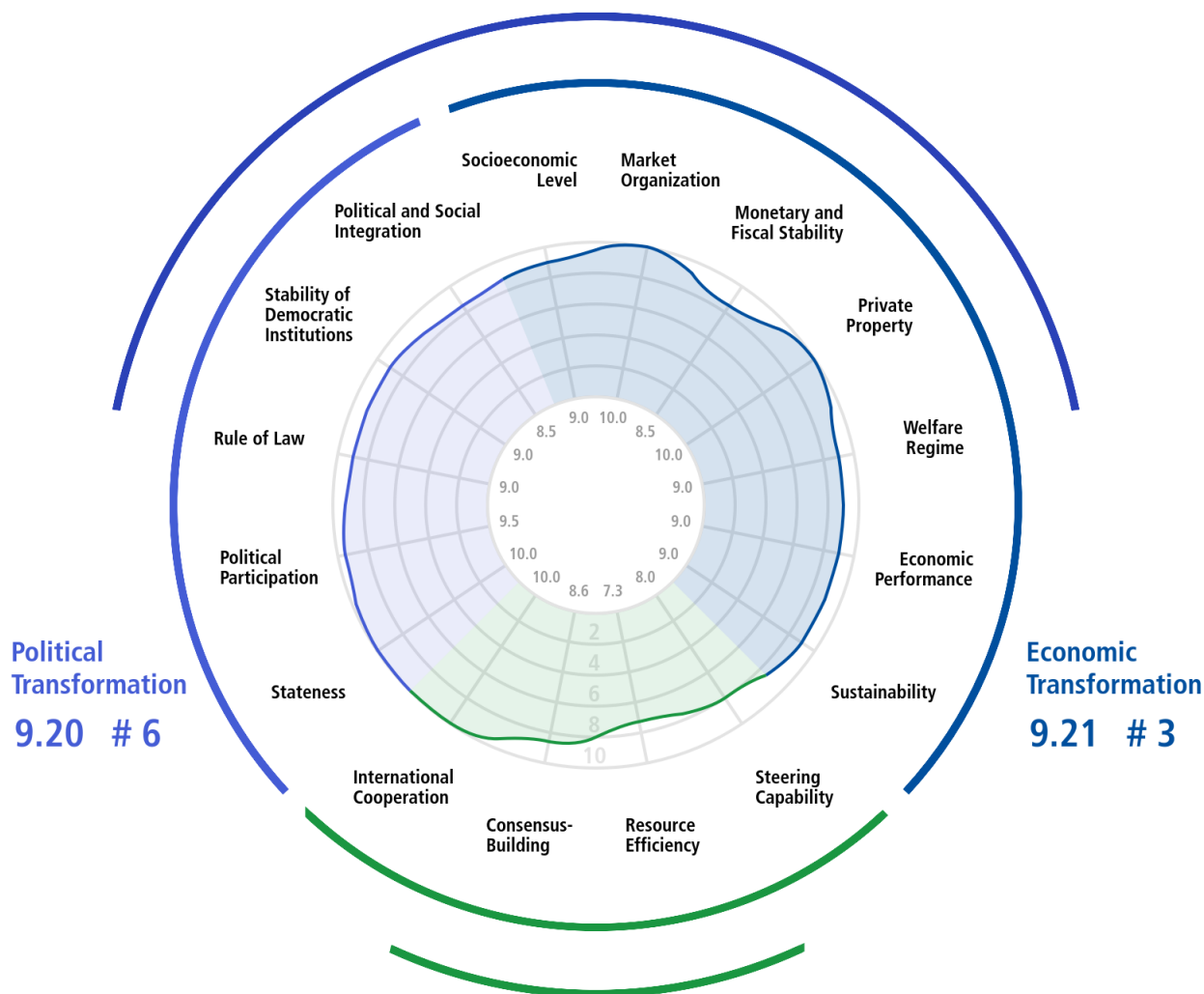


# Czechia

## Status Index

**9.21 # 4**

on 1-10 scale out of 137



**Political Transformation**  
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**6.87 # 9**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2024 Country Report – Czechia. Gütersloh: Bertelsmann Stiftung, 2024.

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**Key Indicators**

Population	M	<b>10.5</b>	HDI	<b>0.889</b>	GDP p.c., PPP \$	<b>49946</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.2</b>	HDI rank of 189	<b>32</b>	Gini Index	<b>26.2</b>
Life expectancy	years	<b>77.4</b>	UN Education Index	<b>0.880</b>	Poverty <sup>3</sup>	<b>0.0</b>
Urban population	%	<b>74.4</b>	Gender inequality <sup>2</sup>	<b>0.120</b>	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

The review period was marked by three important elections and overlaying crises. In 2021, the parliamentary elections took place, followed by the Senate elections in 2022, and finally the presidential elections in 2023. These elections brought about increased polarization and mobilization, ultimately resulting in the defeat of populism.

In the 2021 parliamentary elections, two coalitions – the conservative Together (SPOLU-ODS, TOP09 and KDU-CSL) and the liberal PirSTAN (Pirates and STAN) – defeated the incumbent populist Prime Minister Andrej Babiš. The Fiala government now enjoys a comfortable 108-vote majority in parliament and exhibits a high degree of internal unity. The number of parties in parliament decreased from nine to seven after the Social Democrats and the Communists failed to clear the 5% threshold. More than 1 million votes were cast for parties below the electoral threshold, which further fueled the increase in anti-government protests, particularly in 2022. In the 2022 Senate elections, most ANO candidates were defeated in the second round as other parties unified in support of anti-ANO candidates.

The 2023 presidential elections became a polarizing referendum on the country's future orientation. The winner, citizen-nominated candidate, retired army general and NATO officer Petr Pavel, built a broad coalition uniting the city and the countryside behind the promise of order and decency. Before the second round, two losing contenders from the first round supported Pavel, participating in rallies and donating campaign resources and volunteers for Pavel. His 58% to 42% victory over Babiš, with record turnout, demonstrated that the majority of Czechs reject populism and support the pro-Western orientation of the country.

Four overlapping and interconnected crises have marred Czechia: the ongoing pandemic, particularly in the fall of 2021; energy crises; inflation; and the war in Ukraine. In 2022, Prime Minister Fiala managed to bring the pandemic under relative control without the need for further lockdowns, thanks to increases in the vaccination rate and the availability of medication and procedures. Toward the end of 2022, global supply shortages of medication arose; however, the government successfully located additional resources and took action against hoarding.

The energy crisis emerged as the primary concern in 2022, driven particularly by the war in Ukraine. Consequently, the country's complete dependence on Russian gas posed an economic risk. By January 2023, substitute sources for 96% of the Russian gas had been found, including LPG imported through a new terminal in Rotterdam. The Czech Republic leased 25% of the terminal's capacity. Initially, the government was slow to tackle the drastic surge in energy prices for both households and businesses. Nonetheless, it eventually devised a workable solution, which entailed implementing a new windfall tax on energy companies.

Strong inflation led to a significant decrease in real income. In 2022, Czechia had the fourth-highest inflation rate among EU countries. Inflation negatively affected the post-pandemic economic recovery. Rising prices for consumer goods reduced the purchasing power of private households' incomes. Normally, central banks raise their key interest rates in response to high inflation rates. However, the new head of the Czech National Bank is resistant to cooling down the economy by engaging in tight monetary policy.

The unprecedented wave of refugees from Ukraine – mostly women and children – further strained municipal budgets already undermined by the 2020 tax cuts. Municipalities and regions faced increased costs for housing, schools and health care, paired with higher energy costs for schools, hospitals and senior homes. The integration of Ukrainian refugees into the labor market was successful, but most accepted jobs below their qualification level.

The country's safety net was tested, and its weaknesses regarding vulnerable populations – the socioeconomically disadvantaged, children, single-parent households and low-income people – were thrown into relief. Economic, housing and food insecurity grew, as did the reliance on food, clothing and furniture banks. Civil society was crucial in filling the gaps in government response. On the issue of migration, significant cooperation between civil society and municipal and regional governments enabled the management of the unprecedented refugee influx.

The Czech EU presidency in 2022 was successful, as was the resolution of the Turow lignite mine conflict with Poland. Czechia, together with Poland and the Baltics, became a key supporter of Ukraine in the EU, with Prime Minister Fiala visiting Kyiv in March 2022 along with the Polish and Slovenian leaders.

## History and Characteristics of Transformation

Czechoslovakia's transformation was part of the broader political changes in East-Central Europe between 1988 and 1989. The end of the Cold War caught the relatively economically stable but politically very rigid communist regime off guard. Representatives of the opposition movement formed the revolutionary Civic Forum (Občanské fórum, OF), which negotiated the transition after the Communist Party gave up its monopoly on power on Nov. 28, 1989. Members of the OF were successfully incorporated into the Czechoslovak National and Federal Assemblies. The newly formed parliament elected dissident Václav Havel as president, and Alexander Dubček, the symbol of the Prague Spring (1968), became the speaker of the Federal Assembly.

The country's transformation (becoming Czechia in 1993) has included significant political and economic changes and a redefinition of statehood via the Velvet Divorce with Slovakia in 1992. Czechia became a member of NATO (1999) and the European Union (2004). The accession to the IMF and the World Bank in 1993 offered credit guarantees, which were necessary for economic and social reforms in a four-phase process. The first phase (1990 – 1993) was characterized by a considerable economic decline, while the second phase (1994 – 1996) entailed considerable growth, followed by a recession in the third phase (1997 – 1999). Economic growth was reestablished only in 2000 and was stalled by the global financial crisis in late 2008. The impact on the Czech economy was delayed but significant. Since 2016, the economy has returned to growth, the unemployment rate is the lowest in the EU, public debt has decreased, and the state budget has had a surplus (between 2017 and 2019). This changed dramatically in 2020, when the government deficit reached CZK 368 billion (€ 14 billion) due to COVID-19 and public debt grew but the unemployment rate remained low. Mandatory expenditures continue to increase the government deficit.

Two major actors shaped the country's democratization. The first was the former dissident and well-known representative of the opposition movement Charter 77, Vaclav Havel (president of the Czechoslovak Federative Republic 1990 – 1992 and Czechia 1993 – 2003). The second was Vaclav Klaus, an economist and one of the Civic Forum's leading figures, and later the leader of the Civic Democratic Party holding the offices of prime minister, speaker of parliament and president (2003 – 2013). These two figures represented different streams of democratic politics – representative (party) democracy and participatory democracy. Both significantly shaped the nature of Czech politics, resulting in a highly polarized system interlaced with ideological and personal animosities.

Two other significant figures shaped the last decade: Miloš Zeman and Andrej Babiš. President Miloš Zeman (March 2013 – March 2023) is a former leader of the Czech Social Democratic Party, former chairman of the lower house of the Czech parliament (1996 – 1998) and prime minister (1998 – 2002). In 2003, partisan disunity in the Czech Social Democratic Party (ČSSD) led to Zeman's loss in his first presidential run (Klaus won). Consequently, Zeman founded the Citizens' Rights Party – the Zemanites (Strana prav občanů – Zemanovci). Zeman is a close ally

of Andrej Babiš, a billionaire turned populist prime minister. Babiš founded the Action of Dissatisfied Citizens (ANO) party in 2011. In 2013, he won 18.7% of the vote on a populist, anti-establishment, anti-corruption platform and joined the Social Democrats in government as minister of finance. Babiš' technocratic populist appeal continued – in 2017, ANO won over 30% of the vote and formed a minority coalition government with the Social Democrats. In the 2021 parliamentary elections, ANO became the dominant force on the left, and the Social Democrats did not cross the 5% threshold. Yet Babiš' political career has been marked by a dark shadow of fraud charges related to the misappropriation of EU funds.

The 2013 elections upended Czech politics by bringing in new anti-establishment (and populist) parties that continue to hold seats in the Czech parliament – Andrej Babiš' Action of Dissatisfied Citizens (ANO), Tomio Okamura's radical-right parties Dawn of Direct Democracy (2013 – 2017), and Freedom and Direct Democracy (SPD, 2017 –), and the Pirate Party (currently in Prime Minister Fiala's coalition government). The 2021 elections concluded this process of party system transformation – like the Social Democrats, the Communists are no longer present in the parliament. Fragmentation decreased in the parliament, but anti-government mobilization increased, leading to a wave of radical protests in 2022.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Czechia does not have any significant problems related to state integrity. There are no separatist movements or territorial enclaves.

Czechia is ethnically and nationally quite homogeneous – according to the 2021 Census, 83.8% claimed Czech nationality and 5% claimed Moravian nationality. However, less than 70% of respondents declared their nationality. Between 2019 and 2022, the number of foreign nationals legally residing in Czechia doubled from 0.6 million to 1.1 million. The majority of them (over 615,000) were Ukrainian war refugees with special temporary protection.

The Czech public has traditionally been rather skeptical about the reception and integration of refugees. The inflow of refugees from Ukraine has divided the country. On one hand, 41% of Czech citizens regard refugees as a security threat to the country (December 2022, CVVM). About 35% reject and 58% support the government's actions regarding humanitarian and military aid to Ukraine (May 2022, CVVM). On the other hand, tens of thousands have volunteered to aid and host Ukrainian refugees.

The war and the refugee crisis have been used in the nativist and welfare-chauvinist discourse of populist parties, most notably the populist radical-right Freedom and Democracy Party.

While the government's stance toward minorities, especially the Roma, has steadily improved over time, primarily due to external pressure from the European Union and the Council of Europe, half of the Roma live in social exclusion. The societal perception of the Roma remains strongly negative. Increased electoral participation in Roma-dominated districts in the 2023 presidential elections led to unfounded and unproven accusations of vote-buying.

Question  
Score

Monopoly on the  
use of force

10



1

State identity

10



1

Czechia is one of the most secular countries in Europe. Religious dogmas do not influence politics or law. The government acknowledges the historical and unique position of the church and religious communities as traditional institutions that are part of Czech society. However, the church has not yet been separated from the state, and the state budget funds religious communities.

The center-right government in office since 2021, led by the conservative Civic Democratic Party (ODS), is representative of the growing influence of a faction of radical conservative and Christian politicians within the public administration. Media reports indicate that the Ministry of Finance has hired an advisor to “check the gender agenda” of European and domestic legislation so that, in the words of an ODS member of parliament, “we do not give in to fashionable trends” (Deník N).

The separation of church and state should conclude in 2042 after the state pays the full compensation based on the 2012 Law on the Compensation of Churches and Religious Communities: CZK 59 billion (€ 2.5 billion) over 30 years as restitution for church properties that are no longer available for various reasons.

In the 2023 presidential elections, members of the Roman Catholic clergy appealed to their parishioners to reject hate in reaction to the warmongering campaign of Andrej Babiš. In his campaign, Babiš tried to court the Catholic vote by attending church services and attempting to shoot an ad in a renowned Carmelite Church in Prague. However, the religious order rejected the use of the church and closed it on the day of Babiš’ planned visit. As a result, most of the Catholic vote went to Petr Pavel, the winning candidate.

The state has a multi-layered administrative structure, composed of central, regional and local levels, that provides all basic public services. The pandemic was a largely successful stress test for the basic administrative infrastructure.

In December 2020, a reform reduced the income of municipalities from shared taxes, while the influx of refugees further stretched local and regional budgets and deepened regional inequalities. Regional inequalities are particularly evident in the border regions (formerly known as the Sudeten), where access to and the quality of health care is significantly lower than in regions such as Prague. This is especially true of dental care and medical specialists. Similarly, the quality of schools and transportation in these structurally disadvantaged regions is significantly lower than in Prague, Central Bohemia, and others.

The lower tax revenues for municipalities were further exacerbated by rising energy costs in health care facilities and schools during the 2022 energy crisis.

The discretion of local and regional governments is effectively limited. Regional governments are constrained by the need to ensure set standards for key services, notably education, which limits the scope for fund transfers between uses. Energy price hikes and a significant increase in the number of pupils due to the influx of

No interference of religious dogmas

10



1

Basic administration

10



1



Ukrainian refugees pushed smaller municipalities to their limits. Several regional governments viewed the government's actions as inadequate, particularly due to the uneven distribution of refugees throughout the country. The quality of basic services declined significantly, with some schools, hospitals and elderly care facilities drastically reducing heating, for example.

## 2 | Political Participation

Free and fair elections are regularly organized and constitutionally guaranteed. All adult citizens, including prisoners, can participate in national elections, and voter registration is relatively straightforward. However, the introduction of the postal ballot remains a contentious issue. Czech citizens residing abroad can vote at Czech embassies and consulates, but participation is complicated by registration deadlines and the limited number of embassies and consulates.

In the period under review, parliamentary elections took place in October 2021, Senate elections in September 2022 (one-third) and two-round presidential elections in January 2023. Due to the continued presence of COVID-19, drive-through voting and special mobile electoral commissions remained available. In all three elections, turnout increased significantly. In the 2021 parliamentary elections, turnout was 65.4%, nearly a 5% increase from the 2017 parliamentary elections. The Senate and presidential elections recorded similar increases in turnout.

The electoral law guarantees parties (in parliamentary elections) and candidates (in presidential elections) access to state radio and television. A total of 14 hours was allocated between all parties to express their views equally, irrespective of party size or previous electoral performance in the parliamentary elections. Candidates in the first and second rounds of presidential elections were respectively given five and one hour. The broadcasting window ends 48 hours before the polls open. However, the private media's reporting and presentation of parties are less balanced than what takes place in the public media. Public opinion polls and exit polls cannot be published in the period beginning three days before elections.

The Office of the Oversight of Political Parties and Political Movements (UDHPSH), established in 2017, oversaw all three elections. The office's website offers detailed financial reports for all parties and candidates. However, only minor infringements were reported for the 2021 and 2022 elections.

Free and fair elections

10



1

The democratically elected parliament and government of Czechia have the effective power to govern and are not constrained by any nondemocratic veto powers.

In 2022, mass anti-government demonstrations took place, some of which threatened to turn violent. The largest demonstration, in September 2022, attracted 70,000 protesters, uniting the radical right, the radical left, anti-system activists and anti-vax groups. While the protests initially garnered considerable attention due to their size and often violent rhetoric, they quickly fizzled out.

The freedom of association and assembly is fully guaranteed in Czechia. The law on political parties and movements regulates the formation and registration of all political entities. The number of interest associations has grown considerably since 1990, but a minor drop in the number of NGOs was registered in 2020. As of October 2020, over 147,257 autonomous, self-organized groups, associations, foundations and organizations were registered in the country, although not all were active.

In response to the refugee, energy and financial crises, several anti-government protests took place, especially in Prague, and some threatened to turn violent. The significant increase in the number of protesters in comparison to the pandemic era was attributed to radicalization during the pandemic and underrepresentation in the Czech parliament. Both the Communist Party and Social Democrats failed to cross the threshold in the 2021 parliamentary elections. The populist ANO and the radical-right SPD now represent the underprivileged.

Czechia has long been characterized by a significant degree of media freedom, partly due to the independence of the public media and the significant foreign ownership share in the private media sector. However, the private media market has undergone significant changes in the past decade. The most critical change has been the concentration of media ownership, the departure of several foreign media owners, and the expansion of media holdings to include print, online, radio and television.

In recent years, there has been a significant decline in print media readership, while online media has experienced growth. The most widely read newspaper is the tabloid Blesk (Czech News Center, with 676,000 readers per issue), followed by MF Dnes (MAFRA Media Group, with 434,000 readers per issue) and Denik (Vltava-Labe media group network of regional newspapers, with 414,000 readers per issue). The MAFRA media group exerts a dominant influence on daily print media, with an estimated 3.2 million readers. However, due to Prime Minister Babiš' ownership of MAFRA and other media outlets, there is concern about biased reporting and potential self-censorship among journalists.

While freedom of information legislation is in place and effective, the government remains slow and ineffective in mitigating the spread of disinformation. Chain emails and Russian-related bots are significant factors contributing to polarization and radicalization, particularly targeting seniors. For example, during the second round of the 2023 presidential elections, a hoax spread claiming that presidential candidate and eventual winner Petr Pavel had died.

Effective power to govern

10



Association / assembly rights

10



Freedom of expression

8



### 3 | Rule of Law

Collusion among democratic institutions has not been a serious problem in Czechia. There is a clear separation of powers with mutual checks and balances. Since 2021, the governing coalition has controlled the Senate and the Chamber of Deputies, both with comfortable majorities.

President Zeman maintained a neutral relationship with Prime Minister Fiala but was a staunch ally of former Prime Minister Andrej Babiš, whose unsuccessful presidential bid he publicly supported. Despite the president's limited constitutional powers, he played a significant political role in establishing an additional power center at Prague Castle. Toward the end of his time in office, President Zeman acknowledged that he was trying to push the country into a transition toward a semi-presidential system. However, his efforts were hindered both by the Constitutional Court and by his own persistent and severe health problems.

During the formation of the Fiala government, Zeman once again attempted to assert himself by increasing his own power at the expense of the new prime minister. The president voiced his opposition to the appointment of a Pirate Party candidate for the minister of foreign affairs position; however, Prime Minister Fiala skillfully negotiated the appointment of his entire government. In the autumn of 2022, President Zeman also objected to the selection of the STAN candidate as minister of environment. As a result, Prime Minister Fiala opted to delay this appointment until after the presidential elections in 2023.

In November 2022, President Zeman announced his intention to appoint a new president of the Constitutional Court before the end of his term in March 2023. However, the term of the then-serving president of the Constitutional Court, a former ally turned foe of President Zeman, did not end until August 2023. Legal experts, the government and the majority of the Constitutional Court opposed Zeman's move, as did the later president-elect Petr Pavel during the electoral debates. This increased the pressure on Zeman and the judge, who was open to the idea. The possibility of paralysis in the Constitutional Court and the standoff between the Senate and the president raised the stakes of the 2023 presidential elections.

The new president, Petr Pavel, has pledged to stay within the constitution's remit, unlike his predecessor. He will have the opportunity to appoint 11 Constitutional Court judges during the first 18 months of his term. During his campaign, Pavel named widely respected judges and constitutional law experts as his picks.

Separation of powers

10



1

The judiciary is independent and free from unconstitutional interference by other institutions, and, for the most part, it is free of corruption. When corruption in the judiciary emerges, it is rigorously prosecuted. The Constitutional Court serves as a vital check on the executive.

The Constitutional Court, the Supreme Court and the Supreme Administrative Court are appointed by the Senate, the second chamber of parliament, following proposals from the president. The judicial appointment process is transparent and adequately covered by the public media. Furthermore, the involvement of the president and the Senate increases the likelihood of balance in judges' political views.

The appointments of Constitutional Court judges periodically pose a threat – every decade, a single president appoints almost all judges. Furthermore, if the president and the Senate have a hostile relationship and hold opposing political views, the Constitutional Court may become paralyzed due to the Senate's refusal to approve the president's nominations.

Court proceedings are fair, but the aid and assistance provided to victims of domestic and sexual violence are comparatively small, drawing criticism from NGOs.

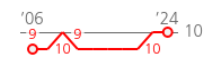
The Czech Judicial Academy, established in 2022, serves as the central institution for training trainee judges, judges, state prosecutors and other legal professionals. The training primarily focuses on domestic law, EU law, legal skills and social sciences. Specialized NGOs have also begun offering targeted training on issues including domestic and sexual violence.

In Czechia, corruption and clientelism are still widespread. Subsequent governments have emphasized their commitment to fighting corruption but have made little effort to address the issue effectively. Two significant changes were made in 2017, including amendments to the law on party finance and the law on conflict of interest. However, even with these apparent advancements, significant cases can take years to resolve and frequently result in mistrials. The court proceedings have been further prolonged by the pandemic. Public statistics regarding the successful prosecution of public officials are not available.

Former Prime Minister Babiš represents the primary example of the combination of business, political and media power. The most prominent controversy involves the use of EU funds, intended for SME support, to finance a business that had been temporarily separated from the Babiš Agrofert conglomerate. The business returned to its control after receiving the subsidy. In January 2023, the district court dismissed the case and heavily criticized the prosecution's work. This brought the "Stork Nest" affair to a conclusion without clarification. In the autumn of 2022, French prosecutors initiated a case against Babiš for money-laundering related to the purchase of real estate in southern France.

### Independent judiciary

10



1

### Prosecution of office abuse

7



1

The European Union still considers the blind trust arrangement, which Agrofert Holding was placed in after the conflict of interest law was passed, as unsatisfactory. As a result, its use of EU subsidies continues to be a problem. As of the close of the review period, the government had not yet taken any action to request the return of these subsidies from Agrofert.

Czechia's government and administration respect and protect its citizens' basic civil rights. Complaints lodged with the European Court of Human Rights and the Office of the Public Defender of Rights (Ombudsman) indicate that the main problem is the length of legal proceedings. The major issue remains the protection of victims of crime, especially children, who often experience secondary victimization during the investigation and prosecution processes. Additionally, the standards of psychiatric care in the country remain significantly below those of the European Union more broadly.

A significant case in front of the Constitutional Court in 2022 involved the rights of trans people to undergo legal sex changes without the requirement of gender reassignment surgery. The court denied the request of a trans citizen, while two dissenting views were filed by Constitutional Court judges.

Discrimination based on gender and sexual orientation, as well as race, is more publicly problematized, and issues such as the treatment of Roma and same-sex marriage are gaining visibility among the majority population.

#### 4 | Stability of Democratic Institutions

During Prime Minister Babiš' government (2018 – 2021), democratic institutions demonstrated resilience in response to attempts to expand the executive's power. The parliament, Senate and courts held the government accountable. In parliament, Babiš' minority government faced significant debate before any state of emergency was approved. The Senate returned numerous bills with substantial amendments, threatened litigation on certain pandemic restrictions, and appealed to the Constitutional Court when faced with allegations of collusion between the president and the prime minister. The courts pushed back against government overreach by rolling back some pandemic restrictions.

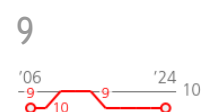
Under the government of Prime Minister Fiala (January 2022 onward), who holds a 108-seat majority in the 200-member parliament, the opposition frequently attempted to obstruct the adoption of key legislation by holding several all-night interpellations. Additionally, the ANO party triggered a vote of no confidence twice, coinciding with the 2022 Senate elections and the second round of the 2023 presidential elections. However, both attempts to remove Prime Minister Fiala from power failed. From 2022 onward, the parliamentary opposition has increasingly deployed obstructionist tactics, with parliamentary debates sometimes lasting for days and featuring all-night interventions by populist leaders and members of parliament.

#### Civil rights



1

#### Performance of democratic institutions



1

Democratic institutions are in place and perform their functions at the regional and local levels. There are significant differences between structurally disadvantaged border regions (Sudeten) and more economically advanced regions – especially Prague and Central Bohemia – where municipalities are increasingly introducing participatory innovations such as participatory budgeting.

All democratic institutions are accepted as legitimate by most relevant actors. Most citizens support democratic institutions, and no influential groups seek to change the Czech political system despite occasional attacks on the Senate and the 2022 anti-government, anti-system protests.

Since its establishment, the Senate has been targeted by the radical right and, from 2013 onward, by the populists as an “unnecessary” institution and a “drain on resources.” The critique is partially ideological – populists seek to undermine representative democracy in favor of majoritarian and direct democracy – and partially political. Due to the structure of the electoral system, populists are rarely successful in the second round of the Senate elections.

On the other hand, the rise and visibility of extremist political groups is palpable, especially during the overlapping crises of 2022. The 2022 protests also brought together the radical left, the radical right, anti-vaxxers and other radical elements. Transnational links with the radical right in Germany were evident during the demonstrations, with participation from AFD figures. However, the anti-system protests waned due to internal power struggles within the leadership.

## 5 | Political and Social Integration

The multiparty system, which had been relatively stable since the start of the democratic transition, began to change after 2010. The change culminated in the 2021 parliamentary elections, during which the Social Democratic Party (ČSSD) and the Communists (KSČM) failed to cross the electoral threshold, and a total of 1 million votes were cast for parties below the threshold. The only representation of the underprivileged is now through the populist ANO and the radical-right SPD. The extra-parliamentary extreme right remains fragmented. The Social Democrats are undergoing a deep internal identity crisis, while the Communists have radicalized and joined the anti-government protests. The election campaign was highly polarized, with a major discursive divide between populism and the two anti-populist coalitions: the right-wing SPOLU and the more centrist Pirates and Mayors. The campaign was based on Manichean claims that overshadowed “traditional” left-right politics.

In the 2023 presidential elections, Andrej Babiš appealed to voters from the radical right and the radical left. Although he managed to gain support from approximately half of the SPD voters, his shift toward the extremes resulted in a significant loss of votes from the centrist ANO party (estimated at 250,000 votes). Based on an initial analysis, the majority of social democratic voters cast their votes for Petr Pavel. Consequently, Babiš’ move toward the extremes positioned him directly in competition with the radical-right SPD party.

Commitment to democratic institutions



1

Party system



1

Political parties are generally weakly socially rooted, with most parties having a small and rapidly decreasing membership base. Furthermore, new political parties such as ANO and especially the SPD limit party membership as a means of maintaining control by the party leader.

Established parties on the right and the left – including the civic democrats and the social democrats – have a long history of clientelism. Periodic cases of corruption in public procurement and the embezzlement of EU funds on the municipal level have involved politicians from most parties. In the period under review, the most important case in Prague was the large-scale “Dozimeter” criminal network, which involved high-ranking politicians of the Prague municipality.

Interest groups in Czechia encompass a wide array of entities, including social movements, community organizations, unions and professional organizations. These groups advocate for a diverse range of interests, such as transparency, anti-corruption, city planning and post-modern values. Currently, no specific interest group holds a dominant position among the existing interest groups.

Many groups are organized around associations of groups with similar aims, such as the Czech National Disability Council. These associations provide the most common platforms for day-to-day coordination and collaboration. In 2022, the Ukrainian crisis mobilized collaboration between civil society organizations, primarily in the field of human rights, to secure material aid for Ukrainians.

In Czechia, there is a clear and persistent disparity between the widespread support for democracy as a system and satisfaction with the performance of democratic institutions. Although support for democracy is extensive, levels of satisfaction with existing democratic institutions and the current political situation are low. According to Eurobarometer and other surveys, support for democracy is highest among individuals who have completed secondary and tertiary education, those who have a high standard of living, people between the ages of 30 to 44, and residents of large cities.

According to the Center for Public Opinion Research’s regular omnibus survey, in the fall of 2021, 52% believed that democracy was the best system of government, while 23% deemed autocracy a better system. Dissatisfaction with the workings of democracy decreased during 2022, as 59% reported dissatisfaction with the current political situation and only 16% reported satisfaction.

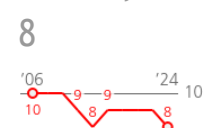
The 2023 presidential elections increased mobilization among young voters. Young people – including first-time voters and teenagers below the voting age – participated in presidential campaigns and went to the ballot boxes in higher numbers than had previously been typical. Especially first-time voters and young voters under 25 were more active. The campaign of Danuse Nerudova, who finished third in the first round with 13% of the vote, efficiently communicated with and mobilized young voters.

#### Interest groups



1

#### Approval of democracy



1

This was particularly evident through the campaign's use of social media platforms such as Instagram and TikTok. As a result, there will be increased pressure on political parties to address key issues relevant to the younger generation, such as affordable housing, gender equality, LGBT rights and the possibility of decreasing the voting age.

In the period under review, levels of trust in the president, the government and the Senate fluctuated but tended to decline. Levels of trust in the parliament as a whole remained low and continued to decline. Mayors and local authorities remained the most trusted institutions.

Social cohesion, empathy and solidarity among social groups and generations have changed in parallel with democratization, marketization and individualization.

According to the European Social Survey data published in 2022 and collected in the summer and fall of 2021, the average level of interpersonal trust in Czechia was 37% (compared to the average of all surveyed countries at 29%). This measurement was based on respondents who scored seven or higher on a 10-point scale, where 10 indicated a high level of trust in others. Czechia ranked higher than most Central and Eastern European (CEE) and Southern European countries, but lower than Estonia, Scandinavian countries and Switzerland.

Domestic data collected by the Center for Public Opinion Research in the spring of 2022 shows a very high degree of interpersonal trust among close family – 98% (71% completely trust, 27% rather trust) – and toward others/ordinary people – 79% (15% completely trust, 64% rather trust). The data is stable over time with minor changes over the last two years (approximately  $\pm 1\%$  to  $2\%$  change, or within the bounds of statistical error).

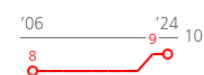
The discussion of solidarity and social cohesion gained momentum before and during the pandemic (e.g., food sharing) and continued to gain prominence during 2022. In particular, during the rapid influx of Ukrainian refugees in 2022, civil society mitigated the weakness of local authorities in responding to the situation. However, unlike in the pandemic, the 2022 refugee “crisis” saw effective cooperation between civil society and local governments.

Intergenerational solidarity is gaining importance, especially as it was the subject of competition in the 2023 presidential elections between ANO's Andrej Babiš (with higher support among the elderly) and Petr Pavel, who had been nominated by citizens. However, in the second round of the presidential polls, Pavel built a strong intergenerational coalition with the help of his first-round opponents. Danuse Nerudova, in particular, appealed effectively to the younger vote. In comparison, Pavel Fischer appealed to the small but significant Catholic vote.

Pavel's centrist campaign was successful in Prague, larger cities and small municipalities. Babiš' campaign remained effective in structurally disadvantaged border regions – former Sudeten.

Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In 2021, Czechia had a very high level of human development with a Human Development Index (HDI) score of 0.882 (slightly lower than in 2020 – 0.892). This gave it a rank of 32 globally. It also had a low Gender Inequality Index score of 0.120 (0.136 in 2019). The degree of inequality, as measured by the Gini index, was low compared to most post-communist countries, with a score of 25.3 in 2019.

The share of people below the income poverty line has fallen from 10.1% (2019) to 8.6% (2021), one of the lowest such figures in Europe, according to the Czech Statistical Office. On the other hand, public survey data show a significant increase in the share of households below the poverty line, mainly due to the high inflation rate. Additionally, the number of people eligible for social allowances increased, partly as a result of the expansion of eligibility in response to inflation and energy prices. Compared with the long-term trend, the share of social benefits in income rose significantly in 2020, while income from labor fell. This exceptional situation resulted from the anti-pandemic measures taken and continued partly into 2021.

The unemployed, people without full-time or permanent employment, single-parent families, families with three or more children, and pensioners living alone are at a comparatively higher risk of poverty. Many households' situation worsened in 2022 due to rising prices and falling real incomes. There has been a 21% year-on-year increase in all benefits paid out, which represents a nearly 25% increase in the amount paid out compared to 2021.

While unemployment rates are low, some employees are at risk of experiencing in-work poverty, mainly due to precarious work. Additionally, there are some areas characterized by high unemployment and a high concentration of other social issues. The lowest rates of unemployment are found in the capital and its surrounding municipalities, which are within commuting distance. The rise of digitalization and automation will result in a greater demand for technical education, which is currently male-dominated. Moreover, women have experienced an increased risk of unemployment, and the pandemic has further exacerbated the gender pay gap.

There is no general labor market exclusion due to ethnicity or religion. However, studies point to some indirect discrimination – discrimination that often affects non-EU nationals who are hired through recruitment agencies. These individuals are often among the first to be laid off. To address this issue, the Labor Code was amended in December 2022 to tighten the conditions for recruitment agencies. The goal of this

Question  
Score

Socioeconomic  
barriers

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amendment is to improve conditions for agency workers, reduce the abuse of agency employment and strengthen the security in employment relationships. It is worth noting that many war refugees from Ukraine are currently entering the labor market. Due to their special protection status, they generally do not need a work permit. While they have diverse qualifications and skills, their lack of language skills often poses a barrier to their employment in skilled positions.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	252548.2	245974.6	281791.2	<b>290923.5</b>
GDP growth	%	3.0	-5.5	3.6	<b>2.5</b>
Inflation (CPI)	%	2.8	3.2	3.8	<b>15.1</b>
Unemployment	%	2.0	2.6	2.8	<b>2.4</b>
Foreign direct investment	% of GDP	4.3	3.5	4.6	<b>3.6</b>
Export growth	%	1.5	-8.0	6.9	<b>5.7</b>
Import growth	%	1.5	-8.2	13.3	<b>5.7</b>
Current account balance	\$ M	898.1	4967.3	-7686.4	<b>-17365.7</b>
Public debt	% of GDP	30.0	37.7	42.0	<b>44.2</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-0.4	-6.2	-6.0	-
Tax revenue	% of GDP	14.8	14.4	13.4	-
Government consumption	% of GDP	19.6	21.8	21.4	<b>20.2</b>
Public education spending	% of GDP	4.5	4.7	5.1	-
Public health spending	% of GDP	6.4	8.1	-	-
R&D expenditure	% of GDP	1.9	2.0	-	-
Military expenditure	% of GDP	1.2	1.3	1.4	<b>1.4</b>

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition rules are defined, prices are liberalized and the currency is fully convertible, according to estimates by the Center for Economic and Market Analysis (CETA). The size of the shadow economy in Czechia is below the EU average at 10% of GDP (2020), as determined by CETA. This situation remained unchanged during the subsequent period. The most popular goods and services that flow through Czechia's shadow economy include food, clothing and car repairs. Additionally, Czechia allows for free movement of labor, primarily as a recipient of foreign labor with commuting practices mainly observed in border regions.

Czechia fully complies with international rules for the equal treatment of companies. It is one of the most open economies globally and is a favored destination for foreign investors. However, the entry and exit rules need to take into consideration the potential security impacts of foreign direct investment (FDI). The Act on the Examination of Foreign Investments, which aims to assist the state in better safeguarding key Czech companies against unwanted takeovers by risky foreign investors, was prepared over an extended period and took effect in May 2021. This regulation applies to investors from outside of the European Union if their investments represent more than a 10% stake in a Czech target company within critical sectors. If the company produces military or dual-use equipment or operates critical information infrastructure, the investor must obtain prior approval for the investment. Other investments may be reviewed by the state but are not subject to mandatory approval. A concrete example of this is the completion of the Dukovany and Temelín nuclear power plants, where Russian and Chinese companies were excluded from the contract tender process.

The policies and institutions setting competition rules correspond to EU standards. The Office for the Protection of Competition (ÚOHS) protects competition, supervises public procurement, and monitors and coordinates public support. The office is headed by a chair appointed by the Czech president for a six-year term.

In 2021, the ÚHOS received 181 complaints and initiated 81 administrative proceedings. It recorded a total of nine detected and prohibited agreements. Altogether, fines totaling nearly €7 million were imposed for first-instance offenses. The office observed a 40% increase in the number of administrative actions and complaints related to procurement in 2021. Moreover, the office prioritized the matter of recovering damages caused by competition law infringements.

Market  
organization

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Competition policy

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For Czechia, the liberalization of foreign trade has been essential to its economic success as a small, open economy. The country has been a member of the OECD and the WTO since 1995. As a member of the EU, the country cannot negotiate trade agreements or act independently of EU legislation. More than 80% of Czech exports and imports have traditionally been realized within the EU.

Pressure for greater self-sufficiency in the area of strategic commodities and products increased during the pandemic. An example of this was an unsuccessful attempt to introduce a measure that would have required large supermarkets to stock a minimum percentage of domestically produced food.

Trade policy measures are applied to certain types of goods imported from or exported to third countries – usually in the form of strict trade prohibitions or quantitative restrictions. Additionally, there are value thresholds that, if exceeded, generally mean that the goods do not qualify for the duty or tax exemptions that would normally be available.

The state imposes export controls on goods that could endanger the interests of Czechia, including military equipment, firearms, explosives designed for the civilian market, and dual-use goods and technologies. Some export-related measures introduced during the COVID-19 pandemic expired at the end of 2020.

Sanctions against Russia and, to a lesser extent, Belarus in connection with the war in Ukraine constitute a specific constraint on exports and imports. The European Commission announced the sanctions in several stages and packages in 2022, and Czechia joined as a member country. In addition to economic and financial sanctions, there are also measures intended to freeze assets.

The financial sector remains stable and resilient to possible adverse shocks. The capital-to-assets ratio of banks was 7.3 in 2020. The share of bank non-performing loans slightly increased to 1.9% from 1.7% in 2019. The increasing trend continued in 2022 due to the end of the government's repayment moratorium and, later, the worsening economic situation associated with rising energy prices, inflation and the deteriorating economic situation of households and businesses.

The Czech National Bank (CNB) is the country's primary bank and financial market supervisor. Financial market supervision includes licensing and approval proceedings, fulfillment of information duties, on-site and off-site supervision, and international cooperation. As of the end of 2021, 46 banks were operating in Czechia, 23 of which were subsidiaries of foreign banks. Only 11 financial institutions were banks with significant Czech participation. In addition to banks, the capital market consists of mutual or pension funds, insurance companies, and securities trading entities. Domestic investment companies, foreign fund managers offering their products in Czechia, and other entities that provide services in the field of collective investment are united in the Association for the Capital Market of Czechia (AKAT).

### Liberalization of foreign trade

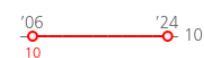
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### Banking system

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As a result of the war in Ukraine, Sberbank, a Russian-owned bank, collapsed. Many municipalities, regions, schools, hospitals and institutions had financial deposits in this bank. The deposits exceeded the legally insured maximum of €100,000. However, according to the CNB, the collapse of Sberbank was an isolated problem that did not threaten the stability of the banking sector in Czechia. The main reasons for the resilience of domestic banks to liquidity shocks are the high proportion of liquid assets and the significant excess of customer deposits over customer loans.

## 8 | Monetary and fiscal stability

Monetary policy is a tool of the central bank, the Czech National Bank (CNB), and its fundamental goal is to monitor and actively influence monetary and fiscal stability. It does so with a set of measures and principles to promote the fulfillment of monetary goals. The CNB publishes a Monetary Policy Report four times a year.

The inflation rate increased from 2.8% in 2019 to 3.2% in 2020, and the average annual inflation rate reached 3.8% in December 2021. For 2022, the CNB predicted an average inflation rate of 15.1%, significantly higher than the EU average of 10.4%. Inflation has been very dynamic, with year-to-date inflation peaking at 18% in September 2022. This was due to rapid increases in consumer prices, energy prices and persistent difficulties in global production and supply chains. In response to the high inflation rate, the CNB raised key interest rates, which reached 7% at the end of the year. As a result, mortgage rates also increased. In November 2022, mortgage rates had reached their highest point in the past 20 years. Consequently, home ownership, the predominant form of housing in the country, is becoming less affordable and out of reach for people with average incomes.

The Czech koruna has entered a period of stability and has gradually offset the decline from the beginning of the spring wave of the pandemic. The effective exchange rate index stood at 99.4 in 2019, 100.0 in 2020, and 104.6 in 2021. The koruna has continuously strengthened against the euro over the past two years, after initially declining during the pandemic. In January 2021, the exchange rate was CZK 26.1 to the euro, and it reached CZK 24 in mid-January 2023.

Weaknesses persist with regard to Czechia's preparedness to adopt the euro. In December 2022, the government approved a joint recommendation from the Ministry of Finance and the CNB to postpone setting a date for the euro's introduction due to inadequate economic readiness. While the adoption of the euro was previously more of a political concern than an economic one, it has now primarily become an economic one. Considering the impact of the COVID-19 pandemic and the repercussions of Russia's military invasion of Ukraine, it is unlikely that Czechia will fulfill any of the Maastricht convergence criteria in the near future. The government views the lack of economic convergence, particularly in price and wage levels that

Monetary stability

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remain significantly below the euro area average, as a hindrance to joining the monetary union. The structure of the Czech economy still differs significantly from that of the euro area, which could pose problems in the event of a single monetary policy. Additionally, addressing the long-term sustainability of public finances is crucial, given the aging population.

Economic performance in 2020 and 2021 was affected by the pandemic, which negatively impacted the state budget and its implementation. The draft budget for 2021 – which reflected the ongoing impact of the pandemic, the government’s mitigation measures and long-term priorities – was adopted with a projected deficit of CZK 320 billion (€ 12.5 billion); however, the deficit ultimately reached CZK 368 billion (€ 14 billion). In 2021, the planned deficit was exceeded even further, with the final balance showing a deficit of almost CZK 420 billion (€ 16.5 billion), surpassing the deficit in 2020. As a result, Czechia’s debt grew faster than that of any other EU country in 2021.

The outgoing government’s draft budget for 2022 foresaw a deficit of CZK 377 billion (€ 14.8 billion). The parliamentary budgetary committee halted discussion of the draft state budget until the new government was appointed. As a result, Czechia started the year with a provisional budget, limiting spending to 1/12 of the previous year’s level for three months. The new government, which assumed office in December 2021, did not approve the original draft and prepared a new budget with a smaller deficit of CZK 280 billion (€11 billion). However, the initially approved deficit of CZK 280 billion was exacerbated during the year due to pension hikes, increases in benefits and energy assistance to households. The total government debt at the end of 2022 will amount to CZK 2.89 trillion, or 42.9% of GDP. This marks a year-on-year increase of CZK 429.1 billion (€17.9 billion).

## 9 | Private Property

The right to property is respected in Czechia. Government authorities regulate the acquisition, use and sale of property. The rights of legal and natural persons to own and use property may be compulsorily restricted to protect life, health, property or the environment in a crisis situation. Adequate compensation is provided for such restrictions.

In September 2020, the so-called Liner Act was adopted to expedite the construction of motorways and other infrastructure. Among other provisions, it will facilitate the state’s acquisition of land through expropriation. The law strictly permits expropriation solely when the public interest outweighs private interest. Expropriation is only feasible for specific purposes that are outlined in special regulations, particularly the Building Act. These purposes relate to construction projects that serve the public, such as transportation infrastructure or initiatives aimed at maintaining the defense and security of the state. Additionally, expropriation is

### Fiscal stability

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### Property rights

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authorized under laws pertaining to nature and landscape protection, water law, the law governing geological works, monument conservation, and other related legislation. However, reaching a mutual agreement always takes precedence over resorting to expropriation.

In 2022, the Ministry of Regional Development proposed a new law on expropriation. Regions will conduct expropriation proceedings, and the state will be able to pay up to eight times the value of the property that is expected to be attractive to the owner to avoid expropriation. The proposal differs for linear structures (engineering networks) and infrastructure.

The privatization of state companies has followed market principles, but large state-owned companies still exist. Fully or partially state-owned companies deemed of strategic importance will not be privatized. However, political consensus needs to be improved regarding what should remain in the state's possession and what should be offered for privatization.

As of December 2021, the state was a shareholder in or founder of 110 entities: 47 joint stock companies, one limited liability company, one limited partnership, 60 state-owned enterprises and one national enterprise. In its annual reports, the Ministry of Finance evaluates the effectiveness of the implementation of the State Property Policy Strategy and its overall contribution to improving the performance of property rights, state property rights and founder rights.

In an effort to consolidate public finances, some members of the center-right governing coalition have been calling on the government to sell state assets that are not essential for the performance of its core functions.

## 10 | Welfare Regime

The state guarantees a comprehensive social safety net. The Act on State Social Support outlines the eligibility criteria for state social benefits. Additionally, a system of aid is available for individuals or families facing material emergencies and unable to maintain socially acceptable living standards due to their social or financial circumstances. Furthermore, various other allowances are provided, including a subsistence allowance, a housing supplement and emergency need assistance. In light of the deteriorating economic conditions, such as the high inflation rate and a decline in real incomes, benefits saw a 21% increase in 2022.

The Czech pension system consists of a mandatory basic pillar (pay-as-you-go) and a voluntary supplementary pillar. The first pillar provides old-age, invalidity and survivors' pensions (widows', widowers' and orphans' pensions). Czech pensions average 41% of the average gross wage. To qualify for pensions, individuals must have reached retirement age and have paid social security contributions for at least 35 years. The official retirement age, which has gradually increased since 1996, varies for men and women. For women, this age also depends on the number of children raised. In 2017, the maximum retirement age ceiling was set at 65 years.

Private enterprise

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Social safety nets

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The average pension in 2021 was CZK 15,453 (€ 644) and increased to CZK 19,500 (€ 812) after indexation in January 2023. Men have higher pensions than women on average – the gendered difference between the average old-age pensions is about 13.5%. The moderate pension is indexed and increases with inflation every January to ensure that pensioners can continue to live with dignity and that their financial situation is not worsened by high inflation rates. In periods of strong inflation, indexing has occurred more frequently (twice in 2022). In 2022, a special increase in old-age pensions was adopted. Beginning in 2023, children's primary caregivers have been entitled to a monthly education allowance of CZK 500, with the goal of recognizing caregivers' value and reducing the difference between the average old-age pensions of women and men.

Pay-as-you-go funding is unsustainable in the long term, given demographic trends. The government has been trying to reform the pension system for a long time. Both governments during the review period included a pension reform in their government program but failed to reach a consensus on the issue. In 2022, early pensions were higher and more beneficial than "normal" pensions. As a result, four times as many people applied for early pensions as usual.

Three types of unemployment benefits are available to eligible Czech and EU nationals who have recently lost work: assistance in finding work, unemployment benefits and retraining. The period of support depends on age – five months for those under 50, eight months for those aged 50 to 55, and 11 months for those over 55. The amount of the unemployment benefit and retraining benefit is set as a percentage of average net monthly earnings. It decreases gradually, from 65% of this amount in the first two months to 50% in the next two months, and again to 45% for the remaining benefit term. Total unemployment benefits for job seekers are capped at 0.58% of the national average wage for the previous calendar year.

The universal health care system is based on a compulsory insurance model. Every permanent resident (including foreigners) has mandatory health insurance unless subject to another country's legislation (such as the European Union or Switzerland). Citizens of third countries are subject to special regulations. Public health insurance is provided through seven health insurance companies, with the largest being the General Health Insurance Company (which covers more than half the population). The state pays for health insurance for citizens who cannot afford it themselves, such as children, the unemployed and pensioners. In 2021, public spending on health accounted for almost 7% of GDP and 82% of total health spending. Patients' direct financial contribution is minimal and mainly relates to medicines, dental care and medical equipment. Preventive care made up only 2.8% of total health insurance expenditure in 2021 and declined even further during the pandemic.

After the outbreak of war in Ukraine in February 2022, the government approved a program to assist Ukrainian war refugees. The program provides support for essential needs, including lodging, food, and fundamental social and material aid. Furthermore, temporary health care is offered under the public health insurance system, subject to specific conditions.



The Czech legal system ensures equal access to work, education and social services. There is no official discrimination based on gender, race, religion or social origin. The literacy rate has been consistently high, and women and men have equal educational opportunities. Education in state-owned schools is free of charge at all levels. However, a structured support system for marginalized groups to overcome early-life disadvantages remains inadequate.

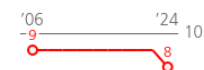
Programs financed by the European Social Fund (ESF) and managed by the Ministry of Labor and Social Affairs (MPSV) aim to assist individuals in enhancing their prospects in the labor market. These initiatives offer vocational training, retraining, counseling and a variety of other services to those who are long-term unemployed, individuals with disabilities, individuals over 50, young people without work experience, parents of young children, and employers and their employees.

Social and income inequality exists between the capital, Prague, and the structurally disadvantaged regions in the north and west of the country. In 2021, the number of debt-related seizures decreased compared to 2020 due to the COVID-19 pandemic, which sometimes made debt enforcement impossible. On the other hand, the number of citizens with serious debt issues increased. In 2021 and 2022, the government announced the so-called Grace Summer – an opportunity, under certain conditions, to pay off debts to the state and public organizations without penalties within three months.

The gender pay gap has historically been among the EU's largest (15% in 2021). The situation has only slightly improved; according to the Global Gender Gap Report 2021, Czechia ranked 78th out of 156 countries assessed. The gender pay gap thus persists, leading to lower pensions and an increased risk of poverty for women. In terms of women's economic participation and opportunity, Czechia ranks 95th globally. The main problematic issues include difficulties in reentering the labor force after parental leave, limited access to early childcare and wage inequality. In terms of political empowerment, although the number of female parliamentarians slightly increased after the 2021 parliamentary elections, only 25% of legislators (50 total) are women. The largest proportion of women legislators is found in the ANO fraction (20), followed by the Pirates and STAN (13 each). Preferential votes were significant for 13 female members of parliament who entered parliament from lower positions on the ballot.

Equal opportunity

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## 11 | Economic Performance

At the outset of the COVID-19 pandemic, the Czech government believed that it would result in a V-shaped depression, characterized by a sharp recession followed by a swift recovery. However, it soon became evident that full recovery would take longer than anticipated. In 2021, the economy began to rebound from the pandemic, experiencing a 3.3% annual increase in GDP, following a decline of approximately 6% in 2020. The primary drivers of this growth were domestic demand, capital expenditure and household consumption. Despite this improvement, the domestic economy remained below pre-2019 levels in real terms. In 2022, the economic landscape was heavily influenced by the conflict in Ukraine. GDP growth fell short of initial projections, coming in at around 2.2%. Furthermore, domestic consumption declined, and real wages dropped by nearly 10%.

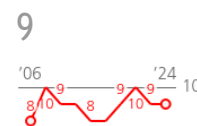
Government debt increased from 37.6% of GDP in 2020 to 42.0% in 2021 and continued to rise in 2022, reaching 45.2% of GDP in the third quarter. The National Budget Council has consistently warned in its reports about significant structural imbalances in the Czech public finances. These imbalances are primarily attributed to permanent changes that have been made in tax and expenditure policies, instead of being primarily caused by COVID-19 stabilization measures.

The foreign trade balance was favorable in 2021, ending with a surplus – in particular, the volume of exports to EU countries increased. However, the situation worsened in 2022, with imports growing faster than exports, leading to a foreign trade deficit.

Czechia is among the most open economies globally and is an appealing destination for foreign investors. Investor interest in the country has rebounded in 2021, despite the ongoing coronavirus crisis. Investments have been primarily focused on high-value-added projects and, for the first time, on small and medium-sized enterprises. A critical consideration in the planning and evaluation of foreign direct investment (FDI) is the potential security impact. The Act on the Examination of Foreign Investments, implemented in May 2021, aims to assist the state in better safeguarding key Czech companies against unwanted takeovers by risky foreign investors from outside the European Union (EU). However, the law also permits the scrutiny of investments that are made by European investors but that are ultimately controlled by non-European owners.

The inflation rate increased from 3.2% in 2020 to 3.8% in December 2021 and rapidly rose to 15.1% in 2022, surpassing the EU average of 10.4%. Inflation has shown high dynamism, with the year-to-date inflation rate peaking at 18% in September 2022. This surge was primarily driven by significant increases in consumer prices, energy prices, and ongoing challenges in global production and supply chains.

Output strength



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According to EUROSTAT, Czechia maintained the lowest unemployment rate in the EU. According to the Labor Office, the unemployment rate was 4% in December 2020 and 3.7% in December 2022. The Czech labor market is coping very well with the energy crisis and its impact on production. Some companies are hiring workers, and there is an excess supply of jobs over demand. However, there are regional differences – some specific areas show high unemployment rates and clusters of other social problems. Unemployment rates are lowest in the capital and in municipalities within commuting distance of the capital city.

Despite the problems during the pandemic, the minimum wage in 2021 increased by 4.1% compared to 2020 and reached CZK 15,200 (€ 633), subsequently rising to CZK 16,200 (€ 675) in 2022. By the end of the year, the government further increased the minimum wage to CZK 17,300 (€ 721). In 2021, the average gross salary amounted to CZK 37,839 (€ 1,577), marking a 6.1% increase from 2020. At the close of 2022, the average wage stood at CZK 40,135 (€ 1,672). However, notable regional disparities exist, both between the capital and the remainder of the country and among different regions.

## 12 | Sustainability

Czech environmental policy is shaped by the country's obligations to implement EU legislation. The National Energy and Climate Plan adopted in November 2019 contains the main targets and policies in all five dimensions of the Energy Union for the period from 2021 to 2030 with a view toward 2050. Czechia's main target is to reduce greenhouse gas emissions by 30% by 2030 (corresponding to an emission reduction of 44 million metric tons of CO<sub>2</sub>). The EU-wide target is a 32% share of renewables in the national energy mix by 2030. Czechia, whose 2020 target was 13%, committed to increasing it to 22% and meets the binding EU target of 14% in the transport sector.

In January 2021, the Czech government approved a CZK 150 billion (€5.8 billion) modernization fund for energy and climate change. The aim of this fund is to gradually reduce the country's reliance on coal-powered energy. From now until 2030, the funds will be generated through the sale of carbon allowances. The allocation of these funds will primarily prioritize renewables, which account for almost 40% of the spending. Additionally, heating will receive 26% of the funding, and industrial energy efficiency and savings will be the focus of 35% of the expenditures.

In June 2022, the EU environment ministers approved significant portions of the new Fit for 55 package, and the minister of environmental policy secured an additional 1.2 billion CZK (€50 million) for Czechia. Throughout the 2022 Czech presidency of the EU, the primary focus was on the Fit for 55 climate package, biodiversity protection, the circular economy and deforestation prevention. The accomplishments

Environmental  
policy

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of the Czech presidency encompassed the conclusion of negotiations on all climate aspects of the Fit for 55 packages; the establishment of the Social Climate Fund to aid households in transitioning to modern energy; the implementation of stricter regulations for the emission allowance market, as well as for battery use and recycling; and the initiation of an appeal to reduce light pollution. To address environmental concerns, Czechia will receive CZK 1.2 trillion (€ 500 million) by 2030 and an additional CZK 400 billion (€ 16 million) for the Social Climate Fund.

A prominent issue during the review period was the conflict between Czechia and Poland over the extension of the mining permit for the Turow lignite mine. The border between the two countries negatively affected water quality and availability for Czech citizens. Czechia issued an appeal to the European Court of Justice that, in its interim decision from May 2021, ordered Poland to pay the European Commission a daily penalty of €500,000 because lignite extraction at the Turów mine had not ceased. While the Babiš government failed to resolve the issue throughout 2021, Prime Minister Fiala and Polish Prime Minister Morawiecki signed a cooperation agreement in February 2022 to address the impact of the Turów mine. The deal included significant changes and the transfer of €10 million to the affected Liberec Region.

Plans to expand the Dukovany nuclear power plant so as to reduce dependence on non-renewable (fossil) fuels and prevent increased reliance on imported energy sources continued. In January 2021, China was excluded from the tender due to security concerns, and Russia was excluded in April 2021 due to the involvement of Russian agents in the 2014 Vrbetice ammunition warehouse explosion.

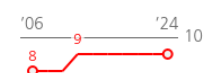
Public expenditure on education has increased since the economic crisis and now matches the EU average (5.1% of GDP in 2020). In 2021, teachers' salaries were increased to 150% of their 2017 level, thus reaching approximately 50% of the OECD average. Although there have been salary increases for primary and secondary school teachers, significant disparities persist in tertiary education, specifically in the humanities and social sciences, where wages remain notably below the average and median income. As a result, many tertiary teachers have migrated to secondary schools.

Educational outcomes are generally positive, and school and university graduates are typically employable. However, the employment advantage of those with tertiary education is among the smallest among OECD countries. About 33% of individuals aged 25 to 34 had completed tertiary schooling as of 2020. The country's score on the U.N. educational index remains high and stable at 0.880, unchanged between 2019 and 2021.

Socioeconomic inequalities and regional disparities in digitalization were thrown into relief during the pandemic, and reducing major inequalities has become a priority. The pandemic also had a significant negative impact on students' mental health. A new public-private partnership involving the Ministry of Education, the National Institute of Mental Health, NGOs and other actors aims to support mental health in schools.

Education policy /  
R&D

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Czechia received €7 billion under the Recovery and Resilience Facility (RRF), of which 18% was earmarked for education and skills-related investment – including the construction of childcare facilities, provision of digital equipment for schools, improvement of teachers’ digital skills, revision of the IT curriculum, catch-up classes for students, modernization of higher education and expansion of lifelong learning in digital technologies.

At 2.0% of GDP in 2020, R&D expenditure remained below the EU average of 2.31%. However, it experienced a year-on-year increase of 7.5% in 2021. Weaknesses in R&D include a lack of efficiency, the inability to attract and retain young and qualified researchers, and a low employment rate for women in the R&D sector.

## Governance

### I. Level of Difficulty

During the review period, structural constraints on governance were severe – the war in Ukraine led to a radical increase in the number of refugees, especially women and children, and put a particular strain on regional and local governments. These governments were faced with increased demand for health and education services, as well as welfare provision.

The incorporation of Ukrainian refugees into the labor market was successful, although most have taken positions below their qualification levels. This helped to fill some unmet demand in the Czech labor market. Furthermore, given the demographic trends – a decrease in the birth rate and an aging population – discussions now include whether controlled immigration, including the retention of some Ukrainian refugees, could be part of a solution.

The tradition of civic organizations in Czech history dates back to the 19th century. However, the communist dictatorship strongly distorted the moral values of the pre-totalitarian era and virtually eradicated civil society. Under communism, civil society organizations were mostly subordinate to the state and became inactive. Following the Velvet Revolution, the number of NGOs grew significantly, with a swelling membership. However, the initial public enthusiasm was later followed by a decline in activism in the late 1990s. Over the past decade, membership figures and overall participation in civil society activities have been characterized by the strengthening of some prominent NGOs, while smaller ones have been shut down.

The departure of foreign donors in the late 2000s was a specific concern, as the donor culture within the country was not well-established. This situation is gradually evolving, particularly due to organizations such as the Via Foundation, whose objective is to promote philanthropy among affluent individuals and companies in general, and the Jan Hus Foundation, which particularly emphasizes education. These foundations are able to function autonomously due to the generous endowments they received from foreign donors prior to those entities' departure. However, in recent years, there has been an increase in the involvement of domestic donors.

In connection with the Ukraine war, donations skyrocketed, both directly to Ukraine and to key NGOs. Large NGOs – such as People in Need and Charitas – also tried to balance Ukraine aid with local aid for the poor. The number of food, clothing and furniture banks increased significantly, and reliance on them expanded substantially.

Structural constraints

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Civil society traditions

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Volunteering increased dramatically, especially in support of Ukraine-related causes – in the country and in delivering humanitarian aid to crisis regions in Ukraine. In the first half of 2022, the Czechs donated CZK 4 billion (€168 million) to humanitarian and military aid to Ukraine.

The Ukrainian community also mobilized to provide a translation. Just as in the pandemic – where civil society mitigated the chaotic government response – civil society was indispensable in assisting municipalities with the radical influx of refugees.

An increasing number of foreign-owned and domestic companies embrace the concept of corporate giving and provide funding for civil society activities, enabling and encouraging employees to get actively engaged – providing free days, matching grants, etc. This includes some communication companies, such as T-Mobile and O2, as well as domestic companies such as Andrej Babiš' Agrofert Foundation, the latter of which focuses on single mothers, children and sports.

During the review period, there was a surge in association competence, and civil society filled gaps in the government's response to the reception of refugees, for instance by acting as first responders at arrival points (Prague/Brno main train stations, border crossings). In contrast to the pandemic period, cooperation between the state and civil society was limited and chaotic. The handling of the refugee influx witnessed significant improvements – the municipal governments were aware of and acknowledged their limitations and proactively collaborated with civil society.

There are no major ethnic or religious conflicts in Czechia. However, overlapping issues – including the refugee influx, the energy crisis and inflation – have exacerbated social conflicts. During the review period, several large anti-government protests were held, marked by welfare chauvinism. These protests blamed the government for helping Ukrainian refugees and were spurred by Russia-linked disinformation websites. Significant competition now exists between the parliamentary and extra-parliamentary radical right organizations (SPD, Trikolora, various protest leaders). This competition will likely result in further radicalization.

Polarization increased significantly during the review period as the opposition – particularly the populist ANO and radical-right SPD – sought to exploit the crises. The absence of the mainstream left in the parliament and the radicalization of the extreme right in 2022 further intensified the polarized atmosphere in the country. The 2023 presidential campaign of ANO's Andrej Babiš exploited the fear of war and economic downturn, crossing numerous ethical lines. One billboard suggested that the government and Petr Pavel, a leading candidate and retired general, would drag the country into war.

This culminated during the 2023 presidential campaign, when candidates and their families were threatened with violence. Babiš stopped in-person campaigning due to the contentious nature of his gatherings, where the presence of highly agitated

Conflict intensity

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supporters and protesters threatened to lead to violence. Before the final television debate, both candidates – Pavel and Babiš – agreed to lower the temperature and ask their supporters to refrain from violence. Later, Babiš accepted defeat but refused to admit that his campaign had divided the country and many families.

## II. Governance Performance

### 14 | Steering Capability

The steering capability of the government was tested during the review period. External events drove prioritization decisions; this is particularly true of the war in Ukraine, which triggered an influx of refugees, an energy crisis and inflation. Consequently, Prime Minister Fiala's government program and the coalition agreement focused on balancing the state budget became unattainable.

During the multiple crises, the Fiala government acknowledged its own limited access to evidence and data and, with the aid of the European Union and the Organization for Economic Co-operation and Development (OECD), embarked on an evidence-based policy reform. This reform includes legislative changes, closer interaction between government ministries and experts, and a pilot program on regulatory impact assessment and strategic planning. These changes commenced only in early 2023; the next 18 months will be crucial for planning and implementation.

The energy crisis was a matter of urgency, and the government took a long time trying to find an optimal solution, ultimately securing gas from other sources other than Russia. The government additionally negotiated guaranteed prices with energy providers and provided households with direct subsidies applied toward the costs via energy providers. In January 2023, the first energy providers announced that market stabilization was allowing them to move below government prices.

Inflation further strained public budgets, especially for municipalities already facing a strong influx of refugees and rising energy prices. The government refused to cut VAT on food, as it wanted to prevent a further rise in public debt.

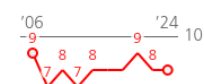
While the pandemic is largely under control, some shortages in medical supplies occurred during 2022 – especially with regard to medication for children. The government was able to secure adequate supplies but also appealed to the population to refrain from hoarding medication, further exacerbating the issues.

In 2023, the government will revise its priorities. However, the focus will remain on balancing the budget, fighting inflation and implementing long-overdue reforms. Regarding inflation, the government faces some constraints from the Czech National Bank, where the new president – a former economic advisor to Andrej Babiš, appointed by President Zeman – refuses to increase interest rates further. One of the country's most indebted entities is Agrofert, which is owned by Andrej Babiš.

Question  
Score

Prioritization

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Unlike the previous Babiš government before the pandemic, which faced fewer obstacles and favorable economic cycles, the current Fiala government has been faced with overlapping crises of unparalleled magnitude due to the war in Ukraine. However, the current government does have the advantage of a comfortable majority in both chambers of the parliament and unity in the five-party governing coalition. Although opposition obstructions can slow the adoption of legislation, they are unlikely to derail it.

While the government faced multiple challenges during the review period, it was still partially successful in trying to meet its objectives. For example, as of January 2023, the degree of dependence on Russian gas had been reduced from 100% (January 2022) to 0% – the government was able to ensure the provision of sufficient gas from new sources, including LPG, via a rented LPG terminal in the Netherlands. One priority that has not been met thus far is pension reform, which will require a significant transformation of the existing system in light of inflation and negative demographic trends.

Moreover, while the multipronged crisis further strained the budget, the government was able to cover some of the costs by negotiating support from the European Union (on the issues of refugees, energy costs and post-pandemic recovery), while continuing to meet its own obligations toward the European Union – including an expansion of spending on NATO obligations.

Regarding refugees, the initial response was slow, with municipalities, regional governments and civil society bearing most of the pressure. After the initial chaos, the Ministry of Interior acted as the coordinator. The government also negotiated significant contributions from the European Union toward the costs of the refugee wave.

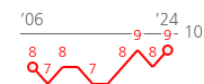
The year 2023 will serve as a crucial test of the government's ability to recalibrate its response and deliver on its priorities. The capacity of the public administration – currently pushed to its limits by circumstances – could represent a key weakness in this process. However, the unity of the governing coalition and a period of 18 months without any elections should create conditions for success.

The organization of government and public administration remains relatively rigid. Much of the practice of governing has been tied to the nature of coalition governments, reinforced by the inertia of officials and an overall lack of progress. Following accession to the EU, programs were initiated to improve administrative practices and take advantage of modern management methods.

Unlike some other EU member states in Central and Eastern Europe, Czechia does not have a ministry that deals with EU issues and funds. As a result, the management of EU funds is scattered across various ministries, and activities and programs are not well coordinated. During the review period, the use of EU funds improved. However, interministerial coordination remains complicated, especially across party lines. EU oversight constitutes a significant incentive – emulation and knowledge exchange at

## Implementation

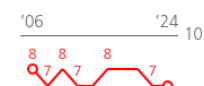
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## Policy learning

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the EU level have contributed significantly to progress in the R&D and environmental policy areas, for example. In the field of research, development and innovation (RDI), the engagement of academic experts and practitioners has enhanced policy learning as they have systematically evaluated foreign experiences.

Unlike the experience during the pandemic, crisis management during the review period was undermined by limited capacity and political divisions. During the overlapping crises of 2022, there were no significant political divisions within the governing coalition. While there was some improvement in abilities compared to the pandemic era, the speed of response still left much to be desired. The government continued to engage in proactive communication, with the prime minister remaining key communicator, as was the case during the pandemic. The communication skills of line ministers in affected portfolios, such as interior, energy and finance, were initially subpar but showed slight improvement over time.

Evidence-based policymaking has not been fully embraced. Relevant evidence remains fragmented across multiple bodies. For example, it is currently not legally possible to combine data from the statistical office with welfare-related data to enable targeted aid to seniors or families with children.

## 15 | Resource Efficiency

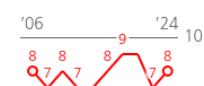
Balancing the state budget remains the key priority, given the significant rise in state debt since 2019. While the budget planning and implementation processes are transparent, there were substantial deviations from the budget in 2022 due to the war in Ukraine, the subsequent refugee wave, the energy crisis and inflation. Prime Minister Fiala's government attempted to address these deviations by securing additional EU resources and implementing cost-cutting measures. However, the main obstacle to achieving a balanced state budget lies in the volume of mandatory expenditures, necessitating pension reform.

In 2022, the initially approved deficit of CZK 280 billion increased throughout the year, and the public debt reached CZK 2.89 trillion (42.9% of GDP) by the end of the year. This increase was primarily due to extraordinary pension indexation tied to inflation, cost-saving measures on electricity and gas for households and companies during the energy crisis, additional payments for renewable energy allowances, increased housing and material hardship benefits, one-off child allowances, and humanitarian aid for a significant number of war refugees (30% of whom were children below 15 years of age).

The Supreme Audit Office (SAO), an independent audit institution responsible for reviewing the state's management of public revenue and expenditure, serves as a crucial watchdog. Conducting an average of 30 audits per year and reviewing expenditures of as much as CZK 230 billion, the SAO provides decision-makers and the public with impartial information about effectiveness, efficiency and regulatory compliance in the use of national resources.

Efficient use of assets

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Regarding personnel, the Fiala government encountered obstacles in selecting political appointees due to timing and legal restrictions. Recruitment procedures remain competitive, and no politically motivated dismissals have been documented at the national level. However, ongoing court litigation is taking place for cases of dismissal at the municipal level, particularly in Prague. Media scrutiny plays a vital role in mitigating any inclinations toward clientelism. Throughout the Czech EU presidency, temporary contracts were utilized to recruit additional personnel and volunteers. The ongoing digitalization endeavors are anticipated to decrease the overall number of state administrative personnel, although the exact impact is still uncertain.

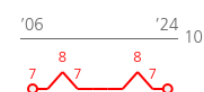
The 2020 tax cuts and the tax redistribution mechanisms in place have had a negative impact on the capacities of subnational governments and municipalities. Additionally, the crises experienced in 2022 brought attention to the increasing disparities among regions, particularly in border regions like Karlsbad, Moravia-Silesia and Usti, where there were challenges in delivering essential services.

The coalition agreement of the Fiala government includes fixed principles of coalition cooperation and coordination. The most important body for policy coordination is the coalition council. It consists of the coalition parties' chairpersons and a maximum of three other representatives of each coalition party. Coordination mechanisms at the level of parliamentary and senatorial clubs are also important. Additionally, coalition parties have their own expert commissions. The expert commissions of the individual coalition parties primarily communicate among themselves in preparing legislative proposals.

The government's legislative plan divides tasks among ministries and other central bodies of the state administration, setting deadlines for submitting bills to the cabinet. Task allocation is transparent. Some horizontal coordination among line-ministry civil servants occurs. Senior ministry officials play a crucial role in collecting and discussing comments on proposed legislation. However, barriers persist among the ministries; for example, cross-cutting project groups are rarely established, particularly between line ministries controlled by different political parties. During the review period, the government aimed to balance trade-offs between policy goals, but the overlapping refugee wave, energy crisis and financial crisis made this task very difficult.

Policy  
coordination

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The Czech government has the legal capacity and is relatively effective in enforcing regulations in an unbiased way, including party finance and campaign regulations. As a result, no major irregularities were reported during the period under study. However, the fight against corruption has been made more difficult because former Czech Prime Minister Babiš (2018 – 2021) continued to be plagued by accusations of misuse of EU funds and conflicts of interest.

Wealth and business power accumulation were greatly aided by the lax regulatory environments of the 1990s and 2000s, as well as political favors and contacts with politicians. Babiš exemplifies this national-level phenomenon, as he built his business empire on state and EU subsidies, as well as state loans obtained with the help of political connections.

Due to Babiš' conflicts of interest, issues persisted with the EU subsidies during the review period. With the establishment of the new Fiala government, this particular conflict of interest was officially resolved, although certain line ministries have continued to be sluggish in their examination of Agrofer's applications. Of utmost importance, the "Stork Nest" saga regarding the misuse of EU SME subsidies reached its conclusion in January 2021, when the judge dismissed the case against Babiš and his financial manager due to insufficient evidence and significant gaps in the prosecution's work. Several associated matters remain unresolved.

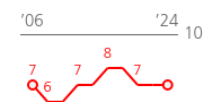
In 2022, the court sentenced Miloš Balák, the head of the Lány Forestry Administration (part of the office of the President), to three years in prison for influencing a \$200 million contract. Balák was also fined CZK 1.8 million and banned for four years from forestry management positions. However, the president later fully pardoned him.

Other close collaborators of former President Zeman are facing police scrutiny. In January 2023, the media revealed that Zeman had sought approval from Prime Minister Fiala to end all ongoing investigations; however, Fiala refused, and multiple police investigations continued.

Published data show significant irregularities, clientelism and corruption concerning public procurement during the pandemic. Additionally, in 2021 and 2022, two major criminal links between politicians and businesses were discovered in Prague and Brno. In both cases, the media played a significant role in holding public officials accountable.

#### Anti-corruption policy

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## 16 | Consensus-Building

During the period under review, the consensus among the major political actors and the public on the merits of democracy and the market economy weakened as polarization increased significantly. The populist alliance between former Prime Minister Babiš and former President Zeman continued after Babiš lost the 2021 parliamentary elections and served to sustain the contentious character of Czech politics. The culmination of this confrontation came with the 2023 presidential elections, which turned into a referendum on the country's future orientation. Petr Pavel, a pro-Western, pro-liberal-democracy candidate, won by a margin of 58-42, with almost 1 million votes and a broad voter coalition.

Populists – the ANO and SPD parties – lost all three elections during the period: the 2021 parliamentary elections, the 2022 Senate elections and the 2023 presidential elections. Both the parliamentary and Senate elections turned into a contest between populist and anti-populist forces. The presidential election brought the country to the brink of political violence. Anti-government protests were strong, with an emerging anti-system extra-parliamentary opposition that unified the extra-parliamentary radical left, radical right and anti-vax elements.

The 2022 Ukraine war and subsequent migration wave, energy crisis, inflation, disinformation and absence of the mainstream left in the Czech parliament have all heightened societal tensions. Welfare chauvinism, directed against government support for Ukrainian refugees, served as a significant driver of the anti-government protests. Economic, housing and food insecurities, as well as regional disparities, have increased and must be addressed.

In principle, there are no anti-democratic veto players in Czechia. However, experience suggests that party system fluidity hinders the implementation of major long-term reform plans. The 2021 parliamentary elections were the first elections in two decades in which a new political entity did not enter parliament. On the contrary, both the Social Democrats and the Communists fell below the 5% threshold of parliamentary eligibility, as did other populist and radical right parties. Consequently, parties supported in total by almost 1 million voters have been left out of parliament.

While incoming Prime Minister Fiala and President-Elect Petr Pavel have tried to reach out to the underprivileged, calling for unity and a de-escalation of populist rhetoric, the populist opposition – both parliamentary and extra-parliamentary – continues to mobilize and divide the country.

Consensus on goals

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Anti-democratic actors

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The major divides of intra- and inter-party competition stem from disagreements over 1) all major reforms, particularly those regarding pensions and real estate tax; 2) attitudes toward deepening the process of European integration, particularly the adoption of the euro; and 3) new identity politics – specifically the expansion of LGBTQ+ rights and euthanasia.

Attitudes toward the European Union remain ambivalent, especially due to the latent euroskepticism among the majority of center-right elites and a significant part of the population. As a result, the adoption of the euro remains a distant prospect. Moreover, the Czech EU presidency, while successful, did not lead the country into important societal discussions about its role in the EU.

New identity-politics issues – especially same-sex marriage – are among the few topics creating divisions in the current governing coalition. In his campaign, President-Elect Petr Pavel clearly stated his support for the Istanbul Convention, same-sex marriage, regulated euthanasia and legalized marijuana. These issues were important to younger voters, who turned out in unprecedented numbers.

Intergenerational divides are significant. Housing availability and regional disparities are particularly critical to younger voters, who feel under-represented. Danuse Nerudova, who won 13% of votes across the country from municipalities of all sizes in the 2023 presidential elections, focused on these emerging issues. She is now contemplating the establishment of a new party.

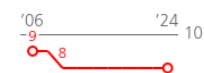
There are no significant ethnic and religious divisions in Czech society. However, there is a growing trend of welfare chauvinism toward Ukrainian refugees.

The government’s legislative rules define which groups are legitimate “commenting actors” during consultations. Trade unions and employer associations may comment on bills related to social and economic issues during tripartite meetings with the government in the Council for Economic and Social Accord. The principal employers and trade unions possess sufficient resources and expertise to formulate cohesive policies.

There is general agreement that civil society participation in agenda-setting, policymaking and decision-making is limited. However, civil society remains crucial in policy implementation in numerous areas, especially social ones (e.g., senior care, hospice care). Civil society and the media are crucial in performance monitoring, particularly in highlighting missteps and government response gaps. Cooperation between civil society and local and regional governments improved significantly during the refugee wave.

Cleavage /  
conflict  
management

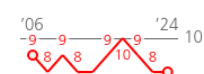
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Public  
consultation

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The government actively supports reconciliation on the issue of past injustices taking place before, during and after World War II. On the other hand, most of Czech society prefers to ignore the “ghosts of the past,” including the Roma Holocaust, the deportation of the German population and the crimes connected to the postwar sterilization of Roma women under the communist regime.

The 2023 presidential elections witnessed two former members of the pre-1989 Communist Party vying for the presidency: Petr Pavel, a soldier who joined the party during his military career, and Andrej Babiš, who also joined the Communist Party and collaborated with the secret police during his time in the foreign trade sector. The candidates approached their past differently – with Babiš dismissing his Communist Party membership as a necessity and denying his involvement with the secret service, and Pavel casting his post-1989 support for Czech democracy as a form of redemption. Babiš attempted, albeit unsuccessfully, to utilize Pavel’s past to demobilize voters. However, important dissident figures rallied behind Pavel’s narrative, receiving widespread support from most voters. Notably, a small yet significant group of Catholic voters also embraced the redemption narrative.

## 17 | International Cooperation

For a long time, the Czech government has acted as a trustworthy and reliable partner within the international community. One of the most crucial factors that influences political and economic development in Czechia is its membership in the European Union (EU).

Compared to previous periods, the country has begun to use European Investment and Structural Funds more effectively. Czechia has now reached fourth place among EU member states with regard to the efficiency of program fund utilization. In addition to long-term programs, the European Union has adopted a Recovery and Resilience Facility worth around €750 billion (of which Czechia will receive €7 billion in grants and €16 billion in loans) to assist member states in mitigating the damage caused by the pandemic. This forward-looking plan finances reforms and investments proposed by EU countries in areas such as green and digital transformation, health, social and economic resilience, and support for young people.

In general, Czechia conforms to international agreements such as climate change agreements, ILO core labor standards, human rights conventions, trade and debt agreements, development agreements, and arms control agreements. Human rights, along with development cooperation and humanitarian aid, are essential components of the human dimension of Czech foreign policy. To ensure effective law enforcement and the exchange of best practices, Czechia collaborates with international organizations and supervisory authorities from countries outside the EU. The government regularly reviews reports on its fulfillment of international conventions. However, during the review period, a contentious political debate hindered the ratification of the Istanbul Convention, which remains pending.

### Reconciliation

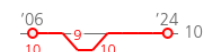
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### Effective use of support

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### Credibility

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Czechia assumed the rotating six-month EU presidency on July 1, 2022, at an “inconvenient” moment. The large-scale war initiated by Russia on the European continent adds to the previous environmental and economic challenges already worsened by the COVID-19 pandemic. The government established five priorities for the presidency: 1) managing the refugee crisis and Ukraine’s postwar recovery; 2) ensuring energy security; 3) enhancing Europe’s defense’ capabilities and cyberspace security; 4) ensuring the strategic resilience of the European economy; and 5) promoting the resilience of democratic institutions. The Czech presidency of the Council of the European Union was successful. During the presidency, the Schengen area was expanded to include Croatia, and European regulations on electricity and gas prices were implemented. Multiple sets of sanctions against Russia were adopted, and a significant loan for Ukraine was approved.

In addition to membership in the European Union and NATO, Czechia is also a part of the Visegrad 4 (V4) group, along with Hungary, Poland and Slovakia. According to the European Commission, regional groupings such as the V4 play a crucial role in providing a valuable and effective regional response to EU policies. The V4 serves as a central pillar of central European policy and is considered a successful platform for furthering European cooperation. Cooperation within the V4 is not formalized, with the International Visegrad Fund, created in 2000, being the only established organizational structure. The fund supports joint cultural, scientific, research, financial and educational projects. Cooperation within the V4 has seen varying levels of success in different areas, including science, research, border protection and finance, while attitudes toward anti-Russian sanctions have drawn lower levels of agreement. Finance ministers regularly convene meetings and have agreed to enhance tax and customs cooperation to combat tax fraud and money laundering. In December 2021, the prime ministers of the V4 signed a memorandum of understanding to strengthen cooperation in space research and the peaceful use of outer space, as well as to foster a closer partnership in space industry and science.

Czechia maintains good relations with its neighbors, and various cooperation programs support these contacts, such as the Cross-border and Transnational Cooperation Program (2021 – 2027), which has established five cross-border cooperation programs (with Slovakia, Saxony, Poland, Bavaria and Austria).

Czechia, along with Poland, is one of the EU members that has been most supportive of Ukraine. It has provided not only material aid, including military equipment, but also shelter for more than 450,000 war refugees, mostly women with children. Czechia also joined the sanctions against Russia from the beginning, despite its dependence on Russian energy.

An agreement was reached to settle a long-standing dispute with Poland over the expansion of a brown coal mine at Turów on the Czech border and its impact on the environment in the border area. However, the intergovernmental agreement was signed without prior notice to the affected communities, who had no opportunity to comment.

## Regional cooperation

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Relations with Slovakia have traditionally been excellent. In January 2023, Czechia celebrated the 30th anniversary of its independence. Although the common Czechoslovak state ceased to exist after 74 years, the countries have continued to support and help each other.

## Strategic Outlook

While consecutive elections have suggested that Czech voters reject populism, the country remains deeply polarized, and overlapping crises have deepened economic inequalities and societal divisions, leading to increased mobilization against the government and the radicalization of protesters. Overcoming polarization and addressing key socioeconomic inequalities is the main challenge for the Fiala government. In his failed presidential bid, Andrej Babiš exploited fears related to the Ukraine war and built a new coalition by incorporating radical fringes on the left and the right. ANO remains a key opposition power, competing with the radical-right SPD and extra-parliamentary radical movements.

Czechia has a high personal bankruptcy rate, with numerous leaders and supporters of the currently fragmented anti-system movement having such experiences. The government needs to address ways of enabling people to recover from mounting debt. Failure to act would intensify radicalization and broaden the danger of poverty among the fragile middle class. The government must also improve how it communicates its steps to the citizens and keep searching for ways to counter the spread of disinformation. One of the key rising issues driven by economic insecurity and the increased number of refugees is welfare chauvinism. The government must better explain its refugee support policies and explain not only the country's humanitarian obligations but also the benefits of integrating Ukrainians into the labor market.

This process of integrating refugees into the labor market is ongoing, but most are employed below their qualification levels. Czech hospitals, still recovering from the pandemic, have a shortage of doctors and nurses, even as newcomers with non-EU medical degrees are relegated to unskilled positions. Professional associations play a key role here, as they effectively act as gatekeepers for the recognition of qualifications. The government should negotiate with key associations to create a better path for non-EU migrants into qualified positions in health care, particularly in poorly served communities. Universities could be part of the solution, offering specialized language courses and other necessary training.

Key reforms necessary to address the country's increased debt levels include pension reform and redistribution of tax revenues among the central government, regions and municipalities. In addition, socioeconomic and regional inequalities in access to health care and service provision must be reduced. This should include enhanced transport links from small municipalities to regional centers.

The country needs to continue its energy transition toward renewables – including expanding energy-saving measures for private homes that lead to reductions in energy costs. The educational system must adapt to future challenges and address socioeconomic and regional inequalities in students' life chances. Increased spending on research and development should continue, with more emphasis on knowledge transfer and startups.

The policy process – especially agenda-setting, policy formulation and decision-making – should become more inclusive. Evidence-based policy, transparency and accountability should become paramount in all policy processes and government decisions. Reforming the RIA process and shifting toward evidence-based policymaking would be significant improvements. Legislative changes currently under discussion include data use – combining various data sources, currently banned by law – and allocating resources to support relevant applied research. The involvement of civil society in implementation and monitoring should improve significantly, for example, by institutionalizing best practices in assisting refugees.