



Amendment to the Coalition Agreement

on the Coalition of Budgetary Accountability,
the Rule of Law and the Fight against Corruption

concluded by and between

the Civic Democratic Party

represented by its Chairman, Petr Nečas

TOP 09

represented by its Chairman, Karel Schwarzenberg

Public Affairs

represented by its Chairman, Radek John

Preamble

The Civic Democratic Party (ODS), TOP 09 and Public Affairs (VV) decided, upon reaching agreement in coalition talks, to write the Amendment to the Coalition Agreement of Government of budgetary accountability, the rule of law and the fight against corruption.

The Coalition thus confirms its goal to reform the public finance with the aim to stop the indebtedness of Czech citizens and to reform the pension and healthcare systems. The Coalition will continue to adopt crucial policies to combat corruption and bureaucracy.

The Amendment to the Coalition Agreement further specifies the responsibilities of Coalition parties in fulfilling of these priorities and updates procedural and personal issues. The chairmen of the Coalition parties confirm their will to support such amended Coalition Agreement with their signatures at the end of the document.

Public budgets, compulsory expenditure, social protection and pension system

The commitment of Coalition parties to lower the government subsidy to construction savings in the suggested form still stands, only its effect is postponed to funds paid in 2012, in accordance to the ruling of the Constitutional Court.

We will continue to protect citizens and entrepreneurs from high prices of energies, which would cause a sharp decline in the competitiveness of the Czech Republic in European and worldwide context. For this reason the government adopts following measures: levy on withdrawal of land from the agricultural land fund, levy on electricity production from solar panels from arrays put into operation in years 2009 and 2010 and a gift tax from emission permits allocated in years 2011 and 2012.

The government will allow the municipalities via the Lottery Act to effectively regulate, in addition to the current ones, additional gambling and betting games, which are operated by the better himself, including the interactive video lottery terminals and similar games.

The government will propose to cancel the tax exemption from the corporate body tax for lottery companies and will propose implementation of a special lottery tax, so that the total sum levied will be higher than what states the amended Lottery Act which was approved by the Czech Parliament. The Coalition will make every effort to ensure, that the legislation process will be ended by 31st December 2011 so that the lottery tax could be in effect from 1st January 2012.

To fulfill the basic principles of the state accounting creation, the first consolidated account statements for 2012 will be prepared. The State Treasury system will be routinely operational from 2013.

The government will observe the maximum budget deficit for 2011 in the amount of 135 billion CZK. In the following years the deficit will be lowered to a maximum of 3.5 percent of the GDP in the year 2012, 2.9 percent in 2013 and 1.9 percent in 2014 with the aim to achieve a balanced state budget at the end of 2016.

The Coalition will pursue the Convergence Program with the decreasing deficits and will adjust the tax and levy rates accordingly. Thus for the years 2012-2014 income will be ensured so that it will not decrease under the 2011 level.

The government will remove the tax digression above the social insurance ceiling in the personal income tax.

Within the tax reform the Coalition will cancel the dividend tax.

The Coalition will keep the tax relief for mortgages and will set an upper limit for tax deduction to the amount of 80 000 CZK/month.

The government will adjust the VAT rates as follows: in the year 2012 the lowered VAT rate will be increased from 10 to 14 percent, in 2013 the rates will be unified at 17.5 percent. All

additional income from this change will be dedicated to financing the transformation costs of the pension reform.

Due to the change of VAT rate from 10 to 14 percent socially vulnerable groups will be compensated as follows: Citizens who receive pensions will be compensated by their valorization, which will be automatically increased by the increase in cost of living and one third of the increase of the average wage. Parents with dependent children will have their tax allowance increased by 1800 CZK a year per child. The valorization after the unification of the VAT rates at 17.5 percent in 2013 will be solved in a similar manner.

The government will adjust the pension calculation according to the Constitutional Court ruling. The increase of pension age will newly affect all policy holders born in 1936-1977. The increase of the pension age by 2 months yearly for men and women will continue also for those born after 1977 without setting the upper limit of the pension age, which gives the future governments room for additional adjustments according to actual development.

The pension reform will allow voluntary withdrawal of a part of the finances from the I. pillar by policy holders younger than 35 years. Others will be able to make their decision in the period of 6 months before the new system launch and it will not be possible to change this decision. By withdrawing the insurance rate paid to the I. pillar will decrease by 3 percentage points, which will then be directed into the II. pillar along with another 2 p.p. from the policy owner's own finances.

The government will guarantee maximum limits of fees in the II. pillar. These will be 0.3% from the deposited assets for the government bond fund, 0.4% for the conservative fund, 0.5% for the balanced fund and 0.6% for the dynamic fund.

Investments in the II. pillar will be managed by pension companies. The conditions for creating a pension company will be set so that adequate competition in the market will be ensured and all companies, which meet the conditions stated by law, will be allowed to enter the market. All pension companies will obligatorily offer four funds – general government bond fund, conservative fund, balanced fund and dynamic fund. The general fund will invest in government bonds only and of those only in bonds of the Czech Republic and states of the same or better rating to ensure adequate risk distribution.

The government will allow for the finances in the II. pillar, which will be owned by the participant, to become a part of his heritage in case of his death within the saving period or after the end of the saving period in case of 20-year rent payment period. This will be possible only as a form of claim within the II. pillar.

The rent payment will be based on the written contract with the selected life insurance company. The participants will be able to choose between a life-long pension with the option to arrange an inheritance pension for three years or a pension for 20 years.

The government will cover the transformation costs of the reform mainly from the income generated by the unification of the VAT rates. Dividends from state-owned companies can be used only for a limited time period according to the EU rules. All privatization income will be automatically transferred to the pension account. Incomes which are assigned by law for the I. pillar cannot be in any case used for the II. and II. pillar.

To strengthen the inter-generational solidarity the government will allow the children to increase their parents' retirement income. Every payer will be able to ask for a transfer of an amount of 1% of his calculation base for mandatory insurance premium to his parents' account. The increase of parents' income will have no effect on the payer's income from the continuous or saving pillar and will be paid from the state budget.

The government will adjust the definition of illegal work and will increase the maximum fines for illegal work and will establish shared work intermediation and an option for job seekers to choose requalification.

The government will prepare other measures which will support employment of physically disadvantaged persons. In case the tax allowance for companies that employ physically disadvantaged persons is removed this will be fully compensated from the resources of the Ministry of Labor and Social Affairs.

A unified system of manager compensation will be introduced in state-owned companies to strengthen effectiveness and fairness of compensation principles.

The government will combine all current mobility social benefits into one monthly mobility benefit and will also introduce one-time payments for procurement of special tools.

Ministry of Labor and Social Affairs and Ministry of Health will prepare a concept of social healthcare.

A change will be introduced in the way the physical state is assessed by the Medical Assessment Service for social benefit purposes including the Service's reorganization within the Czech Social Security Administration.

The Government Council for Equal Opportunities for Women and Men will be transferred under the Ministry of Labor and Social Affairs.

New measures will be adopted in the field of child care to provide alternative care in a family environment

With regard to the decrease of administrative burden of entrepreneurs the government will cancel their obligation to announce every vacant job position.

The government will also introduce an option for the employment agencies to be able to request the Statement of Non-Delinquency of a social benefit applicant themselves with the approval of the applicant.

Healthcare

The eligibility of the patient for healthcare paid from the public health insurance will be defined in general terms in the law. Specifications of details of geographical or time availability will be made via a government regulation and the fully covered procedures by a notice of the ministry (List of procedures with point values).

The definition of eligibility will contain explicit descriptions of the “basic variant” and the “economically more demanding variant”, where the basic variant must ensure adequate healthcare. Healthcare providers will be obligated to offer the basic variant healthcare and also inform the patient thoroughly about the economically more demanding variant. Violation of these obligations will be fined in the amount of 1 000 000 CZK, repeated violation will lead to the termination of contract with the healthcare facility.

On the 1st January 2012 at the latest an above-standard will be defined by the Ministry of Health, which will be prepared in cooperation with Czech Medical Chamber, expert medical companies, medical faculties and health insurance companies. The above-standard will be defined based on current medicine science findings and conditions under which these medical procedures can be provided to policy holders in an economically more demanding manner.

Additional savings in the system will be achieved through a new medicament policy.

A new Act on health insurance companies will increase their responsibility for financial flows and management of the healthcare system.

The financial participation of the patients will increase in the following years from the current rate of 17% as follows: in 2012 by one p.p. to 18%, in 2013 by 2 p.p. to 20% and in 2014 by 2 p.p. to 22%. Also in years 2012-2014 internal savings in the amount of 5.5 billion CZK will be found every year excluding the medical personnel wages.

Regulation of new technologies, i.e. medical supplies, material, instruments and procedures and their entry into the health insurance coverage will respect the financial capabilities of the system and will be subject to similar decision processes as medicaments.

Law, justice, public administration, bureaucracy and corruption

The Coalition commits to fulfilling the adopted anti-corruption strategy.

In the public contracts act the government will pursue among others the condition of a transparent applicant. Every applicant must present all owners with a share bigger than 10% and a list of statutory bodies or its members for the last 3 years.

The law will also remove the limitations of participation for those suppliers, who have their seat or registered office in a member state of the EU or other states, that have an international contract with the Czech Republic or the EU that guarantees access of suppliers to the offered government contract.

Government contracts issued by the Czech Republic that will surpass 300 million CZK will have to contain in their tender documentation a statement of an independent expert.

We will abolish the supplier selection by lottery.

For significant government contracts an assessment commission of at least 9 members will be established. If the nature of the contract implicates it, then at least 2/3 of all members of the commission have to be experts in the subject of the contract.

In the fight against corruption we will cooperate with NGOs and will support them within our possibilities.

The Coalition will pursue the establishment of the General Inspection of Security Corps.

The government will outline the basic strategic framework for implementation of modern information and communication technologies into public contracts.

The government will present new legislation for financing of political parties, including the financing of election campaigns. It will be based on nine recommendations from the GRECO concluding statement.

We will strengthen the rights of crime victims and protect witnesses in regard to court procedures.

The director of the Financial Analytical Department of the Finance Ministry will be appointed by the government based on the suggestion of the Finance Minister. As with the intelligence services a parliamentary monitoring body will be created for the FAD.

The government will propose new legislation which will in any possible way limit anonymous ownership of companies, including appropriate changes in the Civic Codex and the Corporation Act.

The government will present new law on general referendum by the end of 2011.

The Coalition will strive to achieve agreement with the opposition concerning the direct presidential vote so that the next vote will be direct.

By the end of 2011 the Coalition will present changes of the Rules of Procedure of the Chamber of Deputies, which will ensure the obligatory inclusion of CIA into the explanatory report and an obligation to present an explanatory report with each amendment proposal. The proposal will include an overall tightening of amendment proposal rules and a ban on “stick-ons”.

The Coalition will present new legislation on conflict of interests so that it will limit compensation payments for politicians in supervisory boards of companies with state, regional or municipal ownership.

In connection to the amendment of the Czech Constitution and the amendment of the Supreme Audit Office Act a new CoalitionWorkgroup will be created to discuss the possibilities of further extension of the SAO powers and its status.

The reform of Justice

A new CoalitionWorkgroup will be created for the reform of justice and the prosecution system.

Specialized court senates and prosecution bodies will be strengthened.

Free legal advice will be strengthened by an obligatory participation of applicants for entry into legal professions.

The Coalition will adopt a law on mediation in non-criminal affairs.

Education, science, research, culture

The Ministry of Education, Youth and Sports (MEYS) will prepare a new model for financing regional education with an implementation date of 1.1.2013, which will prevent ineffective spending. MEYS will remain its guarantor.

After the evaluation of the results of the implementation of the new leaving exams in the school year 2010/2011 MEYS will perform a thorough analysis of the whole process and will prepare a proposal for any further adjustments of the new leaving exam model so that the highest possible effectiveness in spending will be achieved. An electronic version of the state leaving exam is to be prepared at the latest by 31.12.2013.

Ministry of Education, Youth and Sports will prepare necessary legislative steps for the support of sport according to the adopted conception. At the same time it will create executive conditions for its fulfillment.

The finances for the support of sport will be a dedicated indicator of the state budget. For the year 2012 its amount will not decrease under the 2011 level. From 2013 these expenses will increase accordingly to the taxation of gambling.

We will support the improvement of educational conditions for socially disadvantaged students.

The environment, agriculture and the countryside

In 2011 the Coalition will remove from the Mining Act the option of expropriation and other limitation of ownership rights of real estate owners and municipalities in mining areas.

The Coalition will create a workgroup to deal with the State Energetic Conception, which will present its first partial report to the K9 by the end of September 2011.

Business, business support, infrastructure and housing development

Reassessment of the administrative burden for entrepreneurs will be made by using the Standard Cost Model method. This model is based on division of legislative acts into individual measurable components.

The government will support the development of electronic communication in the Czech Republic according to the adopted strategy Digital Czech Republic.

The government will analyze strengths and weaknesses of the Czech Republic's competitiveness and based on this analysis will prepare a set of measures to improve the international status of the Czech Republic in this field.

A conception of housing policy will be formulated, which will include support of rental housing. The guarantor of this policy will be the State Housing Development Fund.

Principles of Coalition Cooperation

The Coalition parties agreed within the Amendment on following principles of forming of the Government of the Czech Republic: the government will have 16 members with representation of the ODS, TOP 09 and VV in the ratio of 6 (ODS), 5 (TOP 09) 4 (VV) and one non-partisan candidate.

Meetings of Representatives of the Coalition Parties

K 115

Meeting of all Coalition Deputies

Meeting gathers upon request of any Coalition party, in particular before an important voting in the Chamber of Deputies.

Cooperation of Ministers with Committees

The ministers usually initiate twice a year an informal meeting with Coalition Deputies from the appropriate committees. The goal is, apart from the solution of professional problems, to strengthen the Coalition communication across the K 115 so that regardless of partisanship the minister will be regarded by the K 115 as "our" Coalition minister and vice versa.

Support of the government

The Coalition parties confirm their commitment that through their whole electoral term they will proceed in a unified manner and in full count of their Deputies during the vote of confidence or no confidence in government and during its formation.

The Coalition parties bind themselves that in case of a vote of confidence in government they will not seek support outside the Coalition parties' groups nor separately among individual Deputies of the opposition parties and will not base the government's functioning on "turncoats".

Further provisions

The RIA (Regulatory Impact Assessment) and CIA (Corruption Impact Assessment) will fall within the legislation process under the chairman of the Government Legislative Council. The legislation draft, which gets negative CIA assessment, will be discussed in a government meeting only after the agreement between the Prime Minister and the GLC chairman.

The Coalition will create a workgroup for public budgets, which will lead the discussion on the public budget development until 2014. Based on this discussion an eventual revision of the Government's Program Statement will be proposed by 31.12.2011.

Evaluation of government's work

A revision of the fulfillment of the Coalition Agreement including the evaluation of the conduct of individual ministries will be made by 15th December each year.

The remaining principles of the Coalition Agreement will be further applied in their full extension.

The composition of the Government of the Czech Republic

The Coalition parties have agreed: in the government with 16 members the ODS, TOP 09 and VV will be represented in a ratio 6:5:4. The Prime Minister is Petr Nečas (ODS). Following the agreement of all Coalition parties the Interior Minister will be a non-partisan candidate.

- Deputy Prime Minister and Minister of Foreign Affairs (TOP 09)
- Deputy Prime Minister and The chairman of the Legislative Council of the Government of the Czech Republic (VV)
- Defense Minister (ODS)
- Minister of Industry and Trade (ODS)
- Environment Minister (ODS)
- Justice Minister (ODS)
- Agriculture Minister (ODS)
- Finance Minister (TOP 09)
- Health Minister (TOP 09)
- Labor and Social Affairs Minister (TOP 09)
- Culture Minister (TOP 09)
- Interior Minister (non-partisan)
- Transportation Minister (VV)
- Education Minister (VV)
- Local Development Minister (VV)

The present Agreement is executed in three counterparts, which, in witness of their agreement to the content hereof, the below-written representatives of the Coalition Political Parties have signed, and which have been endorsed by resolutions of all the parliamentary clubs of the Parties hereto.

Prague, 30th June 2011

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Petr Nečas, ODS Chairman

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Karel Schwarzenberg, TOP 09 Chairman

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Radek John, VV Chairman