of after-school clubs; the introduction of across-the-board free lunches at primary, secondary and nursery schools; basic aids for children in schools free of charge; infertility prevention; the affordability of assisted reproduction.

Systemic projects are implemented under the Operational Programme Employment that focus on supporting families with children and childcare services in order to create a stable system for preschooler care or to create a platform for family policy.

Since the beginning of 2017, the Ministry of Labour and Social Affairs has been implementing the systemic project *Coordination of Measures to Support the Reconciliation of Work and Family Life at Regional Level*. This project sets out to improve the coordination of national and regional family support policies via a network of regional advisers and the operation of national and regional platforms. The project includes the production of *Family Policy-making Methodology* at regional and local level. A draft family policy concept or a proposal for the implementation of specific pro-family measures will be drawn up in each region.

### **Gender equality on the labour market**

A major and topical issue for the Czech Republic is the unequal pay of women and men, as this gap is the second highest in the EU (21.8%). To express the pay gap in financial terms, if we were to take the average wage this difference is tantamount to CZK 6,748 per month.

The Government Office will continue to move forward with the implementation of its awareness campaign *That's Equality!*, which focuses on promoting gender equality in Czech society. In the pursuit of the campaign's objectives, it will contribute to reductions in gender inequality on the labour market, the closure of the pay gap between women and men, and support for the involvement of a higher proportion of men in childcare.

To make the promotion of gender equality more effectual, the Government Office will prepare a standard for the position of ministerial gender equality coordinators; this position is established at each ministry. The standard will establish the basic competence of

coordinators so that gender mainstreaming<sup>30</sup> at each ministry is more effective. Coordinator training will also continue. This will include training on methodology to evaluate the impacts on gender equality.

The Ministry of Labour and Social Affairs is implementing a five-year ESF-funded project that aims to spark a discussion on the pay gap between women and men, analyse the causes thereof, and propose solutions to reduce it. The project involves key stakeholders, such as the State Labour Inspectorate Authority, the Office of the Ombudsman, the Labour Office, social partners and specific employers from the private and public sectors. Project outputs include the *Analysis of the Current Pay Gap between Women and Men in the Czech Republic and Historical Developments*,<sup>31</sup> an Online Wage/Pay Calculator, where everyone can calculate the normal pay for their job,<sup>32</sup> the adaptation of Logib, the Swiss software, for the Czech Republic and the piloting thereof, enabling organisations to test their pay policy in a way that is non-bureaucratic and anonymous, etc.

### 3.3.3 Social protection

#### Dealing with problems of over-indebtedness and social exclusion

The Czech Republic has pledged to make efforts to reduce the number of people at risk of poverty, material deprivation or living in households with low work intensity by 30,000. The pursuit of this target is monitored primarily via the National Reform Programme, drawing on the *Europe 2020* strategy. The aim is to contribute to the fulfilment of a reduction in the risk of poverty and social exclusion – to maintain the number of persons at risk of poverty, material deprivation or living in households with low work intensity at 2008 levels until 2020.

The Government supports the implementation of measures that act as a complement in contributing to the greater inclusiveness of the labour market, thereby increasing the availability, quality and sustainability of basic resources and services, including a dignified income, housing and education. In this respect, the Government is making headway in its *Social Inclusion Strategy 2014-2020* (a national umbrella document for social inclusion) and the *Concept for the Prevention and Addressing of Homelessness in the Czech Republic up to 2020*. In 2018, the Ministry of Labour and Social Affairs published *Debt Advice – What and How in Several Steps*, a document that provides municipalities with advice on how to handle assistance for citizens who are caught in a spiral of debt, and how to provide them with information necessary to deal with their debts. The document was drawn up in cooperation with the Working Party on Financial Literacy and the Prevention of Over-indebtedness, which groups together experts on this matter.

The Ministry of Justice has drawn up<sup>33</sup> and resubmitted a draft amendment to the Insolvency Act.<sup>34</sup> On 17 January 2018, this draft was approved by the Government and forwarded for further debate by the Chamber of Deputies.<sup>35</sup>

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<sup>30</sup> According to the definition drawn up by the Council of Europe, this is a strategic approach encompassing the (re-)organisation, improvement, development and evaluation of conceptual processes whereby all stakeholders will apply the gender equality perspective at all levels and at all stages.

<sup>31</sup> <http://www.rovnaodmena.cz/wp-content/uploads/2017/12/Aktuální-rozdíly-v-odměňování-žen-a-mužů-v-ČR.pdf>

<sup>32</sup> By education, region, work experience and job.

<sup>33</sup> In accordance with the *Government Plan of Legislative Work for 2017*.

<sup>34</sup> Bill amending Act No 182/2006 on bankruptcy and the methods of handling bankruptcy, as amended.

<sup>35</sup> Parliamentary Press No 71.

The submitted bill is a response to the regulations in place for debt relief, which, at present, cannot be used by a wide range of people, specifically the most indigent, but honest, debtors who want to resolve their economic circumstances and relations with creditors in a way that would balance the creditors' right to the payment of their claims with the debtors' genuine opportunities to settle those claims (with accrued interest and charges). In many cases, current legislation simply results in a situation where debts grow, people take on new debt to pay off old debt, and the number of enforcement procedures rises (leading to a debt spiral), without any real satisfaction of creditors' claims. This situation is not good for creditors, debtors or the state.

The bill is being submitted in a bid to address the over-indebtedness of natural persons, in respect of whom claims are typically enforced by bailiffs. Although the purpose of enforcement law is to secure the recovery of a creditor's claim, in practice, especially in cases of multiple enforcement orders, debtors find themselves in enforcement proceedings over extended periods, but the claims against those debtors are not recovered at all. Consequently, such enforcement is largely not fit for purpose. Some debtors will never be able to repay their debts, either because their debts are too high or their income is too low. Furthermore, many debtors inhabit the informal economy, with all the resulting negative consequences (the impact on tax revenues and on the systems of public health and social insurance, etc.).

With this in mind, the bill opens up the concept of debt relief to a broader range of honest debtors, with the proviso of the involvement of those debtors in transparent economic activity (i.e. including legal employment), and the satisfaction of creditors from debtors' property.<sup>36</sup> In other words, the bill sets out to change the procedure in which creditors' claims are lodged. This will enable creditors and debtors alike to draw on procedure more suited to their specific situation. Creditors will essentially receive satisfaction on a proportionate basis with a view to the equal treatment of creditors (in enforcement procedure, claims are satisfied on the basis of chronological priority, which is not appropriate when a debtor is insolvent). The concept of debt relief is also made all the more attractive for creditors by the fact that deductions from a debtor's income tend to be higher in insolvency proceedings than in enforcement proceedings.

The bill unlocks a remediation solution to insolvency for all honest debtors who are able to make regular payments from their income at least to cover the costs of insolvency proceedings and who are also willing to work towards the utmost satisfaction of their creditors' claims under the supervision of the insolvency court and the insolvency practitioner. With an eye to the requirement that debtors must make every effort that can reasonably be demanded of them, the significance of the insolvency practitioner's supervision of the debtor is emphasised. There is also an expansion in the range of relevant facts reflecting debtors' unlawful claims to enjoy the benefit of debt relief, particularly in view of the course of previous insolvency proceedings. This makes it possible, for example, to reject any new application for debt relief.

## **Social Work Act**

A draft consultation document on the Social Work Act is being prepared<sup>37</sup> in response to the need that has been identified to enhance the quality of social work and the guarantee thereof

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<sup>36</sup> In relation to this primary goal, there are also proposals to make minor changes to the legal provisions on the concept of debt relief and to remedy certain shortcomings in legislation that have come to light in practice.

<sup>37</sup> Further to Government Resolution No 1056 of 15 December 2014.

in the pro-client approach to users of social work. The sub-objectives of the proposed legislation comprise the establishment of the expert status of social workers, the opportunity for their professional growth, the creation of a tool for the (self-)management of ethical principles underpinning the profession of social worker, the harmonisation of practices relating to the lifelong learning of social workers into a comprehensive and coherent system, the regulation of the profession of social worker, and a clear definition of the position of social workers.

### **Development of social services**

In 2018, we will relaunch the legislative process for an amendment to the Social Services Act that, now that this law has been in effect for more than 10 years, will usher in necessary and more comprehensive changes. The amendment primarily aims to make the system of social services more transparent and simple, and to make certain provisions more specific by reflecting current practical requirements into the law so that the legislation echoes the need for good practice and the requirements of all entities involved in the provision of social services. The upcoming amendment also sets out to ensure that the social services provided resonate more with the needs of users/clients. The changes should make it possible to provide built-to-suit social services responding to the specific type of adverse social situation. They should also introduce greater transparency and efficiency and, not least, clarify the range of social services for the public. As a result, the public should have a better idea of where to turn and who will provide them with help and support in their specific adverse social situation. The bill will be submitted to the Government by 31 December 2018 and is planned to take effect from 1 June 2019.

Work on the development of the social service system will progress courtesy of the *Action Plan for the Development of Social Services 2017-2018*, a document drawn up on the strength of the Government-approved *National Strategy for the Development of Social Services 2016-2025*.<sup>38</sup> The implementation of measures under the Action Plan should have a positive impact on social service system clients and on the system's financial sustainability.

### **Active ageing**

In the face of demographic forecasts (population ageing), the Government advocates measures contained in the *National Action Plan Promoting Positive Ageing 2013-2017* (NAP).<sup>39</sup> The main objective is to change the approach taken by individuals and society at large to ageing, to ensure a dignified old age for everyone, to improve the involvement of senior citizens in the life of society, and to promote active ageing as a means of preventing social exclusion and health problems.

To make systemic arrangements for the agenda of preparing for ageing, work has started on a new strategy document that will follow up on the NAP and cover the 2018-2022 period. This document will be submitted to the Government in mid-2018. It will focus on laying the groundwork for demographic changes, the issue of income in old age, housing, barrier-free public space, arrangements for support and care (both health and social), lifelong learning,

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<sup>38</sup> The Action Plan fleshes out the individual steps set out in the National Strategy and is more specific about their implementation in the relevant period, i.e. 2017-2018. It is an opportunity for other entities operating in the social service system to learn about the direction social services are projected to take at national level.

<sup>39</sup> The interim evaluation report on the implementation of NAP measures for 2016 was submitted to the Government in June 2017; the report for 2017 will be submitted in June 2018.

the promotion of volunteering and intergenerational cooperation, the support of mobility in the labour market, and active ageing as a whole.<sup>40</sup>

Subsidy schemes run by the Ministry of Labour and Social Affairs were also used to support the elderly, including persons at risk of social exclusion, in 2017. Specifically, these schemes were *Support for the Publicly Beneficial Activities of National Senior and Pro-senior Organisations*, providing financial subsidies of CZK 18 million in 2017, and a scheme to support local government in ageing-related areas, with an allocation of CZK 20 million for 2017. There are plans to make the same amounts available in 2018.

In 2017, the systemic project *Implementation of Ageing Policy at Regional Level* was launched under the Operational Programme Employment. This project facilitated the establishment, in 2017, of 14 advice points in the regions, which are the responsibility of regional coordinators (one in each region). These coordinators also contribute to the establishment and running of expert regional ageing policy platforms, drawing together experts on related themes. In 2018, these platforms will meet four times. They aim to contribute to draft regional documents on preparations for ageing.

### **Long-term health and social care**

The system of long-term health and social care is being revised to establish a comprehensive system of assistance that will ensure the efficient and financially sustainable provision of services comprising long-term care that straddle both the social and health fields, i.e. a solution for people who, due to their poor health and adverse social situation, require both health and social services. In the unification of the provision of health and social care, it is important for the current needs of the patient/client/user to be met irrespective of who their provider is (in the health or social system).

In spring 2017, the Government was presented with the draft revision of the system of long-term health and social care, planned to take effect from 2018, and the configuration of a comprehensive system of assistance. That draft included amendments to some existing laws in connection with the modification of health and social services, especially as regards the financing and organisation of this coordinated system. The Government did not discuss the draft because there was not enough time. We expect work to start in 2018 on the preparation of a new draft revision of the system of long-term health and social care, which will draw on the previous draft.

In the implementation of the *Strategy of Psychiatric Care Reform in the Czech Republic*, in 2018 the project *Data and Analytical Bases of the Modern System of Mental Health Care in the Czech Republic* will pick up on the projects launched in 2017.<sup>41</sup> There are plans to open the first Mental Health Centres in mid-2018.

### **System of care for children at risk**

The plan to transform the system of care provided to children at risk has been incorporated into the *National Strategy on the Protection of Children's Rights – the Right to Childhood*.<sup>42</sup>

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<sup>40</sup> In 2017, the Ministry of Labour and Social Affairs organised a series of five roundtable discussions for professionals called the National Population Ageing Convention. As the National Convention proved to be a success, we expect it to continue in 2018.

<sup>41</sup> Drawing on the assistance of the IROP, the Czech Republic is working on the establishment of new – or the renovation of existing – facilities for the provision of community care, day centres focusing on psychotherapeutic services, psychiatric clinics with expanded care, and mobile community teams.

<sup>42</sup> The current strategy's measures are being implemented with support under a project of the Ministry of Labour and Social Affairs called "Systemic Development and Support of Instruments of Social Protection", which is

As this strategy's action period is coming to a close, the Ministry of Labour and Social Affairs has plans to prepare a new *National Strategy on the Protection of Children's Rights 2019-2025*. The new strategy will focus on priority areas, in particular: 1) control of the system's efficiency and quality; 2) draft versions for the unification of services for children at risk and their families; 3) the deinstitutionalisation of care for children at risk; 4) the development of a network of field, outpatient and small-scale residential services operating on a community principle; 5) the development and professionalisation of alternative family care, reflecting the individual needs of children; 6) support for children's participation in decision-making on matters that concern them.

### **3.3.4 Education**

#### **Preschool education**

Preparations are under way to revise an implementing decree<sup>43</sup> laying down the maximum number of lessons of direct teaching activity funded by the central government budget per nursery school, based on the number of classes in each workplace (separate building). The different types of operating regime at nursery schools – half-day, full-day, or boarding – are also to be taken into account. A standard has also been established for nursery schools attached to healthcare facilities. The implementing decree has made its way through external consultation procedure, and the resulting comments and suggestions have been resolved. It is ready for submission to the Government Legislative Council in an unchanged form as far as the maximum number of lessons of direct teaching for nursery schools is concerned.

Effective as of 1 September 2018, the staffing and teaching conditions under the Framework Education Programme for Preschool Education have been revised. They are now entirely satisfactory if, according to the possibilities and conditions in place at a school, there are arrangements for the direct teaching activity of teachers in a class to overlap, ideally for at least two and a half hours. In other words, compared to the original text of the programme, this is no longer an obligation, but a recommendation, based on the conditions and possibilities in place at a school.

As of 1 September 2017, children from the age of four (see above) are guaranteed a place in a nursery school in their catchment area (if it has been set up by a municipality or association of municipalities). Municipalities must make arrangements for these children's education.

#### **Primary education**

Preparations are under way to amend Implementing Decree No 48/2005 on primary education and certain requirements of compulsory school attendance, as amended, and certain other implementing decrees in connection with changes in the way that regional education is funded. The draft implementing decree also picks up on the draft government regulation – currently being consulted – laying down the maximum number of lessons funded by the central government budget per class in the field of education, depending on the number of pupils per class, for primary schools and secondary schools established by a region, municipality or association of municipalities, and the maximum number of lessons

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financed by the Operational Programme Employment with an overall budget of CZK 326 million. It is being implemented between 1 January 2016 and 30 June 2019.

<sup>43</sup> Implementing Decree No 14/2005 on preschool education; this change is intended as a response to a forthcoming change in the system used for the funding of regional education.

funded by the central government budget per school grade in the field of education, depending on the number of pupils in the school grade, for conservatories established by a region, municipality or association of municipalities. The objective pursued by the draft legislation is for rules on the determination of the number of pupils in a primary school class to be consistent with new rules established for the funding of teaching work. It also establishes values for the maximum number of lessons of direct teaching in those cases where these values cannot be determined by a government regulation.

### **Inclusion in education**

In the field of inclusive education,<sup>44</sup> two groups of support measures for teaching assistants have been introduced, and their direct and indirect teaching activity has been revised in accordance with the scope of teaching of a specific pupil. There has been a change in the standardised financial cost in connection with the activities carried out by a teaching assistant. Preparations are under way to amend the implementing decree on primary education and certain requirements of compulsory school attendance.<sup>45</sup> This amendment is being made in connection with changes in the way that primary education is funded. The modifications to the Framework Education Programme for Primary Education as at 1 September 2017 concerned the concept of education and the system of care for pupils who have been granted support measures. The amendment encompassed the establishment of outputs expected at a minimum recommended level. Since 1 January 2018, a review of joint education has been under way, further to which draft legislative amendments to the corresponding implementing decree<sup>46</sup> and the Schools Act<sup>47</sup> will be submitted.

### **Improvement in the quality of schools**

The project *Comprehensive Evaluation System*, aimed at finalising methodology for the closer interconnection of the external evaluation and internal evaluation of a school, was launched with effect from 1 February 2017. In addition, for example, for the broader use of the “quality school” model and the related evaluation criteria in schools’ self-evaluation activities, the aim is to draw up examples of inspirational experience, and to create methods and instruments to monitor the development and evaluation of key competences and to determine the socio-economic and territorial backdrop, with a view to monitoring the standard of fairness in education and taking into account socio-economic aspects. Project implementation is planned to cover a five-year period.

### **Career system**

In keeping with one of the EU Council’s recommendations from 2016, the Ministry of Education, Youth and Sports prepared an amendment to the Educational Workers Act that regulated the teacher career system. This amendment was approved by the Government. However, it was not passed after being subsequently debated in the Czech Parliament. The Ministry will transform certain elements of the rejected teacher career system into support for the professional development of educational workers. It was in this respect that the project *System for the Support of the Professional Development of Teachers and Head Teachers*

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<sup>44</sup> On 8 December 2017, Implementing Decree No 27/2016 on the education of pupils with special educational needs and gifted pupils was amended.

<sup>45</sup> Implementing Decree No 48/2005.

<sup>46</sup> Implementing Decree No 27/2016 on the education of pupils with special educational needs and gifted pupils, as amended.

<sup>47</sup> Act No 561/2004 on preschool, primary, secondary, post-secondary vocational and other education, as amended.

was launched 1 January 2018. The project aims to create, verify and implement a system of comprehensive modular support, contributing to improvements in the professional development of senior staff in the pedagogical management of schools, and of teachers in the field of teaching methods, via professional associations drawing on a wide range of collegial support and the further training of educational staff with defined quality criteria.

### **Vocational education and training**

In the 2016-2020 period, measures being prepared to promote vocational education and training focus primarily on promoting cooperation between schools and employers. The most frequent forms of cooperation promoted include arrangements for practical lessons, excursions for pupils and educational staff, professional experience for secondary school educational staff at employers' workplaces, and the use of experts in the field to provide teaching.

In the first half of 2017, in line with the approved document *Production and Revision of Curriculum Documents in Preschool, Comprehensive and Vocational Education*, detailed analyses of areas of education covered by the Framework Education Programme were processed. They define themes that need to be updated to reflect current labour market demand and to provide a link with qualifications in the *National Register of Qualifications* in order to make school-leavers more employable.

As of 1 September 2018, secondary school head teachers will be required,<sup>48</sup> as part of the emphasis on cooperation between secondary schools and the professional field, to make efforts to collaborate with employers in order to achieve the objectives of secondary education, including preparation for an occupation or work. It is up to head teachers to select employees appropriate for cooperation themselves. Head teachers may set up an advisory body of employers with this in mind.

In May 2017, the implementation of the approved project *Modernisation of Vocational Education* was launched. This project aims to enhance the quality of vocational education and training in order to provide significant support for the employability of school-leavers. The project will include the modernisation of the curriculum followed by secondary vocational education so that it promotes expert and key skills required of school-leavers by employers in order to be successful on the labour market, and so that lifelong learning – including retraining – is easier to access. In addition, professional qualifications under the *National Register of Qualifications* will be interlinked with the specific (qualification) part of School Education Programmes so that they are more aligned to employers' needs. Standards of practical teaching at employers will be created.

In October 2017, the Ministry of Education, Youth and Sports acceded to the *Memorandum of Cooperation in Dual Education*, geared towards a project that will focus on interlinking schools, companies and regions more profoundly in the implementation of selected elements of dual education.<sup>49</sup>

### **Further education**

To promote improvements in the quality of further education, the Ministry of Education, Youth and Sports draws on the *National Register of Qualifications*, a tool that makes it possible to

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<sup>48</sup> Amendment to Act No 561/2004 on preschool, primary, secondary, post-secondary vocational and other education (the Schools Act), in Section 57(2) and (3).

<sup>49</sup> The Memorandum partners are the Moravian-Silesian Region, the Ministry of Education, Youth and Sports, and the Confederation of Industry.

verify the knowledge and skills required for a particular professional qualification, regardless of how they are acquired. At the end of 2017, the register contained 1,194 professional qualifications, and approximately 180,000 certificates were issued. The descriptions of professional qualifications are also used as a source of inspiration when reviewing the Framework Education Programme.

The Ministry engages in activities associated with the agenda deriving from Section 108 of Act No 435/2004 on employment, i.e. the accreditation of retraining programmes, on an ongoing basis. In 2017, accreditation was granted to 837 retraining programmes.

Strategic plans to support career advice from a lifelong perspective are conceived within the National Advisory Forum, a joint platform established by the Ministry of Education, Youth and Sports and the Ministry of Labour and Social Affairs.

The project *Quality of Further Education – Support for the Development of Literacy (Mathematics and Reading) among Retraining Participants*, due for launch in 2018, will also incorporate the International Survey of Adult Skills of the PIAAC (Programme for the International Assessment of Adult Competencies). The PIAAC survey will serve as an important indicator, in this project, of the current state of the areas of adult literacy monitored. Survey outputs will be used in the creation of draft education programmes, which will then be piloted in the project. Both projects are implemented by the National Institute for Education.

### **Higher education**

Changes stemming from the amendment to the Higher Education Act and the Government Regulation on Accreditation in Higher Education were phased in during 2017. Higher-education institutions established internal evaluation councils and introduced systems for the quality assurance and internal evaluation of their activities. The first higher-education institutions also applied for institutional accreditation. Their applications are now being assessed by the National Accreditation Bureau of the Higher Education.

At the turn of 2018, the funding of public higher-education institutions for 2018 and subsequent years was also modified. The institutional funding of public higher-education institutions was split into a fixed part and a performance-related part, which is now construed differently for the variously specialised institutions. A new performance indicator was introduced so that the success of students at higher-education institutions can be taken into account. Significant progress was also made in consolidating the budget for higher-education institutions, which was increased by CZK 3 billion for 2018.

One of the main tasks for 2018 is to ensure smooth progress in the ongoing implementation of the 2016 higher-education reform. In terms of funding, the impacts of the modifications will be tracked, and efforts to consolidate the budget for higher education will continue. There will also be a focus on the possibility of factoring social demand for certain higher-education qualifications (e.g. in teaching and medicine) into the funding system.

### **3.3.5 Securing skilled workers and the integration of foreign nationals**

#### **Support for the arrival of skilled workers from abroad and legal migration**

The means to pursue legal migration objectives set out in the *Migration Policy Strategy of the Czech Republic* are being implemented. In terms of encouraging legal migration, progress

was made primarily in the task of creating projects for the legal migration of selected target groups of third-country nationals whom the Czech Republic would like to see enter and reside in this country. The projects have been framed in such a way that the criteria for the participation of foreign nationals and their employers do not facilitate wage and social dumping. In practice, foreign nationals are required to be paid at least the median wage for their profession and to be in a long-term and direct labour-law relationship.

An amendment to the Foreign Nationals Act<sup>50</sup> implemented Directive 2014/66/EU on the intra-corporate transfer of employees posted to work as a manager, specialist or employed trainee. So far, keenest interest in the intra-corporate transfer card has come from citizens of the People's Republic of China and the Republic of Korea.

This amendment introduced a new form of residence – long-term residence for the purpose of investment (the “investor card”). This amendment was accompanied by an implementing regulation<sup>51</sup> covering certain conditions for the issuance and renewal of a permit for long-term residence for the purpose of investment, which took effect on the same day. The investor card makes it possible to acquire a long-term residence permit for two years if the investor invests at least CZK 75 million and creates at least 20 new jobs in the Czech Republic. Investor card applications must be accompanied by a credible business plan. So far, there have been no applications for long-term residence for the purpose of investment. In 2018, the effectiveness of this type of residence, in its current form, will be evaluated.

Finally, the amendment introduced the concept of a Government-approved programme to achieve an economic or other significant benefit for the Czech Republic. As a result, migration schemes can be devised that provide participants with procedural advantages when they apply for a residence (the possibility for a foreign national's employer in the Czech Republic to submit a residence application, and the replacement of certain application formalities with a solemn declaration).

Another amendment now being prepared to the Foreign Nationals Act<sup>52</sup>, which implements the 2016 EU Directive (EU) 2016/801 on the conditions of entry and residence of third-country nationals for the purposes of research, studies, training, voluntary service, pupil exchange schemes or educational projects and au pairing, includes a proposal to introduce long-term residence for the purpose of job-seeking or the initiation of business activity for third-country nationals who have studied successfully in the Czech Republic.

In 2018, the Government will continue the successful implementation of the project *Fast-track Procedure for the Intra-corporate Transfer and Localisation of Employees and Governing Bodies of Foreign Investors* (“Fast Track”). This project establishes rules on efficient procedure for the entry, residence and, where appropriate, employment of third-country nationals who belong among selected to target groups. The project strives to be more accommodating to foreign workers and investors, to promote the inflow of foreign direct investment, to sharpen the Czech Republic's competitiveness, and to cover workforce shortages on the Czech labour market. In 2017, interest among foreign nationals in the Fast Track project exceeded the quota of 100 persons per year, which was relaxed by agreement of the ministries implementing the project (165 persons were included in the scheme).

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<sup>50</sup> An amendment to Act No 326/1999 on the residence of foreign nationals in the Czech Republic took effect on 15 August 2017.

<sup>51</sup> Government Regulation No 223/2017.

<sup>52</sup> Act No 326/1999 on the residence of foreign nationals.

Fast Track is intended for established companies that have been doing business in the Czech Republic for at least two years. *Welcome Package*, a project for investors that the Government will also continue to implement in 2018, is intended for foreign investors who have recently set up an organisational unit or a company with interlocking capital in the Czech Republic, but need to relocate the foreign investor's know-how activity to the Czech Republic in order to kick-start their business. In 2017, 52 people (33 foreign nationals and 19 family members) availed themselves of the annual 100-person quota under the *Welcome Package* for investors.

As of 1 November 2017, both of the above projects were modified in response to the aforementioned amendment to the Foreign Nationals Act. In addition, *Welcome Package* was expanded on the same date to include the participation of start-ups.

The Government will also continue to implement its *On-the-job Training* project, laying down the conditions under which foreign nationals may be temporarily posted to a Czech legal or natural person in order to increase their skills and qualifications. The project aims to simplify the entry and residence of third-country nationals drawing on schemes of on-the-job training for a maximum period of between three and six months. In 2017, 239 candidates were included in the On-the-job Training project.

In 2018, implementation of *Special Procedures for Highly Skilled Employees from Ukraine* (Project Ukraine) will continue. This project is intended for domestic employers who have long been unable to fill a vacancy with a highly skilled specialist from the Czech Republic or the EU.<sup>53</sup> The project is meeting expectations from the perspective of the target group and structure of employees, as borne out by the fact that the annual 500-person quota was exceeded (in 2017, 555 jobseekers were included in Project Ukraine). State authorities will concentrate on removing any obstructions that are detected and on enhancing the efficiency of the migration process.

Similarly, the *Regime of Special Treatment for Skilled Employees from Ukraine* (Regime Ukraine) will forge ahead. This project is designed for domestic employers who have long been unable to fill a vacancy with a medium or less skilled worker from the Czech Republic or the EU.<sup>54</sup> As interest in *Regime Ukraine* outstripped the original annual quota of 9,600 persons, the Government increased the annual quota<sup>55</sup> to 19,600. Even this annual quota is expected to be exhausted. Extra-staffed state authorities will strive to reduce the overall time it takes to migrate from Ukraine to the Czech Republic in 2018.

The Government has also approved the expansion of the project to encompass Mongolia and the Philippines in the form of a *Regime for Other States*, as these are countries offering high potential for work migration, and an increase in the systematisation at the ministries concerned (the Ministry of Labour and Social Affairs, the Ministry of Industry and Trade, the Ministry of the Interior, and the Ministry of Foreign Affairs) to include posts for the processing

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<sup>53</sup> The aim is to save time when accepting applications for work permits and Blue Cards submitted by specialists from Ukraine who are to carry out highly skilled work in production, services or the public sector in the Czech Republic.

<sup>54</sup> In practice, it entails the processing of a higher quantity of work permit applications in accordance with applicable legislation. This processing involves the cooperation of the Ministry of Labour and Social Affairs, the Ministry of Industry and Trade, the Ministry of the Interior, the Ministry of Foreign Affairs, bodies representing business and CzechInvest. Bodies representing business and CzechInvest act as guarantors who evaluate employers' applications for inclusion in Regime Ukraine. Approximately 14,200 candidates from 870 companies had been included in Regime Ukraine at 31 December 2017.

<sup>55</sup> Government Resolution No 79 of 31 January 2018.

of applications and checks on compliance with conditions related to inclusion in Regime Ukraine. These changes should start being implemented from 1 May 2018.

In August 2017, the Government approved a new migration project called *Special Procedures for Agricultural and Food-processing Workers from Ukraine*, which was launched on 1 January 2018. This project is analogous to Regime Ukraine – it enables Czech employers to acquire workers in agriculture and food processing for between six and 12 months. The annual quota has been set at 1,500 persons.

As for the support of legal migration in education, in May 2017 the Czech Government also approved<sup>56</sup> *Regime Student: Concept to Facilitate the Visa Procedure for Selected Students*. Regime Student's main objective is to make the visa procedure easier for selected foreign nationals who have been accepted to study under accredited study programmes at higher-education institutions involved in Regime Student in the Czech Republic. Every month, almost 400 long-term visa applications are received within the framework of Regime Student.

### **Support for the integration of foreign nationals**

In 2016, the Government adopted the updated *Concept for the Integration of Foreign Nationals – In Mutual Respect* (the "Integration Concept"). Tasks under the Concept are clarified every year as part of the Integration Concept Implementation Procedure. The current integration policy document is the *Procedure for the Implementation of the Concept for the Integration of Foreign Nationals – In Mutual Respect* for 2018.<sup>57</sup>

The Concept is based on the experience that migration can only be beneficial if it is directly followed up by integration measures. Consequently, the policy for the integration of foreign nationals is integral to legal migration. The integration policy aims to promote conflict-free coexistence with foreign nationals, to ensure the social cohesion of the population, to prevent the occurrence of negative social phenomena, and to safeguard the protection of the rights and safety of all inhabitants of the Czech Republic.

The Integration Concept's priorities are to ensure that foreign nationals are provided with information (for example, integration and adaptation courses for new arrivals have worked well), to provide lessons in Czech and courses on social and cultural aspects for foreign nationals, to provide foreign nationals with assistance at the centres of the Ministry of the Interior, at schools and at authorities, to provide legal and social advice, etc. The Integration Concept stresses the importance of greater involvement by regions and municipalities. The Ministry of the Interior lends support to the integration projects run by municipal bodies (in cooperation with non-governmental organisations and other entities), and to the network of regional Centres for the Support of the Integration of Foreign Nationals.<sup>58</sup>

As the Centres source their funding from the EU's Asylum, Migration and Integration Fund, the rules of that Fund dictate that the Centres may only provide integration services to third-

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<sup>56</sup> Government Resolution No 390 of 22 May 2017.

<sup>57</sup> Approved under Government Resolution No 10/2018.

<sup>58</sup> These Centres are responsible for the active creation and implementation of a regional integration strategy in accordance with the Government's policy for the integration of foreign nationals. The Centres are tasked with ensuring that foreign nationals have equal access to integration services and to qualified integration support on a comparable level in all 13 Czech regions and the City of Prague. Their job is also to provide information and comprehensive integration support not only to foreign nationals, but also to the majority population, including bodies of public administration. They do this in cooperation with integration stakeholders in the regions, especially non-governmental organisations. The Centres always provide integration services across the whole of their region. They focus their activity primarily on areas where there are growing concentrations of foreign nationals (industrial zones).

country nationals (and to EU citizens only in a crisis situation). With this in mind, the upcoming amendment to the Act on the Residence of Foreign Nationals introduces a new way of funding Centres from the central government budget, with the option of outsourcing. This system is expected to be launched in 2020. It will also allow the Centres to provide integration services to EU citizens who, in terms of type, may well be foreign workers.

The amendment also introduces the obligation for foreign nationals, once they have arrived in the Czech Republic, to attend a brief adaptation and integration course so that they are acquainted, in particular, with their rights and obligations. Foreign nationals will be required to attend this course within one year of the final decision granting them a long-term residence permit or permanent residence permit, or if there is a change in the purpose of their residence in the country. However, this obligation does not apply to long-term visa applications.

Problems associated with the growing influx of foreign workers from the EU have been addressed in the Kvasiny industrial zone (Solnice, Rychnov nad Kněžnou) by the ad hoc establishment of a *Coordination Centre for Foreign Nationals*, which is operated by the Ministry of the Interior's Refugee Facilities Administration. Its activities include monitoring the situation prevailing in the region, improving the coordination of activities among the main stakeholders (local government bodies, ŠKODA AUTO, a.s., the Labour Office, the Czech Police, etc.), assistance and advisory activities for foreign nationals, and field social work in the region.

### **3.4 Competitiveness: investment, business environment and public administration**

#### **3.4.1 Investment policy**

##### **Financial instruments**

There are plans for the broader use of financial instruments in the Czech Republic than in the past. Compared to the previous 2007-2013 programming period, there is to be an almost doubling of the volume of resources in this area.

A new form of financial instruments to be launched in the Czech Republic in 2018 is *capital input*. In January 2017, an agreement was concluded with the European Investment Fund (EIF), which created a fund of venture capital funds under the *Venture Capital* programme of the Operational Programme Enterprise and Innovation for Competitiveness. The purpose of this fund is to invest resources in the development of Czech innovative start-ups in their earliest stages via selected financial intermediaries (private funds) in the form of *capital input*. The allocation for the fund of funds is EUR 40 million from the Operational Programme and EUR 10 million from the EIF. In the first half of 2018, the EIF is due to complete its selection of financial intermediaries, who will start the investment activity. The Government plans to continue supporting start-ups via financial instruments. During 2018, another programme, focusing on support for start-ups commercialising the results of research and development, is to be prepared in cooperation with Českomoravská záruční a rozvojová banka, a.s. (ČMZRB).

At the end of 2017, by agency of the Ministry of Industry and Trade and ČMZRB, the Czech Republic was also involved in a regional project, the Central Europe Fund of Funds (CEFoF),

again implemented by the EIF. The project's other participants were Austria, Slovakia, Slovenia and the International Investment Bank. In the years ahead, the fund will support the establishment of regional private equity funds specialising in investment in more advanced growth-oriented companies that are seeking capital investment for their further development. The CEFoF will make investments, via selected private funds, in developing companies at their expansion stage. The Czech contribution to the CEFoF will be EUR 8.2 million, which will come from the central government budget. The CEFoF's overall investment capital, after factoring in all other investor contributions, is EUR 80.3 million, 40% of which hails from the EIF. Financial intermediaries are now being selected, after which the investment stage will begin.

The Czech Republic is involved, via ČMZRB, in the activities of the European Fund for Strategic Investments (EFSI), providing counter-guarantees that will facilitate the support of more projects than could be handled with the existing resources of ČMZRB and the Ministry of Industry and Trade. In 2018, there are plans to provide new guarantees totalling more than CZK 4 billion to SMEs via the national programme ZÁRUKA (GUARANTEE) 2015-2023. Overall it is envisaged that, thanks to the EFSI counter-guarantee, 5,000 business projects should benefit from support totalling CZK 15 billion. ČMZRB also expects to be involved in the External Investment Plan and the European Fund for Sustainable Development with a view to supporting investments in developing countries.

Within the framework of the Operational Programme Enterprise and Innovation for Competitiveness, the Ministry of Industry and Trade started implementing SME support programmes in the form of loans. In cooperation with ČMZRB, it prepared a programme for the support of SMEs called *EXPANZE* (EXPANSION) (the first call was announced on 28 April 2017), which focuses on the support of investment in SMEs as part of the Operational Programme's priority *Increasing the competitiveness of start-up and developing SMEs*. Approximately CZK 8.8 billion was allocated to this programme. A similar vehicle, soft loans, is used to support enterprises under the *Energy Savings* programme, where SMEs (and large enterprises) can apply for soft loans for projects that will reduce energy intensity in the business sector. Approximately CZK 1.9 billion is allocated to this programme, the first call of which was announced on 19 September 2017.

Within the scope of the Operational Programme Environment, the first financial instrument focusing on the mitigation of environmental risks<sup>59</sup> was launched in autumn 2017. Applications are now being accepted. The first relevant evaluation of the financial instrument may proceed in the fourth quarter of 2018.

### **National Development Bank**

Since 2017, a law on the National Development Bank (NDB) has been under preparation. The consultation document is due to be submitted to the Government by the end of 2018. This law aims to define the status of ČMZRB as the Czech Republic's national development bank for targeted public interventions in the Czech Republic and abroad via financial instruments. Parallel to this, the *National Investment Strategy* is being prepared. This should specify in more detail the potential areas that could be exploited by the NDB.

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<sup>59</sup> Priority Axis 3, Specific Objective 3.5 – Mitigate environmental risks and develop systems for the management thereof.

## Investment incentives and support for the inflow of foreign investment

In October 2017, the Government discussed and approved a plan to make changes to the system of investment incentives. The planned changes are linked primarily to efforts at drawing the investment incentive system into closer alignment with the current economic situation in the country and with the need for investment incentives to focus more on projects delivering higher added value. The plan to submit an amendment to the Investment Incentives Act was raised in the preparations for the Government Plan of Legislative Work for 2018, with the draft amendment to be submitted to the Government by the end of June 2018.<sup>60</sup>

In tandem with the change in the investment incentive system, the CzechInvest Investment and Business Development Agency will also revise its strategy. This agency focuses, as a matter of priority, on attracting technologically advanced and innovative foreign companies with the wherewithal to adopt Industry 4.0 principles and engage in production delivering high added value. It will also reinforce its activities in support of domestic SMEs to move them forward in supply and value chains, in their technological development, and in their links to large companies, universities, other higher-education institutions and start-ups.

## Accommodating the territorial dimension in investments

The investment policy should pay more attention to the existing factors specific to territories, manifested in the differing needs of the various types of territory. The concept of the territorial dimension targets planned investments and instruments spatially and is applied, for example, in the *Regional Development Strategy of the Czech Republic*, which is intended, among other things, to serve as a reference for the establishment of the territorial dimension in the central government's investment policy.<sup>61</sup> Other aims are to contribute to the narrowing of regional differences (a compensation target) and to enable local potential to be harnessed so that the economic and social level of the individual regions can be increased (a growth target).<sup>62</sup>

In pursuit of the growth target, integrated instruments (integrated territorial investments and integrated area development plans), which help to increase the competitiveness of the main Czech urban centres, are deployed in the major metropolitan areas and conurbations of the Czech Republic.

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<sup>60</sup> The impacts of the upcoming regulation are being assessed. In this assessment, the various ways of guiding the public aid system away from the blanket support of production projects to the support of higher added value in production are being evaluated.

<sup>61</sup> Relevant territorial parameters (at the level of municipalities with extended powers) are also being mapped by CzechInvest. The collection and analysis of this data resulted in the production of a *Business Opportunities Map* by the agency's regional offices. The map lays bare the potential and limits for business investment and development at the level of municipalities with extended powers.

<sup>62</sup> An example of a territorially specific instrument for the pursuit of the compensation target is the *Summary Action Plan of the Strategy for the Economic Restructuring of the Ústí nad Labem, Moravian-Silesian and Karlovy Vary Regions*, which was approved by the Government in 2017. Community-led local development, focusing on support for rural development in particular, also contributes to the fulfilment of this target.

### **3.4.2 The business environment and reductions in the administrative burden**

#### **Environmental Audit**

The next stage of the Environmental Audit was launched in September 2017 with the screening of the business environment in the field of environmental legislation. In all, 96 initiatives were sent in response to nine legal regulations. These were subsequently verified and assessed for compatibility with EU legislation. Duplicated initiatives were merged. These adjustments resulted in 62 relevant proposals concerning, for example, the EIA process, the integrated pollution register, conservation of nature and the landscape, and major accident prevention. This work came to an end in December 2017. In the first half of 2018, there will be another round for the assessment of the proposals submitted, to examine them from the aspect of their effectiveness and impacts on the environment and the business community. Selected initiatives will subsequently be drawn up into an articulated text, making them ready for insertion into the relevant legislation. In the second half of 2018, a preliminary discussion of the proposed changes will begin with the business sector which raised the initiatives. This will be followed by a consultation exercise. An overview of compliance with the previous stage's tasks and proposals for new tasks will be submitted to the Government by the end of December 2018. In January 2019, we can expect the update of measures under the Environmental Audit project for 2017-2018 to be approved in the form of a government resolution.

#### **SME support**

Support for the development of small and medium-sized enterprises was the focus of the *Action Plan for the Support of Small and Medium-sized Enterprises for 2018*, which was discussed and approved by the Committee on Small and Medium-sized Enterprises and Production Cooperatives on 28 February 2018. This Action Plan is a follow-up to the Government Action Plan 2015-2017. The aim is to pin down specific measures on which we need to focus in the coming period.

Therefore, the Czech Republic will continue to concentrate on targeted support for SMEs in three priority areas: the fostering of a business environment, direct SME support, and improvements in the approach to financial resources and labour resources. Under these priorities, an emphasis is placed on leveraging resources from the Operational Programme Enterprise and Innovation for Competitiveness and on increasing the deployment of financial instruments and repayable forms of business support. A substantial part of the Operational Programme is directed towards SME support. The allocation is EUR 4,331 million (plus EUR 3,611 million in national co-financing). To make it easier for SMEs to tap into funds for the implementation of their innovative projects anywhere in the Czech Republic, the *Inostart* programme has been opened. In a new move, support is provided in the form of capital input under the Operational Programme's Venture Capital scheme. Access to bank loans and guarantees is facilitated by the *EXPANZE* and *ZÁRUKA* programmes (described above in section 3.4.1).

The Czech Republic is also grappling with the latest developments that have seen the existing definition of SMEs revised, because these are significant changes in terms of State aid, Structural Funds, and other forms of access that SMEs have to funding with an interdepartmental overhang. The Commission has announced that there will be a public consultation on the re-evaluation of the definition of SMEs by 6 May 2018.

In 2018, the Ministry of Industry and Trade – in cooperation with the Commission within the scope of the *European Structural Reform Support Programme* – will start preparing a new *SME Support Concept 2021+*. This project is expected to run until 2020 and will result in a new SME support strategy document for the next programming period.

SME support is also safeguarded via the programmes of the Technology Agency of the Czech Republic. One of the Technology Agency's specific tools is the second sub-programme under the *GAMA* programme, in which projects awarded a Seal of Excellence in the SME<sup>63</sup> instrument of the *Horizon 2020* framework programme – Stage 1 – are supported. Other public institutions also contribute to SME support. To help potential applicants navigate their way around European, national and regional subsidy opportunities, CzechInvest has created a *Matrix of Subsidy Opportunities*.

### **Keeping the business sector informed**

In 2018, the Czech Republic will continue to raise awareness among Czech enterprises and citizens of their rights and opportunities on the EU's internal market via existing information channels, i.e. integrated services for enterprises, including Points of Single Contact (PSC), the Product Contact Point (ProCoP) and the SOLVIT network. On two occasions, analyses have resulted in a change in funding (most recently in 2017) to reflect the workload faced by the individual Points of Single Contact and to give them motivation to perform better and promote their services.

Other reform activities linked to the provision of information to the business sector will depend on the resultant form of the regulation on the establishment of the Single Digital Gateway. The Competitiveness Council adopted a general approach to this at the end of November 2017. EU institutions aspire for it to be approved and to enter into force during 2018. The course of negotiations on the draft so far indicates that the implementation of the regulation will spell a significant qualitative shift in the availability of information for enterprises on the internal market. The Czech Republic will continue to provide occasional active support for activities that appropriately commemorate the 25th anniversary of the EU's internal market.

### **Export support**

The volume of Czech exports in 2017 was CZK 4.2 trillion.<sup>64</sup> This is the best export result in the history of the Czech Republic.

In 2017, the Client Centre fielded 691 enquiries and requests for services, up 29% on 2016. Enterprises appreciate the Client Centre for its rapid responses to their needs, its professionalism, and the quality of services offered, which help them as they enter foreign markets. Within the Single Foreign Network, the diplomatic missions of the Ministry of Foreign Affairs provided 349 individual services and handled 1,170 exporter enquiries, tantamount to a 149% increase in companies' interest in individual services. The services of CzechTrade's foreign offices were used by 936 companies, in the form of 1,666 paid contracts, in 2017. The staff at the agency's foreign offices spend 83,000 hours on these contracts.

In 2017, 265 Economic Diplomacy Projects (PROPED) were organised. In 2018, export support is continuing via the Common Facility. The Common Facility is an interdepartmental

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<sup>63</sup> Small and medium-sized enterprises.

<sup>64</sup> According to the Czech Statistical Office; cross-border concept.

mechanism, currently involving five ministries (the Ministry of Foreign Affairs, the Ministry of Industry and Trade, the Ministry of Agriculture, the Ministry of Regional Development, and the Ministry of the Interior) and the Government Office, which capitalises on the synergy and enhances the efficiency of spending. In 2018, there are plans for business missions abroad and incoming missions at a cost of CZK 52 million. Roughly 300 Economic Diplomacy Projects will be implemented in 2018.

Pro-export support also entails the organisation of official participation by the ministries, i.e. joint exhibitions of Czech enterprises overarched and financed by the state, including the participation of central government representatives, at international fairs and exhibitions abroad. In 2017, the Ministry of Industry and Trade organised Czech official participation on 28 occasions with the involvement of 258 exhibitors (of which almost 60% were SMEs). The Ministry of Agriculture also arranged for official participation in exhibitions and fairs in 8 third countries. From June to September 2017, the Czech Republic took part in EXPO Astana 2017, the specialised international exposition showcasing *Future Energy*. In 2018, official participation is planned on roughly the same scale as last year. Bodies representing business and exporters are pushing for more resources to be invested in this area so that the state can hold a higher number of events in the vein of “Czech Official Participation”, as there is keen interest among exporters here.

In development cooperation, calls were announced in May and November 2017 for the applications under the *Programme of Development Partnership for the Private Sector* (abbreviated to Programme B2B), a subsidy scheme coordinated by the Czech Development Agency. The programme is primarily open to SMEs. The programme sets out to mitigate the risk of entering developing markets and, in conjunction with the private sector, to help address the problems of partner countries in the Czech Republic’s external development cooperation, thereby directly fulfilling sustainable development goals by creating new jobs and involving local producers in value chains, and to contribute to the transmission of know-how and technology in order to increase expertise and capacities. Overall, 58 projects totalling CZK 25 million were implemented. In 2018, approximately 60 projects worth around CZK 40 million are expected to be implemented. There was also interest in the programme *Aid for Trade*. In 2017, eight projects totalling CZK 6.02 million were implemented under this programme. In 2018, 10 projects worth CZK 8.37 million are expected to be implemented.

The further streamlining of the institutional setup for export support is a challenge for all participating institutions. In 2018, the Government is preparing steps that will lead to the greater efficiency and functionality of the export support system, greater support for innovations, applied research and development, and the furtherance of a system of export insurance and financing that will be to the benefit of effective export support. Specifically, the focus will be on identifying the synergy of state export support agencies in a bid to push up exports of equipment with high added value and to ensure the efficient operation of the Single Foreign Network following the entry into effect of Act No 150/2017 on foreign service, along with the reorganisation of state institutions safeguarding export financing and insurance (ČEB, EGAP).

### **Improvement in the insolvency landscape**

In accordance with the *Czech Government’s 2014 Policy Statement* and the *Government Plan of Legislative Work for 2015*, the Ministry of Justice drew up a bill amending the Act on Bankruptcy and the Methods of Handling Bankruptcy (the Insolvency Act). This bill successfully passed through the legislative process and took effect on 1 July 2017.

The aim was to provide a solution to several fundamental problems that had been encountered in practice in connection with insolvency proceedings and for which legislation had not been able to deliver satisfactory answers. The main objective is the robust protection of the rights of parties to insolvency proceedings, an increase in the transparency of insolvency proceedings, the reinforcement of the Ministry's oversight powers in relation to insolvency practitioners, a reduction in the administrative burden shouldered by insolvency courts, the regulation of entities providing debt relief services, and more intensive protection against vexatious insolvency petitions.

### **Reduction in the administrative burden**

Issues surrounding a reduction in the administrative (regulatory) burden are also part of the complex of *the Better Regulation* agendas. At present, competence in this field is split among three government institutions: the Government Office (regulatory impact assessments – RIA), the Ministry of Industry and Trade (a reduction in the burden faced by enterprises), and the Ministry of the Interior (a reduction in the burden faced by citizens, public administration and other types of entities, simplifying projects).

Since 2014, the regulatory burden on citizens and public administration has been monitored in connection with the relevant measures set out in the *Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020* (for the Strategic Framework, see section 3.4.3), including accompanying documents (in particular the Implementation Plan for Strategic Objective 1 – Modernisation of public administration). Efforts to reduce the burden on public administration draw on a broad gamut of instruments and steps to fulfil the measures contained in the Strategic framework.

Activities associated with eGovernment instruments play a significant role in reducing the burden on citizens and public administration. In particular, these include:

1. the computerisation of territorial public administration (the provision of computers, internet connection, the establishment for website, the provision of online services); with regard to being equipped with computers, being connected to the internet, having a website and providing online services, the regions are fully covered, whereas some smaller municipalities are still lagging in this respect.;
2. the expansion of the network of Czech POINT contact points, providing citizens with information and verified data held in central registers; there has been a gradual expansion in the number of these contact points and the functions they provide (as at 1 February 2018, there were almost 7,250 branches, where almost 18,600,000 extracts from registers were issued and nearly 51,200,000 authorised conversions of documents were made);
3. Public Administration Portal – a standard government project in mature European countries that facilitates communication between authorities and citizens; it comprises a rich information database – the texts of laws, directories of authorities and institutions, definitions of terms and, most importantly, instructions on how to deal with approximately 480 situations in life, broken down by entity (citizen, enterprise, foreign national) and by area (housing, travel, family, social security, health).

In terms of the burden shouldered by public administration, for example, *Data Collection Optimisation Methodology* was drawn up. This is intended primarily for ministries and other central bodies of state administration; the Methodology should ensure optimisation of the system for the collection of data in public administration, with a stress on minimising the burden faced by data providers (in particular municipalities and regions). In relation to

citizens, a project of “roadmaps” is being prepared in order to remove or reduce unnecessary bureaucracy for citizens (a reduction in the time and money required to deal with situations in life when in contact with public administration), and to simplify administrative procedures; the project should also have benefits for public administration in that it will reduce the costs and workload in the handling of agendas, optimise processes at authorities, standardise the procedure followed by authorities when addressing specific life situations, increase the quality of public service provision (by shortening time limits and saving time), etc.

In 2018, intensive work is continuing in order to reduce the administrative burden on enterprises across the various bodies of State administration. Progress in the implementation of 28 planned measures will be evaluated. The resultant overview of their fulfilment will be included in the *Information on Reductions in the Administrative Burden on Enterprises in 2017*, which will be submitted to the Czech Government by the end of June 2018. The 28 measures tracked, the implementation of which will help to lighten the administrative burden, include, in particular, eGovernment.

The activities of the *Expert Group for Reductions in the Administrative Burden on Enterprises* will also continue. In 2018, the Ministry of Industry and Trade will again strive to establish anti-bureaucracy commissions at individual ministries. These commissions would work with the *Expert Group for Reductions in the Administrative Burden on Enterprises* and would take further measures within the scope of their competence.

### **3.4.3 Quality of public administration and the legislative environment**

#### **Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020**

By approving the *Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020*, the Government showed the way forward in the development of public administration and eGovernment in the years ahead. During 2017, specific measures were gradually fulfilled within the scope of individual strategic objectives in line with the timetables that had been drawn up in the Implementation Plans approved in 2015.

In June 2018, the Government will be presented with the Annual Report on Public Administration for 2017, an integral part of which will be the *Second Evaluation Report on the Implementation of the Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020*.

#### **Implementation of the Civil Service Act**

The Ministry of the Interior is submitting a bill amending the Civil Service Act and other related acts. The bill was prepared on the strength of the *Government Plan of Legislative Work for 2018*.

Experience to date in the application of the Civil Service Act has shown that the objectives associated with the adoption of that act have been fulfilled. Besides reinforcing transparency in the way state administration works, state administration has also been depoliticised and professionalised. Nevertheless, it is also necessary to respond to certain factors arising during the application of the act and to continue creating conditions conducive to the deeper professionalisation of the civil service.

Specifically, the bill is edging towards greater flexibility in the civil service. One significant measure is the opening of selection processes for individual categories of senior staff to a broader range of candidates so that experts are able to enter the civil service. Other proposed measures are an extension to the reasons for removing senior staff and a reduction in the number of civil service professions that can be defined for a service post. Another pivotal change is the revision of the system for service performance appraisals.<sup>65</sup>

### **Introduction of quality management at service authorities**

On the basis of the Government-approved Methodology for the Introduction of Quality Management at Service Authorities and the approved Guideline for Quality Management at Service Authorities, a framework and system have been set up for the introduction of quality management at service authorities, defined by a minimum level of quality for compulsory introduction at service authorities and a recommended optimal level of quality defined by selected comprehensive quality management methods.

In 2018-2021, the implementation of the *Guideline* will see the introduction of the aforementioned quality management methodologies and the provision of training. Work will also be started on establishing a system for steadfast improvements in the level of quality achieved at the various service authorities.

### **Regulatory impact assessment (RIA)**

Regulatory impact assessments (RIA) are conducted on draft legislation of general application prepared by ministries and other central administrative authorities in accordance with the *Government Legislative Rules* and *General Principles for Regulatory Impact Assessments*. Further to the newly produced *Regulatory Impact Assessment Training Manual*, in 2018 a stress will be placed on compounding and consolidating the knowledge of regulatory impact assessors. This will take the form of expert training focusing on comprehensive RIA issues. The further development of essential knowledge will be secured by methodological support provided to regulatory impact assessors by the Government Office's Regulatory Impact Assessment Department on an ad hoc basis when individual problems need to be addressed.<sup>66</sup>

In 2018, close attention will continue to be paid to the development of an instrument reviewing the effect of legislation, known as ex-post RIA, which is already part of the legislative process but is seldom used in practice.

### **Contracts Register Act**

The Contracts Register Act has been effective since 1 July 2016, when the contracts register information system also went live. On 1 July 2017, provisions on the ineffectiveness of a contract and the penalty of the cancellation of a contract if it is not published took effect. The Ministry of the Interior continues to provide the public with information and technical support for the proper registration of contracts on the Public Administration Portal (forms for the preparation of contracts, metadata for publication in the contracts register), on a website (the

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<sup>65</sup> The Government submitted the bill to the Chamber of Deputies as Parliamentary Press No 132/0 as at 26 March 2018. This parliamentary press is currently proposed for debate on the agenda of the 12th session of the Chamber of Deputies.

<sup>66</sup> All of the latest RIA-related information will be published on the newly launched website at [ria.vlada.cz](http://ria.vlada.cz). This website should become a basic source of RIA information and a platform of communication for professionals and others.

available Methodological Instruction on the Application of the Contracts Register Act) and in the form of consultations with staff who manage the contracts register by email or telephone.

On 18 August 2017, the amendment to the Contracts Register Act took effect. Among other things, the amendment expanded the group of partial exemptions from publication for particular types of contracts. For purposes of practical application, it is important that contracts that are compulsorily published in the contracts register no longer have to be concluded on paper. It is also possible to conclude contracts by other means facilitating publication thereof via in the contracts register.

As at 30 September 2017, 7,195 entities had published 753,853 contracts in the contracts register.

### **Combating corruption**

So far, the government agenda in the fight against corruption has only been established by the *Action Plan for Combating Corruption 2018*, which was approved by the Government at the beginning of January 2018. The Action Plan mainly contains non-legislative measures, which are split into four priority areas: Powerful and Independent Executive; Transparency and an Open Approach to Information; Economic Management of State Assets; Development of Civil Society.<sup>67</sup>

In the first half of 2018, the new medium-term anti-corruption strategy document, in the form of the Government Concept for Combating Corruption 2018-2022, will be finalised and submitted to the Government for approval by 30 June 2018. The content of the Government Concept for Combating Corruption 2018-2022 draws on the analytical basis provided by the Baselines for the Creation of the Anti-corruption Strategy Document of the Czech Republic for the Period after 2017, as discussed by the Government. That document took a long time to prepare and relied on extensive expert cooperation between bodies of public administration, the non-profit sector and the academic community. The Concept will establish a basic institutional definition and set the content of the government anti-corruption policy as a stable framework further to which, in annual action plans for combating corruption, specific anti-corruption measures defined in accordance with long-term needs, and also depending on the latest developments, will be adopted.

Important legislative anti-corruption measures, the preparation of which is a logical result of the efforts made in the past and which should be submitted to the Government during 2018, include a bill on the detection of whistleblowers and a bill on lobbying.

### **3.4.4 Public procurement**

#### **Public Procurement Act**

When the Public Procurement Act took effect, it was accompanied by the creation and publication of a set of methodologies to facilitate the application of the new legislation on public procurement. These are split into procedural, formal and special methodologies. Sector-based methodologies, e.g. social and environmental methodologies, as well as methodologies in areas such as construction, ICT contracts and design work, are published

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<sup>67</sup> The Action Plan contains, inter alia, measures for the implementation of the Public Procurement Act, the formation of methodologies, the training of contracting authorities and tenderers at the Public Investment Academy, and the completion of the evaluation of the *Strategy for Combating Fraud and Corruption in the Uptake of Funds within the Scope of the CSF 2014-2020*.

and updated on an ongoing basis. The methodologies are drawn up together with economic and social partners, i.e. this is a participative process.<sup>68</sup>

The coordinator of the Public Procurement Act introduced a new Training Programme in October 2016. The aim is to significantly increase users' public procurement expertise, not just in connection with the newly adopted Public Procurement Act, but also in the field of methodological support. As there is a great deal of interest in the training, the coordinator of the act is preparing further seminars under the Training Programme. These, like the previous ones, are free of charge. Under the Training Programme, in 2017 more than 40 training sessions were held and almost 3,000 people received training.

The coordinator of the Public Procurement Act, within the framework of an expert group to which public procurement experts have been invited, e.g. representatives of the Office for the Protection of Competition, professional chambers, and organisations promoting the transparency of public finance management, publishes methodologies and opinions which explain and ease the public procurement process for contracting authorities and contractors.

### **Implementation of the Public Procurement Computerisation Strategy 2016-2020**

Heeding the EU Council's recommendation, the Czech Republic is continuing to take action that will increase transparency and efficiency in public procurement. In January 2016, the Government approved the *Public Procurement Computerisation Strategy 2016-2020*, an evaluation of the effective functioning and a proposal for further procedure in the use of electronic public procurement marketplaces, and a proposal for the compulsory use of the National Electronic Instrument.

In June 2017, in the implementation of the strategy, the Government adopted a resolution obligating selected contracting authorities to use the National Electronic Instrument for public procurement as of 1 July 2018. The strategy also includes measures to increase the use of the National Electronic Instrument. The implementation of these measures is expected to save costs of operating electronic public procurement instruments in the order of several tens of millions of Czech crowns.

In 2018, measures are being implemented on an ongoing basis. These include the monitoring of foreign best practices in the computerisation of public procurement, with an assessment of potential implementation of the best solutions in the Czech legislative environment; awareness campaigns on the introduction of electronic public procurement; advisory services for contracting authorities and contractors; the revision and creation of methodologies on the Public Procurement Act and its implementing regulations, reflecting the significant rise in contracting authorities' obligations; and the creation of a new information publication system.

### **3.4.5 Digital agenda and the Czech Republic**

The ascent of the fourth industrial revolution, the development of the digital economy and new technologies, and the impacts that these changes will have on the labour market and society at large require an appropriate response from the state.

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<sup>68</sup> Against the backdrop of the publication of methodologies on the portal, an email address was also set up at [pripominkykmetodikam@mmr.cz](mailto:pripominkykmetodikam@mmr.cz), where the public can send comments and suggestions on those methodologies.

In February 2018, the position of digital coordinator was discontinued and replaced by the position of government commissioner for information technologies and digitalisation. This commissioner, via the Government Information Society Council, will oversee the development of digital services and the use of information and communication technology in public administration, the development of digitally friendly legislation, the digital economy, digital skills and the impacts of digitalisation on society. When the government commissioner was appointed, the statutes of the Government Information Society Council were revised. It is through this council that the agenda will be centrally coordinated.

Active involvement in the building of a digital single market, coordinated by the Government Office, is also integral to the digital agenda in the Czech Republic.<sup>69</sup> The Czech Republic's priorities in relation to the digital single are the revision of telecommunications sector legislation, new rules on the protection of copyright, the development of a European data economy and the free flow of non-personal data, the safeguarding of cybersecurity, support for cross-border e-commerce, a balanced environment for online platforms, and new trends such as artificial intelligence, robotics and the Internet of Things.

Together with the approved<sup>70</sup> *Digital Terrestrial Television Development Strategy*, containing procedure for the transition to the DVB-T2 system, which is more efficient from the aspect of frequencies, the second *Report on the Implementation of the Digital Terrestrial Television Development Strategy* was drawn up as at 31 January 2018 and then submitted to the Czech Government for its information. The report evaluates progress made in legislative and technical work in view of the transition to a new television broadcasting standard, as well as the state of international negotiations in this area.

New European rules on the protection of personal data (the General Data Protection Regulation – GDPR) are also being implemented. In March 2018, the Government approved a bill on the adaptation of Czech law to the GDPR. That act clarifies certain obligations of data controllers and introduces certain exemptions for data controllers, especially those in the public sector. It does not contain any obligations beyond the scope of the GDPR.

### **Principles for digitally friendly legislation**

In September 2017, the Czech Government adopted Principles for Digitally Friendly Legislation. These are intended to be advisory. The 10 Principles are meant to assist anyone who is involved in the creation or evaluation of legislation. If these Principles are respected, the legislation that is produced should facilitate the development of eGovernment in public administration, and of the digital economy as a whole. Almost 20 questions are attached to the Principles. These are to enable the authors of legislation to abide by the Principles. Both documents were produced in collaboration with the coordinator of the digital agenda of the Czech Republic and the Government Legislative Council Section. The Principles, and adherence thereto, may become binding on all legislators in the future.

### **Impacts of digitalisation on society (Society 4.0)**

The introduction of digital technology – the fourth industrial revolution – means that we need to address the societal impacts of the changes that are afoot. In this respect, there is often talk of Society 4.0. This term mainly encompasses new approaches and possibilities in the fields of new technology, industry, business in manufacturing and services, the energy

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<sup>69</sup> A standing committee has been established within the Government Information Society Council that will discuss this area and related initiatives; it will be chaired by the State Secretary for European Affairs.

<sup>70</sup> Under Government Resolution No 648 of 20 July 2016.

sector, raw materials, the labour market, education, research and development, environmental protection, agriculture, the health sector, transport, legislation, standardisation, digitalisation, fiscal and monetary policy, security and cybersecurity, eGovernment, high-speed internet infrastructure, smart cities, smart regions / regional development, the Internet of Things, and services.

In the handling of the issues above, work is coordinated by the Industry 4.0 Committee and the Committee on the Social Impacts of Industry 4.0, which was set up in autumn 2017. The Academic Advisory Committee, made up of representatives of the academic community and industrial research, acts as a consulting body.

In its efforts to map out the current situation and future trends on the labour market associated with the arrival of the fourth industrial revolution, and to prepare scenarios and measures as an adequate response to those changes, in 2017 the Ministry of Labour and Social Affairs drew up the *Action Plan of Labour 4.0*, which proposes sweeping specific measures linked to the impacts that digitalisation is expected to have on employment, the labour market and selected social aspects related to those areas. Close attention is also paid to further education.

The Action Plan contains 24 measures, which are broken down into four strategic objectives:

4. Strategic objective: Regulation of the impacts of technological changes on demand for labour
5. Strategic objective: Support of further education
6. Strategic objective: Establishment of conditions on the labour market in connection with technological changes
7. Strategic objective: Regulation of the impacts of technological changes on selected social aspects

Every year as at 15 May, the Ministry of Labour and Social Affairs has the task<sup>71</sup> of submitting a report on the implementation of measures coordinated by the Ministry to the government commissioner for IT and digitalisation. The measures set out in the Action Plan (especially in the part concerning further education) follow up on and develop the measures referred to in the *Action Plan for the Digital Literacy Strategy of the Czech Republic 2015-2020*. These two action plans complement each other.

The Ministry of Labour and Social Affairs, together with the Ministry of Education, Youth and Sports, set up the Committee on the Social Impacts of Industry 4.0. This is one of the committees in the management structure of the Society 4.0 Alliance, spearheaded by the Government Office as the digital agenda coordinator. The committee is plentifully endowed with representatives not only of other ministries, but also social partners and other stakeholder institutions, experts and academics. The committee deals with issues related to Labour 4.0 (Ministry of Labour and Social Affairs) and Education 4.0 (Ministry of Education, Youth and Sports) and contributes to the implementation of the Action Plan of Labour 4.0 within the framework of a broad consensus on the implementation thereof.

All of the above activities are formally overarched by the aforementioned Government Information Society Council.

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<sup>71</sup> Under Government Resolution No 684 of 25 September 2017.

## Industry 4.0

The Czech Republic is one of those countries with a very long industrial tradition. Measured by the share of industry in GDP, it is the most industrial country in the EU. From the state's perspective, it is advisable, in particular, to rally behind the innovative ideas of enterprises and individuals and, to this end, to capitalise on the existing range of support instruments, which can now also be used for the requirements of Industry 4.0. This support is realised through programmes such as Potential, Application, Knowledge Transfer Partnership, Commercialisation of Research Results, Infrastructure Services, Cooperation, and Technology. Specific initiatives primarily concerning industry, labour, and education, with other measures associated with the digitalisation of the economy and society, and priority tasks that are the focus of public administration in the Society 4.0 agenda, can be found in the *Action Plan for Society 4.0*.

## Culture 4.0

Building on Society 4.0, Industry 4.0 and other initiatives, it is important that we also place a stress on presenting cultural heritage through modern digital means. In this respect, it is important to mention the *Czechiana* project as part of the *Europeana* project. The primary purpose of these projects is to present the national cultural heritage of the Czech Republic (Czechiana) and European cultural heritage (Europeana). They are in keeping with the Government-approved *State Cultural Policy 2015-2020 (with an Outlook up to 2025)*. Augmented reality, i.e. virtual reality, for the presentation of cultural heritage in the form of 3D virtual tours and 3D models of cultural structures can also be viewed as an important step in the presentation of cultural heritage.

## Cybersecurity

Cybersecurity goes hand-in-hand with the development of the digital economy and modern public administration. There has been a rise in the number of successful hacks that leave no trace behind them in the system, the number of hackers is increasing as the returns on investing in hacking grow, and the market is rife with malware, botnets and stolen data. Threats targeting specific users, especially sophisticated forms of fishing, ransomware, etc., are enjoying a massive boom.

Significant risks are posed by cyber espionage (whether industrial, military, political or any other), which is increasingly directly attributable to governments and, by extension, the security structure of a specific state, the effects of organised crime in cyberspace, hacktivism, the deliberate dissemination of disinformation for political and military purposes, and – in the future – cyberterrorism. The state is systematically building and increasing national capacities in this area. However, without the cooperation of the private sector and the academic community, without intensive international cooperation, and, most importantly, without the involvement of users themselves, the necessary effectiveness of these activities cannot be guaranteed.

## Development of high-speed internet and the building of new-generation networks

The development of high-speed internet and the building of new-generation networks underpin the development of the digital agenda and eGovernment in the Czech Republic. The national plan for the development of new-generation networks defines the Czech Republic's strategic approach to the construction of new-generation networks and, by means

of targeted support, exercises state influence over the development of the building of such networks. However, this support can only be directed at sites where market mechanisms are failing, otherwise private investment would be squeezed out. Another instrument is the removal of legislative, regulatory, financial and other barriers that impede the development and building of electronic communications networks. These barriers and restrictions are defined in the Action Plan for the Implementation of Non-subsidy Measures for the Support of the Planning and Construction of Electronic Communications Networks, which was adopted by the Czech Government in May 2017. The Action Plan also sets out measures for the gradual elimination of these negative phenomena.

### **3.4.6 eGovernment**

An increase in the accessibility of public administration via eGovernment was set as one of the objectives of the *Strategic Framework for the Development of Public Administration 2014-2020*.<sup>72</sup> In September 2017, the Government approved a technical revision of the *Implementation Plans of the Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020*, concerning projects financed by European Structural Funds<sup>73</sup>. In 2018, the Second Evaluation Report on the Implementation of the Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020 will be drawn up. This report will assess the activities carried out in 2016 and 2017.

The Czech Republic is transposing a directive on the accessibility of the websites and mobile applications of public sector bodies<sup>74</sup> into Czech law. The bill on the accessibility of websites and mobile applications and amending the Act on Public Administration Information Systems<sup>75</sup> has been submitted to the Government.

A debate is also in progress to determine the Czech Republic's priority areas in the European initiative *eGovernment Action Plan 2016-2020: Accelerating the digital transformation of government*.

### **Procedural legal analysis**

A legal analysis<sup>76</sup> provides a detailed insight into the functioning of eGovernment and existing obstructions, whether legislative or real, that inhibit its development. The assessment covers not only applicable legislation, but also the actual practices applied by the administrative authorities, i.e. the actual situation as regards the interpretation and application of applicable legislation "in everyday life". Work on the analysis started in May 2017, and the analysis was finalised in October of that year. The Czech Republic will continue to work with the analysis findings in an effort to support the development of the computerisation of Czech public administration.

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<sup>72</sup> *The First Evaluation Report on the Implementation of the Strategic Framework for the Development of Public Administration of the Czech Republic 2014-2020* is available at: <http://www.mvcr.cz/clanek/vystupy-strategickeho-ramce-rozvoje-verejne-spravy.aspx>.

<sup>73</sup> Government Resolution No 658

<sup>74</sup> See: [http://eur-lex.europa.eu/legal-content/CS/TXT/PDF/?uri=CELEX:52016AG0013\(02\)&from=CS](http://eur-lex.europa.eu/legal-content/CS/TXT/PDF/?uri=CELEX:52016AG0013(02)&from=CS).

<sup>75</sup> Act No 365/2000.

<sup>76</sup> The analysis was drawn up as part of the European Commission's Structural Reform Support Programme and delivered to the competent ministries.

## Strategy for the development of public administration ICT services

On 18 August 2017, the Electronic Identification Act<sup>77</sup> was published along with a related amending act. They will take effect on 1 July 2018.

In keeping with the Electronic Identification Act, which is based on the eIDAS<sup>57</sup> Regulation, work is continuing on the construction of a public administration information system supporting the process of electronic identification and authentication at national level. This system will also be compatible with cross-border electronic identification systems. On the basis of the National Identity Scheme, the information system of the *National Point for Identification and Indication* (NIA) has been created. It is being trialled until the Electronic Identification Act takes effect. This test regime is currently being used by the State Institute for Drug Control as part of the electronic prescription project.

## National eGovernment Architectural Plan

The National Architectural Plan is part of National Architecture as a whole. Along with the national architectural framework, it is the main pillar in understanding and asserting the direction of Enterprise Architecture, aimed at streamlining public authorities' work with information technology. The development and maintenance of the National Architectural Plan is viewed as a basic means for the coordination and use of shared eGovernment Services. The National Architectural Plan, as part of the National Architecture, is an activity that encompasses not only central architectural shared service models, but also the individual models of public authorities. The model of central eGovernment Services is the source for the views published on the application layer of the central eGovernment services, which include: the Data Box Information System (ISDS), CzechPOINT, the Central Service Point (CMS), the Electronic Identity of Citizens (NIA) and Officials (JIP/KAAS), the Interlinked Data Fund (basic registers, eGon Service Bus) and the Complete Electronic Submissions (ÚEP).

In 2017, a new model of central eGovernment services was published that contains views of individual functional units, which are broken down into: the Interlinked Data Fund, the Universal Contact Point, the Expanded Official's Back-office, the electronic registry service (eSSL), and the Data Box Information System. These views are represented by a four-layer architectural vision. The publication of pilot architecture at the level of local governments, the activities of a central repository for architectural models, and a uniform and coherent description of Czech eGovernment, including the services of that, is being prepared. All this should help to improve the perception of the general public and experts and improve the standing of Czech eGovernment in world surveys.

The information concept of the Czech Republic<sup>78</sup>, perceived as a significant element of the National Architectural Plan, will be produced by mid-2018.

By the end of 2018, a secondary central repository (without modelling instruments) will be operational; it will be used for the storage and analysis of models.

## Strategic National Cloud Computing Framework – eGovernment Cloud of the Czech Republic

In 2016, the *Strategic National Cloud Computing Framework – eGovernment Cloud of the Czech Republic* was approved,<sup>79</sup> and work started on Stage I (preparatory stage) –

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<sup>77</sup> Act No 250/2017.

<sup>78</sup> In accordance with Section 5a(1) of Act No 365/2000 on public administration information systems and amending certain other acts.

implementation of the project *Preparation for the Construction of the eGovernment Cloud*. To this end, the *Working Party on the Preparation for the Construction of the eGovernment Cloud* was established at the Government Information Society Council. The working party contributes to the implementation of this project and, by 31 May 2018, will submit a comprehensive analytical report to the Government, on the basis of which a decision will be taken on how to proceed in the implementation and construction of the eGovernment cloud in the Czech Republic.

### **Complete electronic submission**

One of the priorities in the development of eGovernment in the Czech Republic is to deliver a complete electronic submission. This will increase user comfort and the quality of services provided by public administration entities, and will also increase the use of eGovernment services by Czech citizens. During 2018 and 2019, guidance documents and recommendations will be prepared on how to handle a complete electronic submission at a legislative, motivational, procedural and technical level. These guidance documents and recommendations will then be used for the implementation of measures to deploy the complete electronic submission in selected public administration agendas.

Under a government resolution from 2017, bodies of state administration will also have to arrange for the receipt of e-invoicing at the authorities and their subordinate organisations. It is expected that this measure will be introduced for organisational units of the state, further to the launch of the standard, by April 2019, and a year later for other contracting authorities. This implements the directive on e-invoicing in public procurement and is one of the direct measures under the *Action Plan for the Development of the Digital Market*.

### **Identity cards with an electronic chip**

In 2017, an amendment to the Identity Cards Act was approved that will take effect on 1 July 2018.<sup>80</sup> The “new” electronic identity card will always be fitted with an electronic contact chip. During production, the identification certificate of the identity card will be loaded onto that chip. This will become the basic means for citizens to prove their identity in person and remotely (online) with the highest level of trust backed by the Czech Republic. Using an electronic identity card, citizens will have the opportunity, for example, to extract their data from the basic population register and other official systems, and the possibility of communicating electronically with the state will become easier.

### **Public Administration Portal and Data Box Information System**

The Public Administration Portal is used to safeguard quality services in the provision of trustworthy and guaranteed information. Together with the Data Box Information System, it simplifies communication with authorities for Czech citizens and foreign nationals. In the future there are plans to create the opportunity for portal users to work interactively with documents and forms online in the Public Administration Portal.

The Ministry of the Interior launched a new version of the Public Administration Portal<sup>81</sup> on 3 January 2017, which is now being piloted. The new version has been built to meet current user requirements regarding clarity of layout and intuitive control. The portal is also adapted for display on various types of devices, including mobile phones. The version that has been

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<sup>79</sup> Under Government Resolution No 1050.

<sup>80</sup> Act No 195/2017.

<sup>81</sup> Available at <https://gov.cz/obcan/>

published is the first stage in the construction of a new portal that meets all legislative requirements. Additions will gradually be made to the portal content during each of the stages to create a place where everyone can find all the public administration information they need with these, and can deal with numerous matters here directly thanks to the online applications that will be available.

In connection with the renovation of the Public Administration Portal that is now in progress, a new *Citizen's Portal* will be created. For citizens, this portal will be their own personal space when they draw on the services of public authorities. In particular, it will offer citizens complete electronic submissions, output from public administration information systems, information on the status of individual actions made by a citizen in relation to specific public authorities, and a personal document archive. Individuals will enter the Citizen's Portal by accessing it with their guaranteed electronic identity, either on their own (via a computer, tablet or mobile) or at a public administration contact point.

In 2017, the mobile app *What to do if* was launched. It is designed to help individuals work their way around basic events in life as simply and as comprehensibly as possible.

### **National Open Data Catalogue**

The National Open Data Catalogue can be found on the Public Administration Portal. In 2017, background research was conducted into existing standards relevant for the cataloguing of person data. Specifically, the current versions of the DCAT-AP, GeoDCAT-AP and StatDCAT-AP standards were analysed. The VoID standard was also included. Mechanisms to control the quality of metadata in the National Open Data Catalogue were designed and documentation was drawn up on the design of the Catalogue's presentation layer. Preparations are currently under way to migrate the Public Administration Portal to a new environment. In this respect, ongoing adjustments are being made to the individual modules of the National Open Data Catalogue, safeguarding the cataloguing tools, including methodological guidelines, for providers from among public administration institutions.

### **e-Sbírka and e-Legislativa project**

Implementation of the e-Sbírka (e-Collection) and e-Legislativa (e-Legislation) project is progressing. The aims of this project are to publish law that is in force and effect in the Czech Republic electronically in a way that is both accessible and comprehensible, to achieve the greater accessibility of past law in a modern form, and to produce legislation more efficiently and transparently.

Work on the construction of the e-Sbírka and e-Legislativa systems is expected to start in the second quarter of 2018. At the moment, both systems are due to go live on 1 January 2020. This will depend on when the Act on the Collection of Legislative Acts and International Treaties<sup>82</sup>, passed by the Czech Parliament in 2016, takes effect. As an amending act needs to be pushed through, but has not been debated by the Senate, the date of effect of the Act on the Collection of Legislative Acts and International Treaties and the e-Sbírka and e-Legislativa launch date will have to be postponed.<sup>83</sup>

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<sup>82</sup> Act No 222/2016 on the Collection of Legislative Acts and International Treaties and on the creation of legislation promulgated in the Collection of Legislative Acts and International Treaties (the Act on the Collection of Legislative Acts and International Treaties).

<sup>83</sup> How long this postponement lasts will depend on the public contracts for the implementation of the e-Sbírka and e-Legislativa systems and the approval procedure for related legislation.

## 3.5 Sectoral policies

### 3.5.1 Research, development and innovation

In 2017, measures defined in the *National Research, Development and Innovation Policy of the Czech Republic 2016-2020* were implemented along with the *National Research and Innovation Strategy for Smart Specialisation of the Czech Republic* (National RIS3 Strategy), especially in the context of support for more coherent cooperation between the academic community and the business sector in research and development.

In this respect, a major contribution was also made by the approval of the new *Methodology for the Evaluation of Research Organisations and the Evaluation of Programmes of Targeted Support for Research, Development and Innovation* (Methodology 2017+), which has been gradually implemented since 2017.<sup>84</sup> This is one of the main instruments for the management of the entire R&D&I system, including in relation to the motivation of the academic community to cooperate with the private sector.

Further to analyses and a controlled factual discussion with all stakeholders, the distribution of central government budget resources was channelled primarily into ensuring the stable and long-term funding of research organisations, support for international cooperation, the reinforcement of cooperation between companies and public research entities, support for excellent research, the consolidation of the applied research and development base, etc. The fact that private sector spending has grown faster than public sector spending is inherently positive. Nevertheless, among SMEs and domestic enterprises there has been a decline in private spending – the overall growth in (year-on-year) private research investment can be attributed to foreign and large enterprises. This raises the question of the long-term sustainability of R&D&I system funding beyond 2020 and, where appropriate, 2023, as there could be a steep drop in public resources from the EU.

There was an organisational change in the management structure of R&D&I with effect from 1 January 2018, prompted by the change of Government. The position of Deputy Prime Minister for Science, Research and Innovation and the *Science, Research and Innovation Section* were discontinued. Responsibility for the R&D&I agenda continues to rest with the *Research, Development and Innovation Council*, which – according to the Act on the Promotion of R&D&I<sup>85</sup> – is an advisory body to the Government in this area. The implementation of the R&D&I agenda has been integrated into the *Department of the Research, Development and Innovation Council*. Nevertheless, the implementation of the measures referred to in the National R&D&I Policy will continue in 2018. By the end of 2018, a report on the implementation of National R&D&I Policy measures will be submitted.<sup>86</sup> This will become part of the underlying documentation for the follow-up update of the National R&D&I Policy.

The coordination of the National RIS3 Strategy agenda, including the *National Innovation Platforms* (NIPs) has been switched from the Government Office to the Ministry of Industry and Trade.<sup>87</sup> This agenda is the vehicle for the implementation of much of the National R&D&I Policy, especially in the support of applied research. Dialogue in the National RIS3

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<sup>84</sup> Methodology 17+ was approved under Government Resolution No 107 of 8 February 2017. The definitions of the types of result were approved under Government Resolution No 387 of 29 November 2018.

<sup>85</sup> Act No 130/2002, as amended.

<sup>86</sup> In accordance with Government Resolution No 135 of 17 February 2016.

<sup>87</sup> Under Government Resolution No 168 of 14 March 2018, effective from 1 April 2018.

Strategy NIP includes the continuous surveying and verification of material needs in the various sectors of the economy. In 2018, NIP dialogue will continue, with the attendant targeting of R&D&I support in calls under the relevant operational programmes and selected national programmes of targeted R&D&I support.

In the funding of R&D&I, there are plans for a gradual increase in central government budget resources earmarked for the long-term conceptual development of research organisations. Targeted support will also be boosted. The main idea of funding-related measures is to safeguard the further development of conditions for excellent research, as well as the enhancement of cooperation between research organisations and enterprises in a bid to motivate business entities to increase the private resources they channel into research and development (the target value is 1.5% relative to GDP in 2024), and to create a sustainable basis for basic and applied research and development.

The highest ever central government budget funding for R&D&I (in nominal terms) i.e. CZK 33.8 billion, has been approved for 2018. The medium-term outlook envisages a further increase to CZK 36 billion in 2019, rising to CZK 37.5 billion in 2020. In the long run, the plan is to make further gradual increases in the central government budget spending on R&D&I and in the ratio of institutional resources to targeted resources, as this will ensure the long-term financial stability of the research base (especially among research organisations and the research and development centres they operate). Alongside this, enterprises should be stimulated to engage in R&D&I activities to the extent that business resources here climb to approximately CZK 88 billion in 2024, tantamount to around 1.5% of GDP.

The Czech Science Foundation and the Technology Agency play a crucial role in the promotion of R&D&I. The Czech Science Foundation supports various types of projects. In terms of funding volume, the most significant are “standard projects”. These are projects in the fields of social sciences and humanities, life sciences, physical sciences, engineering, medical and biological sciences, and agricultural and bio-environmental sciences. Such projects tend to be proposed by higher-education institutions and institutions belonging to the Academy of Sciences.<sup>88</sup> Programmes managed by the Technology Agency<sup>89</sup> include, for example, these programmes approved in 2017: *ÉTA* (to promote applied research in the social sciences and humanities) and *National Competence Centres 1* (to promote long-term cooperation between the research and application spheres). In addition, *DELTA*, a programme to promote international cooperation in applied research, was extended. In 2017, the Technology Agency started preparing for the new programmes *DELTA2* and *GAMA2*, as well as *National Competent Centres 2* and *KAPPA*, a programme which will be implemented with the financial support of the European Economic Area (EEA) funds and Norwegian Funds. The Technology Agency expects these programmes to be approved in 2018 or 2019.

A deductible item is entrenched in the Income Tax Act<sup>90</sup> in support of science and research. At the present time, legislation does not specify who should issue expert opinions for tax offices. This complicates matters for enterprises wishing to claim this support. This is series currently being addressed by the Research, Development and Innovation Council and the Ministry of Finance within the competent working party.

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<sup>88</sup> Further to a call announced in 2016, the Czech Science Foundation supported 698 such projects with average initial-year costs of CZK 1,718,000 and commencing in 2017.

<sup>89</sup> In 2017, the overall costs incurred in the handling of the projects supported were almost CZK 4.4 billion; targeted support from the central government budget amounted to CZK 2.8 billion.

<sup>90</sup> In the list of items deductible from the tax base under Section 34 of Act No 586/1992 on income tax.

## Development of conditions for excellent research

Following an international evaluation of the Czech Republic's large research infrastructure, conducted in 2017, a budgetary framework will be established for the support of large research infrastructure from Czech public resources in the period up to 2022. The *Roadmap of Large Research Infrastructure of the Czech Republic 2016-2022*, a strategy and conceptual document setting out the policy for the Czech Republic's large research infrastructure, will be updated. This update will draw on the outputs of an interim evaluation of large research infrastructure already funded with national public resources and the outputs of an ex-ante evaluation of new proposals for large research infrastructure drawn up since the last cycle of the international evaluation of large research infrastructure carried out in 2014.

The Czech Government will implement individual measures under the *Action Plan for the Development of Human Resources for Research, Development and Innovation and Gender Equality in Research, Development and Innovation in the Czech Republic 2018-2020*. These measures will encompass the popularisation and media coverage of research, development and innovation. This plays a significant role in enhancing the appeal of a scientific career among the general public and helps to justify the need for public spending in these sectors. From a gender perspective, the Action Plan's measures will focus on gender segregation in education and professional careers and on gender mainstreaming. The implementation of this latter is a core requirement if the potential offered by female scientists is to be harnessed to the full in research and innovation. In the implementation of the Action Plan's measures, special attention will also be paid to doctoral studies and the status of doctoral students and fledgling researchers. The Action Plan's measures will also focus on the intersectoral and international mobility of researchers as one a factor influencing the circulation of knowledge and ideas nationally and internationally.<sup>91</sup>

## R&D&I Information System Concept

In January 2016, the Government approved the *R&D&I Information System (IS VaVal) Concept 2016-2020*, which defines 17 specific measures aimed at contributing to strategic R&D&I management at all levels, streamlining the public aid for R&D&I and, not least, improving cooperation between the public sector and the business sector.

IS VaVal 2.0, Release 2.6.0, is a modern centralised information system incorporating multi-level workflow with highly simplified processes for entering and managing data while preserving existing data formats and the complete database. Following the identification of the IS VaVal as a significant information system within the meaning of the Cybersecurity Act,<sup>92</sup> all security measures have been taken to meet the requirements of that act. With an eye to the deployment of the new IS VaVal version, very early on the Government Office implemented all specific measures under the *R&D&I Information System Concept 2016-2020* that do not require legislative changes. In 2018, further to the adoption of Methodology 17+, IS VaVal 2.0 will be developed further in order to support the evaluation process and the evaluators.

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<sup>91</sup> In its ZÉTA programme, the Technology Agency actively promotes reductions in gender inequality in R&D&I. Likewise, in other programmes it credits organisations that engage in high-quality and systematic work to develop their staff (e.g. those who have received the HR Award in this area).

<sup>92</sup> Act No 181/2014 on cybersecurity and amending related acts.

## Evaluation of research organisations

The evaluation concentrates on identifying excellent research, leveraging expert peer reviews, placing a stress on the missions of research organisations in their evaluation, emphasising the social impacts of research, and promoting applied research and research funded with private resources. In 2017 and 2018, the evaluation is being conducted on a national scale (this is the first year of implementation and Modules 1 and 2 are being started up). The evaluation is carried out both by expert panels (annotated bibliometric evaluation of results) and by remote evaluators (evaluation of selected results outside the realm of bibliometrics).

Preparations are also being made for the next stage of implementation of Methodology 17+ on a national scale. A complete evaluation, chiming with Methodology 17+, is being prepared and conducted in cooperation with providers (Modules 3-5), and should be completed by 2020.

## Cooperation between the research and business sectors

In 2018, current priorities once again include support for more coherent cooperation between the academic community and the business sector with a view to applying research and development results in practice in order to increase the competitiveness of Czech companies. Financial support from the central government budget for national applied research programmes has been increasing over an extended period (with a particular focus on programmes promoting cooperation between the private and public sectors, as implemented by the Ministry of Industry and Trade and the Technology Agency).

The new *National Competence Centres 1* (implemented by the Technology Agency), a programme to promote long-term cooperation between research organisations and enterprises, has been approved.<sup>93</sup> The main aim of the programme is to establish long-term cooperation between the academic community and the business sector in applied research. Cooperation should take place in centres harnessing the potential of the regional research and development hubs built with ESIF funding. These centres will become sectoral applied research hubs. There are plans to create the downstream programme *National Competence Centres 2* by the end of 2018. The programme also fulfils the National RIS3 Strategy.

Some of the other calls under operational programmes that are intended to promote applied research in 2018 will be regionally restricted. Progress can also be expected in the regions (regional RIS3 strategies). Cooperation between research organisations and enterprises should be boosted by the Smart Accelerator 2 call under the Operational Programme Research, Development and Education, which is strengthening the capacity to interlink both sectors, and by certain programmes managed by the Technology Agency.

Several programme instruments (programmes of the Ministry of Industry and Trade and Technology Agency, e.g. *TRIO*, *EPSILON* and *GAMA*) ensure that research results are commercialised, taking into account the structure and development of the Czech economy, with a stress on production delivering greater value added.

Support activities are coordinated and other instruments are being prepared in close cooperation with the Ministry of Industry and Trade and other institutions (the Research, Development and Innovation Council, Technology Agency, CzechInvest, CzechTrade, ČMZRB, ČEB, EGAP, the Czech Development Agency and others). These instruments will

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<sup>93</sup> Under Government Resolution No 354 of 10 May 2017.

focus, in part, on the development of the international competitiveness of enterprises, in particular by implementing technologically significant innovations, the development of research and innovation activities in Czech regions suffering from structural handicaps, the involvement of enterprises not currently engaging in their own research and development in collaborative research projects, and the lifting of enterprises to a higher level in global value chains.

Since 2017, the Technology Agency has been involved in schemes under *Horizon 2020*, the EU's framework programme to promote research and innovation, and has become a partner in two projects related to CSA (coordination and support actions).<sup>94</sup> The CSA projects are schemes under *Horizon 2020*.<sup>95</sup>

### Space activities

Space activities are a dynamically developing area. Progress here is reflected in many branches of human activity. The Government is mindful of the importance of space activities for the national economy and of the significance of cooperating closely with the European Space Agency (ESA) and the European GNSS<sup>96</sup> Agency (GSA), especially as this will increase the technological standard and competitiveness of Czech industry.

The Government views space activity as a strategic and political discipline with a major economic impact. Companies and institutions are engaging in space activity on an ever-increasing scale. They are developing new technology, software, hardware and services delivering high added value. Applications in the field of space technology, satellite navigation, satellite observation of the Earth and satellite telecommunications stimulate further development in a wide range of diverse sectors.

### Investments in space activities

The Czech Republic is striving to secure the continued funding of the *Framework Project on the Implementation of ESA Support for Universe-related Activities in the Czech Republic* beyond 2018 (the Framework Project). The Framework Project is a unique vehicle for the support of technology that would be impossible under any other mechanism. The Framework Project will enable Czech entities to prepare technology to such a degree that they could then compete effectively with technologically more advanced foreign rivals. This will significantly increase Czech entities' chances of participating in large consortia and, subsequently, supply chains. The establishment and continuation of the Framework Project is covered by the Government-approved *National Space Plan*.

## 3.5.2 Transport

The quality and functionality of the Czech transport network still falls short of the original 15 EU Member States, despite the important strides made courtesy of the EU's structural policy. This situation is viewed as one of the main obstructions to faster economic growth in the Czech Republic. The Government believes that the effective completion of the backbone transport infrastructure and the connection of the remaining regions and key industrial

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<sup>94</sup> In both projects, the Technology Agency is one of a number of members of consortia coordinated by Austria (TU Wien + Institut für Höhere Studien).

<sup>95</sup> The first project, GEECCO, aims to promote gender equality in technical R&D&I fields and to incorporate the gender dimension into the content of observations and innovations. The second project, NewHoRRizon, focuses on excellence in research and innovation via a concept of responsible research and innovation (RRI).

<sup>96</sup> Global Navigation Satellite System.

centres to the main Czech and European routes is a prerequisite for sustainable economic growth driven by improvements in the competitiveness of the Czech economy, including the dismantling of barriers to business in regions that are not readily accessible.

### **Legislation on the acceleration of the construction of transport and other infrastructure**

The law that, unlike legislation of general application, specifies procedures in the preparation, siting and permitting of structures that form part of the transport, water, energy and electronic communications infrastructure, and that is intended primarily to speed up the construction of selected types of structure, is Act No 416/2009 on the acceleration of the construction of transport, water, energy and electric communications infrastructure, as amended. This legislative act was last amended as part of the “large Building Act amendment” – see below. The Chamber of Deputies is currently (04/2018) debating another parliamentary amendment to this legislative act (Parliamentary Press 76).

### **Building Act amendment**

The adopted “large Building Act amendment”<sup>97</sup> makes it possible, among other things, to save approximately 6-12 months when changing and updating land-use planning documentation, provided that territorially different versions of a solution are not required, because an abbreviated procedure is available. The time limits for reviewing land-use planning documentation have also been reduced from three years to one year from the date they take effect.

In the context of zoning decisions and building regulations, the amendment introduced the new concept of joint proceedings, in which a structure can be sited and permitted at the same time, including an environmental impact assessment (EIA) where required. Joint proceedings can also be used for structures and groups of structures in those situations where, until December 2017, this had been impeded by the different competence of building authorities.

Once the amendment to the Building Act had been approved, work promptly commenced on the recodification of public building law. In September 2017, the Ministry of Regional Development submitted its *Recodification of Public Building law – Basic Tenets* to the Government. This document identifies key problems and areas that need to be addressed during recodification. It was on this basis that work started on the preparation of a consultation document for the (new) Building Act, which is due to be submitted to the Government by 2020.

If the recodification of public building law is to substantially accelerate, streamline and simplify building preparations, we need to look beyond an entirely new Building Act and propose and adopt significant changes to many related laws. In the Building Act itself, there is now little room for any further simplification, and yet dozens of related legal regulations continue to throw up ever new requirements. In this regard, we need to probe, for example, whether there is a need for the current high number of stakeholders, and to reassess the scope of land restrictions deriving from special legislation. We must also evaluate the legitimacy of a joint model of public administration, partly because of the risk of systemic bias.

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<sup>97</sup> Published in the Collection of Legislative Acts under number 225/2017 in July 2017, with effect from 1 January 2018; besides the Building Act, the amendment amends a further 44 related laws.

In relation to land-use planning, the Basic Tenets propose, for instance: exploring the possibility of introducing public administration information systems (registers) offering guaranteed land-related information; examining the standardisation of documentation and providing remote access to documentation in a single place, with the uniform presentation thereof; evaluating the possibility of reducing acts that need to be undertaken to acquire land-use planning documentation; probing the strengthening of the economic dimension of land-use planning; and exploring the need for an organisation that will engage in systematic research in architecture, town planning, land-use planning, civil engineering and related disciplines.

If preparations for the new Building Act are to be objective, it will be necessary to conduct a root-and-branch analysis of the use, in practice, of the new concepts of joint proceedings introduced by the amendment to the Building Act.

### **Environmental impact assessment**

On 6 October 2017, the act amending the EIA Act<sup>98</sup> with effect from 1 November 2017 entered into force. In addition, the amendment to the Building Act<sup>99</sup> entrenched the possibility of procedurally integrating the EIA process into proceedings under that act, i.e. the possibility of including the EIA process in zoning proceedings or in joint zoning and building-permit proceedings. The amendment to the Building Act also prompted an amendment to the EIA Act with effect from 1 January 2018.

The above amendments to the EIA Act have been made to transpose the amended EIA Directive and to further streamline and accelerate the permit process.

### **Efficient strategic planning and implementation thereof**

The strategy documents *Transport Policy of the Czech Republic 2014-2020 with an Outlook up to 2050* and *Transport Sector Strategies* cover the annual planning of the process of structural preparation and establish links between the most important transport infrastructure investment projects and the central government budget and the State Transport Infrastructure Fund's budget. They are followed by sub-concepts that elaborate on the solutions and methods for securing and funding the individual areas. In January 2017, the Government approved the *Freight Transport Concept*. Later, in May 2017, it approved the High-speed Rail Link Development Programme. Parallel to this, the *Transport Sector Strategies* – a key document in the planning of transport infrastructure development, maintenance and funding – were updated. The Government approved the updated Transport Sector Strategies in February 2018, after an EIA of this updated concept was completed at the end of the screening procedure.

The SEA process for the *Waterway Transport Concept* was also completed in 2017. As this Concept was found to have a highly negative impact on objects protected in Natura 2000 areas in the valley of the Elbe, the Government held procedure to determine what was in the overriding public interest (waterway transport or the protection of areas under Natura 2000); in January 2018, the Government decided that waterway transport was in the overriding public interest in this context. Consequently, compensation for objects protected in the relevant Natura 2000 areas is now being examined and set. If it transpires that compensation

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<sup>98</sup> Act No 326/2017 amending Act No 100/2001 on environmental impact assessments and amending certain related acts (the EIA Act), as amended.

<sup>99</sup> Act No 225/2017 amending Act No 183/2006 on land-use planning and building regulations (the Building Act), as amended, and other related acts.

can be provided for the Concept's impacts, it will be possible to approve the Waterway Transport Concept during 2018.

Key priorities include transport infrastructure development, incorporating the concept of public-private partnership, the harmonisation of transport market conditions, the development of railway and waterway transport, improvements in the quality of road transport, the promotion of multimodal transport systems, the stabilisation of public transport funding, and the use of alternative energies (CNG, LNG, hydrogen and electricity). These priorities will continue to be pursued in 2018.

In urban mobility, in 2017 most cities with a population of more than 50,000 gradually started drawing up plans for sustainable urban mobility. These plans will form the basis for the continued support of urban projects contributing to sustainable mobility (projects to develop the infrastructure of urban public transport using electric traction, support for the acquisition of public transport vehicles running on alternative energy, telematics projects, non-motorised transport infrastructure development projects, multimodal passenger transport terminals, a regulatory approach to private car use, and the building of park-and-ride car parks near urban public transport stops and suburban railway stations). In an intersectoral context, it is worth mentioning the *Air Quality Improvement Programmes* of the Ministry of the Environment, which address transport as a major source of pollution and which, in their targets and toolkits, have a lot in common with the *Sustainable Mobility Plans*. These synergies must be exploited when planning and evaluating the development of transport systems.

### **Priority projects in the building of infrastructure**

Priority railway infrastructure projects include the completion of transit rail corridors, including railway hubs (by 2025), and the upgrading of further tracks on the main and, subsequently, global network – the trans-European transport network (TEN-T). The upgrading of non-TEN-T tracks that provide connections between important industrial zones (e.g. Nymburk – Mladá Boleslav) or tracks important for suburban transport is another priority. In addition, a vital role will be played by the upgrading and doubling of the railway track between Velký Osek and Choceň. Once upgraded, this will be the main line for freight transport in the main TEN-T network. Priority road infrastructure projects include the construction of missing motorway and road sections on the main and global TEN-T network (by 2030 and 2050, respectively) and the construction of bypasses around towns and municipalities.

In inland waterway transport, the Government will continue to address navigability (including international links) and reliability on the Elbe-Vltava Waterway. One of the multimodal transport priorities will be to secure sufficient resources from European funds for the development of multimodal freight transport.

Particular attention will also be paid to improving legislative conditions at the Ministry of Transport and to the development of intelligent transport systems (ITS), which are also a means of optimising transport infrastructure capacity utilisation. In May 2017, the Government approved the *High-speed Rail Link Development Programme*, which contains a concept for the construction of high-speed rail in the Czech Republic and, together with the *Technical and Operating Study – Technical High-speed Track Solutions* (completed in 2017), this will be an important step on the way to introducing a new subsystem of high-speed rail transport in the Czech Republic. In 2017, work also began on producing a feasibility study for the Prague – Ústí nad Labem – state border high-speed line and, in 2018, a feasibility study for a Prague – Brno – Břeclav high-speed line will begin according to plan. In 2017, a

scouting study for the Prague – Liberec / Hradec Králové – Wrocław high-speed line was launched.

### **Autonomous mobility**

Autonomous mobility projects are focused on active preparation of conditions for deployment and subsequent testing and implementing the ITS cooperative systems and automated road transport in the Czech Republic in the international context.

In 2017, an ITS cooperative corridor was built on the busiest Czech highway *Highway ring around Prague (SOKP)* between the motorways D1 and D5. At the same time, a number of maintenance cars (including information and alert carts) operating on this corridor was equipped with the C-ITS technologies. This project proved both the technological readiness of *ŘSD ČR (Road and Motorway Directorate of the Czech Republic)*, and the possibilities of integration of the new technologies into the current systems. This project was greatly helpful for creating the C-Roads implementation framework.

The Czech project *C-Roads Czech Republic* is a part of a European C-Roads platform, which aims to create a functional harmonised system of individual European projects for cross-border cooperative intelligent transport systems (C-ITS) and thus prepare the environment for the launch of cooperative and autonomous cars.

The acquired experience from this project will also serve to identify and eliminate legislative hindrances to data-connected and autonomous cars.

Starting from 2018, the use of C-ITS to provide up-to-date information about available parking lots for truck drivers will be tested in the car parks in Klimkovice and Antošovice nearby the Ostrava city on both sides of the D1 motorway. This project is a part of the *URSA Czech Republic* project which is co-financed by CEF.

### **Automotive industry**

Last year, an intensive and long-running dialogue was successfully held with representatives of the automotive industry and relevant ministries, which yielded a very specific result. On 11 October 2017, the Czech Government and the AutoSAP Automotive Industry Association signed a fundamental document to consolidate the future prospects of the Czech automotive industry – a Memorandum on the Future of the Automotive Industry – and the related Action Plan.

The Memorandum's central themes are e-mobility, autonomous driving and digitalisation. These are important for the successful sustainable development of the Czech Republic as an automotive hub and for long-term employment in this sector. The Action Plan proposed 25 measures, built primarily around infrastructure for zero-emission vehicles, the standardisation and legal aspects of automated driving, high-speed internet, digital and mobile services, and research and development for the automotive industry.

### **3.5.3 Energy and energy efficiency**

In the energy sector, the aim is to provide citizens and businesses with safe, sustainable and price-competitive energy. To that end, the Czech Republic has drawn up an updated *State Energy Concept*. An evaluation of the progress and method for the implementation of individual instruments under that Concept reveals that measures to meet the goals of this strategy document are gradually being carried out. Certain tasks have been delayed or have only been partially accomplished so far.

On 15 May 2017, the *Update of the National Action Plan for Energy Efficiency* (NAPEE) was approved. The update includes two newly proposed additional measures to pursue the targets of new energy savings under Article 7 of the Energy Efficiency Directive in 2017-2020.<sup>100</sup> The *Building Renovation Strategy* was also approved as part of the NAPEE. The aim of the strategy is to seek out a cost-effective approach to building renovation and to draft possible development scenarios. The Czech Republic is assessing whether the individual scenarios could actually materialise, not only in relation to the target up to 2020, but also up to 2030 and then 2050.

The *Savvy Energy Savings* programme was launched in 2017 in a bid to promote examples of good practice by recording well-rendered energy-efficient projects and to motivate potential investors to prepare new high-quality projects with a high degree of energy savings. The programme also interconnects investors with energy service providers guaranteeing the quality of the projects drawn up. The programme aims to provide come final consumers with a list of verified enterprises certified as reducers of high-quality energy-efficient projects.

Despite legislative and administrative barriers in the way of energy-efficient projects via EPC,<sup>101</sup> the Ministry of Industry and Trade is working on its own initiative in buildings occupied by bodies of state administration and is lending support to relevant bodies as they implement EPC projects at state administration level.

### **Support of energy efficiency improvements with national resources**

On 12 June 2017, the first call for applications for support under the *ENERG* programme was announced. This programme grants soft loans for energy-efficient projects among small and medium-sized enterprises in Prague. The programme is one of the pilot projects for the development of financial instruments in the Czech Republic and plugs a gap in the funding of energy-efficient projects for enterprises operating in Prague. The programme is funded with revenue from the sale of emission allowances in 2014.

The EFEKT programme focuses on support for investment and non-investment measures. Following the end of EFEKT's programming period, in 2017 a new programme called *State Energy Savings Support Programme 2017-2021*, given the working name *EFEKT 2*, was launched. EFEKT 2 places more of an emphasis on soft measures geared towards raising awareness of the benefits of energy savings, providing energy advice, and promoting EPC projects and the introduction of energy management. The approval of the new programme included an increase in the amount allocated for 2017-2021 to CZK 750 million, with a maximum annual budget of CZK 150 million. If further resources are found in the central government budget, the programming documentation will be adjusted and the programme's budget will be increased.

### **Investment in energy efficiency at enterprises with ESIF resources**

As part of the raft of changes, under the *Energy Savings* scheme of the Operational Programme Enterprise and Innovation for Competitiveness the allocation limit for large enterprises was raised from 20% 60% with a view to making the programme more appealing for this type of enterprise and improving the fulfilment of energy efficiency objectives.

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<sup>100</sup> The update included a recalculation of the Czech Republic's commitment according to updated Eurostat data. There was an increase in compulsory final consumer energy savings from 50.67 PJ of new savings in 2014-2020 to 51.10 PJ (accumulated to 204.39 PJ).

<sup>101</sup> Energy Performance Contracting.

An Energy Savings call has been announced for 2018 that targets support for a reduction in energy intensity in the business sector.

In 2018, calls will also be announced in the following programmes: *Energy Savings in Heat Supply Systems*, and *Energy Savings – Energy-efficient Buildings* (the first call was announced on 30 June 2017). A call under *Energy Savings – Financial Instruments* was piloted.

A call being prepared under the Energy Savings support programme – *Energy-efficient Buildings* – will focus on promoting the construction of new energy-efficient buildings and on promoting vertical and horizontal extensions to a higher energy standard for existing buildings in the business sector.

### **Energy efficiency improvements in buildings with ESIF and national resources**

Energy-saving measures are supported via the following operational programmes: Operational Programme Environment (for public buildings), Operational Programme Prague – Growth Pole of the Czech Republic (for public buildings in Prague), and Integrated Regional Operational Programme (multi-family buildings).<sup>102</sup>

Besides ESIF-funded operational programmes, the national programme *New Green Savings* focuses on support for the implementation of energy-saving measures. In addition to thermal insulation, the replacement of inefficient energy sources and the installation of renewable energy sources, this programme is also promoting the construction of buildings with very high energy performance.

Energy performance improvements are also incorporated into the comprehensive renovation of multi-family buildings under the national programme *PANEL 2013+*. This is support in the form of soft (low-interest) loans with the effect of motivating energy savings. It also allows for the repeated use of financial resources to support other projects.<sup>103</sup>

### **Energy efficiency in transport**

During 2017, within the scope of the Operational Programme Enterprise and Innovation for Competitiveness, two calls were announced under the *Low-carbon Technology* programme that focused on support for the purchase of electric vehicles and the installation of private charging points. In both calls, CZK 210 million of support for the purchase of electric vehicles was prepared for distribution among applicants. These two calls resulted in the receipt of 263 projects with total eligible expenditure of approximately CZK 457 million, of which subsidies account for approximately CZK 285 million.

In the field of transport, there has long been support for more energy-efficient modes of transport, an increase in the proportion of cycling, alternative fuels, and alternative fuel infrastructure. With this in mind, in 2017 the *Strategy for the Support of Logistics from Public Resources* was updated and will now deal with freight transport on a broader scale under the

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<sup>102</sup> In January 2018, the new IROP Call 78 – Energy savings in multi-family buildings III – was announced, with a focus on energy-saving measures in multi-family buildings. For Call 78, certain measures deriving from the revision of the IROP Programming Document were adopted with a view to increasing the absorption capacity. These included new support beneficiaries and a change in the definition of a multi-family building.

<sup>103</sup> This measure has significant multiplier effects for the construction industry, with a positive impact on the central government budget. In 2017, the State Housing Development Fund entered into 61 loan agreements totalling CZK 247.2 million for 1,958 dwellings. Nine applications worth 98.6 million and 11 pledges amounting to CZK 20.8 million have been carried forward to 2018.

new *Freight Transport Concept*. In passenger transport, from an energy perspective public transport is the most efficient. This is covered by the Government-approved *White Paper – Public Transport Concept*. In this context, we can point to positive trends in the transport capacities of rail transport in particular (in the past six years there has been growth by 34%, compared with approximately 14% growth in individual motor transport).

Issues associated with increases in the share of alternative fuel and alternative fuel infrastructure for road transport are addressed by the Government-approved *National Action Plan of Clean Mobility*. In this connection, a subsidy scheme was announced at the beginning of 2018 for the construction of a backbone network of rapid charging points. Overall, CZK 550 million will be distributed within the framework of four calls. In 2018, further programmes will be announced – to promote ordinary charging points and CNG, LNG and hydrogen points. CZK 1.2 billion has been earmarked for these programmes. A second call is now under way in support of the purchase of alternatively powered vehicles for municipalities and regions and their organisations (announced in autumn 2017). The allocation is CZK 100 million.

### **3.5.4 Environment, sustainable use of resources, and agricultural policy**

The Government's priorities for 2018 include mitigation of the risk of long-lasting drought and water shortages (support for the retention of water in the landscape, management of rainwater), new waste legislation and the implementation of measures to improve air quality. Environmental protection is intertwined with agricultural policy and support for sustainable rural development.

#### **Waste management**

Drafts of new waste management laws (the Waste Act and the Act on Selected End-of-life Products) have undergone interdepartmental consultation and are prepared for the next stage in the legislative process. Nevertheless, as amendments to European legislation on waste and packaging (within the scope of the circular economy package) are expected in the near future, the drafts of the new laws and the Packaging Act will be revised in response to those amendments and will be placed in interdepartmental consultation again. It will also be necessary to assess appropriate procedure for any changes to the *Waste Management Plan of the Czech Republic 2015-2024* and regional waste management plans. The aim is to establish conditions conducive to the development of the recycling industry in the Czech Republic.

An amendment to the current Waste Act (and several other laws) has been prepared in connection with the adoption of the European regulations on mercury and ecotoxicity. It is expected to take effect in mid-2018 at the earliest.

On the strength of an agreement between the Czech Statistical Office, the Ministry of the Environment and the Government Office on the reporting of municipal waste production, which was signed in 2016, there will be continued efforts to make progress in harmonising the data reported on waste management in the Czech Republic.

#### **Climate protection and climate change adaptation**

The *Policy of Climate Protection in the Czech Republic* was prepared at national level and then approved by the Government on 22 March 2017. This policy sets out the Czech

Republic's climate protection strategy up to 2030 and the long-term perspective up to 2050 in line with the transition to an efficient low-carbon economy. The policy also serves as the national low-emission strategy in accordance with the requirements of the United Nations Framework Convention on Climate Change and Regulation (EU) No 525/2013. The set objectives are based on the Czech Republic's international commitments to reduce greenhouse gas emissions and on the relevant EU legislative documents and strategies, spearheaded by the climate and energy package up to 2020 and the new climate and energy framework up to 2030. Policy measures will continue to be implemented in 2018. Implementation of the policy will be evaluated by the end of 2021 and an update will be drawn up by the end of 2023.

Nationally, climate change adaptation is overarched by the *Strategy of Climate Change Adaptation in the Conditions of the Czech Republic* (the Adaptation Strategy)<sup>104</sup>, which was approved under Government Resolution No 861 of 26 October 2015. The Adaptation Strategy's implementing document is the *National Action Plan of Climate Change Adaptation* (NAP Adaptation)<sup>105</sup>, which was approved by the Government on 16 January 2017 and deals with the main signs of climate change in the Czech Republic: long-term drought, flooding and flash flooding, higher temperatures, extreme meteorological phenomena (heavy rainfall, extremely high temperatures, extreme wind) and wildfires. The individual chapters identify areas affected by the given sign of climate change and describe the main impacts, vulnerabilities and risks. The NAP Adaptation processes the measures under the Adaptation Strategy into specific tasks, to which it assigns coordination and interdepartmental cooperation, fulfilment deadlines, the relevance of the measure to individual signs of climate change, and sources of funding.<sup>106</sup>

### **Mitigating the risk of flooding and the effects of drought**

One of the Czech Republic's fundamental tasks will be to make further reductions in the risk of flooding, especially in areas where there is a significant flood risk. To this end, the Czech Republic will continue to apply principles and pursue objectives under approved flood risk control plans,<sup>107</sup> and support the implementation of general non-structural measures and close-to-nature and technical flood control measures set out in those planning documents. A further planning cycle will also take place in accordance with the flood-related Directive 2007/60/EC. In accordance with the requirements of that Directive, in 2018 the update of the preliminary evaluation of flood risks will be completed, and the definition of areas with a significant flood risk will be updated (this planning cycle ends in 2021 with the approval of the update of progress control plans).

Another key area is drought and its impacts. With this in mind, the Czech Republic is continuing to implement recommended measures deriving from the *Concept for Protection from the Effects of Drought for the Czech Republic* while drawing on the measures that have been carried out. This was approved by the Government in July 2017. Implementation of this Concept is in progress. Under the Operational Programme Environment, support is channelled into projects that help to deal with drought-related issues in the Czech Republic,

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<sup>104</sup> Approved under Government Resolution No 861/2015.

<sup>105</sup> Approved under Government Resolution No 34 of 16 January 2017.

<sup>106</sup> Adaptation measures are financially supported by numerous EU funds and programmes (the Operational Programme Environment, the Rural Development Programme, the Integrated Regional Operational Programme, the LIFE programme, the EA and Norwegian Financial Mechanisms, etc.) and national programmes (e.g. POPFK – Support for the Renewal of the Landscape's Natural Functions, the Landscape Care Programme, and the National Environment Programme).

<sup>107</sup> Government Resolution No 1082 of 21 December 2015.

specifically within the scope of Priority Axis 1: *Water quality improvements and flood risk mitigation* (PA 1) and Priority Axis 4: *Protection of and care for nature and the landscape* (PA 4).<sup>108</sup>

A working group comprising representatives of the Ministry of Agriculture, the Ministry of the Environment and other specialist entities has been set up to prepare an amendment to the Water Act that will address, in particular, drought-related issues. The working group is now finalising the text of the amendment, which includes a new title on the management of drought and water shortages, and is completing work on principles for the preparation of operational documents – drought and water shortage management plans.

## **Air protection**

To improve the poor quality of the air, the measures set out in the *Medium-term Strategy (up to 2020) of Air Quality Improvements in the Czech Republic* are currently being implemented. All measures are to be carried out by 2020. Financial support for the implementation of the measures is covered by the Operational Programme Environment (the support of projects focusing on the abatement of emissions from industrial sources and the replacement of obsolete combustion equipment running on solid fuels in households) and the *National Environment Programme* (support for the introduction of low-emission zones and support for staffing at municipalities and regions to implement a quality improvement programmes). Legislative support for the implementation of the measures is provided by the Clean Air Act, which sets out gradually tightening requirements for stationary combustion plants – industrial sources and household boilers, and also establishes increasing air pollution charges.

## **Secondary raw materials policy**

In 2018, other significant activities associated with the pursuit of strategic objectives laid down in the *Secondary Raw Materials Policy of the Czech Republic* will continue. These activities will take the form of 14 specific tasks set out in the *Action Plan for the Implementation of the Secondary Raw Materials Policy of the Czech Republic 2017-2018*.<sup>109</sup> The more significant tasks include the production of a draft decree on by-products and waste that has been turned into a non-waste product in the construction industry, with a focus on bituminous mixtures. This measure will make it easier to use asphalt surfaces when roads are being reconstructed, so primary sources will be replaced by secondary raw materials. The draft decree will be placed in the legislative process at the end of March 2018 and is expected to take effect in the second half of the year.

Another significant task is the production of a *Catalogue of Secondary Raw Materials Usable in Construction*, which will be completed by the end of November 2018 and then published on the website of the *Czech Standardisation Agency* for use by designers and contracting authorities. All of the set tasks are intended to foster conditions favourable for the business sector to make the gradual transition to a circular economy.<sup>110</sup> An update of the Secondary

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<sup>108</sup> PA 1 includes the support of projects for the construction and completion of drinking water supply conduits and distribution networks and rainwater management. Under PA 4, in connection with drought-related issues it is possible to support, for example, the building or reconstruction of small reservoirs, pools and wetlands, the rehabilitation of watercourses and floodplains, close-to-nature measures targeting a slowdown in surface runoff (grassy strips, contour furrows), the restoration of boundaries or hedgerows, etc.

<sup>109</sup> Approved under Government Resolution No 355/2017.

<sup>110</sup> The task was to provide training and awareness of the circular economy so that the general public is better informed. The competitive form of awareness-raising selected (the national competition Transforming Waste into Resources, designed for manufacturing and construction companies, municipalities and towns, university

Raw Materials Policy of the Czech Republic (carried out at four-year intervals), along with the *Evaluation of the Performance of Tasks under the Action Plan*, will be submitted to the Government for approval by the end of 2018. New tasks under the *Action Plan 2019-2020* will also be presented.

### Mineral resources policy

Mineral resources measures are linked to the implementation of the *Raw Materials Policy of the Czech Republic in the Field of Minerals and Sources Thereof*, which was approved by the Government after it had undergone the SCA process.<sup>111</sup> The aim of the updated raw materials policy is to form a coherent strategy for the next 15 years that sets boundaries for the use of minerals from indigenous and foreign sources. The draft of the new state raw materials policy incorporates the principles of the *Raw Materials Initiative*, the European integrated strategy that the Czech Republic actively helped to prepare. The raw materials policy is updated in tandem with the adoption of the *updated State Energy Concept* because it must create realistic conditions and a raw materials backdrop for the fulfilment of the Concept. The document was discussed by the Government in February 2016, after which it underwent the SEA procedure and, in mid-June 2017, was approved by the Government. Since then, the raw materials policy has been implemented according to plan.<sup>112</sup> In addition, it responds to current events surrounding mineral resources.<sup>113</sup>

### Agricultural policy

This year, in connection with preparations for the multiannual financial framework after 2020, national and European discussions will be held on the form that is to be taken by the common agricultural policy (CAP) after 2020. The CAP is one of the Czech Republic's top priority areas and should remain a powerful common – yet modernised and simplified – policy that will be able to continue fulfilling its objectives while facing up to new challenges.

Regulation (EU) 2017/2393 of the European Parliament and of the Council (the “Omnibus Regulation”), changing all four of the main regulations from 2013 (on direct payments, rural development, the common organisation of the markets and the Horizontal Regulation) in an attempt to simplify the application of the CAP in practice, entered into force in 2018. On the basis of that regulation, certain modifications can now be made nationally this year.

During 2018, the *Ministerial Strategy of the Ministry of Agriculture of the Czech Republic, with an Outlook up to 2030* will be implemented to address set priorities, including issues related to the soil, drought, erosion, pesticide use, animal welfare, and increases in the quality of production and competitiveness. The conclusions of the *National Action Plan on Safe Pesticide Use*, including the establishment of expanded subsidy conditionality further to the acceptance of the principles of good agricultural practice, will also be implemented. Legislative and technical measures to reduce the erosion of agricultural land will be

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students, secondary school students and primary school pupils) passed muster, hence it has also been announced for 2018.

<sup>111</sup> Under Government Resolution No 441 of 14 June 2017.

<sup>112</sup> As set out in section 5 thereof (*Instruments and tasks for the implementation of the raw materials policy*) and in Government Resolution No 441/2017.

<sup>113</sup> In Resolution No 713 of 11 October 2017 on the *Report on the Need to Safeguard the State's Economic Interests in the Use of the European Union's Critical Super-strategic Raw Materials and Certain Other Raw Materials*, the Government set the Minister for Industry and Trade (in section III.3.e) the task of “arranging for the update of the Raw Materials Policy of the Czech Republic in the field of mineral resources so as to supplement conditions conducive for the state to use mineral resources in accordance with Part III of Document No 1066/17”. Consultation procedure came to an end on 27 February 2017.

supported. In forestry, strategic objectives will continue to be pursued in relation to the National Forestry Programme II. These objectives include the sustainable management of forests while systematically improving their condition, and the competitiveness of the forestry-based value chain. Forestry measures have been reflected in numerous environmental strategy documents, especially the *National Action Plan of Climate Change Adaptation*.

In 2018, most programme measures will be implemented. This includes the launch of new application acceptance rounds. The sixth round of subsidy application acceptance under the *Rural Development Programme* will take place in spring 2018. Investments in agricultural, forestry and food-processing enterprises, innovation, and cooperation projects will be supported. In April and May 2018, support applications seeking direct payments totalling CZK 23 billion will be accepted in the form of single applications for single area payments, encompassing greening, young farmers, voluntary support tied to the production of sensitive commodities (fruit, vegetables, potatoes, sugar beet, hops, protein crops, dairy cows, calves for meat production, sheep and goats) and temporary national aid.

Support applications will also be accepted for agrienvironment-climate measures, organic farming, Natura 2000 areas on agricultural land, payments to areas facing natural or other specific constraints, animal welfare, forest-environmental and climate services, and forest protection. In response to EU legislation being prepared in the fields of unfair commercial practices and dual quality food, a discussion will be held on potential amendments to national legislation and the possible adoption of related national measures. Besides legislative measures, consumer awareness raising and product testing will also continue.

## 4 Progress in the pursuit of national targets under Europe 2020

Table 1: Overview of the fulfilment of Europe 2020 quantitative targets

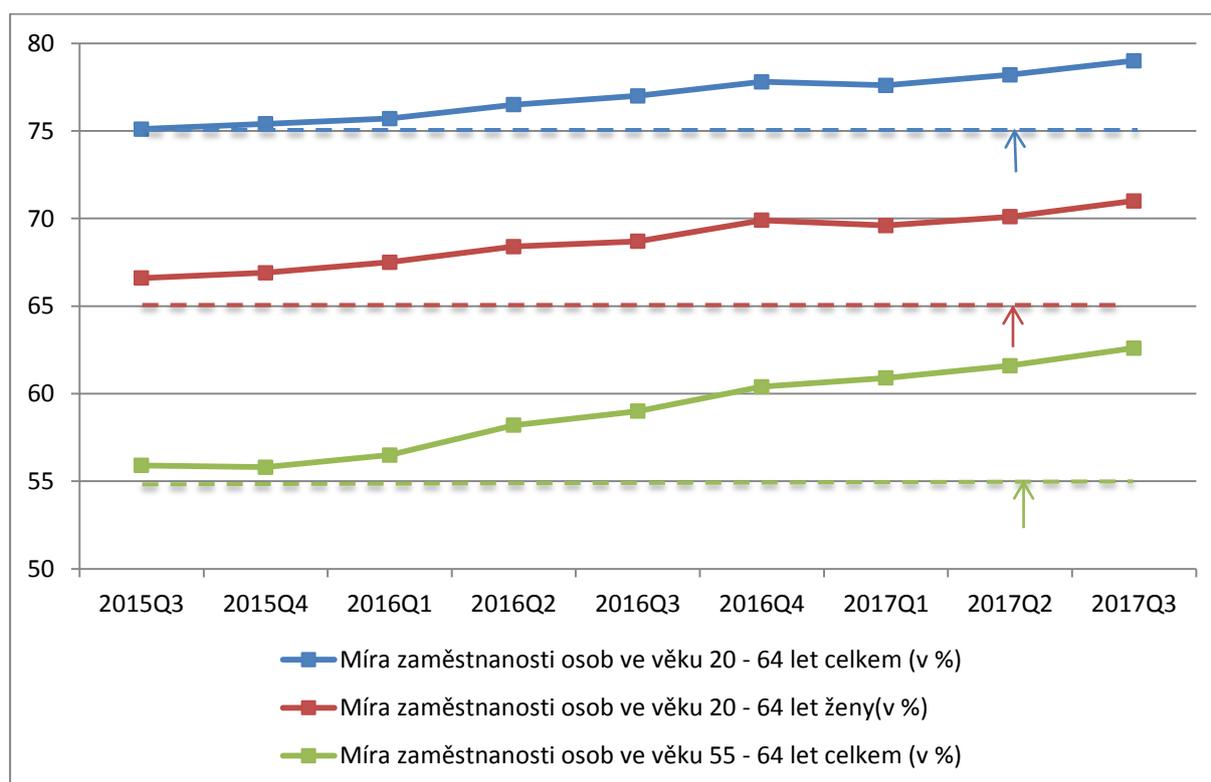
Area	National target	Benchmark (reference year)	Current state of fulfilment (period)
Employment	Increase in the employment rate of 20- to 64-year-olds to at least 75%	70.4% (2010)	79.4% (Q4 2017)
	Increase in the employment rate of women (20-64) to 65%	60.9% (2010)	71.4% (Q4 2017)
	Increase in the employment rate of older workers (55-64) to 55%	46.5% (2010)	63.4% (Q4 2017)
	Reduction in the unemployment rate among young people (15-24) by one third compared to 2010	18.3% (2010)	6.3% (Q4 2017)
	Reduction in the unemployment rate among the low-skilled (ISCED 0–2) by one quarter compared to 2010	25% (2010)	10.1% (Q4 2017)
Poverty and social exclusion	Reduction in the number of persons at risk of poverty, material deprivation, or living in households with low work intensity by 100,000 compared to 2008	1,566,000 (2008)	1,357,000 (2016), i.e. a reduction by 209,000
Education	Reduction in the number of early leavers from education to 5.5%	4.9% (2010)	6.6% (2016)
	Achieve tertiary education for 32% of the population aged 30-34 years	20.4% (2010)	32.8% (2016)
Research, development and innovation	Achieve public spending of 1% of GDP on science, research, development and innovation in the Czech Republic	0.62% (2010)	0.65% (2016)
Climate and energy policy	Reduction in greenhouse gas emissions – maximum permissible rise in emissions outside the EU ETS by 9%	-0.3% (2005)	-0.6% (2015)
	Increase in the share of RES in gross final energy consumption (13%) and share of renewable sources in transport (10%)	6.1% (2005) and 0.1% (2005)	14.95% (2016) and 6.42% (2016)
	Energy efficiency improvements – national energy efficiency target, i.e. reduction in final energy consumption to a maximum of 1,060 PJ by 2020	- (2014)	1,036 PJ (2016)

Source: Eurostat, Czech Statistical Office

## 4.1 Employment

During 2017, the highly positive trend in labour market developments continued as a result of the buoyant economic situation. This made it possible, over the course of the year, not only to systematically fulfil employment policy objectives, but also to significantly surpass them. Employment went up; unemployment went down. This positive trend also benefited from state interventions supporting the labour market entry of disadvantaged persons. Besides the indicators tracked, there was also a drop in long-term unemployment and a rise in the participation of disadvantaged persons on the labour market. The Czech labour market is now below the natural rate of unemployment rate.

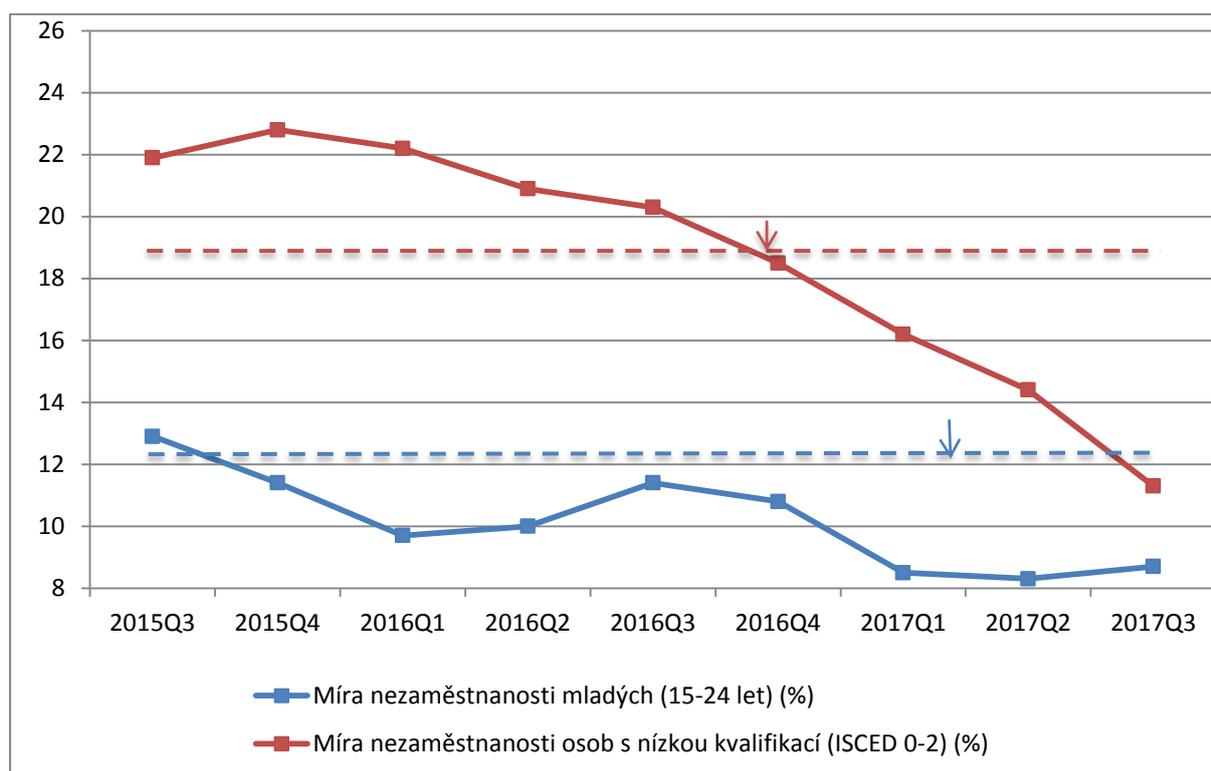
**Chart 1: Developments in the fulfilment of employment policy objectives (employment rate)**



cs	en
Míra zaměstnanosti osob ve věku 20 – 64 let celkem (v %)	Rate of unemployment among persons aged 20-64, total (%)
Míra zaměstnanosti osob ve věku 20 – 64 let ženy (v %)	Rate of unemployment among persons aged 20-64, women (%)
Míra zaměstnanosti osob ve věku 55 – 64 let celkem (v %)	Rate of unemployment among persons aged 55-64, total (%)

Source: Eurostat

**Chart 2: Developments in the fulfilment of employment policy objectives (unemployment rate)**



Source: Eurostat

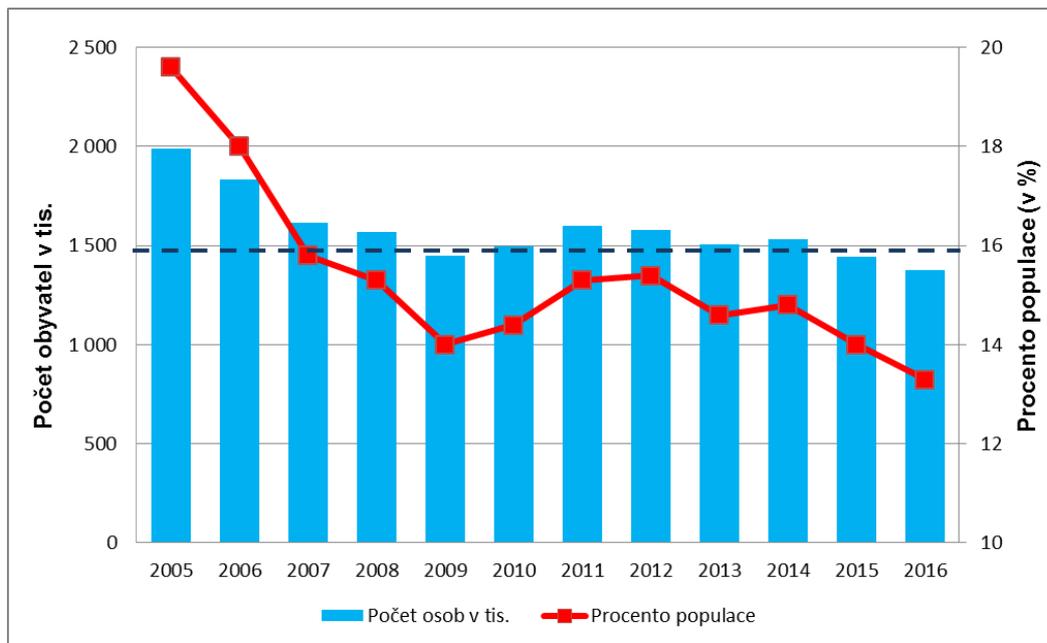
cs	en
Míra nezaměstnanosti mladých (15–24 let) (%)	Unemployment rate among young people (15-24) (%)
Míra nezaměstnanosti osob s nízkou kvalifikací (ISCED 0-22) (v %)	Unemployment rate among the low-skilled (ISCED 0-22) (%)

## 4.2 Poverty and social exclusion

According to the latest comparable Eurostat figures (2016 versus 2008), there was a reduction in the at-risk-of-poverty-or-social-exclusion rate by two percentage points to 13.3%<sup>114</sup>, equal to approximately 1,375,000 persons (the EU 28 average is 23.5%). The share of persons at risk of poverty in the Czech Republic is the lowest of any EU Member State. The long-term trend in the indicator of the at-risk-of-poverty-or-social-exclusion rate is set out in the chart below.

**Chart 3: Persons at risk of poverty or social exclusion**

<sup>114</sup> According to the Czech Statistical Office's latest available data (for 2017), this summary indicator dropped to 12.2%, i.e. by more than three percentage points compared to 2008. Those most at risk of income poverty or social exclusion include individuals with children and individuals aged 65 or over, predominantly women.



Source: Eurostat

Note: The dashed line denotes the national target of 1,466,000 persons (the left axis).

cs	en
Počet obyvatel v tis.	Population (thousands)
Procento populace (v %)	Population (%)
Počet osob v tis.	Persons (thousands)
Procento populace	Percentage of population

The at-risk-of-income-poverty rate between 2015 and 2016 remained unchanged at 9.7%.<sup>115</sup> In 2016, 1,000,500 people were at risk of income poverty in the Czech Republic (this was 5,700 fewer than in 2015). In this indicator, too, the Czech Republic reports the best results in the EU (the EU 28 averages 17.3%).

In 2016, women were more frequently at risk of poverty (10.8% of all women<sup>116</sup>) than men (8.5% of all men<sup>117</sup>). Those most at risk of poverty continue to be persons in jobless households (52.6% of persons from such households<sup>118</sup>), where the number has risen relatively quickly since 2010 (40.6%) on account of the rise in long-term unemployment, and in single-parent families (37.0% of persons from such families<sup>119</sup>). The previous trend of reductions in the at-risk-of-income-poverty rate among the unemployed reversed in 2010 due to the slackening growth of household income (beginning in 2009), brought about by the global financial crisis.

<sup>115</sup> According to the Czech Statistical Office's latest available data (for 2017), the at-risk-of-income-poverty rate dropped to 9.1% year on year.

<sup>116</sup> According to the Czech Statistical Office's data for 2017, this figure was 10.7%.

<sup>117</sup> In 2017, the figure according to the Czech Statistical Office's data was 7.6%.

<sup>118</sup> According to the Czech Statistical Office's data for 2017, this figure was 48.6%.

<sup>119</sup> According to the Czech Statistical Office's data for 2017, this share was 31.4%.

In contrast, the material deprivation rate in the population as a whole fell 0.8 percentage points year on year in 2016 to 4.8%.<sup>120</sup> Greater differences in the concentration of this rate, especially broken down by household type, continue to appear. The above-mentioned summary indicator of the at-risk-of-poverty-or-social-exclusion rate for 2016 went down from 14.0% to 13.3%. Trends in poverty and social exclusion in the Czech Republic in 2008-2016 are shown in more detail in the table below:

**Table 2: Poverty in the Czech Republic (persons at risk of poverty in 2008-2016, expressed as a percentage)**

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>AROPE (i.e. at-risk-of-poverty-or-social-exclusion rate)</b>	15.3	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3
<b>AROP (i.e. at-risk-of-poverty rate)</b>	9.0	8.6	9.0	9.8	9.6	8.6	9.7	9.7	9.7
<b>MD (i.e. material deprivation)</b>	6.8	6.1	6.2	6.1	6.6	6.6	6.7	5.6	4.8
<b>VLWI (i.e. households with low work intensity)</b>	7.2	6.0	6.4	6.6	6.8	6.9	7.6	6.8	6.7

Source: Eurostat

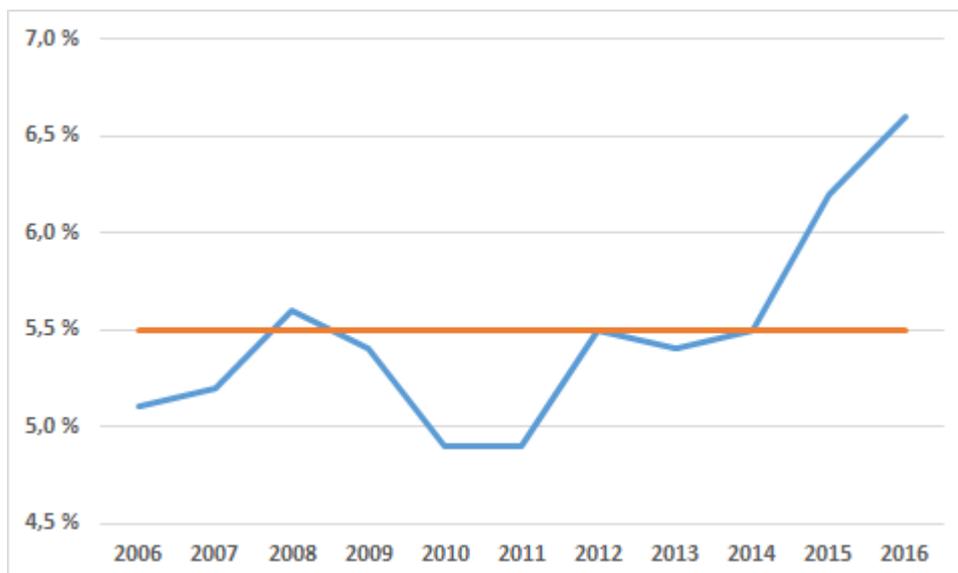
Against the backdrop of trends today in poverty and social exclusion, achieving the Czech Republic's new and more ambitious target under *Europe 2020* (a reduction in the number of persons at risk of poverty or social exclusion by 100,000) appears to be feasible. In 2016 (1,375,400 persons) there was a reduction in the number of persons at risk of poverty, material deprivation or living in households with very low work intensity by 191,000 compared to 2008 (1,566,000 persons).

### 4.3 Education

The national target for the share of early leavers from education (5.5% in the 18-24 age group) was achieved in 2014. In recent years, the deterioration in this indicator has grown considerably, amounting to 6.2% in 2015 and has much as 6.6% in 2016. This change is routinely ascribed to the introduction of the concept of state school-leaving examinations, the influence of which can be traced to data from 2012, after which there was a rise in the number of early leavers by approximately 0.5 percentage points. The figure for 2016 confirms that this growth is by no means a transitory phenomenon. However, we will have to wait for results in the years ahead because students now have the opportunity to resit their examination within five years or to complete their education under a simplified study programme. We should also factor in a certain degree of imprecision in the methodology used to keep track of the data (the figures are obtained from the Labour Force Survey).

#### **Chart 4: Developments in the share of persons aged 18-24 who have attained no more than lower secondary education and are no longer in education, 2006-2016**

<sup>120</sup> According to the Czech Statistical Office's latest available data (for 2017), the material deprivation rate dropped by 1.1 percentage points in 2017 to 3.7%.

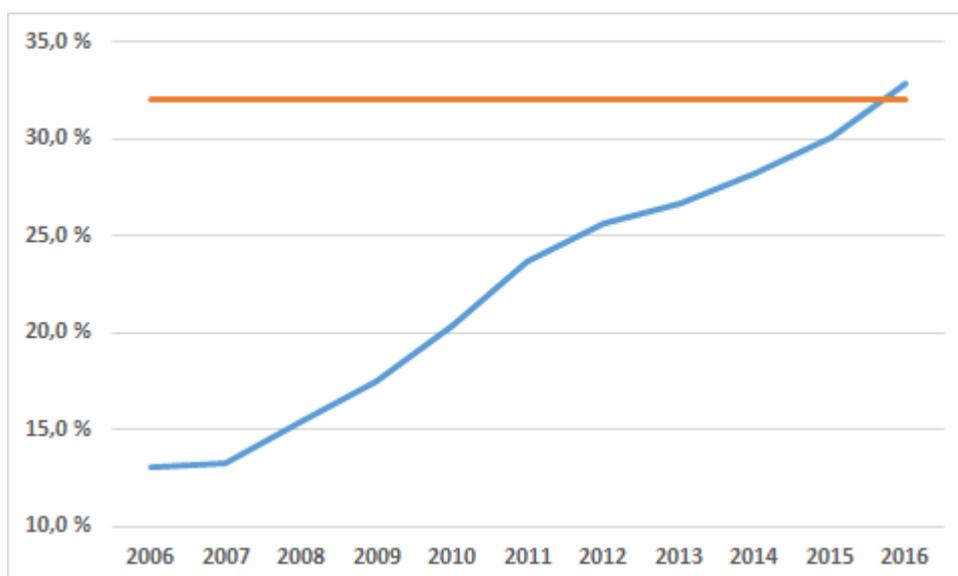


Source: Eurostat, Labour Force Survey

The indicator of the share of the population aged 30-34 with tertiary education shows that the national target was achieved in 2016. There is every indication that this share will grow even further by 2020 because the average age at which students initially pass through the territory system in the Czech Republic is under 25, hence most of those graduates who are in the 30-34 year age bracket in 2020 will have completed tertiary education in 2020.

The expansion of the higher education system in the Czech Republic following the year 2000 opened up access to higher education for much of the younger population. Available data shows that more than 50% of the generation born after 1989 will enter the tertiary system. This means that, in the first decade of the millennium, the Czech tertiary system changed from a mass to a universal system.

**Chart 5: Developments in the share of persons aged 30-34 who have attained tertiary education, 2006-2016**

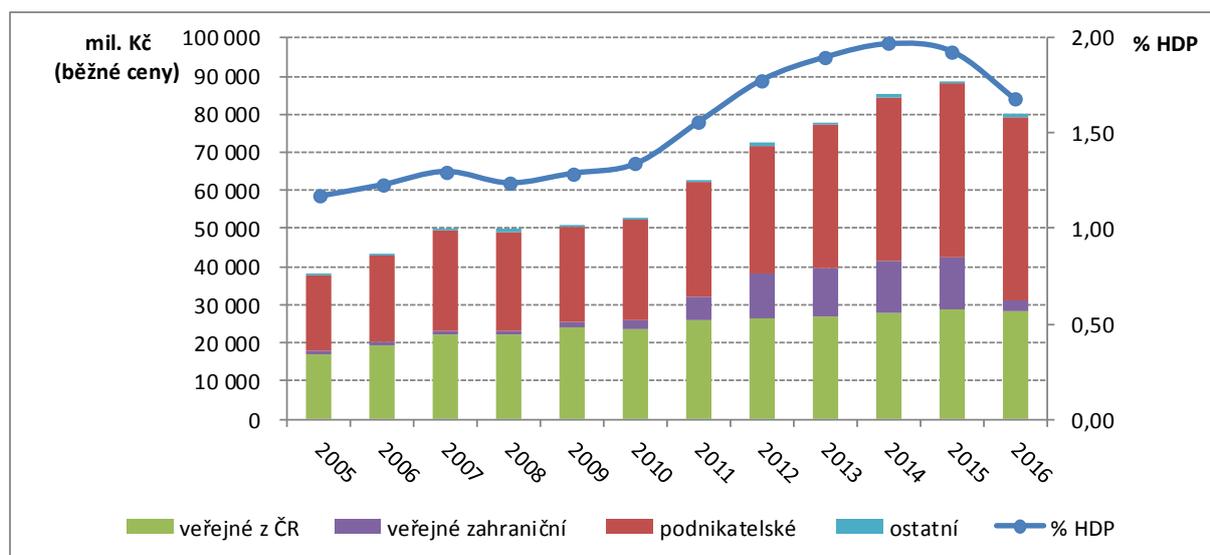


Source: Eurostat, Labour Force Survey

## 4.4 Research, development and innovation

The loss of foreign public resources from the ESIF meant that, in 2016, Czech Republic did not make progress in fulfilling the national target for public spending on R&D&I of 1% of GDP in 2020, as there was a dip to 0.65% of GDP. In subsequent years, this decline has been countervailed by the planned uptake of the ESIF and an increase in resources from the central government budget, hence we can expect the national target to be met in the target year of 2020. Nevertheless, after 2023 there is likely to be another downturn in public spending on R&D&I as the ESIF's programming period will come to an end. Potential for an increase in overall expenditure lies in business resources. Growth in these resources must be a focus of attention. In 2024, the Czech Republic should reach the target value for business resources spent on research and development, i.e. 1.5% of GDP.

**Chart 6: Total R&D expenditure and year-on-year momentum in changes thereto**



Source: Eurostat, Czech Statistical Office

cs	en
Mil. Kč (běžné ceny)	CZK millions (current prices)
Veřejné z ČR	National public
Veřejné zahraniční	Foreign public
podnikatelské	business
ostatní	other
% HDP	% of GDP

## 4.5 Climate and energy policy

### Renewable energy sources and energy efficiency

The Czech Republic is continuing to implement the *State Energy Concept* from May 2015, which supports the fulfilment of targets relating to renewable energy sources (RES) and energy efficiency. The aim is to achieve a share of RES in the generation of electricity of at least 18%.

Long-term stable and sustainable conditions for the promotion of energy production from RES are established by the *National Action Plan of the Czech Republic for Energy from RES (NAP)*, the update of which was approved in January 2016. This projects that, in 2020, energy from renewable sources will account for 15.3% of gross final energy consumption, and for 10% of gross final consumption in transport. The 13.1% milestone set for 2016 as the share of RES in gross final consumption can be viewed as exceeded. According to the data of the Ministry of Industry and Trade (provisional final figures according to Eurostat methodology – SHARES), the share of RES in gross final energy consumption in 2016 was 14.9%. The share of RES in the transport sector in 2016 corresponded to 6.42% (compared to the milestone target of 6.5%). In the face of the current legislative uncertainty surrounding the tax concessions for high-percentage and pure biofuels in transport, there were no changes in this area in the update (other than a reduction in the share of energy from RES in gross final consumption in transport in 2020 from 10.8% to 10%) because achieving the prescribed target with tax support for such biofuels requires entirely different approaches than if there were no tax concessions. Other regulatory instruments are enshrined in the Act on Promoted Energy Sources.<sup>121</sup>

In the coming period, the Czech Republic will replace this National Action Plan with the National Climate and Energy Plan, which will be based on the proposal for the new regulation on Energy Union management, submitted by the European Commission as part of the Winter Energy Package. Through these plans, Member States should indicate, in particular, their contribution to the fulfilment of European targets up to 2030 (a share of 27% in final consumption – this was the target approved by the European Council in 2014). The document should include the planned share in 2030, the trajectory to achieve this, the sector-by-sector share, the trajectory for individual technologies, etc.

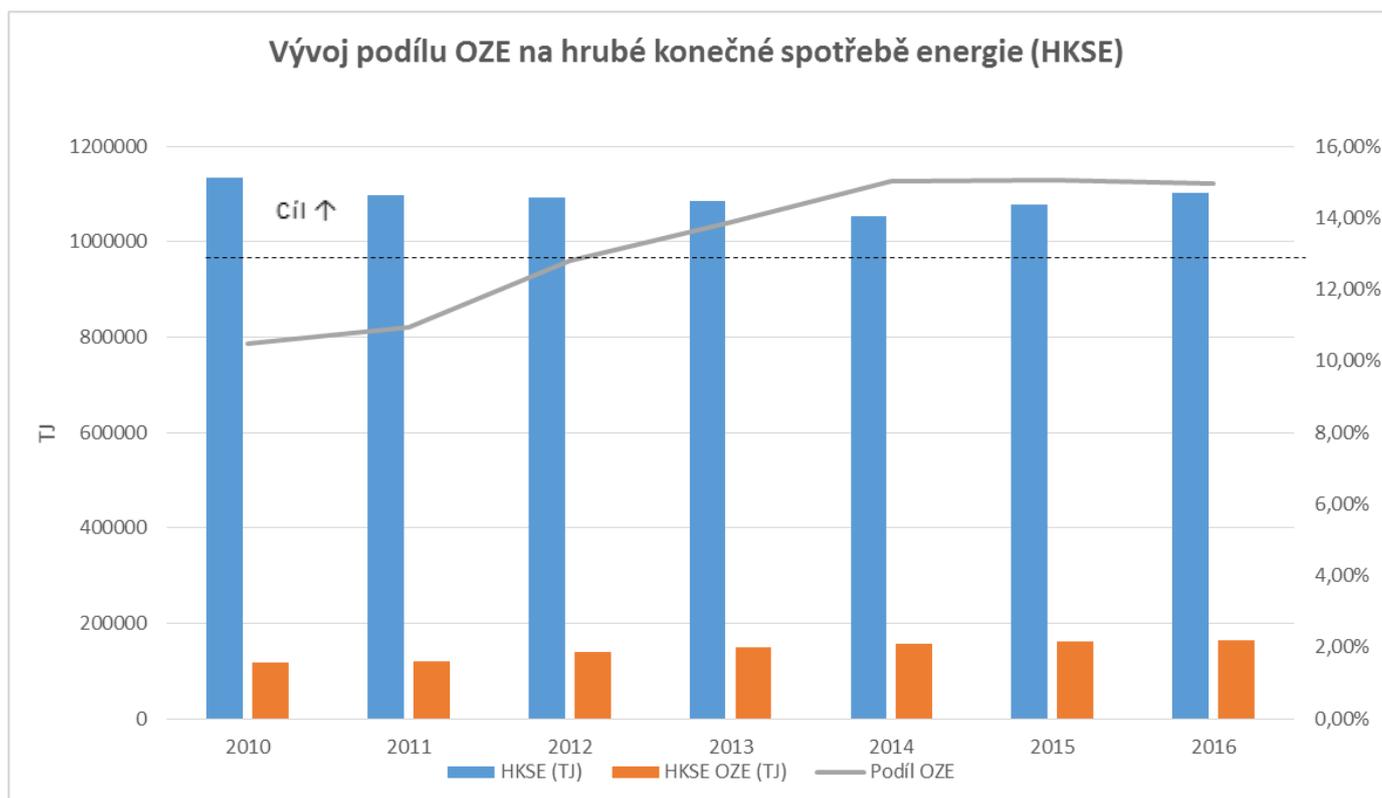
In September 2015, the Czech Republic requested notification for the support of electricity production at hydropower plants with an installed capacity of up to 10 MW even after 2015, and support for the operational production of heat from RES for plants with an installed capacity of up to 500 kW that use biogas. These notifications were approved by the European Commission in August 2016. In November 2016, the European Commission approved notification of support for the production of electricity from RES at facilities commissioned in 2006-2012. In March 2017, notification of support for the production of electricity at high-efficiency CHP facilities commissioned in 2016 was approved. In December 2017, the European Commission approved notification of support for cogeneration facilities commissioned in 2013-2015.

#### **Chart 7: Developments in the share of RES in gross final energy consumption**

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<sup>121</sup> Act No 165/2012.

### Vývoj podílu OZE na hrubé konečné spotřebě energie (HKSE)



cs	en
Vývoj podílu OZE na hrubé konečné spotřebě energie (HKSE)	Developments in the share of RES in gross final energy consumption (GFEC)
HKSE (TJ)	GFEC (TJ)
Podíl OZE	Share of RES
Cíl	Target

Source: Ministry of Industry and Trade

Source: Ministry of Industry and Trade

### Greenhouse gas emissions

The Czech Republic expects to meet its *Europe 2020* commitments in the field of climate and energy targets without having to adopt new measures. At the end of 2017, a political consensus was reached in Europe on the proposal for a regulation on binding annual reductions in greenhouse gas emissions by Member States in 2021-2030. That proposal set the Czech Republic a target of reducing non-EU ETS greenhouse gas emissions by 14% between 2005 and 2030. For the EU ETS, the Union-wide target is to reduce emissions by 21% by 2020 and by 43% by 2030 compared to the 2005 reference year. Between 2015 and 2016, there was an increase in the emissions of EU ETS facilities by almost 889,000 t CO<sub>2</sub>e, which can be attributed primarily to positive economic developments. Between 2005 and 2016, EU ETS facility emissions went down by 18.1%.

## 5 European Structural and Investment Funds

### 5.1 Coherence of the ESIF with the EU Council recommendations (country-specific recommendations)

The Council's specific recommendations account for a large proportion of the cohesion policy. Even when the substantive aspects of the cohesion policy were being set in the Czech Republic for the 2014-2020 programming period, the *Council's Specific Recommendations 2014* – also reflected in the individual ESIF- financed programmes – were included in the *Partnership Agreement*. In the subsequent years 2015, 2016 and 2017, the individual recommendations were compared with the substantive content of the Partnership Agreement and (operational) programmes. It was found that the existing configuration for the substantive focus of support was sufficiently broad and was not at variance with the Council's recommendations.

In 2017, the Czech Republic received two Recommendations, both of which encompassed themes that could be addressed by means of multiannual investments falling within the scope of the ESIF. Under the first recommendation, it is possible to draw on the Operational Programme Employment (Priority Axis 4 – Efficient public administration) to increase the effectiveness of public expenditure, especially by *combating corruption and inefficient procedures in public procurement*. Under the second recommendation, focusing on removing barriers to growth, the ESIF can be used to address essentially all sub-recommendations. To remove barriers to growth, in particular by *streamlining procedures for granting building permits and to make further reductions in the administrative burden faced by enterprises*, the Operational Programme Employment (Priority Axis 4 – Efficient public administration) offers support primarily in the form of training and improvements in employees' qualifications. Likewise, sub-recommendations for the *introduction of key e-government services* can be implemented using the Operational Programme Employment (Priority Axis 4 – Efficient public administration), and also the Integrated Regional Operational Programme (Priority Axis 3 – Good territorial governance and more efficient public institutions). *Improvements in the quality of research and development* targeted by the Operational Programme Research, Development and Education (Priority Axis 1 – Reinforcement of capacities for quality research, and Priority Axis 2 – Development of higher-education institutions and human resources for research and development). Interventions under the Operational Programme Employment (Priority Axis 1 – Support of employment and the adaptability of the workforce) can be used to meet the sub-recommendation to *remove barriers to growth by supporting the employment of groups not sufficiently represented on the labour market*.

### 5.2 Coherence of the ESIF with national targets under Europe 2020

The ESIF are a major source of funding in the pursuit of Europe 2020 national targets. In 2017, there was a major acceleration in the evaluation of projects, legal acts were executed and physical implementation was commenced in all priority axes of programmes linked to national targets under Europe 2020.

The Operational Programme Employment and Operational Programme Prague – Growth Pole of the Czech Republic in particular, and the Rural Development Programme and New

Green Savings Scheme, in part, helped to fulfil the five employment-related national milestones.

In this area, the ESIF focus directly on support for the employment and employability of those who suffer various disadvantages on the labour market and, despite the current buoyancy, have difficulty finding work. The various instruments have already supported 53,552 persons. These include, for example, 8,476 up to the age of 25, 6,796 over the age of 54, and 9,366 who have attained no more than lower secondary education. Of these persons, 14,120 have been awarded a certificate certifying the completion of an education programme. The project implementers are the Labour Office and other institutions, such as NGOs.

In the field of employment, we are witnessing a sustained reduction in persons at risk from poverty, thanks in part to the interventions made under the Operational Programme Employment, the IROP, the Operational Programme Prague – Growth Pole, and also, in part, the Rural Development Programme.

The ESIF – via calls under the Operational Programme Employment, the IROP, the Operational Programme Prague – Growth Pole and, in part, the Development Programme – are also used to fund projects geared towards risk groups at risk of social inclusion and poverty. This involves the provision of low-threshold, field and walk-in services, and their coherence with other services, in particular in the fields of employment, health care and housing. Another type of project facilitating the integration of the population at risk of poverty is the support of social enterprises.

Milestone targets in education are gradually being met, in particular with support from the Operational Programme Research, Development and Education; the issuance of leaving education early is addressed not only by that Operational Programme, but also by the IROP and the Operational Programme Prague – Growth Pole of the Czech Republic.

According to the latest available data of the Czech Statistical Office, total spending on science, research, development and innovation fell to CZK 80.109 billion (1.69% of GDP) in 2016. Of this, public expenditure accounted for CZK 31.202 billion, 8.6% of which was provided by the ESIF. After seven years' growth in R&D&I expenditure, there was a plunge of almost 10% in 2016, caused by the low uptake of subsidies from the EU, which had been a major source of funding for domestic research – especially in the field of investments – between 2011 and 2015. Starting in 2017, the uptake of ESIF resources increased again.

A host of programmes provide support for climate and energy policy (spearheaded by the Operational Programme Enterprise and Innovation for Competitiveness, the Operational Programme Environment, the Operational Programme Transport, the IROP, New Green Savings, and the Rural Development Programme).

The Czech Republic has been set an emission commitment for non-EU ETS sectors – a maximum permissible rise in greenhouse gas emissions by 9% compared to the 2005 reference year (-0.3%). In 2015, this figure was -0.6% (i.e. there was a downturn compared to the benchmark, but a major increase compared to the previous year). In the field of ESIF, as at 2017 a reduction in greenhouse gas emissions has been reported, especially for activities under the Operational Programme Environment to improve the energy performance of public buildings and activities under the IROP to increase the use of renewable energy sources and to improve energy performance in the housing sector.

According to international calculation methodology, in 2015 the share of renewable energy sources (RES) in final consumption was 15.1%, giving every expectation that the strategic objective for the Czech Republic will be met in 2020. Historically, electricity has been

produced from RES to a large degree by private sector investment, with no contribution from the ESIF. Today, there is more widespread ESIF support of RES projects, thanks in part to the supplementation of new activities supported in this area under various operational programmes (the Operational Programme Enterprise and Innovation for Competitiveness, the Operational Programme Environment, and the IROP). In 2015, RES contributed to 6% of electricity consumption in transport; these activities are also partly supported by the ESIF. Renewable energy sources contribute to the distribution network and reduce energy consumption from the public network by generating energy for captive consumption.

New energy savings of approximately 17 PJ should be achieved by the ESIF in 2020. This is approximately one third of the Czech Republic's overall commitment in this area. Approximately two thirds of the ESIF funding is channelled into the Operational Programme Enterprise and Innovation for Competitiveness (savings at enterprises), while the remainder is shared virtually equally by the Operational Programme Environment (savings at public buildings) and the IROP (savings in multi-family buildings); a marginal part goes to the Operational Programme Prague – Growth Pole (savings in buildings and transport facilities of the City of Prague). Energy efficiency activities supported by the ESIF are also supplemented by national programmes, such as Effect – for the preparation of projects, and New Green Savings – in support of energy savings. The results achieved so far generally appear to be inadequate, so measures will be taken to improve them. In the operational programmes concerned, modifications are being made with a view to the optimal establishment of support conditions and achieving the results expected under the Partnership Agreement.

## **6 Involvement of economic and social partners**

The National Reform Programme of the Czech Republic 2018 is the fruit of close interdepartmental cooperation coordinated by the Government Office. Representatives of economic and social partners, the Czech Parliament and other relevant expert stakeholders were also closely involved, either formally or more casually, in the preparations.

Economic and social partners had the opportunity – of which they fully availed themselves – to comment on the working versions of the document in the three rounds of consultation. The representatives of economic and social partners also actively participated in three theme-based roundtable discussions on the first working version of the document.

Prior to the submission of the National Reform Programme 2018 to the Government Committee on the EU, the document was consulted with economic and social partners at meetings of working teams of the Economic and Social Agreement Council – specifically the working team for the European Union (20 April 2018) and the working team for economic policy (23 April 2018).

## **7 Annex**

Annex 1: Overview of related national strategy documents and action plans:

<http://www.vlada.cz/assets/evropske-zalezitosti/aktualne/NPR-2018.pdf> (page 71-76)

Annex 2: List of concrete measures under the Programme:

<http://www.vlada.cz/assets/evropske-zalezitosti/aktualne/NPR-2018-Priloha---opatreni.pdf>