

**Implementation Report on the
National Reform Programme of the
Czech Republic
2008 - 2010**

Czech Republic
October 2009

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I. INTRODUCTION

The reform agenda set the National Reform Programme 2008 – 2010 has been strongly influenced by the global economic recession. Despite its previously favourable macroeconomic development, the Czech economy as a rather small, highly open economy with a considerable share of machinery and transport equipment on both GDP creation & exports, couldn't evade the consequences of a global economic slowdown. Its impacts were indicated by falling amount & value of new orders in the beginning of 4th quarter of 2008, notably as regards the industrial production which plays a key role within the Czech export structure. Starting from the half of Q4 2008 industrial production repeatedly fell, month-on-month, by up to 10% and in January 2009 the industrial production was by 23.3% lower, year-on-year (YOY).¹ Foreign trade turnover for the first half of 2009 marked a drop of 20.3 % (YOY), biggest in the history of Czech Republic with exports falling by 19.2% and imports by 21.5%, YOY.

With regards to rather conservative investment strategies of commercial banks operating on the Czech market the banking sector wasn't touched by toxic assets as it was the case in the United States or some EU Member States. However, the expected drop of foreign demand which gradually become visible on the ground along with high volatility on foreign markets lead to tangible risk reassessment on the financial market resulting in tightening credit conditions on the bank- and interbank markets.

In Q4 2008 the Czech economy entered recession in which it stayed for two quarters as the economy grew 0.1% in Q2 2009 followed by a 0.8% growth in Q3. Nevertheless, in 2009 the economy may shrink by up to 4.5%, YOY. This development corresponds with a considerable increase of unemployment as well as with weak to negative inflation pressure in the economy. Possible recovery is conditional on the recovery of Czech Republic's most important trading partners within the EU, most notably Germany. However, even if necessary positive developments on foreign markets occur, yet another fall into recession cannot be excluded.²

As a reaction to the economic crisis, on January 8 2009 the Government established its National Economic Council (NERV). NERV prepared a set of anti-crisis measures aimed to maintain employment mostly through cutting labour cost and to help entrepreneurs to deal with the tightened credit conditions. The EU institutions have been periodically updated on these measures which were also discussed with the representatives of European Commission during the so called "Lisbon Mission" that took place in Prague on June 13 2009. The actual scope, shape and time of measures' coming into force were influenced by the no confidence vote on Prime Minister Topolánek's second government. Eventually, the necessary broad political compromise regarding the anti-crisis package was reached.

Authorities had to take a responsible approach with regards to deteriorating public finances, caused by the economic downturn. Many legal acts were amended regarding both the revenue

¹ Source: Czech Statistical Office, unless otherwise stated.

² Automotive- and related industries war the key factors of re-establishing growth as car-scraping schemes have been introduced throughout the EU since spring 2009, most notably in Germany. However, these schemes are about to expire. Furthermore, even with growth in major trading partners' countries re-established, also part of their "future" demand for cars was already satisfied during the time of car-scraping support.

as well as the spending side of public budgets. Considerable changes were made to the drafted 2010 state budget. While stressing the necessity for fiscal consolidation in the first place, the Government's aim was to design its Austerity Package in way which would minimise its negative growth impact.

One of the key goals of this Report – along with the monitoring of progress achieved within the Lisbon agenda - is therefore to draw a distinct line between the anti-crisis and fiscal-consolidation measures subsequently adopted both by the Government and the Parliament in order to face adequately the economic downturn.

The Report was repeatedly consulted with the representatives of economic and social partners and their valuable comments and suggestions were being continuously reflected upon during Report's elaboration.

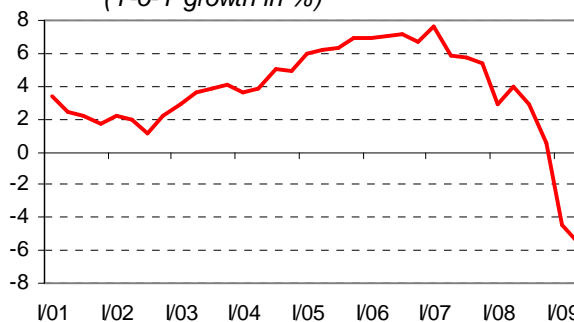
II. ECONOMIC DEVELOPMENT

Current state of the Czech economy

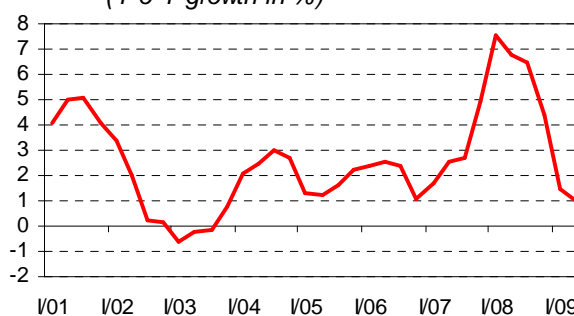
The Czech economy was developing favourably during the 2005 - 2007 period. Global financial crisis followed by and an unprecedented drop in global demand dragged Czech Republic's major trading partners' economies into recession as well. The financial crisis was displayed by an imported mistrust on the financial markets (growing spreads, banking institutions providing lower credits). Falling external demand along with subsequent lower investment demand dragged the Czech economy into recession in Q4 2008. The 2.5% GDP growth in 2008 was lower than the growth of the potential product (seasonally adjusted). The seasonally adjusted GDP grew as follows: in Q4 2008 0.5% YOY (-1.3% QOQ); in Q1 2009 -4.5% YOY (-4.8% QOQ); in Q2 2009 -5.5% YOY (0.1% QOQ); in Q3 2009 -4.1% YOY (0.8% QOQ) as shown in graph 1.³ However, the process of real convergence of the Czech economy continued with per capita GDP in PPS⁴ as the percentage of EU average kept growing. In 2008 foreign demand was the major growth factor albeit foreign trade's contribution to GDP growth was negative (-2.1 p.p.). Worsening terms of trade in 2007 lead to a lower dynamics of real Gross Domestic Income (GDI) compared to GDP. On the contrary in Q1 2009 the terms of trade were positive. Potential product growth rate slowed down to approx 3.0%. In Q1 2009 the output gap turned negative and currently it reaches approx -5% (with a growth cycle peak in Q4 2007).

In 2008 the average annual inflation rate as per HICP⁵ was 6.3% with a 1.7 p.p. share of administrative inflation.⁶ According to the abovementioned development as well as to global energy- and most notably food prices decreasing tangibly in 2009, the inflation was decelerating through 2009 and the inflation rate in September 2009 reached 0%, YOY. In the long run inflation is most notably dragged by housing costs.

Graph 1. Real GDP
(Y-o-Y growth in %)



Graph 2. Consumer prices
(Y-o-Y growth in %)



³ Source of tables in Part II (Economic Development) and Part III (Macroeconomic Part): Ministry of Finance, unless stated otherwise.

⁴ Purchasing Power Standard

⁵ Harmonised Index of Consumer Prices

⁶ I.e. VAT rate modification, DPH, healthcare regulation fees, rent regulation and other regulated items in the housing domain

Recession took its toll on the labour market as well. Positive employment trends since Q4 2004 that were related to both GDP growth and administrative provisions, turned negative by the end of 2008.

Overall employment grew 1.6% on average in 2008 with a slight 0.2 p.p. decrease in economic activity (persons aged 15–64 let) to 69.7% and with employment rate growing 0.5 p.p. to 66.6% (aged 15-64). Employment decreased 1.1% in Q1 and 0.4% in Q2 2009 when it was 1.1% lower YOY.

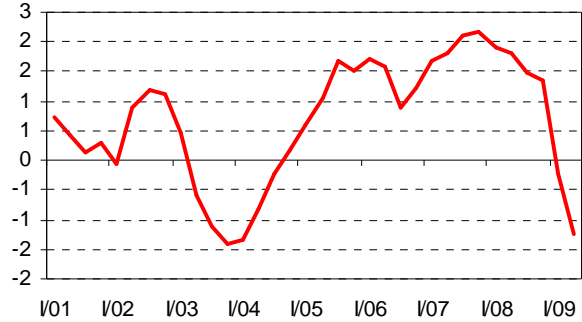
Unemployment rate as per International Labour Organisation (ILO) standards reached the minimum of 4.2 % in Q2 2008. The average unemployment rate was 4.4% in 2008. In Q2 2009 the unemployment rate grew to 6.5% which is a 2.1 p.p. growth YOY.

Czech economy's external balance (based on current account) ameliorated significantly through the 2005 – 2008 period compared to previous years due to growing trade balance surplus. Foreign Direct Investments (FDI) in preceding years as well as EU membership played a key positive role in this regard. In 2008 current account deficit equalled 3.1% GDP with a goods and services balance surplus of 5.0% GDP. The main source of current account deficit was the incomes balance, e.g. net outflow of primary incomes in form of wages, repatriated- & reinvested earnings and interests. This was further confirmed in Q2 2009 when the current account deficit decreased to 2.6% GDP with a 4.9% surplus in the goods and services balance.

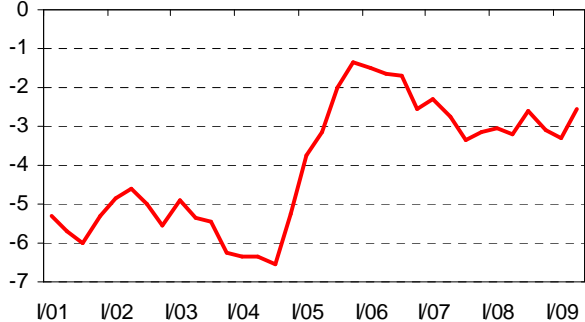
Disaggregated relative economic performance, recession impacts

Reforms laid down by the National Reform Programme of the Czech Republic 2008-2010 aimed to speed up the process of real convergence⁷ of the Czech economy towards EU average. Czech economy's growth rates in recent years substantially exceeded the EU average. Its average growth rate through the 2000 - 2008 period reached 4.3% as opposed to 2.0% in EU27 and 1.7% in EA12.⁸ Economic per capita performance of the Czech economy in PPP standards grew from

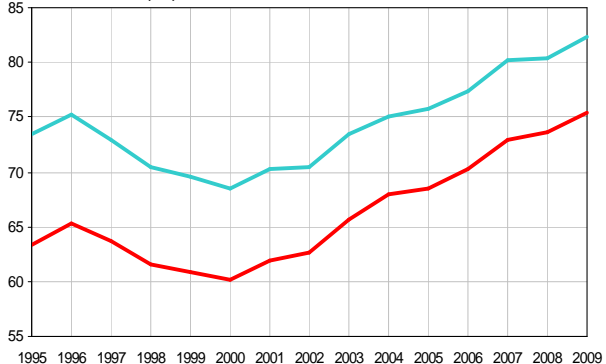
Graph 3. Employment (Y-o-Y growth in %)



Graph 4. Current account balance (in % of GDP)



Graph 5. Relative economic development in PPP (%)



⁷ Source of data for the relative comparison: EUROSTAT (by July 7 2009). 2009 forecast data were taken from European Commission's Spring Forecast (for EA12 and EU27) and from the 'Macroeconomic prediction of the Czech Republic' published in July 2009

⁸ 12 Countries of the Economic and Monetary Union before the joining of Slovenia

68.5% of EU27 in 2000 to 80.4% in 2008. Current global economic crisis will impact all EU Member States. Provided the supposed bigger decrease in EA12 and EU27 it is to be expected that the process of real convergence of the Czech economy will continue (see Graph 5). Based on the principles of growth accounting Czech Republic's relative position can be disaggregated to a position in labour productivity per hour worked and a position in labour utilisation measured by hours worked per capita (see table 1).⁹

Table 1. Disaggregation of the relative economic performance

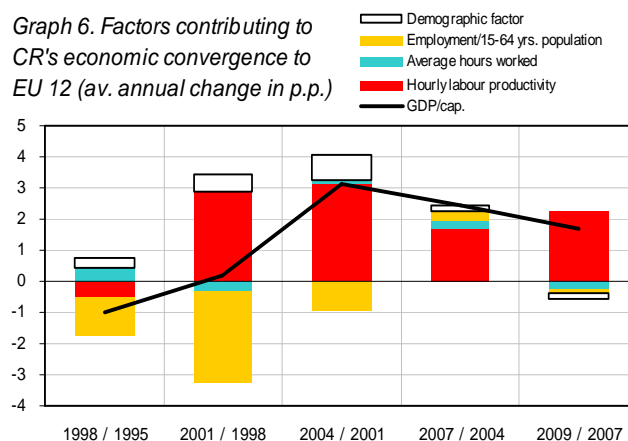
	EA12 = 100			EU27 = 100		
	2002	2007	2009	2002	2007	2009
Economic performance	62.5	73	75.5	70.4	80.2	82.3
Labour productivity / hour worked	46.8	53.7	56.1	55.2	61.6	64.2
Labour utilisation	133.6	136	134.5	127.6	130.2	128.1
Average hours worked	120	121.6	120.9	114	116.6	115.8
Unemployment rate	101.2	102.4	103.4	101.9	102	102.9
Participation rate	103.5	98.2	98.1	102.5	98.7	98.6
Demographic factor	106.3	108.5	108.2	105.6	107.2	106.8

Labour utilisation can further be disaggregated to average hours worked, unemployment rate, participation rate and demographic factor, e.g. structural relation between population of productive age (15-64) and total population.

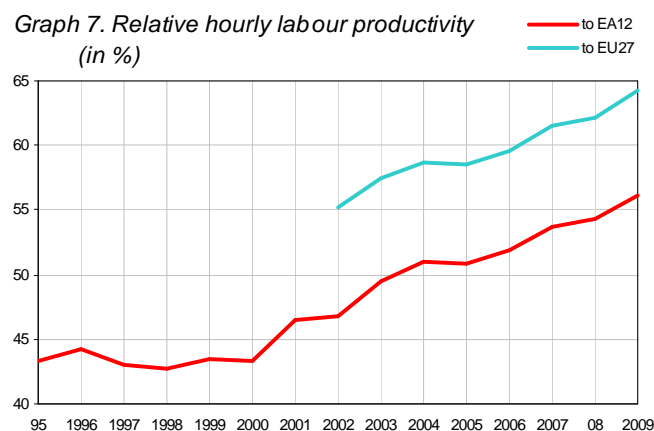
Graph 6 shows the contributions of respective convergence factors over time. It is clear that labour productivity per hour worked was the major real convergence factor (with the exemption of years 1995 – 1998). Starting from 2001 the convergence process became gradually less hindered by employment development. Demographic factor also had a mildly positive impact although it changed to mildly negative after 2007 (the same goes both for employment and average hours worked).

The gap between the economic performance of the Czech Republic and the one of “old” Member States is, similarly to other “new” Member States, given by a markedly lower labour productivity which still derives from the technological gap occurred during the era of central planned economy due to ineffective allocation of factors of production. Transformation processes, privatisation and restructuring of

Graph 6. Factors contributing to CR's economic convergence to EU 12 (av. annual change in p.p.)



Graph 7. Relative hourly labour productivity (in %)

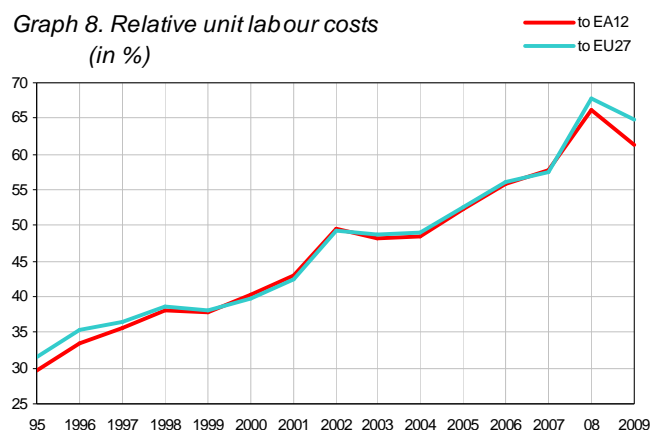


⁹ Data for respective factors of EU27 before 2002 are not available.

the economy, creation of market mechanisms, FDI's, technology transfer and adaptation of economic entities to new conditions created a new environment enabling ever faster elimination of the productivity gap. Labour productivity per hour worked only started growing significantly after 2000 when it grew from 43.4% of the EA12 average to 54.3% in 2008. It also seems that this trend will not be reverted by the current economic recession.¹⁰

Labour productivity convergence is conditioned by improving Czech economic entities' competitiveness. Czech economy's competitive advantage is still based to a large extent on low labour costs which can be seen on the relatively low unit labour costs compared to the EA12 average. However, this competitive advantage is shrinking over time. Relative unit labour costs grew from approx 30% of EA12 average to over 66% in 2008, i.e. more than twofold. Along with higher wage growth in the Czech Republic also a nominal appreciation of the CZK/EUR exchange rate took place, which contributed to an over-proportionate growth of unit labour costs in 2008 with a subsequent correction in 2009 (CZK/EUR exchange rate appreciated 11.3% on average in 2008, a 7.5% is to be expected in 2009).

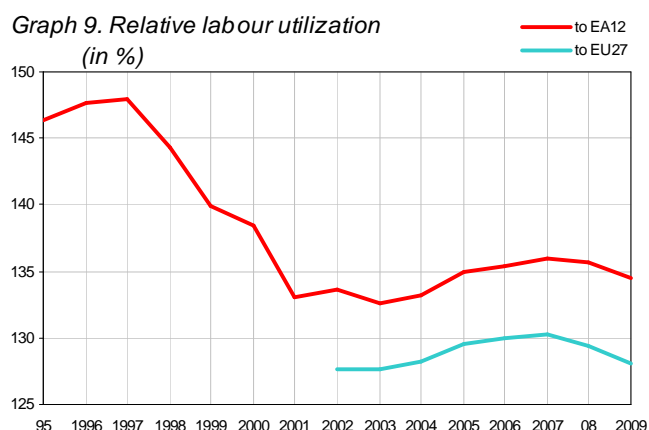
Graph 8. Relative unit labour costs (in %)



The assumption of having to complete the transition to a quality based competitiveness in order to safeguard a stable economic performance in the long run is, of course, still valid. To this end, it is of vital importance that within the framework of Lisbon- and Postlisbon strategy domestic resources for the creation of a knowledge-based economy - such as investments into research, extending and improving the quality of tertiary education, increasing the number of researchers developing more and more effective research activities and taking full advantage of ICT - are fully activated.

The relatively low labour productivity is being partially compensated by a very high labour utilisation (number of hours worked per capita as the relative economic performance to relative labour productivity ratio). After a more or less steady evolution of this indicator relative to the EA12 (134 % in 2001) labour utilisation grew moderately from 2004 to 2008 and has been again slightly decreasing since. With regards to current crisis and the further anticipated growth of part-time contracts a further deepening of this trend is to be expected (1.1 p.p. compared to 2008).

Graph 9. Relative labour utilization (in %)



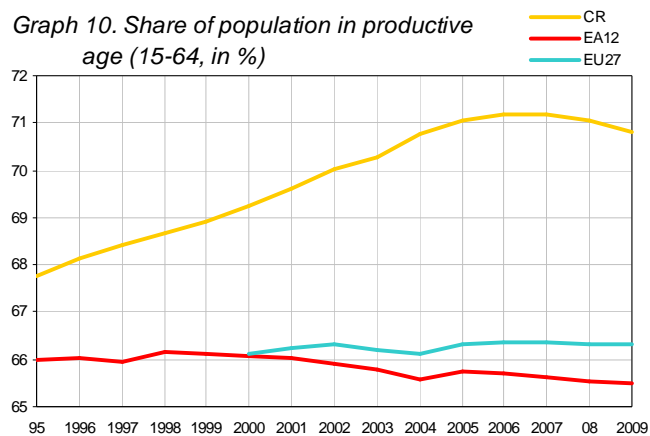
¹⁰ A growth to 56.1% of EA12 average is expected in 2009

An important albeit temporary factor of higher labour utilisation within the Czech economy is the demographic structure. While the long-term EU27 average for the population aged 15-64 oscillates around 66% with a rather decreasing trend the Czech Republic witnessed a growth from 68% in 1995 to more than 71% in 2006. Further development in this regard will be determined on the one hand by migration of persons in productive age (as a result of the current downturn a further albeit not significant decrease in number of foreign workers is expected) and on the other by population ageing due to both low birth-rate as well to growing life expectancy. According to current estimates the demographic factor's positive influence peaked already in 2006 (Graph 10) and the ratio of persons aged over 65 on total population will continue to grow. As for necessary administrative reactions to this trend along with the already adopted raising of the statutory retirement age further measures need to be taken, namely further modification of the pension system, supporting the economic activity of pre-pension age- and retired persons and higher labour market flexibility ensuring the necessary human resources in times of decreasing population of productive age. Lifelong learning will also play an essential role in maintaining and further raising the employability of workers.

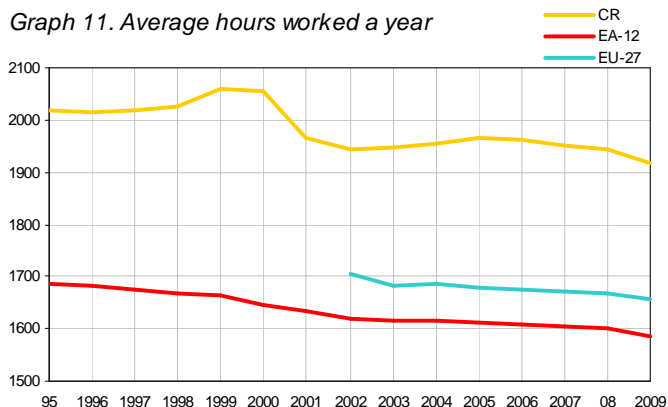
Main factor causing high labour utilisation is the high number of hours worked per employed person. Average standard work hours are traditionally high within the Czech economy. Furthermore, for entrepreneurial entities (mostly entrepreneurs with no employees) average standard and real hours worked are considerably higher than for employed persons. Significantly lower is the number of part-time jobs, vacation duration, and the number of holidays. Thus rather shortening of average work hours is to be expected in the future (this trend was already proved by recent data).

Labour force participation development played a considerable role in decreasing labour utilisation. It has been developing contrary to the trend witnessed in EU27 and EA12. Beside positive phenomena such as the increase of share of young people participating in secondary and tertiary education or the increase in

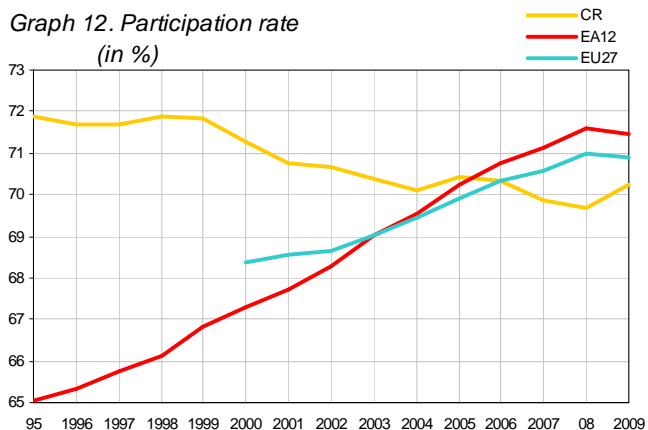
Graph 10. Share of population in productive age (15-64, in %)



Graph 11. Average hours worked a year



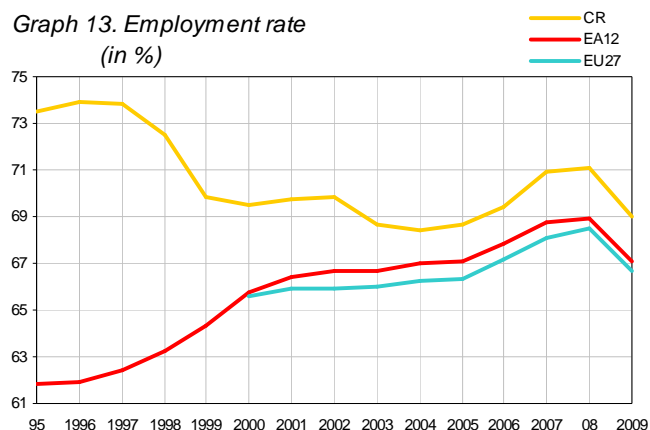
Graph 12. Participation rate (in %)



persons on maternity- and parental leave certain negative phenomena are play an important role in this development, namely the motivation to seek and accept job or dependence of certain citizens on social security benefits collection and their low economic reactivation self-initiative. Economic participation should be stimulated through policies aimed at promotion of part-time jobs for workers who can't work full time, simplifying the employment of retired workers and a more intense approach towards determining the eligibility for collection of various forms of social benefits.

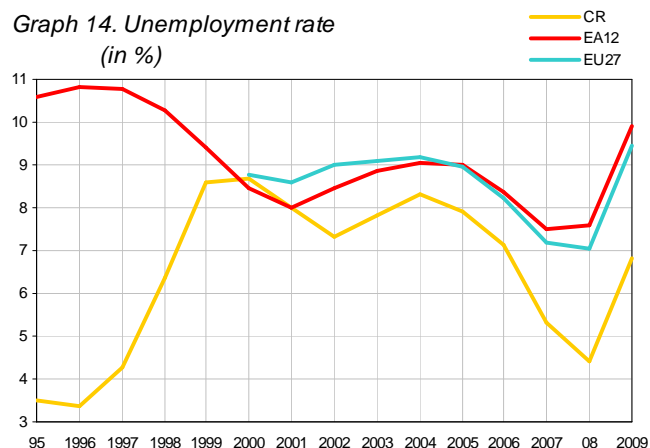
The employment rate (share of all workers on population aged 15-64) is being influenced by Czech economy's position in the current economic cycle. High demand for labour related to high dynamics of the economic growth in recent years lead to a substantial increase in foreign workers employment. Their employment share thus grew from 3.2% in 2000 to 7.3% in 2008. Positive were the growing involvement of retired persons and students and the growth of self-employed that (2.4% in 2008 and growing since 2006). Similarly to other EU Member States the employment rate should decrease in 2009 due to the current crisis.

Graph 13. Employment rate (in %)



The sharp increase in unemployment in the 2nd half of 90's played its part in the decreasing relative labour utilisation. The unemployment rate has thus reached levels comparable with EA12 and EU27 as significant structural changes took place. Afterwards the unemployment rate decreased from 8.3% in 2004 to 4.4% in 2008 being thus by 3.2 p.p. lower than the EA12 average by 2.6 p.p. than the EU27 average and the Czech Republic found itself among Member States with the lowest unemployment rate. This positive trend can be attributed both to Czech economy's cyclical position as well as to

Graph 14. Unemployment rate (in %)



the adjustment of labour market structural characteristics, such as the decrease in both numbers and share of long-term unemployed or the decelerating growth of regional disparities (measured by a pooled standard deviation in regional unemployment rates in NUTS 2 regions). The economic downturn took its toll on unemployment indicators as well. In mid-term time horizon the unemployment rate will most probably continue to grow until a growth generating new jobs is re-established. In this regard employment policy's active component must be reinforced so that job seekers don't turn into unemployable persons in the future.

III. MACROECONOMIC PART

In 2009 authorities mainly focused on facing the financial and economic crisis. In order to ease its impact on the Czech economy an effective combination of appropriate macroeconomic and structural policies was introduced with an emphasis put on following the set macroeconomic frameworks (inflation targeting, medium term expenditure frameworks) and ensuring the compliance of the adopted anti-crisis measures with long-term goals set by the Lisbon strategy. Measures adopted in the end of 2008 and during the first half of 2009 were focused on supporting both the supply and demand. Measures concerned derived from Czech economy's characteristics i.e. the reality of a small open economy hit by the global crisis through a sharp drop in foreign demand. Strive for keeping public finances under control in order to retain credibility on financial markets lead to the adoption of an austerity package in September 2009.

Fiscal policy

The medium term expenditure frameworks based on a three year planning horizon have been the basic instrument of fiscal policy since 2003. Czech Republic's aim was to attain the reference value for medium term fiscal goal of -1 % GDP in 2012 at the latest. However, the achievability of this goal was influenced by the worst global recession since 1930's which naturally hasn't bypassed the Czech economy. Global economic crisis' impacts lead to a significant deterioration of the overall fiscal position due to automatic stabilisers and a fiscal stimulus designed as part of anti-crisis measures totalling approx. 75 bn CZK in 2009 and approx 22 bn CZK in 2010. Decreasing the statutory social contributions of both employees and employers, faster depreciation schemes and increasing financial resources for infrastructure development are among the most important fiscal measures adopted (see Table 2 for details)

Table 2. Anti-crisis measures: revenue (R) and expenditure (E) changes of public budgets (PB) and the government sector (GS) in 2009 and 2010 in bn CZK.*

		2009						2010					
		Cash flow method			ESA 95			Cash flow method			ESA 95		
		R PB	E PB	(R-E)PB	R GS	E GS	(R-E)GS	R PB	E PB	(R-E) PB	R GS	E GS	(R-E) GS
I. Adopted measures													
1.	Reserve funds drawing		-1,5	1,5		-1,5	1,5			0,0			0,0
2.	Increasing guarantees for SMEs			0,0		0,4	-0,4			0,0			0,0
3.	Support to agriculture entrepreneurs		2,0	-2,0		2,0	-2,0			0,0			0,0
5.	Countryside Development Programme intensification		0,3	-0,3		0,3	-0,3			0,0			0,0
6.	R&D investments on top of the approved State Budget		0,3	-0,3		0,3	-0,3			0,0			0,0
7.	Salary increase of Government sector employees	0,4	2,7	-2,3	0,4	2,7	-2,3	-1,0	-7,0	6,0	-1,0	-7,0	6,0
8.	Increase in direct payments – national budget		1,0	-1,0		1,0	-1,0			0,0			0,0
9.	Reduction of the rate for sickness insurance and the State Employment Policy contributions	-18,4		-18,4	-18,4		-18,4	-0,9		-0,9	-0,9		-0,9
10.	Reduction of legal entities' income tax			0,0	-6,6		-6,6			-6,6			-6,8
11.	Czech Export Bank's base capital increase			0,0			0,0			0,0			0,0
12.	Increase of the insurance coverage provided by the Export Guarantee and Insurance Corporation			0,0			0,0			0,0			0,0
13.	Amendment to the Export Credit Insurance Act			0,0			0,0			0,0			0,0
14.	R&D fiscal impulses		1,8	-1,8		1,8	-1,8			0,0			0,0
15.	Reduction of income tax advanced payments	-20,0		-20,0	0,0		0,0			0,0			0,0
16.	Broadening of the scope for VAT deduction for vehicles	-2,5		-2,5	-2,5		-2,5	-3,0		-3,0	-3,0		-3,0
17.	Postponement of advanced payments for taxpayers with less than 5 employees	-19,0		-19,0	0,0		0,0	15,0		15,0	0,0		0,0
18.	Energy Performance of Buildings Subvention Programme			0,0			0,0			0,0			0,0

19.	Subvention Increase of the 'PANEL' subvention programme		0,6	-0,6		0,6	-0,6			0,0			0,0
20.	Increase in Transport Accessibility expenses		3,2	-3,2		3,2	-3,2		2,0	-2,0		2,0	-2,0
21.	Increase in investment into state-owned transport infrastructure in 2009		7,2	-7,2		7,2	-7,2			0,0			0,0
22.	Guarantees- and support for credits to SME's		2,1	-2,1		2,1	-2,1			0,0			0,0
23.	Transfer of selected services into the lower VAT rate category			0,0			0,0	-4,8		-4,8	-4,8		-4,8
24.	Faster depreciation schemes (1 st and 2 nd class)		0,0	0,0	-9,4		-9,4	-9,4		-9,4	-3,6		-3,6
Act on economic growth and social stability													
1.	Reductions of rates for social security insurance- and State Employment Policy contributions paid by employers		-18,0	-18,0		-18,0	-18,0			0,0			0,0
2.	Higher natural-person income tax child deduction			0,0			0,0	-2,0		-2,0	-2,4		-2,4
3.	Higher child allowances		0,2	-0,2		0,2	-0,2		0,6	-0,6		0,6	-0,6
4.	Car scrapping scheme		0,0	0,0		0,0	0,0		2,5	-2,5		2,5	-2,5
Total				-97,3			-74,7			-12,4			-22,2

* The above listed sums represent year-on-year changes occurred due to the adopted anti-crisis measures, i.e. not an autonomous development over respective budgetary years.

Czech Republic's main goal in the field of macroeconomic policies set by the National Reform Programme 2008 – 2010 is to safeguard long-term sustainability of public finances. The Czech Republic is facing a high risk of population ageing and high share of mandatory expenditures on overall State Budget expenditures. Complex reforms of the pension- and healthcare system and observation of expenditure ceilings will therefore be of key importance. The necessity of assuring long-term sustainability of public finances is even more important with regard to the current crisis.

Sharp deterioration in public finances over the short- and medium-term (the deficit of the government sector grew from 1.5% in 2008 to over 6% in 2009 and to as much as 7% in 2010 with policies unaltered) lead the Government to adopt an austerity package which was later amended and adopted by the Chamber of Deputies and the Senate and it was signed by the President on the 9th of October 2009. The package sets temporary limits on certain mandatory expenditures and most importantly it increases tax revenues (see Table 3 for details). As for direct taxes the yearly maximum base assessment for statutory insurance was increased from 48-fold to 72-fold of the average wage. As for indirect taxes both the standard and the reduced VAT rates were raised by 1 p.p. (i.e. to 20% and 10%). As a result of both the freezing of stimulus- and cyclical expenditures and increasing tax revenues the State Budget deficit will reach 5.3% of GDP in 2010. The mentioned measures accompanied by lower expenditure framework will generate a 5.6% GDP deficit of the government sector in 2011.

Table 3. 2010 fiscal impacts of austerity and other measures adopted by the Government, bn CZK

	State Budget					
	Cash flow method			ESA 95		
	R	E	(R-E)	R	E	(R-E)
	971,4	1 201,4	-230,0			
I. Austerity measures – Government proposals						
Taxes (total)	24,5		24,5	23,7		23,7
Income tax	0,7		0,7	0,1		0,1
Lower lump-sum expenses for taxes on income from entrepreneurial- and other self-employment activities of natural persons.	0,6		0,6			
Abolishment of tax-exempt of allowances for official representatives.	0,1		0,1	0,1		0,1
Consumption taxes	10,4		10,4	10,2		10,2
Tax on fuels (+1 CZK per litre)	6,9		6,9	6,8		6,8
Spirit tax (+2000 CZK per hectolitre)	0,5		0,5	0,5		0,5
Basic rate of the tax on beer (+8 CZK per hectolitre)	1,2		1,2	1,2		1,2
Tax on cigarettes and tobacco	1,8		1,8	1,7		1,7
Value added tax	13,4		13,4	13,4		13,4
Basic and reduced VAT rate increase	13,4		13,4	13,4		13,4
Social policy (total)	27,9	-5,3	33,2	31,0	-6,5	37,5
Social security and State Employment Policy	27,9		27,9	31,0		31,0
Conserving the rate of sickness insurance paid by employers	8,3		8,3	9,0		9,0
Raised maximum base assessment for statutory insurance (from 48 fold to 72 fold of the average wage)	3,1		3,1	4,0		4,0
Early abolishment of reductions in social security insurance contributions	16,5		16,5	18,0		18,0

Non-contributory social benefits		-0,6	0,6	0,0	-0,6	0,6
Social support benefits for disabled people (vehicle operation allowance)		-0,6	0,6		-0,6	0,6
Sickness insurance		-2,0	2,0	0,0	-2,4	2,4
Modification of reduction limits		-1,4	1,4		-1,6	1,6
Introduction of 3day waiting period for care benefits		-0,4	0,4		-0,4	0,4
Conservation of a 50% deduction of earnings-replacement benefits for 14 working days of sick leave from contributions paid by the employer		2,0	-2,0		2,0	-2,0
Unification of the rate for daily sick benefit calculation (set to 60%)		-2,2	2,2		-2,4	2,4
Employment		-2,7	2,7		-3,5	3,5
Cancellation of the increase of unemployment benefits		-2,7	2,7		-3,5	3,5
Health insurance		-4,5	4,5		-4,5	4,5
Raised maximum base assessment for statutory health insurance (from 48 fold to 72 fold of the average wage)		-4,5	4,5		-4,5	4,5
II. Further measures and impacts						
Salaries (not part of austerity measures)		-2,3	-3,4	1,1	-2,3	-3,4
Decreased salaries of state employees (-4 %)			-5,3	5,3		-5,3
Decreased revenues from statutory insurance with regard to salary cuts.	-2,3		-2,3	-2,3		-2,3
Changes in non-investment transfers to entrepreneurial entities (incl. contributory organisations)		1,9	-1,9		1,9	-1,9
Other		-6,1	-10,1	4,0	-6,5	-10,1
Precision of prediction on revenues from tax on legal entities' income	-0,1		-0,1	-0,1		-0,1
Lowering the subventions for State Fund for Transport Infrastructure		-0,7	0,7		-0,7	0,7
Lower subventions to local budgets from the State Budget		-1,4	1,4		-1,4	1,4
Higher child deduction in 2009 (income tax for natural persons)	-2,0		-2,0	-2,4		-2,4
Revenue from sold shares	1,0		1,0	1,0		1,0
Consolidation of debt interests	-5,0	-5,0	0,0	-5,0	-5,0	0,0
Interest on State Debt (saved due to lower debt)		-3,0	3,0		-3,0	3,0
Aggregate changes in revenues, expenditures and State Budget balance	44,0	- 23,3	67,3			
Total revenues, expenditures and State Budget balance	1015,4	1178,1	-162,7			

Source: Ministry of Finance

Monetary policy

Monetary policy is being carried out by the Czech National Bank (CNB) which adhered to inflation targeting already in 1998. Inflation target for the January 2006 – December 2009 was set to 3% with a tolerance band of ± 1 p.p. From January 2010 up until the adoption of Euro the target will be set to 2% with a tolerance band of ± 1 p.p. However, a specific date for the adoption of single currency hasn't been set within the updated analysis 'Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Economy with the Euro Area' which was adopted by the Government in December 2008. CNB lowered the two-week repo rate from 3.5% in September 2008 to just

1.25% in August 2009. With regard to the development of exchange rates the CNB declared its preparedness to further correction of interest rates. The CNB is also taking measures aimed at safeguarding a flawless functioning of financial markets.

IG 1 Secure economic stability for sustainable growth.

Immediate fiscal consolidation a cutting of government sector's deficits is one of the key priorities of country's fiscal policy. Fiscal targeting principles were followed and expenditure frameworks were not being exceeded in recent years which, along with the favourable economic development, helped to reduce deficits.

The Government strives to adhere to the 2011 expenditure framework in spite of the currently unfavourable economic development. However, as a consequence of the economic crisis leading to considerable drops in revenues and increased social benefit claims and increased interests the targeted deficits will be substantially higher than expected and outlined by the National Reform Programme 2008 - 2010. Revised target deficits as per ESA95 equal 7.4% of GDP in 2010 and 6.5% of GDP in 2011. The adopted target deficit for 2012 amounts 6% of GDP. Reaching the medium-term fiscal goal of -1% of GDP in 2012 is thus for the time being pushed back as a consequence of the extraordinary economic slowdown.

Main fiscal measures on the spending side of the State Budget will be taken with the aim of decreasing or at least keeping the share of mandatory expenditures. In 2010 the number of employees working for the state administration and their salaries will be reduced. Also, retirement pensions will not be adjusted.

As a result of the global financial and economic crisis a delayed imbalance on the labour market is taking place. Considerable portion of long- and short-term anti-crisis measures is thus directly aimed at supporting the employment (see IG's 2-4 and 17-24 for details). On the contrary the external imbalance improved during recent years and this trend should persist in future as well. This helps to safeguard the economic stability of the Czech Republic as a typical small and highly open economy in times of current economic slowdown and it also creates the necessary basis for economy's future growth.

IG 2 Safeguard economic and financial sustainability as a basis for increased employment.

The Czech Republic set itself the goals to decrease public finances vulnerability towards demographic development and to make a strategic decision ensuring long-term sustainability and effectiveness of pension- and healthcare system financing.

Parametric modifications to the current pay-as-you-go system were carried out as part of the first phase of pension reform and were approved in July 2008 and will come into force on the 1st of January 2010. The measures concerned contain e.g. the continuation of increase of the statutory retirement age to 65 years for men, childless women and women who have raised one child and to 62 – 64 years for other women depending on the number of raised children. As for other adopted measures the insurance duration necessary for the eligibility for retirement pension was prolonged to 35 years incl. non-contributory periods or to 30 years without non-contributory periods; non-contributory periods were limited and disability was newly defined. Although the adopted measures have positive impacts on long-term sustainability of the public finances and they put off excessive expenditure pressures the risks linked to future financing of the pension system persist.

The second phase of the reform involves legislative modification of both the statutory- and the private pension insurance. The task to create a reserve pension fund and a standalone chapter within the State Budget was already accomplished in 2008 with the modification of budgeting rules and the establishment of the 'Special Pension Reform Reserve Account'. As for voluntary private pension insurance in April 2009 the Government adopted the draft Act on Pension Savings. Its aim is to introduce a new voluntary supplementary system along with the current voluntary system of pension supplementary insurance. New draft regulation

which hasn't so far been adopted by the Parliament separates the shareholders' and clients' property, introduces the possibility to provide variously targeted pension plans, it raises the incentives for higher contributions and supports employers' participation on the pension system.

In February 2009 as a part of the preparation of the third phase of pension reform the Government took note of the „Background Paper on the Possible Introduction of an Opt-Out System of the Basic Pension Insurance System'. The paper contains the basic principles for possible partial casting off the pay-as-you-go system. However, due the necessity to primarily focus on economic downturn next preparatory steps will most probably be done only by future governments.

As for healthcare system its complex reform has been put off for the time being. Since the introduction of the regulatory fees on the 1st of January 2008 only partial modifications of the system were made, mostly as regards the scope of contributors. Currently a debate over further fee limitations or relief for the socially vulnerable takes place. Further development will thus again depend on the actual political circumstances.

IG 3 Promote a growth and employment orientated efficient allocation of resources.

The Czech Republic continues to shift the tax burden from direct- to indirect taxes with the aim to support employment and economic growth. This long-term trend was further amplified within the adopted anti-crisis measures as well. The most important of the measures taken last year are as follows:

- Lowering of the rate of the sickness insurance paid by employees and State Employment Policy by 1.5 p.p. starting from the 1st of January 2009.
- Lowering of the rate of the sickness insurance paid by employers by 1 p.p. starting from the 1st of January 2009. Another decrease of 0.9 p.p. which was originally to be in force starting from the 1st of January 2010 was postponed to 2011 with regards to public finances consolidation. Simultaneously a waiting period of 3 calendar days was introduced for sickness benefit payments. Earnings-replacement benefits starting from the 4th day up until the 14th day of employee's sick leave are paid by the employer.
- Gradual decrease of the income tax rate for legal entities to 20% in 2009 and to 19% in 2010.

Following extra-ordinary and temporary measures were adopted with the aim to ease the impacts of the current economic slowdown:

- Introduction of a discount on social security insurance and State Employment Policy contributions for employers. The discount equals to 3.3% difference between the 1.15 fold of the average wage and employee's assessment base and is in force from the 1st of August 2009 to the 31st of December 2009. On top of the above-mentioned discount a particular discount on social security insurance and employment policy contribution applies to employers for the month of August. This discount is determined ex ante as an aggregate summation of particular insurance discounts provided from January to July 2009
- Increase of the child tax deduction by 77 CZK (in force from the 1st of January 2010) and a temporary increase of the child allowance (in force from the 1st of July to the 31st of December 2009).

The development in the years to come will be marked by both the lower State Budget revenues due to lower tax revenues and higher benefits payments. In order to maintain fiscal discipline expenditure austerity measures on will have to be adopted so that the deficit is kept within reasonable limits. One of Czech Republic's aims is to only adjust pensions if appropriate conditions stated by the law occur. Adjustments shall also only be made at the

bottom limit stated by the law. The salaries of state employees will not be raised at least in 2009 and 2010.

IG 4 Ensure that wage developments contribute to macroeconomic stability and growth.

In the years 2001 – 2008 the gross nominal wage grew 7.0% on average, real wage grew 4.0% and labour unit costs grew 3.4%. Average growth of labour productivity for the same period reached 3.5% and in 2008 the labour productivity per employed person already equalled 72.3% of the EU27 average. The mentioned growth was mostly enabled by the high economic growth rate which reached 4.3% in years 2001 – 2008. With regard to the development of unit labour costs and labour productivity the above-mentioned growth of wages can be described as moderate. In 2008 due to economic crisis the productivity growth decreased to 1.5% while average nominal wage grew 8.3% which lead to a one-shot increase of unit labour costs. However, a delayed wage reaction in times of a beginning recession is rather usual. It also did not create inflation risks and automatic corrections will take place in the near future. This was also shown by the data for the first half-year of 2009 when the average growth of gross nominal wages decreased to 2.8%. Wage and salary volumes' growth has also sharply decelerated and in 2009 and 2010 only 1% growth can be expected. However, real wages should not decrease substantially with regards to the expected stable consumer price level.

IG 5 Promote greater coherence between macroeconomic, structural and employment policies.

The Government economic policy of the recent years was based on the coherence between the macroeconomic and microeconomic policies with the aim to reap synergy benefits of respective measures taken. Stable macroeconomic frameworks (fiscal targeting, medium-term expenditure framework) and conformity of structural reforms with the long-term goals set by the Lisbon strategy were at economic policy's core. Since fall 2008 the Government paid a great deal of attention to facing the financial and economic crisis. Measures intended to ease the impact of the crisis were adopted on supporting both the supply and demand while respecting economic policy's long-term goals. The austerity package has a similar philosophy and it combines both revenue and expenditure measures. Government's primary aim was to maintain economic stability in spite of the current crisis with the economic stability being perceived as a precondition for a return to growth and employment.

IG 6 Contribute to a dynamic and well-functioning EMU.

This Integrated Guideline only considers countries of the Economic and Monetary Union.

IV. MICROECONOMIC PART

IG 7 Increase and improve investment in R & D, in particular by private business.

Research, Development and Innovation are of key importance for the growth of competitiveness of the Czech economy in particular during the period of economic downturn.

On the 10th of September 2008 the amendment of Act on the Support of Research and Development from public resources was adopted.¹¹ It brings a better harmonization of the Czech legal provisions with the Community law and it aims to simplify the system of support of R & D and Innovations in the Czech Republic by inter alia extending its scope also to the field of support of Innovations, establishing the Technological Agency of the Czech Republic and amending the statute of central authorities and the Research and Development Council.

The proposal for the Amendment of the Government decree concerning the information system of R & D was submitted. It extends the system to the field of Innovations and it also modifies its structure and purpose of its use.

The National Policy on R & D and Innovations of the Czech Republic for 2009 – 2015 is yet another essential document adopted by the Government in June 2009. It is based on the Reform of the System of R & D approved by the Government and it is accordance with the amendment of the Act on the Public support of the R & D and it takes into account other conceptual documents, particularly the Green and White paper on R & D and Innovations as well as the Reform of the tertiary education which is currently being elaborated on. The document sets several key objectives such as the improvement of strategy management and effectiveness of the R & D and Innovations system, improvement of the cooperation between the private and public sector, an improved international cooperation, management of human resources and utilisation of the system for evaluation of R & D activities. The priorities of the applied R & D and Innovations of the Czech Republic for the years 2009 – 2011, which replace the long term guidelines for research, are also part of the National R & D and Innovations policy for the years 2009 – 2015. The priorities were worked up by the expert commission of the R & D Council and will be used during the decision procedure on the support of applied research in the years to come.¹²

The R & D Council elaborated the Methodology for assessment of the R & D outputs for the year 2009 which shall contribute to optimal financial allocation within the R & D chapter in the years to come. It updates the evaluation system which will from now on take into account the actual date of utilisation of R & D activities' outputs. All of the research outputs that have been utilised during the last five years are included within the evaluation system regardless of their sources of support. The methodology consists of two parts the first being an assessment of the research organizations' activities and the second being the assessment of the programmes of R & D that were accomplished in 2008.

Concerning the State budget expenditures on R & D and Innovations in 2010 with an outlook for 2011 – 2012 the original goal of an 8% increase won't be reached as restrictive budgetary

¹¹ The amendment came into force on the 1st of July 2009

¹² The priorities are as follows: Biological and ecological aspects of sustainable development, Molecular biology and biotechnology, Energy resources, Material research, Competitive machinery, Information society and Security and defence.

measures have been adopted in order to face the deterioration of public finances. The 2010 budget for R & D and Innovation was approved by the Government on the 29th of June 2009 with a total amount of 24.84 billion CZK for R & D and Innovations, thus totalling as much as in 2009.

The overall budget consists of institutional and purpose-oriented financial support as shown by the following table.

Table 4. Budget expenditure on R&D and Innovations in 2010 with an outlook for 2011-2012

Type of the support	2009	2010	2011	2012
Institutional financial support (billions CZK)	13,8	13,0	11,9	11,3
Purpose-oriented financial support (billions CZK)	11,0	11,8	12,9	13,5
Overall public financial support (billions CZK)	24,8	24,8	24,8	24,8

Source: RVV

According to the abovementioned budgetary outlook the Czech Republic will not meet the Barcelona goal of public sector investments into R & D which should equal 0.67% of GDP in 2009.¹³ The goal of 2% of GDP invested into R & D by the private sector by 2010 will most probably remain unmet as well as private sector investments into R & D equalled 0.77% of GDP in 2008, thus reaching a 52% share out of a total of 54.1 bn CZK invested into R & D in 2008.¹⁴

In its country-specific recommendations the European Commission suggested that the Czech Republic amends the necessary legislation in order to facilitate a tax deduction from research activities purchased e.g. from universities. However, due to current political and economic circumstances this issue remains yet to be addressed.

Another important chapter in the domain of R & D and Innovations is the effective use of funding from the EU structural funds. The most important in this regard is the Operational Programme R & D for Innovations with an overall allocation of 2.43 bn EUR (2.07 bn EUR from the SF). In the framework of five priority axes¹⁵ three calls took place during spring and summer of 2009 concerning the 1st, the 2nd and the 4th axis. Concerning the priority axis Nr. 2 (creation of regional R & D centres) 44 applications totalling 23 billion CZK were submitted by the 30th of April 2009. The call concerning the priority axis Nr. 3 will be announced in the fall of 2009.

The Czech Republic considers the construction and upgrade of the existing research infrastructures as one of the domains which largely influences the growth of competitiveness

¹³ Public investments into R & D equalled 0.6% of GDP in 2008 and will equal 0.66% in 2010, 0.63% in 2011 and 0.6% in 2012 according to a prediction of the Ministry of Finance.

¹⁴ Private sector investments into R & D equalled 0.82% of GDP in 2007 (with overall investments into R & D equalling 1.53% of GDP), 67.9% of which were invested by big enterprises, 22.5% by medium- and 9.6% by small enterprises. In 2006 the overall investments into R & D equalled 1.55% of GDP with private sector investment equalling 0.88% of GDP.

¹⁵ Priority axis Nr. 1 & 2: creation of outstanding facilities, centres of excellence and a network of well-equipped facilities, regional R & D centres, focused on applied research and collaborating with application facilities (enterprises, innovative SMEs, clusters etc.). Priority axis Nr. 3: creation of favourable environment within the research institutions & organisations aimed at commercialisation of their respective R & D activities' outputs, incl. the system of intellectual property protection and the promotion and popularisation of R & D outputs. Priority axis Nr. 4: developing a high-quality University infrastructure aimed at boosting the capacity of tertiary education and improving the quality of tertiary education. Priority axis Nr. 5: technical assistance.

of particular regions. The Czech Republic hence takes part in the preparation phase of ten projects of the ESFR Roadmap and strains for their interconnection with those projects financed under the Operational Programme R & D for Innovations. The Roadmap for the Czech research infrastructures, which is the continuation of the interdepartmental conception for large R & D infrastructures up to the year 2015, was approved by the Government on the 16th of December 2008 and shall be finalised by fall of 2009.

The Operational Programme Education for Competitiveness is one of the essential instruments for development of the knowledge society. It is focused on the modernisation of the education systems (incl. the system of lifelong learning), strengthening the adaptability and flexibility of human resources or e.g. improving the R & D environment. In the framework of this particular programme 42 calls were announced in 2008 and 33 have so far been declared in 2009. 4 685 projects totalling 38 billion CZK have been submitted. Currently 15.3 bn CZK is disposable to all types of recipients with an overall allocation of 55 bn CZK.

As for education and learning the Human Resources Development Operational Programme was the key document in years 2004 – 2006. Within its framework tertiary education and R & D were also supported. 179 programme projects were realized through the grant scheme with an overall approved volume of 757.1 mil. CZK. By the end of December 2008 95.4% of the approved financial support for this grant scheme was drawn.

Common Programme Document for the NUTS 2 region of the City of Prague was elaborated in order to draw funds within the Goal 3. In the framework of this Programme Document support for innovations was provided in order to improve the collaboration between the R & D and businesses, with the research business partnership being an indispensable precondition for this provision. The announcement of the calls took already place in 2008 and the funds allocated (200 mil. CZK) were drawn entirely.

IG 8 Facilitate all forms of innovation.

Currently the following programmes are being realised within the framework of the Operational Programme Enterprise and Innovations:

- Innovation – its first part (Innovation project) is focused on technological and non-technological innovations (product innovation, process innovation or organisational innovation) and the second one aims at industrial property protection.
- Potential – supporting the infrastructure for realisation of companies' R & D and Innovation activities.
- Prosperity – supporting the construction of business incubators, science and technology parks and technology transfer centres.
- Cooperation – support of clusters (part "Clusters") and technological platforms or other cooperation activities (part "Technological platforms").

Table 5. Programmes of the OP Enterprise and Innovations

Programme	Allocation*	Number of completed applications	Number of approved projects	Approved support
Innovations	8 840 000	598	319	3 900 000
Potential	3 700 000	231	121	1 700 000
Cooperation	1 200 000	42	13	60 000
Prosperity	4 000 000	9	4	441 000

**In thousands of CZK as of June 15, 2009.*

As for the impact of the crisis on the realisation of the Operational Programme Enterprise and Innovation the number of submitted applications has not decreased within the framework of

respective calls. However, a negative impact of the economic downturn can be seen in quality of the applications submitted e.g. within the programme Innovation, where the majority of companies focuses more on technology purchase rather than developing their own research activities. Companies are also often facing credit tightening which leads to postponing and rescheduling their investment plans.

IG 9 Facilitate the spread and effective use of ICT and build a fully inclusive information society.

Information and Communication technologies are supported within the framework of two programmes - ICT in enterprises and ICT and strategic services with the former being destined for enterprises planning to modernise their IT systems and the latter being focused on companies developing or improving their ICT products and services.

The overall allocation of the two above-mentioned programmes is 400 mil. EUR. 5.5 billion CZK was allocated for the first two already announced calls (i.e. more than 200 mil. EUR). Financial support for the already approved projects reached 22.1 mil. EUR at the end of 2008.

Measures were introduced in order to soften the impact of the economic crisis on entrepreneurial subjects that apply for funding within the framework of both programmes. In December 2008 the allocation for the 1st call of the two programmes was increased from 0.5 billion CZK to 2 billion CZK and the preparations for the 2nd call were quickened.¹⁶ A programme for offering outsourced ICT equipment services at favourable prices to micro- and small enterprises was prepared within the framework of the programme ICT in enterprises. The realization of these projects is supposed to start in January 2010 and 3 to 5 thousand enterprises are expected to be interested in them.

Other programmes of the Operational Programme Enterprise and Innovation were partly modified e.g. project sequencing rules were simplified and financing was streamlined. Terms and conditions for realisation of already approved projects were modified where desirable and appropriate (mostly altering realisation schedules).

IG 10 Strengthen the competitive advantages of industrial base.

The Ministry of Industry and Trade focuses in the long run particularly on three priority areas for the Czech Republic: business environment, R & D and Innovations, sustainable use of resources. Thus horizontal measures such as reducing the administrative burden or simplifying business start-ups are preferred as opposed to sectoral ones.¹⁷

The approved measures are aimed to reduce the impact of the crisis and are expected to have a positive impact on the Czech industrial base structure. The programme for industrial R & D called "TIP" was established. Its overall financial allocation reaches as much as 11 billion CZK for the period 2009 – 2014.

Government has adopted an amendment of the Act on Investment incentives, which focuses on the support of technology centres, strategic services and hi-tech industry.

The measures listed above are a straightforward reaction to the recommendations for the Czech Republic, which called for a better collaboration between businesses, universities and research institutions.

¹⁶ The applications for funding are being accepted from 2nd March 2009 and allocation for this call is 2 bn CZK.

¹⁷ The sole specific sector that the Czech Republic focused on was the automotive sector due to its economic and social importance in the context of Czech economy's structure.

IG 11 Encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

In December 2008 a report continuously evaluating the Environmental Technologies Support Programme identifying main persisting problems in the field of environmental technologies was submitted to the Government. It identified the.¹⁸

As for implemented measures supporting the environmental technologies the VAT rate on bio-fuels was decreased from the basic rate of 19% to 9% (and 10% in 2010), an obligation to add biocomponents to motor fossil fuels was adopted and also the support for projects on intensifying the production of biogas in already existing as well as in newly prepared biogas stations can be named.

During the years 2008 and 2009 an update of the Environmental Technologies Support Programme was worked up and it was adopted by the Government on 20th of July 2009. The aim of the programme is to support the introduction of environmental technologies as well as a further development and the commercial use of technological innovations.¹⁹

The main sources of funding for environmental technologies' promotion are the OP 'Enterprise and Innovation', the OP 'Environment' and also the lately introduced programme 'Green light for savings'.²⁰

The share of gross electricity production from renewable sources rose to 5.18% and the share of energy from renewable sources on the overall consumption of primary energy sources reached 4.47% (see Table 15). Electricity produced by photovoltaic power plants has increased sevenfold compared to 2007 whereas their installed capacity has increased 6.5 times. In the same period wind energy production has doubled and the installed capacity of wind power plants grew by 1/3 and the production of electricity from biomass has increased by 1/4 albeit the installed capacity of biomass burning facilities has remained unaltered. The installed capacity of bio- and landfill gas processing facilities has increased by 40%.

The only segment of energy production from renewable sources that marked a slight dropdown (by approx. 3%) was the water plants.

¹⁸ Namely the practical definition of environmental technology of the 2nd generation; insufficient motivation for using the full potential of the installed environmental technologies; insufficient motivation for applying environmental technologies in fields with no environmental exigency defined by legal rules; insufficient collaboration between R & D centres and enterprises; the absence of risk capital and economic incentives (tax, subsidy, depreciation schemes).

¹⁹ The updated Programme sets the following priorities:

- 1) Environmental: reduction of greenhouse gas emissions and air pollutant emissions (particularly the PM10 and PM2,5); reduction of wastewater volumes; reduction and recycling of the produced waste (particularly in industry and agriculture).
- 2) Sectoral: energy (energy efficiency in both production and consumption, use of renewable & alternative energy sources); transport (reduction of greenhouse gas emissions and air pollutant emission, reduction of noise nuisance); manufacturing industry (with emphasize on material- and energy-intensive segments) materials and energy as well as on a preferential use of secondary raw materials).

²⁰ The 'Green light for savings' is primarily focused on supporting the installation of heat sources using renewable sources, but it also supports energy saving building reconstruction and construction (high-quality thermal insulation of family houses and non-prefabricated apartment houses, replacement of non-ecological heating systems with low-emission biomass boilers and installation of efficient heat pumps; promotion of passive construction standards).

Graph 15. Share of respective primary energy sources on gross electricity production in 2008 (83 517.8 GWh)

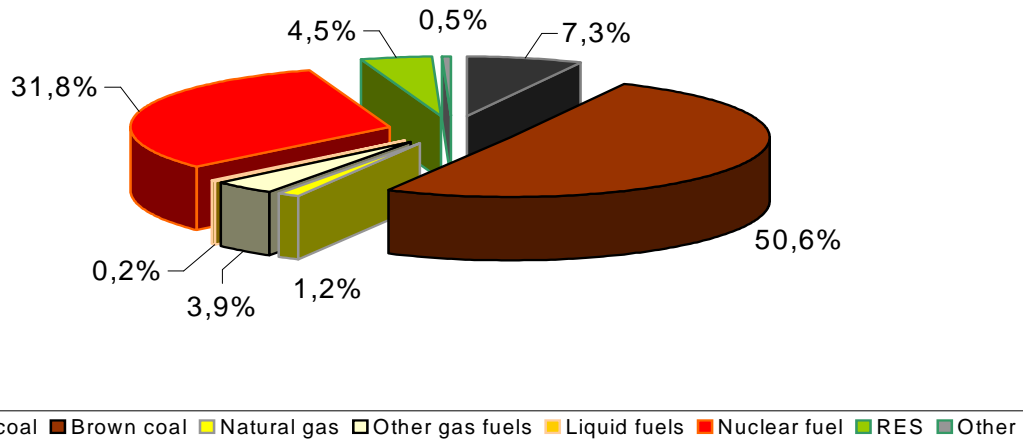


Table 6. Share of gross electricity & energy produced from RES on consumption over time.

	2004	2005	2006	2007	2008	2010 target
% of gross electricity production from RES on gross consumption	4	4,5	4,9	4,74	5,18	8
% of energy from RES on overall primary energy sources consumption	2,9	3,99	4,2	3,9	4,47	6

Source: MIT, ME

As for Ecological Tax Reform (ETR) a document dedicated to its further phases was submitted to the Government in December 2008. Based on an analysis of the current system of economic and administrative instruments in the fields of air and climate protection, energy and transport it was decided that ETR's 2nd phase would primarily focus on air protection.²¹

IG 12 Extend and deepen the internal market.

In order to speed up the transposition of Internal Market Directives following steps were taken and procedures are followed:

²¹ Rising taxes on energy as well as introducing tax on CO₂ will not be part of ETR's 2nd phase while use of other motivation tools for supporting investments into low emission technologies is being proposed. Namely modification of current air pollution fees namely for large- and medium polluters (enterprises) and introduction of economic incentives for small pollutants (households) will be part of ETR's 2nd phase. Further propositions are as follows: system of deduction from income tax base, prospectively also a modification of depreciation policy and subsidies so that investing into low emission technologies is supported. The abovementioned instruments will be part of the currently prepared Act on air protection.

- Adoption of Government Resolution on Methodological Guidance for fulfilling legislative obligations resulting from the membership of the Czech Republic in the European Union (e.g. manual for ministries for implementing the EC/EU regulation);
- Periodic quarterly reports on the state of implementation of EC/EU regulation are submitted to the Government with specific tasks to respective ministries disclosed within the Reports' framework if necessary;
- The Government is being updated on a monthly basis on the state of implementation of EC/EU regulation;
- A monthly document on the state of EC/EU regulation implementation is being submitted to senior officials meetings of the Ministry of Industry and Trade, containing tasks to specific departments.

As for removing persisting barriers to cross-boarder activities:

- Act transposing the Services Directive was signed by President on the 3rd of July 2009 and will come into force on the 28th of December 2009;
- Draft law proposal on financial market supervision was approved by the Government in October 2008. It aims at integrating some of the proceedings related to execution of market supervision within a single framework Act. A competence law finalising the transfer of legislative power in the field of market supervision to the Ministry of Finance was approved by the Chamber of Deputies in June 2009;
- On the 1st of July 2008 an amendment to Capital Market Undertakings Act came into to force transposing the Markets in Financial Instruments;
- On the 1st of August 2009 another Amendment to the Capital Market Undertakings Act came into force transposing: 1) the so called Transparency Directive establishing rules on periodic financial reports and other continuing reporting obligations, and the disclosure of major shareholdings, for issuers whose securities are admitted to trading 2) the Directive on procedural rules and evaluation criteria for the prudential assessment of acquisitions and increases of shareholdings in the financial sector 3) the Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);
- Amendment on the Banking Act reacting to impacts of the financial and economic crisis came into force in fall 2008 raising the limit for bank deposits insurance up to EUR 50 000 and a new amendment complying with European regulation is being prepared. Yet another amendment came into force in September 2009 enabling the State to take over troubled banks;
- Draft Act on Pension Savings was approved by the Government in April 2009` and it was submitted to the Chamber of Deputies;²²
- In the first half of 2008 a transposing amendment to the Motor Third Party Liability Insurance came into force;
- A new Insurance Act implementing the Reinsurance Directive was adopted by the Chamber of Deputies and will come into force in January 2010;
- As for implementing the Directive on Payment Services in the Internal Market came into force on the 1st of October.

As for the framework policy on consumer protection the key topic was the harmonization of distribution and distributor expertise.

²² See IG 2 for more details.

Activities of the Working Group for Financial Education continued through 2008 aiming at raising financial literacy. In fall 2008 a public consultation on revision of the current system of alternative dispute resolution of consumer disputes on the financial market took place.

In May 2009, based on the Regulation 764/2008 on mutual recognition, the Ministry of Industry and Trade established a product contact point where entrepreneurs and administrative bodies from other EU Member States will be provided with information on technical rules on specific products as well as on rules related to free movement of goods and on general remedies in administrative procedures in case of a dispute (incl. information on the alternative dispute resolution system in case of an incorrect application of EC law).

In order to raise awareness of SOLVIT the Czech SOLVIT Centre arranged an information campaign for entrepreneurs and it took part in a job faire 'Job Days 2009' which took place in Prague in the beginning of April.

IG 13 Ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.

The Czech Republic supports the maximal liberalisation of world trade. Especially with regard to the financial and subsequent economic crisis it is in Czech Republic's best interest and task to contribute as much as possible to free trade and help preventing the introduction of potentially enduring protectionist measures. To this end e.g. the Conference on Trade Liberalisation took place during the Czech Presidency.

The Czech presidency also played an important role in the organisation of the first European SME week focused on reaping SME's full business potential especially in providing cross border goods & services.

The promotion of multilateral system of international trade and its high transparency is Czech Republic's long-term priority. During its EU presidency the Czech Republic has thus contributed to monitoring of protectionist measures within WTO and it achieved the launch of the Strategic Market Analysis project.

Another key objective is the fulfilment of goals set within the framework of EU's Strategy 'Global Europe: Competing in the World', incl. the conclusion of free trade agreements of a new generation with 3rd countries. Tangible results in this filed were reached notably with the launch of negotiations on the complex EU-Canada economic and trade agreement. Fundamental progress was achieved with regard to the ambitious EU-Korea Free trade agreement, which was eventually concluded on the 15th of October 2009. Trade relations with China regardless of their complexity represent a strategic interest both for the Czech Republic as for the whole of EU. The May Economic and Trade Dialogue high-level meeting was an important contribution to this end.

As a presiding country the Czech Republic spared no effort to make the Market Access Strategy happen. Furthermore, the Czech Presidency has reached the necessary consensus on the need of higher transparency with regard to Trade Defence Instruments and the implementation of specific measures was launched.

IG 14 Create a more competitive business environment and encourage private initiative through better regulation.

The Ministry of Industry and Trade coordinated the creation of a Plan for reduction of administrative burden for entrepreneurs. It was adopted by the Government on the 21st of April 2008. It contains the commitment to reduce the administrative burden by 20% by 2010, e.g. by approx CZK 16.7 bn CZK. In less than two years the excessive administrative burden was cut by 8% which equals to more than CZK 6 bn.

On the 20th of April 2009 a Report on the implementation of the 2010 plan for reduction of administrative burden for entrepreneurs was adopted by the government. The Report inter alia proposed to speed up the whole process by focusing on 10 Acts generating the highest administrative burden (CZK 55 bn each year).

As for Better Regulation 357 draft rules were examined (129 Draft Acts and 228 secondary legislation proposals) in 2008.

In mid-2009 the analysis of the efficiency of Impact Assessment implementation concluded on the positive effect of a complete mapping of the regulation that is being prepared on the Government level. Government took note of the Report in September 2009.

Several proposals resulted from the abovementioned analysis namely on reducing assessments' formalism, on extending its scope also to strategic and concept documents, on promoting IA's application also to non-Governmental draft regulation and also on its possible application already during the phase of formulating national positions on the prepared EC legislation.

In March 2009 the Government adopted the Concept of reducing excessive administrative burden which put forward several suggestions for a methodological framework for projects focused on reducing the administrative burden and regulation simplification within the competences of central state administration authorities. Currently the Action Plan for reducing excessive regulation and administrative burden for the 2010 – 2013 period is being prepared. It will lay down specific measures and time framework for fulfilling the abovementioned goals and it will be interlinked with the "Smart Administration" priority. The document should be submitted to the Government in December 2009.

IG 15 Promote a more entrepreneurial culture and create a supportive environment for SMEs.

The Trade Licensing Act was amended and it currently contains a single unqualified trade (instead of 125) containing 80 fields of activity. The total number of entrepreneurs possessing trade licenses increased 58 thousand to 2,112 mil.²³

Small and medium businesses were the most touched by the financial and economic crisis. Their access to credit was deteriorated severely. The government thus adopted several anti-crisis measures, which should help most notably the SME's to deal with current conditions.

Faster depreciation schemes should motivate companies to purchasing tangible assets. It is a temporary measure that came into force for the January 1st 2009 - June 30th period. It considers the first two depreciation classes according to the Income Tax Act.²⁴

Advanced income tax payment obligation was abolished for entrepreneurial subjects employing up to 5 employees. This measure regards advanced payments that are due through 2009 calendar year. If electronically submitted, VAT claims will be refunded within 15 days (instead of 30 days) which should help easing the tightened credit conditions for businesses. Temporary social insurance contributions of employers were also introduced. This measure aims to decrease labour cost and help maintaining jobs.

Means of the Czech-Moravian Guarantee and development Bank guarantee fund were increased by 1,8 bn CZK which will enable providing guarantees for operation & export credits amounting up to 40 bn CZK. Guarantees of up to 80% with a maximum limit of 90 mil CZK per entrepreneur are previewed.

The Act on Insolvency and its Resolution was amended with the aim to ease the restructuring rather than the bankruptcy of insolvent companies. Further provisions protecting subjects in insolvency regime are being considered, namely the limiting of unilateral set-offs by debtor's creditors, abolishing the obligation of over-indebted debtors to initiate insolvency regime proceedings and easing the impacts of debt-relief on honest debtors.

Amendment to the Income Tax Act introduced the option of a flat-rate transportation expenses deduction. Tax subjects opting for its application no longer have to keep a record

²³ However, due to the abovementioned amendment the overall number of trade licences decreased by 29% to 2,815 mil.

²⁴ e.g. construction-, agriculture-, manufacturing- and office machinery.

documenting actual vehicle operating-related costs. This amendment aims mostly at small and micro-entrepreneurs, subjects not liable for VAT that operate a low number of vehicles (its applicability is limited to 3 vehicles).

A VAT deduction for motorcars used for enterprising was introduced as well as higher lump-sum expenses for entrepreneurs (in force only through 2009 - with regards to 2010 public debt-cutting measures lump-sums will be raised again).

In order to simplify regulation and reduce administrative burden for entrepreneurs a complex reform of the tax system is being prepared, especially with regards to income and property taxation, reform of tax proceedings and institutional reform. As for the prepared Income Tax Act the elimination of distortions caused by a large number of exemptions and tax relieves is accentuated aiming to address tax frauds. As for tax administration a tangible progress was achieved as the new Tax Code was adopted. Its aim is to introduce a more transparent and outright regulation of tax administration with an accent on administrative burden reduction and promotion of electronic communication. Furthermore, works on the creation of Integrated Revenue Agency (IRA) are under way. It introduces a new system of administrative bodies competent to collect incomes of public budgets (especially taxes, customs and statutory insurance). Currently, Action Plan on IRA and the competency law of the future system of administrative bodies are being prepared.

Within the 'Information Points for Entrepreneurs' project²⁵ over 4900 requests were processed in 2008. 22% of these requests regarded the promotion of entrepreneurship, namely the support provided by relevant Operation Programmes for the 2007 – 2013 programming period. A new consulting service focused on dealing with impacts of the economic crisis on enterprises was introduced as well.

The Czech POINT²⁶ - network of public administration contact points was extended to more than 3000 Municipal- and Regional Offices, selected facilities of the Czech Post, embassies, Czech Chamber of Commerce offices and notary offices.

Considerable simplification of the communication between entrepreneurs and public administration was introduced with data boxes project through which electronic and paper document are to be treated equally. Starting from the 1st of July 2009 subjects are enabled to send and receive official documents via data boxes. Entrepreneurs will administrate faster, more efficiently and at lower costs.

Education and competence necessary for successful entrepreneurship play an important role in the Framework Education Programmes. Business education represents a horizontal element in all study fields and each of the education programmes assures the minimum necessary business literacy. For example practice firms are established and managed by the students of secondary vocational schools under the guidance of pedagogues who are collaborating with the Practice Firm Central Office (CEFIF), a coordinating body within this field.

IG 16 Expand, improve and link up European infrastructure and complete priority crossborder projects.

In 2009 the Time Schedule of Transport Infrastructure Build-up 2008 – 2013 containing a detailed financial outlook along with a list of investment projects was periodically updated. A mid-term plan of transport infrastructure development with a time horizon of next 15 to 20 years is also being prepared under the name 'Supporting Sector Strategies for Operation

²⁵ The project is being realised by the Czech Chamber of Commerce and is being financed by the Ministry of Industry and Trade.

²⁶ Along with providing access to trade- and commercial register, real estate cadastre, criminal record and submission according to Trade Licensing Acts it also offers entrepreneurs the document & signature certification services.

Programme Transport'. In 2008 its 1st phase was processed, 2nd phase is being processed & finalised though 2009 after which it will be submitted to the Government for adoption.

The following table shows the volume of State Fund for Transport Infrastructure (SFDI) spending over time incl. an outlook for 2010. It is important to mention, that SFDI's budget is being influenced by the current crisis due to which the electronic toll collection incomes decrease.

Table 7. SFDI's expenditures (CZK mil.)

2006	2007	2008	2009	2010
48 774	52 435	70 430	79 041	96 021

For the 2008 – 2010 period 173.8 km of motorway and motorway-compatible expressways are to be put into operation.²⁷ It considers the following sections: D1 and D47 motorways (Mořice – Kojetín – Kroměříž East - Říkovice, Lipník n/B – Ostrava Rudná), the Prague Ring Road R1 (D1 – Jesenice – Slivenec), motorway D3 (Nová Hospoda – Mezno), the expressways R4 (Mirovice – Třebkov), R6 (Praha – Pavlov, Nové Sedlo – Jenišov, –Tisová – Kamenný Dvůr), R7 (Ring Road 'Sulec', Bitozeves - Vysočany) and R35 (Sedlice – Opatovice), R55 (Skalka – Hulín). Construction of ring roads on class I roads is also under way.

As for railway in the 2008 – 2010 period modernised and optimised sections are being put into operation, especially those that are part of the Priority Project 22 (České Budějovice – Horní Dvořiště, Prague-Hostivař – Benešov, Horní Dvořiště – České Budějovice, new interconnection and a west part of Prague Central Station in the Prague Hub, Prague-Libeň – Prague-Běchovice, Pilsen – Cheb, Beroun – Zbiroh a and railway uzly Kolín, Břeclav a Ústí n/Labem). As regards the global TEN-T, the section Mosty u Jablunkova – Bystřice n/Olší, incl. the connecting railway Český Těšín – Frýdek-Místek – Ostrava-Kunčice.

The programme railway electrification is under way, through the 2008 – 2010 period the following sections are being put into operation: Letohrad – Lichkov (TEN-T), Zábřeh – Šumperk, Šatov – Znojmo, České Budějovice – České Velenice (TEN-T), Lysá n/Labem – Milovice.

As far as the interoperability of railway networks is concerned, by 2010 the pilot ETCS²⁸ project will be finalised in the section Poříčany – Kolín and the continuous construction of GSM-R is also under way.

In 2008 the concept of high-speed railway system was updated proving that the necessary transport potential for system's introduction does exist in the Czech Republic.

In the field of multimodal transport support 90 mil CZK from the State Budget was earmarked in 2009 in the framework of the Combined Transport Support Programme.

As regards the road telematics National Traffic Information and Control Centre (NDIC) was opened in September 2008 in Ostrava within the framework of the Unified Traffic Information System (JSDI) and it is being further developed. Information panels and electronic traffic signs are being installed on motorways as part of the JSDI. The NDIC provides drivers with information via RDS-TMC broadcast, which is being provided in a cooperation with the Czech Radio. Certain activities in the fields of road telematics qualified for financial support for TEN-T's in the framework of the CONNECT euro-regional project.

Electronic Toll Collection is applied on vehicles over 12t (incl.). As for its introduction for vehicles over 3.5t, the original schedule (January 1st 2009) was modified to January 1st 2010.

²⁷ As opposed to 205 km previewed originally.

²⁸ European Train Control System.

It regards motor- and expressways as well as selected class I roads (namely sections where future motor- and expressways are previewed). Work also continues on developing the hybrid toll collection system development as well as on international interoperability, which will further enable its application to important road transport infrastructure. In the field of fairer competing rules between the rail & road sectors the railway infrastructure fee was decreased by 20%.

As for Public Private Partnership projects the priorities were updated with regard to current economic and political situation. The PPP financing of the railway connecting Prague with the Ruzyne Airport and the City of Kladno was thus abandoned. Contrary to previous estimates the preparation of a concession project for section "C" of the D3 motorway Veselí nad Lužnicí - České Budějovice is currently being finalised. All of the prepared PPP projects are structured so that they meet the requirements of EUROSTAT as regards off-balance-sheet liabilities. That is why e.g. as regards the PPP project of D3 motorway a lump-sum payment by the contractor amounting the contributed VAT was negotiated so that the availability payments don't have to be increased during the project life-cycle which would raise project financing costs.

V. EMPLOYMENT

Labour market development

The impact of financial and economic crisis on labour market became gradually visible in the 3rd and most notably in the 4th quarter of 2008 with a decrease in employment and an increase in unemployment. Simultaneously available jobs were decreasing.

However, the total employment rate of population aged 15 – 64 grew to 66.6% in 2008. The employment rate for women increased to 57.6% and the employment rate for men increased to 75.4%. The employment rate of elderly people (aged 55 – 64) marked the biggest increase (1.6 p.p.) and reached 47.6%. In Q1 2009 the employment decreased by 86.6 thousand persons, quarter-on-quarter, thus by 1.7%. In Q2 it decreased by 5.5 thousand persons in, thus by 0.1%, quarter-on-quarter quarter on quarter (QOQ).

The registered unemployment rate reached the average of 7.4% in the first year of 2009, thus by 1.8 p.p. more compared to the first half of 2008. In July 2009 the registered unemployment rate increased to 8.0%, thus by 3.0 p.p. year-over-year. In June 2009 463.3 job seekers were registered with labour offices (out of which 231.8 were women), which is by 165.7 thousand persons more (out of which 65.2 thousand were women) compared to June 2008 and by 111.3 thousand (out of which 41.1 thousand women) more compared to December 2008.

The trend of decreasing vacancies further intensified in 2009. By June 30 2009 labour offices notified just 43.4 thousand vacancies, which is by 108.5 thousand and thus 71.4% less than in June 2008. Industries with predominant male workforce such as manufacturing, metallurgy and related industries (automotive & machinery production, logistics) marked the highest vacancy decrease.

As a reaction to the decreasing demand for goods and services employers first terminated contracts to agency & foreign workers as well as to workers in retirement age and temporary workers, shorter work hours and temporary layoffs were introduced as well. Only then workers would be laid off.

Enterprises' worsened economic situation was demonstrated by an increase of workers' demands for payoffs of back pay (caused by employer's insolvency) submitted to labour offices. The amount of such demands grew from 2764 demands from 197 companies submitted in the first half of 2008 to 6336 demands from 312 companies submitted in the first half of 2009.

Starting from December 2008 the number of mass layoffs began to rise. In December 2008 – June 2009 period labour offices were informed by 667 employers on planned layoffs of 36,791 employees.

The highest number of both mass layoffs and laid-off workers was reported in January 2009. Since January the amount of both mass layoffs and laid-off workers has been decreasing with a minor fluctuation in May 2009.

The crisis' impact was also demonstrated by employers asking for labour offices' consent to providing lower earnings-replacement benefits. In December 2008 – June 2009 period labour offices approved 1725 of such demands with 106 956 employees concerned. The biggest increase in employers' lower earnings-replacement benefits consent demands took place in February and their number has been decreasing since.

The number of foreign workers decreased through 2009. In the first half-year of 2009 the overall number of foreign workers decreased by more than 11% (from 285 thousand to 252

thousand) with the biggest decrease in case of workers with work permit obligation (in almost all permit categories). The total number of foreign workers from 3rd countries possessing work permits decreased from 129 thousand in December 2008 to 102 thousand in June 2009.

With regard to Czech economy's high dependence on foreign markets development it is rather probable that an increase in employment will take place in 2011 at earliest, with a rising foreign demand as a necessary precondition.

IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion

On the 1 of January 2009 an amendment of the Act on employment, of the Sickness Insurance Act and of the Social Insurance Act came into force. The Government adopted the principles of the so called pro-family package (IG 18) and the Lifelong Learning Strategy Implementation Plan.

However, the Government agenda became heavily influenced by the global economic and financial crisis by the turn of 2008 with crisis' impact on employment moving to the top of the agenda. As a result of political developments some of the measures prepared were put on hold and measures rather aiming at easing the crisis' impacts on labour market were preferred.

Expert works on a preparation of amendments to the Labour Code aiming at higher flexibility and liberalisation of labour regulation were carried.

On the 1st of January 2009 the sickness insurance premium and the state employment policy contribution were reduced. The sickness premium paid by employers was reduced from 3.3% to 2.3%, the social security premium and the employment policy contribution was reduced for independent business persons.

Starting from the 1st of January 2009 employees only contribute to pension insurance (6.5% of their income) thus employee's 1.1% contribution to sickness insurance premium and 0.4% contribution to employment policy were abolished raising employees' incomes.

However, these measures were not adopted as a direct reaction to the economic crisis as their aim is to compensate for the transfer of earnings-replacement benefit remittance onto employers during the first 14 calendar days of sickness (for work days). In times of economic crisis such measures are of high importance to employers as they help to reduce labour price and non-wage labour costs.

As an anti-crisis measure employers' social security contribution and employment policy contribution were lowered aiming at maintaining the employment of low-skilled and low-income workforce which is the most threatened by the current crisis. The non-wage labour costs were lowered on a degressive basis and the alleviation will thus be diminishing with raising wage.

The upper limit for the discount on social security insurance is the 1.15 fold of the average wage. The amount of discount on a single employee in one calendar month equals to 3.3% of the difference between 1.15 fold of the average wage and employee's assessment base but it mustn't exceed employee's assessment base by more than 25%. Thus no discount can be applied for an employee whose assessment base equals or exceeds 1.15 fold of the average wage. This provision is of temporary nature and it is in force for the period August 1 - December 31 2009. On top of the above-mentioned a particular discount on social security insurance and employment policy contribution applies to employers for the month of August. This discount is determined ex ante as an aggregate summation of particular insurance discounts provided from January to July 2009. The abovementioned administrative labour cost decrease should help maintaining 50 – 70 thousand jobs.

IG 18 Promote a lifecycle approach to work.

The so called pro-family package is a set of measures supporting families with children. It aims at creating socioeconomic conditions that are favourable to families with children with an emphasis on families' financial assurance, reconciliation of family and professional life, support of childcare services, support of families with specific needs, support of substitute family care, support of active fatherhood and employment support for persons with lower employability (IG 19). The pro-family package also contains inter alia discounts on social security insurance and on employment policy contribution for employers that employing on a part-time basis: 1) employee taking care of a child younger than 10 years; 2) a handicapped worker; 3) person aged over 55; 4) person looking after a depending person (level II to IV) and who's registered with a municipal office or who's a regular student of full-time study programme at a High School, College or University.

Based on the above-described package Proposal for an Act on support for families with children was submitted to the Government. However, with regard to deteriorating public finances the proposal hasn't so far been adopted.

IG 19 Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.

An amendment to the Employment Act aiming at supporting workers' motivation for seeking for and accepting job offers came into force on the 1st of January 2009. The amendment toughened the conditions for providing unemployment benefit (e.g. in when the job seeker refuses a retraining course or doesn't cooperate during the elaboration of his/her Individual Action Plan) The maximum duration for providing unemployment benefits was shortened by one month and it was raised (from 50% to 65%) during the first two months of its drawing along with keeping its total volume for the whole the drawing period.

The newly introduced public service contained within the Act on assistance in material need (in force since January 1st 2009) proved to be useful. This provision is intended for persons in longstanding material need and helps to keep and develop their work skills and it motivates the unemployed to take active working approach. Under public services mostly the following community activities are understood: cultivating the environment, helping to keep clean public spaces, taking part in communities' cultural development or social care. The assistance in material needs of persons participating in public services is subsequently raised (e.g. they do not receive a separate income) & communities can be offered an insurance coverage subvention.

Budget financial sources for covering unemployment benefits were increased from CZK 5 bn to CZK 15 bn. The budget for state's active employment policy was increased accordingly to approx. CZK 1.5 bn (see IG 20 for more details).

The unfavourable position of Roma on the labour market is often aggravated by low qualification and functional literacy, strong dependence on social security benefits with higher number of indebtedness to usurers. Roma women's situation is further worsened by high fertility rate which repeatedly discards them from labour market for long periods of time. Such phenomena play a negative role in Roma's stereotypisation which by return further worsens their position on the labour market. Due to the economic crisis and its heavier impact on low-skilled labour the unemployment among Roma increased more than the average.

The Office of the Council of the Government of the Czech Republic for Roma Community Affairs offers grants within the Prevention of social exclusion and tackling its implications programme. Within its "A" sub-programme field workers are being supported whereas its "B" sub-programme is focused on prevention of social exclusion, community work and support for Roma advisors' coordinators. Among measures applied in order to improve the labour market situation, financial subsidies from the European Social Fund are being provided. More specifically, the realisation of the Operational Programme Human resources and

employment which aims at promoting active labour policy, supporting social integration and social services and integrating socially excluded groups with the labour market. Pilot projects for dealing with problems of Roma communities are being addressed by the Integrated operational programme.

As for inclusive education the concept of early care and the Implementation Action Plan (measures focused on children prior to Primary school attendance), utilisation of integration tools in the field of education (educationist assistants, preparatory classes, educational activities and consulting to Roma pupils and students, scholarships for Roma High-school students and the financial support to University students from socially deprived families can be mentioned.

IG 20 Improve matching of labour market needs.

The trans-European information and consultation system EURES was used to increase labour mobility and cross-boarder partnership with Bavaria was developed within the framework of EURES-T. Common brochure for commuting travellers was published, the regularly updated portal of labour market is being used and seminars focusing on the placement and returning disadvantaged groups to work life, job applicants aged over 50 or women after maternity leave were organised. Survey "Good work" was carried out. Its goals were to identify and compare the employment differences in companies on both sides of the border. An agreement on cooperation between the Czech and Austrian ministries of labour for the upcoming two years is about to be signed.

Web and portal applications are being developed in order to improve the information access and comfort for job seekers. Works introducing the elaboration of individual Action Plans for all job seekers by respective labour offices are being carried out. It regards all job seekers that are registered with labour offices for more than 5 months.

The network of consulting services was reinforced as a reaction to economic crisis. The network's aim is to identify both the seekers' employability and reinforce & develop the motivation and skills of low-skilled seekers.

Since 2008 the sources of financing of the active employment policy are built upon the maximal utilisation of means provided thru the European Social Fund which currently (within the current programming period up to the end of 2013 & 2015) enables the use of EUR 2.1bn with one third of these means set for the active employment policy. Via the funds provided by ESF the promotion of following measures is being financed: retraining, effective jobs, purposeful work and public utility works (supporting creation of both temporary and permanent jobs). State budget sources are used to finance the measures that cannot be financed thru the ESF, such as the creating and operating protected workshops, support for employers employing high number of handicapped workers etc.

State budget for The Active employment policy for 2009 was set to 1.162 bn CZK. The Ministry of labour and social affairs has increased the 2009 Active employment policy budget two times (from Ministry's own resources) 1.427 bn CZK. Labour offices' budgets are being adapted continuously as per their respective needs.

In order to minimise the crisis' impacts on employment notably two new ESF co-financed programmes are being used: "Educate yourselves!" and „Training as a chance“. Their aim is to support the employment in companies that were obliged to cut their production due to current crisis. Projects offer both financing of employee training and earnings-replacement benefits for employees participating in vocational training. Both programmes are interlinked a cover various typical situations that both the employers and employees have found themselves in due to the current unfavourable economic conditions. Programmes were launched in March 2009, with 1.5 bn CZK earmarked for the programme 'Educate yourselves!' out of which 0.5bn CZK for its first phase were provided by the OP Human Resources Development. 3237 applications amounting 336 mil CZK were approved within the first phase of the project during March – June 2009 period and 57 454 employees from 923 companies took part in it. The second phase of the 'Educate yourselves!' project was

launched on the 1st of July 2009 with 1 bn. CZK allocated. By the beginning of October applications amounting approx 700 mil CZK were submitted and contracts amounting approx 310 mil CZK have so far been signed. 4.5 bn CZK was allocated for the 'Training as a chance' programme. Employers show big interest in the programme, by the end of September 1 801 project applications for subsidies amounting 8.6 bn CZK aimed at supporting 243 056 employees. Applications are being evaluated continuously, so far 149 of them amounting 657 mil CZK were recommended for approval.

The Ministry of labour and social affairs also launched the RESTART programme which (part of the OP Human resources and employment) which will be realised thru authorised labour offices under the form of Regional individual projects. RESTART is a preventative programme for assisting employees vulnerable to job loss or who are already in a notice period. A comprehensive set of activities offering a complex guidance to project participants (starting from the initial consulting phase, thru educational and training activities to possible job acquirement still within the project activities) will be realised. Employees will thus be offered the possibility of further education, improving their expertise, skills and competences during the notice period.

As for foreign workers a set of measures was adopted by the Government in February 2009. Starting from March 2009 issuing of visas and work permits to citizens of 3rd countries is limited. The number of checks in the field of illegal employment (especially focusing on employment agencies and the voluntary return programme) was raised along with limiting the of scope of activities performed by employment agencies, which can supply labour in form of temporary job appointment to a different employer.

The Government has further approved the already mentioned Voluntary return programme for dismissed foreign workers and their families. Workers are provided a benefit of EUR 500 per person (EUR 250 for underage persons) in order to cover their return expenses. They are also offered air tickets and accommodation and medical treatment should they need it. The project was designed for approx 2000 persons and by the middle of May 2009 1500 persons (mostly Mongolian nationals) have participated in it. Therefore the Government has decided in May 2009 to go ahead with the project but with several modifications (mainly, the motivation benefit was cut to EUR 300 for adults and EUR 150 for underage persons).

A programme of return for illegal immigrants (i.e. persons without legal work permit) was launched as well by refunding their air tickets. As opposed to participants in the Voluntary return programme such persons won't be offered a preferential treatment with regard to possible future return to the Czech Republic. However, they won't be filed to Schengen Information System.

A regulation of employing foreign workers was introduced. In case of employing foreign workers those already residing in the Czech Republic are being preferred (utilising a special intraweb application which was launched in May 2009 and which contains foreign workers with valid work and residence permits on the one hand and jobs available for foreign workers on the other hand.

IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.

One of the prepared measures for promotion of labour market & industrial relations flexibility was the Amendment to the Labour Code. However, during the inter-departmental consultation procedure over 500 essential remarks were submitted. This displayed the principally different approach of respective social partners. With regards to political development the Amendment was put on hold. Based on an agreement within the Council of Economic and Social Agreement reached in June 2009 consultations on factual solutions will continue so that a new proposal for an Amendment to the Code can be prepared.

IG 22 Ensure employment-friendly labour cost developments and wage setting mechanisms.

Starting from the 1st of January 2009 the sickness insurance rate for employees was decreased by 1.5 p.p. and the sickness insurance rate paid by employers was decreased by 1.1 p.p. (see IG 17 for more details).

IG 23 Expand and improve investment in human capital.

As regards support of further training the indicator for participation of adults in lifelong learning reached 7.8% in 2008 (compared to 5.7% in 2007).²⁹ It is primarily supported within the framework of Lifelong Learning Strategy Implementation Plan which sets the tasks aiming at creation and transformation of the system for further education, i.e. legal definition of responsibilities, rights and obligations, setting up the necessary participation-motivating tools, creating indispensable preconditions for the realisation of the Act on recognition of further education degrees, introduction of quality assessing its supply and developing a consultancy system for FE users.

The National Framework for Qualifications (NFQ) is further being developed mainly within the IP NFQ2 framework which was launched on the 5th of May 2009.³⁰ The budget for this project amounts CZK 651 mil. NFQ database is currently being created and it is being continuously updated with new complete and partial qualifications and their qualification and assessment standards up to ISCED 3C level.³¹ Representatives of employers are actively involved in the process of defining the standards (through Sector Councils) and have thus major influence on the NFQ. Currently 174 partial qualifications are approved with an estimate of 1000-1500 possible future partial qualifications. Currently the system is progressing from partial qualifications on the apprenticeship level to secondary qualification and further levels. The broadening of employers' involvement in development of the NFQ will be another priority of the project. The NFQ is currently being created also for tertiary education in the framework of the approved IP NFQ for tertiary education (Q-RAM).

Feasibility of the IP Support for Individual Education of Citizens (PIVO – SIEC) is being prepared, after which the project will be launched. Project's aim is to support the demand for further education in the form of individual education in the field of general and vocational competences, namely focusing on ICT and entrepreneurial skills. This will raise the quality of population's general competencies as it will reinforce an active approach and motivation of individuals towards further education.

Several other individual national projects were being prepared: UNIV 3 for supporting the processes of recognition of further education degrees, UNIV 2 KRAJE (UNIV 2 REGIONS) for supporting the development of lifelong learning a transformation of secondary schools into lifelong learning centres, KONCEPT for creating conceptual and system mechanisms for the field of further education, REKVAL for supporting retraining (REKVAL) project for further environmental education. Projects UNIV2 and KONCEPT were launched, the remaining projects will follow shortly.

One of the recommendations addressed to the Czech Republic by the European Commission in early 2009 aimed at the necessity of improving the collaboration between educational institutions and businesses. On the 16th of December an Action Plan for Support of Vocational Education was adopted. It focuses on collaboration with employers and it accentuates several measures contained in the Lifelong Learning Implementation Plan, namely the support of curricular reforms, support of openness and permeability of secondary

²⁹ EUROSTAT: Life-long learning (adult participation in education and training) - Percentage of the adult population aged 25 to 64 participating in education and training.

³⁰ IP NFQ2—"Individual National Project", Development and implementation of the National Framework for Qualifications - NFQ2.

³¹ ISCED 3C – Upper-secondary Education (direct access to labour market)

education educational programmes, and labour market success for specialist school leavers. In October 2008 a system project of support for developing the partnership between schools and companies aiming at raising the quality of vocational training was completed. (Partnership and Quality). Examples of best practice were published online.³² The collaboration between educational institutions and employers was also developed in the framework of NFQ and NFK 2 for the preparation of final examinations in fields of education completed with apprenticeship certificates and it will also be developed in the framework of UNIV projects.

Reinforcement of various mechanisms of the abovementioned collaboration is contained to a large extent in the White Book of Tertiary Education. Universities and representatives of industry communicate and collaborate on various platforms. These activities are being supported namely within the framework of the Operational Programme Education for Competitiveness where the collaboration with companies was set as a specific criteria for project evaluation. The OP Prague – Adaptability is aimed for institutions that are based on the territory of Prague. It is focused on projects for developing the collaboration between Universities and companies and on career consulting projects.

Scientific & Technology parks give an example of fruitful cooperation between academia and companies (e.g. Tomas Bata University S & T park in the City of Zlín that was open in 2008, construction of Prague Universities S & T park is being prepared). Another such example is the Masaryk University Technology Transfer Centre, entrepreneurial incubators (Palacký University in the City Olomouc), spin-off firms etc. Škoda Auto, a.s., Škoda Holding, a.s., Siemens, s.r.o., Honeywell ČR and Unipetrol, a.s are among companies with a highly developed collaboration with universities.

As for promoting equal opportunities in education two research studies were conducted in the September 2008 – May 2009 period. Several conceptual documents were approved by the Government whereby the Czech Republic committed itself to take measures for promoting equal opportunities in education.³³ Key goals set by these documents contain e.g. the creation of National Action Plan for Inclusive Education, transformation of consulting system, transformation of schools that operate according to framework education programme for children with mild mental disability, support for educationalists, promotion of pre- and post-gradual education, realisation of timely care, realisation of measures in the field of primary prevention.

Subvention and development programmes in this field are being supported. Target groups are on the one hand being supported via projects realised by schools, nongovernmental non-profit organisations or other subjects, but there are also programmes for pupils' direct support or for supporting pedagogue assistants in schools. The field of equal opportunities is also supported through projects financed from the Structural Funds. In the framework of individual projects of the Operational Programme Education for Competitiveness the following fields were supported: inclusion, primary prevention, timely care for socially-disadvantaged children or institutional care. In 2008 the overall allocation for this field amounted CZK 200 mil and in 2009 it reached CZK 800 mil.

In 2008 and 2009 3 system projects co-financed by the European Social Fund were realised. They aimed at promoting equal opportunities and preventing early school leaving of pupils with special education requirements (Minority Integration Centres, VIP Career, PROPOS). Starting from July 2009 two individual national projects were launched: 1) 'Centres for Inclusive Education Support' sets up system adjustments in the field of education of pupils with special educational requirements and it also establishes the very Centres; 2)

³² www.socialnpartnerstvi.cz

³³ e.g. "Concept of Early Intervention for Socio-Culturally Disadvantaged Children" and its Realisation Action Plan, "Strategy for Prevention of Sociopathological Phenomena in Children and Youth within the Competence of the Ministry of Education, Youth and Sports between 2009 and 2012" etc.

'Development of School Counselling Points' (VIP II) is trying to develop an integrated system of school counselling services offered directly in schools.

Another priority was the elaboration of a long-term strategy in the field of gender equality in education and research. The document contains measures for a more balanced position of men and women. Preparatory team was established and schedule was prepared. The strategy should be completed during the 2nd half of 2010.

IG 24 Adapt education and training systems in response to new competence requirements.

On the 5th of January the Government adopted the Lifelong Learning Strategy Implementation plan which implies specific steps that need to be taken by respective ministries according to their competences. Most importantly Coordination and Implementation Committee had to be established by the 30th of June 2009. Implementation Reports will subsequently submitted on the 31st of December 2009, 2012 and 2015. Ministries were instructed to preferably utilise the resources available through Operational Programmes of the European Social Fund and also to delegate representatives with the Permanent Working Board – a body responsible for Strategy realisation. Implementation Plan's time framework is analogical to that of Operational Programmes, e.g. 2007 – 2013. The IP contains proposals for steps in the fields of initial and further education that should eliminate the negative and maintain & reinforce the positive phenomena in terms of lifelong learning. Not only ministries relative to the field of lifelong learning³⁴ but also wide range of economic and social³⁵ as well as regional partners took part in the elaboration of the document.

Curricular reform implementation is under way from 2005 through Framework Educational Programmes (FEP) whereby each school defines its own School Educational Programme (SEP). Nursery & elementary schools already use the new SEP's and Upper Secondary & the first part of secondary vocational schools started using new SEP's on the 1st of September 2009. The curricular reform in the field of secondary education is divided into 4 phases. The launch of its final phase is scheduled for the 1st of September 2012 when all remaining schools will utilise their respective SEP's.

During the 1st stage (by the 1st of September 2007) 61 FEP's in for vocational education and 2 FEP's for upper secondary education were issued. The first set of FEP's replaced altogether 323 educational fields of the preceding system. During the 2nd stage (by the 1st of September of 2008) 82 FEP's for vocational education were introduced replacing 180 fields. As for the 3rd stage, by September the 1st 2009 82 FEP's were introduced replacing 165 fields of the preceding system. During the 4th stage of the reform (with the 1st of September 2020 as the expected launch date) FEP's for extension study and all remaining education fields will be consulted

Methodological support for secondary vocational schools implementing SEP's according to FEP's is provided through the Individual National Plan called "Support for introduction of vocational education educational programmes – Curriculum S". The actual training of senior executives and coordinators of secondary vocational schools for creation and realisation of SEP's is currently promoted in the framework of an Individual National Plan "Coordinator S1". Pedagogues and SEP creation coordinators in upper secondary education are trained through an Individual National Plan "Support for upper-secondary teachers as pillars of quality upper-secondary education – Curriculum G". This project is scheduled for the January 2009 – December 2011 period and it is a continuation of the successful project "Creation and assessment of pilot SEPs on selected upper-secondary schools" (so called Pilot G, which took place from June 2005 to September 2008).

³⁴ Ministry of Education, Youth and Sports, Ministry of Labour and Social Affairs and the Ministry of Culture

³⁵ Chamber of Commerce, Confederation of Industry, Czech-Moravian Confederation of Trade Unions and the Agrarian Chamber.

The White Book of Tertiary Education was published in May 2008 as a basis for the discussion on targets and means of the tertiary education reform. The Government took note of it on the 26th of January 2009.

In January 2009 an Individual National Project “Reform of tertiary education”, was launched. The first draft version of a law proposal on tertiary education was prepared in the framework of this IP. Analytical works and discussion on reform’s main aims will be continued up to the end of 2009. The preparation of an updated proposal of the draft-law on tertiary education and a draft-law proposal on financial assistance to students will be launched in February 2010.