SPECIAL ANALYSIS

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European Commission‘s Recommendation: Reduce Corruption

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Introduction

This year too, the European Commission issued economic recommendations for individual EU member states, this time for the years 2015 and 2016. The Commission called on member states to take measures to support growth and job creation. The individual recommendations have been issued based on detailed economic analyses of member states for the period of the next twelve to eighteen months.

These recommendations for EU member states are a reflection of the Commission's economic and social programme, which rests on **three interconnected pillars**: *support for investments, implementation of structural reforms and fiscal responsibility*. The fulfilment of these recommendations should help sustain the renewed European economic growth, deepen it and keep it on solid foundations.

The recommendations also relate to the Eurozone as a whole and 26 member states. Another two states, Greece and Cyprus, are not receiving recommendations, since they were supposed to fulfil a macroeconomic recovery programme. The recommendations themselves reflect the priorities that have been set based on a yearly analysis of growth in November of last year. They were followed by months of analyses and dialogues with individual member states. At the end of February 2015, the Commission issued to the Commission's sections working documents, in which it highlighted the direction that the recommendations could take. Then in April, EU member states submitted their economic reform programmes.

At its meeting held on 29 April 2015, the **Czech Government approved the National Programme of Reforms of the Czech Republic for 2015**. It highlights the main measures related to boosting economic growth and employment in the Czech Republic. These measures have been set up in order to fulfil the principles of responsible budget management. On 13 May 2015, the European Commission published its recommendations to EU member states. At the end of June (25 and 26 June), the European Council held a meeting. The European Council concluded the European semester by generally confirming the Commission's recommendations for individual EU member states and called for their implementation.

On 14 July, these recommendations should be formally approved by the Council of Finance Ministers at its meeting. Moreover, in the autumn, winter and spring the European Commission will issue its economic prognoses, which will make it possible not only to compare individual member states based on many perspectives and indicators, but to assess their development as well.

Commission's Recommendations for Member States

For this year, like 2014, the recommendations were for 26 member states. The Commission has made several changes in the coordination of economic policy of the European semester. These changes were set up to support better implementation of individual recommendations and to increase responsibilities at the domestic level. The publication of economic analyses for particular countries has also changed, and they will be published three months sooner than in previous years, so that there is still room for discussion regarding key issues based on the particular analyses.

The Commission's individual proposed recommendations have highlighted these priorities:

1) EU member states should **underestimate investments** in order to support future economic growth. In relation to this, it is necessary to eliminate obstacles that are hindering obtaining of financing and realisation of investment projects. In relation to the recommendations for 2014, many member states have taken measures to resolve the vulnerability and problems in the financial sector. It is also necessary to quickly fulfil the investment plan for Europe, for which the Commission has allocated EUR 315 billion. For increasing investments and achieving the full potential of the investment plan, it is necessary to improve the investment environment, for example by eliminating non-financial and administrative obstacles, increasing the effectiveness of administration and taking other steps to help get finances into the real economy.

2) Ambitious structural reforms are also expected on the market of products, services and labour, which will increase productivity, competitiveness and investments. Such reforms should support growth and job creation for the general good and advance social justice. Reforms in the financial sector will facilitate investors' access to finances, ease negative consequences and reduce red tape in the banking, private and public sectors.

3) In the fiscal area, it is necessary to adopt **measures that will bring about a balance** between short-term stabilisation and long-term sustainability. There are still many member states that report huge budget deficits or huge debt. Therefore, these states should attempt to adjust their balance sheets. EU member states that have certain fiscal rooms should adopt measures to support productive investments. Changes in the composition of public finances should further help growth. Most member states have managed to reduce their deficits of public finances to below 3% of GDP. However, a huge deficit for this year is predicted in Croatia (-5.6% of GDP), the UK and Spain (-4.5% of GDP).

The expected level of public debt and the public budgets balance in the EU (% of GDP, 2015)

	Public debt	Public budget balance		Public debt	Public budget balance
Greece	180.2	-2.1	**Netherlands**	69.9	-1.7
Italy	133.1	-2.6	**Malta**	67.2	-1.8
Portugal	124.4	-3.1	**Finland**	62.6	-3.3
Ireland	107.1	-2.8	**Slovakia**	53.4	-2.7
Cyprus	106.7	-1.1	**Poland**	50.9	-2.8
Belgium	106.5	-2.6	**Sweden**	44.2	-1.5
Spain	100.4	-4.5	**Lithuania**	41.7	-1.5
France	96.4	-3.8	**Czech Republic**	41.5	-2.0
Croatia	90.5	-5.6	**Romania**	40.1	-1.6
UK	89.9	-4.5	**Denmark**	39.5	-1.5
Austria	87.0	-2.0	**Latvia**	37.3	-1.4
Slovenia	81.5	-2.9	**Bulgaria**	29.8	-2.9
Hungary	75.0	-2.5	**Luxembourg**	24.9	0.0
Germany	71.5	0.6	**Estonia**	10.3	-0.2
EU	88.0	-2.5	**Eurozone**	94.0	-2.0

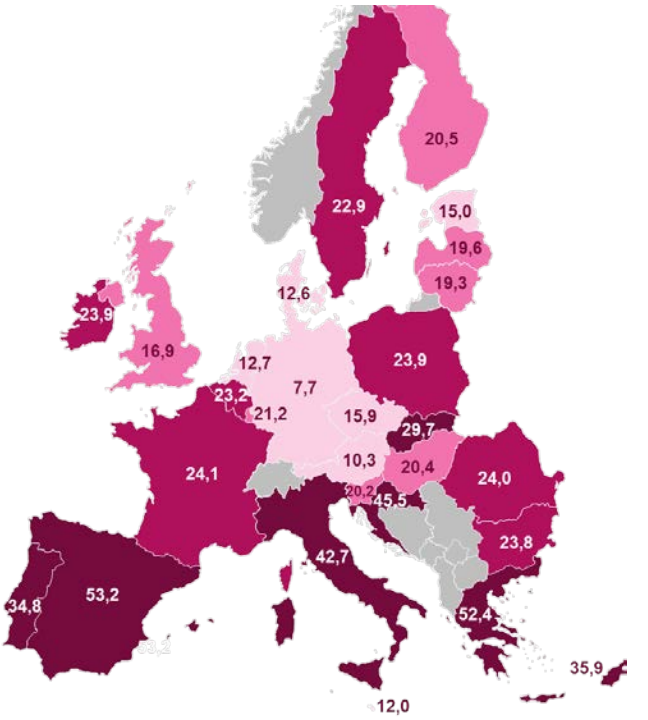
Source: European Commission

Although the situation with public budgets is improving, the public debt in most member states is still growing. In relation to public budgets, the European Commission has recommended that the Council of Ministers of the EU, in the cases of Malta and Poland, end its approach in relation to the excessive deficits since both states have managed to correct their excessive deficits.

4) A certain evergreen for improvement for member states is the **area of employment and social security policy**. It is necessary to resolve the unfavourable situation on the labour market and the high unemployment.

Therefore it is necessary to support job creation and thereby reduce the negative effects of unemployment. One of the ways to do this could be by simplifying the rules for hiring and dismissing workers, in order to reduce lengthy labour disputes, which can prevent signing of employment contracts for indefinite periods. In order to support job creation, it is necessary for the development of real wages to be in line with the development of productivity. Long-term unemployment and the unfavourable living situation could be eased by social assistance and security, so that people are ensured support and protection for their entire lives and so that stronger social cohesion is achieved, which is crucial for sustainable economic growth.

Youth unemployment rate in EU (2014)



Source: Eurostat; the share of unemployed people under 25 years of economically active population aged under 25 years

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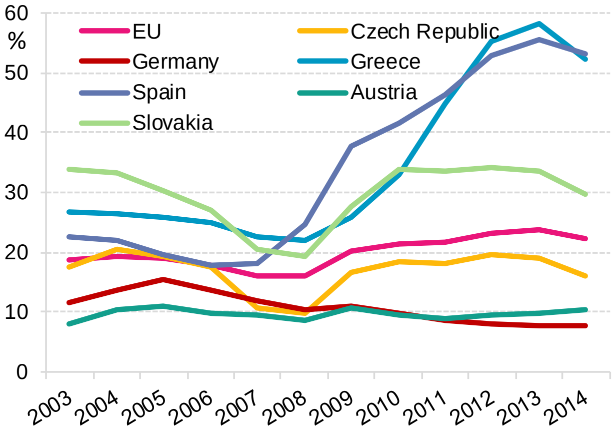
The **most common recommendations** to EU member states include adjustments or improvements in the areas of public finances, taxation and labour markets.

The number of recommendations and details differ among individual states. States with an **excessive imbalance** (Bulgaria, Croatia, France, Italy and Portugal) or states with an **imbalance** that require decisive political measures and (special) monitoring (Hungary, Germany, Ireland, Spain and Slovenia) have the largest number or more detailed recommendations.

The same applies for Romania, where a **preventive programme** of financial assistance is being applied with support from the EU and the IMF.

The Czech Republic, together with Denmark, Estonia, Lithuania, Latvia, Luxembourg, Malta, Poland, Austria and Slovakia, is among the countries without imbalances.

Development of youth unemployment rate in selected EU Member States



Source: Eurostat, the share of unemployed people under 25 years of economically active population aged under 25 years

For the last named state and our Eastern neighbour, **Slovakia**, the Commission for the 2015-2016 period recommends:

- Increasing cost-effectiveness in healthcare, including by improving the management of hospital care and strengthening primary health care. Adopting measures that improve tax collection.
- Further resolving long-term unemployment, by implementing activation measures, second-chance training programmes and high quality professional preparation adapted to the specific needs of individuals. Improving the offering of child-care facilities
- Improving professional preparation of teachers and increasing the attractiveness of the teaching profession, so that worsening of education results is reduced. Ensuring greater involvement of Roma children in regular education and high-quality pre-school education.
- Supporting investments into infrastructure and improving and rationalising administrative procedures for obtaining planning and building permits. Ensuring greater economic competition in public tenders and improving mechanisms for supervision over assigning of public contracts.

Recommendations for Czech Republic for 2015-2016

This year the **number of recommendations was reduced** compared to the previous year. For the period from 2014-2015, the Commission proposed **seven** of them: 1*. Budget strategy; 2. Tax policy; 3. Long-term sustainability of public finances; 4. Employment and child-care services; 5. Quality and inclusive education, evaluation and financing of research institutions; 6. Reform of regulated professions and reduction of energy demands; 7. Quality state administration, the fight against corruption, administration of EU funds, assigning of public contracts.*

By the end of April 2015, the Czech Republic presented its national programme of reforms for 2015 and its convergence programme for 2015.

Both programmes have been assessed together. On 13 May the Commission made public its actual recommendations for member states, including the CR.

Recommendations for the Czech Republic for 2015-2016:

1. Achieve fiscal correction in the amount of 0.5% of GDP in 2016. Further improve cost effectiveness and administration in healthcare.

Long-term sustainability remains a problem for the Czech Republic's public finances, even though a certain improvement of the outlook is expected. Due to the unfavourable demographic developments and the ageing of the population, spending on healthcare can be expected to rise in the future. Another important step is the improvement of transparency in contracts on provision of services between insurers and healthcare providers.

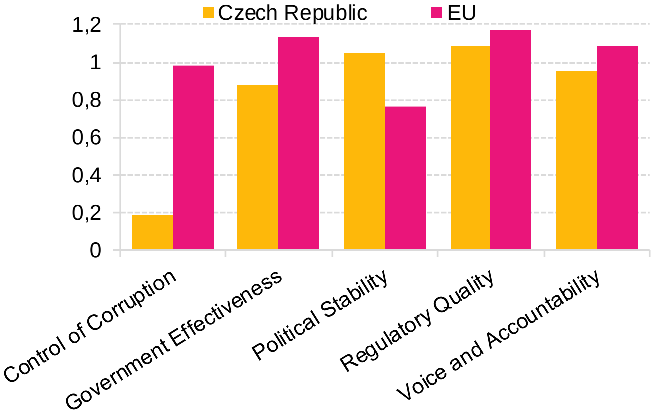
2. Fight against tax evasion, simplify the tax system and implement the anti-corruption plan. Take measures to increase transparency and effectiveness during assigning of public contracts, particularly by implementing a central register of public contracts, and strengthening management and supervision.

According to the Commission's Report about the Czech Republic for 2015, there is extensive tax evasion in the CR, particularly including evasion of VAT and consumer taxes.

A persistent problem, even despite the recently enacted reform steps, is the quality and transparency of public institutions, which are becoming a certain obstacle to further growth.

Corruption and general indicators of quality of public institutions are below the EU average in the Czech Republic, which can have a direct impact on further development, because such ineffectiveness influences the distribution of public funds and worsens the business environment. The Czech Republic is deeply below the EU average in indicators and holds the seventh worst position on the ladder.

Worldwide governance indicators 2013



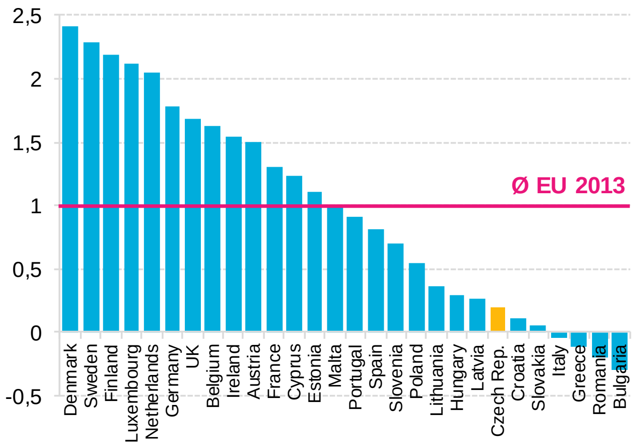
Source: World bank; European Commision: Czech Republic report 2015; Each indicator ranges between -2.5 (weak) to 2.5 (strong). EU figures are calculated as simple averages of Member State results. (2) Political stability and absence of violence/terrorism

3. Reduce the high tax burden of work performed by persons with low income by shifting the tax burden to other areas. Further increase the availability of affordable child-care services.

The Czech Republic has returned to **positive economic growth**, which has also helped on the labour market, where the unemployment level is falling and employment is growing. However, there remain certain problems, such as the low participation of certain groups on the labour market and the high tax burden of labour.

4. Adopt university reforms. Ensure necessary professional preparation of instructors, support schools reporting weak results and take measures to increase school attendance among disadvantaged children, including Roma.

Control of corruption indicator in the EU for 2013



Source: World bank; note: Each indicator ranges between -2,5 (weak) to 2,5 (strong). EU figures are calculated as simple averages of Member State results.

Even despite **lower public spending** on education in the Czech Republic than the EU average, there have been improvements in education results in recent years. The Czech Republic is making rapid progress in increasing the share of people with university education, although this share is below the average in the EU. Slovakia, Malta, Romania and Italy lag behind the Czech Republic.

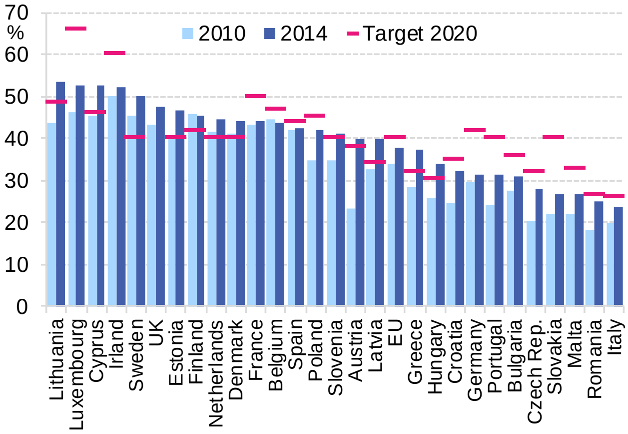
However, besides the positive changes in the form of an increase in the share of people with university education, there are also negative findings regarding the quality of university education and opportunities for university graduates to apply their skills on the labour market. According to research conducted by the OECD, there has been a decrease in the skills of young university graduates compared to older generations with the same type of education.

A large number of inhabitants in the Czech complete elementary and secondary school education. However, in certain groups with worse socio-economic circumstances or medical disabilities, school drop-out levels are relatively high.

It can be stated in conclusion that the **Czech Republic is among the least problematic member states**. The Czech economy has enjoyed growth, which, however, may be influenced and limited in the future by certain factors, such as the low effectiveness of realisation of investment projects, problems with tax collection, inflexibility of the labour market and insufficient support for growth based on knowledge.

Time will tell what progress the Czech Republic will achieve in the areas regarding which the European Commission has issued recommendations in the years to come and how this will help stabilise the country's economy to enable long-term sustainable growth and improve the country's competitiveness.

Tertiary education attainment in the EU



Source: Eurostat

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