

Table of contents

Foreword	3
Executive Summary	9
1 Key Policy Insights	14
Introduction	15
The economic outlook has deteriorated	18
The economy has slowed and inflation has risen	18
Growth will remain moderate, with considerable risks	20
A tight macroeconomic policy stance is warranted	22
The policy stance fell short of containing inflation	22
Monetary policy should remain tight	23
The financial sector is resilient but risks stemming from the housing market should be closely monitored	24
Returning to prudent fiscal policy	26
Safeguarding long-term fiscal sustainability	33
Strengthening public revenues	33
Addressing rising public costs of pensions	37
Raising the effectiveness of the public sector	43
Addressing corruption to raise the effectiveness of public spending and investment	44
Tackling recurring labour and skills shortages	47
Raising employment of mothers	49
Attracting and retaining skilled foreign workers	54
Improving inclusiveness and adaptability of education and skills provision	59
References	68
2 Towards net zero	73
Introduction	74
Designing a strategy to effectively manage the transition	78
Raising transparency and public support for climate policies	81
Ensuring energy security while pursuing climate goals	82
Key policy instruments to reach net zero – a comprehensive policy mix is needed	83
Existing policies and tools result in relatively low environmental stringency	84
Sufficiently and consistently pricing emissions	87
Phasing out coal by investing in alternatives and improving energy efficiency	90
Improving incentives and regulations to lower road transport emissions	95
Addressing the distributional and labour transition effects of climate policies	97
Cushioning the impact of climate policies on vulnerable households	99
Boost active labour market policies to facilitate labour reallocation	99
Allowing for creative destruction	104

Tables

Table 1. Growth is slowing	10
Table 1.1. Macroeconomic indicators and projections	21
Table 1.2. Events that could lead to major changes in the outlook	22
Table 1.3. The government's policies to offset energy price increases	28
Table 1.4. The fiscal position has deteriorated	30
Table 1.5. Potential impact of structural reforms on per capita GDP	32
Table 1.6. Illustrative direct fiscal impact of selected recommended reforms	32
Table 1.7. Past recommendations on strengthening fiscal sustainability and improving the tax mix	43
Table 1.8. Past recommendations on tackling labour shortages	54
Table 1.9. Past recommendations on education and skills	65
Table 1.10. Recommendations	66
Table 2.1. The envisaged energy mix in 2040 foresees a shift towards renewables and nuclear	79
Table 2.2. Assessment and implementation of key climate policies in the Czech Republic	84
Table 2.3. A significant shift towards renewables in electricity and heat generation by 2035	98

Figures

Figure 1. Inflation has risen sharply	10
Figure 2. Female employment falls significantly after childbirth	11
Figure 3. Parents' socio-economic status strongly affects school performance	12
Figure 4. Emissions and energy intensity are high	12
Figure 1.1. Russia's war against Ukraine brought new challenges	15
Figure 1.2. Fiscal sustainability pressures have increased	16
Figure 1.3. Tackling labour shortages and lifting productivity would increase living standards	16
Figure 1.4. Greenhouse gas emissions and energy intensity are high	17
Figure 1.5. The economy has slowed	19
Figure 1.6. Inflation has risen to very high levels	20
Figure 1.7. The labour market remains tight	20
Figure 1.8. Inflation is broad-based	22
Figure 1.9. Inflation has soared amid growth in household incomes over 2020-21	23
Figure 1.10. Inflation expectations have increased markedly	24
Figure 1.11. Housing prices continued rising steeply	25
Figure 1.12. Expansionary fiscal policy has weakened a strong fiscal position	26
Figure 1.13. Energy prices have risen steeply	27
Figure 1.14. Medium to long term fiscal pressures threaten fiscal sustainability	29
Figure 1.15. Tax revenues rely heavily on social security contributions	33
Figure 1.16. The tax wedge is high	33
Figure 1.17. Progressivity of the personal income tax remains low	34
Figure 1.18. The VAT tax compliance gap remains above the EU average	35
Figure 1.19. Effective taxation of carbon is low	36
Figure 1.20. Property tax revenues are low	37
Figure 1.21. Pensions will exert high pressures on public spending from 2030	38
Figure 1.22. The economic old-age dependency ratio will rise	39
Figure 1.23. The old-age poverty rate is relatively low	39
Figure 1.24. Net replacement rates are close to the OECD average, but low for higher earners	40
Figure 1.25. The effective age of retirement is low	41
Figure 1.26. Employment rates fall sharply after 60	42
Figure 1.27. Performance in control of corruption and perceived corruption is poor	46
Figure 1.28. There is scope to strengthen anti-bribery enforcement across borders	47
Figure 1.29. The Czech labour market is strong in many respects	48
Figure 1.30. The unemployment rate has remained one of the lowest in the OECD	48
Figure 1.31. The employment gaps of certain groups are large	49
Figure 1.32. The overall employment rate of women is high and has risen over time	49
Figure 1.33. Motherhood has a big effect on employment	50

Figure 1.34. The risk of poverty in old age is significantly higher for women	50
Figure 1.35. Public support to families is tilted towards cash benefits	51
Figure 1.36. The use of part-time work is low, but rising	52
Figure 1.37. Parental leave specific to fathers is short	53
Figure 1.38. Enrolment of children under three in early childhood education and care is among the lowest	53
Figure 1.39. Immigration has been rising steadily	55
Figure 1.40. Most work contracts for third country nationals are for medium- and low-skilled positions	55
Figure 1.41. Conditions for highly skilled migrant workers are less favourable than in OECD peers	56
Figure 1.42. The Czech Republic has received the highest inflow of Ukrainian refugees per capita	58
Figure 1.43. Close to half of current jobs face a high risk of automation or may be significantly changed by technology	60
Figure 1.44. A high share of 15-year-old students expect to work in occupations projected to decline	60
Figure 1.45. The Czech Republic scores well on various measures of skills and quality of education	61
Figure 1.46. PISA tests indicate a decline in performance in mathematics and science	61
Figure 1.47. Tertiary attainment still lags behind OECD peers	62
Figure 1.48. Socio-economic background has a strong impact on performance in school	63
Figure 1.49. The attractiveness of the teaching profession is low	63
Figure 1.50. Teachers could be better prepared to deliver on strategic priorities	64
Figure 2.1. Significant GHG reductions, especially over the 1990s	74
Figure 2.2. CO ₂ intensity remain among the highest in the OECD because of fossil fuel use in energy industries	75
Figure 2.3. Sanitary logging to contain insect infestation has increased LULUCF GHG-emissions	77
Figure 2.4. Achieving long-term climate goals will require accelerating emission reductions	79
Figure 2.5. The share of renewables is low	80
Figure 2.6. A relatively large share of Czechs disagree that climate change is a serious problem	81
Figure 2.7. Czech households are very vulnerable to high energy prices	82
Figure 2.8. Progress in environmental policy stringency stalled in the 2010s	85
Figure 2.9. Raising the EPS can significantly reduce CO ₂ -emissions	86
Figure 2.10. Reaching the EU's Fit-for-55 necessitate a rapid tightening of environmental policies	87
Figure 2.11. Czech GHG-emissions outside the ETS have fallen only slightly	88
Figure 2.12. Effective carbon rates are among the lowest in the OECD	88
Figure 2.13. Coal remains core to the energy mix	92
Figure 2.14. Cumbersome and lengthy processes hamper green investments	93
Figure 2.15. Environmental R&D spending is relatively low	94
Figure 2.16. Heating consumption in residential spaces is high	95
Figure 2.17. More environmentally friendly vehicles can help reduce transport CO ₂ emissions	96
Figure 2.18. Poorer households spend a larger share on energy	97
Figure 2.19. Labour reallocation will continue with some regions and sectors more at risk	100
Figure 2.20. Spending on training programmes is low	103
Figure 2.21. Adult training should be geared towards workers with less education	104
Figure 2.22. The automotive sector is a driver of value added and is relatively CO ₂ -efficient	106
Figure 2.23. Electric and hybrid electric make up a large share of the European car market	106
Figure 2.24. There is room to reduce the administrative burden on start-ups	107

Boxes

Box 1.1. Key government policy priorities	18
Box 1.2. EU funds to support a resilient recovery and the green and digital transition	31
Box 1.3. Potential impact of reforms	32
Box 1.4. The financial and labour market impact of Ukrainian refugees	58
Box 2.1. Forests: from a carbon sink to a source of CO ₂ emissions	77
Box 2.2. Environmental Protection Stringency and CO ₂ -emissions	86
Box 2.3. Introducing carbon prices with emissions price trajectories	89
Box 2.4. Model simulations of the impacts of the EU Fit-for-55 on the Czech Republic	98
Box 2.5. Experiences of other OECD countries in industrial transitions	101
Box 2.6. The transformation of the automotive sector	105