

Executive summary

The Czech economy was hit through the external trade channel during the recent crisis, but it had no significant domestic imbalances, so macroeconomic policies had room for supporting activity and the recession was relatively short. Nevertheless, the recovery is less dynamic than in other economies in the region and further risks are arising from the international slowdown and sovereign debt crises. The government should therefore continue a broad based reform programme to enhance economic growth and make it more robust to economic shocks. It should build on past recommendations to improve the business environment, strengthen the education system, promote innovation and increase labour market flexibility. This Survey focuses on challenges in the following areas:

In order to strengthen the **fiscal policy framework** the introduction of an explicit debt target should be considered and an independent fiscal institution should monitor and assess the budget as well as fiscal performance on all levels of government. Budgetary documentation should become more transparent and include performance indicators.

The **pension system** performs well in terms of keeping old age poverty low, but is not providing much diversification. The introduction of a new voluntary defined contribution pillar (“second pillar”) is a step in the right direction, which needs to be well communicated and accompanied by regulatory measures to allow the public to make informed choices. In particular, consideration should be given to establishing a central clearing house in order to keep fees low. Payouts in the form of annuities and life-cycle investment strategies should be the default options.

The **health care** system functions well by and large, however, there is scope for improvements. While implementation of a diagnosis-related group payment system should strengthen cost-consciousness among providers, a national capacity plan agreed by the major stakeholders should help to reduce excess capacity, in particular in the hospital sector. Soft gate-keeping and digitalisation of patients’ documentation can enable better care management. Mandatory active substance prescription as well as implementation of a digital prescription can help to keep costs of pharmaceuticals under control.

The Czech Republic has an **energy- and carbon-intensive economy**, leaving important energy and emission saving opportunities underutilised due to insufficient incentives. This poses a risk to public health and energy security, increases the burden of agreed emission targets and might also mean foregone opportunities for growth. Instruments promoting energy efficiency need strengthening and should be more rigorously evaluated and better co-ordinated. To provide the right price incentives, excise tax rates on all fossil energy fuels should be harmonised to complement the EU Emission Trading System, notably by increasing the relative price of diesel. Support for renewable energy needs to be provided in a technologically neutral way to minimise its cost. Upgrading transport infrastructure and the attractiveness of public transport will be essential for containing the growth of emissions in this sector.



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